Grants not covering the full cost of delivering services

Briefing note

12 March 2026

As part of the collaboration between the Federal Government, ACOSS and the ASU on the Community Sector Ministerial Roundtable, the government has requested ‘examples where grant funding does not cover the full cost of delivering services’ for the second meeting on 16 March.

This ACOSS briefing note outlines key issues relating to the Commonwealth grants administration, including the following:

- Lack of coverage of full costs being a longstanding policy issue;
- Sector’s broad consensus on the financial insufficiency of Commonwealth grants;
- Commonwealth frameworks on grants limiting the inclusion of operational costs; and
- Examples of grants not covering full cost of service delivery.

ACOSS engaged with its National Members in producing this briefing note, drawing on their insights and examples as suitable.

This briefing note is for the Ministers of Finance, Social Services and Health, Disability & Ageing respectively and is to inform the discussion at the second meeting of the Ministerial Roundtable.

1. Lack of coverage of full operational costs is a longstanding policy issue

Inadequacy of funding for community services via Commonwealth grants is a longstanding issue. In 2010, the Productivity Commission found government routinely underfunded community services organisations contracted to provide services by 30 per cent of the full cost of service delivery.[1]

With a focus on workforce and staff retention, the Commission also noted that “governments should recognise the effect of not paying the full costs of service delivery. Part funding can make it difficult for to pay competitive wages to attract and retain workers, with the cumulative effects of underinvestment in workers, technology, and planning putting pressure on the quality and sustainability of service delivery full funding

[1] Productivity Commission Research Report: Contribution of the Not-for-Profit Sector, January 2010, p 280-1

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ISSN: 1326 7124

may be one of the most important steps to address the workforce issues in the relevant human services sectors".[2]

Presently, Commonwealth grants still do not consistently incorporate relevant operational costs that support an organisation to fulfil its contractual requirements and provide quality services. Such costs include the following:

- Management and administration;
- Property management;
- Insurance;
- IT, including paid software subscriptions and cyber security;
- Finance, including risk frameworks and auditing;
- Compliance with regulatory frameworks;
- Human resources, including the management and coordination of professional staff as well as volunteers;
- Training, learning and performance development;
- Attraction and retention of staff
- Classification of staff at the appropriate level under the Award;
- Participation in government consultations and engagement; and
- Program measurement and evaluation.

Australian research found that indirect costs for organisations, ranged from 26 to 47 per cent, with the average being 33 per cent.[3] A large scale research study of 130,000 not-for-profits in the United States found the average indirect cost was 29 per cent. 'Indirect costs' was defined as 'costs incurred by an organisation that cannot be directly and easily attributed to a specific project. This means if the project did not exist, the organisation would likely still need to incur this cost. Indirect costs include IT, finance, human resources, learning and development, measurement and evaluation.'

2. Broad sector consensus on inadequacy of government grants to include operational costs

There is a broad consensus across the Community Sector that Commonwealth grants are inadequate to meet full cost of service delivery. For example, in 2023, ACOSS' report on the findings of the Australian Community Sector Survey found that:[4]

- *Inadequate funding is common*: only 9 per cent of organisation leaders agreed that funding covers the full cost of service delivery – a significant decrease from 20 per cent in 2021.

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[2] Productivity Commission Research Report: Contribution of the Not-for-Profit Sector, January 2010, p XXXVI-XXXVII; Centre for Social Impact & Social Ventures Australia, *Partners in recovery: Moving beyond the crisis?*, September 2022, p 42

[3] Social Ventures Australia & the Centre for Social Impact, Paying what it takes: Funding indirect costs to create long-term impact, p 8-9

[4] Cortis, N. and Blaxland, M., At the precipice: Australia's community sector through the cost of living crisis - ACOSS, April 2023.

- *Inadequate funding contributes to workforce challenges*: only 14 per cent of organisation leaders agreed that funding enables them to attract and retain high quality staff.

- *Inadequate funding constrains operating efficiency*: only 13 per cent of organisation leaders agreed that funding covers the full cost of overheads (indirect and shared costs) including administration and IT.

