

Part 6: System supporting capacities

**Chapter 19:**

Funding arrangements

## Chapter 19: Funding arrangements

### Key points

- There is evidence of increasing demand for services in all areas of statutory child protection and family services. These increases have been driven by a variety of longer term factors, including changes to the *Children, Youth and Families Act 2005*, a broadening of the definition of abuse and neglect, the introduction of mandatory reporting, as well as population increases.
- Funding for statutory child protection and family services is not explicitly linked to past or projected demand for those services.
- The Inquiry has identified a strong geographical component to vulnerability in Victoria. While the Department of Human Services already allocates funding based on a formula that incorporates a measure of disadvantage, there is no consistent approach to the regional distribution of statutory child protection and family services funding.
- The current system of funding community service organisations is predominantly service-performance based, where community service organisations are provided with funding to provide a level of services output, based on a uniform unit price.
- Community service organisations have requested more flexibility in their funding, advocating for some form of outcomes or client-centric funding.
- The flexibility of service funding and a fair and appropriate basis for service funding are critical to the future effective, innovative and robust provision of services to vulnerable children and families.

## 19.1 Introduction

The Inquiry's Terms of Reference and the approach adopted in this Report places emphasis on statutory child protection being viewed as part of a broader policy and service framework focused on Victoria's vulnerable children and families.

Consistent with this approach, a comprehensive analysis of funding arrangements would necessarily involve a consideration of a broad range of programs and services spanning the human services, health and education domains. Included would be: public health (including mental health, disability and maternal and child health services); housing and homelessness; education; family violence, juvenile sex offenders and crime prevention; drug and alcohol and other adult-focused services; Aboriginal health and social services; child care and early childhood services; and employment and income security.

However, as outlined in this Report, the issues of vulnerable children and their families are complex and represent the outcome of a wide range of factors and influences. As a consequence, the issues of vulnerable children and families often form an element or component of a wider set of objectives and issues being addressed by the wide array of public health, education and other programs.

This chapter on funding arrangements focuses on the programs and services of the Department of Human Services (DHS) that form part of or are directly linked to the statutory child protection system. The chapter is organised as follows:

- First, an overview of the current funding arrangements for statutory child protection and family services, including the amount of funding provided, how this funding is distributed and the process of funding community service organisations (CSOs) for delivering services;
- Second, a description of the recent trends in funding for statutory child protection and family services and the relationship between funding and the level of service provision; and

- Third, the chapter identifies key issues in relation to funding, including the adequacy of existing funding, the distribution of funding and the method of funding services.

The chapter contains a number of recommendations relating to the key issues identified by the Inquiry.

## 19.2 Current funding arrangements

There are two main program and government funding streams for Victoria's child protection and family services activities. These are:

- The government operated statutory child protection services; and
- Out-of-home care and family services largely delivered by community service and other non-government organisations.

There is some cross-over between the services provided by DHS and CSOs; for example, DHS provides or oversees components of out-of-home care services such as secure welfare services and a proportion of case management of kinship care.

### 19.2.1 Aggregate funding for Child Protection and Family Services

DHS is allocated funding for Child Protection and Family Services as part of annual Victorian Government budgetary processes. In line with the output budgeting approach, DHS receives funding to deliver an agreed range of services, with performance measured against targets.

Total funding allocated for Child Protection and Family Services in Victoria for 2010–11 was \$651.6 million, with the majority of funding (\$330.9 million) being spent on Placement and Support (out-of-home care). The overall level of funding in 2011–12 is expected to increase to \$702.9 million (refer to Table 19.1).

Overall, funding for Statutory Child Protection, Placement and Support, and Family and Community Services outputs equates to slightly less than 2 per cent of the total Victorian State Budget.

**Table 19.1 Funding for Child Protection and Family Services outputs in Victoria, 2009–10 to 2011–12**

Output area	2009–10	2010–11 expected outcome	2011–12 target
Statutory Child Protection (\$ m)	151.1	160.7	170.8
Placement and Support (\$ m)	313.1	330.9	362.3
Family and Community (\$ m)	147.8	160.0	169.8
<b>Total</b>	<b>612.0</b>	<b>651.6</b>	<b>702.9</b>

Source: Victorian Government 2011b, pp. 222–224

### 19.2.2 Regional funding allocations

DHS allocates the funding it receives for Statutory Child Protection on a regional basis across the eight DHS regions, while funding for Placement and Support and relevant Family and Community Services forms part of the separate service agreement process with funded organisations.

Regional funding for Statutory Child Protection is based on a DHS assessment of need in an area, known as the Equity Resource Allocation Formula, or equity formula. The formula, which is based mainly on the number of children in families receiving Family Tax Benefit A, was phased in by DHS from 1998-99. In recognition of the additional service delivery costs and other considerations, the formula also contained a loading for rural regions, as well as for the Aboriginal population.

When the equity formula was introduced in 1998-99, there was a very strong correlation between child protection activity (measured by reports to child protection) and families receiving this particular tax benefit. At the time of its introduction, the equity formula was intended by DHS to be used as the method for allocating future funding for child and family services; however, this has not always been the case, as is demonstrated in the example in the box.

While the equity formula has been used as the basis for the allocation of child protection funds, the formula is not updated regularly, due in part to difficulties obtaining Family Tax Benefit information from Centrelink. As a consequence, the Inquiry understands that funding continues to be allocated based on either historical levels or on the basis of a point-in-time assessment of the needs of each region.

### 19.2.3 Funding for the delivery of services through community service organisations

In dollar terms, CSOs deliver around 60 per cent of the child protection and family services budget allocation. Funding for CSOs is generally provided on a service-performance basis, with organisations receiving funding from DHS based on the number of services they provide and the unit price of those services.

DHS operates a standard three-year service agreement process with funded organisations and the current three-year cycle is from 1 July 2009 to 30 June 2012. Organisations are offered three-year service agreements except where:

- The funding is time limited and commences after or ceases before the three-year cycle; or
- Other circumstances exist that warrant a shorter agreement period with the reason(s) advised to the organisation.

