

**STANDING COMMITTEE ON
ESTIMATES AND FINANCIAL OPERATIONS**

FUNDING FOR NON-GOVERNMENT ORGANISATIONS

**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
MONDAY, 23 APRIL 2012**

SESSION ONE

Members

**Hon Giz Watson (Chair)
Hon Philip Gardiner (Deputy Chair)
Hon Liz Behjat
Hon Ken Travers
Hon Ljiljanna Ravlich**

Hearing commenced at 12.42 pm**BROWN, MRS REBECCA****Executive Director, Department of the Premier and Cabinet, sworn and examined:**

The CHAIR: Good afternoon. On behalf of the committee I would like to welcome you to the hearing. Before we begin I am required to ask you to take either the oath or an affirmation.

[Witness took the oath.]

The CHAIR: Thank you very much. You will have signed a document entitled “Information for Witnesses”. Have you read and understood this document?

Mrs Brown: Yes, Madam Chair.

The CHAIR: Proceedings this afternoon are being recorded by Hansard. A transcript of your evidence will be provided to you. It will assist the committee and Hansard by please quoting the full title of any document that you might refer to during the course of the proceedings, and be aware of the microphone and talk directly towards it. I remind you that your transcript will become a matter for the public record. If for some reason you wish to make a confidential statement during today’s proceedings, you should request that the evidence be taken in closed session. If the committee grants your request, any public and media in attendance will be excluded from the hearing. Please note that until such time as the transcript of your public evidence is finalised it should not be made public. This prohibition does not, however, prevent you from discussing your public evidence generally once you leave the meeting.

Would you like to make an opening statement or would you like us to start with questions?

Mrs Brown: I will make a very brief opening statement and ask the committee if you would like to know more details. I have been involved in working through both the funding and contracting reforms with the not-for-profit sector for two and a half years—both the issues that the committee wishes to discuss today around the funding and the work around working with the not-for-profit sector in developing more sustainable contracting arrangements. I have worked quite closely with the not-for-profit sector over two and a half years, including having people from the not-for-profit sector working in my team in Premier and Cabinet. I have quite a detailed knowledge of the evolution of some of these reforms and the background to them. My question is whether the committee wants me to set out some of that background in detail before going into questions, if that will assist.

Hon LJILJANNA RAVLICH: It might be helpful.

Hon PHILIP GARDINER: Yes, I would.

The CHAIR: That is a yes.

Mrs Brown: I suppose it starts from a position whereby the not-for-profit sector has had longstanding claims with governments around the level of funding for services purchased under state contracts. The history to WACOSS is that it has consistently sought a 30 per cent increase in funding on state contracts. In early 2010 a small working group of officers from both the public sector and not-for-profit sector was established to understand some of the historical issues to the funding shortfall—some of the things that had led to that, some of the technical understanding of what had led to the funding shortfall and some of the emerging issues, particularly around their legal obligations, but also the implications for the sector more generally. We worked quite hard over a six-month period to understand what had led in many instances to the shortfall or was going to contribute to an emerging shortfall and what were the implications for the sector in both the short

term and the longer term. Working through those with the sector was very important in terms of establishing a common understanding of what the actual problem was—what were some potential solutions, but, more importantly, how we would work together to come up with recommendations that would address that over the longer term, rather than just a short-term response, with something that would actually ensure that, as advice was provided to government, that would look to address it not just in a short-term way but in a longer-term way so that these issues would not recur. It goes back to ongoing discussions around the sustainability of both the sector and the services that they deliver to the Western Australian community.

Central to the not-for-profit sector's claims for a 30 per cent funding increase was the impact it was having on their workforce. They had, both through WACOSS and other peak organisations, undertaken quite detailed work to look at the impact it was having on their workforce and on the sustainability of their services. I suppose the important thing about that was that as we worked to understand what the implications were for their workforce, at no stage did WACOSS or other peak organisations seek that money be tied to salaries or wages paid to their employees. Essentially, what they consistently sought was an increase in funding but in a way that would not constrain the way their organisations operate. For them that was quite important on the basis that, particularly when it came to their workforce and the arrangements that organisations had with their employees or with their unions, state government is not a party to those arrangements. From very early on there was a clear understanding, that as we worked through some of the issues, this was not about dictating to the sector what salaries they would pay. That was certainly not what they wanted. They wanted an injection of funding that would enable them to improve conditions for their workforce but they did not want that to be dictated. That was quite consistent with other work that was happening—to go back and look at the way we actually contract between the state government and the not-for-profit sector and move to a more mature relationship whereby it is about the purchase of services rather than dictating to the sector what they are going to deliver, how they are going to deliver it, who they are going to employ and who they are going to pay. The recommendations then made to government were about both the sustainability of services and moving to a more mature contracting arrangement that recognises that the key relationship between the state government and the not-for-profit sector was through that contractual arrangement and how we would move to something that would actually, in the longer term, lead to better outcomes for Western Australians by reducing a lot of the controls and administrative burden of the not-for-profit sector and tapping into their local responsiveness, their innovation and flexibility. We are trying to move away from being very prescriptive in the way we contract with the sector.

The work we undertook with the not-for-profit sector late in 2010—the partnership forum, which is a forum of heads of departments from the public sector and leaders in the not-for-profit sector—provided advice to the Premier on the findings around the review of the funding arrangements.

[12.50 pm]

That forum was independently chaired by Peter Shergold, and that advice was provided to government at the end of 2010 and subsequently was considered by government as part of the 2011–12 budget process. The actual advice had two key parts to it. The first was the broad findings around the extent of the funding shortfall and what had led to it. But it also provided advice to government on an implementation arrangement, and one that we worked on quite closely with the not-for-profit sector—bearing in mind that the sector itself is made up of hundreds of organisations—and tried to tailor something that could be implemented in the short term and also something that would, as I said before, ensure that the funding issues did not recur. We were trying to come up with an implementation arrangement that partly met the sector's immediate needs and also something that in the longer term would prevent the recurrence of that funding shortfall and also enable the organisations to meet current and emerging legal obligations.

Hon LJILJANNA RAVLICH: Mrs Brown, can you just advise the committee who you report to directly?

Mrs Brown: I report to Peter Conran, Director General of the Department of the Premier and Cabinet.

