



Partnering with the Community Sector in Human Services and Health



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Partnering with the Community Sector in Human Services and Health

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The Hon. Robert Smith MLC
President
Legislative Council
Parliament House
Melbourne

The Hon. Jenny Lindell MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my performance report on *Partnering with the Community Sector in Human Services and Health*.

Yours faithfully



D D R PEARSON
Auditor-General

26 May 2010

Contents

Audit summary.....	vii
Overall conclusion.....	vii
Findings	viii
Recommendations.....	x
<i>Audit Act 1994</i> section 16—submissions and comments.....	xi
Introduction	xi
Submissions and comments received	xi
1. Background	1
1.1 Introduction.....	1
1.2 The policy environment	4
1.3 Audit objective and scope	5
2. Service agreement content and supports	7
2.1 Introduction.....	8
2.2 Conclusion.....	8
2.3 Service agreement content	9
2.4 Establishing and signing service agreements	11
2.5 Funding arrangements	12
2.6 Monitoring framework.....	15
2.7 Simplifying Indigenous agreements	17
2.8 Governance of the service agreement model	18
2.9 Developments affecting the framework	18
3. Managing the service agreement.....	21
3.1 Introduction.....	22
3.2 Conclusion.....	22
3.3 Managing the service agreement.....	22
3.4 Reporting and compliance burden	27
3.5 Building and maintaining partnership	30

Appendix A. Action on recommendations from the Public Accounts and Estimates Committee	33
Appendix B. Standards and external review requirements	43
Appendix C. <i>Audit Act 1994</i> section 16—submissions and comments	45

Audit summary

Community sector organisations (CSO), also known as non-government organisations, operate for a community or social purpose, are self-governing and do not distribute profits. They operate independently from government and receive funds from multiple sources, including state and federal government, donations and philanthropy. CSOs range from small, local organisations, to large, state-wide operations.

CSOs play a crucial role in the delivery of state funded health and human services. In 2009–10, the Departments of Human Services (DHS) and Health (DH) are providing almost \$1.7 billion to about 800 CSOs to provide services in housing, child, youth and family, disability, mental health, drug and alcohol, aged care and other social services. This represents just over 11 per cent of the \$14.7 billion budget for these departments in 2009–10.

The departments have service agreements with CSOs which define the basis for the relationship including funding to be provided to the CSOs, expected service delivery outputs, service standards, and financial and performance related accountability requirements. The service agreement is part of the framework established by the departments for the funding, delivery and monitoring of services provided on the state's behalf by CSOs.

The significant role played by CSOs in delivering services to the community on behalf of the state highlights the importance of a strong partnership between the departments and CSOs. The government has emphasised the importance of this partnership relationship and wants to make its interactions with CSOs streamlined, easy to navigate, and designed to optimise value to the community. A partnership memorandum of understanding (MOU) is in place between DHS and the sector.

Consistent with government objectives for its relationship with CSOs the objective of the audit was to examine whether the departments' management of the service agreement framework supports effective service outcomes and accountability.

Overall conclusion

There is a high level of assurance that CSOs are delivering agreed services and are accountable for allocated funding. The departments' management of service agreements with CSOs is effective in providing clarity about expected service outputs, standards and accountability requirements, and in providing assurance that these are met.

Nevertheless, there are a number of specific lesser-order aspects of the service agreement system which can be improved to strengthen the overall system. There is room to improve the way service agreements are established and monitored to move the relationship with CSOs closer to a partnership. The departments can also improve consistency in managing and monitoring service agreements to further reduce the administrative and related cost burdens placed on CSOs without compromising accountability.

Findings

Service agreement content and supports

The content of the service agreements between the departments and CSOs is fundamentally sound. The departments continually review and assess service agreement arrangements and introduce improvements such as three year agreement terms to provide greater certainty to CSOs, and 'plainer English' for the agreement. Current financial accountability requirements for CSOs are generally sound and in line with the partnership approach.

While improvements have been made, opportunities remain to better partner with CSOs through greater engagement and transparency:

- current processes establishing service agreements miss the opportunity for the departments to engage in more holistic service planning conversations with CSOs
- the transparency of departmental funding arrangements, particularly the basis for unit prices paid to CSOs, can be improved
- the departments have been slow to fully address related recommendations made by the Public Accounts and Estimates Committee in 2002 from its inquiry into DHS service agreements with the community sector.

Managing service agreements

The departments gain appropriate assurance that CSOs are accountable for allocated funding and deliver agreed services. This assurance is achieved through comprehensive monitoring processes and the relationships departmental staff develop with CSOs.

Despite the availability of comprehensive guidance and support material, there is significant variation across the departments and between regions in how staff manage and monitor service agreements with CSOs. These variations are beyond what would normally be expected across large organisations for what are core business processes. This means that departmental approaches to negotiating agreements, allocating new funds, and levels of monitoring and feedback are inconsistent. These inconsistencies are highlighted when CSOs work across multiple regions and/or program areas.

Further guidance is needed for departmental staff on how day to day agreement management and monitoring should occur and be documented. A central point of authority is required in the departments to drive consistent application of funding practices and service agreement management.

There are also opportunities to reduce the burden on CSOs by consolidating the multiple requirements relating to external review of service standards and data collection. The departments have identified these issues, but progress has been slow and many issues remain to be addressed.

The departments have been partly successful in meeting their partnership aims. Departmental staff have established strong relationships with CSOs at the individual funded program level and broader sector engagement occurs with both peak bodies and individual CSOs.

However, the departments' management of CSOs service agreements is not fully consistent with the broad vision and principles in the partnership MOU, due to variable approaches to:

- engaging in genuine negotiation of agreements with CSOs
- involving CSOs in planning
- being transparent about funding processes
- providing feedback to CSOs.

The recent introduction of 'client attached funding' in the disability program and its potential to flow-on into other program areas has significant implications for DHS's service agreement approach and relationship with affected CSOs. This is because increased client choice of service provider means less certainty about the service levels and types to be provided by particular CSOs.

DHS and CSOs recognise the benefits of working in partnership now and in the future and have processes in place to support this. The newly created Department of Health is currently determining its approach to partnering with CSOs.

Recommendations

Number	Recommendation	Page
1.	The departments should align the service agreement content more closely with partnership principles.	19
2.	The departments should hold annual 'whole of agreement' meetings with CSOs to review performance and whether funded activities are meeting client needs, and use this information in service planning.	19
3.	The departments should release policy and funding plans and associated updates before the relevant financial year begins.	19
4.	The departments should adopt the Public Accounts and Estimates Committee's 2002 recommendation and be transparent with CSOs about how they calculate unit prices.	19
5.	DHS should improve the <i>Price Review Framework</i> to include: <ul style="list-style-type: none"> • minimum requirements and standards for price reviews • routinely reporting the date of the last price review and its status for all program areas to the Human Services Partnership Implementation Committee. • how CSOs manage when agreed price reviews are not funded. 	19
6.	The departments should have a central point of authority so funding practices and service agreement management are consistent.	19
7.	The departments should clarify expectations and processes for service agreement negotiation, in line with partnership objectives.	32
8.	The departments should give priority to improving the allocation of new funding.	32
9.	The departments should further reduce the data reporting and accreditation requirements burden on CSOs.	32
10.	The departments should recognise the costs incurred by CSOs that partner with them when reviewing and adjusting unit prices and other funding mechanisms.	32
11.	The departments need to guide staff better on using partnership principles when managing service agreements with CSOs.	32
12.	DH should clarify its approach to the partnership agreement.	32

Audit Act 1994 section 16— submissions and comments

Introduction

In accordance with section 16(3) of the *Audit Act 1994* a copy of this report, or relevant extracts from the report, was provided to the Departments of Human Services and Health with a request for comments or submissions.

The comments and submissions provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Submissions and comments received

RESPONSE provided by the Secretary, Department of Human Services

The following is an extract of the response by the Secretary, Department of Human Services. The full response is provided in Appendix C of this report.

I would like to thank you and your staff for their work on this audit.

I would like to reconfirm the department's commitment to strengthening the relationships with our service partners to improve the lives and reduce the disadvantage experienced by our shared clients.

The department welcomes the audit conclusion that overall, the community sector organisations are delivering agreed services with appropriate accountabilities and the department is managing the service agreements effectively. The department acknowledges that improvements can be made to strengthen the overall system. The Human Services Partnership Implementation Committee provides a solid basis to consolidate this work. The department accepts the audit findings and recommendations.

The audit findings will further inform the department regarding a range of matters already identified to improve funding practices. The audit report will also assist the department to prioritise opportunities to improve funding processes and the relationship with service partners.

RESPONSE provided by the Secretary, Department of Human Services – continued

Implementing some of the recommendations is already underway. For example a single departmental policy and funding plan will be provided from 1 July this year. Work is also underway to improve consistency in managing and monitoring service agreements and reducing the administrative burden for community sector organisations through reviewing and improving current business practices.

We will work with the Human Services Partnership Implementation Committee and our service partners to progressively implement the report's recommendations.

RESPONSE provided by the Secretary, Department of Health

The following is an extract of the response by the Secretary, Department of Health. The full response is provided in Appendix C of this report.

I welcome the overall audit conclusion that the service agreements with the community sector are being managed effectively by the department and that there is a high level of assurance that the agreed services are being delivered by the community sector with appropriate accountabilities.

The findings and recommendations of the Auditor-General's report are accepted. The Department of Health (the department) acknowledges that improvements can be made to strengthen the overall service agreement and partnership arrangements with our Community Services Organisations (CSO).

I recognise the important and critical role of the CSO sector in delivering valued services to the community, through efficient and effective funding and service agreement arrangements, reductions in administrative burden, and continual improvement to current business and partnership practices without compromising accountability.

Recommendations 1–11

The Department is committed to working with CSOs in delivering services to the community and will endeavour to progressively implement the report's recommendations.

Recommendation 12 DH should clarify its approach to the partnership agreement

The Department is committed to strengthening partnership opportunities and arrangements with CSOs. The department intends to participate on HSPIC, on issues of shared interest, between the Department of Health and the Department of Human Services.

The department will also convene a health-specific consultative forum for the purpose of sharing information with a broader range of health and aged care funded agencies and peak agencies. It is intended that any consultative forums with health CSOs will be conducted in a consistent manner with existing partnership forums.

