Community Sector Sustainability:
Research Evidence and Public Policy Implications

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1.0 Introduction

In advanced liberal democracies, the presence of a robust and diverse not for profit sector has been linked to high levels of civic engagement and social capital, which are important predictors of community wellbeing (see Putnam, 1993; Putnam, 2000). The community sector in particular has historically played an important role in responding to the needs of the most disadvantaged in our communities. Recent reforms to welfare provision have led to renewed debates about the community sector’s role as a service provider, as an intermediary between government and communities, and as a voice of civil society. Recent shifts in public policy are changing the community sector’s operating environment. These policy shifts include: new standards of performance measurement; the movement from core funding of organisations to purchasing their services contractually; an emphasis on partnerships between sectors (government, business, not for profit); and the growth of social policy responses that are focused on improving local communities of place. These changes are driving the development of new agendas within the sector—in terms of competition, accountability, performance and service delivery—while also creating new opportunities to innovate and diversify. (see Lyons, 2001; McGregor-Lowndes & Flack, 2002; Woodward & Marshall, 2004; Carson & Kerr, 2003).

The Australian not for profit sector – of which the community sector is a subset - comprises around 700 000 organisations (Lyons 2001). In June 2000, these organisations employed over 600 000 people, and mobilised over 600
million volunteer hours, the equivalent of an additional 285 000 full-time employees. With these included, the sector contributed 4.7% to Australia’s (adjusted) Gross Domestic Product (Lyons 2001). This is a similar contribution to that made by the mining industry and is larger than the agriculture industry (Australian Bureau of Statistics, 2002). Just as important as its economic contribution, the not for profit sector provides the organisational framework through which many of the most disadvantaged in our community receive access to services and support. It is also the sector through which hundreds of thousands of people –as members and volunteers - give expression to, and act upon, their shared values. As such, the not for profit sector is both a vehicle for citizen engagement and a provider of services in response to social and economic need. The sector is a diverse one, represented in a wide range of industries, and constituted by organisations varying in size, types of incorporation and overarching purpose. It includes, but is not limited to, the community sector (see definitions in Section 2.0).

In 2000, 362 000 Victorians contributed approximately 46 million hours of voluntary service to the community sector (Soupourmas & Ironmonger, 2002). Comprehensive data on the paid workforce in the Victorian community sector are not available. However, recent survey research by the Australian Council of Social Service suggests paid staff make up 30% of the sector’s workforce (ACOSS, 2006). Research conducted by the Households Research Unit at the University of Melbourne in 2001 identified 12,974 volunteer-based community sector organisations in Victoria, which constituted approximately 27% of all volunteer-based organisations in the state, the largest proportion of volunteer organisations across all industry types. This research estimated the economic value of volunteer time contributed to community sector organisations at $1 billion dollars in 2000 (Soupourmas & Ironmonger, 2002: 26).

The purpose of this paper is to consider strategic issues currently facing the Victorian community sector, and their implications for public policy. The discussion draws on research evidence and reviews local, interstate and international public policy initiatives. The paper seeks to identify evidence of good practice locally and elsewhere, in order to identify possibilities for building the capacity of the sector and its relationships with government, particularly at the state level.

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1 The national figures cited here refer to the whole of the not for profit sector, while the Victorian figures refer specifically to the community sector.
2.0 Defining Terms

The not for profit sector is variously referred to as the nonprofit sector, the third sector, the voluntary sector, non-government organisations and the social economy. In this paper, the terms ‘not for profit’ and ‘community sector’ are used to align with generally accepted terminology in Australia. Other terminology is used where referring to particular initiatives in other countries.

The term ‘not for profit sector’ is used here to refer to the broad array of organisations that do not distribute profits, are separate from government, and provide goods and services to, or on behalf of their memberships or groups of interest (Casey and Dalton, 2005: 25).

The community sector may be defined as a subset of the not for profit or third sector. In this paper, ‘community sector’ is used to refer to those organisations that are not for profit, rely on high levels of volunteerism, and broadly respond to welfare needs. Community sector organisations work in related areas of health, education, employment and community services, amongst other industries. They comprise small informal community groups through to large incorporated organisations, and range in orientation from member-based consumer advocacy groups through to privately constituted but publicly-oriented service providers.

3.0 Background

This paper has been commissioned by Victoria’s Sector Sustainability Task Group (SSTG), which is an initiative of the Peaks and Statewide Network’s Forum. The purpose of the SSTG is to ensure that the successful party at the next state election recognises the importance of the role of the community sector in delivering community well-being and commits to supporting the sector as a vital partner for government. The SSTG views such a commitment as being characterised by:

- a broad and inclusive social policy vision;
- a shared understanding of the role and significance of the community sector;
- a commitment to strengthen the sector, evidenced in a Compact or Accord;
- a relationship with government that acknowledges the sector’s skills, knowledge and the added value which it brings to social policy and community well-being; and
• a way of working that involves mutuality and partnership.

4.0 Methodology

A systematic review of academic and policy literature on issues affecting the community sector was conducted via an academic and web search. The research evidence included in the discussion draws on Australian studies wherever possible. The review of public policy responses incorporates international and interstate examples – with a particular focus on UK, Canadian and New Zealand experience - in order to identify innovation in other jurisdictions and consider their possible application in Victoria. Where available, evaluative evidence of these policy responses has been included, in order to assess their usefulness and likely impacts on sector sustainability.

