



Queensland Community Services Futures Forum

**Submission to the
Public Accounts Committee
Inquiry into the
*Management of Funding to
Non-Government Organisations***

Public Accounts Inquiry Submission

Introduction

This submission has been developed by the Community Services Futures Forum in response to the Public Accounts Committee Inquiry into the Management of Funding to Non-Government Organisations.

The Forum welcomes the opportunity to comment on the management of funding to Non-government organisations and makes recommendations throughout the submission for consideration by the Committee.

The submission will address the following areas as highlighted in the discussion paper:

1. The findings and recommendations of the Auditor-General Report No. 2 for 2007 to Parliament.
2. Whether the current management of funding provides relevant information to stakeholders
3. The impact of current funding applications and reporting requirements upon Non-Government Organisations.
4. Opportunities to improve accountability and value for money by changing processes without placing more administrative requirements on Non-Government Organisations and government

1. Findings and Recommendations of the Auditor General's Report No. 2 for 2007

The Community Services Futures Forum congratulates the Auditor General on an excellent and timely report and welcomes recommendations contained in the Auditor General's report, both at the whole of government level and for the individual departments audited.

The Forum considers the report has made significant headway in bringing to light issues facing the community services sector. Our concern is that the report generates appropriate response and action is taken to address these issues.

In our consideration of the findings of the report the Forum would first like to bring to the attention of the Committee those issues raised in the Auditor General's report which we consider to be of the greatest priority. The submission will then outline some of the barriers the Forum perceives to the implementation of the recommendations from the report.

Priority areas for attention

In the area of '*Enhancing Governance*' the Forum considers the recommendations around moving to common standards to be the most significant (Recommendation 3, pg 19). Particularly emphasis should be given to the areas of synchronizing licensing regimes and reducing legislative duplication. Departments create their own legislation to manage the funding relationship, which in some parts duplicates or even conflicts with the Associations Incorporation Act. The Forum believes the Associations Act requires updating and recommends this as a better approach than creating duplicating legislation.

Under the '*Enhancing Governance*' section the Auditor General also calls for a whole-of-government policy framework for grants administration which clearly acknowledges the various objectives of government in funding NGOs and encompasses contemporary funding practices and relationship models with NGOs (Recommendation 1, pg 19). The Forum acknowledges this has been addressed in two recent developments. The first is the *Framework for Investment in Human Services*. The second is the November Cabinet decision to progress the development of Compact between the State government and the Community Services Sector in Queensland. The Futures Forum welcomes both of these initiatives.

In the area of '*Improving Systems*' the Forum considers the recommendation aimed at reducing administrative duplication to be of greatest importance (Recommendation 8, pg 29). This will be considered in more detail in Section 3 of this submission.

Also under this area, the Forum gives priority to the issue of the relevance of performance information (Section 3.3.2 *Collecting and using the right information* pg 22). While not reflected in the recommendations the discussion highlights the need for the development of more appropriate performance indicators to underpin the collection of more relevant data. This will be discussed further in the Section 2 of this submission.

Recommendations

- 1.1 That in implementing the recommendations contained in the Auditor General's Report No. 2 for 2007, priority be given to the following:
- Actively reducing administration duplication
 - Improvements in the area of performance measurement including:
 - moving to collection of relevant data which can inform evaluation
 - development of common definitions relating to performance indicators and measures
 - Moving to common standards

Barriers to implementation

The key concern of the Forum regarding the implementation of the recommendations is that recommendations made across all relevant government departments will not be addressed due to the difficulty inherent in taking such an approach. Recommendations that require joint action are likely to be overlooked or for government to be satisfied with increased communication rather than a coordination approach.

It is crucial that a central government agency, such as the recently proposed Public Service Commission be deemed responsible for driving the implementation of the whole of government recommendations contained in Section 3 of the report – *‘Wider Public Sector Findings and Recommendations’*. The Forum is concerned that a “lead agent” doesn’t have the authority to mandate changes to Department funding systems.

It is also essential that monitoring mechanisms are established to track progress on the implementation of recommendations due to the tendency for the more difficult recommendations to slip off the agenda as the currency of the report fades.

Furthermore it is advised that a Minister be appointed as ‘Champion’ for streamlining compliance across government who has the power to drive this agenda over the “long term” to ensure momentum is maintained.

Recommendations – Implementation of QAO Report Recommendations

- 1.2 That a central government agency be delegated responsibility for the implementation of the recommendations contained in QAO Report Section 3 – Wider Public Sector Findings and Recommendations.
- 1.3 That monitoring mechanisms are established to track progress around the implementation of all recommendations.
- 1.4 That a Minister be appointed as ‘Champion’ to oversee a whole of government approach to streamlining compliance.