1 Background

1.1 Introduction

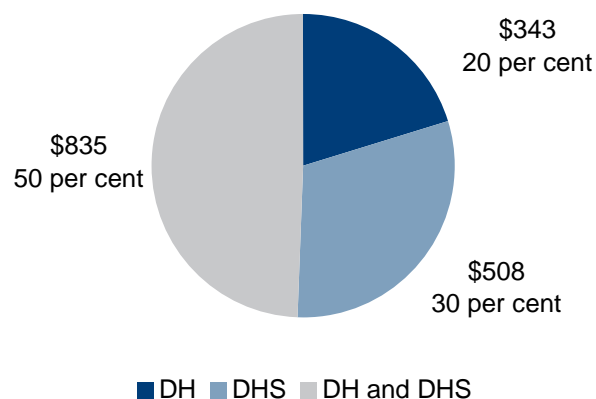
1.1.1 The role of community sector organisations

Community sector organisations (CSO), also known as non-government organisations, operate for a community or social purpose. They are self-governing, independent of government and do not distribute profits. They often receive funds from multiple sources such as state and federal government, donations and philanthropy. CSOs range from small, local, volunteer-based organisations to large, state-wide operations.

In 2009–10, the Departments of Human Services (DHS) and Health (DH) will provide almost \$1.7 billion to about 800 CSOs for community services in housing, child, youth and family, disability, mental health, drug and alcohol, aged care and other social services. This is just over 11 per cent of their 2009–10 budget of \$14.7 billion. In August 2009, machinery of government changes split the Department of Health out of the Department of Human Services.

Figure 1A shows DHS and DH funding to CSOs for 2009–10.

Figure 1A
DHS and DH funding for CSOs 2009–10 (\$mil)



Source: Victorian Auditor-General's Office from DHS information.

The significant state funding for CSOs reflects their contribution to the community. It also highlights the need for DHS and DH to have strong partnerships with CSOs.

In 2002 the Public Accounts and Estimates Committee (PAEC) inquired into the former Department of Human Services service agreements for community, health and welfare services. The report recommended:

- reducing administrative, reporting and regulatory burden
- three-year service agreements
- greater transparency in pricing
- enhanced partnership with greater CSO input in service planning and negotiation of agreements.

The government has stressed the importance of its relationship with CSOs. Figure 1B lists recent reviews recommending cuts to the administrative and regulatory burden for CSOs, and greater partnership. Section 1.2 discusses state policy including commitments on regulation and strengthening CSOs.

Figure 1B
Reviews of the relationship between CSOs and government

Source	Review	Aim	Recommendations
State Services Authority	Review of Not-for-Profit (NFP) Regulation 2007	To examine the impact of government regulation and other contractual and accountability requirements for NFP organisations	<ul style="list-style-type: none"> • Streamline service agreement and data reporting requirements • Improve regulatory support e.g., through online tools • Reduce administrative and compliance burden of grants
A Steering Committee supported by the Department of Planning and Community Development	Stronger Community Organisations Project 2007	To outline the CSO sector and its main changes and challenges	<ul style="list-style-type: none"> • Establish an office for the CSO sector • Improve information about the sector • Support the sector's capacity and sustainability.

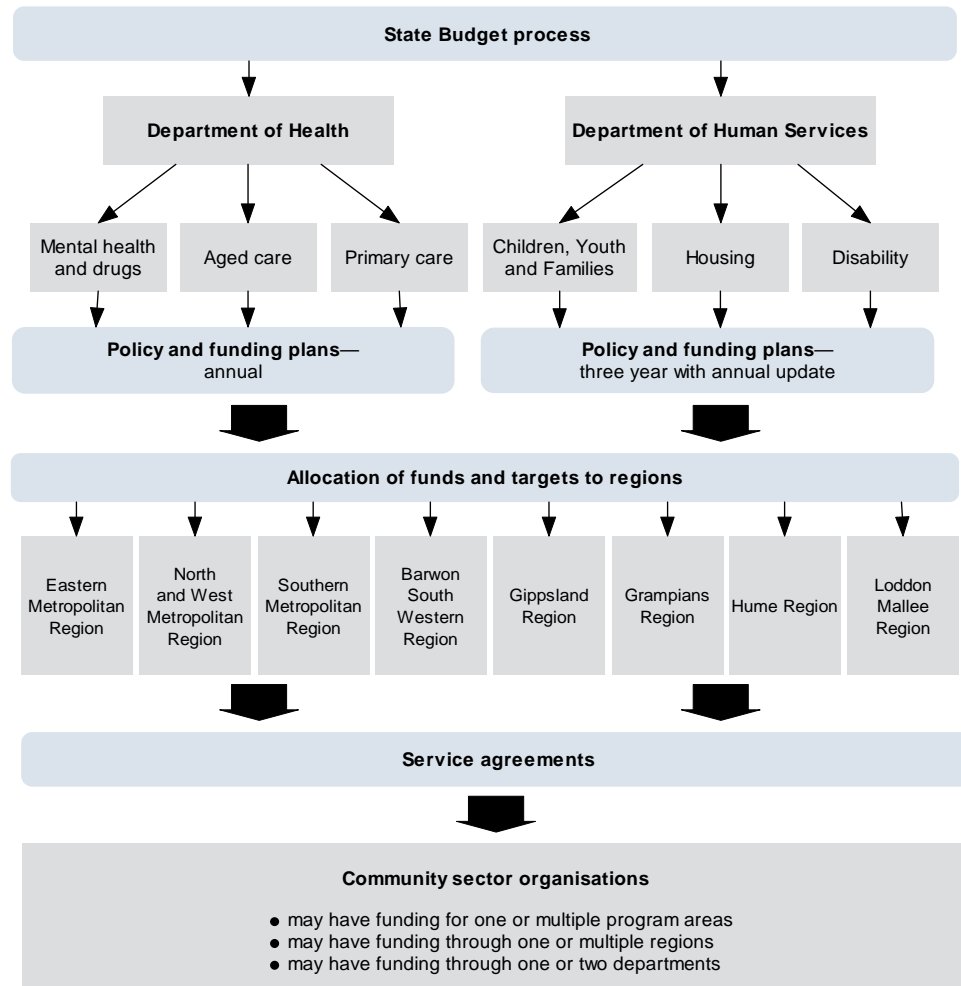
Source: Victorian Auditor-General's Office.

1.1.2 Arrangements between departments and CSOs

Funding for DHS and DH is in the state budget. Their central offices determine the activity level for each program area, e.g., drug services or housing, and set targets for each region. The central offices fund the regions based on the unit price of each activity or on historical information. Each program area publishes policy and funding plans describing their priorities and unit prices.

The regional offices set activity targets for, and fund individual CSOs in line with their targets and budget. They detail these targets in contracts with CSOs called service agreements. Figure 1C illustrates the funding pathway for CSOs.

Figure 1C
Pathway of funding to CSOs



Note: The central office of DH negotiates and manages payments to hospitals and some large CSOs. Service agreement arrangements for hospitals were not included in the scope of this audit.

Source: Victorian Auditor-General's Office.

Service agreements

A service agreement is a contract between the department(s) and the CSO. The department agrees to fund the CSO for services to individuals or groups in the community.

Each service agreement spans three years and outlines the parties' obligations. CSOs are accountable for funding received and performance and must comply with accreditation and other service quality standards.

Service agreements have been electronic since 2009.

1.1.3 Program and service advisors

DHS and DH program and service advisors (PASAs) oversee these agreements. Multiple PASAs may manage different parts of a CSO's service agreement if it is working in more than one program area or region.

1.1.4 Monitoring framework

DHS's monitoring framework guides DHS and DH staff on how to monitor CSOs service agreements so they comply with accountability requirements. The framework uses risk management principles to:

- monitor service quality and sustainability
- identify risks and ways to address them
- achieve ongoing provision of community services
- avoid the costs and consequences of service failure.

Part 2 of this report details the monitoring framework.

1.2 The policy environment

1.2.1 State policy

Reducing the Regulatory Burden

The *Reducing the Regulatory Burden* initiative of 2006 focused on cutting the administrative and compliance burden for business and CSOs. In 2009 the initial target of a \$256 million burden reduction by July 2011 rose to \$500 million by July 2012. The new target covers cost reductions for administration, compliance and delays.

Victorian Government action plan: stronger community organisations

The action plan sets out the government's priorities and aims for the community sector, and builds on previous commitments to strengthen communities, including *A Fairer Victoria*, *Growing Victoria Together*, and *Reducing the Regulatory Burden*.

The action plan aims to simplify government dealings with CSOs, present the best value for the community and create an environment for CSOs to invest in their own capabilities and sustainability.

The plan requires departments to improve consistency in agreements and accreditation systems by aligning quality and accountability requirements.

1.2.2 Departmental policy

Policy and funding plans

DHS and DH prepare policy and funding plans for each program area. The plans outline the government policy, the department aims and program budgets, initiatives and priorities. They also describe service activities, performance measures, data collection requirements, service standards and guidelines.

One of the objectives of policy and funding plans is to promote partnership with CSOs by giving them more information for their service agreements.

Partnership agreements

Since 2002 the former DHS and the community services sector have had partnership agreements and currently a memorandum of understanding (MOU). The Victorian Council of Social Service (VCOSS) has signed these documents as the peak body for CSOs.

The documents highlight a shared aim of constructively cooperating and collaborating to achieve the best possible results from health, housing and community services.

The Human Services Partnership Implementation Committee (HSPIC) is the governing and supporting body for the relationship between DHS and the sector. Its members comprise representatives from CSO peak bodies and departmental staff and it meets regularly.

1.3 Audit objective and scope

1.3.1 Audit objective

The objective of the audit was to examine the effectiveness of DHS and DH's management of service agreements with CSOs. The audit considered effectiveness in terms of whether:

- the service agreement model supports effective service outcomes and accountability while complying with government objectives about CSO interactions
- CSOs deliver funded services to agreed standards and are held accountable for the expenditure of public funds.

1.3.2 Audit scope

The audit examined current service agreements between DHS and DH and funded CSOs. The audit scope excluded the acute health and housing programs because of current and planned audit coverage in those areas. The audit examined the service agreement model, and the implementation of the model for a cross-section of funded CSOs.

The cross-section of 12 CSOs selected covered:

- large and small CSOs
- disability, drug and child, youth and family program areas
- metropolitan and regional areas
- CSOs providing direct services, as well as peak bodies.

