Evaluation of the Australian Men's Shed Association

PART 3

FINANCIAL VIABILITY AND SUSTAINABILITY OF AMSA'S CURRENT OPERATING MODEL

Final Report

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Executive Summary

AMSA's audited financial statements over the past three years indicate that reliance on government funding has been as high as 87% (2013), but decreased in 2014 and 2015 to a low of 64% as alternative sources of income (such as membership fees, commission on insurance policies) became available to AMSA. Recent additional funding from the Department of Health (February 2016) of $220,000 per annum until 2018-19 will again increase the proportion of income from government, therefore increasing AMSA's reliance on one source of funding and its vulnerability to loss of that income stream.

The financial reporting processes (although meeting the Department's requirements since 2010-11) have not clearly demonstrated the different income streams. Audited financial statements, too, have met accounting standards and reporting requirements, but used broad income categories. By more closely examining the data from 2013-15, a clearer picture of the extent of reliance on the Commonwealth Department of Health is presented.

Most stakeholders consulted were aware of this issue and of the need to diversify income sources. This awareness is evident in AMSA's 2014 *Sustainability Plan* and in its more recent report to the Department of Health about *Organisational Capacity and Financial Sustainability Plan* (August 2015).

However, while AMSA has had some success in supporting the sustainability of State bodies and of individual Member sheds (as evidence through sustained high membership rates since 2014), it has had less success in attracting funds for itself.

The financial sustainability of AMSA is distinct from, but inextricably linked to, the sustainability of the Men's Shed Movement. AMSA's identity as an 'association' and a facilitator and supporter, rather than a governing body or a peak body, has meant that donations and sponsorships achieved at the national level have often been passed on to the Member Sheds and have not contributed to the running costs of AMSA itself.

The history of the establishment of AMSA is that its first major role was linked to the 2010 National Male Health Policy and to Commonwealth government funding to facilitate the establishment of Men's Sheds. Its role has been to implement a government policy that aims to prevent social isolation and thereby support men's health and wellbeing. This is often not achieved overtly, but rather through creating and supporting the places and environments for social contact; and through providing health improvement resources and activities for those who choose to use them. AMSA's national role as a supporter and facilitator has arguably worked against AMSA's capacity to seek funding *for itself* from State governments (that may be reluctant to fund Federal programs) or from other bodies (that may have targeted or regional interests).

Recent changes to the constitution that aim to strengthen AMSA's brand and reputation as a peak body, and to increase its involvement in fundraising and promotional activities may enhance its capacity to secure funding for its own sustainability, as well as for that of the Men's Shed Movement.

Main Messages

- AMSA has historically been heavily reliant on government funding to deliver its core services. It has also been historically identified with the delivery of a key aspect of the National Male Health Policy.

- AMSA’s financial sustainability is distinct from, yet inextricably linked to, the sustainability of the Men’s Shed Movement.
- The extent of reliance on one source of funding (the Department) was reduced in 2014, 2015 as AMSA developed alternative sources of income; but reliance has increased in 2016 with the injection of additional government funds.
- The current alternative sources of income would be insufficient to maintain AMSA operations should government funding eventually cease.
- AMSA has operated within budget and achieved surpluses over the three financial years examined. It is financially viable in terms of delivering the current three-year funding agreement, based on the Department of Finance assessment guidelines.
- Changes to the AMSA constitution may strengthen its capacity to raise funds from additional sources.

A note about recommendations

AMSA’s future financial viability and sustainability will rely on strategic and business decisions that are to be made by the new skills-based Board. Such decisions are likely to support opportunities to diversify AMSA’s income sources and/or increase its income from existing sources.

These are complex issues of priority and approach that are within the purview of the Board. Therefore, detailed recommendations on improving financial viability and sustainability have not been included in this report.

The purpose of this part of the report is to examine the current status of AMSA in relation to its financial viability and sustainability, with particular reference to it capacity to deliver its contracted obligations under the Funding Agreement with the Australian Government Department of Health.

RESULTS

Is AMSA's current operating model financially viable and sustainable?

