

Queensland Government Response to the Productivity Commission’s Draft Research Report on the Contribution of the Not-for-Profit Sector

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1. Introduction

Queensland welcomes the Productivity Commission's draft report on the contribution of the not-for-profit sector. Queensland supports its focus on improving the measurement of the sector's contributions to society and removing those obstacles which hinder those contributions.

The recommended directions are largely consistent with Queensland policy. The Queensland Government articulates in the Queensland Compact a commitment to strengthening the contribution of the not-for-profit sector. This commitment is driving, amongst other things, significant system-level and operational reforms to reduce the administrative burdens faced by the sector.

The most recent significant commitment by the Queensland Government was the provision of \$414 million over four years in the 2009-10 budget to increase the funding provided to not-for-profit organisations to ensure the continuation of critical services to vulnerable and dependent people and enhance sector sustainability.

2. Queensland Response to the Recommendations

2.1. Building a better knowledge base

Recommendation 5.1

The Australian Government should initiate an Information Development Plan (IDP) for the not-for-profit sector. Given its central role in providing data on the sector, and its legislated responsibility for statistical coordination, the Australian Bureau of Statistics should be given responsibility for formulating the IDP, consulting other key stakeholders as appropriate.

Among the issues the IDP should address are:

- *the appropriate frequency for publication of the satellite account on the sector and the scope for expanding measurement in the satellite account beyond economically significant entities*
- *the scope to improve administrative and other longitudinal data sets to support analysis of net impacts of sector activities*
- *the feasibility of obtaining accurate estimates of the number of unincorporated not-for-profit organisations in a cost-effective manner.*

Queensland Recommendation:

Support in principle.

Comment:

See comment on Recommendation 5.2 below.

Recommendation 5.2

Australian governments should endorse a common framework for measuring the contribution of the not-for-profit sector. Having regard to the diversity of the sector's activities and structures, measurement using this framework should embody the principles of proportionality, transparency, robustness, flexibility, and applicability.

To the extent possible, evaluations should be used to help identify the contributions, especially in respect of the impacts on individuals and the community, and inform the development of data collections.

Queensland Recommendation:

Support in principle.

Comment:

Queensland supports the recommendation to initiate an Information Development Plan for the not-for-profit sector and develop a common national framework for measuring the sector's contribution. However, Queensland suggests that responsibility is better allocated to the National Statistical Service (NSS) as it already has responsibility for collecting comprehensive official statistical information across government agencies and jurisdictions. The NSS is supporting a more expansive statistical community through direct links to the Australian Social Inclusion Board and the Australian Bureau of Statistics 'Measuring Australia's Progress' initiatives.

Other sources of statistical data may be obtained from National Minimum Data Sets and/or national notifiable diseases registers to which Disability Services, HACC, ATOD and Communicable Diseases Programs already contribute. These sources can provide useful information and trend data to inform service planning by both government and the NGO sector.

Queensland has a strong interest in the development of common, consistent indicators across jurisdictions, particularly those for wellbeing and community capacity. In developing consistent national data sets, caution will need to be exercised so that data collection processes are not duplicated or complicated thereby increasing the burden on both not-for-profits and states.

In Queensland the Office of Economic and Statistical Research (OESR) coordinates data collection activities and information sharing across Queensland government agencies, and has been significantly involved in the development of the publicly available Sector COMSIS (Communities Statistical Information System) which facilitates information sharing with the not-for-profit sector.

Recommendation 5.3

To minimise compliance costs and maximise the value of data collected, Australian governments should agree to implement a reform agenda for reporting and evaluation requirements for not-for-profit organisations involved in the delivery of government funded services. This should:

- *commit to basing reporting and evaluation requirements in service delivery contracts on a common measurement framework (appropriately adapted to the specific circumstances of service delivery)*
- *require expenditure (input) measures to be based on the Standard Chart of Accounts*
- *ensure that information generated through performance evaluations are returned to service providers to enable appropriate learning to take place and for organisations to benchmark their performance*
- *embody, where practicable, the principle of 'report once, use often'.*

Queensland Recommendation:

Support in principle.

Comment:

To minimise compliance costs associated with performance reporting and maximise the value of the data collected, the Department of Communities is leading a whole of government effort to consolidate and rationalise performance reporting across the human services sector.

The development of any national common measurement approach should take account of work already underway in states and territories including Queensland.

The Department of Communities will introduce a new service agreement for use when funding is provided to not-for-profit organisations for service delivery. The service agreement will be introduced in early 2010 to:

- Standardise contractual arrangements for service providers funded under more than one service area

- Streamline and align reporting requirements across the diverse service areas of the department
- Strengthen the department's expectation for organisations providing services to Indigenous communities by including a new clause that requires engagement with Indigenous people in the design, delivery and evaluation of programs and services
- Establish more environmentally-friendly practice by adopting electronic terms of funding
- Reduce administrative burden by allowing for increases in funding where there is no change in service levels e.g. annual indexation, without a formal variation process.

For organisations funded under the *Community Services Act 2007*, the Department of Communities has developed 15 generic output measures for incorporation in service agreements. These capture information aligned to the National Classification of Community Services (NCCS) framework, to ensure consistency between national and state reporting requirements.

Financial reporting requirements under *Community Services Act 2007* have been based on four line reporting: salary, operational, organisational and one-off costs. These reporting requirements will be further streamlined to three line reporting based on the Standard Chart of Accounts when the new common service agreement is introduced in early 2010.