#### Allocation of additional Child FIRST funding

In 2009, when additional funding was made available for Child FIRST, this funding was distributed between the 24 Child FIRST catchments on the basis of an assessment of demand for Child FIRST services. According to DHS, regions reported back on overall demand pressures in the Alliances and the strategies undertaken to manage demand pressure and, from this, DHS assessed demand in the catchments as being either:

- Very high demand pressures – demand management strategy implemented;
- High demand pressures – demand management strategy implemented;
- Demand pressures – demand management strategy not implemented; and
- Consistent demand.

The demand assessment was combined with regional population forecasts to distribute additional Child FIRST funding, rather than by using the equity formula (information provided by DHS).

In the time since the introduction of the equity formula there have been some significant changes to the formula, including some driven by changes to eligibility for Family Tax Benefit A, which is determined by household income. The income thresholds to be eligible for the benefit vary depending on the number of children in the household and the age of those children.

As outlined in Chapter 17, more than 200 organisations receive funding to provide child protection and family services. It is not uncommon for these organisations to also receive funding to deliver other DHS services, for example disability services or housing assistance.

Funded organisations vary in size from multi-million dollar, often church-based or philanthropic organisations such as Berry Street, MacKillop Family Services, Anglicare Victoria and the Uniting Church, to smaller community-based organisations. As outlined in Chapter 17, a relatively small number of large organisations deliver the majority of funded services.

#### Funding allocation

A variety of approaches have been used by governments in funding not-for-profit organisations for specific services or other activities. These include:

- Funding renewal;
- Direct allocation;
- Advertised submissions;
- Invited submissions; and
- Competitive tender.

In relation to DHS funding of child protection and family services, the most common form of funding allocation is 'renewal', which is used when performance management and needs-based planning processes demonstrate that CSOs are meeting a continuing need and the agreed service specifications, and are operating efficiently and effectively. When new funding is being allocated DHS will generally invite submissions from existing providers to compete on quality of service or innovation in service delivery. Open competitive tendering is rarely used by DHS, except in cases where competition on price is a desired outcome and outputs can be tightly specified. Competitive tendering can be seen as counter to the (often) collaborative nature of community service provision between CSOs (Special Commission of Inquiry into Child Protection Services in NSW 2008, p. 1,011).

Funding is provided in the form of set unit prices paid by DHS for specific service outputs. Service providers receive payment for outputs delivered as set out in their service agreement with DHS.

### Determining unit prices

Unit prices are applied consistently for all funded organisations delivering the same services or outputs. Outputs are generally measured in terms of the number of clients receiving a service. In the case of out-of-home care, this is measured as placements, with an additional unit price per fortnight of care. Unit prices vary depending on the level of care provided, for example in relation to foster care the rate of caregiver reimbursement for general home-based care for a child aged 0 to 7 is \$261.83 per fortnight, while the equivalent rate for intensive home-based care is \$316.38 per fortnight (DHS 2010b, p. 74).

Unit prices for the funding of all child protection and family services are determined annually by DHS and have been indexed since 2003. This indexation is based on the non-government organisation indexation rate, which is calculated by the Department of Treasury and Finance (DTF). The rate is based on a formula of 85 per cent salaries and 15 per cent operational costs, with the salaries component indexed according to Victorian Government wages policy, and the operational component indexed according to the Departmental Funding Model, based on the Consumer Price Index.

In addition to the indexation arrangements, unit prices are reviewed periodically based on feedback from the sector or the following factors:

- Evidence of substantial increases in costs;
- Evidence of technological changes that have a significant impact on service delivery and costs;
- Evidence of structural changes in inputs such as qualifications and staff ratios now required by service standards;
- Practical considerations such as the size and date of the last review, materiality and complexity of the review in light of price reviews already underway; and
- Evidence of the substantial redevelopment of a service model, new legislation significantly impacting on the service model or changes in client complexity (DHS 2008b, p. 2).

Unit prices are largely determined by DHS (usually involving consultation with the community services sector) based on a calculation of salaries, on-costs and operational costs that are incurred in providing units of service. DTF plays a review role with respect to DHS activity prices, when they are part of an overarching budget proposal. This role is focused on analysing the various cost drivers underpinning proposed activity unit prices. Where a budget proposal is ultimately implemented, the activity unit price is then applied to the relevant activity.

## 19.3 Recent trends in funding arrangements

In nominal terms, the overall level of funding for Child Protection and Family Services has more than doubled over the past decade, from just over \$300 million in 2001-02 to an estimated \$700 million in 2011-12. Over this time the proportion of funding available to Family and Community Services has stayed relatively constant, at about 25 per cent of the Child Protection and Family Services budget. Funding for the child protection components of the system (including Statutory Child Protection and Placement and Support Services) accounts for the remaining 75 per cent of funding (see Figure 19.1).