The audit was performed in accordance with the relevant Australian Auditing Standards. The total cost of the audit was \$290 000, which includes staff time, overheads and printing.

2 Service agreement content and supports

At a glance

Background

The Departments of Human Services (DHS) and Health (DH) have agreements with community sector organisations (CSO) to fund, deliver, manage and monitor the services CSOs provide for the state.

Conclusion

The departments' service agreement model is effective. However, the departments can further improve their service agreements and better meet government objectives for building partnerships with CSOs.

Findings

- The service agreement content is sound with no real gaps.
- The agreement could be improved to better reflect the partnership objective.
- Departmental funding arrangements should be more transparent.
- Processes to monitor agreements are robust.
- There is no central point of authority to drive consistent funding and service agreement practices.

Key recommendations

- The departments should align the service agreement content more closely with partnership principles.
- The departments should hold annual 'whole of agreement' meetings with CSOs to review performance and whether funded activities are meeting client needs, and use this information in service planning.
- The departments should release policy and funding plans and associated updates before the relevant financial year begins.
- The departments should adopt the Public Accounts and Estimates Committee's 2002 recommendation and be transparent with CSOs about how they calculate unit prices.

2.1 Introduction

The Departments of Human Services (DHS) and Health (DH) have service agreements with community sector organisations (CSO) that define the relationship between the parties. The agreements set out department funding responsibilities and CSOs service delivery obligations. They also outline service standards, and financial and performance-related accountability requirements.

The departments use these agreements to manage the funding, delivery and monitoring of services CSOs provide for the state. The agreements were set up to foster effective service and accountability and should align with whole-of-government objectives of:

- streamlining interaction with CSOs
- maximising community benefit
- being partnership based.

The audit examined the departments' service agreement model and its supporting infrastructure including:

- the content and structure of the service agreement, including accountability requirements
- arrangements for receiving and signing the service agreement
- funding and monitoring of services from CSOs
- relevant improvement initiatives
- governance of the service agreement framework
- developments that affect the framework.

The audit studied findings and recommendations from the 2002 Public Accounts and Estimates Committee's (PAEC) inquiry into DHS service agreements, *Report on Department of Human Services – Service Agreements for community, health and welfare services*.

2.2 Conclusion

The departmental service agreement model is effective. It is clear about expected service outputs, standards and accountability, and has processes to assure departments that CSOs have met their agreements. There have been regular reviews and improvements to the agreement model.

However, the departments can still improve their service agreements and build better partnerships with CSOs to meet government objectives. Greater partnering with CSOs will assist departmental service planning and outcomes.

The main areas for departmental attention are:

- fully addressing PAEC recommendations from 2002, accepted by government in October 2002
- changing the service agreement to better reflect partnership with CSOs
- releasing program area policy and funding plans on time and providing consistent information in them
- greater transparency on the composition of, and basis for, unit prices
- establishing a central point of authority in the departments to drive consistent funding practices and service agreement management.

The introduction of 'client attached funding' in the disability program from January 2010 and its potential flow-on into other program areas has major implications for the service agreements and relationships with CSOs. In this market-based approach clients choose their service provider. However, this gives affected CSOs less certainty about their funding and challenges the purpose of the service agreement, which is for CSOs to provide a specific number of services.

2.3 Service agreement content

The service agreement is a contract between the department(s) and the CSO. The department agrees to pay public funds to the CSO for services to individuals or groups in the community. Each agreement is for three years. Figure 2A shows the service agreement structure and content.

Figure 2A
Standard service agreement content

Agreement section	Content
Table of contents	Outlines the content of the agreement.
Background	Sets out the joint commitment between departments and the CSO sector to work in partnership to achieve shared principles, goals, values and outcomes.
Agreement authorisation	Lists the individuals who have entered into the agreement on behalf of the CSO and the department(s).
Schedule 1 – Conditions of the agreement	Sets out the terms and conditions for service delivery, including reviewing, varying and terminating the agreement, dispute resolution, intellectual property etc.
Schedule 2 – Financial summary	Details funding by service activity on a program basis and a payment schedule showing dates and amounts of planned payments from the departments to the CSO.
Schedule 3 – Service plans	Specifies for each funded service activity: performance measures and targets, service standards and guidelines, and data collection requirements. This schedule also has a link to relevant departmental policy and funding plans.

Source: Victorian Auditor-General's Office from DHS information.

The content of the service agreement is sound with no major gaps. DHS has progressively improved service agreement content and accessibility by:

- moving to three-year agreements from 2003, in line with a PAEC recommendation and to meet CSOs need for funding certainty
- simplifying the wording of the 2009–12 service agreement into 'plainer English'
- posting an electronic service agreement including schedules and supporting information on the Funded Agency Channel (FAC).

Consulting the CSO sector on service agreements

In October 2009, the departments set up the Service Agreement Working group. The group's departmental and CSO representatives review all service agreement terms and conditions. The group was set up after wording of the 2009–12 agreement confused CSOs about price indexation. The departments expect to use the group's feedback to change agreement terms and conditions in the rolled over service agreements due in 1 July 2010.

Further improving the service agreement

Standards and guidelines

Schedule 3 of the service agreement lists service standards and guidelines based on the services CSOs are funded for. DHS had over 620 service standards and guidelines by the end of 2008. The departments need to review the lists attached to the agreements because:

- it is unclear which are mandatory standards and which are guidelines
- not all electronic links to standards and guidelines listed on the FAC work.
- some standards and guidelines may be out of date.

DHS is now checking standards, guidelines and data collection requirements in its policy and funding plans to match information in the service agreements. It is also reviewing web addresses and links.

Reflecting partnership

The service agreement strongly favours the departments. For example, if they decide that they no longer require part of the services contracted for under the agreement they can reduce funding with no notice or explanation and CSOs cannot contest this. This reflects the departments' responsibility for service delivery but is at odds with the government aim of partnering with community organisations.

Departments have not used this clause hastily. However, it does highlight the need to review the agreement without compromising the departments' ability to withdraw, suspend or reduce funding if appropriate.

2.4 Establishing and signing service agreements

Departments use service agreements to deliver community services. The agreements are a tool and not an end in themselves. The services should be well planned, responsive and make a difference.

Service planning

PAEC's 2002 report recommended that DHS plan its services more thoroughly and inclusively to reflect the experience and views of service providers and clients and be holistic rather than confined to individual departmental divisions.

The 2009 partnership memorandum of understanding (MOU) signed with the Victorian Council of Social Service on behalf of the community sector acknowledges that the best services come from many factors including inclusive planning. This supports the need for meaningful CSO inclusion in service planning.

International research shows that clients do not necessarily get a holistic service from a system that buys outputs and units of service from various distinct program areas. Funding by program can force CSOs into fragmented service which does not necessarily meet their clients' needs.

The departments' service agreement model encourages CSOs to follow the departments' program-based approach and does not provide the holistic approach recommended by the PAEC. Processes used to establish service agreements mean the departments are not benefiting from CSOs' 'whole-of-organisation' outlook on client needs and service planning issues. CSOs perspectives, and local and regional knowledge and insights are relevant to service planning, particularly for those supplying programs in a particular locality or region.

The service agreement requires departments to hold an annual meeting with each CSO to review the operation of the agreement. In practice, CSOs meet many departmental staff during the year but 'whole of agreement' meetings with senior departmental regional staff are rare.

The departments should hold 'whole of agreement' meetings to review the CSO's performance and get feedback on holistic service planning.

Signing of service agreements

In 2009, DHS transferred service agreements from paper to electronic documents. Previously DHS sent CSOs their agreement for review, signing and return. There were delays in finalising signed agreements. Now, DHS posts agreements to CSOs electronically on the FAC. CSOs have three days to raise any issues with the new agreement after which the department considers the agreement to be accepted and 'signed'.

The aim was to smooth administration. However, legal advice given to DHS about this change stated that CSOs must choose to receive service agreements online. DHS has not followed this advice as it did not ask CSOs to agree to receive agreements electronically. Further, the change was not effectively explained to CSOs.

CSOs do not have enough time to review their new service agreements given the number of schedules and detailed information included. They may miss errors or contestable inclusions. The department needs to give CSOs more than three days to review the agreement.

2.5 Funding arrangements

The way the departments fund CSOs is central to their relationship and affects the nature and quality of services they provide.

DHS and DH funding allocations come from the annual state budget. The departments' central offices decide which activities to fund by program area and region. The departmental regional offices set activity targets, and thereby the funding for individual CSOs. CSO service agreements detail these targets and funds.

2.5.1 Policy and funding plans

DHS writes three-year policy and funding plans for child, youth and family, housing, and disability services. DH prepares its plans for mental health, drug and aged care services annually.

These program area plans outline government policy, departmental objectives, and initiatives, priorities and budgets. They include:

- funded service activities and unit prices
- performance measures
- data collection requirements
- service standards and guidelines.

The objectives of policy and funding plans include:

- promoting partnership with the department(s) by providing supporting information for CSOs service agreements
- improving transparency about how funds are allocated.

The plans should give information to CSOs to support their service agreement. Schedule 1 of the service agreement refers to the policy and funding plans.

DHS program areas usually do not publish their plans before the start of the financial year and they can be up to six months late. DHS has been aware of this issue since an internal review in 1999, and the 2002 PAEC review also reported it. This audit also found that:

- CSOs funded through multiple programs have to refer to multiple plans
- plan content varies across program areas, including the detail about funding methods and unit prices
- there is limited information about how unit prices for service activities are set.

These issues diminish the plans' value in supporting service agreements. However, DHS has examined the content and form of plans, and will create one department-wide policy and funding plan from 1 July 2010.

2.5.2 Unit prices and price reviews

The departments base most of their CSO funding on unit prices for defined service activities.

In a submission to the 2002 PAEC inquiry, DHS said that consultation with CSOs showed *'the adoption of unit pricing as a general approach was considered to be a significant benefit of the purchasing reforms in recent times, since it provides equity and transparency to what was previously an historically based funding and allocation system'*.

The departments' unit prices are largely historically based and have been indexed annually since 2003. DHS's 2007 *Price Review Framework* has principles for reviewing unit prices, namely:

- reviews and their outcomes will be transparent
- reviews will occur in consultation with the sector
- reviews will take into account full costs of services
- where a proposed unit price is insufficient to maintain current service delivery, solutions such as service model or target changes should be considered.