5.0 Limitations of the Discussion

The purpose of this paper is to consider the public policy environment and its effects on community sector sustainability. It should be noted that initiatives to improve sector sustainability are not limited to public policy responses. As a sector constituted autonomously from government and corporate interests, there are many issues which are, and should be, attended to internally by the sector itself. These issues, while important to building sector sustainability, are not the focus of the paper.

In Australia, the operating environment of the community sector is variously affected by federal, state and, in some cases, local government policy trends. Given the objectives of the SSTG, the focus of this discussion of policy implications is on state government arrangements. However, given the influence of all levels of government on community sector capacity, and the ongoing need for policy solutions that are coordinated across different levels of government, federal and local government issues are also considered.

6.0 From the welfare state to contracts, partnerships and community strengthening: the changing face of social policy

As global economic, cultural and social trends have a growing impact on Australian citizens’ opportunities for social and economic participation, policy-makers have become increasingly concerned about the multiple effects of concentrated disadvantage in particular localities (Reddel, 2004; Barraket, 2004; Adams & Hess, 2001; Walsh, 2001; Vinson, 2004; Randolph, 2004). In
Australia, as in many countries, global trends have been accompanied by a tendency towards ‘smaller government’, and the favouring of market strategies to meet social and economic need. More recently, emerging policy models have emphasized the importance of partnerships between government, not for profit and corporate sector organisations to address social, economic and environmental issues (Considine, 2005; Considine, 2001; Edwards, 2001; Rhodes, 1997). The logic of policies that focus on ‘people and place’ is based on the perceived importance of ‘joined up solutions’ to ‘joined up problems’ (Reddel, 2004; Daly & Davis, 2002). Place-based social policy places importance on integrated (cross-departmental and cross jurisdictional) government approaches and collaborations between communities, governments and non-government organisations in responding to local needs. Within these policy approaches, there has been a new emphasis on the role of diverse possibilities of the community sector to respond to social and economic needs. Particular features of the sector which are acknowledged as being important to policy development and implementation include:

- the extensive and diverse networks of the sector;
- relations of trust between well established community agencies and citizens experiencing high levels of disadvantage; and
- the possibilities for responsive local solutions generated by community innovation, which is often mediated by community sector organisations.

7.0 Emerging Approaches to Social Policy: Implications for the community sector

Within these new policy approaches, community sector organisations play significant, yet somewhat variable, roles. While Victoria has traditionally been characterized by a mixed economy of welfare provision, the trend toward competitive and tied funding over the past decade has seen the community sector, along with the private sector, even further involved in the delivery of traditionally government provided services. In purely market terms, it has been suggested that the comparative advantage of community sector social

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2 It is beyond the scope of this paper to consider in detail the question of what constitutes ‘good’ social policy. It should be noted that the introduction of place-based approaches to social policy intervention have not been applied across all areas of social policy. Further, place-based approaches have attracted criticism from some who question the evidence upon which these approaches are based (see Bryson & Mowbray, 2005), the extent to which rhetoric matches reality (see Mowbray, 2004), and the potential of these approaches to reduce government’s attention to redressing structural disadvantage (see Barraket, 2004; Bryson & Mowbray, 2005; Herbert-Cheshire, 2000).
service delivery compared to private or publicly provided services is that the sector is best able to respond to the complexities of community disadvantage, by providing the catalyst for self-help and community mobilization (Dollery & Wallis, 2001). In this sense, the diversity of the sector and its on the ground networks are viewed as better-placed than government or business organisations to offer responsive solutions to complex social and economic needs.

While the community sector is being affected by the shift toward government as purchaser, rather than provider, of many services, it is also affected by a recently renewed interest in civic engagement and the more recent concept of social capital. These ideas, which feature prominently in current state policy agendas, have led to a growing focus on community sector organisations as important sites for local community participation (Rawsthorne, 2005; Putnam, 2000; Reddel, 2004). Some suggest that community sector and other not for profit organisations are intermediaries that act as important facilitators of the flow of information and resources between governments and citizens (Maddison et al, 2004). This logic has given rise to new policy emphases on the community sector (sometimes as a proxy for the ‘community’) as an important partner in social policy implementation.

Emphasis on partnerships between the sector and government suggest new possibilities for the sector to move beyond a service delivery role, to contribute its expertise directly to policy formation, review and evaluation. Some commentators suggest that these emerging models of governance have the potential to stimulate innovative responses to social and economic need, by drawing on the diverse expertise and networks of the community sector and government in pursuit of social justice, equity and inclusion (see Reddel & Woolcock).

Others are more concerned about the repressive effects of new policy approaches on community sector activity. One of the most common criticisms of the impacts of contemporary policy trends – in particular, tied funding and the new imperatives of partnership - on the community sector is that they limit organisations’ capacity to advocate for the needs of its constituents or dissent from the status quo (see Maddison et al 2004; Meade, 2005; Phillips, 2006). Some commentators are concerned that emerging partnership arrangements undermine the sector’s autonomy and thus reduce its capacity to innovate and imagine alternative ways of organizing welfare provision (see McDonald & Marston, 2002; Meade, 2005; McLaughlin, 2004). In the Irish context, Meade (2005: 349) has argued that autonomy and independence of the sector has been radically undermined by its participation in the
partnership processes that have dominated the social policy environment in that country for the last decade.