2. The relevance of information provided by current management of funding

In considering whether the current management of funding provides relevant information to stakeholders the submission examines:

- Whether stakeholders can readily assess the economy, efficiency and effectiveness of government funding to Non-Government Organisations.
- whether the frameworks and systems used by government in delivering and reporting funding to and from Non-Government Organisations are providing sufficient information to stakeholders to make informed decisions

The current funding reporting framework is underpinned by the need for government to be sure that funded services are effective and efficient. The Forum strongly supports the need for rigorous evaluation of services for this intent. By the nature of community services as value-based and mission driven organisations, the sector is strongly committed to effective practice and achieving outcomes for the communities they serve. To this effect the sector currently meets the reporting obligations of government funding in addition to the accountability to clients and members.

Current reporting practices measure performance by requiring organisations to report against inputs and outputs such as the number of staff employed, number of activities undertaken number of clients seen. Efficiency and effectiveness of service delivery are determined using gross calculations with these quantitative measures, such as average cost per activity. The Forum considers that these measures lack the sophistication to provide meaningful measures of service effectiveness and to provide sufficient evaluation of programs and services delivered.

This is supported by the Auditor General's Report which found performance reporting is primarily for the purpose of managing a funding agreement and is unable to inform service effectiveness or achievement of outcomes (pg 24).

The Forum concurs with the findings of the report, that current frameworks do not inform how efficient or effective services are in meeting the needs of clients. As a result the Forum considers that the current reporting framework does not provide sufficient information for stakeholders to make informed decisions. We would argue that performance measurement should be determined by more detailed evaluation systems which measure service outcomes rather than simply inputs and outputs as agreed in a performance plan. The Auditor General's Report supports such a move, calling for greater understanding of service outcomes. This is further supported by the Federal government with its review of special purpose payments to the states and the shift towards greater emphasis on outcomes.

The current focus on performance monitoring also brings about a number of other issues. Firstly, the service system is not being built to address real front line issues. The focus is only on organisational performance, not the best service system. This reflected in overly prescriptive service agreements which do not allow sufficient flexibility. A better and considerably more positive approach is that currently being undertaken by the Department of Employment and Industrial Relations in the Participate in Prosperity program.

A second and significant concern is the tendency of current approaches to performance monitoring to further disadvantage individuals who are already marginalised. This occurs as the impetus on organisations to meet quantitative reporting measures, in terms of number of clients assisted, causes high needs clients to be overlooked in favour of clients with less complex needs in an effort to ensure performance measures are met. This further supports the need for a reporting system which focuses on outcomes for disadvantaged people and communities, rather than inputs and outputs.

The Futures Forum argues that a shift to reporting for outcomes will ensure that information gathered will be relevant, will inform service effectiveness and decision making, and lead to service improvement.

In addition, the Forum also argues that there is a need for greater emphasis on research and evaluation. This is supported by the Auditor General's Report which found limited evidence of adequate systematic evaluation of programs and service delivery to inform planning and policy development. The report deemed that each department lacked the information systems required to inform evaluation and subsequent decision making and resource allocation (pg 25).

Specifically the forum calls for evaluation across departments to find out what is working in the long term. This should be undertaken by an independent agency such as the Office of Economic and Statistical Research or a University research unit.

Recommendations:

- 2.1 That Government commit to the development of measurable outcomes for community service delivery
- 2.2 That Government instigate a move away from performance monitoring based around measuring inputs and outputs to an evaluation approach underpinned by the delivery of outcomes.
- 2.3 That Government undertake independent evaluation of programs across departments
- 2.4 That program evaluations be used to inform continuous improvement, program design and resource allocation, consistent with recommendations contained in the Auditor General's Report No. 2 for 2007.

3. Impact of current funding applications and reporting requirements upon Non-Government Organisations

A significant issue concerning current reporting requirements is that they place an undue burden on community services as a result of unnecessary and ineffective compliance and accountability requirements.

Each department has a different format and guidelines for acquitting expenditure on programs. Requirements vary from provision of an annual audited financial statement only, to quarterly financial returns that include the names of all staff employed, the hours worked and the individual wages paid.

For large NGO's operating across multiple sites in Queensland there is significant duplication of effort required to satisfy the replicated demands from Regional Offices for information or evidence of compliance.

The main impact of these compliance burdens is a reduction in the efficiency of community sector organisations in meeting their core objectives. Meeting compliance requirements comes at considerable cost to community organisations in the form of time and money. A study recently released by the Queensland University of Technology Centre for Philanthropy and Nonprofit Studies¹ found the financial cost of compliance for NGOs to be on average 1.74% of the organisations total revenue. This cost increase on average to 2.76% of revenue for smaller organisations.

The sector recognises the need for accountability and is committed to meeting reporting requirements. However under the present framework organisations are overburdened with meeting accountability requirements which are not even useful in informing decision making.

There is a need for a commitment to reduce red tape, as highlighted in the Auditor's General's Report No. 2 2007 which states that "*there is enormous scope across government for ... a reduction in the amount of red tape and compliance activities*" (pg 7)

A number of possible approaches for red tape reduction are outlined here.