The concept of 'report once use often' is supported. However, the significant effort required to achieve this should be noted. In Queensland's human service agencies significant process and system developments are required. We have made significant progress through the development of the online reporting system OASIS. OASIS is an online grants tool that makes it easier, simpler and faster for funded organisations to electronically update records, submit financial acquittals and performance information, and access reports relating to this information.

The Department of Communities publishes results of evaluations and proactively makes this information available online to the public. Through the Queensland Compact, Queensland is investigating the possibility of hosting performance evaluation reports on the Compact Knowledge Hub, which is a network of connected websites, to promote learning across government and the sector.

Queensland Health already funds external organisations (including NGOs) to conduct evaluations to provide evidence of the efficacy of interventions and programs. In general, the health model requires rigorous epidemiological studies to determine impact of interventions and programs over time, for example relating to communicable diseases.

Recommendation 5.4

The Australian Government should provide funding for the establishment of a Centre for Community Service Effectiveness to promote 'best practice' approaches to evaluation, with an initial focus on evaluation of government funded community services. Over time, funding could also be sought from state/territory governments, business and from within the sector. Among its roles, the Centre should provide:

- *a publicly available portal containing evaluations and related information provided by not-for-profit organisations and government agencies*
- *guidance for undertaking impact evaluations*
- *'meta' analyses of evaluation results.*

Queensland Recommendation:

Support in principle.

Comment:

The concept of a Centre for Community Service Effectiveness has merit, although Queensland is cautious given the risk for duplication in the proposed Centre's functions. There are existing portals or clearing houses that provide publicly available evaluations and these could be used to promote 'best practice' approaches. The National Statistical Service Clearinghouse, for example, already provides a clearance point for surveys conducted by the Australian Government.

Queensland's previous experience has highlighted the lack of coherent, up to date data to support evaluations. This could add significant costs to rectify in order to be useful for evaluation purposes. Any meta-analysis of evaluation results will also require a commitment to consistent and longitudinal evaluations – an area of current under-development. However, should the proposed Centre be established, then the rationalisation, amalgamation and/or cross linking of similar portals or clearing houses could create a "one-stop shop" for good practice evaluation with a commitment to collect longitudinal data to enable meta analyses.

2.2. Smarter regulation of the not-for-profit sector

Recommendation 6.1

The Australian Government should establish a Commonwealth incorporated associations legal structure for not-for-profits. The new legal structure would assist not-for-profits, in particular those operating across state and territory boundaries that do not wish to be companies limited by guarantee but wish to be incorporated at the Commonwealth level.

Australian governments should ensure that incorporation legislation is amended to allow not-for-profits to migrate from one form of legal entity to another and to migrate between jurisdictions.

State and territory governments should continue to reduce unnecessary compliance requirements for incorporated associations.

The Commission seeks comments on:

- *whether there is a need for a new legal form for small unincorporated associations, similar to the Australian Business Name registration, providing limited legal rights*
- *whether state/territory based incorporation of associations should be restricted to not-for-profits with income less than \$150 000 per annum*
- *how governments can free up the ability of organisations to migrate between legal forms and jurisdictions, while guarding against any undesirable consequences from forum shopping.*

Queensland Recommendation:

Not support.

Comment:

Any proposed mandatory migration to a new Commonwealth incorporation legal structure for not-for-profits with incomes at the proposed threshold level of \$150,000 would affect not-for-profits incorporated at a state level under the *Associations Incorporation Act 1981* including. In particular, it should be noted that:

- there are 19% of incorporated associations with an income or assets of \$100,000 or more
- small to medium associations could be caught by the mandatory migration requirement due to a one-off grant
- several hundred clubs are licensed under the *Gaming Machine Act 1991*.

Incorporation is voluntary for associations and at the time of seeking a corporate structure the option to incorporate under the *Corporations Act 2001* was available. These groups elected to incorporate under State legislation due to a variety of reasons including protection from personal liability of management committee members. The threshold figure of \$150,000 provided would mean that even a substantial number of local community groups would be swept up in a national regulatory environment.

Any national model would need to take into consideration the minimal compliance provisions contained in the *Associations Incorporation Act 1981* and prosecution action may only be taken where it is considered to be for the protection of the public, or of the members, depositors or creditors of the association or of the holders of debentures of the association or in the public interest.

Information has not been provided on the level of personal legal liability which management committee members would be subject to under any proposed Commonwealth model. Management committee members may elect to withdraw their services should they have concerns in regard to their personal legal liability. For organisations with larger income levels the requirement to move to Commonwealth legislation may be acceptable, for small organisations this may be considered an unacceptable risk.

As part of efforts to reduce the regulatory burden on incorporated associations, the Department of Employment, Economic Development and Innovation is considering pursuing amendments to the *Associations Incorporation Act 1981* to allow associations to migrate to the *Corporations Act 2001* as a company limited by guarantee without incurring transfer fees and Capital Gains Tax liability. It is intended that use of these provisions will be voluntary.

A mandatory migration to a Commonwealth incorporated legal structure will also impact on the corporate structure of not-for-profits which are incorporated as "branches" of incorporated bodies. The *Associations Incorporation Act 1981* contains provisions enabling branches of incorporated bodies to be incorporated. Should these branches be required to migrate the control structure between the head body and the branch will most likely be lost.

Queensland Associations Incorporation legislation does not restrict incorporated associations from trading outside Queensland or require interstate incorporated associations to register in Queensland. Incorporated associations wishing to operate across state borders can do so provided they comply with the *Corporations Act 2001* and register under division 1 part 5 B.2.