3.1 Document Review

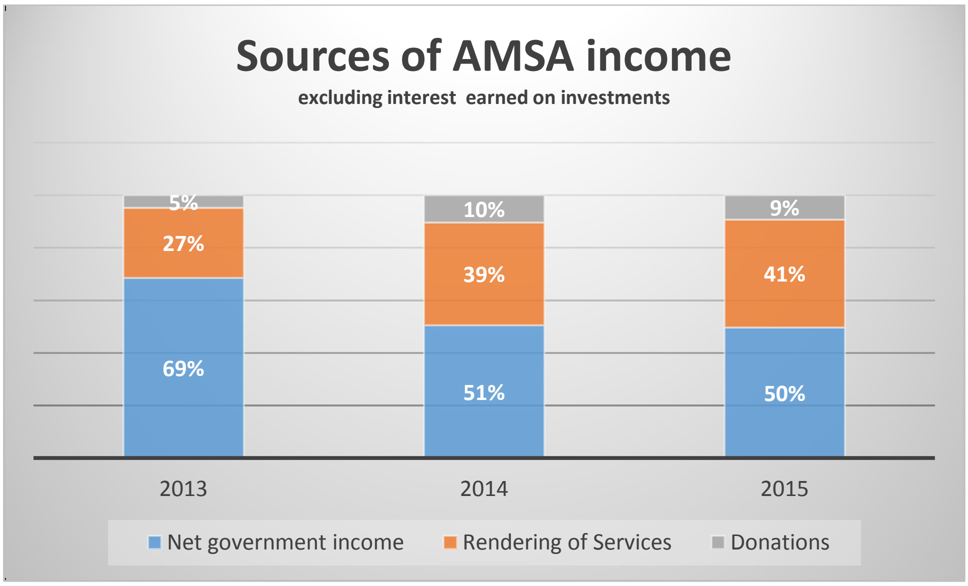
To answer this question, the evaluators examined financial reports to the Department and audited financial statements; and Sustainability Plans produced by AMSA in 2014 and 2015.

3.1.1. Income

From the detail provided in the financial statements, it was not straightforward to identify the number and sources of AMSA income, including the extent of AMSA reliance on a single source of funding. This is because income has been reported in broad categories of: government grants, rendering of services and donations; or in other financial reports as 'Department of Health' and 'other income'.

The following discussion is based on the audited financial statements, as they provided more complete retrospective annual data for the purpose of identifying trends. Issues raised in Sustainability Plans are discussed in the Evaluator Observations.

Figure 3.1.1. Income as reported in audited statements



The three most recent audited financial reports (2013, 2014, 2015) were examined to identify the sources of AMSA income and any trends. In 2013, **net income from government** [defined as gross government grants to AMSA, minus funds distributed to men's sheds via the NSDP grants][1] constituted 69% of AMSA's income. In 2014 and 2015, government funding constituted 51% and 50% of AMSA income.

The second source of AMSA income, **rendering of services**, is not defined in the audited reports. As a percentage of AMSA income, this category constituted 27% in 2013 and increased to 39% and then 41% in 2014, 2015. The increase in 2014 could be attributed to the introduction of membership fees and to the take-up of AMSA provided insurance policies (for which AMSA received a commission). This, however does not fully account for the amount of funding for rendering of services. Based on the current membership numbers, for instance, AMSA income from commission on insurance would

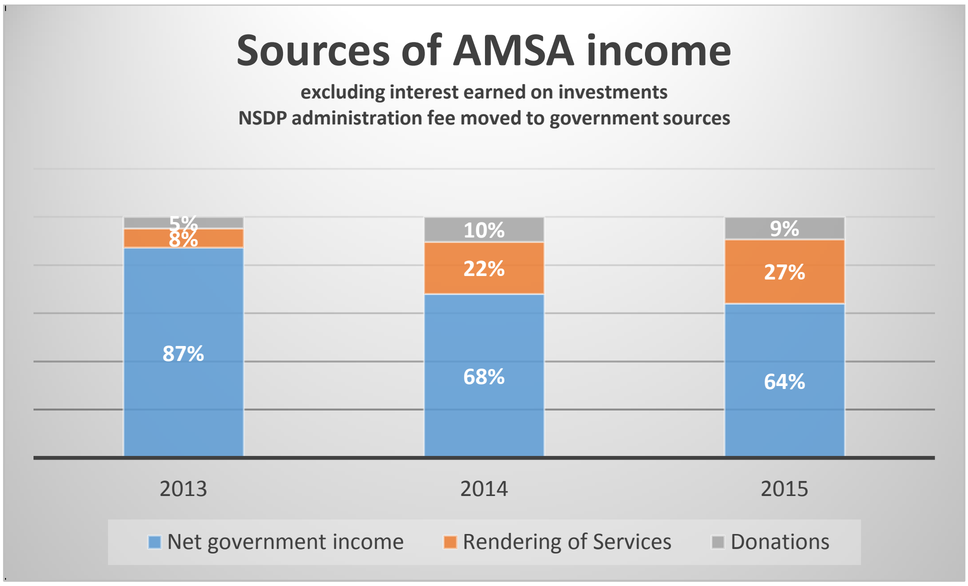
[1] In this figure, we have deducted the grant funds, as AMSA simply holds these funds for re-distribution to the shed network as grants.