Hon LJILJANNA RAVLICH: And he reports to the Premier.

Mrs Brown: Yes.

Hon LJILJANNA RAVLICH: I do not know whether you are aware but the Premier was quoted in *The West Australian* as saying that the additional cash to be provided to the not-for-profit sector would be given to raise the standard of their services by employing more and better qualified staff. This goes to the heart of sustainability, of course. I am just wondering whether that had been conveyed to you in terms of a direction to perhaps seriously address the issue of sufficient resources for the employment of such personnel.

Mrs Brown: In looking at the funding shortfall, we looked at a range of issues with the not-for-profit sector. I do not recall any implicit direction from the Premier around the issues; it was really a partnership and working with the not-for-profit sector to understand their issues in terms of both the sustainability of services and workforce. They had made previous submissions to the government around that, and our task was to explore with them what those issues were, the impact for the sector, and then a range of options to look at a sustainable solution in both the short and longer term.

Hon LJILJANNA RAVLICH: So are you saying that whilst you are concerned with sustainability, at no time did the director general, on behalf of the Premier, convey to you that there was a responsibility for your agency to in fact have a look at how you would assist those NGOs to raise the standards of their services by employing more and better qualified staff?

Mrs Brown: In looking at the sustainability of services, there was a range of issues that we examined. We looked at funding arrangements across a number of contracts and at sustainability in regional and remote areas. I suppose it was more that the viability of the workforce was implicit within the sustainability of services. Certainly, when we talked through with the not-for-profit sector the implications for them of the impact on the sustainability of services, the key issue that came back, particularly around continuity of care, was that high turnover rates and issues with attraction and retention, particularly around quality, had implications for the level of care and the continuity of care. So we were certainly mindful of those issues as we worked through them with the sector and certainly they were key parts of it.

Hon LJILJANNA RAVLICH: In terms of your contracts, when the funding is allocated, does your agency collect any information in relation to staff?

Mrs Brown: In the not-for-profit sector?

Hon LJILJANNA RAVLICH: In the not-for-profit sector, yes.

Mrs Brown: Our department does not.

Hon LJILJANNA RAVLICH: Do you know any government department that does?

Mrs Brown: In looking at the way that we contract with the not-for-profit sector, there is a whole range of arrangements and certainly the way forward is to streamline some of those arrangements. But we would have a great variety of contracts across the public sector; that is something that we do know. Some are more focused on the delivery of services and meeting KPIs related to those services. Some of our contracts are quite input focused, so they do monitor and they do in fact dictate who not for profits should employ at what level and what they should pay. The only thing I would say about that is that that is what the not-for-profit sector is very keen to move away from, because in many instances that can constrain their flexibility and innovation on the ground. Whilst that is the landscape of our contracting now, from very prescriptive through to very much focused

on services, we are trying to move towards something which is based more around the delivery of services and looking at information that shows improved outcomes rather than the delivery of inputs.

Hon LJILJANNA RAVLICH: Yes, but do you have any information, really, about whether not-for-profit agencies are in fact raising the standard of their services by employing more staff? Do you have any information to that effect?

Mrs Brown: There are surveys undertaken in the not-for-profit sector. As a department, we have not undertaken any work to look at that specifically. There was certainly the Productivity Commission report that came out, I think, two years ago. There has been work that has been undertaken by some of the various peaks. For example, WACOSS since the funding announcement —

Hon LJILJANNA RAVLICH: No; I am talking about government. I am interested in whether any government agency, including yours, collects any information about whether or not the funding that is given has resulted in the raising of the standards of the services provided by the not-for-profit sector by or through the employment of more and better qualified staff.

Mrs Brown: There are three parts to this. One is that there is anecdotal evidence that we have not collected but we have collected through others. WACOSS surveys indicated that 70 per cent of the additional funding has been passed on in salaries. There are other organisations that have got evidence of what it has meant in terms of reduced turnover rates and increased attraction and retention. They have been able to attract employees with improved qualifications and training. There is anecdotal evidence emerging that the funding has been passed on to employees and has also begun to result in improvements in the level of care. When you say “more staff”, where they have been able to fill vacancies, we would expect them to have employed more staff. But the funding was not attached to higher levels of service, so we would not expect them to employ additional staff for additional levels of service. The money was not tied to that, but where they had vacancies, which we understand has been an issue, we understand they have had more successful recruitment and also much larger pools of recruitment.

[1.00 pm]

The other couple of things I would say is that the funding—certainly the first 15 per cent that flowed from 1 July last year—was tied to existing contracts. So where there was what we would call quite prescriptive contracts that actually required them to tie it to employees and salaries under those contracts, organisations would be contractually required to pass that funding on.

The third thing I would say is that we are in the process with the Department of Treasury of developing an evaluation framework that will monitor these sorts of trends around workforce sustainability in the not-for-profit sector that will provide that information and advice to the partnership forum as part of their ongoing monitoring and evaluation role. The one thing I would say is that there is not a lot of good information and data around the not-for-profit sector. The Productivity Commission was probably one of the most important pieces of work done nationally and also gave WA information around the shape and size and scope of the sector both in terms of the number of organisations and employees. Obviously, it is a fairly fluid sector. That is the nature of the business they are in and the nature of which these many small organisations grow. So there have been initial discussions with one of the universities about how we might capture that in an evaluation framework to monitor some of those longer-term trends in the workforce.

Hon LJILJANNA RAVLICH: Mrs Brown, I gather from what you are saying—I think what I have heard you say clearly, amongst other things—is that even though the Premier himself made the statement that the cash would be given “in order to raise the standard of their services by employing more and better qualified staff”, you do not collect information on whether or not that money has

achieved that outcome—that is, to increase the standards of service by employing more and better qualified staff.

Mrs Brown: Not at this stage, but that work is in train.

The CHAIR: Was that the comment that the Premier made in the meeting?

Hon LJILJANNA RAVLICH: Yes, it was. It was in *The West Australian* on 19 May 2011.

Mrs Brown: Anecdotally we are hearing that. Contractually, organisations are either required to pass the money on or through other legal obligations those that already exist under award arrangements, or through the emergence of the decision out of Fair Work Australia, or we are in the process of developing a framework to monitor that.

The CHAIR: I have got a couple of others with their hands up.