In Australia, McDonald and Marston argue that the new interest by governments and parts of the community sector in social capital, community building, social inclusion and so on “represent the articulation of a highly seductive set of legitimizing rhetorics” which may have unforeseen and unwelcome consequences for the sector and the people they serve (2002: 8). These commentators have also observed that new partnership arrangements tend to build relationships between government and particular parts of the sector (notably, large community service organisations), to the exclusion of other parts of the sector. This raises democratic questions about the representativeness of partner organisations. It also potentially limits the practical benefits of partnerships, as non-representative organisations are not necessarily well-placed to transfer knowledge between the sector and government.

These debates pose fundamental political questions about what constitute appropriate or desirable relationships between government and the community sector in democratic systems. While these issues continue to require attention and debate, government and community sectors in a range of countries and states have sought to develop frameworks for working together by establishing agreements which regulate relations between the sectors.

8.0 Regulating Government-Community Sector Relationships: international and local experience

Over the past decade, there has been a growing trend to regulate relationships between government and community sectors through the establishment of written protocols, referred to variously as compacts, accords, and partnerships. The following provides a brief overview of relevant initiatives in the UK, Canada, New Zealand and Australia.

8.1 United Kingdom

The formalization of a partnership agreement regulating government-voluntary sector, known as the Compact, was first initiated in the UK in the mid 1990s (Lyons, 2001a). The Compact was initiated as part of a broader suite of public service reforms initiated by the Blair Government when they first came to power. The national Compact was signed in 1998 and regional and local level compacts have been rolled out since that time, with over 94%
of local areas in the UK currently covered by or developing compacts (Active Community Directorate, 2005).

The compacts seek to provide frameworks for partnership between government and voluntary sector organisations. In effect, they set out the ‘rules of engagement’ between government and the sector, to which both have agreed. These include Government undertaking to consult early on policies which affect the sector, and the sector undertaking to operate through open and accountable organisations, inclusive of all stakeholders and embracing diversity (Active Community Directorate, 2005). Importantly, the national compact explicitly recognizes the independence of the sector, stating that one of its overarching objectives is:

To recognise and support the independence of the voluntary and community sector, including its right within the law to campaign, to comment on government policy, and to challenge that policy, irrespective of any funding relationship that might exist (Home Office, 1998: np)

The Compact also stipulates a commitment by government to fund the full cost of public services delivered by the voluntary and community sector.

In operational terms, the impacts of the compacts have to date been limited. A Cost-Cutting Review by Her Majesty’s Treasury in 2002 observed that, although there was broad consensus that the Compact was a good thing, it had been poorly implemented, was limited in scope, and there was a lack of awareness across voluntary and government agencies about its functions (HM Treasury, 2002: 29). The review led the relevant political leaders to conclude that there is a “need to implement the Compact, get the funding relationship right and build capacity in the sector” (Boateng in HM Treasury, 2002: 3).

Some of the identified limitations of the Compact include: the length and unwieldiness of the document, which makes it inaccessible to public sector and voluntary sector staff and participants; evidence of poor practice by both government and voluntary sector agencies, particularly with regard to full-funding of services; and a lack of mechanisms to reward good practice or penalize non-compliance (Active Community Directorate, 2005). A full regulatory impact assessment of the compact has recently been completed, from which a set of recommendations to better operationalise the compact has been generated (Cabinet Office, 2006). This includes the establishment of a Compact Commissioner who will effectively act as a central government champion to oversee implementation of the recommendations.
It should be noted that part of the difficulties of implementing the Compact relate to the plethora of local and regional initiatives operating within the broader social policy framework in the UK. The underpinning logic of the UK Government’s emphasis on regionalism and locally responsive policy solutions – a logic which is broadly evident in current Victorian social policy frameworks – has led to significant growth in the number and types of programs operating on the ground in many areas. The Home Office has recently observed that this has led to poor coordination of activities in some cases, and that commitments to partnership between government and the voluntary sector are not always mirrored in local initiatives. The UK Government has recently introduced Local Area Agreements which, in part, are concerned with better coordinating partnerships between local government, central government and voluntary sector agencies in meeting commitments to community sustainability.

8.2 Canada

Government-community sector relations in Canada are governed by an Accord, which was formalized in 2001. Similarly to the UK Compact, the Accord recognizes the independence of the sector and their right to challenge government policy regardless of their funding relationships. It is notable that the establishment of the Canadian Accord was initiated by the sector itself, based on the coordinated efforts of the sector through the formation of the Coalition of National Voluntary Organisations as an initiative to better represent itself to government.\(^3\)

In the Canadian context, the commitments of government and the voluntary sector articulated in the Accord were consolidated through the development of a *Code of Good Practice on Policy Dialogue* (Voluntary Sector Initiative, 2002). The Code, which was developed by the Joint Accord Table of the VSI, identified a set of shared principles upon which government-voluntary sector collaboration would be based. Equally as important, the Code explicitly articulated that dialogue between these sectors would take place at various stages of the policy process, from issues identification to agenda-setting, policy design, implementation and monitoring and impact assessment (VSI, 2002: 8-9). This marks an important shift away from seeing the community sector as playing a role only in policy implementation (that is, as a service provider), to recognizing it as a contributor to policy design and evaluation. It is notable that, in the UK context, formal discussions about the role of voluntary sector organisations in policy design have only recently been

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\(^3\) See Lyons, 2001a for a detailed discussion of the events preceding the establishment of the Accord.
initiated via HM Treasury on the basis of recommendations from the Cross-Cutting Review (see HM Treasury, 2002).