Recommendation 6.2

To promote confidence in the not-for-profit sector and reduce regulatory burden, Australian governments, initially through the COAG Business Regulation and Competition Working Group, should:

- *agree to and implement harmonised fundraising regulation and mutual recognition across Australia*
- *support the development of a fundraising register for cross jurisdictional fundraising organisations, to be administered by the proposed national Registrar*
- *endorse the adoption by all governments of the Standard Chart of Accounts for reporting by not-for-profits in receipt of government grants or service contracts*
- *ensure that the Standard Business Reporting initiative be expanded to include reporting requirements by not-for-profits.*

Queensland Recommendation:

Support in principle harmonised fundraising and mutual recognition; not support including charitable gaming.

Comment:

Queensland supports in-principle the recommendation to implement harmonised fundraising regulation and mutual recognition across Australia. The recommendation is consistent with the work program for the COAG Business Regulation and Competition Working Group (BRCWG) not-for-profit Sub-Working Group.

However, Queensland would not support including charitable gaming in an initial harmonised response. Charitable gaming is a complex area of regulation, and states and territories regulate it separately under specific gaming legislation. This complexity could potentially delay progress in harmonising other fundraising regulation.

Queensland notes that there are a number of issues that will require policy agreement amongst states and territories should a harmonising approach be adopted including:

- Scope of regulation
- Exemptions provided
- Conduct provisions
- Inclusion of charitable gaming
- Inclusion of small and large fundraising associations.

Recommendation 6.3

The Australian Government should adopt a statutory definition of charitable purposes in accordance with the recommendations of the 2001 Inquiry into the definition of charities and other organisations.

Queensland Recommendation:

Support in principle.

Comment:

Queensland supports, in-principle, the adoption by the Australian Government of a statutory definition of charitable purposes in accordance with the recommendations

of the 2001 inquiry into the definition of charities and other organisations. However, in reviewing the definition, consideration needs to be given to any tax implications of that change for community service organisations. A specific risk is that they may lose their charitable tax status if they participate in activities that are deemed by the Australian Taxation Office (ATO) to be inconsistent with their exempt entity status under which most community organisations derive their charitable status, that is, “relief of poverty”.

Recommendation 6.4

The Australian Government should establish a one-stop shop for Commonwealth regulation by consolidating various regulatory functions into a new national Registrar for Community and Charitable Purpose Organisations with the following key functions to promote confidence in the not-for-profit sector:

- *register and regulate Commonwealth incorporated associations, companies limited by guarantee and Indigenous corporations*
- *register and endorse not-for-profits for commonwealth tax concession status*
- *registration of cross-jurisdictional fundraising by not-for-profit organisations*
- *a single reporting portal for public record corporate and financial information, proportionate to the size and scope of functions of not-for-profit organisations*
- *provision of appropriate governance education*
- *complaints handling.*

The Commission seeks comments on:

- *whether the proposed national Registrar be a separate agency under the Financial Management and Accountability Act 1997, or whether it should be an additional function and separate division of the Australian Securities and Investments Commission*
- *the appropriate reporting thresholds and requirements under the Registrar’s proposed functions.*
- *whether the Office of the Registrar for Indigenous corporations should be transferred to the new regulatory organisation.*

Queensland Recommendation:

Support in principle.

Comment:

In particular, Queensland supports, in-principle, establishing an Australian Government one-stop shop for Commonwealth regulation to eliminate duplication and improve the accessibility of regulation affecting the not-for-profit sector. However, in implementing the recommendations, caution is required to ensure there is no unintended increase in the regulatory burden (i.e. duplication between jurisdictions or increased compliance/reporting requirements on small organisations). The primary beneficiaries of this recommendation would be the larger organisations.

Consideration should be given to ensuring that a single reporting portal for financial information aligns with state and territory legislation so that the regulatory burden is not increased, particularly for small to medium associations. A single register for not-for-profits that fundraise across jurisdictions would seem sensible if harmonised fundraising regulation is pursued.

2.3. Realising funding opportunities for the Sector

Recommendation 7.1

Australian governments should recognise the tax concession status endorsement of not-for-profits at the Commonwealth level, and explore the scope for a single national application process for organisations for tax status endorsement, or mutual recognition of endorsement, across all jurisdictions.

Queensland Recommendation:

Support in-principle.

Comment:

Queensland supports, in-principle, harmonised or mutually recognised tax concession status endorsement of not-for-profits, subject to further work being undertaken. This work would need to assess in more detail the costs and benefits for not-for-profits and governments and would need to have regard to the outcomes of the Review of Australia's Future Tax System (the Henry Review).

Given the broader work of COAG's Business Regulation and Competition Working Group (BRCWG) in national regulatory reform, the BRCWG is an appropriate forum to oversee further work on this issue.

Recommendation 7.2

Subject to considerations of affordability, the Australian Government should widen the scope for gift deductibility to include all charitable institutions and charitable funds as endorsed by the proposed national Registrar.

Gift deductibility should continue to be available to other eligible categories which fall outside this scope, such as cultural and environmental organisations endorsed by the proposed national Registrar and entities that are specifically named in the Income Tax Assessment Act 1997 or its Regulations.

The Commission seeks comments on whether the range of not-for-profits requiring formal endorsement for Commonwealth tax concessions (as distinct from self assessment) should be expanded.

Queensland Recommendation:

Support in principle.

