



***Submission to the Joint Committee of Public Accounts and
Audit***

**The development of the Commonwealth Performance
Framework to ensure an effective, integrated performance
management system that continues to improve accountability
to the Parliament and the public**

May 2015

Introduction

This submission briefly outlines some of the key issues for Australia's not-for-profit sector in response to the Joint Committee of Public Accounts and Audit (JCPAA) inquiry into the development of the Commonwealth Performance Framework (CPF) to ensure an effective, integrated performance management system that continues to improve accountability to the Parliament and the public.

This CCA submission has been prepared with CCA members (see listing of CCA members, Attachment A) as well as other key organisations working in and with the not-for-profit sector. It is important to note that this submission does not over-ride any policy positions that may be outlined in any individual submissions from CCA members. In the interests of presenting a concise summary of the CCA position, this submission is divided into the following sub headings:

- Introduction
- About CCA
- Current situation – the context
- Overview of key issues
 - Performance management
 - Performance reporting
 - Risk management
 - Timing and length of contracts
- Conclusion

CCA welcomes this opportunity to provide input into this inquiry and is willing to engage in further discussion about any of the issues raised in this submission.

The Community Council for Australia

The Community Council for Australia is an independent non-political member based organisation dedicated to building flourishing communities by enhancing the extraordinary work undertaken by the charities and not-for-profit sector in Australia. CCA seeks to change the way governments, communities and not-for-profits relate to one another. It does so by providing a national voice and facilitation for sector leaders to act on common and shared issues affecting the contribution, performance and viability of NFPs in Australia. This includes:

- promoting the values of the sector and the need for reform
- influencing and shaping relevant policy agendas
- improving the way people invest in the sector
- measuring and reporting success in a way that clearly articulates value
- building collaboration and sector efficiency
- informing, educating, and assisting organisations to build sustainable futures
- providing a catalyst and mechanism for the sector to work in partnership with government, business and the broader Australian community to achieve positive change.

Our success will drive a more sustainable and effective charities and not-for-profit sector in Australia making an increased contribution to the well-being and resilience of all our communities.

Current situation – the context

The not-for-profit sector

The not-for-profit sector turns over more than \$105 billion annually, contributes over \$55 billion to GDP per annum, and employs over one million staff (or eight per cent of all employees in Australia). The sector holds over \$175 billion in assets, and across the last decade, sector growth has continued at approximately 7% a year, greater than any other industry group. Over 30% of all not-for-profit income is derived from government contracting, grants and services.

These figures tell only a small part of the story. The real value of the NFP sector is that these are the organisations at the heart of our communities; building social connection, nurturing spiritual and cultural expression, and enhancing the productivity of all Australians.

The importance of the NFP sector is now being internationally recognised with many governments putting in place measures to increase NFP productivity. Smaller government and bigger community is a common theme, driven in part by savings, but also by a commitment to greater civic engagement and productivity within the NFP sector. The sector itself is beginning to work on productivity as a core issue.

There have been numerous reports and recommendations relating to the NFP sector over the last decade, but it is only in recent years that governments have enacted some of these recommendations and embarked on a long overdue process of reform and enhancement.

The inability of governments to streamline their own tendering processes, contract management and programs monitoring has repeatedly been identified as a major barrier to improving productivity in the not-for-profit sector in Australia. The lack of certainty in government funding and contracting processes also undermines performance and ongoing investment in improving outcomes.

Given the size of the sector and its critical role in our community, the Federal Government can achieve real economic and social benefits if it chooses to strategically invest in strengthening our communities and our NFPs by improving the way it measures performance, relying less on input and output measures and making investment decisions based on real performance information, as outlined in this submission.

Government engagement with the sector

There is a dog's breakfast of approaches to contracting, tendering and measuring performance of programs involving charities and not-for-profits being applied within Commonwealth agencies. It seems each agency has its own rationale and its own set of mandatory components and priority principles for its particular performance measures and reporting requirements. Even within some agencies, there are high levels of inconsistency in approaches and processes. How these approaches relate to the Commonwealth performance reporting remains unclear.