be approximately $51,000;[2] and based on the current number of sheds that are members paying the $200 fee (approximately n=260)[3] membership fee income would be approximately $52,400. Therefore, total income from insurance or membership would be around $103,400. This suggests that the 'rendering of services' category also includes the $200,000 administration fee paid by the government to AMSA for the delivery of the NSDP program.

The third source of income is **donations**. This source increased from in 5% in 2013, to 10% then 9% in 2014, 2015.

If the second source of income, rendering of services, does include the NSDP administration fee, then the proportion of government funding changes (increases) as demonstrated in Figure 3.1.2.

Figure 3.1.2. Income with NSDP administration fee included as a government funding source



In terms of assessing AMSA reliance on government funding, the second figure (3.1.2.) is more representative. This shows that in 2013, government funding constituted 87% of income; and that this had decreased to 68% in 2014 and 64% in 2015.

Tables of the data used for these Figures are provided as Attachment A to this section of the Report.

3.1.2. Expenditure

The largest expenditure for AMSA is salaries, with employee benefit expenses itemised as $534,618 in 2013; $497,563 in 2014; and $515,713 in 2015. The next largest expenditure has been insurance: $195,683 (2013); $343,764 (2014); and $479,091 (2015). Profit and loss statements from the audited AMSA accounts over the same three-year period are presented below in Table 3.1.2., which shows an increased surplus in each of the three years.

Table 3.1.2. AMSA profit or loss statements for financial years ended 30 June 2103, 2014 and 2015

	2013	2014	2015
Revenue	1,476,694	1,617,092	2,248,620
Employee benefits expense	(534,618)	(497,563)	(515,713)

[2] This is based on the reported numbers of members covered by insurance policies (22,500) and the reported commission rate of $1.90 per member (based on stakeholder interview information).

[3] 970 sheds - 708 with insurance policies =262 paying membership fees. Note: these are inexact numbers, because some sheds would be on introductory (free) rates for new sheds.

Depreciation and amortisation expense	(3,191)	(4,194)	(3,816)
Member development grants & donations	(395,200)	(454,499)	(831,644)
Administration expenses	(72,042)	(56,717)	(63,083)
Conference expenses	(7,437)	(6,689)	(15,598)
Advertising and promotions	(21,648)	(7,669)	(22,940)
Professional services expense	(60,054)	(57,010)	(31,531)
Travel & motor vehicle expenses	(86,171)	(81,576)	(68,781)
Insurance expense	(195,683)	(343,765)	(479,091)
Other expenses	(57,039)	(36,425)	(55,929)
Surplus for the year	**43,611**	**70,985**	**160,494**

3.1.3. Viability

Table 3.1.3. shows the details of retained earnings over the past three financial years.

2013 Retained earnings		2014 Retained earnings		2015 Retained earnings	
Balance at 1 July 2012	39,516	Balance at 1 July 2013	83,127	Balance at 1 July 2014	154,112
Surplus for the year	43,611	Surplus for the year	70,985	Surplus for the year	160,494
Balance at 30 June 2013	**83,217**	Balance at 30 June 2014	**154,112**	Balance at 30 June 2015	**314,606**

The figures indicate that AMSA has operated within budget over the 3 years, achieved a surplus and has retained earnings cumulatively over that period. Measures of viability are discussed in the Evaluator Observations below (3.2.4.).

3.2 Stakeholder consultations

Is AMSA's current operating model financially viable and sustainable?