- *Inadequate funding undermines financial sustainability*: only 11 per cent of organisation leaders agreed that funding allows them to reliably plan for the future.

In this survey, 65 per cent of participants received Commonwealth funding, and for almost one-third of respondents, it was their main income source (31 per cent).

Views on the inadequacy of Commonwealth grants to cover full cost of service delivery were also highlighted in various submissions to the *Stronger, More Diverse and Independent Community Sector* in 2023.[5]

Reflecting the longstanding nature of the problem, similar views to the above were expressed in 2010-11 when the Productivity Commission researched the contributions of the NFP Sector.[6]

3. Commonwealth frameworks limit the inclusion of operational costs

Pillar 2 of the Community Sector Grants Engagement Framework (the Framework) commits the government "to create greater certainty and sufficiency in funding", and specifically at 2.3 that "Grants reflect the cost of delivering quality services".

However, current guides and frameworks issued by the Department of Finance limit the Commonwealth's approach to funding operational costs in grants.

In particular, Resource Management Guide 411 (RMG 411) RMG 411 describes Commonwealth grants to community sector organisations as co-contributions to services that largely operate without government assistance or support. This is simply not reality for the community sector, which provide services on behalf of government, and are often completely reliant of government grant funding to do so. However, RMG 411 states that a financial arrangement is more likely to be a 'grant' if:[7]

[5] Department of Social Services, A stronger, more diverse and independent community sector – Submissions – engage.dss.gov.au, consultation period September to November 2023.

[6] Productivity Commission Research Report: Contribution of the Not-for-Profit Sector, January 2010, p 288.

[7] Department of Finance, Resource Management Guide No. 411: Grants Procurements and other Financial Arrangements, June 2018, p 17

- *The goods and services are described according to inputs/ contributions, outputs and/ or outcomes, for example:*
    - *improved health outcomes amongst a target population;*
    - *a reduction in homelessness;*
    - *improved employment outcomes for a target group…*

- *Part of the services would be provided without a contribution from the Government.*

- *The financial assistance is provided through a co-contribution.*

- *The financial assistance is to build capacity…*

Providing this type of advice to public officials who are determining grant arrangements undermines the policy goals sought to be achieved by the Community Sector Grant Engagement Framework on sufficiency of funding.

Further, the Department of Finance has reviewed and updated grant agreement templates (as noted in the meeting papers for the Second Roundtable meeting). The Commonwealth grant agreement template - open, targeted competitive and non-competitive (the Template) includes references to the government's commitment to longer-term grants for the community sector (Section 3.2, p 10) and to other relevant frameworks such as the Closing the Gap National Agreement and the Redress Scheme.

However, Section 5.3 of the Template, regarding eligible expenditure, has no references to commitments to sufficiency of funding as part of the Framework. It treats an organisation's operational costs as an optional inclusion in an agreement and only as they directly relate to service delivery (Section 5.3).

4. Examples of where grants do not cover full cost of delivering services

When the above Commonwealth grants frameworks are applied in practice, operational costs are often excluded from eligible expenditure, or capped at arbitrary amounts.

For instance, a research paper from SVA Consulting commissioned by DSS in 2024, on 'Moving towards full-cost funding' cited a recent DSS grant that excluded operational costs: *"You cannot use the grant for the following activities… subsidy of general ongoing administration of an organisation such as electricity, phone and rent, and wages for workers not involved in the trial."*[8]

[8] Social Ventures Australia, *Department of Social Services – Reforms to strengthen the community sector: Moving towards full-cost funding – Discussion Paper*, p 11.

Percentage caps on administrative and operational costs can be as low as 5 per cent on operational costs.[9] Research suggests funding agreements often only include operational costs between 10 to 20 per cent, well short of the estimated average of 33 per cent.[10]

Similarly, it can be challenging for organisations to determine whether operational costs are sufficiently linked to direct service delivery, under the grant terms. Frontline service delivery will often be supported by key organisational functions (such as Human Resources, Information Technology, Legal, Risk and compliance) shared across multiple programs.

