

NON-GOVERNMENT ORGANISATION  
**RED TAPE**  
**REDUCTION**

DECEMBER 2009



NSW Department of Premier and Cabinet



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## SECTION I

# INTRODUCTION & CONTEXT

### INTRODUCTION

In April 2009 at the Illawarra Job Summit, the issue of the red tape burden for Non Government Organisations (NGOs) was raised with the former Premier, the Hon Nathan Rees MP. In response, the Department of Premier and Cabinet (DPC) was asked to undertake a short review of the issues in relation to red tape facing NGOs and to make recommendations on short to medium-term steps that could be taken to reduce the red tape burden.

This review has focused on NGOs funded to provide services and programs in the human services area. Approximately 90% of the NSW Government's funding to NGOs is provided by the Department of Human Services (DHS) through its divisions of Community Services (CS) and Ageing, Disability and Home Care (ADHC). NSW Health and its Area Health Services (AHS) also provide substantial funds to NGOs.

The recommendations of this report are thus targeted at DHS and NSW Health but will also be taken into account by the Department of Education and Training (DET), which provides significant funding to NGOs in the human services area.

### Review Methodology

In undertaking this review discussions were held with a small number of NGOs, peak bodies and a range of government agencies involved in funding, policy or regulation. The NGOs and peaks consulted are listed in Appendix 1.

The review has scanned a range of funding guidelines, data and practices in place across the major human services funding agencies to identify opportunities for modifications to current practices which would lead to a reduction in the red tape burden for NGOs.

More recently consultation sessions were held in September and November 2009 with the Federation of NGOs (FONGA) on the early findings of this review. The NSW Government was represented at those sessions by the Director General, DHS, the Chief Executives of CS and ADHC and senior staff from NSW Health and the DPC. A number of short-term measures to reduce red tape for NGOs were identified and agreed at the November meeting. These are discussed later in this report and summarised in the recommendations section.

### Funding and Policy Context

In July 2009 the Government announced the formation of a number of super-agencies, including the establishment of the Department of Human Services, bringing together the two major NGO funding agencies: Community Services and Ageing, Disability and Home Care. This provides an opportunity for increased alignment in funding policy and practices.

A key objective in alignment is to improve efficiency in funding administration processes and to link capacity building activities across program streams. Making these connections will rationalise activity and cost for funding agencies, and more importantly reduce the costs of compliance for NGOs, allowing for a focus on improvements in productivity as an offset to increasing operating costs, particularly projected increases in wages.

### Diversity in the Funded NGO Sector

There is great diversity within the NGO sector. NGOs range in size from large national organisations with substantial corporate infrastructure to support the management of Government funding through to very small neighbourhood based community organisations with very limited resources for managing some of the complexity now associated with funding processes.

The information in Appendix 2 provides important contextual information on the extent and nature of NSW Government funding to NGOs. Key points to note from this data include:

- Approximately \$1.5 billion was distributed to more than 2,600 NGOs in 2007/08 by Ageing Disability and Home Care, Community Services and NSW Health;
- Funds from ADHC, CS and Health represent more than 90% of the funding to human services NGOs;
- Two-thirds of these funds were distributed by ADHC;
- The large number of small, single service NGOs – 37.5% of NGOs account for less than 3% of funding;
- In contrast 11.4% of NGOs manage 72.25% of the total funds
- Most NGOs are funded by a single agency (86.4%), although many receive funding from multiple programs within that agency.