Hon LIZ BEHJAT: Thanks, Chair. Mine is a sort of fairly basic thing. I want to clarify for myself what I am hearing. The Chair might like this analogy. I am seeing what you are describing there is that if we look at the NGOs and the not-for-profit sector, they are the project builders. Builders have toolboxes and inside those toolboxes are a set of tools, and the government's role in all this is we are providing those builders with the necessary tools to do the jobs they have to do. When you have builders doing things like that, they are all going to end up with a different outcome. How they use the tools is up to them. That is sort of how you have described the role of government in all of this is that we are just making those provisions of the tools and the people themselves will determine how best to use them to reach the outcomes they have got. Is that fair enough to sort of put it in those terms?

Mrs Brown: The sector is made up of in excess of 500 organisations. They all have very different organisational and corporate governance structures. They operate under different industrial environments. Many already pay their employees above award rates. They have a range of different revenue sources whether they be from fundraising, through philanthropy or through even commonwealth contracts. This funding is about paying a fair and appropriate price for the services that the state purchases. Determining that fair and appropriate price, enabling these organisations to meet their legal obligations, is important. But what the sector did not want and they were very clear in their advocacy to the government was that it was about a funding shortfall but they did not want something that was going to be overly prescriptive and constrain the way that they deliver and design services. So, we were trying to maximise the ability for them to innovate and operate and respond locally without being overly prescriptive around that. It is about a contractual arrangement and paying a fair and appropriate price. It recognises that their workforce and the quality and continuity of care are critical. There is very strong anecdotal evidence that many of the organisations have passed on large amounts of the funding and are actually seeing that flow through in their recruitment and the maintenance of staff. Quite critically, whether it be in disabilities, mental health or counselling, continuity of care and continuity of the workforce is critical to the quality of that care.

Hon LIZ BEHJAT: I would be right in saying that after the announcement was made and all of the things that were made available were made known to that sector, nobody in that sector has come to the government and said, "That's not what we wanted. We wanted you to tell us how to spend the money." Am I right in that?

Mrs Brown: Correct.

Hon LIZ BEHJAT: It was universally accepted by the sector that this was the best possible outcome for them.

Mrs Brown: The sector itself has to work within its own industrial arrangements. We have seen for some organisations in their own industrial negotiations that large chunks of that money have been

passed on to their employees and so a lot of that has been made public by some of the large providers and some of the small providers.

Hon KEN TRAVERS: Just for the record, if I can make it public that I am a member of United Voice who represents a number of the members in this area, just so that there can be no need to refer me to the CCC at a later stage. It is in my public disclosure in Parliament as well. I did want to put on the record at the very beginning that I welcome the announcement about the additional funding. I think it is great that we have the additional funding in terms of the issues that have been raised and I think that is the position of my colleagues in the Labor Party. I am still unclear as to whether or not the government has adopted a formal policy position at the outset of this process as to what the objectives it is seeking to achieve are.

Mrs Brown: There are two parts to that. One is that obviously I cannot answer questions around government policy. What I would say in the discussions that we have had over a long period of time with the sector is that the partnership forum itself, which is that group of senior leaders in both sectors, is focused on improving outcomes, particularly for the more disadvantaged and vulnerable in Western Australia. In looking at the funding and contracting reforms, it was always about—there was a clear objective between both sectors about the sustainability of services and looking at a way in which we could build a more mature funding and contracting relationship that actually enabled more sustainable, innovative, flexible services on the ground. So, it recognised that the not-for-profit sector in the way that it operated could provide more locally focused and responsive services. The work that we did was very much focused on the sustainability of those services and that was something that the not-for-profit sector was very focussed on as well. Pivotal to that is, obviously, the ability to have a sustainable workforce to deliver those services particularly around, as I mentioned, quality of care and continuity of care.

Hon KEN TRAVERS: That is fine. I am not asking you in the question to justify or defend the policy. I am simply asking, which I think you are able to answer, is there a formal written policy of the government?

Mrs Brown: Yes. At the time of the release of the 2011–12 budget, which included the announcement of the \$604 million, the Premier also released the “Delivering Community Services in Partnership Policy”, which is a document which sets out the way in which the sectors wish to work together, but it also sets out, depending upon that relationship and that strategic need for the community, the various funding and contracting arrangements that the sectors may wish to employ. That sets out a set of objectives around these arrangements. I do not actually have a copy in front of me.

[1.10 pm]

The CHAIR: We have copies.

Mrs Brown: So that is the key policy document that sets out the way in which we wish to work. A key component of that is building an arrangement that enables the state to ensure that it pays a fair and appropriate price for services, and the funding enables the move to a fair and appropriate price, including an ability to meet current and emerging legal obligations.

Hon KEN TRAVERS: So your clear understanding within that policy, one of the outcomes is to ensure that people are receiving fair remuneration within the sector but left to the individual organisations to determine those arrangements?

Mrs Brown: There are probably two things. One is that having a sustainable workforce and having continuity of care is critical for quality services, but what it does recognise is that the state government is not a party to those employment or industrial arrangements between the organisations and their employees or union representatives. So it does recognise that, obviously, quality of service is critical in terms of things like the direct relationship with continuity of care, but it recognises that in establishing a fair and appropriate price, the states then does not dictate salaries

or other inputs, for that matter; it does not dictate the administrative costs, it does not dictate a whole range of things.

Hon KEN TRAVERS: You talked about doing surveys and some work into the future; in five years' time, when this funding round finishes, how will you, as a government, measure the success of those outcomes?

Mrs Brown: In terms of the sustainability of services?

Hon KEN TRAVERS: Well, that you have achieved the policy objectives that you set out at the beginning of the process. How will you measure that you have achieved those objectives?

Mrs Brown: A couple of things: the partnership forum—which, as I said, has joint membership—has an ongoing oversight role in the implementation of these reforms, but also the ongoing evaluation of the reforms so, as I said, we are in the process of developing an evaluation framework that will provide that information, both in terms of improved service outcomes but also in terms of some longer-term trends in workforce sustainability in the not-for-profit sector. So it is intended that that evaluation framework will be in place to monitor the things you have talked about, and certainly the partnership forum has been very keen on that element. We have been involved in the development and we are now monitoring the implementation, but there was a strong focus on evaluating what it means for the sector going forward.

