



queensland council of social service inc  
**WORKING FOR A FAIR QUEENSLAND**

Research Director  
Public Accounts Committee  
Parliament House  
George Street  
Brisbane Q 4000

28 March 2008

Dear Sir or Madam,

The Queensland Council of Social Service (QCROSS) is the peak body for almost 700 welfare and community sector organisations in Queensland. For over 50 years QCROSS has worked to promote social justice through the elimination of inequality and disadvantage.

QCROSS exists to provide a voice for Queenslanders affected by poverty and inequality and acts as a State-wide Council that leads on issues of significance to the social, community and health sectors. We work for a Fair Queensland and develop and advocate socially, economically and environmentally responsible public policy and action by community, government and business.

QCROSS would like to thank the Committee for the opportunity to contribute to this inquiry. Should you wish to discuss any points made in the submission in more detail please do not hesitate to contact me.

Yours sincerely,

**Jill Lang**  
**DIRECTOR**

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

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## Introduction

This submission has been developed by the Queensland Council of Social Service in response to the Public Accounts Committee Inquiry into the Management of Funding to Non-Government Organisations.

The Queensland Council of Social Service (QCOSS) is the peak body for almost 700 welfare and community sector organisations in Queensland.

QCOSS exists to provide a voice for Queenslanders affected by poverty and inequality and acts as a State-wide Council that leads on issues of significance to the social, community and health sectors.

The submission is in alignment with and in support of recommendations contained in the submission made by the Community Services Futures Forum, of which QCOSS is a member. This submission makes additional recommendations in alignment with the views of our member organisations.

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**

QCOSS would like to congratulate 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.

QCOSS 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 QCOSS 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 QCOSS perceives to the implementation of the recommendations from the report.

## Priority areas for attention

In the area of '*Enhancing Governance*' QCOSS considers the recommendations around moving to common standards to be the most significant (Recommendation 3, pg 19). Particular 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. QCOSS 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). QCOSS 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. We welcome both of these initiatives.

In the area of '*Improving Systems*' QCOSS 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, QCOSS 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

QCOSS's key concern 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*'. QCOSS 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. QCOSS 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. QCOSS 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).

QCOSS 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 QCOSS 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 is 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.

QCROSS 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, QCROSS 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 QCROSS 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**

Current reporting requirements place an undue burden on community services as a result of unnecessary and ineffective compliance and accountability requirements. This impacts significantly on the efficiency and effectiveness of service provision.

Community service organisations may receive funding from a number of agencies both state and federally, across a range of programs. Box 1 provides a case study of one such organisation, Youth and Family Service (Logan), which must report against 32 different service agreements.

## Box 1 – Case study on the impacts of reporting requirements

### Youth and Family Service (Logan City) Inc

Total Funding - \$6.4 Million

#### Recurrent Funding Departments

##### State (7)

- Department Child Safety
- Department of Communities
- Department of Employment and Industrial Relations
- Department of Housing
- Legal Aid Queensland (Justice Dept)
- Queensland Health
- Disability Services Queensland

##### Commonwealth (2)

- Department of Families, Housing, Community Services and Indigenous Affairs
- Department of Employment and Workplace Relations

##### Sub Contract (1)

- Salvation Army (from FAHCSIA – Communities for Children)

#### Service Agreements

- 32 Service Agreements (recurrent)
- 21 DSQ Individual agreements (Post School Services & Adult Lifestyle Support Service)
- 2 Non-recurrent

#### Standards

##### External Accredited areas

- AS / NZS ISO 9001: 2000
- Disability Service Standards
- Family and Relationships Service Standards (FaHCSIA)
- HACCC Service Standards
- National Housing Service Standards
- Community Legal Service Standards
- Department of Communities Standards

##### Industry Standards

- Mental Health Standards
- SAAP Standards
- Domestic Violence Men's Standards
- Domestic Violence Victim's Standards
- Child Centred Standards (Families and Relationships Program - Commonwealth)
- Family Focused Standards (Families and Relationships Program – Commonwealth)

#### External Reporting

##### Financial Reporting

- Quarterly: 15 Programs x 4 (60)
- Six-monthly: 14 Programs x 2 (28)
- Annual Audited: 33 separate Program Audited Reports and an overall organisational financial audit

**Total of 121 reports submitted per year**

##### Performance Reporting

- Monthly: 3 Programs x 12 (36)
- Quarterly: 15 Programs x 4 (60)
- Six-monthly: 14 Programs x 2 (28)
- Annual: 1 Organisational Report

**Total of 125 reports submitted per year**

## **Multiple Data Bases (Internal and External)**

### **Internal (1)**

- Organisational

### **External (8)**

- Youth Support Coordinator State Data Base
- Domestic Violence State Data Base
- SAAP – MDS
- JPET – DEWR
- CLSIS (Community Legal Data Base)
- HACC MDS
- DSQ MDS
- FaHCSIA – Family Relationships Data Base

The reporting cost for such an organisation is considerable. Each department has different requirements for reporting which range from the 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.

Departments also have differing categories for reporting financial data. For example, one Department defines staffing costs relating to Administration as a Direct Staffing Salary cost while another Department categories this expense as an 'Operational' expense. Consequently the preparation of reports is labour intensive as information from the financial system is exported into spreadsheets that align with the categories defined by the particular government department.

In the community services sector there has been a considerable take up of the Standard Charter of Accounts, an accounting tool developed by the Queensland University of Technology Centre for Philanthropy and Nonprofit Studies to provide a generic guide and ensure consistency in accounting categories and terminology. While some Departments have also adopted the Standard Charter of Accounts, there are many Departments which have not. The adoption of the Standard Charter of Accounts across government would be a significant step to reduce the impact of reporting upon community service organisations.

In addition to duplication of reporting between departments, NGOs operating in multiple regions are required to separately apply and report to each region for funding under one Department. There is a significant need for the establishment of funding agreements across regional boundaries.

As the case study shows, organisations may also be answerable to a number of different quality standards. QCOSS strongly supports the adoption of common standards across government, as recommended in the Auditor General's Report.

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 Studies<sup>1</sup> 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.

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<sup>1</sup> 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.

There is a need for a commitment to reduce red tape. 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 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.

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 Studies<sup>2</sup> indicated that funding submissions generated the greatest cost of compliance for NGOs.

QCROSS 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 Standard Charter of Accounts be adopted across the whole of government to provide consistency in accounting categories and terminology.
- 3.2 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.

<sup>2</sup> 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.