



**Comment
on the
Pricing
Principles for
Community
Services in the
ACT**

**Discussion
Paper**

April 2008

INTRODUCTION

ACTCOSS acknowledges that modern day Canberra has been built on the traditional lands of the Ngunnawal people. We pay our respects to their elders and recognise the displacement and disadvantage they have suffered since European settlement. ACTCOSS celebrates the Ngunnawal's living culture and valuable contribution to the ACT community.

The ACT Council of Social Service Inc. (ACTCOSS) is the peak representative body for not-for-profit community organisations, people living with disadvantage, and low-income citizens of the Territory. ACTCOSS is a member of the nationwide COSS network, made up of each of the state Councils and the national body, the Australian Council of Social Service (ACOSS).

ACTCOSS' objectives are representation of people living with disadvantage, the promotion of equitable social policy, and the development of a dynamic, collaborative and sustainable community sector.

The membership of the Council includes the majority of community based service providers in the social welfare area, a range of community associations and networks, self-help and consumer groups and interested individuals.

ACTCOSS receives funding from the Community Services Program (CSP) which is funded by the ACT Government.

ACTCOSS advises that this document may be publicly distributed, including by placing a copy on our website.

Background

ACTCOSS welcomes this opportunity to provide additional feedback on the development of Pricing Principles for the community services funded by the ACT Government.

The paper was circulated by the Joint Community Government Reference Group (JCGRG), and was developed to fulfil a Government commitment¹ to develop core pricing principles which reflect an agreed framework for a broad pricing approach for different types of community sector funding.

ACTCOSS is represented on the JCGRG, and was involved in the work of developing the discussion paper. While we support the general concept of pricing principles, we do have some independent comments to make on the detailed content of the document – reflecting the perspectives of the organisations we represent. Our comments also take account of the views expressed in the community forums which were held during March 2008.

General comments

ACTCOSS welcomes the development of this paper. It reflects, from a community sector perspective, an effort to ensure consistency, equity and transparency in the funding of community organisations by the Government.

This issue is of fundamental importance to community organisations due to its potential role in sustaining a strong and stable community sector on which the Canberra community can rely. Adequate and predictable funding arrangements can help to address the instability which increasingly characterises much of the sector.

The feedback we have received from ACTCOSS members and others is that there is some ambivalence about the meaning of the principles and how they will be used. In this regard, a general comment is that the document could do with some additional explanation and clarity that will help assure community organisations of the meaning and intent of the document as a whole and the meaning of individual principles. Further, some indication of how the principles might be implemented would assist in overcoming some scepticism in the sector that the principles are a “window-dressing” exercise. Finally, some general agreement needs to be reached about the level of detail expressed in each principle, as the level of specificity varies greatly among them.

The concerns reflected in the detailed comments which follow stem from these broad issues.

What will pricing principles achieve?

Perhaps the main reason for community organisations' ambivalence about the document is that feedback indicates that people are not clear what the document seeks to achieve, or what effect the principles might have on

organisations' funding levels. While there may be greater knowledge among individual members of the JCGRG, the consultation process generally drew attention to the concern that the current document does not give enough clarity to its intentions.

For example, some objectives might be more clearly stated, such as:

- The relevant objectives from the *Community Sector Funding Policy* or elsewhere, that will be addressed through a statement of pricing principles;
- If one of the objectives of the document is to strengthen and, in the longer term, sustain the community sector by recognising the true cost of the services it provides, it would be helpful if this was clearly stated.

Once the objectives are clarified, it would be helpful if the description of each principle could explain how it might contribute to the overall objectives of the document.

Scope and application of the principles

ACTCOSS understands that the principles are intended to apply only to funding which is provided under a Service Funding Agreement. Although there is a reference to this under the section "*What will Pricing Principles Achieve?*", we note there is continuing confusion over this point, and this intention could be more explicit.

The issues of funding transparency, consistency and probity are equally important in decisions about grants funding. If the principles are to have limited application in the first instance, and work in practice to strengthen community sector services, ACTCOSS would support their extension to this area of funding.

The consultation forums held during March 2008 identified a gap in that the document did not spell out the accountability structures, mechanisms and processes that might be put in place to ensure the principles are implemented.

For instance, if it is intended to achieve funding equity across programs and organisations over time, will this be done by providing additional resources to some organisations, or alternatively, by transferring funding from some organisations to others? Some clarification or direction for the process of implementing funding clarity would be helpful in assisting organisations to understand the purpose of introducing pricing principles.