Key structural challenges, accompanied by specific examples from services, are provided below. These examples are not exhaustive.

a. Funding not covering direct and indirect costs - community legal centres[11]

The Independent Review of the National Legal Assistance Partnership examined, amongst other issues, the baseline funding for community legal centres, as well as other legal services.

The Final Report in 2024 concluded that the 'current resourcing level is inadequate to address current activities', recommending *'that the levels of funding for each community sector provider be reset to reflect the true costs of operating sustainable organisations. This should be done on trilateral basis between the Commonwealth, state or territory governments and service providers'.*[12]

The Report recommended baseline levels of funding for each community sector provider (ATSILS, CLCs including those currently solely Commonwealth funded, FVPLS) be reset having regard to activities including:

- community legal education and law reform and advocacy;
- appropriate levels of support and casework staff;
- staff leave entitlements every year and industry standard levels of professional development;
- staff numbers are sufficient to ensure workloads, especially in criminal law and other trauma related matters;
- providing adequate funding to sustain appropriate case management, office and administrative systems and other equipment;

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[9] Social Ventures Australia, Summary Report of Submissions to the *Stronger, More Diverse and Independent Community* Sector consultation process, p 41.

[10] Social Ventures Australia & the Centre for Social Impact, Paying what it takes: Funding indirect costs to create long-term impact, p 3.

[11] Independent Review of the National Legal Assistance Partnership 2020-25 – Final Report, March 2024, p 136.

[12] Independent Review of the National Legal Assistance Partnership 2020-25 – Final Report, Recommendation 17, p 136.

- providing accommodation and/or appropriate allowances for staff live or work in regional and remote areas;
- ensuring workplaces are physically safe to engage with trauma affected clients and compliant with all relevant workplace standards; and
- providing workplace and mental health support appropriate for the level of exposure to trauma-exposed clients.

b. Excluding operational costs from eligible expenditure - food relief services and specialist sexual violence services

Food relief services

Commonwealth Government funding accounted for just 2.5 per cent of total funding across the national Foodbank network, and 36 per cent of Foodbank Australia's own funding. Commonwealth funding for food relief services (under the Financial Wellbeing and Capability Activity) must be used solely for obtaining and distributing food or material aid. Permitted uses under the grant agreement include:

- Receiving donated food/material aid and redistributing it;
- Sourcing or producing food/material aid if donations are insufficient;
- Transporting these items to ER providers; and
- Staff costs only where directly tied to delivering food relief services.

Overheads not permitted under the grant include:

- Electricity;
- Rent;
- Phone or general administration costs; and
- Staff wages not directly related to the food relief activity.

Further, the funding cannot be used to support organisational capacity boosting, including:

- Purchasing buildings or warehouses;
- Purchasing vehicles (including vans or trucks);
- Purchasing land;
- Major capital expenditure; and
- Major construction or capital works.

A further challenge relates to the Financial Wellbeing and Capability (FWC) Surge funding, which currently operates without clear eligibility criteria or guidance on how organisations should apply or access it. Surge funding for emergency and food relief is typically released after a triggering event has already occurred, such as a natural disaster or sudden spike in demand. By that point, organisations have often already incurred significant costs responding to the crisis, or supply chains have tightened and food prices have risen.

Specialist sexual violence services

The Queensland Sexual Assault Network, the peak body for sexual violence prevention and support organisations in Queensland, receives Commonwealth funding under the National Partnership Agreement, including the DFSV 500 Worker Initiative. It appreciates being able to access the funding to increase capacity, but it has experienced a range of issues, as funding is restricted to outputs directly related to counselling.

QSAN has observed substantive growth in non-recurrent funding contracts under the National Partnership Agreement, including DFSV 500 Worker Initiative. Indexation has not been consistently applied across all relevant Commonwealth programs.

According to QSAN, services have observed a significant increase in both employee related and operating costs to accommodate additional frontline workers employed under non-recurrent funding contracts. In addition, member services have reported that they are unable to use the funding for supervision/ administrative issues, which in turn increases pressure on frontline management teams who do not have suitable commensurate administrative support.