Comment:

Queensland supports, in-principle, the move to standardise and harmonise the requirements for tax concessions for not for not-for-profit organisations with a caution that these kinds of reforms often lead to a period of additional work for the organisations affected. Queensland believes that to facilitate a decision by governments on this issue, the development of criteria for standardisation and an analysis of the impact of the proposed changes should be completed.

Recommendation 7.3

To encourage cost-effective giving, the Australian Government should explore options to promote and support planned giving, especially payroll giving and bequests. Options include increasing the awareness of the tax benefits of giving, and financial assistance and advice to smaller organisations to establish planned giving programs.

Queensland Recommendation:

Support in principle.

Comment:

Queensland supports, in-principle, the exploration by the Australian Government of options to promote and support planned giving.

Recommendation 7.4

The Australian Government should establish a joint working party made up of representatives of the not-for-profit sector, business, philanthropic and other government to explore obstacles to not-for-profits raising capital and evaluate appropriate options to enhance access to capital by the sector.

The Commission seeks views on:

- *the role of different types of intermediaries in facilitating NFPs access to capital*
- *whether there is a need for a new legal form of incorporation for not-for-profits allowing equity investment similar to the UK Community Interest Companies.*

Queensland Recommendation:

Support.

Comment:

In particular, the Queensland Government supports the establishment of a joint working party consisting of relevant public, private and third sector stakeholders to investigate modes of social investment as a means to increase sector sustainability. Queensland suggests including Foresters Community Finance Ltd (Foresters), either on the working party or as a consultant to the working party. As a community finance institution, Foresters has been working with the not-for-profit sector on raising capital for many years and can provide practical advice, for example, in community asset building and should therefore be involved in any such working party.

2.4. Facilitating social innovation and sector development

Recommendation 9.1

Australian governments should explore options to expand existing programs encourage and support social innovation. Options include expanding the Cooperative Research Centres program, and encouraging agencies funding social services to create Social Innovation Funds to support research collaborations into innovative solutions to social problems. These initiatives should be tailored to attract research organisation, not-for-profit business consortiums and collaborations formed for the purpose of addressing social problems in Australia.

Queensland Recommendation:

Support.

Comment:

The Department of Communities already supports research collaborations into innovative solutions to social problems.

Over the last five years the department has been a consistent and successful advocate for the greater recognition and support of social science research for the development of an effective evidence base for policy and service development. Queensland's new research strategy reflects national and state recognition of the value of social science research and development, and a growing trend for research to involve government-university-NGO collaboration.

The department is an industry partner in several major Australian Research Council projects that attract research organisations and not-for-profits (e.g. responding to social isolation for seniors, assessing risks of child abuse). The department was recently approached by Griffith University to consider supporting a Justice Modeling Cooperative Research Centre.

Recommendation 9.2

State and territory government programs aimed at building the capacity of not-for-profits for service delivery or community development should include specific guidance and training on undertaking evaluations.

Queensland Recommendation:

Support.

Comment:

Queensland provides the funded not-for-profit sector with access to training products through funded initiatives delivered by the Department of Education and Training, and the Health and Community Services Workforce Council. Under both schemes not-for-profits identify and select the particular training they require, including skilling opportunities to build evaluation capability.

The Queensland Council of Social Service (QCROSS) manages the Community Door website through funding provided by the Queensland Government. The purpose of the website is to give Queensland-based not-for-profits easy access to information, tools and resources relevant to running their organisations. If NGOs identify and select the requirement to build evaluation capability, it may be possible to negotiate with QCROSS to incorporate some content and links to evaluation tools and resources.

Recommendation 9.3

Australian governments should explore options to expand the business support programs they provide for small and medium sized enterprises to not-for-profits engaging in social enterprise activities.

Programs that may be suitable include the Australian Government's Business Enterprise Centre, state and territory governments' small to medium enterprise

business assistance programs, and local governments' business incubators or infrastructure hubs.

Queensland Recommendation:

Support.

Comment:

Queensland's Department of Communities, through its Business Development Innovation Unit, provides support to not-for-profit community housing organisations to become major providers of housing. This support includes coordinating training and development initiatives and assisting organisations to consolidate or undertake significant expansion. The unit assists with establishing new housing companies or expanding existing ones. It also convenes and provides secretariat support to community based housing provider networks to improve regional service delivery and integration within the One Social Housing System.

Queensland supports exploring further options to provide business support for other not-for-profit organisations through similar funding mechanisms.

2.5. Sustaining the not-for-profit workforce

Recommendation 10.1

Australian governments should explore the feasibility of establishing a system of 'Working with Vulnerable People Checks' similar to that proposed by the ACT. These checks should be portable between organisations for a designated time period.

Queensland Recommendation:

Not support.

Comment:

Queensland supports the ongoing streamlining of existing criminal history checks and is actively working on this at both the national and state levels. The Queensland Government is currently considering options to streamline checks undertaken for working with children with the checking regimes for working with adults and children with disabilities. The proposals will simplify processes for both organisations and potential employees and volunteers. However, a compelling case is yet to be made for expanding the compliance burden for service providers through applying screening to additional employee groups such as in the aged-care sector or other groups considered "Vulnerable People". The portability of criminal history checks under an all-encompassing scheme is likely to be limited given the differing screening requirements for different roles (e.g. under Queensland's current screening framework, fraud is a relevant consideration for working with people with disabilities but not for working with children).