The one consistent but unfortunate trend within government is towards increasing compliance and micro-management of not-for-profit organisations as a way of 'improving accountability' or imposing performance measures. This approach does not improve performance or enable NFPs to better achieve government policy priorities, and is counter to good management practice. There is very significant scope to improve productivity and effectiveness through development of better government performance reporting practices.

Overview of key issues

Performance management

Performance management begins with measurement because we know what gets measured and reported gets done. As the Commonwealth Financial Accountability Review discussion paper argued:

It is preferable to have fewer, more meaningful indicators that focus on what matters.

(Chapter 7, Improving performance, pg. 50)

Performance measures against policy objectives are often not available within federal government agencies. This is unacceptable. Of equal concern is that where this information exists it is not more widely available or used to inform better investment and better practice.

'Even where good evaluation and review exists, this information is not readily available to inform government decision making, especially on cross-portfolio matters.... There is no point to evaluation if results are not used.

(Chapter 7, Improving performance pgs. 52 and 53)

From an NFP perspective, it seems each new procurement process seems to operate largely in a vacuum with little use of past performance data to inform future contracting. This is particularly true where the performance information traverses a number of program areas and government agencies.

All too often the fundamental elements that drive performance – the competency and capacity of the individuals, management teams, organisations, their relationship with their customers and their communities, the capitalization, business plans, other investors, competitors, etc. – are simply not factored into either the performance management and reporting processes or the risk management framework.

Most of the performance reporting currently undertaken is disconnected from policy goals. The experience of not-for-profit organisations is that the compliance and reporting requirements for many of the contracts and funding grants they receive are not directly related to the actual policy goal under which the relevant program operates.

In an outcome blind measurement system even the best policy goals can be lost in translation by government agencies because they focus on inputs and outputs within specific programs rather than achieving the desired policy outcomes. If a program is outcome blind, what performance is being measured and how useful is that measurement?

Not-for-profit organisations are driven by purpose. They seek to achieve real outcomes for the communities they serve, but with most government funding, not-for-profit organisations are rarely allocated the tools, time or resources needed to provide the kind of performance reporting that might inform better government policy.

Developing this approach may require letting go of some of the existing approaches and investing in alternative policy driven measures of performance. It may also mean accepting that not all programs will be successful, that we need to learn from mistakes by sharing the information and using it to drive improvements in achieving important policy goals.

Performance reporting

CCA believes there is a clear need to develop a clear and transparent performance reporting framework for all government agencies that is focused on policy goals rather than compliance.

If we want to get better at meeting government policy goals and achieving better performance, we need to get better at both measuring and reporting performance, within government and within contracted services. Wherever possible, performance measurement and reporting should provide comparable (over time and over programs) indicators of actual performance against policy goals.

Governments invest billions of dollars of public money in purchasing services to achieve policy goals. It is not unreasonable to expect that the outcomes of government investment to be reported transparently to the community which has a real stake in the policy outcomes.

Some Commonwealth agencies will not disclose reports on performance. Any information that might be negatively interpreted or lead to potential criticism is seen as problematic. This poorly thought through risk management strategy leads to inappropriate barriers around releasing performance information. At the same time, the pressure to increase the amount of information collected as a way of deflecting risk drives increased reporting and compliance requirements. The outcome of these two pressures is that more information is collected and less is actually reported or used. This situation leads to enormous frustration within the organisations being asked to provide information to government agencies. Many not-for-profit organisations have repeatedly raised concerns about the level of detail being requested in areas related to inputs and outputs, while no outcome data is collected. How information collected is used in performance reporting remains obscure.

Government agencies are also often reluctant to provide the tools, time or resources necessary to enable not-for-profit organisations to collect outcome and impact data. Evaluation requires some knowledge and expertise that needs to be more readily available to NFPs. If we want to know which agencies are more likely to deliver on the government's policy goals, the kind of information being collected needs to change and increased resources are needed to collect this information.

Ideally a percentage of all government allocated funding would be directed towards follow up and performance measurement. The lack of adequate resourcing for performance monitoring and evaluation has become normal practice. As a consequence, government agencies fund programs and services largely based on written submissions without knowing about their organisational or programmatic outcomes, the impact on the community, or whether their approach is achieving government policy priorities.