The major component of the Canadian Voluntary Sector Initiative, through which the intent of the Accord and the Code of Good Practice on Policy Development was operationalised was Sectoral Development in Departmental Policy Development and Beyond (SIDPD). The SIDPD was a 5 year $28.5 million initiative which aimed:

\[\begin{align*}
    a) \quad & \textit{To enhance policy development in federal departments by strengthening opportunities for input by voluntary sector organisations; and} \\
    b) \quad & \textit{To strengthen the policy capacity of the voluntary sector to contribute to departmental policy development (Voluntary Sector Forum, 2005: 1)}
\end{align*}\]

Funding was directed to voluntary sector organisations for projects consistent with the SIDPD objectives, ranging in time-spans of 6 months to four years. The available evaluative evidence of this initiative (Social Development, Canada, 2004; Voluntary Sector Forum, 2005) suggests that complete fulfillment of the initiative’s objectives was limited due to lack of clear definitions of the roles of voluntary sector players in policy development, and limited attention to lines of accountability and governance frameworks necessary to support the initiative (Social Development Canada, 2004). The capacity of government departments to capitalize on the projects was limited in projects where there were no departmental champions of the initiative and/or where there was high turnover of government staff working on the project (Voluntary Sector Forum 2005: 5). Significant outcomes of the initiative, however, included an increase in voluntary sector capacity for policy development, real changes in the ways in which voluntary sector partners were working together, a shift in both sectors toward collaborative values, and the mobilization of additional (provincial and local government, philanthropic and private sector) resources to support projects initiated under the SIDPD. At an individual project level, assessments of the initiative to date suggest that deliberative processes and clear governance structures, such as partnership agreements or memoranda of understanding, were critical to achieving effective outcomes (Voluntary Sector Forum, 2005: 9).

### 8.3 New Zealand

Initiatives to articulate government-community sector relations in New Zealand have not involved formal ratification of an agreement to date. Nevertheless, there have been some efforts to articulate government commitments to the sector, and joint analysis of major issues impacting on government-sector relationships. In 2001, the New Zealand government
issued a Statement of Government Intentions for an Improved Government-Community Relationship, which indicated calls for “Strong and respectful relationships between government and community, voluntary and iwi/Ma-ori organisations” (Government of New Zealand, 2001: 1). This statement of intentions recognizes the importance of a coordinated, or whole of government approach to government working with the sector. Uniquely, it also emphasises the importance of developing an enabling public sector culture based on:

“leadership from public service chief executives and senior managers to ensure that all staff have a good understanding of the values, governance arrangements and working realities of the community, voluntary and iwi/Maori organisations with whom they interact”. (Government of New Zealand, 2001: 1).

The Statement of Intentions was developed on the basis of recommendations from a Community and Voluntary Sector Working Party established in 2000. The launch of the statement was preceded by the establishment of a joint government-sector steering group, which has overseen the implementation of the Statement, based on wide consultation with sector organisations throughout New Zealand (Ministry of Social Development, 2002).

8.4 Australia
As with many policy areas, an analysis of government-sector relations in Australia is complicated by the different jurisdictional responsibilities of federal, state and local governments.

The federal government has considered, but not committed to, the establishment of an accord between government and parts of the not for profit sector. At the federal level, some commentators suggest that relations between government and the broader not for profit sector are at an all time low (Staples, 2006; Maddison et al, 2004; Melville, 2001). As evidence of a relationship in crisis, these authors cite:

- the defunding of some peak organisations over the past decade;
- the recently proposed – although currently shelved – proposal to reform the Charities Bill to curtail funding to advocacy organisations; and
- the negative impacts of current funding regimes on organisations’ capacity to dissent from government policy.
In a survey of 290 non-government organisations (NGOs), Maddison et al (2004) found that there was wide belief among NGOs that the Federal Government want to silence public debate. While these research findings do suggest that there are significant problems in overall relations between federal government and the not for profit sector, interview research conducted by Casey and Dalton (2005) found that there were some industry sub-sectors in which there were productive relationships between peaks and federal government departments. Specific projects – such as the Giving Australia research project discussed in Section 13.0 below – also provide examples of federal government and sector representatives working productively together to develop knowledge about the contributions and needs of the sector.

In recent years, various state governments have been documenting protocols to regulate relationships between government and the community sector in order to support mutually productive relationships and partnership working (Casey and Dalton, 2005: 24). Whole of government partnership agreements were established in South Australia in 2002 and the Australian Capital Territory in 2004, and are currently under negotiation in Tasmania, New South Wales and the Northern Territory (Casey & Dalton, 2005). In Queensland, a welfare sector partnership agreement is currently being negotiated between the Department of Communities and funded organisations. In Victoria, the Department of Human Services (DHS) established a partnership agreement, Partnership in Practice, with funded organisations in health, housing and community services in 2002. This is not a whole of government agreement, and is limited to those organisations with whom DHS has operational relationships. However, a recent survey of funded organisation and DHS satisfaction with partnership arrangements found that 73% of funded Organisations were satisfied with DHS statewide (Ipsos, 2005).

This brief review of policy arrangements governing relations between government and the community sector suggests that the development of formal agreements to regulate government-community sector relations has had uneven outcomes to date. Where there have been effective outcomes, these appear to have occurred where:

- The agreement has been jointly initiated by the sector and government;
- The agreement has whole of government status and is championed and coordinated by a central agency;
- Representation of the sector in partnership arrangements has been determined by the sector itself;
• Commitments to partnership recognise the benefits of collaboration, the independence of the sector, and shared understanding of accountability;
• Partnership arrangements recognise and commit to the sector’s involvement in policy development and review, as well as service delivery; and
• There are mechanisms to put partnership agreements into action, to reward good practice and to deter non-compliance.