**Human Service Agencies  
– funding NGOs 2007/08**

- ADHC 846 providers \$913m
- CS 1,599 providers \$491m
- NSW Health\* 177 providers \$70m

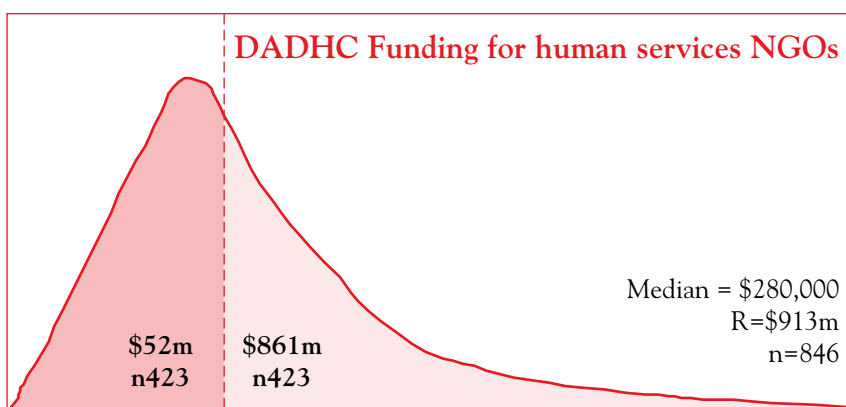
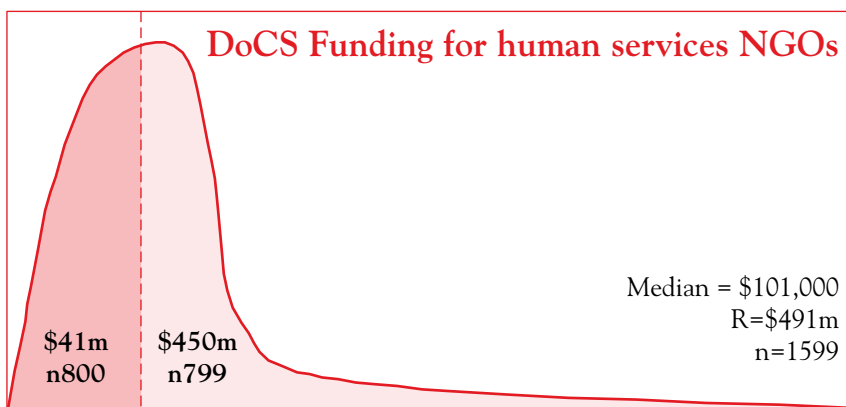
**Marketplace of NGO  
human service providers**

- Some service providers are well established
- Some providers have been funded by agencies for many years
- Less than 1% new providers each year

\*Refer to Appendix 2, Table 1 for further information on NSW Health funding to NGOs.

There are marked differences between ADHC and CS in the funding profile of NGOs. For ADHC 80% of its funds were allocated to 21% of its NGOs in sums greater than \$1 million per NGO. For CS 52% of its funds were allocated to 4% of its NGOs in sums greater than \$1 million per NGO. At the other end of the funding spectrum, ADHC has 22% of its NGOs receiving less than \$100,000 whilst CS has 50% receiving this level of funding<sup>1</sup>. The graphs below illustrate these differences.

*NGOs funded for lower amounts:*



1 *Effective Measures for the Support & Development of the NGO Sector in the delivery of Human Services* (2009) report by Nexus Management Consulting (Nexus Report).

## Other NGO Reviews

This review has been cognisant of the large number of other reviews and activities underway or recently completed, nationally and in NSW, targeted at the NGO sector. The NSW Government is mindful of the need to streamline review activity as much as possible, and draw on existing findings where relevant.

## GENERAL FEEDBACK FROM THE NGO SECTOR

The Government has been hearing consistent feedback from NGOs and agencies regarding the need for red tape reduction.

Some of the comments received from the NGO consultation during this project include:

- “Tendering has been hard; proof often wanted in different ways ...”
- “Costly for multiple external audits for small programs each year”
- “... disparity in tenders across business lines and regions ... need to be uniform”
- “Convoluting wording and unnecessarily repeating paperwork is time consuming to us”
- “We’re often being asked to repeat known information ...”

At Community Cabinet meetings and State Plan consultations NGOs have highlighted concerns about red-tape. NGOs have talked about the need to reduce administrative burdens so that work can focus on service delivery.

