



INDUSTRY
COMMISSION

Charitable Organisations in Australia

Overview

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PREFACE

This publication is an Overview of the content and recommendations of the Commission's report on Charitable Organisations in Australia. The terms of reference for the Inquiry are reproduced at the back of this publication.

The full report is contained within a single volume. It can be purchased from Commonwealth Government bookshops.

Commissioners

For the purposes of this Inquiry and report, in accordance with section 41 of the industry Commission Act 1989, the powers of the Industry Commission were exercised by:

W I Scales AO
Presiding Commissioner

R G Mauldon
Associate Commissioner

Sister M M McGovern AO
Associate Commissioner

OVERVIEW

The report seeks to strengthen the contribution which the charitable sector makes to Australian society. It is premised on the view that the sector should be encouraged to flourish by:

- strengthening its capacity to provide services for its clients in accordance with its values of individual care and dignity;
- strengthening its capacity to raise its own resources by encouraging people to give time and financial resources;
- establishing and maintaining a professional relationship with governments; and
- improving management and service practices by creating opportunities to evaluate itself against its own members, government agencies and for-profit firms.

All the proposals made in the report are directed to these ends.

The core issues addressed in the report are:

- ***IMPROVING QUALITY OF SERVICE FOR CLIENTS;***
- ***RESOURCING THE SECTOR THROUGH:***
 - direct government funding;
 - indirect government funding via tax concessions;
 - direct funding from the community;
 - direct funding from clients; and
 - contributions of volunteers.
- ***ACCOUNTABILITY;***
- ***SUPPORT MECHANISMS:***
 - benchmarking for improved performance;
 - research and development and consultation;
 - staff and management training; and
 - peak councils.
- ***DEVELOPING CO-RESPONSIBILITY BETWEEN THE SECTOR AND GOVERNMENTS.***

SCOPE AND SIZE OF THE SECTOR

Australia is supported by a charitable sector ...

Like most modern democracies, Australian society is supported and served by a not-for-profit charitable sector which delivers a range of social welfare services to its citizens. In this role the charitable sector is a crucial partner with business and government, which it complements but with which it also contrasts.

... which underscores many basic values.

The sector in Australia pre-dates any form of comprehensive government intervention on behalf of people in need. It arose from the compassion, goodwill and foresight of men and women of philanthropic, humanitarian and religious convictions and has continued to serve, expand and diversify since early colonial days.

The charitable sector underscores many basic values in Australian democracy. It exemplifies the principles of pluralism, free choice and the rights of citizens to participate in and take responsibility for their community. It helps ensure that no government has a monopoly on the way society deals with its citizens — especially those who are most vulnerable because of economic or personal need.

Although the terms of reference for this Inquiry are entitled ‘Charitable Organisations’, this terminology is rarely used now in describing this sector. Furthermore, some of the services referred to in the terms of reference are not popularly thought of as charities. The report adopts the name Community Social Welfare Organisations (CSWOs) when referring to organisations in that part of the sector under review. The name Non-Government Development Organisations (NGDOs) is used in relation to that part of the sector involved in overseas aid.

This Inquiry does not specifically examine organisations which are dedicated to the supply of health or education services. Nor does it examine religious services provided by many organisations which provide social welfare services. These are outside the Inquiry’s terms of reference.

The scope of the sector is broad.

The sector provides a large range of services including care, accommodation, support and counselling or training to children, families, people with a disability, older people, the unemployed, those suffering addictions, the homeless and refugees. In overseas locations about 120 Australian NGDOs support the creation of social and economic infrastructures vital for development. CSWOs are also critical for the support of many people in times of natural or civil disasters and economic

hardship.

CSWOs operate in a mixed economy of social welfare — together with government agencies and for-profit firms. Each group operates in different ways with different objectives, priorities and strengths. CSWOs deliver their services within a framework of principles which stress the value and dignity of individual persons, no matter what their economic or social status.

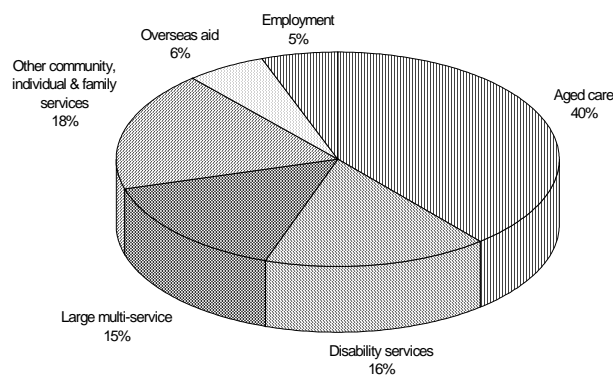
| Clients served by some selected CSWOs during 1992–93 | |
|---|---------------|
| <i>Type of service</i> | <i>Number</i> |
| <i>Nursing homes</i> | |
| Beds | 27 000 |
| <i>Hostels</i> | |
| Beds | 51 000 |
| <i>Home and Community Care</i> | |
| Meals delivered (daily) | 55 000 |
| <i>Disability services</i> | |
| Clients during the year (of member organisations of ACROD) | 215 000 |
| <i>Supported Accommodation Assistance Program Services</i> | |
| Numbers per night | 12 000 |
| <i>Lifeline</i> | |
| Calls during the year | 400 000 |
| <i>Salvation Army</i> | |
| Clients during July to September 1993 | 72 000 |
| <i>St Vincent de Paul</i> | |
| Visits during the year | 1 260 000 |

Some 10 000 to 11 000 organisations spend \$4.8 billion.