Further, operational expenses to deliver services have not been appropriately incorporated into the grant, including in the following key areas:

- Administrative functions required to onboard, support, supervise and manage additional counselling staff.
- HR functions such as recruitment, compliance checks, payroll adjustments, leave management, and performance support.
- Premises and infrastructure requirements such as adequate therapeutic spaces, office furniture and confidential meeting rooms. Funding does not cover the cost of leasing additional space or modifying existing premises to meet clinical and safety requirements.
- Leadership, supervision, or staffing for clinical governance in a high-pressure counselling environment.
- Extensive, regular and separate reporting to both Commonwealth and state government contracts. Each quarter QSAN completes more than 62 separate reports and attachments across 14 different contracts. The reporting obligation on the 500 Frontline Worker Initiative is estimated to represent 19.35% of QSAN’s reporting obligations
- Client-related costs such as safety planning, crisis responses, outreach, and session follow-ups, including further incidental costs such as transport support, emergency supplies, materials for therapeutic work.
- IT systems and equipment requirements.

c. Capped overhead amounts - Primary Health Networks[13]

Mission Australia reported that it could not compete for some tenders due to unviable financial requirements and that certain government funding bodies routinely and substantially under-price their tenders. Mission Australia cites the Primary Health Networks (PHNs) as an example. Certain PHNs have set an "overhead" level at 10 per cent, although this is inconsistently applied, with some PHNs indicating they are seeking to shift this further down to 8 per cent. Under these circumstances, no organisation could deliver its program with quality and meeting all contractual requirements without cross-subsidisation, either from other funded government programs or income from other sources where available.

In reality it is incredibly challenging for community sector organisations to sustainably tap into other revenue sources outside government funding. The flow of philanthropic donations and bequests into the not-for-profit is uneven, with the vast majority of funds going to the largest organisations, including universities and medical centres.

The 2025 *ACNC Charities Report* revealed that approximately 70 per cent of donations and bequest from philanthropic sources went to 'extra large' charities (total revenue $100 million or more) and 'very large' charities (total revenue $10 million or more). Approximately 40 per cent of all donations and bequests went to just thirty charities (again, including universities and research centres).[14] Conversely, 'small' and 'extra small' charities, which are relatively more reliant on donations, received just 15.8 per cent of donations and bequests.[15]

The proportion of charities reporting any donations or bequests fell from 71 per cent in the previous reporting period to 66.5 per cent, with extra small charities reporting the most pronounced decline – 55.9 per cent reported any donation which was a 10 per cent reduction on the previous ACNC report.[16]

d. Output based funding paid in arrears – community transport funding in home support programs

According to the Community Transport Organisation, the peak body for community transport. Community transport providers support approximately 238,000 clients annually, delivering more than 6 million trips covering over 95 million kilometres, via a workforce of more than 2,200 paid staff and 8,000 volunteers.

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[13] Mission Australia, Submission to the Department of Social Services regarding *A stronger, more diverse and independent community sector Issues Paper*, November 2023, p 14.

[14] Australian Charities and Not-for-Profits Commission, Australian Charities Report - 11th edition | ACNC, June 2025, p 7, 12-13.

[15] Australian Charities and Not-for-Profits Commission, Australian Charities Report - 11th edition | ACNC, June 2025, p 31.

[16] Australian Charities and Not-for-Profits Commission, Australian Charities Report - 11th edition | ACNC, June 2025, p 34

One of the main programs funding community transport is the Commonwealth Home Support Program (CHSP). CHSP provides activity-based grants to organisations to deliver services to people in community. Grants are also paid in arrears.

A 2022 financial modelling of community transport developed by the University of Wollongong transport model found that on average, 70 per cent of community transport costs relate to operational capacity (administration, management, office space, IT, fleet purchase, maintenance and depreciation) with 30 per cent related to activity. For rural providers, the operational capacity costs are 85 per cent.

The CHSP model funds per-trip outputs only, with no recognition of:

- Fleet depreciation and renewal;
- Essential technology systems;
- Compliance, safeguarding, training and governance obligations under the Aged Care Act 2024 From 1 November 2024, community transport providers became registered aged care providers under the Aged Care Act 2024, significantly increasing compliance costs; and
- Unavoidable low-volume or long-distance service areas.