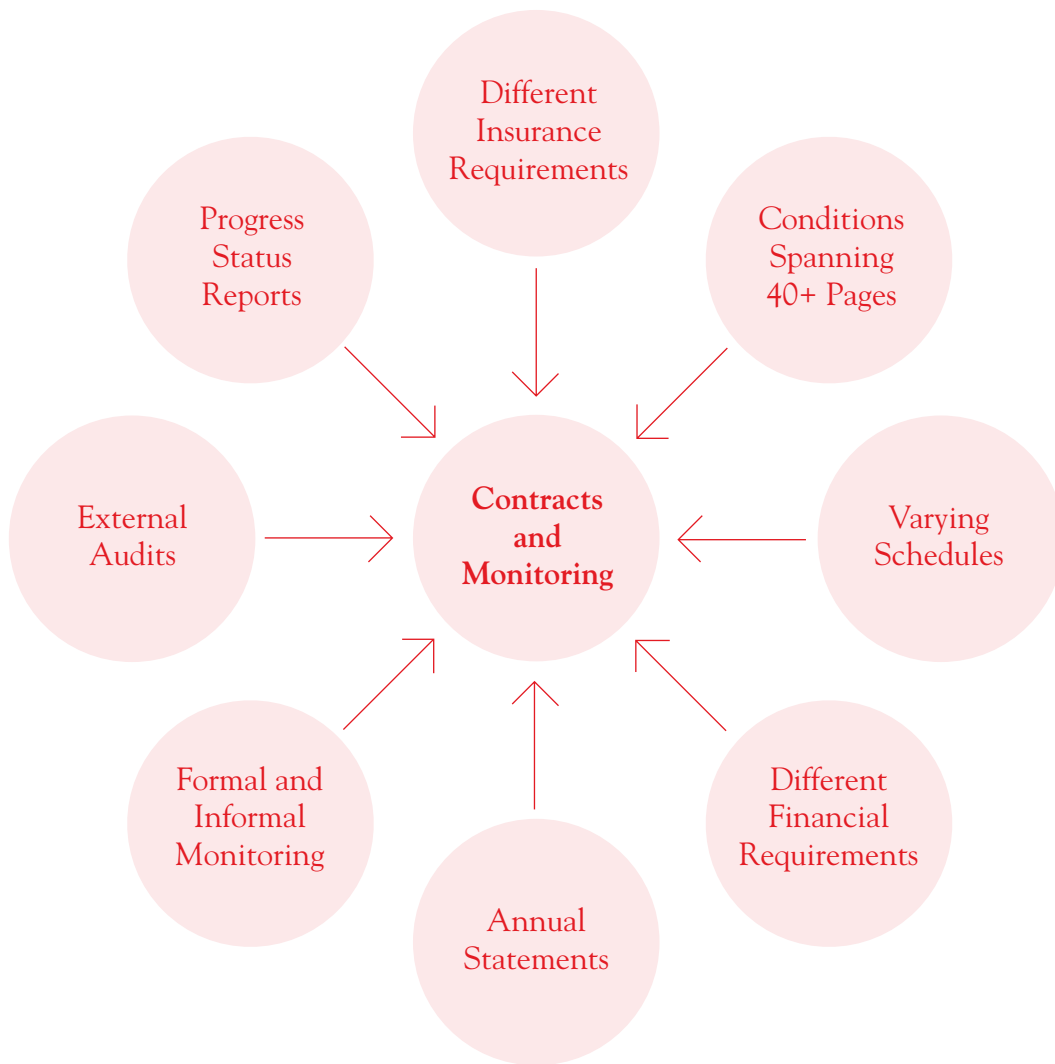
The diagram on the next page highlights the range of red tape issues that have been raised by NGOs as part of this review.