Some 10 000 to 11 000 CSWOs in Australia receive government funding. In addition, an unknown number of organisations operate with no government funding and rely on volunteers and donations from the public for their existence. The sector's combined total annual expenditure was \$4.8 billion in 1993–94, of which governments funded more than \$2.7 billion. Recipients of some social welfare services — particularly in aged care — themselves contribute significantly to the overall support of the

sector. Client fees in 1993–94 were some \$1 billion. Indirect funding from governments (Commonwealth, State/territory and Local) in the form of tax concessions — in excess of \$400 million per year — also provides considerable support for the sector. The sector employs about 100 000 people, many of them women who work part-time. It also provides an avenue for a wide cross section of people to contribute to welfare services through their gifts of time, skill, money and material resources.

Size of the sector by service type — all government funded organisations, 1993–94



Some organisations are very large ...

Some organisations, such as the Australian Red Cross, the Salvation Army and the Sydney City Mission, are very large — with hundreds of paid staff and volunteers in multiple locations. The largest organisations have annual revenue well in excess of \$100 million and asset values of a similar order. The largest 50 organisations each have recurrent annual expenditures in excess of \$10 million, and collectively spend some \$1.6 billion, about half of which comes from governments. Many of the larger CSWOs have church sponsorships going back to the last century.

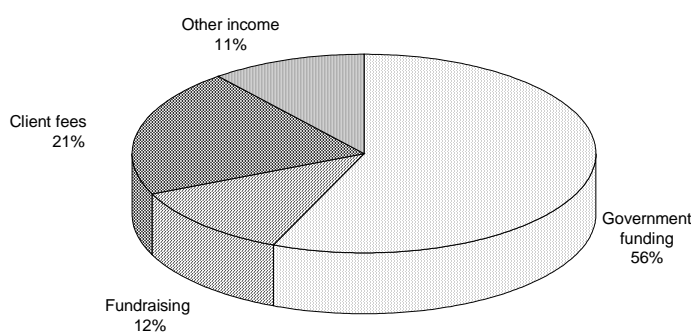
... but most are small.

Most CSWOs, however, are small, generally employing fewer than five staff and spending less than \$100 000 annually. These agencies are often based in local communities or communities of special interest and adopt what they describe as a community development mode of operation. Community development became widely established during the 1970s and proponents say it is designed to empower local people to resolve their own problems or cater for their own needs. They frequently offer one specific type of service and depend heavily on governments for their funding. Some of the smallest CSWOs are self help groups

operating out of someone's home, where the kitchen table serves as the office and all the human resources and financial costs are borne by the members of the group.

Behind all this activity stands the Australian community which contributed more than \$580 million by way of financial donations in 1993–94. This support is recognised and encouraged by the Commonwealth government through the deductibility of donations to certain classes of CSWOs from the donor's income for tax assessment purposes. In addition, the community contributes some 95 million hours of voluntary time each year to support the work of the sector.

Sources of recurrent income — all government funded organisations, 1993–94



Governance

The sector is governed by voluntary boards or committees of management. Most CSWOs and NGDOs are incorporated as state or national bodies. These organisations — especially those which are large or national in their scope — tend to have professional management structures. Some organisations are part of larger church structures and are answerable to the ecclesiastical body which sponsors them. Many, however, are unincorporated associations or have no corporate identity at all. In some community-based organisations decisions are made by consensus and the lines of authority between the board of management, staff and clients are often blurred.

Many CSWOs are members of peak councils which help co-ordinate developments within the sector. Peak councils also provide avenues for the sector to relate collectively to governments.

Legal structures vary.

Professional knowledge base

Inputs come from the social, behavioural and health care sciences.

The sector is a repository of knowledge and skills of human service delivery which are essential to Australia's effective social welfare policy. The service methods which many CSWOs employ rest on a substantial body of knowledge derived from the social, behavioural and health care sciences. These disciplines form the basis of the education of the professional core of workers in the sector. Training in the practical application of this knowledge takes the form of individual casework, work with groups, community development work, conflict resolution, mediation and advocacy skills. These are generally supplemented by skills in management, social research, policy development and social planning. Many of these skills are brought to the sector by volunteers as well as by paid staff.

Relationships with governments

Governments have a key role in setting welfare priorities ...

A division of responsibility has been established by convention and law between the social welfare activities of the sector and governments. The Commonwealth government is responsible for establishing national priorities and for allocating resources to achieve social welfare objectives within those priorities. These include the provision of all social security arrangements and payments — running at \$43 billion in 1993–94. The Commonwealth government's biggest areas of responsibility and funding of social welfare programs are in residential aged care, disability employment services, child care and employment programs.

The Commonwealth government also jointly funds some programs with the State/territory governments. The major programs are Home and Community Care (HACC) for the frail aged and the Supported Accommodation Assistance Program (SAAP) for the homeless and those in crisis. The States/territories also fund some programs without tied Commonwealth funds. The major areas are disability services; community, individual and family support; and care for children at risk.

Governments seek to ensure equity of access to social welfare services and adequacy of service quality. They have increasingly delegated responsibility for actual service delivery or the creation of new social welfare services to CSWOs. Where this occurs, governments have the concomitant obligation to finance and support those organisations. In return, governments have the right and responsibility to require strict accountability for the outlay of community resources.

Notwithstanding its accountability obligations to governments,

... but an independent and trusted sector is close to clients.

the sector enjoys the freedom of operational independence, since CSWOs are in fact self-governing bodies, not arms of government. This enables them potentially to respond immediately and flexibly to new community needs. They can quickly call on their own resources and mobilise people to give their time and finances to assist those in need.