Further, the current rates for service payments under CHSP cover a fraction of the true service delivery costs. According to CTO, the CHSP pricing benchmark sits at $35 per trip. However, the actual costs range from $67 to $95 per trip, depending on the mixture of paid staff and volunteers deployed. As such, providers tend to recover just 52 per cent of their true delivery costs. In a recent national pilot study of community transport pricing, only 3 of 31 providers were able to break even on costs.

This limited grant funding has generally resulted in reduced services, longer wait times, cancelled trips as well as withdrawal from remote areas.

e. Necessary professional supervision and development excluded from funding

Grants frequently do not include the costs associated with managing and maintaining a professional staff. Given the highly specialised and skilled work performed in the sector, this is increasingly a major cost imperative.

For example, Financial Counselling Australia previously stated that overhead costs need to cover financial counsellors maintaining their professional accreditation. This includes membership of a State/Territory financial counselling association and requirements to access professional supervision and undertake continuing professional development.[17]

There are similar instances with specialist violence prevention services and community legal services, see examples below.

[17] Joint Submission from the Financial Counselling Sector, DSS Issues Paper, A Stronger, More Diverse and Independent Community Sector, November 2023, p 6.

f. Reliance on in-kind contributions - emergency relief services[18]

Uniting delivers emergency relief support to more than 10,000 people from more than 20 locations across Victoria and Tasmania. It partnered with Centre for Social Impact to undertake a financial analysis across eight sites in Victoria.[19]

The analysis found that Commonwealth funding, via DSS, contributed only a small portion of total costs. The Commonwealth's grants for Emergency Relief contribute 26 per cent of the true cost of delivering services.[20] In this context, rationing of services, including food provision, occurs so that both the amount of aid provided to individuals and families, and the number of people who receive it are strictly limited.[21]

This analysis examined the 'incurred costs' of emergency relief services, defined as goods and services purchased and recorded in Uniting's financial statements, as well as the 'in-kind costs', defined as non-cash contributions of goods, services, labour or facilities. It found that the median incurred cost of delivering emergency relief services across the eight sites is approximately $106 per consumer per visit while the full cost is estimated at $274, once in-kind contributions are included. This means that $168, or 61 per cent, of the full cost of service delivery relates to in-kind contributions.[22]

As a result, these emergency relief services cannot operate without these in-kind contributions of goods, services, labour and facilities. Organisations rely heavily on donated material goods. They utilise volunteers and student labour as a core part of staffing, in order to deal with their financial precarity. Certain relief services are able to draw on other skilled staff who are co-located in the same centre but tend to work on different programs.

g. Longer-term grants struggle to keep pace with increase in operational costs over time

Rising operational costs in the sector in recent years is well documented.[23] A 2025 report from Catholic Social Services Australia and University of Western Australia identified

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[18] Uniting, Too Critical to Fail: The Precarity of Emergency Relief Services | Uniting Vic.Tas, January 2026.

[19] Uniting, cited above, p 23.

[20] Uniting, cited above, p 23.

[21] Uniting, cited above, p 47.

[22] Uniting, cited above, p 21.

[23] ACOSS, Submission to: *A stronger, more diverse and independent community sector*, 16 November 2023; Cortis, N. and Blaxland, M., At the precipice: Australia's community sector through the cost of living crisis - ACOSS, April 2023; Australian Communities Foundation, *NFP Resilience Report 2025: Challenges, Opportunities and Financial Sustainability of Australia's Not-For-Profit Sector*.

specific examples of increases in operational costs in a selection of community organisations in financial year 2023/24, as detailed in the below table:[24]