## Implications for Red Tape Reduction

The diversity and spread of funding levels suggests that the red tape burden is unlikely to fall evenly across the range of NGOs. Larger NGOs receiving the higher funding amounts have specialised corporate support systems to help manage the tendering, contracting, performance monitoring and reporting requirements that have become a standard feature of Government funding in the human services field. Managing such processes is more challenging for smaller organisations. The sector capacity building work currently being undertaken with the support of funding agencies could usefully include the development of skills and shared organisational infrastructure to help smaller NGOs to meet the requirements of this funding environment.

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*Red Tape Issues for NGOs:*





## SECTION 2

# RED TAPE – ISSUES AND RESPONSES

This report has examined the three major stages in the NGO funding cycle: the selection or procurement process; contracting; and performance monitoring, reporting and acquittal.

The report proposes two phases of reform of NGO funding administration to reduce red tape. The first phase of reform involves a number of immediate actions to reduce red tape, for implementation before July 2010. The next phase of reform will involve further examination in 2010 of identified areas of red tape burden on NGOs, with a view to a further tranche of reforms.

### SELECTING

- Agencies use a variety of methods to decide on funding allocations to NGOs:
- renewing ongoing funding on an historical basis, subject to adequate performance;
- direct allocation negotiated with an individual NGO;
- select tendering from a limited group or panel;
- open tender; and
- expression of interest (EOI), both single and two stage.

The past five years has seen a move away from a traditional approach of continuing to renew funding to NGOs on an historical basis and calling for applications for new funding with limited requirements in the application process. With the substantial growth in funding to the NGO sector, Governments have put in place more competitive and transparent processes for the allocation of new funds.

Select and open tendering on a competitive basis, and EOI processes, have been increasingly introduced with rigorous processes associated with them which have placed new demands on the NGO sector. Many NGOs were not well equipped to respond to this shift in approach to funding and smaller NGOs have been particularly critical of what they see as onerous processes which may disadvantage them. These smaller NGOs do not necessarily have the corporate infrastructure needed to support the added complexity associated with competitive tendering.

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The capacity building work that is being undertaken through CS (*Keep Them Safe*) and ADHC (*Stronger Together*) should include development of skills and corporate infrastructure to support smaller NGOs to respond to tendering and staged EOI processes. This is an area that may be suitable for shared back-of-office support for groups of NGOs.

### Problems with Selecting – the NGO Perspective

NGOs large and small have felt the burden of what they experience as excessive red tape in funding selection. Some of this occurs because of the lack of coordination across agencies and across funding programs within agencies. The following examples of red tape burden have been identified by the NGO sector:

- NGOs may be required to repeat information that should already be available to the funders, because it has been previously provided;
- there is limited capacity for e-lodgement of tenders and EOIs which can lead to costly copying and sending of multiple copies of documents;
- the timing of tender processes may not be co-ordinated, with tender processes overlapping, placing heavy demands on the administrative resources of NGOs;
- there are sometimes inconsistent tender requirements across agencies, programs and regions - NGOs may have to develop new proposals for similar services; and
- the amount and complexity of tender/EOI information can be disproportionate to the amount of funding involved or type of service or program being funded.

### The NSW Government Response

The Government has identified the following key opportunities for improvement:

- using electronic lodgement systems
- reducing the amount of information required by using data and information available within the agency
- consistent tendering processes

The following actions are proposed:

#### *Short-Term Actions*

To achieve immediate reductions in red-tape the following actions will be implemented immediately to be fully in place by July 2010:

- reduce information required from NGOs in the tendering process – where information has already been collected by agencies through tendering or monitoring processes, including external QI (eg ISO9000);
- develop and apply standard questions across agencies for NGO tenders on capability / management / financial viability;
- introduce word limits on tenders; and
- introduce e-tendering (optional), and ensure information requested in tenders does not compromise the e-process.

### *Further Actions*

To achieve further red-tape reductions, additional areas will be examined for opportunities for reform during 2010, including:

- establishing more pre-registration panels, with automatic eligibility for providers with a consistent record of performance and reliability.
- establishing a risk framework for NGO funding across CS, ADHC and Health that would relate tendering and EOI processes to risk.
- standardising funding selection processes to reduce regional and program variations within and between agencies.