The closeness of many CSWOs to their clients and their circumstances enables them to contribute to and critique social policy. Their independence enables them to exercise discretion on behalf of individuals or groups at risk and gives them the opportunity to take initiatives and innovate in forms of service delivery. They can establish trusted identities and reputations which become embedded in local and national culture and contribute to social cohesion. This enables services to be delivered to those in greatest need with the minimum of stigma.

It is on the basis of these complementary functions that governments and the community social welfare sector co-operate for the good of Australian society. Both governments and the sector can improve the ways in which their relationships operate. In the report the term ‘co-responsibility’ is taken to be consistent with notions of competence and accountability and the different contributions which each party brings to the relationship. This encompasses the desire of the sector to work closely with governments as they devolve greater responsibility for the care of those in need, and the preparedness of the sector to adopt quality management systems as part of the process of reducing government regulation.

Scope of the Inquiry and report

Describing and quantifying the sector is difficult ...

The contribution of CSWOs to community wellbeing is poorly documented. The task of describing and quantifying the sector is difficult because of the large number of small organisations involved, the sector’s not-for-profit character and the voluntary nature of a significant part of its funding and human resourcing. While the report does not attempt to evaluate individual programs of care, it does begin the tasks of describing the sector and the numerous services it provides. This is attempted in Chapters 1 and 3. The ways in which the sector is resourced are examined in Chapters 4, 5, 6, 9, 10 and 11.

The sector’s response to the Inquiry was generally positive. More than 780 submissions were received. Many submissions were discussed publicly during 37 days of public hearings held across the country. The Commission visited over 200 organisations, both large and small, to discuss matters of concern. This input from participants was invaluable.

Major themes advanced by the participants are drawn together in Chapter 2. A common observation of participants was that the sector is able to provide services in ways that are more user-friendly than the ways of governments or the for-profit sector. Many participants spoke of the culture of the sector which enables staff and volunteers to 'go the extra mile' on behalf of a client who is in need.

... but core issues emerge.

The report makes recommendations on the core issues which emerged during the Inquiry. There was a coherence and overlap in the major issues presented, though they arose in many different geographical locations and contexts of service. The report is written in the current social policy context of governments favouring the devolution of service delivery to CSWOs. It also seeks to embody the principles of social justice enunciated by both the sector and the Commonwealth government, and to make them operational within the environment of delivering social welfare services.



IMPROVING QUALITY OF SERVICE FOR CLIENTS

The sector must continuously strive to improve service quality.

It was widely agreed by participants in the Inquiry that the sector must continually strive to improve the quality of services it provides for its clients, many of whom are not able to secure the services they require within the market system unless they are assisted to do so. The Commission believes that all aspects of the relationship between governments and the sector, including the incentives which governments provide for the community to support the sector, should promote a client focus in service delivery and an improvement in service quality. During the Inquiry, the Commission gained the impression that the sector understands that being concerned about the quality of service provided to individuals dignifies those people during times when their self worth is often at its lowest.

Many CSWOs have already embarked on building quality into their service delivery functions and their management processes. In the aged care and disability fields, governments have taken the lead and established service standards which apply nationally. Other sub-sectors are currently developing service standards (for example, community care of the aged and long day care services for children).

Current service standards involve high regulation.

The disadvantage of many of these methods is that they leave the sector subject to a high degree of regulatory inspection to ensure compliance with requirements of government funded programs. While many participants agreed with the goals of service standards, they found this constant monitoring by various levels of governments to be intrusive, inefficient and prone to stifle initiative and inventiveness.

The Commission considers that the adoption of quality management systems — accredited to standards acceptable to the sector and governments — is a way to ensure quality service outcomes of an acceptable standard. Such processes would protect the rights of clients and free up the resources and energies of agencies to allow them to deploy and manage their resources more independently. They would also provide governments with the accountability which they require in their acquittal of expenditure on behalf of the community.

Quality management systems ...

Once in place, quality management systems would release government resources currently tied up in program-by-program regulation and inspection. However, the adoption of accredited quality systems would not be costless. The short term financial costs to government of assistance in resourcing their

development and adoption should be offset, at least partially, by the medium to long term gains to government from reduced regulation and inspection.

Recommendation 1 (14.1 in the report)

The sector, in co-operation with Commonwealth and State/territory governments, and where appropriate with for-profit providers, should develop quality management systems in conjunction with standards for the sector. Such systems and standards should be designed with a view both to improving the outcomes of service delivery and reducing the level and costs of prescriptive regulation.

To the extent that governments and the sector agree on the adoption of quality management systems and standards, Commonwealth and State/territory governments should:

- fund the development of these systems and standards; and
- assist in resourcing service providers to obtain initial accreditation of their quality management systems.

Such systems and standards should be implemented with appropriate transitional arrangements.

This recommendation deliberately does not specify the nature of the quality management systems to be developed. They could be an extension of current sector-specific accreditation systems such as the Community Health Accreditation and Standards Program (CHASP) which operates widely in the community health services sector; or a generally-accredited certification approach based on the International Organisation for Standardisation's ISO 9000 series, with a guideline document designed specifically for human services.


... and self-regulation of quality might be a better way.

Because it is costly and onerous to achieve quality of care by inspection of standards, it is desirable to encourage self-regulation of quality of care within the sector. Quality management systems could be a vehicle for this to happen, and a basis for government entering into a funding agreement with a CSWO. Many CSWOs have their own approaches to ensuring quality, and any quality management system adopted by

governments and the sector should be capable of accommodating, at least in the short term, the sector's current processes.

Recommendation 2 (14.2 in the report)

Where quality management systems and standards have been agreed, governments should normally seek expressions of interest for service delivery from potential providers which have these systems in place.



RESOURCING THE SECTOR

The sector believes resources are too small for needs ...