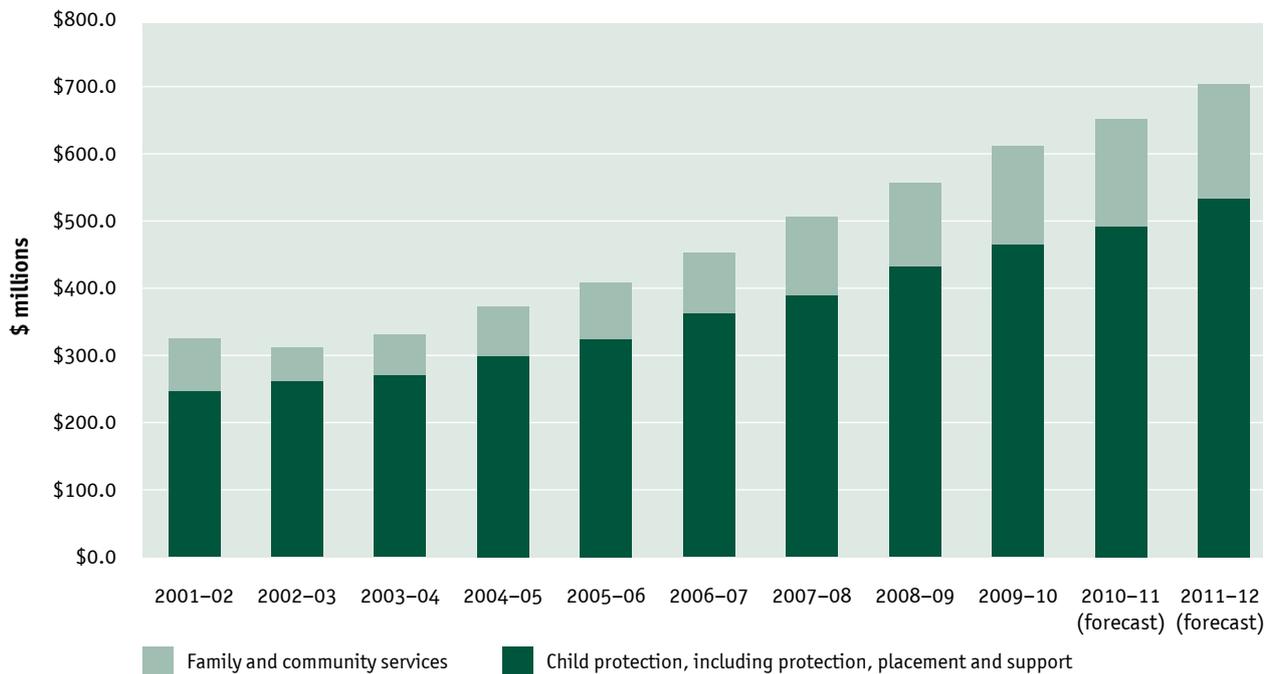
In real terms, after approximate allowance for inflation (measured by the Consumer Price Index), funding for child protection, including placement and support services and family and community services, increased by 5.3 per cent and 5.1 per cent per annum respectively over the period 2001-02 to 2009-10.

### 19.3.1 Child protection funding

Funding for the child protection components of the system, including Statutory Child Protection and Placement and Support, increased from \$246 million in 2001-02 to \$464 million in 2009-10 (see Figure 19.2).

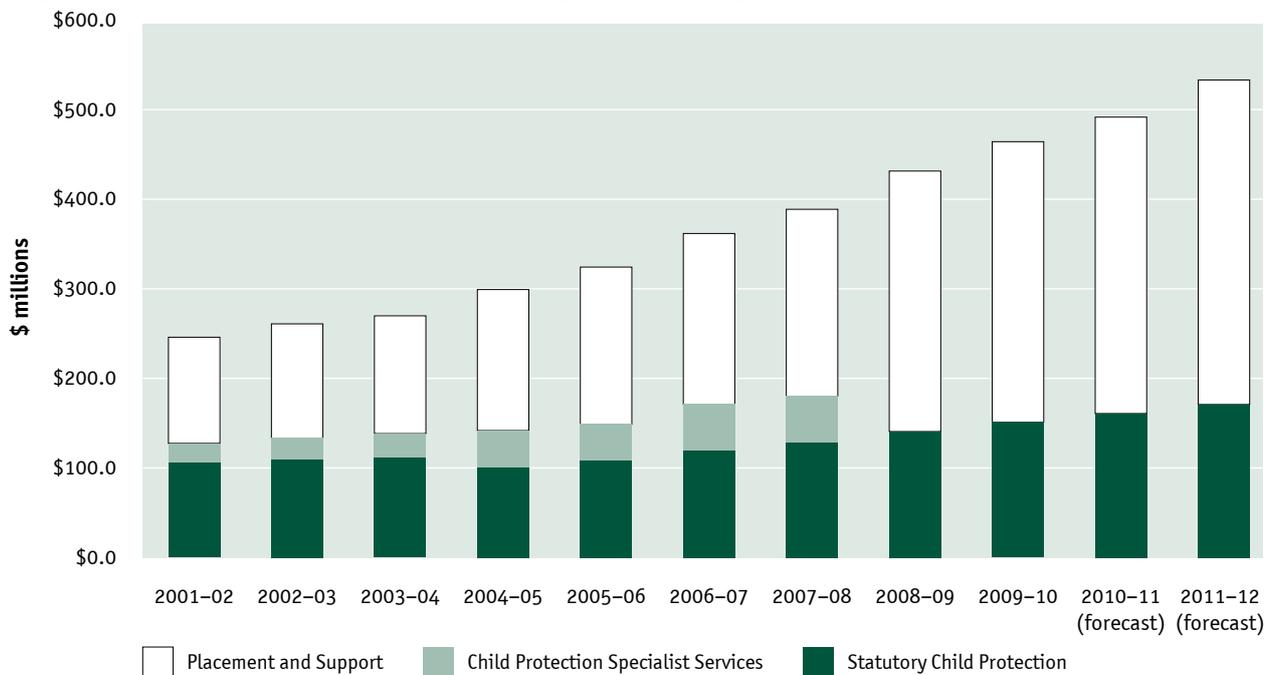
The majority of this additional investment has been directed towards Placement and Support services, which includes out-of-home care. Funding for these services has more than doubled from \$119 million in 2001-02 to \$313 million in 2009-10. As a result of the increase in funding for Placement and Support, the proportion of total Child Protection and Family Services funding directed to Statutory Child Protection has decreased from 43 per cent of statutory care costs to 32 per cent.

