WACOSS Submission to the Inquiry into Public Expenditure by the Estimates and Financial Operations Committee of the Legislative Council

WACOSS
Western Australian Council of Social Service Inc

Ways to make a difference

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INTRODUCTION

The Western Australian Council of Social Service (WACOSS) is the peak body of the community service sector across Western Australia. Since 1956, WACOSS has been developing and strengthening the non-government community services sector’s capacity to assist disadvantaged and vulnerable Western Australians. With over 280 members, WACOSS has strong relationships with the social services sector and seeks to represent their interests, and those of the individuals and families they assist. Given this relationship, WACOSS is in a unique position to comment on issues in our society that impact upon disadvantaged members of the community.

WACOSS has concerns that Western Australians experiencing disadvantage and social exclusion may bear the brunt of the current economic downturn, and that this would be exacerbated by any reduction in services provided and/or funded by the WA Government. WACOSS hopes that the principles expressed in this submission are of use to the Committee.

EXECUTIVE SUMMARY

This submission addresses key terms of reference of the Inquiry. WACOSS suggests that the Inquiry takes the following principles into account when developing recommendations for public expenditure:

• Services can be delivered more efficiently through outsourcing to not-for-profit community service organisations. The WA Government should:
  i) outsource a greater proportion of services;
  ii) develop a comprehensive, standard policy to guide outsourcing across the WA Government; and
  iii) develop policies to better manage contracts with not-for-profit organisations.

• Individual agencies should not be exempt from a Government-wide requirement to reduce expenditure. Rather than 'quarantining' whole Departments, individual programs, projects, funding streams and units that are vital to the level and quality of service received by the community should be insulated from expenditure reductions.

• The size of the efficiency dividend should vary according to agencies’ size and function. Smaller agencies are less able to absorb a reduction in expenditure without impacting on service levels.

• The WA Government should have regard to the medium- and long-term implications of expenditure reduction, both in social and economic terms.

• The economic implications of fiscal tightening should be carefully evaluated, and procyclical fiscal policy avoided as far as possible.

• Investment in human services can yield greater social and economic flow-on effects than investment in other sectors, and reductions in such investment can yield larger negative flow-on effects.

The section below provides WACOSS’ response to key terms of reference in greater detail.
WACOSS RESPONSE TO KEY TERMS OF REFERENCE

B) Consider alternative methods for achieving a three percent reduction in Government expenditure;

The WA Government should explore all alternative methods for reducing expenditure while preserving service levels. A key method for doing so is outsourcing to the not-for-profit community services sector. The following measures should be considered as alternative methods for preserving service levels without increasing expenditure:

- a standard policy for outsourcing services should be implemented;
- more services should be outsourced; and
- and contracts with not-for-profit agencies should be better managed.

Each of these initiatives can yield efficiency dividends for the WA Government.

There is the potential for efficiency gain through the implementation of a comprehensive rationale for outsourcing, bringing consistency to agencies' decisions to outsource or not outsource particular activities. There is no clear systemic logic underpinning agencies' decisions to outsource or not outsource particular services, projects or programs. A standard policy underpinning outsourcing that is clearly understood within Government and the not-for-profit community services sector, and is adopted by all Government agencies, has the potential to clarify the relationship between Government and the sector.

A policy rationale and guidelines for outsourcing could streamline the process of tendering for particular services, as it may provide a guide as to which services the Government expects the sector will and will not be relied up to provide. Previous policies have sought to do this1, but have been inconsistently applied and frequently ignored. The WA Government can yield better outcomes for the community at lower levels of expenditure if outsourcing is more consistent and less ad hoc.

As part of a review of outsourcing arrangements, the WA Government should commit to increasing the breadth and depth of services that not-for-profit community services are called upon to perform. The Productivity Commission has found that non-government service providers were in many cases more efficient than government providers2. Not-for-profit providers have fewer administrative overhead costs, a less bureaucratic style of management, and are generally smaller, more responsive and more flexible than government agencies. They also have tax benefits, including GST concessions and exemptions, and "access to resources that are not costed at market rates (such as donations, church buildings and volunteers)". The WA Government has the ability to preserve or even increase the level and quality of services that the community receives while not increasing expenditure. This can be achieved by greater levels of partnership with the not-for-profit community services sector.