A paramount issue for service providers is the belief that the resource base on which the sector operates is too small to enable it to deliver the services which the community needs. This was said to be poignantly evident during the recent economically difficult times of recession and drought when all forms of human need rose.

Needs, as the sector and its clients experience them, are not subject to a controlling force, as exists in normal markets for goods and services. In such markets the wants of consumers are limited by prices. Most welfare services have no such built-in self-limiting mechanism, so it is always likely that resources for them will not match perceived needs in the community. This dilemma must ultimately be resolved by community choices and political priorities through the processes of parliament.

... although governments have not been unresponsive.

Governments were not unresponsive in this regard during the recent recession. For example, while the base levels may not be comparable, spending by State/territory community service departments rose between 1989–90 and 1993–94 by 20 per cent in Victoria and 92 per cent in New South Wales after inflation. Because of the inherent element of social choice which must drive these decisions, the Commission considers that it is not appropriate for the report to address the overall level of financing of the sector by governments in competition with other budgetary priorities.

However, the report does take account of the financial relationships that are already established between governments and the sector. It examines their adequacy in the context of governments increasingly using CSWOs to deliver social welfare services. These strategies will best serve the community when the financial arrangements that accompany them ensure that quality, flexibility and efficiency are realisable goals.

Direct government funding

Governments are the major funder.

Governments directly fund close to 60 per cent of the sector's recurrent expenditure, though larger CSWOs are generally less reliant on government funding than smaller organisations. But whatever the structure of the funding of CSWOs, it is important that the principles and procedures underlying the selection of CSWOs which governments fund and the basis on which they are funded be clearly articulated, widely known and efficiently implemented.

To reduce the impediments which potential providers face, governments should produce and publish a set of principles which they use when calling for expressions of interest for funded service delivery and a set of criteria for the selection of providers.

Recommendation 3 (16.2 in the report)

Commonwealth and State/territory governments should develop a set of principles for the selection of service providers. These principles should include:

- applications normally be called by public advertisement;
- information sought in applications be as simple and standardised as possible;
- service and quality management standards be clearly specified;
- selection criteria be prioritised;
- timetables for the assessment and notification of applicants be specified;
- unsuccessful applicants have access to the reasons for their non-selection; and
- applications for provision of services be co-ordinated to encompass inter-related services.

Open tendering procedures should normally be followed ...

Procedures adopted to implement these principles should normally be those followed in open tendering. Open tendering need not compromise the values of co-operation and collaboration within the sector. In fact, tendering can bring complementary parties together. Joint ventures and prime/sub-contracting are common features of tender arrangements in other sectors of the economy.

Client groups need to have the assurance that CSWOs selected for funding will effectively and efficiently fulfil the objectives of the funded programs. Governments also need to ensure that funded organisations are capable of achieving best practice, and that poorer performing CSWOs which cannot lift their performance or form co-operative alliances to offset their disadvantages, vacate the field in favour of more effective

Organisations should be encouraged to express interest in service delivery.

CSWOs.

For these reasons it is important that a wide range of organisations be encouraged to express interest in service delivery, that existing providers be periodically reviewed, and that new providers be given the opportunity to deliver services subject to the continuity needs of clients and the dislocation costs of change.

Recommendation 4 (16.1 in the report)

Procedures for the selection of service providers should be transparent and designed to encourage a range of providers to express interest in delivering services.

Procedures should be in place to ensure that service providers are reviewed from time to time and new providers are given the opportunity to deliver existing services

Any assessment of changing from the existing provider should consider costs not met by the new provider, including:

- discontinuity of services for clients;
- redundancy of use-specific assets; and
- other costs, for example extra transport of clients or dislocation of staff of the current provider.

Accountability requirements of governments should be streamlined.

CSWOs which deliver services on behalf of governments require adequate and secure funding, efficient means for receiving and acquitting funding, and the assurance that any disputes with the funder will be equitably resolved.

To avoid needless cost in meeting the information requirements of the various CSWO stakeholders, accountability requirements of governments should be streamlined, but funded CSWOs should still be required to abide by Australian Accounting Standards.

Recommendation 5 (15.5 in the report)

Commonwealth and State/territory governments should develop a consistent set of principles for funding agreements across all programs:

- agreements to be multi-year, typically three year;
- agreements to be legally enforceable;
- accountability provisions to be streamlined;
- accountability provisions to be consistent with Australian Accounting Standards; and
- dispute resolution procedures to be built into agreements, preferably by independent mediation.

Methods of selecting can be price competitive or fixed price.

Providers might be selected on the basis of price competitive tendering to deliver a service of specified quality. In such cases, governments would not need to base a funding agreement on unit costs of service provision. Alternatively, governments may seek service providers on a fixed price basis, with price determined from the costs of existing suppliers or constructed from models of costs required to meet specified standards of care.

Price competitive tendering arrangements usually favour larger well-established CSWOs which are more capable of obtaining resources from the general public. Fixed price tendering cannot lead to lower costs of service provision, but can be a means of selecting the provider with the potential to deliver the best quality of care.

Recommendation 6 (15.2 in the report)

Where governments set the price at which they purchase a service, they should take into account all cost components required to deliver the service, including, in addition to human resource costs (see Recommendation 7):

- organisational support;
- meeting wider objectives of governments such as consultation, access and equity objectives; and
- program development and evaluation.

Funding arrangements should take all cost components into account.

Because human resources are such a large component of the total inputs of most CSWOs, it is appropriate that special focus be placed on human resource needs in any fixed price funding arrangements. Particular human resource costs which have frequently been ignored in funding are those of volunteers and ongoing professional training of staff.