Clarity and currency of unit prices

Despite the framework's principles, how the departments calculate many unit prices is unclear. CSOs reported they would appreciate access to unit price break downs for their service management. In 2002, PAEC recommended enhancing unit cost information in service agreements to include details of the DHS formulae. The departments have not acted on this recommendation in the eight years since.

In some program areas the departments have not reviewed unit prices for 10 or more years. This does not necessarily mean that the prices are inadequate as they are annually indexed. However, over 10 years, there are changes to models of service delivery, workforce composition and qualifications, and service standards and accreditation requirements. This change can mean the original unit price calculation is redundant.

The Human Services Partnership Implementation Committee (HSPIC) oversees price reviews and gets departmental status reports on completed and planned reviews. However, as these reports do not list all funded service activities and the date of their last review it is difficult to identify neglected areas.

These issues indicate that the advantages of unit pricing over the former historically based funding system may have gone.

Reviewing prices

While the *Price Review Framework* gives high-level guidance it does not:

- commit to regular price reviews
- explain the relationship between the price review and government decision making behind funding in the annual state budget
- outline the preferred or expected way to review prices
- establish quality assurance for price reviews.

Price review methods differ across program areas including on the extent of CSOs involvement. The departments need minimum requirements and quality assurance to support robust, transparent and inclusive reviews.

Adequacy of unit prices

DHS began paying a consistent price index on departmental funding in 2003. For the 2009–12 funding cycle the government agreed to a 3.14 per cent annual indexation.

DHS consults with the sector on indexation before each three-year service agreement. HSPIC represents the community service sector in price indexation negotiations. The calculation allows for expected wage and other cost movements. DHS also considers the sector's potential for innovation and productivity. 'Exceptional events' such as changes to minimum wage awards can justify extra indexation.

While the annual indexation process is positive, both CSOs and department staff raised issues about unit prices such as:

- unit prices do not reflect higher travel and other costs of rural services
- some CSOs no longer apply for extra funding and service delivery targets if they believe the unit price is inadequate because they cannot afford to subsidise the departmental unit price and refuse to deliver under-resourced services
- inadequate unit prices challenge CSOs in attracting and retaining staff.

Price reviews are designed to prevent inadequate unit prices. However, the departments can only increase unit prices if they have the funds. The departments and the sector may agree on an increased unit price through a review. If the department(s) does not obtain funding to increase the unit price, the price review framework implies that service delivery models or targets for CSOs should be changed to reflect the under-funding of the existing unit price. However, as this is not typically done, CSOs may have to cut costs or find other funding.

2.6 Monitoring framework

PAEC's 2002 report highlighted the need for DHS to review and monitor organisations funded through service agreements, more systematically.

In 2004 DHS introduced a state-wide monitoring framework which supports the service agreement model. It guides DHS and DH staff on monitoring CSOs performance and accountability. The framework uses risk management principles to facilitate:

- monitoring organisation service quality and viability
- identification of risks and ways to address them
- ongoing provision of community services and avoiding the costs and consequences of service failure.

The framework stresses the importance of respecting CSOs independence when monitoring, as well as following the principles in the partnership MOU. The framework sets out core monitoring tasks covering all CSOs and also allows the department to identify CSOs needing closer monitoring and contact.

Both departments have shown commitment to reviewing and improving the monitoring framework.

DHS and DH program and service advisers (PASAs) are responsible for daily oversight of service agreements with CSOs. They:

- oversee the service agreement process
- facilitate policy implementation and funds allocation
- monitor funded services
- manage the CSO relationship.

The departments appoint a lead PASA to manage each service agreement and CSO relationship. CSOs working in many program areas or regions may have several PASAs who give feedback to the lead PASA. Some very large CSOs have multiple service agreements and more than one lead PASA.

Part 3 of this report shows considerable variation in the way PASAs interpret and apply the monitoring framework guidelines, which contradicts the monitoring framework aims.

2.6.1 Desktop reviews

The annual desktop review is one of the main ways the departments monitor funded organisations. The review aims to identify risks and to initiate appropriate action or follow up. The monitoring framework requires PASAs to tell CSOs the review results.

The former DHS acted effectively in addressing the continuing lateness of desktop reviews, identified in a 2009 internal audit report. At 30 June 2009, 255 or around 32 per cent of desktop reviews were overdue. This reduced to only 21 or 2.5 per cent overdue by early February 2010.

2.6.2 Financial accountability requirements

Under the service agreement, funded organisations must report their financial position to the department(s) annually.

CSOs financial accountability requirements are generally sound and consistent with a partnership. The departments do not require line-by-line acquittal of funding. This is adequate as most funding is based on outputs and in many cases unit priced activities. Departmental staff closely monitor CSO delivery of funded outputs.

CSOs also certify annually that they have used departmental funding for the services named in the service agreement.

Departmental staff review CSOs finances in the annual desktop review and note any risks to the CSO's financial viability.

While financial reporting has reduced the level of acquittal-based reporting, service agreements allow the departments to ask the agency for more information.

Changes to financial accountability in 2009

The former DHS had standard financial reporting proforma statements for CSOs that did not specifically or directly acquit DHS funds. However, agencies also had to certify and produce an audit report that they had used funds only for intended purposes.

These requirements were in schedules to the service agreement. DHS simplified the 2009–2012 service agreement by removing these schedules. It also allowed CSOs to replace the financial accountability proformas and audit report with an annual report incorporating audited financial statements.

However, the audit opinion for standard financial statements differs from the audit report that the departments previously required as it does not deal specifically with the use of departmental funding. As a result, the departments cannot get the same assurance that CSO's have spent funding appropriately.

Despite these changes, CSOs still have to certify that they:

- have complied with the terms and conditions of their service agreement with DHS
- have used funding from the department(s) on the services stated in the service agreement
- are financially viable and can continue to provide services on behalf of the department(s).

2.7 Simplifying Indigenous agreements

The former DHS identified issues over many years with the reporting and compliance burdens on Aboriginal Community Controlled Organisations (ACCOs), and with their capacity to manage and comply with this burden.

DHS found that the burden of multiple funding lines is greater on Indigenous organisations because of the breadth of services they offer for a small amount of funding. Figure 2B shows the DHS analysis of the reporting burdens on ACCOs.

Figure 2B
DHS analysis of compliance burden on ACCOs

Internal analysis of DHS funding to 33 ACCOs in 2007–08 found that they received \$30.5 million in recurrent funding, and \$5.4 million in non-recurrent funding in 393 separate budget lines. Of the 393 budget lines:

- more than 40 were for amounts of less than \$5 000
- 142 were for amounts between \$5 000 and \$50 000
- 101 were for amounts between \$50 000 and \$100 000.

With funding spread so broadly, 17 organisations had to comply with more than 20 different service standards and guidelines, and 14 organisations had to comply with 11 to 28 different data collection requirements.

The former DHS began a project in 2008 to simplify funding arrangements and service agreements with ACCOs. The project aimed to give ACCOs more flexibility to meet local needs, as well as aligning DHS reporting requirements with the Victorian Indigenous Affairs Framework (VIAF) and the Council Of Australian Governments (COAG).

Source: Victorian Auditor-General's Office from DHS information.

Significant work has progressed towards simplifying funding arrangements and service agreements with Indigenous organisations, consistent with government aims and whole-of-government action. DHS has taken steps towards:

- reducing the number of funding lines by moving funding to the output group level, rather than the current activity level
- revising reporting requirements consistent with COAG and VIAF measures
- reducing the number of administrative reporting systems and ACCO data sets.

This project has moved slower than DHS advised ACCOs in May 2009. It suggested these revised funding and reporting arrangements would be implemented by the start of the new service agreement in July 2009. DHS has changed the implementation date to July 2010.

There are risks in aggregating funding lines and reporting requirements. This will lead to the department relying more on PASAs to build and maintain effective relationships with ACCOs so it can be assured they are spending funds in line with the service agreement.

2.8 Governance of the service agreement model

The Funded Agency Agreements Board (FAAB) provides strategic advice and direction for policy on managing service agreements. It also oversees activities to improve service agreement management and relationships with CSOs. The success and timeliness of these activities vary.

DHS's Business Relationship Management Branch (BRMB), as the main 'owner' of service agreements, monitors the framework and supports program areas and PASAs.

BRMB guides program areas on what the department expects when managing its relationships with CSOs. However, it does not have the authority to review and enforce compliance by program areas with funding policy and service agreement processes. Departmental program areas operate largely independently, even in managing service agreement issues, for which there is strong justification to apply clear and consistent business rules.

An internal project in 2009 highlighted the need for a central authority in the departments to enforce compliance. Recommendations from this project went to the FAAB in October and December 2009. A key recommendation was to give BRMB authority for overall DHS funding governance and quality assurance. The project also recommended that FAAB inform the senior management of DHS of the project results and ask them to approve its recommended strategies. FAAB did not discuss the recommendations and the project seems to have stalled.

Following the departmental changes announced in August 2009, splitting the former DHS into DHS and DH, the departments are reviewing FAAB membership. It is expected that DH will be represented given the client group, as well as joint projects, such as simplifying funding and reporting for ACCOs.

2.9 Developments affecting the framework

The departments are monitoring two issues that may affect future relationships between the departments and CSOs. The first is the introduction of 'client attached funding' within the disability program, and the second is possible Commonwealth government changes to the fringe benefits tax (FBT).

Client attached funding

Client attached funding is a market-based funding model in the disability sector. It allows clients to choose service providers and the nature of their services. While this empowers clients, affected CSOs will probably have less funding certainty. It is also likely to affect their ability to plan, offer secure employment to staff, and resource services. Regions and CSOs also reported the need for 'shadow' systems to record and track the large number of individual client funding packages.

Possible tax changes

The Commonwealth tax review and any recommendations it may make on the FBT status of CSOs will have major implications for many of these agencies. CSOs can attract staff by offering tax benefits. Removing this benefit may threaten CSOs' ability to attract and retain appropriately skilled staff.