3.2.1. Departmental officers

The chief difficulty voiced by grants management officers was the limited level of detail AMSA had provided on the allocation of expenditure among the three components: 1. Core Activities; 2. NSDP Administration; 3. NSDP direct grants. While one component was reported separately, the other two components were reported together, and it was not possible to distinguish between the funds spent on core activities and funds spent on administering the NSDP. There was a need for greater transparency in this allocation. It would be beneficial if in future the accounts were structured in a way that allowed the Department to distinguish between them.

Officers questioned if this difficulty reflected confusion about the reporting requirements, or a lack of business skills and knowledge of budgeting.

On sustainability, Departmental Officers believed AMSA's operating model nationally was totally reliant on government funding. Its sustainability plan was heavily focussed on applying for and securing grant funding. Its recent financial reports suggested that about nine-tenths of its revenue was Commonwealth funding. Nevertheless, AMSA reports indicated that individual sheds were rather self-reliant and well-organised, and obtained a lot of support in their local communities, and from sponsoring organisations and local or state governments.

For the sake of long-term sustainability, it would be beneficial for AMSA to develop its business processes and consider how to diversify its sources of revenue.

3.2.2. AMSA board and staff

At interview, six members of the AMSA Board and the four AMSA staff members, addressed the question whether its current operating model was financially viable and sustainable. There was general agreement that its current viability depended on its agreement with the federal government. While it had raised some funds for its own resources, it was not nearly enough.

AMSA was far too dependent on a single funding source, especially in a time of budgetary restraint, and needed to get out and market men's sheds to diversify funding sources and reduce dependence dependent on the federal Government. However, State Governments were likely to be reluctant to fund a program perceived as a federal organisation; and AMSA often plays the role of directing sponsors or donors to Sheds, rather than receiving donations itself. Staff provided several examples of unsuccessful approaches, both to other Commonwealth Departments and to State Governments, for funding of AMSA initiatives.

AMSA currently had two separate finance systems, one for the Association, and one for the government grants. The AMSA system needed to grow and stay in the black, while the government grants had to be distributed to sheds for the contractual acquittal process.

One Board member considered the staff *"have run a very tight ship"* in costs and management. AMSA's own separate fund was building up, in particular in insurance income, but needed a broader revenue base, since it could not live on members' fees. With perhaps a national sponsor the fund could provide improved services to support men's sheds directly.

Some concern was expressed that the concern about financial viability reflected changes in the Department's personnel and reporting expectations. The Government should appreciate the men's sheds for what they are, and what it can achieve by working with them.

3.2.3. Health partners

No health partners commented on AMSA's financial management.

3.2.4. Evaluator observations

Financial sustainability

All the above observations of stakeholders about the financial sustainability of AMSA were supported by the document review. The 2013-2015 data shows a decreased reliance on government funding (down to 64%) due to a proportional increase in income from other sources (to 36%) based on Figure 3.1.2. above.

We note, however, that subsequently in February 2016, the Department wrote formally to AMSA inviting it to submit proposals for funding for the AMSA Support for Men's Sheds activity of $220,000 per year until 2018-19. The approved funding was to reflect issues discussed at a meeting held in November 2015 about the need for AMSA to have:

- an accountant/business manager;
- information technology with interoperable capability that integrates all NSDP grant processes and a professionally designed online form;
- a compulsory annual survey of all members (using a free online tool, possibly with an incentive competition and using contract staff to compile results) to collect updated contact details, evaluate Shedder satisfaction with AMSA services and collect suggestions for improvements);
- a power tool/machinery safety video available on the website and by DVD.

When this $220,000 per annum figure is added to the 2016 finances, the proportion of government funding will again increase.

Generously discounted rental accommodation and IT services and support also contribute to AMSA's financial viability. The IT Review concluded that the arrangements with Catholic Care for IT services and support are likely to continue due to the long history of association between AMSA and Catholic Care. In terms of rental accommodation, however, the arrangement is less secure as heavily discounted rental of the premises in 66 King Street Newcastle is temporary and the duration is dependent on a start date for major re-development of the site. This accommodation is expected (but is not guaranteed) to be available 2-3 years hence. The cost of commercial rental of premises would not be viable or sustainable for AMSA. Therefore, AMSA would need to locate similar low-rent office space in the not too distant future.