Again, if the intention is to allow a more structured approach to funding, how might this occur? Could it involve a re-setting of prices, outputs or outcomes? The discussion paper acknowledges the difficulties of attempting to apply general formula-based models of funding uniformly across the sector, although this might occur at the funding program level.

While it is our impression that the concept of adopting pricing principles is generally supported, we perceive that a future process is needed to determine appropriate methods to implement the principles in funding programs and ultimately, funding agreements.

The principles

In general, a number of the principles suffer from a lack of clarity – in terms of their intention, how they will contribute to the overall objectives of the principles, and what the financial implications are. A possible strategy to resolve this is to flesh them out to give a clearer indication as to their meaning and implications, as well as to what actions will follow as a result.

Feedback on the paper also suggests that greater clarity could be achieved by replacing the term 'we' throughout with 'the community sector' or 'the Government' or both, whichever is appropriate. This would assist in delineating clear roles and responsibilities.

There is also some inconsistency as to the principles' content. Some simply state the principle, while others describe how they will be applied. On balance, ACTCOSS suggests that in most cases the principles would benefit from a little more amplification.

Detailed comments on individual principles are as follows:

1. Collaboration and dialogue

This principle restates the ideas in the Social Compact about communication and partnership. In this context it may be appropriate to link this to the pricing implications, in that collaboration and dialogue are more time and resource intensive than a more straightforward transaction in a "purchaser-provider" model. The capacity of organisations to engage meaningfully in these activities needs to be incorporated in service pricing to reflect this relationship.

We also note that the particular term 'reciprocal' (partnership) is unclear, and should either be elaborated or replaced with different terminology.

2. Respect and independence

We are aware that this item, while not causing any particular concern, elicits very different responses from stakeholders. Perhaps some further information on what the difference in roles is may clarify the issue for some individuals.

3. Cost recovery

This is a critical principle, given the observation that Canberra community organisations are generally vulnerable financially.

Against this background, we are aware that many community organisations found the tone of this principle to be negative, suggesting

that organisations are financially inefficient and possibly overfunded. Such an approach tends to detract from the previous statement that ‘full cost recovery ... is essential for the viability and sustainability of community organisations.’

The wording of this principle could be improved by adding a statement to the effect that although the Government is required to ensure that public funds are allocated efficiently, it recognises that the sector generally provides good value for money.

We are also aware that this item led to much discussion about what constitutes ‘overheads’ or ‘indirect costs’. ACTCOSS notes that this principle is different to the others in that it covers procedural/implementation aspects, which does not occur in the other principles. To redress this aspect, an alternative approach might be to include only the first two sentences, and to amend the second sentence to ‘Cost recovery will enable community organisations to recover the full costs associated with the provisions of a particular service.’

It is not clear what ‘overhead costs’ or ‘indirect costs’ might include. If this sentence is retained, it is suggested that it be filled out to provide more detail. Either the principle needs to remain at a broad level, or more information needs to be added in it, or in supporting material, about what these costs entail.

4. Diversity and choice

Given the current financial situation of the sector as a whole, and the potential risk that a drive to efficiencies may lead to a ‘least common demoninator’ approach to funding, it would be helpful if this section could be strengthened. Thus, it could indicate that funding arrangements will be such as to support and strengthen the diversity and choice provided by the sector.

In particular, this principle could reflect back to the section *The Nature of the Community Sector*, which illustrates the diversity of the sector and explains the diversity of costs which flow from this. This might, for example, relate to maintaining organisations of different sizes, despite cost differences, or ensuring that services directed at hard-to-reach communities, such as indigenous or CALD communities might attract a higher price for services.

5. Simplicity and proportionality

Given the name of this principle, it is suggested that the word ‘simple’ be inserted into the first sentence.

6. Probity and fairness

This is an important principle in a small jurisdiction such as the ACT, because most community organisations will be known to staff in the Government, and there is a potential risk that organisations whose staff

develop strong personal relationships with Government representatives will find they are more successful in obtaining Government funding.

Perhaps it would be helpful to include a statement to the effect that the Government will follow transparent and established procedures in making decisions on funding to community organisations.

The Government could also support this principle in practice by providing training or other support to help organisations in applying for grants. Similarly, feedback on the strengths and weaknesses of applications, once a tender process is completed, would be welcome. It is suggested that reference to this kind of support could be included under this principle.

This also raises the question of what arrangements can be put in place for dealing with situations where an organisations wishes to challenge the Government's probity or fairness in a particular situation. Further comment on this is included below.