Transparent reporting against policy goals will drive real improvements in performance and reflect increased expectations from communities about effectiveness in government programs and services. As highlighted in the Commonwealth Financial Accountability Review discussion paper:

'Changes are occurring in the way government meets citizen expectations and policy challenges. Increasingly, the government collaborates with other jurisdictions and parties in designing and delivering services. Over time this is likely to include greater participation by citizens in service design and delivery as a means of developing more effective and personalised policies and programs. This will challenge historical concepts of accountability and transparency and bureaucratic control.'

(Chapter 3, The Case For change, pg. 17)

Managing risk

There has been a clear trend towards increasing compliance and micro-management of not-for-profit organisations as a way of deflecting risk. This approach is not only counter-productive, but also displays a regrettable lack of understanding about the importance of good risk management practices. There is very limited evidence to suggest that more detailed contracts containing more conditions, increased compliance and reporting requirements, more frequent reporting and shorter contract periods reduce risk or improve outcomes. In fact, there are many areas of government contracting where lengthier contracts and less compliance is a much better way to manage risk, including in critical areas such as indigenous health and wellbeing programs and services.

The achievement of important government priorities and policy objectives is not a risk free activity. Avoidance of risk is often a good way to ensure policy ineffectiveness. The lack of good risk management knowledge is compounded by a lack of understanding about the actual risks involved in the services being funded, the organisations being funded to accept those risks, and the best ways of managing those risks.

In business investment, factors such as the nature of the people involved in the management of a company, the level of expertise, competence and experience, the past track record of the management team, the past track record of the company, the existing level of capitalization, who else has invested, the proposed business plan, cash flows, potential competitors, market share, etc. are all considered in judging the risk against the likely return.

There is little evidence that risk management frameworks are being applied in the way governments choose to invest in, fund, contract or grant money to not-for-profit organisations. It is much more likely that there will be tender processes in which relatively inexperienced government officials make decisions based on predetermined criteria relating almost exclusively to the work to be undertaken – not the organisation that might undertake it. What is of even more concern is that such tender processes may operate with little or no real engagement with prospective tenderers, little real risk analysis, and with no reference to history, content knowledge, performance information or real market analysis.

The Productivity Commission highlighted this issue in its report into the productivity of the not-for-profit sector and recommended:

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 through the use of appropriately trained staff. This should include:

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

(Recommendation 12.6 Contribution of the Not-for-Profit Sector, Productivity Commission, 2010)

The Commonwealth Financial Accountability Review not only acknowledged the inadequacy of risk management skills in government, but also that implementing new approaches requires culture change:

Leaders must also support innovation by fostering creativity and ideas – a culture of risk aversion may prevail if innovation is not rewarded. ... Risk management is not about eliminating all risks.

(Chapter 8, Engaging with risk, pg. 60)

Terms and length of contracts

One of the major obstacles to good management of government programs and services is the capacity of organisations to work to timelines that allow real change to be both achieved and evaluated.

Inadequate time frames to; prepare tenders, develop and implement programs, evaluate and improve programs and services all reflect a lack of understanding of the reality of running programs and services. In areas such as human service delivery, it is almost inconceivable that there is any place for a 12 month contract. Simply establishing a program or services, employing staff, obtaining office space, communications, transport and other infrastructure all require time and resources. Yet some government agencies fail to acknowledge the level of skill and expertise required to deliver effective services and expect not-for-profits to be able to turn program delivery on and off like a tap.

The issue of timing becomes critical when talking about employment of staff, future planning, building of capacity, measurement of performance and investment in organisations to deliver outcomes.

While there is a place for shorter term pilot programs and one-off grants, these should be the exception, not the norm, as they are unlikely to achieve government policy goals. There should be a three year minimum for most ongoing contracts for services provided by not-for-profit organisations that involve the employment of staff. As part of this approach, there should also be a minimum six monthly notice period to enable staff entitlements and infrastructure leasing to be properly managed.

If there is one short term strategy that could significantly reduce risk and improve government performance, it is adopting a more realistic approach to the length of contracts and timing of notices for the renewal or cessation of program funding. Such a measure should be a very high priority.