**Figure 19.1 Victorian Government funding for Child Protection and Family Services, 2001-02 to 2011-12**



Source: Victorian Government, *Victorian Budget* (multiple editions 2001-12)

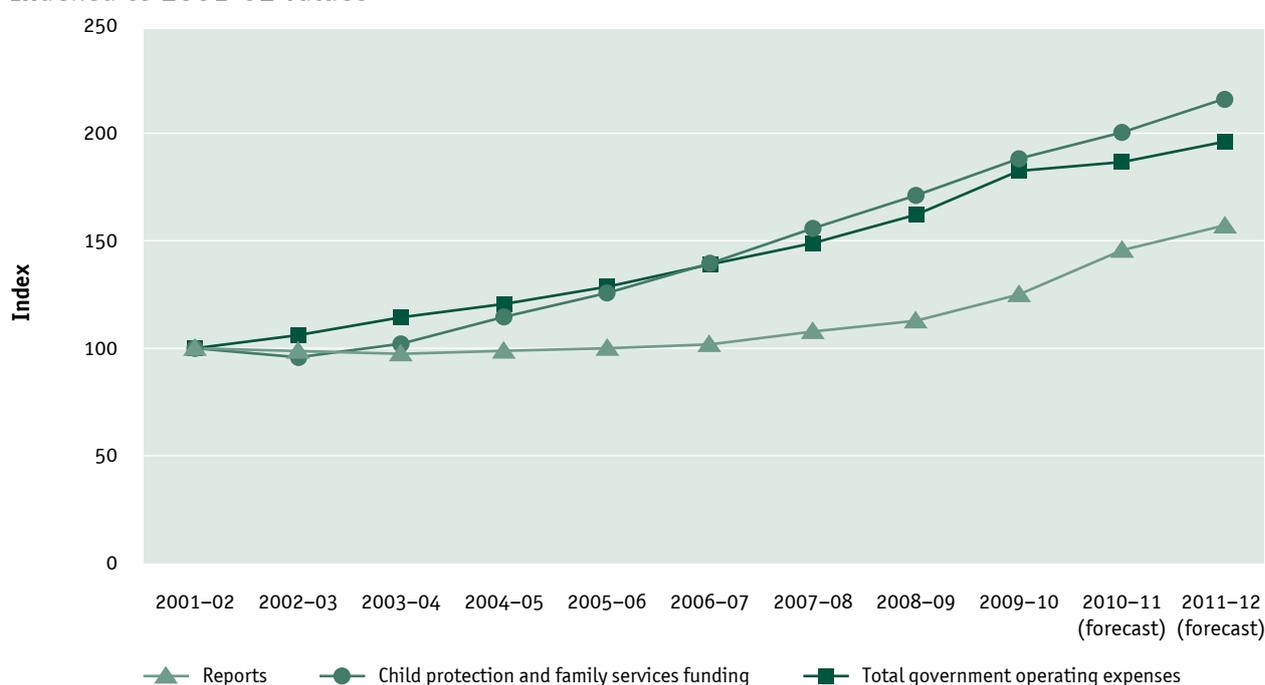
**Figure 19.2 Victorian Government funding for Statutory Child Protection, 2001-02 to 2011-12**



Source: Victorian Government, *Victorian Budget* (multiple editions 2001-12)

Note: Child Protection Specialist Services category discontinued in 2008-09 and largely absorbed within Placement and Support.

**Figure 19.3 Child protection reports, Victorian Government funding for Child Protection and Family Services and total Victorian Government operating expenses, 2001-02 to 2011-12: Indexed to 2001-02 values**



Source: Analysis of information provided by DTF

Funding for child and family services has increased significantly over the decade to 2011-12 (by an average of 8 per cent per annum). In nominal terms, the recent growth in expenditure has outpaced growth in total government expenditure over the past decade by about 1 per cent per annum. Expenditure growth has also outpaced growth in the number of reports of suspected child abuse, which has increased by about 4.3 per cent per annum over the past decade (see Figure 19.3).

After approximate allowance for inflation, the increases in funding have not been as significant. While the number of reports received by DHS increased by around 45 per cent from 2005-06 to 2010-11, real funding for Statutory Child Protection services increased by 28 per cent. Real funding for Child Protection and Family Services increased by 31 per cent over this time, mainly due to additional expenditure on Placement and Support.

### Future outlook

The 2011-12 Victorian Budget projects that child protection reports to DHS will increase by a further 7 per cent in 2011-12 to 59,700. This comes on top of growth of 13 per cent and 15 per cent in 2009-10 and 2010-11 respectively. In 2011-12, real funding for Statutory Child Protection is expected to increase by only 6 per cent, while real funding for the overall, Child Protection and Family Services output is expected to increase by 8 per cent.

While increases in the number of reports and substantiations give an indication of increasing demand for child protection services, there have also been increases in activity in other areas of the statutory system. Table 19.2 shows that in June 2008 there were 11,815 active cases, while three years later this figure had increased by 6 per cent to 12,543.

Although significant, the increase in the number of open cases understates the increase in workload. Most noticeably there have been increases in the number of cases in the investigation, protective intervention and protective order phases (the activities relating to each of these phases are explained in Chapter 9).

The increase in open cases in these stages is somewhat offset by a 53 per cent decrease in the less resource-intensive closure phase. Case closure is a largely administrative exercise aimed at ensuring it is appropriate to cease child protection involvement with the child and family and that all necessary activities associated with the case have been completed. It may also include referrals to appropriate support services.

**Table 19.2 Open child protection cases, by phase of case, June 2008 to June 2011**

Case phase	June 2008	June 2011	Change
Intake	1,637	2,085	27%
Investigation	2,011	2,303	15%
Protective intervention	1,696	1,926	14%
Protective order	5,152	5,614	9%
Closure	1,319	615	-53%
<b>Total</b>	<b>11,815</b>	<b>12,543</b>	<b>6%</b>