Recommendations

1. The departments should align the service agreement content more closely with partnership principles.
 2. The departments should hold annual 'whole of agreement' meetings with CSOs to review performance and whether funded activities are meeting client needs, and use this information in service planning.
 3. The departments should release policy and funding plans and associated updates before the relevant financial year begins.
 4. The departments should adopt the Public Accounts and Estimates Committee's 2002 recommendation and be transparent with CSOs about how they calculate unit prices.
 5. DHS should improve the *Price Review Framework* to include:
 - minimum requirements and standards for price reviews
 - routinely reporting the date of the last price review and its status for all program areas to Human Services Partnership Implementation Committee
 - how CSOs manage when agreed price reviews are not funded.
 6. The departments should have a central point of authority so funding practices and service agreement management are consistent.
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3 Managing the service agreement

At a glance

Background

The Departments of Human Services (DHS) and Health (DH) should manage service agreements with community sector organisations (CSO) consistently with government objectives and should assure that CSOs are accountable for publicly funded services.

Conclusion

There is a high level of assurance that CSOs are delivering agreed services. The comprehensive monitoring processes and the constructive relationships departmental staff develop with CSOs are reliable and robust.

Findings

- All CSOs reviewed had a valid and current service agreement.
- The departments have appropriate assurance that CSOs are accountable for allocated funding and that they deliver the agreed services.
- The departments' regional offices and program areas need to be more transparent and consistent in allocating new funds.
- The departments can cut the administrative burden on CSOs without compromising accountability.
- Management of service agreements by the departments is not fully consistent with partnership commitments.

Key recommendations

The departments should give priority to:

- clarifying expectations and processes for service agreement negotiation, in line with partnership objectives
- improving the allocation of new funding
- further reducing the data reporting and accreditation requirements burden on CSOs
- recognising the costs incurred by CSOs that partner with them when reviewing and adjusting unit prices and other funding mechanisms
- guiding staff better on using partnership principles when managing service agreements with CSOs.

DH should clarify its approach to the partnership agreement.

3.1 Introduction

The government recognises the importance of its relationship with the community sector and wants to make its relationships with community sector organisations (CSO) streamlined, valuable to the community and based on a partnership.

The partnership memorandum of understanding (MOU) with the community sector emphasises mutual respect, consultation and collaboration, inclusive planning, and constructive engagement. The MOU and higher-level government directions describe expectations for how the Department of Human Services (DHS) and Department of Health (DH) should negotiate, manage, and monitor their service agreements with CSOs.

This part of the report examines whether DHS and DH (the departments) comply with these principles, and whether CSO accountability for publicly funded services is adequate.

3.2 Conclusion

There is a high level of assurance that CSOs are accountably delivering agreed services. The comprehensive monitoring processes and the constructive relationships departmental staff develop with CSOs are reliable and robust.

Nevertheless, the departments can reduce the compliance and regulatory burden on CSOs and move the relationship with CSOs closer to a partnership. This would better align the departments' management of CSOs service agreements with the vision and principles in the MOU. The departments could:

- genuinely negotiate agreements with CSOs using a consistent approach
- improve the transparency of allocating new funding
- consolidate data reporting and external review requirements
- provide meaningful feedback to CSOs on their performance and information they contribute about their sector.

It is also important that the newly created DH clarify its approach to the partnership agreement.

3.3 Managing the service agreement

Core accountability is assured as all CSOs reviewed as part of the audit had a valid and current service agreement in place. However, regional DHS and DH offices and program areas vary in how they manage individual service agreements. Approaches to the negotiation of agreement terms, the allocation of funds and in CSO monitoring and feedback are inconsistent. These inconsistencies occur between CSOs and within individual CSOs that work in more than one region or program area.

3.3.1 Negotiating the agreement

The 2002 Public Accounts and Estimates Committee (PAEC) inquiry into DHS service agreements with CSOs recommended that, 'DHS revise its current service agreement negotiation process to provide for the genuine exchange and discussion of views between parties'. The government accepted this recommendation, which is in line with the vision in the partnership MOU.

The audit examined the departments' progress in improving negotiation of service agreements.

Changing the agreement

Service activity and funding in service agreements generally roll over with annual indexing. There is no formal process for dialogue between the departments and CSOs before the electronic sign-off of renewed three-year agreements.

The service agreement information kit outlines how CSOs can change their service agreements. It details possible changes to a service agreement such as:

- growth or reduction in services
- new services
- funds for minor capital works
- funds for one-off items
- changes due to service and funding model redevelopment.

Changes are processed at set times during the year called 'variation windows', however changes can happen outside these times.

Departments find negotiating service agreements a challenge because their funding is set in the annual state budget and it is tied to service delivery targets by program area. The departments allocate funding and service targets firstly across regions then to CSOs. Thus most funding for CSOs is committed recurrently and rolls over from year to year. This limits the departments' ability to negotiate funding and related service targets with individual CSOs.

Improving negotiation

Despite these limitations the partnership MOU and processes set out in the service agreement, create an expectation that negotiation should occur.

One of the issues CSOs regularly raised during the audit was their dissatisfaction with service agreement negotiation, saying there is little, if any, chance to negotiate. CSOs wanted a routine process where departmental staff meet them to review the service agreement, actively negotiate service mix and funding levels, and agree.

Discussion with regional department staff highlighted differences in approaches across regions and program areas to the negotiation of agreements. While there will always be some variance across large and widely dispersed organisations like the departments, this should not affect how they put the partnership vision and principles into practice.

The ability of individual Program and Service Advisers (PASAs) to negotiate a service agreement with a CSO depends on whether:

- there is growth funding in the relevant program area
- the region manages its finances so it has funds available to allow negotiation
- the PASA or their line manager can advocate for more funding from the central office
- they can reorganise funding between CSOs
- the PASA or their line manager is willing or able to negotiate.

Regional offices, program areas and individual staff members handle these issues differently, which leads to inconsistent interactions with CSOs. CSOs note that when negotiation does not happen, the vision in the partnership MOU is undermined and the relationship with government becomes more unequal and contractual than it needs to be.

The audit identified some examples of meaningful negotiations between regional offices and CSOs, so it is achievable. At present, neither the service agreement information kit nor the departmental guidelines for service agreements discuss expectations for negotiation. Setting and communicating clearer expectations and processes for negotiation would help address this issue.

3.3.2 Allocation of new funds

The allocation of new funds to CSOs by departmental regions and program areas lacks consistency and clarity. The 2002 PAEC inquiry noted this and recommended giving CSOs greater clarity and assurance about the funding process. An internal DHS project undertaken in 2009, described in Figure 3A, also identified this. Most CSOs commented on the lack of openness, consistency and transparency in departmental allocation methods and decisions.

Figure 3A
The Better Funding Practice project

In April 2009, the former DHS began the *Better Funding Practice* project to improve funding practices such as:

- blurred accountability and lack of ownership of funding policy use and quality assurance
- unclear roles and responsibilities between central and regional offices for funding and issues with the timing of the release of new funds to regions
- inconsistency in use of funding policy across programs and regions
- ambiguity in funding processes and decisions leading to CSOs not understanding them.

An October 2009 DHS report on the project findings and recommendations proposed:

- setting clear roles, responsibilities and authorities for funding governance, practice and quality assurance across central and regional offices
- developing guidelines and training to improve staff funding practices
- communicating to CSOs about funding practices.

Source: Victorian Auditor-General's Office from DHS information.

Progress on agreeing and implementing the *Better Funding Practice* project strategies is slow with no target dates set.

The departments' lack of attention to addressing issues and concerns raised by the PAEC, CSOs and internal reviews about methods of allocating new funding over the past seven years suggests a lack of commitment to a transparent partnership with CSOs.

3.3.3 Monitoring performance

Part 2 of this report outlines the monitoring framework for service agreements. The framework promotes a risk-based approach intended to provide 'core monitoring' for all CSOs and to identify agencies needing closer attention.

The term 'core monitoring' refers to PASAs' routine monitoring of:

- organisations' legal status
- service delivery performance and reporting
- incident and complaints reporting and management.

The departments gain appropriate assurance that CSOs are accountable for allocated funding and deliver agreed services through the implementation of monitoring activities.

Differences in core monitoring

Individual department staff undertake core monitoring differently. Figure 3B shows different ways that PASAs monitor CSOs, irrespective of the CSO's performance.

Figure 3B
Variation in monitoring activities

Activity	Variations
Contact with the CSO	<ul style="list-style-type: none"> Liaison is ad hoc and often happens through other channels e.g. at committee meetings or forums for other purposes. There is a formal arrangement for the PASA to meet with the CSO quarterly, in addition to ad hoc contact. There is a formal arrangement for the PASA to meet the CSO monthly, in addition to ad hoc contact.
Documentation	<ul style="list-style-type: none"> There are no agendas or forms to record monitoring discussions with the CSO. Meetings follow an agenda and are documented on a standard template.
Desktop review	<ul style="list-style-type: none"> The PASA completes the minimum level of detail required. The PASA adds comments on matters such as service quality.
Desktop review feedback to CSO	<ul style="list-style-type: none"> The PASA only communicates the outcome of the review to the CSO. The PASA discusses the desktop review in detail with the CSO and provides a copy of the report.
Other	<ul style="list-style-type: none"> Some PASAs attend the CSO's annual general meeting. Some PASAs routinely visit sites. Some PASAs audit to verify reported performance data.

Source: Victorian Auditor-General's Office from interviews with DHS, DH and CSO staff and document review.

Inevitably, some practice difference will occur in and across departments as large and dispersed as DHS and DH, but it is reasonable to expect core monitoring to occur and be documented consistently. Lack of consistency frustrates achievement of one of the monitoring framework aims.

The *Monitoring Framework Guidelines* outline department staff responsibilities and instructions about how to perform certain monitoring tasks. However, these guidelines do not advise on:

- how often PASAs should meet face-to-face with CSOs
- meeting format e.g. with or without a standard agenda
- how to document monitoring outside the desktop review
- expectations about site visits, attending annual general meetings, or verifying performance reports.

PASAs and CSOs should be able to negotiate their interaction. However, different practices could mean some CSOs are under-monitored and others over-scrutinised. A CSO with multiple PASAs may become confused and frustrated at the different approaches to monitoring.

Desktop review

The departments should better explain the desktop review to CSOs. Some CSO staff, including senior management, said they knew nothing about the review and others said that they got no feedback other than the result. CSOs cannot benefit from the review if they do not understand it or get no feedback.

DHS evaluated the desktop review process in 2009. It found:

- desktop reviews varied in quality, e.g. in documenting risk
- some staff did not know they should be telling the CSOs the results
- staff needed help to write 'commentary', e.g. on service quality.

DHS has responded by improving staff training and developing business rules for desktop reviews including requiring commentary.