In line with the Queensland Compact Action Plan, Queensland Government human service agencies are working with the not-for-profit sector to explore opportunities to reduce duplication of criminal history and suitability screening.

Recommendation 10.2

In order to ensure that not-for-profits can sustain their workforces, Australian governments purchasing community services need to base funding on relevant market wages for equivalent positions. Costings need to take into account the skill sets required to perform the purchased services and be indexed appropriately to market wage growth within that industry sector.

Queensland Recommendation:

Support.

Comment:

The Queensland Industrial Relations Commission recently endorsed higher wages for workers in the human services sector based, in part, on recognition of the skills required by employees. These award increases are subject to indexation.

See also comment on Recommendation 11.2

Recommendation 10.3

The Australian Government, through the Community Services and Health Industry Skills Council, should undertake workforce planning for the community services sector having regard to the current and future workforce challenges arising from growing demand and increasing supply constraints.

Queensland Recommendation:

Support.

Comment:

Queensland would suggest that specific attention be given in any national workforce planning to the challenges of attracting, retaining and developing the rural and remote human services workforce. Workforce analyses undertaken at a national level can be difficult to apply to community services based in rural and remote Queensland communities. Such an approach could complement Queensland's Rural NGOs Workforce Access to Education and Training Initiative through the Blueprint for the Bush strategy. This initiative is supporting organisations to understand and engage in workforce planning. It has provided rural and remote community based human service providers with practical support to undertake workforce planning and access to subsidies to develop a skilled workforce.

There may also be merit in the Productivity Commission considering strategies that support not-for-profit organisations to increase their own capacity to do workforce planning. This could build on work already completed nationally by National Disability Services (NDS) Queensland which engaged 13 disability specific organisations in a trial of workforce strategies to assist them to better position themselves to deal with workforce capacity challenges. Resources developed through the project include a recruitment and retention toolkit and fact sheets reflecting outcomes for the pilot projects. Resources are available on the NDS website <http://www.nds.org.au/>.

Recommendation 10.4

Australian governments should provide support to develop and promote training for not-for-profit management and boards in governance and related areas. They should explore the options for improving access to and quality of such training in these areas with peak bodies and appropriate training providers.

Queensland Recommendation:

Support.

Comment:

In addition to strategies mentioned in Queensland's original submission, the Government provides funding to not-for-profits to deliver training or information on governance. This includes the QCROSS administered Community Door website, which has both content and useful links on governance. Volunteering Queensland is a registered training organisation that delivers governance training to volunteer boards. The Department of Education and Training funds vocational training for volunteers involved in governance activities. The Queensland Government provides funding to the Health and Community Services Workforce Council to broker training, such as governance training, throughout Queensland.

The Centre for Philanthropy and Nonprofit Studies in Queensland maintains a website on Developing Your Organisation and Developing Your Board. This contains free online access to practical governance tools for use by boards.

Queensland acknowledges that regular turnover on boards of not-for-profit organisations creates an ongoing issue around the accessibility, delivery and quality of governance information, training and support. Consequently, strategies to upskill boards need to be on-going and hence the benefit of web based tool kits.

2.6. Improving the effectiveness of direct government funding

Recommendations 11.1 and 11.2

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

Australian governments should fully fund those services and activities that they would otherwise provide directly. In applying this criterion, governments should have regard to whether the funded activity is considered essential, as part of the social safety net or an entitlement for eligible Australians.

For new or significantly changed services or activities, Australian governments should undertake an independent costing exercise to determine their full cost. This costing should take all relevant costs into account in assessing the minimum cost for effective provision of the specified quality of service or activity. This would not preclude the scope for government to set the fixed fee for service or user contribution.

Queensland Recommendation:

Support.

Comment:

The Queensland Government is currently pursuing a significant reform agenda focused on sector sustainability and viability. These reforms are in the early stages of implementation and the benefits are yet to be realised. While the Government acknowledges the intent of the Committee's recommendation, the Queensland Government is committed to ensuring the sustainability of the sector through a range of mechanisms including encouraging innovation and leveraging support from the corporate and philanthropic sectors.

The Queensland Government recognises the valuable contribution of the NGO sector in providing services and support to vulnerable Queenslanders, their families and carers. Government has demonstrated its commitment to supporting the sector through recent reforms aimed at reducing red tape, partnering and engaging meaningfully with the sector through the Compact, and adopting appropriate funding models through the application of the Framework for Investment in Human Services.

The most recent significant commitment by Government was the provision of \$414 million over four years in 2009-10 Budget to ensure continued provision of critical services to vulnerable and dependent people by assisting core service providers meet award wage increases and address issues impacting sector sustainability.

Brief descriptions of key service system reform initiatives that address funding arrangements are provided below.

Output based funding and service provision

Through the Queensland Compact, the Government and the NGO sector is working collaboratively to establish meaningful performance measurement and reporting. Output based funding and service provision (that is, procuring services from NGOs by defining the quantum of outputs for which they are funded to deliver and achieve) is preferred by the NGO sector. Output based funding and reporting will provide greater clarity on what is expected for the funding provided and more consistent reporting. Further, such arrangements will reduce inconsistent practices and the associated administrative burden on NGOs and government.

The move by the Department of Communities to output based funding and service provision means organisations will have increased flexibility to design their service delivery models and operations to best meet the quantified outputs cost efficiently.

Once fully implemented, output based service provision will identify clearly for the first time, the level of services provided by NGOs with the funding provided by government. It is anticipated that baseline measures and a framework will be developed in the first half of 2010 and phased implementation will commence in early 2011.