9.0 Building Capacity for Collaboration

As a growing body of research evidence suggests (see Rawsthorne, 2005; Spall & Zetlin, 2004; Melville, 2001), contractual and partnership regimes are also creating new imperatives for capacity building within the sector, in order to ensure that organisations are well-equipped to do their work. As community sector organisations manage an increasing array of contractual and partnership relationships, they face changing demands for performance measurement and accountability, both upward to government and downward to their members, clients and the community as a whole.4

This requires increased capacity in terms of human resources, technological infrastructure, and strategic leadership. It also requires increased capacity to mobilise resources from a range of sources, which is discussed in detail in Section 10.0. If the sector is to effectively contribute its expertise to the development of responsive social policy, issues of sectoral capacity building must be addressed by both the sector and government. As Flack and Ryan (2005: 69) observe, at a time when governments are increasingly relying on the not for profit sector to deliver core public services, there is a need to ensure that the sector develops the “internal mechanisms, capabilities and capacities which allow it to measure its own performance and also to demonstrate that performance and accountability to the Australian community”.

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4 There has recently been some significant debate about the accountability of not for profit organisations in Australia, with some questioning their role in influencing public policy (see Johns and Roskam, 2004; Johns, 2001). This has been refuted by those who suggest that the presence of advocacy organisations, in particular, are critical to a functioning democracy (see Madison et al, 2004; more refs). As Dalton and Lyons (2005: 60) observe, this debate is limited by the fact that the debaters are often arguing at cross purposes; that is, while critics question the internal processes of some not for profit organisations, the defenders are concerned with arguing for their external impacts.
The research evidence on the impacts of changing funding regimes on community sector capacity in Australia is somewhat contradictory. In their survey of 290 non-government organisations across Australia, Maddison et al (2004) found that around 70 per cent believed that their government funding restricted their ability to comment freely on government policy.

In a survey of the impacts of quasi-market policy strategies on 258 nonprofit disability service organisations in Victoria and Queensland, Spall and Zetlin (2004) concluded that “quasi-market strategies have intensified the problems that existed prior to the market era for nonprofit organisations and have offered few if any policy solutions” (2004: 292). The study also found that surveyed organisations reported feeling under constant pressure, with Victorian organisations rating significantly more highly the impacts of marketisation pressures – such as competition, pressure to merge and pressure to establish a market edge - than Queensland organisations. In both states, environmental factors, including implementation of performance based systems and the GST were rated as significant pressures. Overall, the Victorian organisations reported that their organisational changes were stimulated by external factors, perhaps indicative of the rapid rates of reform they had experienced throughout the 1990s. Conversely, Queensland organisations reported being more significantly affected by internal factors, such as leadership and governance issues. Other factors that were cited as contributing to organisational fragility were inadequate funding for organisational infrastructure, workforce casualisation, and the absence of full-cost funding of services.

In contrast to these findings, a survey of 561 community sector organisations receiving funding from the then Commonwealth Department of Family and Community Services, Rawsthorne (2005) found that, while contracting regimes had negatively affected some organisations, the overall effects on the community sector were minimal. The research found that a commonly cited issue of concern was that contractual funding reduced collaboration between organisations. Overall, though, Rawsthorne’s study found that over 70% of respondent organisations believed their advocacy activities had not been affected by contractually based funding and that organisational stress levels created by contractualism had reduced somewhat over time. Rawsthorne concluded that the organisations in her study were ‘dealing with’ rather than accepting the contractual environment (2005: 238)⁵. These findings suggest

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⁵ Rawsthorne cautions against over-generalisation of her findings, as the sample was drawn from organisations funded by the then Department of Family and Community Services. As she points out, there is a potential for bias here, as the sample exclude defunded and unfunded organisations.
that the sector has partially adapted to the conditions of competitive and tied funding. There are, however, considerable compliance costs associated with changing funding regimes. These are considered in further detail in Section 11.0.

Beyond the specific impacts of funding, the sector faces ongoing need with regard to leadership and organisational governance capacity. Australian research has identified that some not for profit organisations have difficulty recruiting and engaging organisational directors, with community sector organisations particularly affected (Woodward & Marshall, 2004). These findings are mirrored in UK experience, where a recent review by the Charities Commission found that 50% of charities experienced difficulties recruiting trustees (Charity Commission for England and Wales, 2005). Recent research conducted by KPMG on behalf of the Department for Victorian Communities found that, second to a stated need for more financial support from government, Victorian not for profit organisations identified issues of leadership training and in-house skills as main areas in which they needed further support (Rich, 2006). As part of a review of the Associations Incorporations Act 1981, Consumer Affairs Victoria found that time constraints and frequent turnover of directors led to limited knowledge amongst directors about their legal obligations (Consumer Affairs Victoria, 2004).

The research evidence suggests that some of the main difficulties in recruiting and retaining leadership within the sector includes: the growing complexity of organisational management in the face of changing demands for service delivery, accountability, and legal liability (Hough et al, 2006; Katter, 2005); and changing demographic patterns, including increased work hours, changing family structures and increased urban sprawl and time spent commuting (Passey, 2004; Hough et al, 2006). Hough et al (2006) also observe that there has been considerable growth in the number of incorporated associations in recent years, which may be contributing to limited leadership resources, with the available pool spread more thinly across the not for profit sector.