It is also important that the flexibility of CSWOs not be compromised by any employment conditions imposed by governments. The sector currently has a very flexible workforce because of the high level of part-time employment and the widespread use of volunteers. Any changes in employment conditions which governments may prescribe in service standards or awards should be taken into account in funding agreements.

Recommendation 7 (5.1 in the report)

Where governments set the price at which they purchase a service, they should take into account:

- training, co-ordination and indemnification of volunteers involved in service delivery;
- training of staff involved in service delivery;
- training of board members and administrative staff required for organisational support; and
- any changes governments prescribe in award or other employment conditions.

Funding agreements based on these principles would offer better services to clients. Together with longer term agreements (Recommendation 5) they would offer more security to CSWOs about the adequacy and tenure of funding, and greater opportunities for long term planning for staff development. They would also require governments to be explicit about what is and what is not being funded and about any wider social responsibilities which they expect of CSWOs. The implication of a move to full-cost fixed-price funding is that, in a situation in which resources for community social welfare resources are fixed, fewer CSWOs would be funded, although those which are would be funded more adequately.

Whether providers are selected on a price competitive or fixed price basis, governments need the assurance that they are getting value for money as well as the assurance of standards of quality in the delivery of services. It is widely accepted that efficiency

Payments should be for outputs of defined quality ...

must go hand in hand with quality outcomes.

Funding agreements based on outcomes (such as a changed state or behaviour of clients) rather than inputs (such as salaries or rent) would improve efficiency and effectiveness in the sector. However, in most cases outcomes cannot be fully achieved and assessed within a feasible funding period. As more research is undertaken, it may be possible for funding to have a greater focus on outcomes of service delivery. But until better methodologies are available, performance should be measured via outputs (such as clients served) with a defined level of quality rather than as outcomes achieved for the client.

Recommendation 8 (15.1 in the report)

Payments under funding agreements should be for achieving defined outputs or outcomes wherever possible.

In defining outputs or outcomes, the quality of service should be incorporated through appropriate service standards.

Output based funding has the advantage that the funding for each unit of a particular type of client service is the same for all service providers in similar geographic situations. But account may have to be taken of different operating environments. Adjustments may have to be made, in particular, for service providers in rural and remote areas. Problems in these areas arise not only from higher costs than in urban and larger regional centres, but also from difficulties in assembling a critical mass of financial and human resources to undertake the range of services expected in more densely settled communities. The funding of a network of organisations in rural and remote areas could ensure the provision of a range of services, either directly or in alliance with other local or external CSWOs.

... or salaries and overheads where outputs cannot be clearly defined.

A small number of services have no clearly defined measurable outputs or outcomes: for example, activities provided within a community development framework which proponents argue is designed to empower people rather than to provide for their immediate needs. CSWOs providing such services should be funded by first, separating any direct service component and funding that within the principles contained in Recommendation 8, then determining the inputs required to provide the overheads and staffing to maintain the other activities and funding these separately. Performance assessment can then take into account the processes involved in providing the service.

Recommendation 9 (15.3 in the report)

Funding agreements for Community Social Welfare Organisations should be of two kinds. Most funding agreements will be for service delivery programs which have defined outputs or outcomes which should be funded in accord with Recommendation 8. Funding agreements for programs where outputs or outcomes cannot be clearly defined, for example community development, should be based on achieving jointly-negotiated and agreed objectives, and payments should fund (or part fund) overheads and staff salaries.

Changes will require enhanced competence by governments.

A new regime of service providers selected by open tender and funding agreements based on the purchase of defined outputs/outcomes would require enhanced levels of competence by governments in dealing with CSWOs. The costs of tendering could be reduced for CSWOs if governments were to reduce delays in handling expressions of interest, develop effective monitoring procedures and deal fairly with disputes. The relationships between governments and CSWOs could have a more professional emphasis if the standards expected of governments were more clearly specified.

Recommendation 10 (16.3 in the report)

Commonwealth and State/territory governments should review the structures, skills and operational protocols of government agencies in the light of their changing relationships with Community Social Welfare Organisations.

Indirect funding via tax concessions is important.

Indirect government funding via tax concessions

Apart from some \$2.7 billion funded directly from governments, the sector receives considerable indirect funding via tax exemptions. These vary between classes of CSWOs and include exemptions from tax on income, sales tax, fringe benefits tax (FBT), property taxes, payroll tax and some other charges. Further, donors to certain classes of CSWOs can claim a deduction against their income for tax assessment purposes. Being indirect, these concessions are not as transparent as direct

funding from government appropriations and therefore to a considerable extent disguise the full cost of social dislocation. The Commission considers that, in aggregate, tax concessions could be as significant to the sector as funding from donations — well in excess of \$400 million per year.

Exemptions from income tax

Income should remain free of tax ...

Income earned by CSWOs is tax free. Income which could be taxed is a difficult concept to define for CSWOs. Furthermore, as they are not-for-profit organisations, exemption from income tax provides little assistance for most CSWOs.

Recommendation 11 (12.1 in the report)

The Commonwealth government should retain the income tax free status of Community Social Welfare Organisations.

In Australia, the dividend imputation system results in companies paying tax only on behalf of their shareholders, who receive tax credits for the company tax paid. However, dividend imputation may have unintended consequences for some CSWOs, since, as non-taxable recipients, CSWOs cannot use tax credits to offset other taxation liabilities. This may bias the investment decisions of CSWOs and charitable trusts (and other tax exempt bodies) to favour investments offering higher unfranked but lower after tax returns.

Recommendation 12 (12.8 in the report)

The Commonwealth Treasury should conduct a review to determine the most cost effective way of removing any distortions faced by Community Social Welfare Organisations due to the dividend imputation system in Australia.