AMSA's (2014) *Sustainability Plan* is a mix of strategies for the sustainability of **AMSA** and for the sustainability of the **Men's Shed Movement**. The evaluators acknowledge that these are important distinctions, but are inextricably linked. This evaluation project seeks only to assess the sustainability of AMSA as an organisation, rather than of the Men's Sheds. This same important distinction is reported by some stakeholders as a barrier to AMSA obtaining direct financial support. AMSA is not a Men's Shed, it is an 'association'. It is not a governing body *per se* it is a 'facilitator' and 'support'. It's successful outcome measures include: safe sheds, well-run sheds, well-equipped sheds, well-attended sheds.[4]

The history of the establishment of AMSA, and the fact that its first major funding and role was linked to the 2010 National Male Health Policy and to attached government funding, has arguably worked against AMSA's capacity to seek funding from State governments or other bodies for itself. This was mentioned by internal stakeholders in interviews.

In terms of **financial sustainability**, in the 2014 Sustainability Plan the first strategy is to 'reduce dependence upon single source funding for AMSA core activities' and to 'Create diverse sources of funds by:

Proposed action under this strategy	Successful outcome
Seeking opportunities for funding under various government programs	
Identifying possible sources of funding through relationships with commercial suppliers e.g. Branding opportunities, linkages to website	
Establishing relationships with Philanthropic organisations	
Implementing membership fees to meet some discretionary costs that are not necessarily allowed under tied grants	✓
Advocating strongly to ensure that the Federal Government maintains the National Shed Development Grants program.	✓

AMSA has not been successful in attracting large amounts of sponsorship or other government funding. It has had moderate success (e.g. 9-10% of income in 2014, 2015) but the amounts are insignificant in terms of the overall costs of running AMSA to deliver core services. There are good relationships with commercial organisations, but these benefits are often in the form of prizes, gifts, targeted donations to specific regions or Sheds or special deals that are immediately passed on to Member Sheds and do not contribute to the operating costs of AMSA.[5] In some cases, AMSA's Deductible Gift Recipient (DGR) status has been of benefit to State Associations that are not DGRs, in terms of acting as a 'clearing house' for donations that are regionally targeted. Again, this function is of benefit to members, but of no benefit to the operating costs of AMSA.

[4] See the Program Logic in the Evaluation Framework

[5] These issues are also acknowledged in AMSA's *Organisational Capacity and Financial Sustainability Plan* (August 2015).

The second strategy in the *Sustainability Plan* is to encourage and support State bodies to secure government funding. As Part 2 of this Evaluation (organisational structure, governance etc.) reported, there are significant differences between State Governments' approaches or willingness to support Men's Sheds. Some States have been extremely successful, others have not. Further, changes in the requirements for attaining DGR status have meant that many sheds do not meet the DGR criteria and are consequently not competitive or eligible for grants from many philanthropic organisations.

The third strategy is to support individual sheds to become financially self-sufficient. Because individual Sheds are not required to report their financial status to AMSA, the sustainability of Shed Member numbers is the only measure of success available to the Evaluators. Data in Part 1 of the Evaluation indicates that Shed membership numbers, after a rapid increase in the early years, have remained at consistent levels of 850+ since 2014.

Issues about financial reporting requirements of the Department

Departmental stakeholders raised concerns about the financial reporting of component parts of the grants. While this appears to have been an issue of concern at the time of interviews, subsequent investigation showed that (1) AMSA had been following reporting templates etc. that had been approved by previous staff in the Department since 2011 and (2) the Department has since provided clear written instructions to AMSA.

A letter from the Department to AMSA's CEO said the existing (2016-19) agreement separated the activities into 1. Administration and Staffing; 2. NSDP- direct grants; and 3. NSDP administration. The new agreement would include a budget which required AMSA to estimate expenditure based on past experience. Grant funds were to be in a separate bank account and expended according to the contract, which currently included salaries in both core funding and NSDP administration. AMSA was no longer required to contribute to salaries, and it was recommended that these funds go into sustainability plans instead. AMSA would now have capacity to employ an accountant, and the Department expected their expertise would simplify all aspects of AMSA's financial planning and reporting.

While the Department did not give AMSA a template for financial reporting, before the current 2016- 2019 Funding Agreement was executed, AMSA lodged an organisational budget with some design adjustment that was approved by the Department.