Hon KEN TRAVERS: You keep talking about the sector, but when you talk about the sector are you talking about the individual organisations, or do you include in that the employees and their representatives?

Mrs Brown: I suppose that is the thing; the not-for-profit sector is such a large and diverse group. When I talk about it, we would probably mean the organisations that employ 30 or 40 thousand people, so it is the organisations and the peak organisations that we work with. I suppose my experience has been that that diversity is one of the things that brings strength to the sector, but it also makes it more difficult to have that sort of rich data to monitor things, and that is what we are trying to do now; that is what we are trying to do in our discussions with others about developing a more robust evaluation framework.

Hon KEN TRAVERS: So, apart from talking to the peak organisations and the actual organisations that you give money to, are you talking to the workforce and their representatives as part of this process?

Mrs Brown: Our engagement has been with peak organisations, service providers and other organisations such as CEWA—Community Employers Western Australia—which is a representative body of employers. That recognises the relationship that the state has with the sector, which is around those contractual arrangements.

Hon KEN TRAVERS: I understand that, but I would have thought that if part of your issue of sustainability is to ensure that you are maintaining and keeping people in the workforce, one of the key things you would be doing is to be trying to talk to that workforce about what else you need to be doing as a government to ensure that that is occurring, rather than just talking to their employers.

Mrs Brown: I suppose our experience has been that WACOSS, as probably one of the key peaks, would see itself as representing both the organisations and the employees.

Hon KEN TRAVERS: How do they represent the employees?

Mrs Brown: I think there has probably been a view that they have been quite heavily involved in advocating for employees within their sector.

Hon KEN TRAVERS: It strikes me, then, if I have got this right—I watched a show about Darwin the other day, so maybe this is the best term to use—that effectively it is almost a form of Darwinism: you will give the money to the sector and some parts of the sector, in their

relationships, will pass it on to their employees, and those that do not will just fall away because they are no longer able to match those that are providing that money to their employees.

Mrs Brown: There are a couple of things. One is that there are current and emerging legal obligations on the sector that we are all quite aware of, particularly through Fair Work Australia. We are not a party to the various funding arrangements that these organisations have, so there are some that have strong fundraising or sponsorship or philanthropy that would enable them to pay above award rates anyway. I suppose we are not a party to those current arrangements now, and it is not intended to be a party to those contractual arrangements going forward.

Hon KEN TRAVERS: I understand that point, but it was clearly stated by the Premier at the outset of all this, when people were saying, “This is great; the money’s got there,” I think there was a recognition that one of the big issues in the sector was that there were many low-paid workers who were not getting adequately remunerated for their work. Again, there does not seem to be a connection. The idea of the money is great, but there does not seem to be a connection to ensure that, other than through leaving it to other legal mechanisms—but that does not—I mean, they were paying the award wages and everything else before that money was given as well. So the Premier made it very clear that his intended outcome was to achieve a better deal for the employees in that sector, and I am still not sure I can see how you get that connection at the end of it, other than a bit of Darwinism occurring—that those who do not meet those standards will fall off.

Mrs Brown: I suppose there are a couple of things. One is that the sector advocated for some years additional funding, particularly around its workforce, so that was the position that the sector had taken for some period of time: an increase in the case of WACOSS, an increase in funding of 30 per cent to meet workforce requirements, so it was the proposition that was put to government. I suppose, anecdotally, we are seeing good evidence that a lot of it is flowing to employees.

Hon KEN TRAVERS: And I do not disagree with that; that is one of the reasons why I said at the outset that I welcome this, because the money is going through and many of the employers are—as I understand it, many of them, the two tranches of money have been passed directly on in terms of pay rises to their employees, but there are other sectors where that has not occurred; there are other employers where that has not occurred. You are now saying that, to get this differential, which seems to be between some that are starting to be remunerated appropriately and some that are not—surely that is not a good outcome for the sector?

Mrs Brown: A couple of things: one is that, as I said, we are not a party to those industrial arrangements. To have linked any of the money to additional salaries would have probably resulted in a significant burden on the sector. That was certainly the previous experience for both sectors in relation to a previous pay rise in the disability sector a couple of years ago. There was a significant administrative burden on both sectors to actually ensure that that was passed on. That was certainly something that the community sector advocated that they did not want, so in respect of your point about leading to some differences in the sector, some of that arises because some organisations have a range of funding sources. We know for some organisations where they have largely only state-based contracts or, in the case of disability, where they have largely state-based contracts with some small amount from the commonwealth, it has been a lot easier to pass on the funding through pay rises.

[1.20 pm]

In other parts of the sector where their state contracts are only a small proportion, we understand from WACOSS that those organisations are potentially waiting to hear what the commonwealth may do on Fair Work Australia and other things. So, they are still working through the industrial implications. I think that was what we learnt throughout the discussions with the not-for-profit sector. Because they do have such a diverse set of arrangements in terms of the way that their funding sources and even their industrial arrangements are structured, to actually design something that would have ensured that all the money was passed on in wages, not only would have then

dictated to the sector what to do, but also it would have imposed a significant administrative burden on the sector. Particularly as many organisations pay award rates, above award rates, well above award rates, certainly, the feedback from the not-for-profit sector was that they did not want the state getting into looking at what everybody pays; it was going to be so burdensome and time-consuming that there was a desire to actually move to something that did provide sustainable funding.

Hon KEN TRAVERS: How is it burdensome?

Mrs Brown: The example given is around the increase for disability support care workers a couple of years ago where the money was linked to salaries. For both the Disability Services Commission and those organisations, there was a significant monitoring arrangement around how that money flowed to those organisations and was passed on to their employees. For both, particularly the disability services organisations, on top of their other reporting burdens, it was a significant burden to them in reporting back on that level of monitoring around increased wages. Now, that was one employment group —

Hon KEN TRAVERS: I still do not see, if you give people additional money and say, “We want this passed on in salary increases”, where it is burdensome other than a letter to say, “Yes, it’s been passed on and this is how we’ve passed it on”. You would have that as part of your discussions, negotiations, with your workforce about where you are putting it. I cannot —

Mrs Brown: But it would require you to know their number of employees, to monitor the status of their employees, what had been passed on.