... as it does not disadvantage competitors.

Exemption from income tax permits some CSWOs to generate income from commercial activities without tax liability. The Commission examined whether exempting CSWOs from paying tax on surpluses from their commercial undertakings unfairly advantages them in their competition with for-profit firms. It concluded that the way in which for-profit firms compete with not-for-profit organisations will not be affected by whether tax is

or is not paid on any surpluses from commercial activities. This is because, being an after-profit tax, its payment or non-payment should not affect the behaviour of an organisation when deciding how to set its prices and how to minimise its costs.

Although CSWOs do enjoy some benefits from better cash flow, the exemption does not necessarily lead to resource misallocations. Offsetting these benefits from improved cash flow, CSWOs find it more difficult to access capital — both equity and debt — than their for-profit competitors. Furthermore, executives of for-profit firms have the incentive of being able personally to gain from earning profits. The overall competitive benefits which would flow from altering the tax free status of business profits of CSWOs are unclear, but likely to be small. The principal effect of removing the income tax exempt status of commercial activities of CSWOs would be to lower the funds available to them for their community service activities. The Commission, therefore, does not propose any changes.

Deductions of donations from income for tax

*Tax deductibility
for donations
promotes choice
and giving ...*

Those CSWOs which provide direct relief to people in need (as opposed to those which prevent needs from arising or which advocate for those in need) can receive Public Benevolent Institution (PBI) status which allows donations to them to be deducted from donors' incomes for tax assessment purposes. Tax deductibility can lever greater funds for CSWOs from the public than are forgone in tax revenue. So it can be an efficient, though indirect, means for the Commonwealth government to fund CSWOs. It also allows the public to decide which organisations should receive support from the government. Although this may result in the priorities of the government not being met in as focussed a way as would occur from direct funding, it does decentralise the manner in which public support of CSWOs is decided.

The Commission supports the principle of tax deductibility. However, the benefit of tax deductibility is currently restricted to PBIs and some other listed organisations. This favours CSWOs which have tax deductibility status over other CSWOs in their ability to raise funds. CSWOs in the latter group are often small and provide services in more indirect ways such as advocacy or self help. The Commission considers that distinctions within the sector for tax deductibility purposes should be removed.

*... and should be
extended ...*

Extending tax deductibility to all CSWOs is unlikely to lead to a significant cost to the Commonwealth government. The current direct cost to the government of deductibility of donations to eligible CSWOs is estimated to be up to \$80 million per year. Most donations to CSWOs are currently received by those which

have PBI status. If making all CSWOs eligible for tax deductibility were to increase donations by, say, 15 per cent, the gross revenue loss to the government would likely be about \$10 million. Offsetting this is the leverage of funds from the public which could be greater than the loss of revenue to the government.

Recommendation 13 (12.2 in the report)

The Commonwealth government should allow tax deductibility of donations made to all Community Social Welfare Organisations that:

- relieve poverty or benefit the community through the advancement of social welfare; and
- are incorporated under the form of incorporation outlined in Recommendation 27.

PBI status also generally acts as a benchmark which exempts organisations from Commonwealth sales tax and FBT, as well as some State/territory taxes. It must be stressed that the recommended extension of tax deductibility would not extend PBI status to those organisations which do not have it, so it would not extend eligibility for other tax exemptions. Nor would it, of itself, remove any concessions to CSWOs that already have PBI status. The Commission does, however, consider that the current tax law in regard to PBI status is archaic and discriminatory, and its administration is often inconsistent.

... with the \$2 lower limit removed.

A number of participants argued that the \$2 lower limit on the deduction allowable for tax purposes is costly to administer. The Commission proposes that no upper or lower limits be placed on the size of donations which are allowable for tax deductibility purposes. CSWOs themselves should decide on what receipts they will issue and record for deductibility purposes.

Recommendation 14 (12.3 in the report)

The \$2 lower limit for donations in order to gain tax deductibility should be removed. Individual organisations should decide which donations are to be treated as tax deductible — for which they would issue receipts and keep records in the prescribed way.

Bequests should not be subject to capital gains tax.

Any bequest to a CSWO eligible for tax deductibility is subject to capital gains tax, even though any capital gains made by a CSWO do not incur tax. Further, if the ‘bequest’ were given to the CSWO prior to the death of the donor, donation deductibility would have offset capital gains tax. Many participants claimed that this tax treatment of capital gains discourages individuals from bequeathing assets to CSWOs and may impose a tax burden on other beneficiaries who, in effect, have to pay the capital gain on an asset left to a CSWO. The Commission considers that this anomaly should be removed.

Recommendation 15 (12.7 in the report)

Assets bequeathed to charitable organisations that enjoy tax deductibility status should be free from any capital gains tax liability.

Input tax concessions are not supported...

Input tax concessions

CSWOs benefit from a variety of Commonwealth and State/territory input tax concessions. Many CSWOs claimed that they depend critically on these concessions, and that their withdrawal would seriously threaten their viability. However, indirect funding of the sector via concessions on input taxes rewards the use of specific inputs rather than outputs or outcomes achieved. They do not discriminate between good and poor performing organisations, so it cannot be ensured that they target resources on social priorities. Furthermore, tax concessions disguise the costs of addressing social needs and therefore reduce the urgency for society to resolve these issues at their source.

These concessions therefore can result in CSWOs providing inappropriate services or not providing appropriate services at least social cost. An important issue for governments and the

sector to address is whether this is the best way to spend nearly \$400 million which the Commission estimates are the annual revenue costs to governments, and whether there are more effective means of financing the alleviation of hardship and distress.