In terms of the overall evaluation project, this appears to be an operational issue that has been resolved between the parties and it is not possible to evaluate the effectiveness of implementation of these new requirements during the time frame of the project.

Viability of AMSA's current operating model

In considering the viability of a provider of government services, the Department of Finance (DoF)[6] proposes the use of a financial viability assessment to evaluate the risk that, over the life of a proposed contract, a tenderer:

- may not be able to deliver the goods and services which are specified in the contract; or
- may not be able to fulfil guarantees or warranties provided for in the contract.

The Department of Finance suggests the use of a matrix, as follows (note: in the matrix, value* is defined below[7]).

[6] https://www.finance.gov.au/procurement/procurement-policy-and-guidance/buying/contract-issues/assessing-financial-viability/practice.html

[7] The Department of Finance says: 'Projects involving a large value procurement are generally more risky than those involving a small value procurement. However, procurement value should not be used as the sole indicator of project

Table 3.1.3. Risk and Financial Viability Assessment Matrix (Department of Finance)

LEVEL OF RISK	KEY FACTORS
Low Risk	• Low strategic importance to entity • Low level of complexity • Minimal sensitivity • Low value * • Short-term supply
Moderate Risk	• Moderate strategic importance to entity • Moderate level of complexity • Tight / inflexible delivery timeframe • Moderate level of sensitivity • Medium value * • Medium-term supply
High Risk	• High strategic importance to entity • High level of complexity • Tight / mandatory delivery timeframe • High level of sensitivity • High value * • Long-term relationship and supply

Further, the DoF recommends that 'in assessing risk, consideration should be given to the likelihood and consequence of a financial viability issue in the procurement and subsequent contract. Specifically, consideration should be given to:

- the likelihood of a financial viability risk given the nature of likely tenderers, the maturity of the industry, economic conditions, and the history of financial failure in the industry; and
- the consequence to the entity if the supplier or contractor does experience a financial viability incident during the project or contract. This will be heavily dependent on the importance of the good or service to the entity or its stakeholders.'

AMSA has held successive contracts with the Department of Health since 2010. The most recent contract is for three years (2016-19). We have examined three years of audited financial reports, which the DoF suggests is adequate for assessing a high risk project. Financially, the funding agreement does not appear to be a high risk project. When the amount of *financial investment* is considered, the AMSA contract is at the low complexity/low risk end of the spectrum of government grants to agencies for health-related service delivery. Based on the DoF's guidelines above, there is not a history of financial failure nor is there a likelihood of the contractor experiencing a financial viability incident during the contract period. We base this assessment on all the financial data presented above.

However, considering other factors in the matrix, like *sensitivity* and *strategic importance*, the AMSA contract arguably carries a higher level of (non-financial) risk for both the Department and for AMSA. This is because of the number and spread of Men's Sheds that now constitute the stakeholders; the

risk….In assessing financial viability risk, the value of a procurement within a project should be considered both in the context of relative value to the entity, and in the context of relative value to the likely tenderers or potential suppliers'.

evidence of high stakeholder satisfaction with the outcomes of the contract; and the evidence of interest and support from local Members of Parliament.

ATTACHMENT A - REPORT PART 3

Table 3.1.1. Income as reported in audited statements

	2013	2014	2015
Government Grants	1128701	1036986	1529100
Net government income	737501	582987	697456
Rendering of Services	286323	450229	575774
Donations	51123	118567	129484
Total income	1074947	1151783	1402714
other income (investment interest)	10547	11310	14262
grants disbursed (subtracted from govt income)	391200	453999	831644

Percentage	2013	2014	2015
Net government income	69%	51%	50%
Rendering of Services	27%	39%	41%
Donations	5%	10%	9%
	100%	100%	100%

Table 3.1.2. Income with NSDP administration fee included as a government funding source

	2013	2014	2015
Government Grants	1128701	1036986	1529100
Net government income	937501	782987	897456
Rendering of Services	86323	250229	375774
Donations	51123	118567	129484
Total income	1074947	1151783	1402714
other income (investment interest)	10547	11310	14262
grants disbursed (subtracted from govt income)	391200	453999	831644

Percentage	2013	2014	2015
Net government income	87%	68%	64%
Rendering of Services	8%	22%	27%
Donations	5%	10%	9%
	100%	100%	100%