3.4 Reporting and compliance burden

The government has committed to cut the administrative burden on business and other agencies, including CSOs. It wants to cut \$500 million in costs by July 2012. DHS and DH are responsible for helping meet this target. Minimising reporting and compliance burden for CSOs is consistent with the departmental aim of partnership.

3.4.1 Data reporting

To show accountability, CSOs report data to DHS and/or DH as required by their service agreements. The reports detail the number of services, or hours of service, the CSO provides. The departments use the data to measure CSO performance against the targets in their service agreement.

Many CSOs report to multiple departmental databases in a variety of formats, which is inefficient. Figure 3C gives an example for a single CSO.

Figure 3C
An example of data reporting requirements for one CSO

Activity area	Data report	Common data system	Frequency
Child services	Out of home care	Client and Relationship System for Services Providers (CRISSP)	Quarterly
Family services	Family services Family violence	IRIS	Quarterly
Mental health	Psychiatric Disability Rehabilitation Support Service (PDRSS) data collection	Multiple	Quarterly
Accommodation	Supported Accommodation Assistance Program (SAAP) National Data Collection	Multiple	Six-monthly
Disability	Quarterly Data Collection Disability	CRISSP	Quarterly

Source: Victorian Auditor-General's Office from DHS information.

In 2002 the PAEC also identified the data reporting burden and recommended that DHS:

- reduce the quantity, frequency, detail and duplication of data from CSOs
- improve the quality of data from CSOs
- allow data sharing and collection between the department(s) and CSOs.

In response, DHS initiated the *Information Management Strategy* (IMS) in 2005. IMS aimed to reduce the cost and burden of data collection and reporting requirements on CSOs and the department. The department has used IMS to:

- introduce new business rules for creating and reviewing data collections with Executive Director approval required annually to continue, modify or add to data requirements
- require department program areas to annually review and simplify their data requirements
- develop common data dictionaries for administrative data such as client and CSO details.

DHS evaluated the first three years of the project in 2008. It found that of the 200 business cases proposing changes to data collections, 23 per cent needed to be changed to reduce associated cost and burden. The report also noted little evidence of improvement for CSOs.

CSOs reported common challenges in meeting data reporting requirements such as:

- submitting data in several formats to multiple databases, see Figure 3C
- difficulty using data systems for some program areas
- needing shadow recording methods as they considered data systems unreliable
- data entry training for new staff in small agencies with high staff turnover

- getting useful reporting in return for data submitted
- compromise to services because of staff time spent complying
- reduced job satisfaction for staff whose main focus is service delivery.

To date, neither the former DHS nor its successors have evaluated the IMS results for CSOs in terms of actual cost or burden reduction. They need to do this to show their commitment to and progress on reducing this burden.

3.4.2 Standards and external review

Standards set out departmental expectations for how CSOs should deliver services. CSOs must comply with relevant standards under the service agreement. Appendix B lists the standards for each program area.

CSOs providing services in multiple program areas must comply with multiple standards. For example, at least 65 CSOs provide Home and Community Care (HACC), child, youth and family, and disability services. Historically, departments monitored compliance with standards through CSO self-reporting and by PASA monitoring. Now program areas require or will require an external review of CSOs to show compliance. Appendix B lists the external review processes against each standard.

Departments, CSOs and their clients benefit from an external review. The review assures that CSO services are of adequate quality and encourages CSOs to continually improve. However, differences in how individual program areas use external review creates challenges for CSOs. The inconsistency means CSOs can face:

- high costs and a lot of time spent on external reviews
- an almost continuous cycle of reviews
- unproductive repetition of the same processes for the various assessments, certifications and accreditations for each program area e.g. showing performance against financial or governance criteria.

Valuable staff time can be lost from direct services without gaining any benefit to services for the CSO or its clients.

Program areas have funded CSOs differently to take part in external reviews. Some programs fund reviews and plan to alter CSO base funding. Others offer initial funding, and some offer nothing.

The former DHS acknowledged the overlap and inconsistency but has been slow to act. DHS commissioned a review on the matter and in May 2009 endorsed a streamlined accreditation model. The proposed model is in line with the government's push to reduce the burden on agencies and respects the partnership MOU. However, progress has been limited and there is no date for its introduction.

3.5 Building and maintaining partnership

DHS, DH and CSOs share the goal of meeting the health and human service needs of Victorians. This is a strong foundation but in practice the partnership is challenging. This section focuses on whether the government's move to partnership, and the departments' commitment to it is happening.

3.5.1 Building the partnership

The goodwill, relationships, and the networks are strong aspects of the partnership between the departments and CSOs. The overall relationship appears sound.

Underpinning the partnership is:

- good relationships between CSOs and department staff at program level
- good staff awareness of each agency's roles and operating contexts
- department-run activities for CSOs such as:
 - sector forums and networks
 - staff training
 - working groups for specific initiatives
- the availability of tools, such as the funded agency channel for easier access to information
- a generally open departmental approach to monitoring
- easy access to department staff.

The Human Services Partnership Implementation Committee (HSPIC) also supports the partnership. HSPIC was formed in 2004 before DH was set up and its membership comprises DHS and CSOs representatives. HSPIC aims to:

- foster effective and respectful relationships between the departments and CSOs
- promote information exchange about community sector issues
- facilitate working parties and projects to meet HSPIC aims
- coordinate forums such as the bi-annual partnership forum to address challenges in the sector.

HSPIC also monitors the partnership. In 2003 and 2005, it surveyed stakeholders to assess the success of the partnership and in 2009 published a report evaluating progress. While the findings showed both CSOs and DHS representatives strongly supported the partnership, it is unclear whether the newly created DH will participate in partnership activities and forums.

3.5.2 Barriers to partnership

In practice, many aspects of managing service agreements can also create barriers to partnership.

Both sides acknowledge that CSOs incur costs for partnering. When staff attend forums, working groups and committees, and do the associated administration they are not fulfilling their main role as service providers. This can be particularly challenging in regional areas. CSOs often raise this issue and HSPIC concurred in its 2009 evaluation. Funding through the service agreement does not include partnership costs.

There is also a power imbalance between the departments and individual CSOs.

Factors negatively affecting CSOs perceptions of the partnership include:

- having limited input into planning and needs analysis
- lack of negotiation of the agreement
- lack of dialogue between CSOs leadership and senior department staff
- the descriptive nature of funded activities in agreements and the way this limits innovation
- lack of feedback to CSOs e.g. about monitoring or access to sector data
- lack of funding for initiatives required by departments
- the significant regulatory and administrative burden on CSOs
- a perception of inadequate unit pricing and review of prices for some activities and programs.

A partnership implies parties have similar status. In reality, this is a significant challenge for departments, which must balance the partnership principles with holding CSOs accountable. There are several practical ways DHS and DH can improve their partnership practice identified by this audit, the 2002 PAEC review and DHS's own evaluations.

The departments need to guide staff better on using partnership principles when managing service agreements with CSOs.

Effect of machinery of government changes

In December 2009, DH withdrew from HSPIC. As a new entity, DH is not a signatory to the 2009–12 partnership MOU. This is a potential barrier to DH partnering in programs with CSOs like aged care, drug and mental health services. If DH approaches the established partnership arrangements differently from DHS, this would create yet another inconsistency for CSOs. DH advised that it is currently determining its approach to partnering with CSOs and will be meeting with the Victorian Council of Social Service (VCOSS) on this issue in the near future.

Recommendations

7. The departments should clarify expectations and processes for service agreement negotiation, in line with partnership objectives.
 8. The departments should give priority to improving the allocation of new funding.
 9. The departments should further reduce the data reporting and accreditation requirements burden on CSOs.
 10. The departments should recognise the costs incurred by CSOs that partner with them when reviewing and adjusting unit prices and other funding mechanisms.
 11. The departments need to guide staff better on using partnership principles when managing service agreements with CSOs.
 12. DH should clarify its approach to the partnership agreement.
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Appendix A.

Action on recommendations from the Public Accounts and Estimates Committee

Introduction

In April 2002 the Public Accounts and Estimates Committee's (PAEC) reported on its inquiry into the then Department of Human Services' (DHS) service agreements for community, health and welfare services.

In October 2002 the government responded to the 53 recommendations made in the PAEC's report. As part of this audit, the status of action to address PAEC recommendations of particular relevance to the management of service agreements with community sector organisations (CSOs) was assessed. Figure A1 sets out:

- PAEC recommendations from April 2002 of particular relevance to the audit
- the government's October 2002 response to the recommendations
- an assessment of the current status of action to address the recommendations.

The PAEC report and the government response are available at:
<http://www.parliament.vic.gov.au/paec/reports.html>

Figure A1
Status of action to address PAEC recommendations

PAEC recommendation	Government response	Current status
<p>DHS service agreements should reflect and emphasise the importance of client service rights and include clear statements of departmental responsibilities towards service providers and clients.</p>	<p>Accept. DHS recognises the importance of safeguarding client rights and the need for this to be prominently acknowledged in departmental documents and processes.</p>	<p>Implemented. While the service agreement template does not explicitly address client rights, the agreement requires that services be provided in compliance with 'all applicable departmental policies'. These are defined to include standards, guidelines, policies and principles which clearly cover client service rights.</p>
<p>DHS review of targets and performance measures should include developing mechanisms to determine outcomes and the quality of services provided. Attention should also be given to developing performance information that relates to qualitative evaluation, accreditation and benchmarking (particularly where there are national standards available) and other methods such as random audits to provide both financial accountability and measures of effectiveness.</p>	<p>Accept. The department supports the improvement in the output indicators and target setting utilised by human service programs. In particular, there is a need for continuing improvement in the areas of service quality and the outcomes experienced by clients and patients.</p>	<p>Not fully implemented. The majority of indicators in service agreements measure outputs by counting the number of services provided. A small number of indicators seek to measure service quality through means such as client satisfaction surveys. Outcome measurement is not well advanced. External accreditation requirements are used by program areas to provide assurance about CSO service quality. However, accreditation methods are not consistent across program areas and the results of accreditation processes are not currently recorded as part of the annual desktop review. The monitoring framework does not require random audits of CSO financial accountability and effectiveness.</p>
<p>DHS, in consultation with service providers, develop and implement a strategy with defined timelines to:</p> <ul style="list-style-type: none"> • reduce the quantity, frequency, detail and duplication of data collected from service providers • improve the quality of data collected from service providers • provide for the sharing and collection of appropriate data between DHS and providers, and between providers. 	<p>Accept. The need for data reform is recognised as a priority issue requiring attention across DHS. Current departmental systems, platforms and administrative approaches to determining data collection requirements, including data transmission and transfer processes, are different and vary according to programs and to activities within programs. The adverse impact of this variety on service delivery agencies can be quite significant, particularly where the agency delivers services across a number of programs.</p>	<p>Not fully implemented. The issues raised in the government response highlighting the need for data reform remain. DHS has had work underway on this issue since mid-2005.</p>