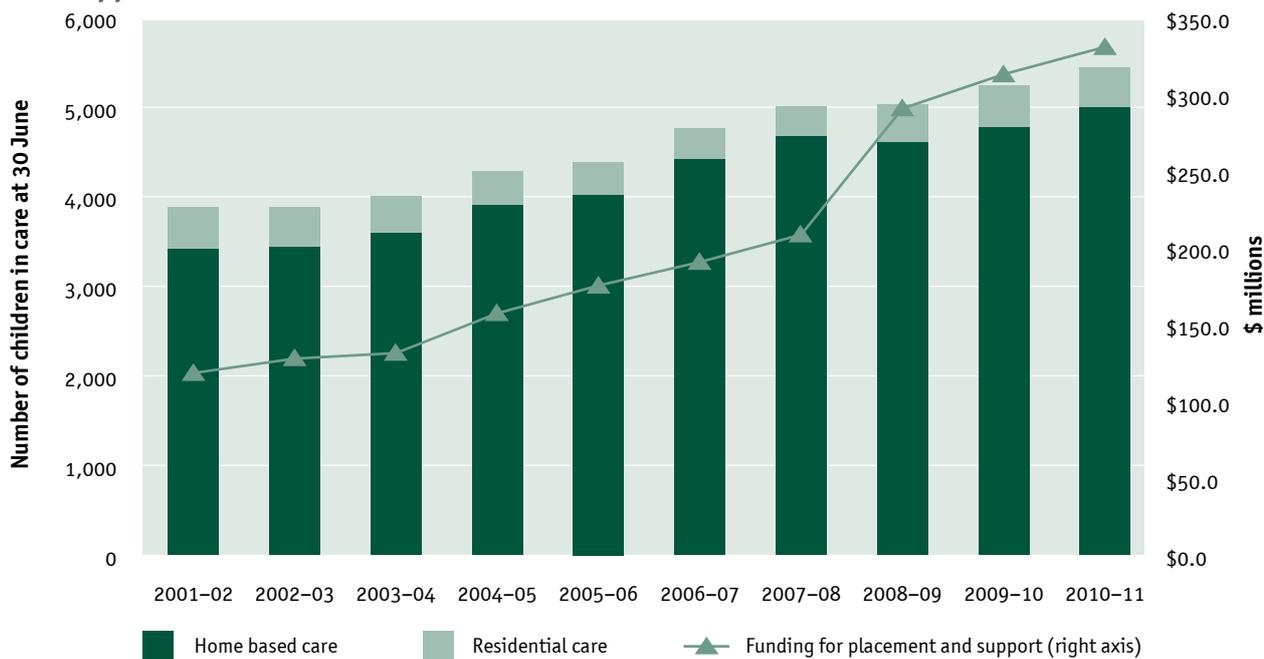
Source: Information provided by DHS

### 19.3.2 Placement and support funding

Similar demand issues exist in relation to out-of-home care. Funding for placement and support services has increased substantially over the past decade, more than doubling between 2001-02 and 2010-11. Although funding has increased, there has also been a significant increase in demand for out-of-home care services, with the number of children in care increasing by 45 per cent from 2001 to 2011, including by 29 per cent since 2005.

As illustrated in Figure 19.4, the growth in nominal funding for out-of-home care has outpaced the growth in the number of out-of-home care placements.

**Figure 19.4 Children in out-of-home care and Victorian Government funding for placement and support, 2001-02 to 2010-11**



Source: Steering Committee for the Review of Government Service Provision 2011c, Table 15A.57 and information provided to the Inquiry by the DTF

## 19.4 Key issues relating to funding arrangements

The adequacy and distribution of funding for statutory child protection and family services has been a key issue for the Inquiry and was raised numerous times in submissions and during the Inquiry's public consultation process.

This addresses three key issues identified by the Inquiry relating to funding, namely the:

- Adequacy of existing funding;
- Distribution of funding; and
- Method of funding services.

### 19.4.1 *The adequacy of existing funding*

In Victoria funding for statutory child protection and family services is allocated annually as part of the annual budget process; however, there is no automatic link between funding and the level of demand for services. The disjunction between funding and demand can mean it is often difficult to quickly respond to increases in demand for services, without first having regard to issues of capacity.

#### Linking funding to the level of demand

Funding child protection services based on the actual or projected level of demand for those services would potentially enable decisions about the appropriate pathways for children, whether through family services, statutory child protection or other interventions to be made with less regard to system capacity at a given point in time. Adoption of a demand-driven approach, it is argued, would mean these decisions would be focused on the needs of the child, rather than the system capacity at a point in time.

A number of submissions also argued that the disconnection between demand and the level of funding available extends beyond the statutory system, affecting performance in other areas. The Berry Street submission argued that: Setting a somewhat arbitrary and capped figure for out-of-home care, including Kinship Care and Permanent Care, funding for each financial year across the system simply rations those available resources between children and young people in the system in a particular year ... It also perpetuates the increasing use of responses which are unplanned and temporary and further damage children (pp. 42-43).

Similarly, the submission received from Anglicare Victoria notes that 'excess demand for Child FIRST services has resulted in a capping of referrals at a number of service locations, particularly in ... Melbourne's growth corridors where the demographic reflects a high proportion of families with children and

a high birth rate'. Citing concerns about future growth in demand for Child FIRST services, Anglicare Victoria recommended that a 'family welfare service formula' be developed to address the expected growth for Child FIRST operations in growth corridors (pp. 10-11).

### Demand-based funding in Western Australia

Western Australia has moved some way towards a demand-based funding mechanism for its statutory child protection services. In Western Australia the Department for Child Protection caps case loads per worker and ties demand into the funding model.

The Western Australian Department for Child Protection advises that the case-capping model highlights when resources do not match demand and provides a basis for linking funding to case service requirements (Inquiry meeting with Department for Child Protection).

Capping case loads was supported by the Community and Public Sector Union (CPSU) in their submission to the Inquiry. The CPSU stated that without case-caps staff, who are already under pressure with a high number of cases, are being assigned more cases as the unallocated list grows and there is increasing political pressure to be seen to be getting the unallocated list down (p. 53).

Case-capping has not been supported by DHS in the past. Case-capping can be seen to reduce flexibility within the child protection workforce, including:

- Not taking adequate account of differences in the complexity of cases and the impact this has on workloads – there are examples of cases where the complexity, or risk to the child requires the almost full-time attention of a worker, whereas others may be reaching the closure phase and require much less time from workers; and
- Reducing the flexibility of DHS to respond to significant child protection events within prescribed caps – for example, in May 2010 it was found that there were some 300 registered sex offenders that were living with, or had unsupervised contact with children, requiring an additional 739 investigations by DHS in a short period of time (Victorian Ombudsman 2011b, p. 19).