With regards to reducing unnecessary reporting, red tape reduction requires minimising data collection requirements. A more appropriate model of reporting would include: regular reporting of program or service outcomes; annual financial reporting based on audited financial statements; a standard financial reporting format for all departments; and a single financial report per funded program irrespective of the number of delivery sites. Freeing up the time spent on preparing quarterly financial reports would allow both providers and departments to have a greater focus on outcomes measurement.

A reduction in reporting requirements could also easily be achieved in raising the level at which detailed performance reporting is expected. For example in Victoria, as part of amendments to the *Associations Incorporation Act*, \$200,000 has been established as the level up to which government does not require considerable detail in performance reports.

Another approach is to distinguish between the different purposes of data collection (for example research, planning, performance monitoring) and consider the most effective way of collecting for each purpose. For example if data is being gathered for the purposes of planning it may be better collected by an independent agency such as a research institution. This purpose defined approach to data collection is being taken by New York State homelessness programs where the

¹ Ryan, Newton, & McGregor Lowndes (2008), *How Long is a Piece of Red Tape? The Paperwork Reporting Costs of Government Grants*. Working Paper No. CPNS 39 The Australian Centre for Philanthropy and Nonprofit Studies, Queensland University of Technology, Brisbane, Australia.

funding agency focuses only on collecting valuable information against which can measure the success or otherwise of services achieving outcomes. Research into systemic change in the issue of homelessness is undertaken by an independent research institute.

With regards to reducing red tape around the management of funding one approach may be the development of a 'one-stop shop' for each service which can approve and fund all aspects of funded services.

As highlighted above there is a definite need for funding agreements across regional boundaries.

A further suggestion to reduce red tape in the funding submission stage is the establishment of an Expression of Interest phase for grants applications. This would serve to reduce the amount of effort and resources NGOs currently commit to funding submissions. The recent report on red tape conducted by Queensland University of Technology Centre for Philanthropy and Nonprofit Studies² indicated that funding submissions generated the greatest cost of compliance for NGOs.

The Forum also recommends that in looking to reduce red tape, consideration is given to work being undertaken in other jurisdictions. For example in Victoria, the *Bracks Government's Reducing the Regulatory Burden* initiative is a five year plan to reduce red tape on business and the not-for-profit sector which commenced in 2006. The plan commits government to a specific, ambitious target for reform through a three-pronged approach to cut red tape:

- A commitment to cut the existing administrative burden of regulation by 15 per cent over three years, and 25 per cent over the next five years;
- Ensuring there is no net new administrative burden by introducing an "offsetting simplification"; and
- Targeting hot-spots through a program of reviews and incentives.

As part of the initiative the State Services Authority is commenced a review of Not-for-profit regulation in 2006. The results of this review will be available in the near future.

Recommendations:

- 3.1 That the *Bracks Government's Reducing the Regulatory Burden* initiative be used as a model to guide work around reducing administrative duplication in the NGO sector.

² Ryan, Newton, & McGregor Lowndes (2008), *How Long is a Piece of Red Tape? The Paperwork Reporting Costs of Government Grants*. Working Paper No. CPNS 39 The Australian Centre for Philanthropy and Nonprofit Studies, Queensland University of Technology, Brisbane, Australia.

4. Opportunity to improve accountability and value for money by changing processes

A key concern regarding current performance management systems is that the collection of performance data is largely a means for government to monitor funding and enforce compliance, rather than to ensure accountability. This was also highlighted in the findings of the Auditor General's Report which observes to the need to 'balance conformance with performance'.

In looking to improve accountability by changing processes it should not be assumed that this will best be achieved through an additional reporting system or another layer of reporting. The focus should not be on better grants management through an increase in compliance. The key concern is to avoid placing further administrative requirements on NGOs and on government as this will reduce efficiency.

What is required is a shift in reporting arrangements to reporting for accountability (evaluation) rather than reporting for compliance purposes (performance monitoring) and a reduction in reporting requirements which do not enhance accountability. As the Auditor General's Report suggests, *"one of the governments main objectives should be to take leverage from pre-existing accountability regimes and work at reducing compliance activities which do not add to accountability"* (pg 8).

A shift towards greater accountability in reporting will need to be underpinned by the collection of useful data – that is, data which informs how well an organisation is meeting its objectives. This is supported by the Auditor General's Report which recognises the need for systems that efficiently provide more useful information.

This will require a shift from input and output based reporting to outcome based reporting, as highlighted in Section 2 of this submission.

Recommendations

- 4.1 That in moving to improve accountability of current reporting processes there is a commitment not to introduce further reporting arrangement for NGOs, but rather to change existing processes and systems.
- 4.2 That government review current reporting requirements and remove compliance activities which do not add accountability.