

SUSTAINABLE FUNDING AND CONTRACTING WITH THE NOT-FOR-PROFIT SECTOR

COMPONENT II FUNDING – FREQUENTLY ASKED QUESTIONS

Background

As part of the 2011-12 State Budget, additional funding of \$600 million over four years was provided to support a sustainable not-for-profit (NFP) sector and ensure that a fair and appropriate price is paid by the State Government to the sector for the services it provides. This funding represents a total funding increase by the State Government to the NFP sector of 25%.

From 1 July 2011, an upfront across-the-board percentage price adjustment of 15% was applied to all eligible human service contracts (this is termed **Component I**).

A second funding injection of approximately \$117 million, equivalent to an **average** increase of 10% across eligible contracts (Component II) will be rolled out from 1 July 2013 over a two-year period.(this is termed **Component II**).

What is Component II?

Component II represents the second funding injection to the NFP community sector to ensure a fair and appropriate price is paid by Government to the NFP community sector for the services it provides.

The funding allows an average price adjustment of 10% across eligible contracts, from 1 July 2013.

Component II is linked to progressing key contracting reforms consistent with the *Delivering Community Services in Partnership* Policy. These reforms relate to the relationship between the public and not-for-profit community sectors, funding and contracting arrangements between government and not-for-profit organisations and reducing the administrative burden. Additional funding will be allocated to contracts to ensure that services are purchased and funded in a sustainable manner.¹

What is the purpose of Component II funding?

The approach to Component II funding and link to key contracting reforms is aimed at:

- Enabling a fair and appropriate price is paid for services provided by the not-for-profit community sector;

¹ The Delivering Community Services in Partnership Policy supports a more mature contracting relationships between the public and NFP sectors, focused on achieving better outcomes for the community through the funding and contracting of sustainable community services.

- Addressing further funding pressures not addressed in some contracts by the upfront 15% adjustment, including historical funding inequities in the level of funding provided by different services;
- Supporting the implementation of contracting reforms under the *Delivering Community Services in Partnership* Policy, including addressing issues for regional and remote service providers;
- Ensuring contracts focus on outcomes, rather than prescribed inputs, to better meet the needs of clients; and
- Providing more flexibility for innovation in the not-for-profit community sector.

Component II is not for the purchase of additional services by government line agencies or to meet unmet demand.

Why is it an average 10% and not a flat rate across all eligible contracts?

Component II is intended to address the large differences across contracts in the level of funding currently provided and funding shortfalls that have emerged over time. These differences have emerged for a number of reasons including:

- the contracting and funding practices of government agencies;
- cost pressures in regional and remote areas not currently reflected in contract pricing; and
- long-term historical under-funding.

Component II will allow greater flexibility by both line agencies and funded NFP sector organisations to establish fair and appropriate prices to be paid for services provided by the NFP community sector.

This does, however, mean that some NFP community sector organisations will receive a price adjustment greater than a 10 % for eligible contracts, while some organisations will receive less than a 10%.

What is the process for determining the allocation of component II funding to Government agencies?

Component II funding will be allocated to Government agencies to pass on to NFP community sector organisations through contract reviews and the establishment of fair and appropriate prices.

Component II funding will be allocated to Government agencies on the basis of:

- readiness of the government agency and contracted NFP community sector organisations to progress key contracting reforms; and
- the estimated financial impact of moving to fair and appropriate process, based on contract reviews.

The readiness of government agencies and contracted NFP community sector organisations to progress key contracting reforms will be reviewed by an independent panel, from both the community and public sectors, to assist with its development.

Government agencies are required to make a submission for component II funding as part of the 2012-13 Mid-Year Review process, for consideration by Government in November 2012.

How was the approach for component II funding developed?

The process for allocating component II has been developed jointly with the public and NFP community sector, with oversight from the Partnership Forum. This approach provides a fair and transparent process for allocating the fixed amount of funding allocated for component II and will ensure the ongoing sustainability and continuity of services delivered by the NFP community sector.

How will the level of funding for contracts eligible for component II be determined?

The implementation of Component II will be based on the review process of individual contracts. This will allow an opportunity for NFP community sector organisations to tender a fair and appropriate price for the services it delivers.

This information will then be submitted by government agencies for consideration by Government as part of the 2012-13 Mid-Year Review process in November 2012.

Why is Component II funding linked to the progress of key contracting reforms and contract reviews?

Component II funding is targeted toward paying a fair and appropriate price to the NFP community sector for the services it provides in order to support the sustainability of services delivered by the NFP community sector over the longer term.

Component II funding is linked to progressing the *Delivering Community Services in Partnership* Policy to ensure that services are purchased and funded in a sustainable manner. This recognises that previous funding and contracting practices have been identified as a cause of the funding shortfall.

When will I be advised of the outcome of the contract review and price adjustment?

Government agencies and the NFP community sector will be advised of component II allocations as part of the 2012-13 Mid Year Review process in December 2012.

How will it be passed on and when?

Component II funding will be provided to eligible NFP community sector organisations through revised contracts and pricing with Government agencies from 1 July 2013.

Your line agency will be in contact with you to determine when you will receive funding.