Gains can also be made through better management of outsourcing. Not-for-profit community service organisations face significant costs associated with compliance with funding and regulatory requirements. High costs of compliance and reporting translate into either lower

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1 for example, Department of Premier and Cabinet and State Supply Commission 2002, Funding and Purchasing Community Services: A policy statement on a fresh approach to funding and purchasing relationships with the not-for-profit sector, Perth, Western Australia.


3 Productivity Commission, op cit.
service levels or higher government expenditure than otherwise would be the case. The WA Government, as part of a review of outsourcing arrangements and the implementation of a new outsourcing policy, should consider better management of contracts and reporting requirements.

Researchers at the Queensland University of Technology have found that the cost of government-generated paperwork is equivalent to 1.74% of an organisation’s total revenue. For smaller not-for-profit organisations this cost is even higher, at an average of 2.76% of total revenue4. The majority (60%) of these costs are associated with reporting to State Government, with the balance being to local and Commonwealth agencies. A reduction in the red tape burden facing not-for-profit community service organisations will yield a dividend to the WA Government. A copy of QUT researchers’ recommendations for reducing the red tape burden can be found at Appendix A. WACOSS endorses these recommendations, and advocates their adoption in Western Australia.

B) ii) [Consider] whether certain agencies or functions of agencies should be exempt from the efficiency dividend

WACOSS advocates not exempting any particular Department from the efficiency dividend. Rather, specific programs, projects or units within Departments might be exempt. It is likely that all agencies will have certain programs that should be insulated from any expenditure reductions in order to preserve levels and quality of service delivery for the WA community. However, it is also likely that all agencies will have some ability to reduce expenditure with minimal impact on service delivery. Insulating whole agencies from expenditure reductions has the potential to inculcate a mentality of imperviousness from the need to improve efficiency.

C) Whether a three percent efficiency dividend should vary according to agency size or function, and if so specific advice on which agencies or functions should contribute a disproportionate share of savings over the forward estimates

While no agencies should be wholly insulated from a Government-wide reduction in expenditure, the extent of the expenditure reduction should vary between agencies. Smaller agencies are less able to cut expenditure without impacting on service delivery, as fixed costs represent a higher proportion of their total costs. Larger agencies benefit from economies of scale (for example, in ‘back office’ functions such as information management, IT, HR, etc.) that make them more able to bear a reduction in expenditure without affecting service delivery. This principle should be taken into account when assessing the degree to which each agency will be required to reduce expenditure.

E) The impact of the current financial crisis on the State’s economy and finances.

WACOSS recognises the impact of the global economic crisis on the State’s economy and public finances. However, rising community need for services cannot be ignored. WACOSS implores the WA Government to recognise the burgeoning need for services provided and/or funded by Government, and to meet this need as a priority.

A downturn in WA Gross State Product (GSP) is bringing with it rising unemployment, soaring incidence of mortgage repossession5, and the closure of many small and large businesses. WA already has the second highest rate of homelessness of any Australian State (64 people per 10

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5 Supreme Court of Western Australia, Civil Property Possession Applications, Available online: http://www.supremecourt.wa.gov.au/content/about/statistics.aspx#link5
000, compared with a national average of 53 per 10 000\(^6\). The need for services is large and rapidly growing.

Government and non-government service delivery organisations are already struggling to meet the community’s need for services. The ACOSS Community Sector Survey 2008 found that 9750 people were turned away from community service organisations despite being eligible to receive help, due to lack of organisational capacity\(^7\). If government expenditure is reduced in a way that impacts on levels or quality of service delivery then the WA community will suffer in tangible ways. Demand for government services is counter-cyclical, and the WA Government must recognise this in its budgetary planning processes.