... but reform is difficult to achieve ...

Input tax concessions are, however, easy and cheap to administer and, like income tax concessions, they decentralise decisions about where the funding of CSWOs should be directed. But for these reasons they also lack transparency. Without better information it is not possible to design alternative arrangements which would deliver comparable funding at lower cost without severely dislocating the sector. The administration of input tax concessions is also inconsistent. Reform is complicated by the split between Commonwealth (sales and fringe benefit taxes) and State/territory (property and payroll taxes and some other charges) responsibilities.

In its Draft Report the Commission observed that the Council of Australian Governments (COAG) is in a position to deal with issues involving the re-alignment of funding arrangements between the Commonwealth and State/territory governments. It proposed that COAG should establish a working party to examine the practicability of introducing a revenue neutral package of assistance for the sector in order to replace the current range of input tax exemptions.

After further consideration, the Commission has been unable to identify any practicable mechanisms by which a general change in the current approach to input tax concessions could be achieved without the costs of the reform outweighing the benefits. However, the Commonwealth and State/territory governments could facilitate a partial solution by removing input tax concessions from activities of CSWOs which are clearly competing directly with for-profit firms and reimbursing them directly to the extent that their for-profit activities contribute to their charitable work.

... although criteria should be simplified and standardised.

Although the Commission is unable to propose practicable general mechanisms for reform of input tax concessions, it considers that steps should be taken to simplify and standardise between the Commonwealth and the States/territories the criteria for granting tax concessions to CSWOs.

Recommendation 16 (12.5 in the report)

The Council of Australian Governments should simplify and standardise the criteria for input tax exemptions for Community Social Welfare Organisations with a view to reducing inconsistencies between taxes and across jurisdictions.

Furthermore, the Commission considers that the FBT exemption for PBIs, which the sector is only now starting to use in a major way, is a potentially open-ended incentive to transform salaries into fringe benefits. The Commission estimates that, even if its use by the sector were capped at 30 per cent of total remuneration of staff, the cost to the community through lost revenue could rise from its present level of up to \$40 million to be of the order of \$200 million. To the extent that this occurs, the tax exemption has the potential to discredit the whole sector, not just those organisations using it to full advantage. The cost of salary packages should be transparent and built into funding agreements.

The fringe benefit tax exemption should cease.

Since April 1994, separate from the FBT exemption enjoyed by CSWOs which are PBIs, a wide range of income tax exempt organisations have been eligible for a rebate on their FBT. This rebate effectively reduces their FBT to about half the rate paid by other organisations not receiving rebate benefits. The Commission considers that it would be preferable to terminate both the FBT exemption and rebate arrangements for CSWOs, but if the rebate arrangement does remain, it should also apply to all CSWOs which are PBIs.

Recommendation 17 (12.4 in the report)

The Commonwealth government should remove the exemption from fringe benefits tax of Community Social Welfare Organisations which are Public Benevolent Institutions in two years time. To the extent that income tax exempt organisations continue to receive a rebate on their fringe benefits tax, all Community Social Welfare Organisations should also receive this rebate.

The Commission considers that the rebate arrangement for FBT of CSWOs (and other income tax exempt organisations) which

are not FBT exempt should be reviewed.

Australians give to not-for-profit organisations ...

Direct funding from the community

Compared with donors of some other nations, and even taking into account the difficulties of making comparisons, Australians do not seem to be large private donors to not-for-profit organisations — about \$100 per capita from individuals, businesses, bequests and trusts in Australia compared with almost \$600 in the United States. Best estimates for annual giving in Australia in the early 1990s suggest individual giving to not-for-profit organisations (a wider group than CSWOs) totalling some \$840 million, business giving some \$470 million, bequests some \$260 million and trusts some \$122 million.

Such comparisons suffer from the fact that tax and social welfare systems and per capita incomes differ between countries. Also, community expectations about public support through government agencies and community organisations differ between countries. However, even if these considerations could be taken into account, there is considerable potential for Australians to increase their giving to CSWOs.

... but mostly to older, larger organisations.

The older, larger multi-service CSWOs which have PBI status are generally more able to raise funds from the public than smaller single purpose CSWOs which are not PBIs. Some types of service are more difficult to fund from public donations than others. Aged care services make relatively little use of public donations for their recurrent expenditures (relying more on client fees to augment government funding) while NGDOs appeal strongly to the public for support. The Commission's proposal that a broader range of CSWOs be eligible for donor tax deductibility (Recommendation 13) would remove one source of discrimination against the funding of some groups, although it is unlikely that removing this impediment would significantly increase their funding by the public.

Fundraising legislation is dated and needs reform.

Fundraising legislation

Fundraising activities are regulated by State/territory governments. Much of the legislation covering fundraising is dated, inconsistent and often regulates CSWOs differently from other organisations which raise funds from the public. Inconsistencies between States/territories in matters such as reporting and record keeping requirements and limitations on authorisations to raise funds hinder the efficiency of Australia-wide fundraising by national CSWOs. This can best be addressed by governments working together.

Trusts should be free to grow their assets ...

Recommendation 18 (9.1 in the report)

The Council of Australian Governments should consider approaches to achieving greater efficiency and effectiveness of fundraising regulation among States/territories. Two suggested approaches are:

- uniformity of legislation; or
- mutual recognition of legislation.

Specific consideration should be given to addressing issues of:

- public disclosure of the role of contract fundraisers;
- public nuisance and donor privacy; and
- the types of organisations to which regulation applies.