Hon KEN TRAVERS: They would know that—would they not—as an organisation, how many employees they have?

Mrs Brown: The organisations would, but it is an additional burden in terms of information. That was certainly the feedback we had from both the sector and the Disability Services Commission.

Hon KEN TRAVERS: It may have been the feedback, but I still do not see where the burden is that someone writes out that says, “We’ve got 200 employees and we gave them all a 10 per cent pay rise”, or “We’ve renegotiated a new enterprise agreement and as a result of that our wages bill has gone from \$1 million to \$1.1 million”. I mean, how is that burdensome as part of their reporting process?

Mrs Brown: In that example, that was the feedback. But, more generally, in the sector in designing this, linking the money to employment—the number of employees, their levels, their salaries—would actually become highly prescriptive on the sector and actually diminish their ability to operate flexibly, when, I suppose, the contracting reforms are about moving to the purchase of services and are now allowing the sector to have somewhat more flexibility in how they achieve improved outcomes for their client group, rather than be constricted by a contract that tells them who to employ and at what level and what to pay.

Hon KEN TRAVERS: But I am not sure I am saying that!

I guess, just to finish off, my last question is: as we have discussed, a number of organisations have passed this money on to their employees completely in terms of increased salary or additional staff, if there are organisations that have not done that and that their staff are still predominantly being paid the same as they were prior to this money being passed on, is that a concern for the government?

Mrs Brown: Look, certainly there is an expectation that it would be passed on. It is hard to know, without knowing the specific organisations. A state contract might make up only 25 per cent of their funding, we do not know; they might have pulled funding from other areas. I suppose we would expect and it certainly —

Hon KEN TRAVERS: It would not make up 25 per cent of their funding because they would not have received the funding, would they?

Mrs Brown: They would have received 15 per cent on that contract. So, some organisations might have one state-funded contract, if it was eligible, and got 15 per cent.

Hon KEN TRAVERS: If they are less than 50 per cent state-funded, do they not get the money? If they are, say, jointly funded commonwealth–state and the commonwealth is the major funder, the state component did not get an increase at all, did they?

Mrs Brown: Only on those contracts. There are those contracts that were joint or largely commonwealth-funded and they are potentially linked to what the commonwealth does, but where an organisation has a state-funded contract—they might have commonwealth-funded contracts; they might have other revenue sources—that only makes up 25 per cent of their total revenue sources, the feedback I have received from WACOSS is that some organisations are still trying to figure out how they will pass that on to their employees.

Hon KEN TRAVERS: So, if an employee has not had that increase passed on to them and their organisation has received money, is there anywhere they can go to raise their concerns, within the government, that their organisation is not passing that money on to them?

Mrs Brown: We would expect them to be working through their usual discussions with their employer and union representatives.

Hon KEN TRAVERS: But I think we have agreed that one of the things that—whilst it is not explicitly stated that your government recognises that it is important that employees are paid a reasonable remuneration, is there a way in which they can take that up? If they have gone to their employer and their employer says, “Well, tough, we’re not paying it to you because we’re going to use it for other things”, is there somewhere that they can go or is the only option they have to move to another employer that is paying that rate? Is there somewhere in government they can go and raise that as a concern?

Mrs Brown: I suppose it depends whether they fall under a state or federal award. If they are not being paid relevant rates under a state award, then there would be options for them to seek advice. Under the federal awards, there are implications from Fair Work Australia that will impact on those organisations and favourably for those employees.

Hon PHILIP GARDINER: I actually have some sympathy with the questions, which Hon Ken Travers was asking, in relation to getting the information about employees and what they are being paid in increases, because most private businesses, which I am part of, have to fill out an IAS form every month. Your accounting system, if you are paying payroll tax, has to include that basic data, not so much the number of employees, but—that probably is an easier issue—you certainly have to have all the employee details in terms of what you pay and what tax is paid and so on. So, I fear you might have been snowed if the industry said they cannot tell you that information because it is too hard.

Mrs Brown: I do not think it was the case that they could not tell us that information. I mean, many of the organisations of the not-for-profit sector are large organisations that are well run and have strong corporate support; that was not so much the issue. The issue was more that this is about a contractual arrangement between the state and an organisation for the purchase of services. The intent over time is that we will work together to determine what are the best services to meet the community need and establish a fair and appropriate price, but we are not going to dictate to the sector how they then deliver that—do they employ three people at this level and pay this salary? That is what we are trying to move away from because it then constrains their ability to work flexibly and meet local need. I was not inferring that they would not have that information. Many of those organisations, of course, would have that information; they are very well run. Even though we use the term “not-for-profit sector”, they are well run with very strong and capable CEOs and

boards and governance arrangements. It is really about recognising that in the contractual arrangement that we have between state government and these organisations that there was no desire to add an additional layer of administrative burden in dictating to them how they then employ their workforce and things like that, given that we are not a party to those arrangements.

[1.30 pm]

Hon PHILIP GARDINER: I can understand that latter part, not the former part, but that is fine.

I just need to understand some basics first. I presume the state government is the biggest taker of these services. In other words you have got the provider being the not-for-profit organisations but the government in the sector is the biggest employer or the biggest contractor of these organisations in this state.

Mrs Brown: The state government has contracts with the not-for-profit sector. I would need to check, but I think that it is probably close to \$800 million per annum. I am not sure. I would have to get information on what proportion or what value the commonwealth government contracts with the not-for-profit sector because they do a significant volume of contracting with the not-for-profit sector also. In addition to that, the not-for-profit sector obviously has other revenue sources—fundraising, philanthropy; a whole range of other activities. We represent, probably, without checking, the largest purchaser of their services, but they do have other revenue sources. And some organisations have only state-funded contracts and that is it: it may be their only source of revenue and their only contracts. Some have the other end of the spectrum: some of the bigger organisations would have a number of state contracts, a number of commonwealth contracts, they have large fundraising, they have large philanthropy, and a much more—not diverse; they might have certain services that they specialise in—larger organisation with much more diverse funding sources.

Hon PHILIP GARDINER: Okay, we are just taking that they are a very large purchaser. I presume that when the state government takes on different not-for-profit organisations to conduct or to provide different services into the community that it is a by-tender arrangement.