There are strong social reasons for ensuring that the WA Government provides funding for services commensurate with the demand for those services. However, there are also strong macroeconomic arguments for providing greater funding for community services in an economic downturn. While WACOSS understands the WA Government’s strong desire to preserve its AAA credit rating, it must be recognised that the fiscal orthodoxy of recent times has been upended by the economic crisis. The International Monetary Fund has recently released a staff position note strongly advocating a counter-cyclical fiscal policy response to the economic downturn\(^8\).

The IMF suggests that:

“fiscal stimulus can rely, more than is usual, on spending measures: the usual argument that implementation lags are long is less relevant when facing the current risk of a more prolonged downturn. Such expenditure measures may also have advantages over tax cuts.”\(^9\)

Additionally, they warn that:

“governments should make sure that existing programs are not cut for lack of resources”\(^10\)

The IMF also warns that fiscal tightening at a sub-national level (such as State Governments in the case of Australia) can erode the efficacy of national fiscal stimulus. Pro-cyclical fiscal policy in Western Australia could have disastrous medium- and long-term implications for economic growth in this State, ultimately impacting on Government revenues. When applying the ‘efficiency dividend’ and other possible budgetary restrictions, the WA Government should have regard for the impact that any cuts will have on the social and economic wellbeing of the WA community. Reductions in expenditure should be targeted to areas that have the lowest ‘flow-on’ implications.

Cuts to human services (either funded or provided by the WA Government) can have larger impacts upon employment and GSP than cuts to other forms of funding. For example, Queensland economist Professor Quiggin found that:

“The human services sector is more labour-intensive than the economy as a whole. Between 75 and 80 per cent of final expenditure in the human services sector is allocated to wages and salaries, compared to only around 40 per cent of private final consumption expenditure. Given an increase of $1 billion of expenditure in the human


\(^10\) Spilimbergo, et al, ibid, p.5
services sector, about $750 million is allocated to employment, generating about 25 000 additional jobs... By contrast, each $1 billion of private final consumption expenditure is associated with about 13 000 jobs. Hence, an increase of $1 billion in human services expenditure, and a corresponding reduction in general consumption expenditure, would be associated with a net gain of 12 000 jobs”.

While these figures have not been adjusted for inflation, the principle is clear: investment in labour-intensive industries such as human services can have a significant flow-on effect for employment and GSP, as well as the beneficial social effects of greater service provision to the community. Reductions in funding to labour-intensive industries such as human services can have disproportionately large, negative social and economic effects. If the WA Government reduces expenditure in areas with large flow-on effects, such as human services, it runs the risk of exacerbating the social and economic impact of the global economic crisis.

The WA Government must have regard to the medium- and long-term implications of any budgetary decisions it makes, both on the social and economic wellbeing of the people of Western Australia.

APPENDIX A: QUT researchers’ recommendations to reduce compliance costs for not-for-profit organisations

What can be done to improve the paperwork burden imposed by government on NPOs?

1. Agreement on a Whole of Government data dictionary to standardise financial, client data collection and other reporting terms and adherence to it by government. Only information defined in the data dictionary could be collected from NPOs to minimise the costs of data conversion and special collections.
2. Data should be collected once and duplicate data to government minimised. A computerised data collection product could be provided to small to medium organisations based on the Whole of Government Data Dictionary to implement such an ideal.
3. Any data collected should be either useful to the NPOs in the first instance or returned as useful information to NPOs in a timely fashion after analysis. This should improve the quality of the information collected for all concerned and attitudes towards its collection.
4. Communication about the fate and reasons of failed submissions needs to be improved, made timely and meaningful.
5. All government forms must be accompanied by adequate instructions and a contact point where inquiries can be dealt with in a prompt fashion.
6. Government paperwork should be designed in proportion to the size and capability of the organisations that it is directed to—one size does not fit all.
7. Government should examine its funding submission processes to ensure that scarce NPO resources are not wasted by adopting the use of expressions of interest and other techniques.
8. Further research is warranted to establish the benefits of red tape reduction measures implemented after this research was completed.
9. Further quantitative research is required into the burdens and benefits of statutory mandated quality accreditation processes being currently deployed by several [Western Australian] and Commonwealth departments.
10. Further research needs to be undertaken into the non-paperwork burden of government regulation such as workplace health and safety, corporate entity and taxation provisions.