In addition to matters of leadership, there is an ongoing challenge in the sector to develop a sustainable paid workforce. Recruitment and retention of appropriately skilled staff has traditionally been a significant impediment to building the capacity of the sector. Specific barriers to effective workforce development include: lower awards than public agencies in the same industries; limited capacity to ensure income security and career progression where financial resources are derived predominantly from government funding; and, a history of relatively poor industrial practices. While it is not
yet clear what the full impact of current industrial reform will be on the work of the sector, it is possible that federal government funding, at least, could be increasingly tied to reduced award conditions, which could further undermine the sector’s capacity to develop a strong and responsive workforce.

As the operating environment of the community sector changes and the needs of clients become increasingly complex in a changing world, there is a need for government to work with the sector to plan effectively for change. At the level of specific industries, we are currently seeing the establishment of industry planning involving both government and the sector to ensure that new policy approaches are effectively implemented, and that the sector is well-positioned to respond to the needs of its members and clients. The Family and Placement Services Sector Development Plan currently being developed by the Victorian Government is one such example. The development of the plan is being undertaken in partnership between the Office for Children of the Department of Human Services, community sector organisations, peak bodies, community health and local government services (Office of Children, 2006).

The community sector’s capacity to recruit, train and retain its voluntary and paid workforce, and plan for the changing realities of social and economic disadvantage, pose significant challenges to building internal capacity. The brief review of issues considered here suggests that the sustainability of the sector would be improved by government commitment to:

- Improving the recruitment and development of leadership within the sector;
- Developing the industrial conditions to support recruitment and retention of skilled staff within the sector; and
- Working in partnership with relevant sub-sectors to devise implementable plans for industry development.

10.0 Mobilising Resources

The changing nature of government funding regimes, which are increasingly focused on tied funding, has reduced the financial security of many community sector organisations which have traditionally relied upon core funding from government to support their operations. In this environment, there are new pressures for the community sector to mobilize financial and other resources in new ways. In a recent analysis of tax-deductible donations by individual taxpayers, McGregor-Lowndes and Marsden (2006) concluded
that the actual total tax-deductible donations made by Australian taxpayers has increased slightly in real terms over the past decade, with Victorian taxpayers’ donations representing 26% of the national total. In Australia, government funding continues to be the major source of finance of the not for profit sector, with recent figures indicating that government funding constitutes approximately 70% of not for profit finance.

The shift toward competitive funding regimes has not only reduced government funding support for operational costs of community sector organisations, but also led to a trend in under-funding the full costs of service provision, with pressures upon organisations to match or supplement funding in some areas (Casey & Dalton, 2005). The weaknesses of this approach has been nominally acknowledged in UK public policy, with one of the core stated commitments of the UK Compact being that government honour the full costs of public services delivered by the community sector. However, it is notable that this is one of main areas of non-compliance of the Compact, with a recent review identifying continued lack of commitment to funding full service costs by some parts of government, exacerbated by under-bidding for contracts by voluntary sector organisations. In some jurisdictions, government has sought to redress the latter issue by developing more transparent procurement processes and developing documentation and training resources to assist voluntary sector organisations successfully compete for government contracts.

The shift away from core funding of community sector organisations has narrowed the ways that organisations are able to use government funds to support their work. In effect, overall funding for organisational infrastructure and non-service related activities such as advocacy has been reduced. While debates about the social, economic and political merits of tied funding regimes continue, there is an increasing emphasis amongst many governments, supported by some parts of the sector, to develop new earned income strategies by stimulating entrepreneurial activity within the sector. In the UK and parts of Canada, public policy frameworks to support the development of social and community enterprise have been established (for a full discussion, see Barraket, 2004a). These include: tax reform to support investment in community development financial institutions in disadvantaged regions; development of new legal forms of not for profit organisation and reform of existing regulatory requirements to allow for greater range and scope of entrepreneurial activity; and promoting access of

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* A recent Australian Council of Social Service survey suggests that this figure is higher for the community sector, with participating Victorian organisations indicating that about 80% of their funding is from government (ACOSS, 2006).
voluntary sector organisations to existing business services available through government. In Victoria, there is a current interest in stimulating entrepreneurial activity in not for profit organisations, with the Volunteering and Community Enterprise Strategy supporting grants for emerging and existing social enterprise, and a range of research and information dissemination activities being undertaken within the Department for Victorian Communities. At both state and federal levels, current governments have also expressed a commitment to supporting the development of business-community partnerships, which include partnerships between community sector organisations and the corporate sector. The Prime Minister’s Community-Business Partnership, in particular, has sought to stimulate this form of activity by drawing together government-identified leaders in business and the not for profit sectors.

While there is general support for building the financial capacity of the sector, concern has been raised both locally and overseas that current policy approaches have the potential to build ‘manufactured civil society’ by privileging particular forms of activity within the sector (Meade, 2005; McLaughlin, 2005; McDonald & Marston, 2002). Where this form of activity is stimulated by community groups ‘chasing the policy dollar’ there is some possibility that the diversity of the sector will be undermined over time.