Mrs Brown: There is various arrangements.

Hon PHILIP GARDINER: Is it mostly by tender arrangement? I do not wish you to go through the whole thing, but just how much, roughly, would be by tender arrangement? Is that the norm? By tender? Or is that the minority?

Mrs Brown: I would have to check, but what we have is “preferred service provider” so where the not-for-profit sector—they can tend to establish arrangements whereby if you can demonstrate that they are the preferred provider of those services you can appoint them under an existing arrangement or you can go to tender.

Hon PHILIP GARDINER: Okay, just taking up that aspect: I would have thought that if there was a difficulty with wages or the not-for-profit sector is being underpaid that the competitive pressure—apart from the preferred supplier arrangement you may have, but even that should be able to be dealt with in a similar manner—that really it is just the government about how much they wish to pay to reach a certain outcome in whichever sector they wish to have the provider, sorry the demands of what the community wants being met by the provider. So it is simply, and you say—you make the strong point and I agree with it that you do not want to get into the detail; you want to have the innovation, creativity and utilisation of resources in these organisations to be at their behest and their control—that it is the outcome. So if that is the case, and I know in your partnership on page 5 of this document, “Delivering Community Service in Partnership Policy” you mention outcomes at the top—community outcome—and then in brackets underneath you have got “desired impact or change”. Now those four words, to me, are very, very important because the first thing that you need to do is know what the base is that you are starting from. And then, when you have someone then contracted, you then see what difference they make. When you select someone you are assessing whether in your or in someone’s judgement they have the resources and the

organisation and the right services to deliver the quality that you need to have to achieve the outcome you designate in that tender document—let us say—or even in the preferred contract document. The question first is: how are you measuring the baseline when you take on any of these organisations for the contract that you have in mind? How do you set what the base is and then how often do you measure what the change is?

Mrs Brown: In terms of community outcome?

Hon PHILIP GARDINER: Yes.

Mrs Brown: Okay. A couple of things. One is that we are trying to build an environment or way in which we work more closely with the community sector in how we actually determine what that community outcome is.

Hon PHILIP GARDINER: That is good—yes.

Mrs Brown: So I suppose this is what the policy is largely about: the diagram that you have referred to talks about the nature of the relationship. It is about how we work together in the first instance to understand what is that community need, how could we work together to design a service that responds to it, and how would we actually monitor it. So there is certainly a strong intent that as government departments work with the not-for-profit sector, whether it be in mental health or disabilities, that we move away from the not-for-profit sector being the last point at which we contract the service out, to having the up-front discussions around what community need looks like; bearing in mind that many of them, given that they work on the ground, have a much better understanding and expertise and knowledge of what might best meet their clients' needs. So bringing them up-front into discussions, that we can have those ongoing discussions and relationship about understanding need, what might be different services or refinements to existing services, and then establishing a contract that focuses on the delivery of those services, and, as you have mentioned, having performance indicators around the delivery against, I suppose, key aspects of the service, and, indeed, improved outcomes with the community. Your question about what would be the specific baseline or the indicators—that is something that line agencies work through now with the not-for-profit sector and increasingly under this policy will do more of. So, to answer your question about what is the baseline and what might be the indicators, they are the sorts of discussions that line agencies will be having with the community sector to ensure that they are both monitoring the right things about desired impact or change in the community. It is probably not a simple question to answer across the entire sector, but within contracts that is certainly the way that it is designed to work and it has; there is already evidence or good examples where that has happened over the last few years anyway. So it is not about necessarily a new direction but it is about building on what has already worked between both our sectors over the last few years.

Hon PHILIP GARDINER: Have you had some overall review of what the agencies are actually doing in this regard?

Mrs Brown: Yes. Line agencies—yes.

Hon PHILIP GARDINER: I wonder whether I can get, maybe as supplementary information, a sample of what that assessment is of the baseline—if you like, in my terms but the community need if you like or the community assessment—of what the status is in whatever field you are looking at. It does not have to be specific. I just want to have all the names crossed out, if necessary. But I do wish to see what format you are measuring what is there now.

Mrs Brown: Yes.

Hon PHILIP GARDINER: And then I would like to see, if possible, if you have an example of an assessment after a period of time although I know this is pretty recent, as I said, and you may not have any assessments yet. Okay, what I would like to see then is an example of the baseline assessment.

Mrs Brown: Yes. I suppose a couple of things —

Hon PHILIP GARDINER: Two or three if possible.

Mrs Brown: Yes. I suppose the first couple of things that I would say is that there is not a single overarching assessment for baseline outcomes. We can look to information that has been progressed, say, for example, in the disabilities area or the mental health area. There is a lot of work happening in those sectors to look at outcomes and —

Hon PHILIP GARDINER: But I want it at the community level though. I am not talking about the overall. I wanted to have the assessment. I mean, I agree with you: the community is where it is all happening. We are so far removed from where we are, you need to get down to the community.

Mrs Brown: Yes.

Hon PHILIP GARDINER: I agree with your thesis that you have got to understand what the base is for that and each community is different.

Mrs Brown: Yes.

Hon PHILIP GARDINER: So what I want to see is whether what you are saying about getting an assessment—how rigorous that is, so that we can actually measure what you say here is the change or impact after two or three or five years or 10 years.

Mrs Brown: I will have to take that on notice because I am not entirely sure that we have it at community level. Certain government departments will have a snapshot of what need looks like in their community, but I am not sure that it will go across all of the sorts of areas that we would envisage in terms of looking at community need.

[*Supplementary Information No A1.*]

Hon PHILIP GARDINER: I just want to make sure that you understand what I want. I do not want it across a whole lot of areas. I just want it across one particular defined community, for which there has been a service contracted out. I wish to know, under that contract, which I assume will have in it what is the baseline, and I want to have an example of the feedback of what they give you on that. And then—well you do not have the next stage unfortunately: we have not had time yet.

Mrs Brown: Yes.

[1.40 pm]

Hon PHILIP GARDINER: I guess I would like to have in relation to that community—if you could do two or three of them—just what the time horizon is, because these things take some time to change, as you fully know. I would just like to be able to have that so that we can come and check what the update is with you.

Mrs Brown: I would need to see what examples we have that might match that.