## CONTRACTING

There is a wide range of types of contracts used across the three major funding agencies (CS, ADHC and Health). Each agency has its own contracts with terms and conditions often spanning up to 40 pages. These are accompanied by schedules specifying requirements for services being funded, which can run to considerable length. These contracts can be used in a “one size fits all” approach across a broad range of funding amounts and service types.

### *Problems with Contracting – the NGO Perspective*

This contracting environment presents a number of problems for NGOs, particularly those funded across a range of programs and/or agencies. NGOs have identified the following concerns in relation to contracting:

- the terms and conditions vary across contracts although the objectives are common;
- NGOs with funding across agencies and programs have to administer multiple contracts and juggle sometimes conflicting terms and conditions (eg. insurance requirements);
- it is sometimes unclear what benefit some of the terms and conditions deliver to the agency; and
- NGOs sometimes perceive no tangible benefits of good performance – for example the option of a renewable term if performance is good or efficiency targets have been achieved.

The following are areas where changes to contracting practices would provide red-tape relief to NGOs:

- standardising common terms and conditions across the three major funding agencies to reduce variations in contracts;
- using a form of contracts commensurate to funding risk with simpler contracts for lower risk and smaller amounts of funding;
- eliminating terms and conditions which arguably deliver little tangible benefit for funding agencies;
- reducing the frequency of effort in tendering/EOI processes by offering longer contract terms, subject to performance; and
- standardising insurance requirements.

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## The NSW Government Response

The Government has identified the following key opportunities for improvement:

- standardise and simplify contracts
- use different forms of contracts commensurate to funding risk
- offer longer contract terms subject to performance
- standardise insurance requirements

The following actions are proposed:

### *Short-Term Actions*

To achieve immediate reductions in red-tape it is proposed that the insurance requirements in funding agreements be standardised across CS, ADHC and Health. Implementation will begin immediately to allow this to be fully in place by July 2010.

### *Further Actions*

To achieve further red-tape reductions, additional areas will be examined for opportunities for reform during 2010, including:

- developing a small suite of contracts, proportional to funding risk and with standardised plain English contract terms;
- offering longer contract terms for established programs and service providers with a consistent record of both performance & reliability and subject to ongoing performance and consistency with Government priorities and funding availability.

## MONITORING, ACQUITTAL & REPORTING

Agencies have adopted a broad range of monitoring, acquittal and reporting practices. Examples of practices used within agencies, include:

- annual compliance statements, financial reports (some audited), insurance details, and organisational details;
- risk based self-assessment and site quality audits;
- progress status reports on some funding projects;
- collection of Minimum Data Sets (MDS) and reporting data;
- meeting prescribed requirements specified within applicable legislation and by the Commonwealth under a range of agreements;
- relationship contacts, both phone and in-person; and
- industry/sector relationships.

### Problems with Monitoring, Acquittal and Reporting – the NGO Perspective

A number of processes were flagged by NGOs as involving a high red-tape burden. NGOs generally accepted the need for monitoring and reporting, but expressed specific concerns about a number of aspects including:

- inconsistencies across agencies and programs, for example, different quality management and accreditation systems;
- site audits for each location, along with large ‘self-assessment’ audits which can be time consuming;
- the depth of scrutiny is sometimes considered disproportionate to risk;
- inconsistent financial thresholds for audited statements (see Table below);
- requirements for audited statements on every program funded, rather than one consolidated annual audit for each NGO;
- high costs of audited statements (\$2,000), regardless of the value of the funding;
- agencies operating separately with limited sharing of financial information; and
- NGOs who receive funding from more than one agency needing to provide similar information in different ways to each agency.