Figure A1
Status of action to address PAEC recommendations – continued

PAEC recommendation	Government response	Current status
<p>DHS develop and provide service providers with pro forma acquittal statements; and Service providers provide DHS with an acquittal statement and audit certification to account for the funds received from the Department.</p>	<p>Accept.</p>	<p>Not fully implemented.</p> <p>Proforma acquittal statements are available to CSOs. However, changes made to financial accountability requirements for the 2009-12 service agreement mean that the audit certification on funds provided to the CSO by DHS is now effectively optional. See section 2.6.2 for discussion on this.</p>
<p>DHS, in consultation with service providers and clients, introduce a comprehensive service planning process that:</p> <ul style="list-style-type: none"> • actively engages both service providers and clients • is holistic, rather than confined to individual divisions or programs • recognises and uses the strategic information generated by service providers, such as Local Government, and information gathered through DHS service agreements. 	<p>Accept in principle.</p>	<p>Not implemented.</p> <p>While the audit scope did not include detailed examination of the departmental service planning processes, these continue to occur largely on a program by program basis rather than holistically. Notwithstanding this, DHS is moving to replace multiple program centric policy and funding plans with a single department wide plan.</p> <p>CSOs consulted as part of the audit reported a desire for more active involvement in departmental service planning.</p>
<p>As a matter of priority, DHS move to ensure that funds in all program areas are distributed equitably according to demonstrated need and accessibility to all citizens.</p>	<p>Partly accept.</p> <p>DHS has been progressively developing and strengthening a variety of program-specific approaches to distribution of funds to address community need and improve accessibility. In developing responses to changes in community demand pressures, the department is cognisant of the need to support viability of the existing service system.</p> <p>It is noted that there are inevitable limits on equality of access due to resource limitations, requirements to ensure high quality of services, the need to prioritise and also to concentrate resources in some areas for efficiency and effectiveness. To improve transparency, the basis for distribution of funds for the various human services programs is published annually as part of Divisional Policy and Funding Plans.</p>	<p>Not implemented.</p> <p>Funds are still largely distributed on a historical basis, with only the distribution of growth funds subjected to equity formula depending on the program area.</p>

Figure A1
Status of action to address PAEC recommendations – continued

PAEC recommendation	Government response	Current status
<p>DHS details to service providers:</p> <ul style="list-style-type: none"> • what its overall objectives are in funding the community, health and welfare sectors; • its reasons for not contributing towards or funding specific activities including: <ul style="list-style-type: none"> • service delivery • infrastructure maintenance and development • policy development • community development. • why various funding models or approaches are used for different areas of activity. 	<p>Partly accept.</p> <p>The Departmental Plan outlines key government objectives and priorities for the coming year. Divisional Policy and Funding Plans provide detailed information on key policy initiatives in each program, details of funding approaches and detailed descriptions of the purpose of each funded activity. The activities and services funded by the department reflect the policy and budget priorities of the government of the day.</p>	<p>Not fully implemented.</p> <p>The departments communicate objectives and funding priorities through policy and funding plans, service guidelines and service agreements. However, clarity about what funding is intended to cover varies across program areas and in some program areas knowledge of how funding approaches were developed (e.g. composition of unit prices), is not easily available in documented form.</p>
<p>The financial information contained in the service agreements relating to unit costs be enhanced by including details of the formulae that DHS uses to calculate:</p> <ul style="list-style-type: none"> • unit costs; and • the components of service delivery. <p>In a statement of partnership, the government acknowledge the financial contribution made by community, health and welfare organisations to human services in Victoria.</p> <p>DHS, in consultation with service providers, develop a regular unit price review procedure and mechanism.</p>	<p>Partly accept.</p> <p>The Department agrees that the basis used to calculate a unit price should be transparent. The service agreement currently has provision for a unit price to be provided, although a large number of programs do not use this functionality due to the variability of unit prices across an activity. It may not always be possible to provide a formula, particularly where the price is complex and detailed or partly determined outside of DHS, as for Home and Community Care (HACC) services, for example.</p> <p>Accept.</p> <p>The final partnership agreement will acknowledge the financial contribution made by community, health and welfare organisations to human services in Victoria.</p> <p>Partly accept.</p>	<p>Not implemented.</p> <p>Unit prices are communicated in policy and funding plans. However, the detailed formulae used to calculate unit prices are not available or communicated to CSOs. DHS reiterated the point made in 2002 that it is not always possible to provide a formula.</p> <p>Partly implemented.</p> <p>The partnership memorandum of understanding (MOU) acknowledges the contribution made by the community sector, but not specifically their 'financial' contribution.</p> <p>Not fully implemented.</p> <p>A price review framework has been established. However, there is no comprehensive schedule of unit prices showing when each price will be either fully reviewed or assessed to determine if a price review is warranted.</p>

Figure A1
Status of action to address PAEC recommendations – continued

PAEC recommendation	Government response	Current status
<p>DHS service agreements should be for three years and where special conditions exist, this timeframe can be varied where there is agreement between service providers and the Department.</p>	<p>Accept in principle.</p>	<p>Implemented.</p>
<p>DHS introduce business practices that will ensure service agreements are signed off with providers prior to the commencement of the financial year to which the agreements relate.</p>	<p>Accept in principle</p>	<p>Implemented. DHS have commenced electronic delivery of service agreements, where agreements are considered 'signed' within three days of posting on the Funded Agency Channel (FAC), unless informed otherwise by the agency. This process occurs prior to the commencement of the financial year</p>
<p>DHS revise its current service agreement negotiation process to provide for the genuine exchange and discussion of views between parties.</p>	<p>Accept.</p>	<p>Not implemented. The lack of genuine negotiation of service agreements was a common issue raised during the audit.</p>
<p>DHS develop and implement business practices that ensure payments to service providers are made in accordance with the provisions contained in the service agreements.</p>	<p>Accept.</p>	<p>Implemented. The development of the FAC and improvements to the variation process mean that CSOs receive funds stated in service agreements in a timely way. CSOs report payment processes have significantly improved. Notwithstanding this, issues were raised during the audit on the need for:</p> <ul style="list-style-type: none"> • greater clarity when multiple variation payments under the service agreement are aggregated • payments made to CSOs for the delivery of additional activities and output targets to be dealt with through the service agreement process • ongoing support for CSOs affected by changes made to disability funding to empower clients and allow them to change providers with two months notice as this means funds set down in service agreements are not certain.

Figure A1
Status of action to address PAEC recommendations – continued

PAEC recommendation	Government response	Current status
<p>DHS:</p> <ul style="list-style-type: none"> either strengthen and broaden the mandate of its Regional Offices regarding service agreements (ensuring they have the authority to negotiate service agreements directly with service providers) or centralise service agreement functions; and clarify the operational relationship between DHS Head and Regional Offices, and advise service providers accordingly. 	<p>Partly accept.</p> <p>Current central office and regional office roles are considered to be generally appropriate for the Department to undertake its responsibilities across the State in a consistent and equitable manner.</p>	<p>Not fully implemented.</p> <p>The Better Funding Practice Project undertaken by DHS in 2009 indicated that issues remain around the clarity of roles and relationships within DHS for funding allocation and methods.</p>
<ul style="list-style-type: none"> DHS, in consultation with service providers, review all its service standards and guidelines with a view to consolidating this information into single documents relevant to each type of service activity and to reflect best practice; and This information should be made available on the DHS website and in hard copy form, be regularly updated, in consultation with service providers, and monitored by the DHS to ensure compliance by providers 	<p>Accept.</p>	<p>Not fully implemented.</p> <p>DHS has action underway on this issue but has been slow to act on recommendations from April 2009 about rationalising and refining the standards and accreditation burden on CSOs.</p>

Figure A1
Status of action to address PAEC recommendations – continued

PAEC recommendation	Government response	Current status
<p>As a matter of priority, DHS, in consultation with service providers, develop a community services industry plan.</p>	<p>Accept.</p> <p>The department recognises the importance of sound sector infrastructure to the viability, efficiency and good quality of human service provision. As a key part of its Partnership Flagship Project, the department will develop a Community Sector Support and Development Framework to address issues of quality and sustainability in the service sector</p>	<p>Partly implemented.</p> <p>There is not currently an overarching community services industry plan in place. DHS advised that it will develop a new CSO industry plan to address current industry and workforce challenges.</p> <p>Notwithstanding this, the various partnership agreements and MOU in place since 2002 articulated the need for a viable and sustainable CSO sector. In addition, the Community Sector Investment Fund aims to do some of the work identified in the government response to this recommendation, and lists a range of initiatives such as work on portable long service leave, and creating better networks.</p>
<p>DHS review the adequacy of funding to service providers for the employment of staff. The review should consider all costs associated with the employment of staff.</p>	<p>Partly accept.</p> <p>Individual program areas undertake periodic reviews of the funding provided to agencies to undertake their role. This includes the employment of staff. These reviews occur in the context that DHS typically funds on an output based funding model, not an input based funding model. This enables service providers to determine staffing complements according to the range and type of service being delivered and the needs of the client group being served.</p>	<p>Not fully implemented.</p> <p>Problems attracting and retaining staff, especially at higher levels, was a common issue raised by CSOs during the audit. Reviews of unit prices under the price review framework do not necessarily happen in a timely way, or by consistent methods and considerations. DHS advised that unit costing formulas are based on the relevant award salaries and that it would be inappropriate to develop unit costs and provide funding using above award salaries.</p>