The CHAIR: Before we continue, I would just like to remark, members, that we have another witness at 1.45 pm, but that is okay, we can take as much time as we want. I am just flagging that that is the schedule for the rest of the afternoon.

Hon PHILIP GARDINER: The only other thing I think I had was the measure of the sustainability. You say that the reason for this policy is for the sustainability of the not-for-profit industry, if you like, in a broad sense. Is that really to do with the wages or is that that really to do with something else? Just as background, I was under the impression that the \$604 million that was going to go to waste; I always wondered how it was going to occur in the not-for-profit sector. I accept the strategy that you have got; you do not want to get involved in that part; that is their responsibility. But really that means that you do not know where that \$604 million is really going unless you know what the outcomes are and what the baseline is that you want to achieve before

you are starting. I guess that is what it is. Am I correct then in saying that the \$604 million is really about achieving outcomes once we know a baseline, no matter how they wish to use it?

Mrs Brown: The \$604 million of which the actual component that goes to the not-for-profit sector—there are two components that flow to the not-for-profit sector. First, \$494 million is part of the average 25 per cent increase. There was an additional \$96 million for the ongoing impact of indexation within contracts, and then the last part was \$18 million for implementation. For \$494 million, the first 15 per cent flowed from 1 July last year for, I think, 500 organisations on close to 1 000 contracts. That was a flat-rate adjustment across eligible contracts and what it recognised was the immediate or short-term need of the not-for-profit sector for the services that the state had purchased. It was that immediate injection of funds, whether it is around their existing or emerging legal obligations. So it was a flat rate provided to all eligible organisations. The second tranche of funding, which is an average 10 per cent across organisations is about addressing some of the broader variances across the sector in terms of sustainable funding, and we are working through that process now with the not-for-profit sector to look at how that second tranche of money will flow to the sector. It is linked to a couple of things, one being, again, the ongoing sustainability of services, so looking at where some organisations have greater funding shortfalls or a move to a sustainable price, whether they are regional or remote contracts, whether there are some organisations through their government departments that will establish that they had a longer standing and historical funding shortfall. So the second tranche of funding is not intended to flow consistently to all organisations; it is trying to address some of the different issues that organisations face through their funding arrangements, but it is also linked to progressing some of the contracting reforms in here. So, it is working with our government departments to actually put in place some of the key elements of the policy, particularly around streamlining the administrative burden on the sector and things like that.

Hon LJILJANNA RAVLICH: Just very quickly, if I heard it correctly beforehand, you are saying that the arrangement in terms of how much employees are paid are between the employer and employee, and so you do not get into this whole issue about awards and enterprise agreements and so on and so forth; is that correct?

Mrs Brown: They are the legal obligations of the organisations. The whole advocacy by the sector around this was its workforce, so there was always, I suppose, a moral obligation or expectation, and anecdotally that has been the case, that they have passed it on to their employees.

Hon LJILJANNA RAVLICH: I just want to alert you to the document—I am sure you have seen it—called “Delivering Community Services in Partnership: General Provisions for the Purchase of Community Services by Public Authorities”, dated July 2011. Under clause 14.3 this is the requirement of the service provider —

The Service Provider must ensure that the remuneration and terms of employment of Associates for the duration of the Service Agreement will be consistent with the remuneration and terms of employment that reflect the industry standard as expressed in awards and agreements and any code of practice that may apply to a particular industry.

Mrs Brown, are you telling me and the committee that whilst this is a requirement of the service provider, you do not collect any information as to whether or not service providers adhere to this provision?

Mrs Brown: Our department does not. It may be the case that individual line agencies may collect that information in terms of the contractual arrangements that they have with their organisations. I presume that document is —

The CHAIR: I think it is the same one you have in front of you.

Hon PHILIP GARDINER: No; it is a different one again.

The CHAIR: I am sorry; it is not the one you have in front of you. We will give you a copy of that—apologies.

Mrs Brown: My understanding is that this is a document that supports the implementation of the policy. And your question again was?

Hon LJILJANNA RAVLICH: Does your department—the Strategic Issues unit—collect any information in relation to whether or not that section has —

Mrs Brown: We do not collect that specific information. It may be the case that line agencies collect it in terms of their contract management arrangements or it may be the case that either the Department of Treasury or the Department of Finance in particular may collect that information that then is reported to the partnership forum, of which my director general is a member.

Hon LJILJANNA RAVLICH: We will follow that up. Just very quickly on the partnership forum, I wonder whether you could provide us with a list of the members of the partnership forum. I am assuming that you provide executive support; is that correct?

Mrs Brown: Yes.

Hon LJILJANNA RAVLICH: Can you provide us a list of the people on that?

The CHAIR: On notice, I assume.

Hon LJILJANNA RAVLICH: Yes, on notice.

Are those members remunerated?

Mrs Brown: Only one member is remunerated, as he does not hold a position; he is chair of the Western Australia Association for Mental Health and that is his only role, so he is remunerated on the basis that he is retired.

Hon LJILJANNA RAVLICH: How often do they meet?

Mrs Brown: They meet quarterly and they have had eight meetings since the middle of 2010.

Hon LJILJANNA RAVLICH: Could you please provide the committee with the minutes of those eight meetings, please, and also the agendas for those eight meetings?

The CHAIR: Just while we are on the subject, in terms of supplementary information, also if there are some terms of reference for them.

[Supplementary Information No A2.]

Mrs Brown: The forum itself releases a communiqué each meeting, so I can follow up on whether that is sufficient or whether the minutes—I would need to check on the status of the minutes, but I cannot imagine —

Hon LJILJANNA RAVLICH: Do you also provide a report to the Premier on a regular basis?

Mrs Brown: A report is provided to the Premier every six months.

Hon LJILJANNA RAVLICH: Could you provide the committee with the reports that you have provided to the Premier?

Mrs Brown: I can check; I am not sure I can see a reason why we could not.

Hon KEN TRAVERS: I just want to go back to the partnership forum. I think you said that one of the things they were looking at was whether or not this money had been passed on and how it had been passed on to the workforce.

Mrs Brown: They are looking at the sustainability of services and within that it is looking at what that means to their workforce over the longer term.

Hon KEN TRAVERS: How will they do that?