Queensland Government Framework for Investment in Human Services

Partnership models which harness government and sector resources to maximise service delivery are strongly encouraged and described in the Queensland Government Framework for Investment in Human Services (2007). Effective investment strategies must consider the full range of options that encourage NGOs to

form partnerships with the for-profit sector and other spheres of government.

Streamlined Quality Standards

The Department of Communities and Queensland Health, in collaboration with the NGO sector, are moving towards streamlined quality standards and accreditation arrangements across the standards regimes in place for Disability Services, Community Services, Child Safety Services, Queensland Health, Housing, HACC and Community Mental Health. A number of NGOs receive funding from multiple agencies, requiring compliance with quality standards mandated in agency-specific service agreements or by legislation. By adopting common standards and consistent audit and verification processes and requirements, the compliance burden and impost on NGOs will diminish. Baseline data is currently being collected and detailed and complex analysis and stakeholder negotiation is underway. A preliminary cost-benefit analysis of options of a quality environment with streamlined standards, accreditation, regulation and administrative processes will be undertaken in the first half of 2010. It is anticipated that a limited trial of the streamlined quality standards and compliance processes will commence in June 2010 with an evaluation and recommendations for scale-up and implementation being finalised by September 2011.

Common service agreement

The Department of Communities has also developed a common service agreement with standard terms and conditions of funding for all service areas. Following consultation with the NGO sector throughout November and early December 2009, a common service agreement will be implemented progressively with funded NGOs as service agreements are renewed. In the longer term, this initiative will increase administrative efficiencies in NGOs and the Department through less burdensome paper work and will support greater transparency and accountability.

Participating in national reforms

Alongside these State level reforms, the Government will continue to influence the national agenda and will assess the impact of changes to national frameworks and reforms on Queensland. Any future changes to the funding arrangements for NGOs will need to be assessed against this emerging environment, aligned with contemporary policies and the national agenda, and be within current fiscal constraints.

Recommendation 11.3

Australian governments should ensure that service agreements and contracts include provision for reasonable compensation for providers for the costs imposed by changes in government policy that affect the delivery of the contracted service, for example, changes to eligibility rules, the scope of the service being provided or reporting requirements.

Queensland Recommendation:

Support.

Comment:

As a result of recent Machinery of Government changes several former departments have been amalgamated. Over eight different types of service agreements were being used across what is now the new department. The Department of Communities is consulting with the non-government sector on a service agreement package which

aims to standardise the funding agreements across the department. The newly developed common service agreement (more fully described at 5.3) proposes to make the approach to variations consistent at a whole of agency level for the Department of Communities.

Queensland government agencies negotiate variations to service agreements where changes in government policy affect the delivery of contracted services. Variations require the mutual agreement of both parties. Variations would affect the outputs or amount of funding.

Recommendation 11.4

That a principle of Australian governments' funding service provision or making grants is that they should respect the independence of funded organisations and not impose conditions associated with the general operations of the funded organisation, beyond those essential to ensure the delivery of agreed funding outcomes.

Queensland Recommendation:

Support.

Comment:

The Queensland Compact includes a principle of "Independence and autonomy" which "...recognise(s) each sector's legal and statutory obligations, and values the community services sector's role in stimulating public debate and challenging government policy".

The Compact also includes a commitment on behalf of the Queensland Government to, "actively reduce administrative duplication, compliance costs and unnecessarily prescriptive funding agreements and to recognise that organisations may have multiple funding streams."

In addition to the above, the Department of Communities' draft common service agreement (see response to Recommendation 11.3) aims to streamline and standardise funding agreements at a whole of agency level. The funded not-for-profit sector has been invited to provide feedback on whether the proposed package will reduce the administrative burden for them and to provide suggestions of improvements to the package.

2.7. Removing impediments to better value government funded services

Recommendation 12.1

Australian governments should ensure that they choose the model of engagement with not-for-profits that best suits the characteristics and circumstances of the service being delivered. In choosing between alternative models of engagement, governments should consider: the nature of the outcomes sought, the characteristics of clients, and the nature of the market. In particular:

- *there should be no presumption that the purchaser-provider model will always be the most appropriate model*
- *where governments are seeking the delivery of a clearly defined outcome and markets are genuinely contestable the purchaser-provider model should remain the preferred approach*
- *where truly competitive markets develop and clients face real choice in the services available to them, governments should consider moving to client-directed service delivery models. This transition should be conditional upon there being appropriate safeguards in place to protect and empower vulnerable clients (or their carers) in exercising choice and ensure an acceptable minimum level of service quality and provision.*

Queensland Recommendation:

Support.

Comment:

See comment on Recommendation 12.4 below.

Recommendation 12.2

Where a market-based approach is not feasible or appropriate, governments should use other models of engagement. This may involve governments entering into either extended life or short-term collaborative relationships.

The latter are likely to be particularly suitable to 'seeding' the development of new and innovative services to address intractable (or 'wicked') problems.

Extended life collaborative arrangements should adopt an iterative process that will:

- *involve all parties in the design of the program*
- *embed and fund an agreed evaluation process, informing program design and modification*
- *regularly review and revise the service delivery approaches in light of findings from evaluation, changing demands or environmental conditions*
- *provide long term or rolling funding with capacity to adjust funding in light of the modifications.*

Queensland Recommendation:

Support.

Comment:

See comment on Recommendation 12.4 below.