While case-capping has been the main mechanism used by Western Australia to incorporate demand into their funding model, ensuring that demand is properly funded can be achieved without the need for case-capping. The Inquiry's preferred position is that increases in the level of demand for child protection and family services be incorporated into Victoria's system for protecting children through improved planning and anticipation of these increases.

## Summary

Chapter 9 considers in detail the question of statutory intervention capacity and the range of relevant factors and considerations that need to be taken into account in arriving at an informed assessment. In particular, Chapter 9 identifies that, while up-to-date information on many of these issues is not available, there is prima facie evidence of increasing demand for services in all areas of statutory child protection and family services.

These increases have been driven by a number of long-term factors, including changes to the *Children, Youth and Families Act 2005*, a broadening of the definition of abuse, the introduction of mandatory reporting as well as population increases. Specific increases have been seen in the number of child protection reports received by DHS annually, the number of children in out-of-home care and also the over-representation of Aboriginal children in Victoria's system for protecting children.

While statutory child protection and family services funding has increased substantially over the past decade, new budget initiatives and capacity funding have generally come as a response to demand pressures, rather than in anticipation of them. The Inquiry expects the demand for child protection and family services will continue to increase for the foreseeable future and additional funding will be required to address meet this increase in demand. Over time the reforms and enhancements proposed by the Inquiry will impact on this growth in demand.

### Recommendation 76

Future funding of child protection and family services should recognise and anticipate the underlying growth in demand in future budget processes for statutory child protection, out-of-home care and family services.

## 19.4.2 The distribution of funding

Concerns and issues with the geographical distribution of funding were raised in a number of submissions to the Inquiry. The matters raised included:

- Problems with historical resource allocation;
- Planning for regional growth;
- Inadequate funding for rural and remote areas; and
- Inadequate funding for indigenous services.

### Problems with historical resource allocation

A joint submission prepared from Anglicare Victoria, Berry Street, MacKillop Family Services, The Salvation Army, Victorian Aboriginal Child Care Agency and the Centre for Excellence in Child and Family Welfare (Joint CSO submission), noted that:

The location of services for vulnerable children, young people and families is largely historically driven and the distribution of services has not matched patterns of population shift and growth. The result of this is that there are large areas of the state, often the areas that vulnerable families reside, that have no support services available (p. 41).

These concerns with the current method of resource allocation are reiterated by the Victorian Ombudsman. In 2009 the Ombudsman commented that:

[T]he threshold of risk to children tolerated by the department varies across regions and according to the department's capacity to respond. In my opinion it is unacceptable that the geographic location of a child should dictate the risk to their safety that is considered (Victorian Ombudsman 2009, p. 11).

### Planning for regional growth

In its submission to the Inquiry, CatholicCare identified issues with the adequacy of funding allocated to growth areas, including the western corridor of the North and West Region and the Southern Region. According to CatholicCare, their programs are 'unable to cater for the population growth now, with ongoing population projections a cause for concern'. In the Southern Region, CatholicCare has had to implement case load controls in response to Child FIRST being 'overloaded' (CatholicCare submission, p. 9).

### Inadequate funding for rural and remote areas

The Take Two Partnership observed particular difficulties with providing adequate coverage of services in rural areas, noting that current recruitment and funding models ‘commonly underestimate the additional demands placed on rural staff due to reduced access to infrastructure, greater distances for travelling and fewer services to collaborate with’ (Take Two Partnership submission, p. 8).

### Inadequate funding for Aboriginal services

The submission prepared by the Victorian Aboriginal Child Care Agency (VACCA) cites the need for funding to be weighted in recognition of factors that uniquely affect Aboriginal Victorians, including ‘ongoing trauma arising from past government policies and practices’, the ‘complex family size and structure’, ‘disadvantage within families and communities’, as well as ‘more limited fundraising capacity’ in Aboriginal communities (p. 55).

Further, submissions also raised issues with the current funding arrangements for CSOs, often in connection with broader governance issues. This included issues with the level of administrative burden associated with the funding and delivery of services:

Where a large sum of money is involved, it is naturally accepted that tender and acquittal processes will be comprehensive. Where tender and acquittals are for smaller amounts Jesuit Social Services would submit that there should be a proportionate reduction in the administrative processes (Jesuit Social Services, p. 16).

### Alternative methods of resource allocation

There are many options available for determining the regional allocation of resources that may enhance the current model used by DHS, including the Socio-Economic Indexes for Areas developed by the Australian Bureau of Statistics to facilitate assessments of the welfare of Australian communities. An option that was not available to DHS when the equity formula was developed is the Australian Early Development Index (AEDI). Incorporating the AEDI into the resource allocation model for child protection and family services is one of a number of options for channelling funds to the neediest areas of Victoria.

### The Australian Early Development Index

The AEDI is a population measure of young children’s development. Similar to a census, it involves collecting information to help create a snapshot of children’s development in communities across Australia. Teachers complete a checklist for children in their first year of full-time school, measuring five key areas, or domains, of early childhood development:

- Physical health and wellbeing;
- Social competence;
- Emotional maturity;
- Language and cognitive skills (school based); and
- Communication skills and general knowledge.