Figure A1
Status of action to address PAEC recommendations – continued

PAEC recommendation	Government response	Current status
<p>As part of the development of a Rural and Regional Human Services Plan, DHS:</p> <ul style="list-style-type: none"> review the adequacy of current funding models for human services delivered in rural and regional Victoria and publish its findings; in consultation with non-government organisations, introduce mechanisms to ensure that human service models are appropriate for rural and regional communities; develop and publish a series of guidelines that identify where competitive tendering is an inappropriate funding model for services delivered in rural and regional Victoria; and introduce flexibility to the way rural and regional service providers can use funds to respond to the needs of their diverse communities, whilst ensuring accountability for those funds. 	<p>Partly accept.</p> <p>DHS has a number of different funding models that apply to small rural agencies. In addition, most of these funding models have numerous funding streams and corresponding reporting requirements. Questions have been raised about the usefulness of these funding models given small agencies' need to respond quickly to changing client needs and to workforce availability</p>	<p>Not implemented.</p> <p>The unit pricing model does not reflect the differential costs of providing services in rural areas e.g. staffing, travel costs and lack of economy of scale. Price reviews are conducted for individual program areas and set unit prices by activity. The unit prices are consistent regardless of where in the state the activity is being provided. DHS advised that a range of items, like economy of scale, can affect both rural and metropolitan agencies and some costs like rent may be lower for rural services while fuel costs are higher. DHS indicated that these differences are averaged in the establishment of unit prices.</p> <p>Regional and rural CSOs receive no additional flexibility in funding arrangements compared with metropolitan providers.</p>
<p>The Government give a high priority to reviving its co-ordinated government partnership initiative to develop a uniform partnership framework applicable to all Departments that provide or fund community, health and welfare services in Victoria.</p> <p>The Government resource the community services sector to enable it to achieve effective participation in the development of the partnership agreement.</p>	<p>Accept in principle.</p> <p>The Government's commitment to adopt a partnership approach in working with the community sector has been implemented through a range of activities.</p>	<p>Implemented</p> <p>There is evidence of a range of activities relevant to this recommendation including DHS partnership agreements and now MOU with the sector.</p>
	<p>Accept.</p>	<p>Partly Implemented.</p> <p>The Victorian Council of Social Service (VCOSS) receives funding as peak body to participate in partnership activities. However, no specific funding has been provided to CSOs to participate in partnership activities. CSOs stress that participation does incur a cost.</p>

Figure A1
Status of action to address PAEC recommendations – continued

PAEC recommendation	Government response	Current status
<p>The Government and DHS commit funds and resources to the development of the partnership agreement.</p>	<p>Accept.</p>	<p>Implemented.</p> <p>DHS has committed resources to partnership activities including agreement negotiation and the operation and support of the Human Services Partnership Implementation Committee (HSPIC). DHS also fund and facilitate bi-annual partnership forums and conduct partnership surveys.</p>
<p>DHS, in the context of the Government's partnership agreement:</p> <ul style="list-style-type: none"> • formulate guidelines for its implementation and develop a code of practice for operational areas such as funding, consultation and service agreements; • take measures to ensure that this information is widely circulated within its Divisions and Regional Offices; and • organise staff training in the use of the partnership agreement. 	<p>Partly accept.</p> <p>The partnership initiatives being undertaken by DHS are part of a range of initiatives across Government. The Partnership Agreement under development between DHS and the health, housing and community sectors will incorporate undertakings of a practical nature.</p>	<p>Partly implemented.</p> <p>The partnership MOU outlines principles and context for 'living' the partnership that are to be applied to operations. A collaboration and consultation protocol sets specific expectations for how the departments and CSOs should engage. Both these documents are widely available.</p> <p>The <i>Service Agreement Kit</i> acknowledges the partnership MOU. However, the MOU is only directly related in the kit to the monitoring framework, noting that monitoring and review should occur in partnership with the CSO. Training and guideline materials provided during the audit did not relate operational functions to partnership actions and did not provide evidence of training for departmental staff in 'partnership'.</p>
<ul style="list-style-type: none"> • A comprehensive review process be designed with service providers to assess the implementation and effectiveness of the partnership agreement; • The review process provide opportunities for adequate feedback from stakeholders and for clear targets and milestones to be achieved; and • The results of the review/survey should be published and tabled in the Victorian Parliament to ensure transparency of the process. 	<p>Partly accept.</p>	<p>Implemented.</p> <p>DHS commissioned HSPIC to review the partnership agreement's implementation. This involved 164 participants from 81 different partnerships. The evaluation was published in October 2009. The results of partnership surveys have been publicly available on DHS' website in the past, but they are not currently.</p>

Source: Victorian Auditor-General's Office from DHS information.

Appendix B.

Standards and external review requirements

Figure B1
Summary of standards and accreditation/assessment requirements

Program area	Standard	Oversight mechanism	Frequency of review
Community and dental health	Primary Health Branch Funded Organisation Requirements	External accreditation through the Quality Improvement Council (QIC), the Australian Council on Healthcare Standards (ACHS) or providers of International Standardisation Organisation (ISO) accreditation. Submission of a self-assessed quality plan to the accrediting body every 12-18 months	Every three to four years depending on the accrediting body
Child, Youth and Families (CYF)	Registration Standards for Community Sector Organisations	Two self-assessments and one external review that can be provided by a range of external reviewers.	Generally a three-year cycle
Disability services	Standards for Disability Services in Victoria 2007	Self-assessment against the standards. Introducing external review using Joint Accreditation System of Australian and New Zealand (JASANZ) accredited reviewers. Must be certified compliant by December 2012	Surveillance every one or two years once certification achieved
Home and Community Care (HACC)	Home and Community Care National Service Standards Instrument	External assessment against national standards. Assessment is contracted to Australian Healthcare Associates (AHA), ACHS and QIC.	Varying—ACHS every four years QIC every three
Housing	Homelessness Assistance Service Standards (HASS)	External accreditation through QIC	Every three years
Mental health and drugs	Standards for psychiatric disability rehabilitation and support services 2004 National Standards for Mental Health Services 1996 Shaping the Future—the Victorian alcohol and other drug quality framework	Annual self-assessment. External audit commonly through QIC, with some CSOs using ISO. External accreditation or progress towards it through Quality improvement and community services accreditation (QICSA) or Evaluation and quality improvement program (EQuIP)	Annual self-assessment, plus three or four yearly external review

Source: Victorian Auditor-General's Office from DHS information.

Appendix C.

Audit Act 1994 section 16— submissions and comments

Introduction

In accordance with section 16(3) of the *Audit Act 1994* a copy of this report, or relevant extracts from the report, was provided to the Departments of Human Services and Health with a request for comments or submissions.

The comments and submissions provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Submissions and comments received

RESPONSE provided by the Secretary, Department of Human Services



Department of Human Services

Secretary

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Mr D D R Pearson
Auditor-General
Victorian Auditor-General's Office
35 Collins Street
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Dear Mr Pearson

Thank you for your letter of 4 May 2010 regarding the Victorian Auditor-General's Office (VAGO) audit on the Partnering with the community sector in human services and health and for providing me with a copy of the proposed report.

I would like to thank you and your staff for their work on this audit.

I would like to reconfirm the department's commitment to strengthening the relationships with our service partners to improve the lives and reduce the disadvantage experienced by our shared clients.

The department welcomes the audit conclusion that overall, the community sector organisations are delivering agreed services with appropriate accountabilities and the department is managing the service agreements effectively. The department acknowledges that improvements can be made to strengthen the overall system. The Human Services Partnership Implementation Committee provides a solid basis to consolidate this work. The department accepts the audit findings and recommendations.

The audit findings will further inform the department regarding a range of matters already identified to improve funding practices. The audit report will also assist the department to prioritise opportunities to improve funding processes and the relationship with service partners.

Implementing some of the recommendations is already underway. For example a single departmental policy and funding plan will be provided from 1 July this year. Work is also underway to improve consistency in managing and monitoring service agreements and reducing the administrative burden for community sector organisations through reviewing and improving current business practices.

We will work with the Human Services Partnership Implementation Committee and our service partners to progressively implement the report's recommendations.



**RESPONSE provided by the Secretary, Department of Human Services –
continued**

Please contact myself or Alan Hall, Executive Director, Corporate Services, on 9096 8488 or alan.hall@dhs.vic.gov.au if you have any questions or would like further information.

Yours sincerely



Gill Callister
Secretary

RESPONSE provided by the Secretary, Department of Health



Department of Health

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Mr D D R Pearson
Auditor-General
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Dear Mr Pearson

I am writing to you in response to your letter dated 4 May 2010 regarding the Performance Audit: *Partnering with the community sector in human services and health* – Final draft report formal comment.

Thank you for considering the department's response to the preliminary draft audit report and incorporating comments made where appropriate. I welcome the overall audit conclusion that the service agreements with the community sector are being managed effectively by the department and that there is a high level of assurance that the agreed services are being delivered by the community sector with appropriate accountabilities.

I accept the findings and recommendations of the proposed report and my formal response to the report is attached.

Please contact myself or Mr Peter Fitzgerald, Executive Director, Strategy, Policy and Finance on telephone 90967828 or Peter.Fitzgerald@health.vic.gov.au if you have any questions or would like further information.

Yours sincerely

FRAN THORN
Secretary

Encl



RESPONSE provided by the Secretary, Department of Health – continued

Audit Recommendations	Department of Health's response
<p>Recommendations 1-11</p>	<p>The findings and recommendations of the Auditor-General's report are accepted. The Department of Health (the Department) acknowledges that improvements can be made to strengthen the overall service agreement and partnership arrangements with our Community Services Organisations (CSO).</p> <p>I recognise the important and critical role of the CSO sector in delivering valued services to the community, through efficient and effective funding and service agreement arrangements, reductions in administrative burden, and continual improvement to current business and partnership practices without compromising accountability.</p> <p>The Department is committed to working with CSOs in delivering services to the community and will endeavour to progressively implement the report's recommendations.</p>
<p>Recommendation 12: DH should clarify its approach to the partnership agreement</p>	<p>The Department is committed to strengthening partnership opportunities and arrangements with CSOs. To this end, the Department is in the process of seeking to participate on HSPIC. This will facilitate consultation on issues of shared interest affecting the community sector, between the Department of Health and the Department of Human Services.</p> <p>The Department will also convene a Health specific consultative forum for the purpose of sharing information with a broader range of health and aged care funded agencies and peak agencies. It is intended that any consultative forums with Health CSOs will be conducted in a consistent manner with existing partnership forums.</p>

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Responding to Mental Health Crises in the Community (2009–10:4)	November 2009
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Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2008–2009 (2009–10:6)	November 2009
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Performance Reporting by Departments (2009–10:20)	May 2010
Tertiary Education and Other Entities: Results of the 2009 Audits (2009–10:21)	May 2010

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Report title	Date tabled
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