7. Risk management

As it is worded, this principle is not as clear as would be desirable, and it is suggested that it be amplified to achieve this. We are aware that organisations have different perceptions of what constitutes a 'risk' and the terminology may require further elaboration elsewhere in the document.

In some instances it will not be clear which partner should be required to manage the risk. A good example of this is the high staff turnover in the sector and the difficulty of attracting staff. The key to managing or minimising the risk in such cases, for example, might include being able to offer competitive employment conditions and/or secure or full-time employment, particularly in the current tight labour market. While notionally the risk is the responsibility of the employing organisation, the extent to which it can address the risk will depend significantly on the financial resources at its disposal for delivering a program or service.

8. Development of local services

ACTCOSS believes that a key objective of this principle should be to ensure that funding application arrangements are such that smaller local organisations are not disadvantaged in competing for funds to deliver services. Thus for example, programs should not be structured in such a way that only larger (sometimes national) organisations have the capacity to administer and deliver them. ACTCOSS suggests the principle be amended to encompass this aspect.

The principle should also reflect the objective of developing a sector of strong local community organisations which form part of Canberra's social fabric and can respond to local needs and conditions. It could usefully link back to the section, *The Nature of the Community Sector*.

In terms of pricing, this principle appears to embody potentially contradictory or competing ideas: the first that funding will take account of the costs imposed by local conditions; and the second, that national average benchmarks will be taken into account. ACTCOSS will venture to say that there have been instances in the past where crude national average benchmarks have been applied in the ACT, to the detriment of the sector, without a thorough analysis of the reasons for any differences between the ACT and national benchmarks. Such an approach works against the principle of fairness, in circumstances where, for example, the ACT is the smallest jurisdiction, and the only jurisdiction that consists only of a capital city, and a relatively expensive one at that.

Given the shortcomings of applying national benchmarks in the ACT, such an approach also risks reducing services to disadvantaged people, (for example where a simple statistical analysis might suggest that the ACT community is better services than elsewhere) when all the evidence suggests that in most areas of social service provision, there is significant unmet demand for services.

It would be helpful if this principle included a commitment that national benchmarks will not be applied in the ACT until a careful analysis is made of the reasons for an ACT departure from such benchmarks.

9. Quality and innovation

It is suggested that, in addition to research and evaluation, quality and innovation can be enhanced through support for professional development of sector personnel.

On the face of it, the second sentence is not clearly related to quality and innovation, and it is suggested that it be clarified/expanded to make the connection clearer.

10. Effective and efficient use of resources – value for money

The value for money provided by community organisations has been well demonstrated, for example in the 2003 ACTCOSS report, *The Contribution of Community Services to the ACT Economy*.

The consultation forums highlighted the ambiguity of this statement. For example it could mean that the Government will facilitate reducing costs to services, eg by not charging rent for facilities. Alternatively it could mean that the Government would cut organisations' administration budgets. To sum up, this and some other principles are not clear as to their intention and impact.

Similarly, the principle should make it clear that it will not be assumed that the best value for money will be achieved at the lowest price.

11. Indexation

ACTCOSS has always supported this principle, and supports the current model as a minimum benchmark.

Suggested additional items

The discussion paper invites comments on whether additional principles should be included. ACTCOSS suggests that the document should include additional items as follows:

Mediation of differences

ACTCOSS recommends that a mechanism needs to be put in place to allow mediation between the Government and organisations where one or other party believes that a principle has been breached. This would also compliment the commitment in the Social Compact to pursue this idea in the future.

Periodic review of principles and their impact

It would be helpful to provide for a periodic review of the impact of the principles on community organisations. This would include a review of how they have been implemented in practice, their impact on organisations, and whether they have achieved their intended goals.

Conclusion

ACTCOSS broadly supports the development of pricing principles on a joint Government-sector basis. For the community sector, this project offers the prospect of placing funding arrangements on a more equitable basis which strengthens the sector's capacity and reflects the true costs of service provision.

The principles as outlined in the discussion paper, however, require more work. In this paper, we have suggested it would be helpful to clearly specify the objectives of the document – what the principles overall are intended to achieve. Further a number of the individual principles would benefit from some clarification, particularly as regards to their intention, how they will contribute to the overall objectives of the document, and their likely impact on community organisations.

It will also be important to indicate possible means by which the principles could be implemented.

ACTCOSS believes that over time, it would be appropriate to apply the principles to a wider range of funding/grant programs, over and above the current Service Funding Agreements.

¹ ACT Government, *Community Sector Funding Policy*, 2004.