In a survey of the ways in which 481 not for profit organisations in Australia mobilize resources, Zappala & Lyons (2005) found that 39% of organisations in the study had at least one partnership with a business organisation. However, the study noted that the majority of these partnerships primarily consisted of financial or product contributions from business, rather than what they describe as ‘transactive’ or ‘integrative’ partnerships between the sectors. Significantly, the study suggests that organisations in some industries, including community services and health, are more likely to undertake partnerships compared to not for profit organisations in other industries (Zappala & Lyons, 2005: viii). The authors also noted organisational size and geographic distinctions in patterns of resource mobilization, with larger organisations more likely to be involved in diverse types of fundraising, and organisations from rural and regional areas most likely to undertake fundraising and volunteer recruitment, but least likely to operate commercial ventures or have partnerships with business (Zappala & Lyons, 2005: vii-viii). These findings suggest that the sector is variously involved in a wide range of resource mobilization activities. However, it also highlights the fact that many organisations do not have the basic organisational capacity, or the necessary operating environment, to engage in all types of resource mobilization activity. This suggests that caution needs to be exercised in developing policy approaches that privilege community-business partnerships as the
mechanism for mobilizing resources to support the sector’s work, as these are likely to concentrate advantage in larger organisations and, potentially, in metropolitan areas.

In the UK, there has been a notable effort by government to both understand and respond to the issues facing the sector with regard to financial sustainability. The UK Government has recently established a The Charity and Third Sector Finance Unit within the Treasury Department. This unit is responsible for strategic policy development on not for profit sector issues. The purpose of the Unit is to develop a coordinated approach to all aspects of tax, spending and financial services policy affecting the sector and to engage in a wide-ranging consultation with the sector on its future role in social and economic regeneration (HM Treasury website, 2006).

The research evidence and policy examples reviewed suggest that there are a number of issues to be addressed in supporting the financial sustainability of the community sector:

- An actively implemented commitment by government to full-fund the services it procures from the community sector;
- Government service-purchasing strategies that take into account the social value-added by community sector providers;
- Taxation legislation that supports investment in the sector;
- A regulatory environment that enables innovation within the sector; and
- Public policy frameworks that recognise and support the diversity of the sector, rather than prescribing particular approaches to generating income.

### 11.0 Improving Regulation

In a policy environment which demands both increased accountability and new approaches to mobilising finance within the community sector, there is a need for enabling regulatory frameworks to support community sector activity. This is, in part, an issue of government ‘getting its own house in order’, to ensure funding streams and accounting requirements are streamlined, and to minimize the compliance costs of regulation to community sector organisations. It is also requires ensuring that regulatory conditions are sufficiently flexible to support innovation in community sector activity.
Research recently conducted by the Allen Consulting Group for the Department for Victorian Communities found that the current regulatory environment scored poorly across almost all factors. Specifically, the report concluded that: the current conditions of incorporation were overly-complex and not scaled for organisational size; tax requirements were considerably more complex than minimum standards required to protect Australian taxpayers; there was lack of integration of regulatory requirements across jurisdictions and between different aspects of regulation, leading to conflicting legal requirements and multiple demands for reporting and severe compliance costs for the sector; and the overall accountability, transparency and accessibility of regulation was very low due to lack of consistency, over-complexity and poorly targeted regulation (Allen Consulting Group, 2005).

Similar problems were found in a study of the financial reporting requirements of community sector organisations in Queensland (Ryan & Flack, 2005). This study found that 22 of 24 state government departments had special financial reporting requirements of funded not for profit organisations; that 22 departments were involved in funding 31 different programs, with most programs having different sets of acquittal documents; and that there was no consistency across government agencies and little consistency within departments administering multiple programs. Flack and Ryan observe that the inconsistency of reporting requirements means that the information being generated is of dubious quality, and that they create profound compliance costs to nonprofit organisations. The wide variety in terminology, line item labeling and categorization meant that data could not be usefully aggregated, suggesting that “government departments are unable to develop comparable data on financial performance or to build efficiency benchmarks of similar activities by different nonprofit organisations” (Flack & Ryan, 2005: 73). The authors concluded that current government approaches create considerable pressure for upward and external administrative accountability which serves as mechanism of control over the sector, while detracting from the development of downward and internal mechanisms of accountability essential to building the strategic capacity of the sector.

Drawing on the research reported on by Flack and Ryan (2005), the Queensland Government has recently developed a standard chart of accounts to respond to these problems. The standard chart of accounts for funded non government organisations aims to streamline financial accounting procedures, reduce the costs of compliance to community sector organisations, and ensure that reporting data collected is comparable and, therefore, useful to both government and community sector organisations. In implementing the standard chart of accounts, the Queensland Government is supporting training for staff and associates of community sector organisations
in using the accounts, and is providing a one-off subsidy to funded organisations for the purposes of purchasing the accounting software of their choice (Centre of Philanthropy and Nonprofit Studies/School of Accountancy, 2006).

The research evidence suggests that the current regulatory environment is a major inhibitor to sector sustainability. Research findings and good practice in other jurisdictions indicates that an enabling regulatory environment at state-level needs to:

- Significantly reduce the compliance costs of financial and other forms of reporting;
- Make a tangible commitment to developing the sector’s capacity to manage accountability requirements generated by changing government requirements;
- Better target regulation to take into account relative risks and costs of administration, both to government and the sector;
- Coordinate and disseminate regulatory data collected, to ensure that it can assist the sector in understanding its own performance; and
- Advocate for improved coordination between federal and state regulatory requirements.

12.0 Facilitating the Sector’s Access to Government

In Australia’s federated system of government, the complexity of being able to identify and access appropriate services, funding, and expertise is a well-known problem for citizens and community sector organisations alike. In more recent efforts to address social policy issues at the local level, this problem has become exacerbated by the growing diversity of funding streams, place-based initiatives and networks operating within and across different areas of service delivery and community action.