Agency	Current requirements for audited annual statements
ADHC	Threshold of \$100,000 for many NGOs
CS	Various threshold rules for: <ul style="list-style-type: none"> <li>• Less than \$25,000</li> <li>• Between \$25,000 and \$100,000</li> <li>• Over \$100,000</li> </ul>
Office of Fair Trading	Threshold of \$200,000 revenue to be introduced in early 2010

### The NSW Government Response

The Government has identified the following key opportunities for improvement:

- mutual recognition of other agencies’ monitoring activities
- apply monitoring requirements prescribed by legislation or agreement consistently
- apply performance based monitoring
- standardising thresholds for external financial audits based on funding risk, providing relief to low-risk/ amount NGOs
- consistent risk based approach to unspent funds & reconciliation accuracy.

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The following actions are proposed:

### *Short-Term Actions*

To achieve immediate reductions in red-tape the following actions will be implemented immediately to be fully in place by July 2010:

- introduce consolidated audits across all funding programs, supported by project based income and expenditure statements;
- introduce common thresholds for audit requirements and harmonise those thresholds with the Associations Incorporation Act 2009;
- accept audited statements from all professional accounting or auditing bodies that meet Australian auditing standards;
- introduce a standard chart of accounts for funding agencies (reflecting the outcome of COAG on 7 December 2009).

### *Further Actions*

To achieve further red-tape reductions, additional areas will be examined for opportunities for reform during 2010, including:

- implementing mutual recognition of other agencies (and external QI) monitoring activities for core capabilities;
- introducing more quantitative performance monitoring of service providers to reduce the reliance on qualitative reporting;
- considering a single consolidated financial audit to be shared between funding agencies; and
- moving towards outcome based monitoring to assess compliance rather than financial reporting, where appropriate.

## SECTION 3

# RECOMMENDATIONS

### SHORT-TERM ACTIONS

**1. The following immediate steps will be taken to reduce red tape for NGOs with full implementation by July 2010:**

- Reduce information required from NGOs in tendering process – where information has already been collected by agencies through tendering or monitoring processes, including external QI (eg ISO9000);
- Develop and apply standard questions across all agencies for NGO tenders on capability / management / financial viability;
- Introduce word limits on tenders;
- Introduce e-tendering (optional), and ensure information requested in tenders does not compromise the e-process;
- Standardise insurance requirements in funding agreements;
- Introduce common thresholds for audit requirements, and consolidated audits supported by project based income and expenditure statements, and harmonise those thresholds with the Associations Incorporations Act 2009.
- Accept audited statements from all professional accounting or auditing bodies that meet Australian auditing standards;
- Introduce a standard chart of accounts for funding agencies (reflecting the outcome of COAG on 7 December 2009).

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## FURTHER ACTIONS

2. Further reforms of NGO funding administration will be examined by the NSW Government in partnership with the NGO sector throughout 2010.
3. These further reforms will examine, but not be limited to, the following areas which present possible opportunities for further red tape reductions for NGOs:
  - Establishing more pre-registration panels, with automatic eligibility for providers with a consistent record of performance and reliability;
  - Establishing a risk framework for NGO funding across CS, ADHC and Health that would relate tendering and EOI processes to risk;
  - Standardising funding selection processes to reduce regional and program variations within and between agencies;
  - Developing a small suite of contracts, proportional to funding risk and with standardised plain English contract terms:
  - Offering longer contract terms for established programs and service providers with a consistent record of both performance & reliability and subject to ongoing performance and consistency with Government priorities and funding availability;
  - Implementing mutual recognition of other agencies (and external QI) monitoring activities for core capabilities;
  - Introducing more quantitative performance monitoring of service providers to reduce the reliance on qualitative reporting;
  - Considering a single consolidated audit to be shared between funding agencies;
  - Moving towards outcome based monitoring to assess compliance rather than financial reporting, where appropriate.