Recommendation 12.3

Australian governments should ensure that whatever model of engagement is used to underpin the delivery of services it is consistent with the overarching principle of obtaining the best value for money for the community. In determining value for money governments should explicitly recognise any spill over (or wider) benefits that providers may be able to generate. An evidence based approach should be used to assess the nature, extent and relevance of these types of benefits on a case-by-case basis.

Queensland Recommendation:

Support.

Comment:

See comment on Recommendation 12.4 below.

Recommendation 12.4

Australian governments should assess the relative merits of the lead agency model on a case-by-case basis. This should include an assessment of the costs to not-for-profits of adopting this approach including any duplication of reporting and accountability requirements, the additional transaction costs associated with sub-contracting, and the potential for loss of diversity among providers.

Queensland Recommendation:

Support.

Comment:

As outlined in Queensland's original submission, the Queensland Government Framework for Investment in Human Services became effective in November 2007 and will be reviewed by December 2010. This framework was designed to clarify the various purposes for which Government invests in human services and to ensure the Government's investment is delivered in ways which best meet the priorities of the Government and the needs and circumstances of Queensland communities. The framework places a strategic focus on the effectiveness and sustainability of the human service system as a whole. This system is comprised of state, Commonwealth and local government, not for profit, for profit and other providers such as churches and educational institutions.

Queensland adopts models of engagement that are fit for purpose as outlined below:

Purchaser/ Provider

In some circumstances, particularly for new funding, Queensland Government specifies the service model, outputs expected and an outcome sought then seeks applications from the NGO sector in a competitive, targeted or negotiated tender. The funding arrangement and reporting requirements are set out in a contract or funding agreement. In some instances, government may fund service delivery directly and this model is used when government provides a contribution to support service

delivery provided by the NGO. This type of funding arrangement is most commonly used by Queensland Government. Queensland continues to consider opportunities to extend outsourcing arrangements of services traditionally or currently provided by government, as part of the business cycle.

Client – Directed Services

Over the next two years, Queensland is trialling a Self-Directed Support model as part of a prevention and early intervention strategy. The trial targets children aged zero to six with a physical disability and their families, and adults aged 20 to 35 with a recently acquired physical disability and a brain injury.

Collaborative Arrangements

Queensland's original submission outlined collaborative partnerships such as the Logan-Beenleigh Young Persons Project which is a genuine government-sector collaboration aimed at addressing intractable issues of social exclusion and the *Breaking the Cycle of Domestic and Family Violence in Rockhampton* trial.

This trial is a Queensland Government initiative led by the Department of Communities in collaboration with Queensland Police Service, the Department of Justice and Attorney-General and Legal Aid Queensland as well as with local non-government service providers. The objective of the Rockhampton trial is to improve the safety and well-being of victims of domestic and family violence by intervening as early as possible, by linking community support, legal and court services, and by holding perpetrators more accountable for their behaviour. This is another example of genuine government-sector collaboration aimed at addressing intractable issues of social exclusion.

Lead agency

Based on the merit of the approach Queensland has adopted a lead agency approach in some instances, for example the Palm Island Community Company referred to in the original submission.

The Palm Island Community Company is a non-government organisation providing shared services for the administration of non-government organisations' funding agreements for Palm Island. Its functions include:

- acting as a 'shared service' hub for financial and administration activities;
- managing services, projects and initiatives; and
- building local capabilities in leadership, governance and administration
- engaging and training local people in basic administration and governance.

The Department of Communities also has a proven history in seeding new models in order to address market failures. The Palm Island Community Company also seeks to address market failure as does the Brisbane Housing Company. The Brisbane Housing Company was also profiled in the original submission.

Recommendation 12.5

The length of service agreements and contracts should reflect the length of the period required to achieve agreed outcomes rather than having arbitrary or standard contract periods.

Extended life service agreements or contracts should set out clearly established:

- *processes for periodically reviewing progress towards achieving a program's objectives*
- *conditions under which a service may be opened up to new service providers or a provider's involvement is scaled back or terminated.*

Queensland Recommendation:

Support.

Comment:

The typical length of a service agreement for ongoing service delivery in Queensland is three years. This interval provides an opportunity to review the evidence relating to need for the service and the effectiveness of the service model. If, at this three year point, government makes a decision to cease the service, a period of notice no less than three months is typically provided. Queensland made the move to fixed term agreements (from recurrent or ongoing agreements) to ensure services had security of tenure balanced with government's need to have flexibility in reprioritising funding to areas of comparatively greater need.

Queensland Health has recently increased the length of service agreements to five years, where appropriate, to align with national health strategies and provide security of funding to health service providers including the NGO sector.

Different lengths of service agreement terms may be considered in the development of the risk based monitoring framework being prepared for the funding administered under the *Community Services Act 2007*. This framework is intended to guide assessment about the level of risk a service poses to clients and government and informs differential reporting regimes. That is high risk services will have a more intense and frequent monitoring regime than those services assessed as low risk. In this context consideration will be given to providing longer term lengths of agreement to services assessed as low risk where there is a demonstrated ongoing need for the service.

Recommendation 12.6

When entering into service agreements and contracts for the delivery of services, government agencies should develop an explicit risk management framework in consultation with providers and through the use of appropriately trained staff:

- *allocating risk to the party best able to bear the risk*
- *establishing agreed protocols for managing risk over the life of the contract.*

Queensland Recommendation:

Support.