Conclusion

CCA believes the need for a transparent and effective government performance framework is critical to ensuring government programs and services do not simply reinvent failure.

In some areas of government, concepts such as performance management, performance reporting, and risk management have been deconstructed and reassembled in forms that disguise their original intent.

CCA strongly supports the need for reform, particularly with the ongoing engagement between not-for-profit organisations and Commonwealth government agencies. The level of counter-productive compliance activity and lack of performance based management is having a very negative impact on the productivity and effectiveness of not-for-profit organisations. This reduction in effectiveness means the achievement of government policy priorities is limited and community benefit is diminished.

The not-for-profit sector wants to work with government to improve performance management and reporting so taxpayer dollars achieve more for our communities. There are examples where government has collaborated with the NFP sector and local communities to achieve an integrated performance framework which evolved into 5 year contracts last year. With appropriate investment in better monitoring, evaluation and reporting, savings can be achieved by first identifying what works and what doesn't, then drawing on this performance reporting to inform decision-making.

A more robust and transparent government performance reporting framework will result in stronger and more resilient communities across Australia.

Current Membership – Community Council for Australia *Attachment A*

Organisation

CEO/Director

2Realise

Rowena Stulajter

Access Australia’s National Infertility Network

Sandra Dill

Australian Charities Fund

Jenny Geddes

Australian Council for International
Development

Marc Purcell

Alison Verhoeven

Australian Healthcare and Hospitals
Association

Australian Indigenous Leadership Centre

Rachelle Towart

Australian Institute of Superannuation
Trustees

Tom Garcia

Australian Major Performing Arts Group

Bethwyn Serow

Australian Women Donors Network

Julie Reilly

Canberra Men’s Centre Inc

Greg Aldridge

beyondblue

Georgie Harman

Charities Aid Foundation

Lisa Grinham

Church Communities Australia

Chris Voll

Churches of Christ Community Care VIC & TAS

Paul Arnott

Community Colleges Australia

Kate Davidson

Compass Housing Co Ltd

Greg Budworth

Connecting Up Australia

Anne Gawen

Drug Arm Australasia

Dr Dennis Young (Director)

e.motion21

Cate Sayers

ethicaljobs.com.au

Michael Cebon (Associate Member)

Family Life Services Australia

Jo Cavanagh

Foresters Community Finance

Ashley Hood

Foundation for Alcohol Research and
Education

Michael Thorn

Jan Owen

Foundation for Young Australians

Fundraising Institute of Australia

Rob Edwards

Good Beginnings Australia

Jayne Meyer-Tucker (Director)

HammondCare

Stephen Judd

Hillsong Church

George Aghajanian (Director)

Justice Connect

Fiona McLeay

Lifeline Australia

Life Without Barriers

Maroba Lodge Ltd

Missions Interlink

Mission Australia

Musica Viva Australia

Opportunity International Australia

Our Community

Philanthropy Australia

Port Phillip Housing Association

PowerHousing Australia

Pro Bono Australia

Relationships Australia

RSPCA Australia

SANE

SARRAH

Save the Children

St John Ambulance Australia

Social Ventures Australia

The Benevolent Society

The Centre for Social Impact

The Reach Foundation

The Smith Family

The Ted Noffs Foundation

Variety Australia

Volunteering Australia

Wesley Mission

World Vision Australia

YMCA Australia

Youth Off The Streets

YWCA Australia

Jane Hayden (Director)

Claire Robbs (Director)

Viv Allanson

Pam Thyer

Catherine Yeomans

Mary Jo Capps (Director)

Robert Dunn

Denis Moriarty (Associate Member)

Chris Wootton

Karen Barnett

Lisa Grinham

Karen Mahlab (Associate Member)

Alison Brook

Heather Neil (Director)

Jack Heath

Rod Wellington

Paul Ronalds (Director)

Peter LeCornu

Michael Traill

Joanne Toohey

Andrew Young

Sarah Davies

Lisa O'Brien (Director)

Wesley Noffs

Neil Wykes

Brett Williamson (Director)

Rev Keith Garner (Director)

Rev Tim Costello (Chair)

Ron Mell

Fr Chris Riley

Dr Caroline Lambert