Case	Key Major Cost & Workforce Pressures
Case 1	Workforce vacancy rates of 47% in 2021/22 to 21% in 2023/24
Case 2	Workers' Compensation Insurance Expense grew 147% between 2022 and 2024 IT and Cyber Security Costs grew 376% between 2022 and 2024
Case 3	Revenue grew by 6% between 2021/22 and 2023/24 Costs grew by 22% between 2021/22 and 2023/24 Operating loss in 2023/24 (2.3%)
Case 4	Losses incurred in 2021/22 of (0.08%) and in 2023/24 of (5.08%) Agency staff costs increased by 125% in 2023/24 Redundancy provisions rose by 578% in 2023/24
Case 5	Accumulated losses incurred between 2021/22 and 2023/24 were ($1,816,136) Donations income declined by 74% in 2023/24
Case 6	NDIS Direct Support Worker Model did not cover the costs of service delivery
Case 7	20% overall cost increase 2021/22 – 2023/24 Indexation rates failed to meet rising operating costs Direct labour costs increased by 10% year-on-year

For example, insurance costs have been a major cost increase for the sector in recent years.[25] A 2025 report from the Non-Government Organisations Advisory Committee surveyed organisations based in NSW and found a significant increase in insurance costs. Similar concerns on increases in insurance costs have been raised by Financial Counselling Australia.[26]

Down Syndrome Australia has received funding for its Information for Life Project since November 2019. DSA and its consortium provide national information and support to the Down syndrome community and the professionals supporting this community. The initial funding provided for the project was $2.76 million over 36 months, equating to approximately $76,799 per month. This original funding envelope supported delivery from November 2019 to November 2022. Between November 2022 and July 2025, there were 3 project extensions which saw the financial value of the grant erode by

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[24] Gilchrist, D. & Perks, B., *Real Costs, Real Impacts: A Path to Social Services Sustainability*, March 2025, p 20.

[25] Parliament of Australia, Report from Select Committee on the Impact of Climate Risk on Insurance Premiums and Availability, November 2024, Chapter 3; Schultz, M., 'What are the biggest insurance issues for NFPs in 2025?', Institute of Community Directors Australia, February 2025.

[26] Joint Submission from the Financial Counselling Sector, DSS Issues Paper, A Stronger, More Diverse and Independent Community Sector, November 2023, p 6.

approximately 33 per cent. Notably, indexation and supplementation have not been provided for every year DSA has delivered the grant

Over this entire time, the costs of delivering the project have increased significantly. Increased operational costs include the following:

- CPI increases of approximately 16 per cent between FY20 and FY26, reflecting increases in DSA's overheads and project delivery costs, including insurance, workers compensation, IT, accounting, resource development, website support and maintenance;
- SCHADS award wage increases of approximately 22.25 per cent from FY20 to FY26; and
- the increase in the superannuation guarantee from 9.5 per cent to 12 per cent from FY20 to FY26.

These costs outpace the indexation and supplementation received on the project.

According to DSA's calculations, if the original monthly funding was adjusted to maintain the same purchasing power in FY26, considering both CPI increases and increased workforce obligations, the project funding required would now be $112,920 per month.

As mentioned earlier, philanthropic giving is uneven across the broader not-for-profit sector. The most recent ACNC reporting reveals that donations increased by only 0.4 per cent when one single mega-gift of $4.9 billion to the Minderoo Foundation Group is excluded from overall figures.[27]

h. Evaluation, outcomes measurement and innovation are expected but not typically funded

With the Federal Government looking to improve service delivery there is a greater expectation that community organisations will more effectively measure outcomes over time, innovate to improve quality and engage with agencies on co-designing programs and evaluating their success. However, the associated costs are not typically included in grant agreements.

According to an organisation in the Anglicare Australia network delivering services to families and children (including responding to family and domestic violence), grant agreements will increasingly require organisations to:

- demonstrate outcomes and impact,
- develop evidence based practices,
- co-design services,
- undertake ongoing evaluation,

[27] Australian Charities and Not-for-Profits Commission, Australian Charities Report - 11th edition | ACNC, June 2025, p 6.

- look to continuously improve services over the life of an agreement.

Similarly, undertaking the above work requires:

- sophisticated digital infrastructure,
- specialist staff to undertake evaluation, data analysis and best practice research, and
- additional administrative capacity to collect, analyse and use outcomes data.

Rarely are the above included in the funding agreement.

As a result, this organisation has to largely self-fund the start up and concept proofing of its in innovation program so that it can continuously strengthen its service delivery methods.

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