In the UK context, it has been identified that localization of funding streams and programs has created increased confusion for many voluntary sector organisations, while not ensuring that local and regional governments are actively partnering with the sector in place-based initiatives. In the Canadian context, it appears that some of the failure of the Accord to reach its potential has been due to government responsibility for the initiative being transferred from one department to another through several government restructures (Voluntary Sector Forum, 2005). In Victoria, major policy and research initiatives that impact on the sector, as well as different funding streams with different reporting requirements, are variously located within different
business units of the Department of Human Services, the Department for Victorian Communities and the Department of Premier and Cabinet, amongst others.

Local and international experiences suggest the need for centrally coordinated government support for the sector, which has legitimate status within government and a broadly visible presence to the diversity of organisations and community groups that make up the sector.

The UK government has recently established an Office of the Third Sector within the Cabinet Office, with the purpose of putting the sector “at the heart of government”\(^7\), coordinating policy efforts and consequent knowledge of the sector’s needs and contributions, and ensuring that the diversity of the sector is not overlooked in the range of policy initiatives currently at work. In 2003, the New Zealand Government established the Office for the Community & Voluntary Sector within its Ministry of Social Development, to address issues affecting the sector, and to raise the profile of the sector within government. The impacts of these initiatives remain to be seen. Nevertheless, they appear to be a positive step toward creating a streamlined point of contact between the sector and government. This has the potential to build both sectors’ capacity to work together effectively and capture knowledge about the dimensions and contributions of the sector to social and economic wellbeing.

This brief review of policy initiatives suggests that, in jurisdictions where the community sector is a recognised partner in social policy development and implementation:

- There has been a move toward coordinating government relations with the sector through a centrally coordinated, and positioned, body; and
- There is a practical commitment to developing knowledge of the needs and contributions to the sector by all parts of government.

There appears to be tacit acknowledgement by the governments concerned that these moves are not only important to building the sustainability of the sector, but to ensuring that social policy initiatives are efficiently coordinated and implemented.

13.0 Understanding the Contributions of the Sector

\(^7\) As discussed in Section 7.0, not all would agree that being at the heart of government is a desirable objective for the sector.
In jurisdictions where there has been a sustained commitment to partnership between government and the community sector, this has been accompanied by a commitment to supporting ongoing research on matters affecting the sector. In the UK, for example, there has been a notable commitment to understanding the dimensions and contributions of the voluntary sector, particularly in the case of understanding social enterprise. Through its Social Enterprise Initiative, the UK Government has supported ongoing efforts by individual organisations, sector bodies, and the academic community to map the growth of social enterprise, develop tools to measure the social value added by these organisations, evaluate their impacts on community wellbeing and service delivery, and identify barriers to development. These research initiatives appear to have generated important learnings for both the sector and government about what kinds of activities work in what contexts. These have led to targeted policy changes to support the sector’s work and internal changes within the sector to support the development of organisational capacity. The findings and tools developed through this research agenda are generally made publicly available, through government and sector websites.

Australian Governments’ support for research to understand the contributions of the not for profit sector have been uneven to date. At the federal level, there have been attempts to map the dimensions of the sector through work supported by the Australian Bureau of Statistics (see ABS, 2002), although these have tended to be one-off activities, rather than a sustained research agenda. The recent Giving Australia Project supported by the Prime Minister’s Community Business Partnership investigated some aspects of issues affecting the not for profit sector, including patterns of philanthropy and financial resource mobilization. Commissioned by government and led by the Australian Council of Social Service, this project involved a team with academic and commercial research expertise and direct experience of the sector. While it is not clear if the project has led to particular policy outcomes, it does seem to have been a productive model of drawing on the combined resources and expertise of the sector, government and the research community to develop rigorous understanding of matters affecting the sector.

At the state level, research on aspects of the sector has been commissioned by, and conducted within, various departments including the Department of Human Services, the Department for Victorian Communities, and the Department of Premier and Cabinet. While this research knowledge is useful, the objectives of the research are not always developed in consultation with sector representatives, which can limit the comprehensiveness of the projects undertaken. Just as importantly, the research findings are not always easily
actively promoted to the sector, which limits their efficacy in assisting the sector to understand itself and its challenges.

International experience suggests that understanding the contributions of the sector is important in developing effective social policy, and in planning for the strategic development of the sector and its activities. This brief discussion suggests that:

- Understanding the dimensions of the sector assists in developing effective social policy by capturing evidence of what works and in what circumstances;
- Government support of a sustained research agenda on the sector can support policy efficiencies and improve sector sustainability;
- Approaches to researching the sector should incorporate the expertise of the sector itself, as well as research expertise from academic and/or commercial providers; and
- It is important that research knowledge is shared to ensure that government, the sector, and the citizenry can benefit.

14.0 Conclusion

This paper has briefly reviewed the available research evidence on matters affecting the sustainability of the Victorian community sector. I has considered the impacts of public policy initiatives on the work of the sector and relations between the sector and government. The research evidence suggests that the community sector makes a considerable contribution to economic and social vitality, and is an important partner in effective social policy development and implementation. It also finds that continued action is required to build the internal capacities of the sector and to create an operating environment that enables the sector work to its strengths. In order to ensure sustainability the sector requires policy frameworks that recognise and support its contributions, even as debate continues about its role in service delivery, democratic deliberation and improving community wellbeing.
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