[1.50 pm]

Mrs Brown: My unit provides executive support. We work closely with the Department of Finance and the Department of Treasury, so we have been jointly developing an evaluation framework which we have been working with the not-for-profit sector as well. That is how we intend to provide that monitoring support to the partnership forum.

Hon KEN TRAVERS: Where will you collect the raw data to be able to do that monitoring—from the organisations that have been funded?

Mrs Brown: That is what we are working to develop at the moment. I know there have been initial discussions with one of the universities about how we might do that. There is a general interest in and intent about building good information, including around trends in the not-for-profit sector.

Hon KEN TRAVERS: I guess if you are going to get that information from those organisations, how is that not an administrative burden, but asking them about whether they have passed increases onto their staff is not an administrative burden?

Mrs Brown: I suppose it is whether it is part of a broader survey of the sector. I suppose that is what we are trying to work through—that is, what might be a way of actually collecting that information and data in a meaningful way.

Hon KEN TRAVERS: The other thing is that early on you kept coming back to, “Well, it all comes back to the organisation’s legal obligations in terms of paying their staff award wages and what have you.” Are you suggesting that those who have paid the full money over to their staff were paying below award wages previously, or is not the whole point of this to allow these organisations to pay their staff above the award wages?

Mrs Brown: Our understanding is that many are paying above the award rates. We would expect that many who are already paid above the award rates will have even more passed on. I suppose we are not sure of the extent to which they already pay above award or how much they have passed on. My reference to the legal obligations is that, particularly around Fair Work Australia and any other imminent changes, that by paying a fair and appropriate price, that will enable them to meet those emerging obligations. Should they wish to pay higher, that is entirely —

Hon KEN TRAVERS: The point I come back to is one of the clear, publicly articulated outcomes that we were looking for is for better salaries to staff. You are saying, “Well, it just comes back to the award.” They would have all been paying the award rate. This is about trying to lift the awards or the enterprise agreements so that the enterprise agreements that are based in these organisations are equivalent to, just on a basic level, the enterprise agreements that an employee directly employed by the government doing similar work might be getting.

Mrs Brown: I suppose when I refer to the legal obligations, that is just one aspect of it. For them, and particularly around their modern award and some other things that have been happening in the sector that impact their workforce, those legal obligations and emerging obligations, particularly around Fair Work Australia, the intent was that both the funding and the move to a fair and appropriate price will enable them to meet those obligations and more. That was entirely their —

Hon KEN TRAVERS: That is the point we are trying to get to. Everyone has a legal obligation. I would be confident your contracts require them to meet their legal obligations with respect to —

Mrs Brown: They do; yes.

Hon KEN TRAVERS: — the salaries and wages of their staff. My interpretation is that this money would give the capacity for these organisations to lift, through enterprise agreements, the amount that they would pay to their employees. You are going back to, “Well, it just comes back to their legal obligations.” That does not achieve the outcome. Whilst many have passed it on to their employees, it would appear that some have not and they will continue to stay where they are, and the legal obligations are not going to help the employees in those circumstances.

Mrs Brown: But the advice we have received from WACOSS is not that they have not passed it on because they choose not to; it is that some organisations are still working through the implications, particularly where they have large contracts with the commonwealth. They are still trying to work through the implications for employees. Bearing in mind that an organisation may have a small workforce. They receive a range of funding sources and they might have one EBA, so they are trying to work through, particularly understanding the commonwealth's approach to Fair Work Australia, what that means for their employees, given that some are not just based on a state contract.

Hon KEN TRAVERS: You would expect, then, that all of them will eventually pass this on to their employees.

Mrs Brown: Certainly through at least their legal obligations.

Hon KEN TRAVERS: They have got to do that anyway.

Mrs Brown: Yes. I suppose, given that the sector advocated strongly for the additional funding for its workforce, there is that expectation that large amounts will —

Hon KEN TRAVERS: The majority of the sector may do it. What about if there is a part of the sector that does not do it?

Mrs Brown: In terms of quality of services, and I suppose it gets back the member's comment over there, that there is a competitive element in terms of salaries.

Hon KEN TRAVERS: So Darwinism again.

Mrs Brown: Well, we have already seen that. The difference in the not-for-profit sector is that most people choose to work in the sector or in an organisation because of their —

Hon KEN TRAVERS: That is right.

Mrs Brown: —their mission; their moral obligation.

Hon KEN TRAVERS: The commitment to work that they do. They do not like changing employers because they have a commitment to their clients and the people and the places that they currently work in. If they do not get a pay rise, they might still continue to work there, but they will get left behind the rest of the employees in the sector.

Mrs Brown: We would expect to see that the quality of services that we purchase—we are certainly seeing that the quality of purchases where employers have passed on the funding—is starting to improve. That is not to say that it was low quality, but they themselves would say that by having a stable workforce, continuity of care is paramount. Bearing in mind that the money was never linked to an additional level of demand or a level of services. We would expect the quality of services to be something that we would monitor in those contracts. To the extent that an organisation had high vacancy rates or a large turnover—those sorts of issues—I suspect that an organisation's services and/or viability would be impacted, particularly where large parts of the sector, particularly in the disability and the broader sector have passed on—anecdotally, we understand—70 per cent to its employees. Bearing in mind that salaries and wages or employee costs make up approximately 70 to 80 per cent of an organisation's expenses.

Hon KEN TRAVERS: And in fact if you get a high turnover of staff, that is a significant cost for a lot of these organisations as well.

Mrs Brown: Yes, indeed.

Hon KEN TRAVERS: So the organisation is getting a bonus by keeping their staff.

Mrs Brown: Yes.

The CHAIR: I think we might close this particular hearing. I just have a few words to do that. If we have any additional questions, we will forward them to you via the minister in writing in the next

couple of days, along with the transcript. That will include those questions that have been taken on notice. Members, if you have any unasked questions, please provide them to the committee Clerk at the close of this hearing. Responses to these questions will be requested within 10 working days of receipt of the questions. Should you be unable to meet that due date, please advise the committee in writing as soon as possible before the due date. That advice is to include specific reasons as to why the due date cannot be met, if it cannot. Finally, on behalf of the committee, I would like to thank you very much for your attendance this afternoon. We will close the hearing. Thanks very much.

Mrs Brown: Thank you.

Hearing concluded at 1.58 pm