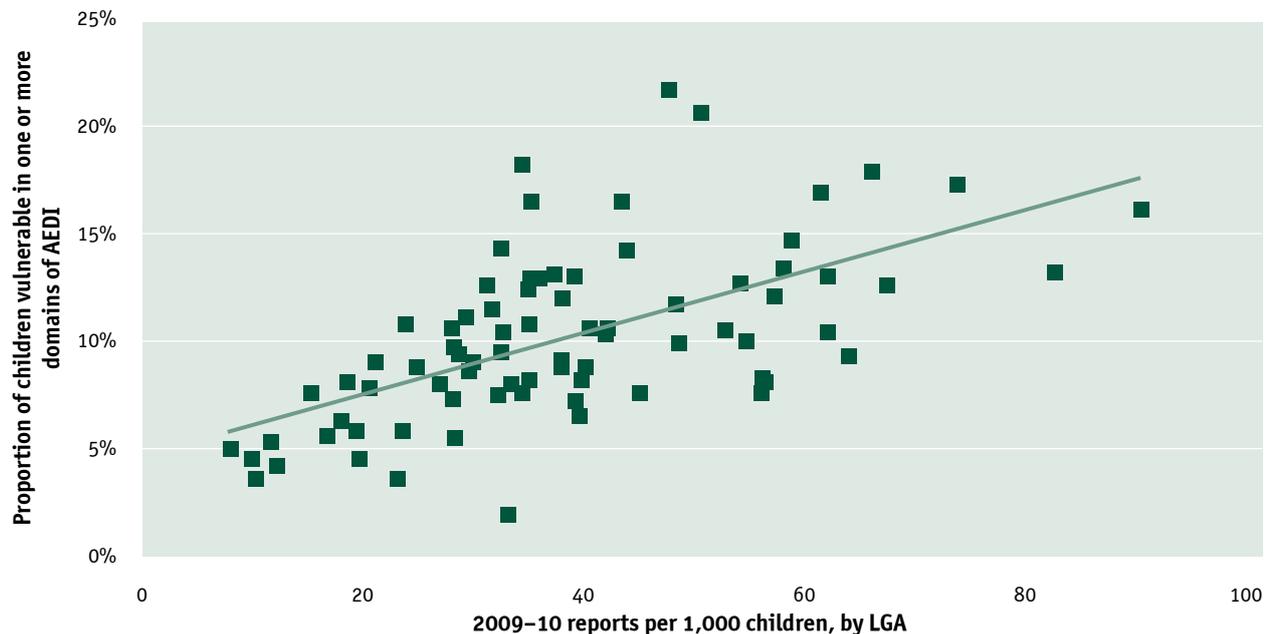
These areas are closely linked to the predictors of good adult health, education and social outcomes.

Although the AEDI is completed by teachers, results are reported for the communities where children live, not where they go to school. AEDI results allow communities to see how children are doing relative to, or compared with, other children in their community, and across Australia.

The AEDI ranks children as being either developmentally vulnerable (below the 10th percentile), developmentally at risk (between the 10th and 25th percentile) or developmentally on track (above the 25th percentile). A preliminary analysis of the relationship between child protection reports to DHS and the results of the AEDI, by local government area (LGA) suggests there is a strong correlation between the two.

Figure 19.5 shows that, in LGAs where the rate of reports per 1,000 children is higher, the proportion of children that are vulnerable in one or more domains of the AEDI is also likely to be higher. The AEDI may be an appropriate alternative to the current system of allocating funds based on Family Tax Benefit A. It is scheduled to be updated every three years.

**Figure 19.5 Relationship between child protection report rates and vulnerability, as measured by the Australian Early Development Index, Victorian local government areas, 2009-10**



Source: Information provided by DHS, Department of Planning and Community Development Preliminary Population Projections (unpublished) and AEDI information provided by the Department of Education and Early Childhood Development

### Geographic mechanisms

Other measures that could be incorporated into resource allocation include the geographic size of the region. DHS and CSO workers in regional areas often travel large distances to visit children, or to attend court hearings or supervised visits, increasing demand on the amount of resources required to deliver services in these areas.

The method for allocating resources employed in Alberta, Canada provides a useful example of one potential way to incorporate geography into one distribution of resources. In addition to measures of population and poverty, in Alberta, 5 per cent of resources for child protection are distributed based on the land mass of the service regions.

In Chapter 2 of this Report, the Inquiry found evidence of a strong geographic component to the distribution of abuse and neglect in Victoria. In developing the broader policy framework (Chapter 6) the Inquiry found that an area-based policy and program design and delivery is most likely to address vulnerability and to protect Victoria's vulnerable children. The Inquiry recommended area-based policy and program design and delivery, reflected in the proposed Vulnerable Children and Families Strategy.

### Regional resource allocation in Alberta, Canada

The Canadian province of Alberta determines regional funding allocations for the 10 Child and Family Services Authorities based on the following formula:

1. The child population of the region – 45 per cent of regional funding;
2. The rate of poverty (measured by the percentage of the region's population living below the Low Income Cut Off) – 50 per cent of regional funding; and
3. Access to services (measured by the region's percentage of total provincial land mass – 5 per cent of regional funding).

Alberta also reserves 0.5 per cent of the total funds available for regions to be invested in innovative means of delivering services based on the region's local priorities and unique operating environments.

Source: Commission to Promote Sustainable Child Welfare 2010b

**Recommendation 77**

Funding for child protection and family services should be distributed in accordance with an area-based approach and according to a common methodology.

The Department of Human Services should develop this methodology so that funding is distributed on an equitable basis to the areas that need it most.

The methodology should take into account :

- The population of children in a region;
- The level of vulnerability of these children, including the Aboriginal population; and
- Factors that increase the cost of service delivery in regions, such as remoteness and the geographic size of the area.

The method should be able to be regularly updated and should be incorporated into future system planning.

**19.4.3 The approach to funding services**

Many submissions by CSOs and representative organisations cited a lack of flexibility in the current output and service agreement funding approach, expressing the view that the funding of services outputs is overly prescriptive compared with an outcomes-based or a more client-centred approach.

The alternative governance framework advocated by some of the largest CSOs argued there is a need to move to funding for outcomes, and with greater flexibility at the service delivery level for implementing the necessary service mix to achieve outcomes.

**Alternatives to the current funding model**

Models for funding statutory child protection and related services vary significantly by jurisdiction across Australia. As noted above, the Victorian approach is to fund CSOs on the basis of their level of service activity, or output, with total funding for services determined based on unit prices for services and the number of services provided.

**Outcomes-based funding**

Outcomes-based funding can be construed in a number of ways. However, generally an outcomes-based approach aims to shift the emphasis from the services that are provided to what outcomes they will achieve. An outcomes-based approach can link the level of funding to performance against these outcomes, but this is not a prerequisite of an outcomes-based approach.