Comment:

The Framework for Investment in Human Services includes a strategic management guideline which recommends risk assessment according to each of the 10 funding approaches. It recommends that risk be determined by assessing:

- the type of service being supported with government funding
- the clients being supported
- the history of the organisation receiving government funding

- the nature of funding (eg. One off or triennial)
- the total quantum of funds received by an organisation across all Departmental program areas, and
- the number and diversity of alternative providers.

The Department of Communities has developed a draft risk-based monitoring framework (see response to Recommendation 12.5) which is being tested for services funded under the *Community Services Act 2007*. These actions though are focussed on how the department manages risk associated with funding service delivery through NGOs.

Recommendation 12.7

Australian governments should urgently review and streamline their tendering, contracting, reporting and acquittal requirements in the provision of services to reduce compliance costs. To reduce the current need to verify the provider's corporate or financial health on multiple occasions, even within the same agency, reviews should include consideration of:

- *development of Master Agreements that are fit-for-purpose, at least at a whole-of-agency level*
- *use of pre-qualifying panels of service providers.*

The Commission seeks views on how these proposals could be achieved without increasing the complexity of the engagement processes or agreements and contracts.

Queensland Recommendation:

Support.

Comment:

Queensland is already focused on reviewing and streamlining tendering, contracting, reporting and acquittals in order to reduce compliance through the work of the Compact and Service Efficiency/Improvement Measures. Most notably, as outlined above the Department of Communities is consulting on the implementation of a draft common service agreement package that will be fit-for-purpose at the whole of agency level.

Further, as a means to reduce the administrative burden on NGOs, the Commonwealth Department of Health and Aging and Queensland Health, which co-fund programs such as the Alcohol, Tobacco and Other Drugs (ATOD) program, has reviewed and aligned their reporting requirements.

2.8. Building stronger, more effective relationships for the future

Recommendation 13.1

Compacts between Australian governments and the sector must be supported by well documented plans of action, including at agency level, if appropriate, and supported by practical measures including monitoring and evaluative processes that give concrete expression to the proposed relationship.

Queensland Recommendation:

Support.

Comment:

Queensland considers that the development of a National Compact would benefit from being informed by learning from the development and implementation of the Queensland Compact. Some of Queensland's lessons include:

- A compact is not enough on its own – it must be supported by an action plan, joint governance arrangements and visible political support and authority
- It takes time and a good process to reach agreement – across government, across the sector and between government and the sector
- Independent third parties are important to support compact development (writer) and implementation (Governance Committee Chair) of the compact
- Having a compact and political mandate encourages a commitment to bolder actions
- The compact provides the platform for system-level reforms (e.g. red tape reduction, workforce development) rather than just service level action
- Governance and implementation require commitment of time and effort, which can be challenging to sustain and coordinate
- Maintaining a coherent focus on the compact and the action plan across large departments requires ongoing vigilance, advocacy and support and needs to be specifically resourced (a central coordination point that can be a line agency)
- The sector is perceived (inaccurately) as having more to gain from the compact and is more inclined to caucus on issues than government
- Having the compact action plan in place has enabled participating Queensland Government departments to respond quickly to COAG initiatives such as regulatory reforms for not-for-profit organisations.

The Queensland Compact has a number of monitoring and evaluation measures. A joint government-sector governance committee with an independent chair oversees realising Compact goals, progress against the Action Plan and Compact-related activities. The committee reports publicly three times a year via the release of a Communiqué. It also issues an Annual Report outlining the progress of the two-year Action Plan. The Minister for Community Services, Housing and Minister for Women tables the progress reports in Parliament. Further, an independent review will be conducted after two years.

Recommendation 13.2

The Australian Government should establish an Office for Not-For-Profit Sector Engagement within the Prime Minister's portfolio, for an initial term of five years. The Office would support the Australian Government in its efforts to:

- *implement sector regulatory and other reform and the implementation of the Government's proposed compact with the not-for-profit sector*
- *promote the development and implementation of the proposed Information Development Plan*
- *initially fund and oversee the establishment of the proposed Centre for Community Service Effectiveness*
- *implement the proposed contracting reforms in government-funded services*
- *act as a catalyst for the promotion and funding by government agencies of social innovation programs*
- *facilitate stronger community and business collaboration.*

The Office should, through the relevant Minister, report publicly on an annual basis on its achievements.

Queensland Recommendation:

Support in principle.

Comment:

Queensland supports the spirit of this recommendation and the higher profile establishing such an office in the Prime Minister's portfolio would afford the sector. However, Queensland has some reservations and proposes that a clear vision, roles and functions be developed and tested prior to establishment. Queensland's caution is that such an office may inadvertently increase the administrative demand on not-for-profit organisations and states, counter to the intention. Resourcing would also need to be clear to build sustainability into the future.

As noted in Queensland's original submission, the Queensland Government is interested in strategies to build the not-for-profit sector's sustainability so it can continue to play a significant role in contributing to social inclusion, the Queensland economy through employment and to volunteering, as well as fostering innovation and creativity. A range of Queensland Government reforms aimed at improving the policy, program and operating environment for the not for profit sector have been introduced, including measures to ease administrative burdens, developing approaches to enhance integrated service delivery and client service innovations as well as the Government's Smart Regulation Reform Agenda with its initial target of reducing the compliance burden to business (including the not-for-profit sector) and administrative burden to government by \$150M per annum by 2012-13.

3. Conclusion

Queensland welcomes the opportunity to provide input into the Productivity Commission's draft research report on the contribution of the not for profit sector in Australia and looks forward to the final report.