# APPENDIX

## APPENDIX 1: NGO CONSULTATIONS:

- Southern Youth and Family Services Association Inc: Norelle Clay
- Illawarra Forum: Helen Backhouse
- Coomaditchie United Aboriginal Corporation: Sue Leppan
- The Salvation Army (NSW) Property Trust: Rhonda Gregory
- Canterbury City Community Centre Inc: Liz Masii
- Riverwood Community Centre Inc: Pauline Gallagher
- Albury Wodonga Community Network Inc: Vivian Voss
- Granville Multicultural Community Centre Inc: Paula Chegwidden
- Hawkesbury Community Outreach Services Inc: Yvonne Impiombato
- Access Community Group: Samantha Hill
- National Disability Services (NDS): Patrick Maher, Gordon Duff
- Disability Services Australia (DSA): Tony Lund
- NCOSS: Alison Peters, Lucinda McDermot
- Nepean Area Disabilities Organisation (NADO): Denise Heath
- Nepean Community College: Eric Wright
- Sector independent consultant: Adrienne Talbot-Thomson

## APPENDIX 2: NGO FUNDING IN THE HUMAN SERVICE SECTOR<sup>2</sup>

Table 1 shows funding provided to the NGO sector and the number of providers for the three major human service agencies. In 2007-08 the amount of funding to NGOs was approximately \$1.5 billion, with the majority of funding provided by ADHC (58%).

**TABLE 1: Funding to NGOs: ADHC, CS & NSW Health (2007-08)**

Agency	Total Funding to NGOs	Number of Providers	Average Funding
ADHC	\$913,556,603	846	\$1,079,854
CS	\$491,418,227	1599	\$307,328
NSW Health*	\$70,236,156	177	\$396,967
<b>TOTAL</b>	<b>\$1,475,237,986</b>	<b>2622</b>	<b>\$562,638</b>

\* NSW Health data is for centrally-allocated funds only. If Area Health Services funding to NGOs is included, total funding for NSW Health is \$130,042,575. A further \$100 million was provided from other recurrent Health Service budgets to NGOs. This brings the total Health funding to NGOs in 2007-08 to \$230,042,575 and the overall total funding to NGOs to \$1,635,017,405.

Table 2 illustrates the breakdown of funding levels across the NGO sector by seven agencies (ADHC, CS, Health, Housing, AGD, DJJ, DCS). The table shows that approximately 37% of NGOs receive less than 3% of the total funding to NGOs, while 11% of NGOs receive over 72% of the total funding.

**TABLE 2: Breakdown of Funding Levels to NGOs (2007-08)**

Funding Level	NGOs (% of Total NGOs)	Total Funding (% of Total Funding)
Between \$0 - \$100,000	893 (37.5%)	\$45,655,311 (2.95%)
Between \$100-500,000	977 (41.1%)	\$220,702,946 (14.25%)
Between \$500,000-\$1m	238 (10%)	\$163,329,086 (10.55%)
Over \$1m	272 (11.4%)	\$1,118,653,078 (72.25%)
<b>TOTAL</b>	<b>2,380 (100%)</b>	<b>1,548,340,421 (100%)</b>

<sup>2</sup> This section uses data from *Effective Measures for the Support & Development of the NGO Sector in the delivery of Human Services (2009)* report by Nexus Management Consulting (Nexus Report).

Table 3 presents data on NGOs that are funded by more than one agency. The table shows that over 86% of NGOs receive funding from just one agency, accounting for almost 60% of all funding.

*TABLE 3: Multi Agency Relationships (2007-08)*

Multi Agency Relationships	NGOs (% of Total NGOs)	Investment (% of Total NGOs)
Single Agency	2056 (86.39%)	\$923,454,961 (59.6%)
2 Agencies	275 (11.55%)	\$399,805,168 (25.8%)
3 Agencies	39 (1.64%)	\$132,315,749 (8.5%)
4 Agencies	8 (0.34%)	\$71,364,361 (4.6%)
5 Agencies	1(0.04%)	\$15,228,843 (1.0%)
6 Agencies	1 (0.04%)	\$6,171,339 (0.4%)
<b>TOTAL</b>	<b>2,380 (100%)</b>	<b>1,548,340,421 (99.9%)</b>



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