Several submissions, including the Joint CSO submission, have argued for a switch to an outcomes-based method of allocating funding for statutory child protection and family services. These submissions were supportive of a model providing more flexible funding to purchase services aimed at achieving a desired outcome, rather than one that directly link the level of funding to the outcomes of their activities. The Joint CSO submission stated that:

An outcomes-based funding model could potentially involve outcomes related to health, wellbeing and emotional development, being looked after, safety, educational attainment and participation in social and community life (p. 59).

A number of submissions by CSOs argued that changing from the current approach of funding outputs to a system of funding based on outcomes is consistent with an approach focused on 'the needs of the child'.

Outcomes-based funding is seen as allowing a more tailored service response or course of action to be adopted in conjunction with child protection to support placement prevention. One example provided is that of a depressed single mother whose two primary school aged children are not receiving regular meals or attending school. Under the current funding approach, if the assessment is that the children are suffering significant harm and there are no suitable relatives to provide care, foster care may be considered the only option. Under a more flexible outcomes-funded approach, an alternative pathway could be developed that could include intensive support. A worker might visit daily and assist in parenting tasks and caring for the children by, for example preparing the evening meal, supervising homework and other services. It is argued that this level of assistance can be more effective and provided over a much longer period of time for the same cost of a short-term placement in foster care (Joint CSO submission, p. 59).

There are a number of practical considerations that flow from the implementation of any change in the funding arrangements for CSOs, such as the implementation of outcomes-based funding, including:

- Difficulty of defining, agreeing and accurately measuring 'outcomes' or success; Broader system impacts, including consistency with DHS and Victorian Government funding practices;
- The cost of implementing changes compared with the benefits that are hoped to be achieved; and
- Many outcomes can only be observed in the long term.

## Jurisdictional comparisons

In practice, reforms to secondary support programs in Western Australia provide an example of a system focused on achieving outcomes, within what ultimately remains an output-based funding mechanism.

Western Australia is currently reforming its procurement of secondary family support programs, including shifting the focus of funding inputs to outcomes. However, in the *Western Australia Review of Secondary Family Support Funding Programs*, it is noted that 'it is not possible to purchase outcomes. They occur later and the extent to which they are achieved is the measure of the effectiveness of the purchased service' (Department for Child Protection 2011b, pp. 38-40).

Western Australia is instead proposing that future service agreements define the outputs that agencies are contracted to deliver in order to achieve desired outcomes but with sufficient flexibility in funding arrangements for those outputs to be renegotiated as new needs emerge or more effective service responses become evident (Department for Child Protection 2011b, pp. 38-40).

Other jurisdictions in Australia are also moving towards more output-based funding mechanisms for community services. For example, in Queensland the Department of Communities is transitioning its disability funding from an input-based mechanism based on the resources required to produce an output, that service providers must acquit against line items in a budget at a program or grant level (Department of Communities 2011).

Similarly, in New South Wales, development of fixed prices for CSOs delivering out-of-home care is an ongoing process as part of a broader reforms to out-of-home care resulting from the *Keep them safe report* (Family and Community Services 2011).

## 19.5 Conclusion

Having reviewed the merits of an outcomes-based approach, the Inquiry does not consider that an overall transition to outcomes-based funding would be of practical benefit to Victoria's vulnerable children, young people and families, nor is it practical to administer an outcomes-based approach.

However, the Inquiry has identified a number of improvements that could be made to the funding arrangements for statutory child protection and family services delivered through CSOs, including (as outlined in Chapter 10):

- Increasing the flexibility of funding arrangements through greater use of client-based funding for out-of-home care; and
- Referring the design of a client-based funding approach to the Essential Services Commission (ESC).

As discussed in Chapter 17, DHS both funds and is dependent on CSOs to deliver critical services and interventions on behalf of government. CSOs are in turn dependent on government, as the sole purchaser of the services they deliver, to fund them at price levels that are sufficient to meet performance standards set by DHS. Currently there is no independent oversight over the pricing of services delivered to CSOs.

Moreover, the Inquiry accepts the general view put forward in a number of submissions from CSOs that there is a need for a more flexible approach across the board to the funding of the services these organisations deliver.

The Inquiry considers these two issues of the flexibility of service funding and a fair and appropriate basis for service funding are critical to the future effective, innovative and robust provision of services to vulnerable children and families. DHS has, over time, modified the range of discrete services that are funded and included in the service agreements with CSOs. However, particularly in the placement and support area, there is a significant range of discrete placement types and add on services (discussed in more detail in Chapter 10). This will be addressed by the recommendation to move to a client-based funding approach. However, the Inquiry considers there are other service areas where adopting a more generic or broad-banded approach will facilitate more client centric services.

### Recommendation 78

The Department of Human Services should review the list of individual placement and support, and community and family services activities provided by community service organisations. The number of these activities and their funding arrangements should be consolidated as part of adopting a more client-focused approach based on broader service types.

An appropriate basis for service funding requires consideration of all relevant and indirect costs including, for example, relevant staff development and infrastructure.

In this regard, the Inquiry agrees with the general position put forward in the recent Productivity Commission research report on the contribution of the not-for-profit sector.

Australian governments should, in the contracting of services or other funding of external organisations, determine and transparently articulate whether they are fully funding particular services or activities undertaken by not-for-profit organisations, or only making a contribution towards the associated costs and the extent of that contribution.

Australian governments should fully fund those services that they would otherwise provide directly (allowing for co-contributions from clients and any agreed contributions by service providers). In applying this criterion, governments should have regard to whether the funded activity is considered essential, as part of the social safety net or an entitlement for eligible Australians (Productivity Commission 2010, p. 290).

In particular, the Inquiry considers the provision of statutory-related services to vulnerable children and their families represents a core and essential role of governments and the CSOs providing them should be funded accordingly.

#### **Recommendation 79**

The Government should adopt an explicit policy of fully funding child protection and family services delivered through community service organisations, including provision for infrastructure and other relevant indirect costs.

On an ongoing basis, there should also be a greater level of independent oversight of the Government's role as the sole purchaser of services delivered through community service organisations. The Essential Services Commission should be given an ongoing role to periodically determine the appropriate prices for child protection and family services that are delivered through community service organisations.