The community and supporters of CSWOs would benefit from being able to compare the fundraising activities of CSWOs over time and between organisations. But most States/territories lack the systems necessary to collect the information and make it available to the public in a useable form. Currently only New South Wales and Queensland make explicit provisions for public access to CSWO financial information of CSWOs in their fundraising legislation. In light of the problems involved with State/territory based financial reporting systems, the Commission considers that financial information requirements about fundraising should be met through a sector-specific accounting standard (Recommendation 24) and form of incorporation (Recommendation 27). Requirements about financial information currently found in State/territory fundraising legislation should be removed.

... and links to repealed inheritance tax laws removed.

Recommendation 19 (9.2 in the report)

When incorporation of Community Social Welfare Organisations under Corporations Law is achieved, financial information requirements currently found in State/territory fundraising legislation should be removed from State/territory legislation.

Charitable Trusts

Charitable trusts are an important source of finance for certain types of activities undertaken by CSWOs, but are restricted both in the ways in which they can develop their resources and plan strategically for the future, and in the types of CSWOs they can support. The Australian Tax Office requires trusts to distribute at least 85 per cent of their annual income if they are to retain their tax exempt status, even though the accumulation of income would allow them to distribute greater amounts in later years.

Recommendation 20 (10.1 in the report)

The Australian Taxation Office should not impose restrictions on the accumulation of income by charitable trusts. If necessary, section 23(j) of the *Income Tax Assessment Act 1936* should be amended to allow charitable trusts to accumulate funds, provided the whole of the funds and any income derived from them are used for charitable purposes. Any specific statement in the trust deed in relation to funds accumulation should, of course, continue to apply.

Charitable trusts receive tax deductibility status if they themselves distribute all their funds to tax deductible organisations. The current definition of a PBI restricts the range of organisations to which charitable trusts are able to distribute their funds. The removal of discrimination against non-PBIs for tax deductibility purposes (Recommendation 13) should resolve this problem.

Further, some older wills provide that institutions receiving money from charitable trusts must be exempt from inheritance taxes under the provisions of particular State/territory inheritance tax legislation. Although inheritance tax legislation and the taxes they impose have since been repealed, the restrictions in these wills still apply. Charitable trusts can apply to the court to have the exemption removed, but the number of trusts holding exemptions is limited and newer trusts cannot obtain them. The Commission considers that these restrictions should be removed.

Recommendation 21 (10.2 in the report)

State/territory governments should amend legislation to allow their Attorneys General to consider applications to waive restrictions imposed on trusts by inoperative inheritance legislation.

Direct funding from clients

Many clients pay some fee for the services they receive from CSWOs. Clients paying full fees help fund the provision of services to those in most need. Many participants spoke of the importance of maintaining self-respect among clients by requiring them to make a contribution for the services they receive, even though in some cases this payment may be small.

Client fees are a significant source of funding for some CSWOs. Of the \$4.8 billion of total sector expenditure in 1993–94, some \$1 billion came from client fees — mostly from aged people receiving care.

Client funding is significant and promotes client choice ...

Service users vary widely in their capacity to pay. Some services, such as family counselling, meet needs across a wide range of income groups, and many clients who are in a position to pay are expected to contribute to or fully meet the cost of the services they use. Other services are provided to groups for whom universal social security benefits are available subject to means testing. Pensions for the aged are the principal example. Residents of hostels often pay a substantial entry contribution and residents of nursing homes and hostels pay a percentage of their aged pension for their care.

Over time, it can be expected that more groups in the community will be funding their own care from savings, compensation packages, superannuation or social security benefits. This may present opportunities for the increased use of client fees while still recognising the need to take account of economic circumstances and individual need and recognise principles of access and equity and the desirability of not charging any fee in some instances.

... and over time more groups will fund their own care.

Recommendation 22 (11.1 in the report)

Community Social Welfare Organisations should have a publicly available policy on client fees for each of the services they provide. Governments should require such a policy as a part of funding agreements. The policy on client fees should be based on consideration of:

- economic circumstances; and
- individual need.

It should also recognise principles of access and equity.

Some clients could be funded directly by government ...

Direct government funding of clients

There will, of course, continue to be large numbers of service users without means from whom it is not practicable or reasonable to expect any contribution. CSWOs need to be adequately funded to meet their needs. For some services, however, an option for governments might be to fund people directly rather than to fund the organisations which deliver those services. Clients could then choose the mode and source of service delivery which best suits their needs, or do so through family members or a brokerage agency.

A type of direct client funding currently operates through the subsidy system for long day care and before and after school care for children. Several participants from the disability field, where some clients are currently funded from compensation packages, also proposed that greater emphasis be given to direct client funding. This may be an appropriate mode of funding for certain types of services.

... but opportunities are limited.

The types of services which would be amenable to direct funding of clients may, however, be limited. Markets may fail to provide services (eg adequate housing) to certain types of clients, and the scope for client choice is also inherently limited for clients experiencing certain types of disability and in many emergency situations. Some Inquiry participants were also concerned that individual client funding might result in a failure to fund necessary capital and administration, and could leave some individuals more vulnerable in terms of access to information, cost, appropriateness and quality of service.

To the extent that individual client funding is feasible, CSWOs and for-profit firms would be able to compete for client custom. This would enhance client choice about the provider of the

service and make the costs of service delivery more explicit. To the extent that funding is shifted in this direction, there would be a reduction of emphasis on governments directly funding CSWOs to provide services. This could increase the uncertainties facing CSWOs, but would create opportunities for the better performers to expand the services they provide. The Commission considers that individual client funding is an issue of social welfare policy which is currently under-researched.

Recommendation 23 (15.4 in the report)

Commonwealth and State/territory governments should examine the opportunities for individual funding for clients on a service by service basis, taking into account:

- the availability of current and potential service providers;
- service provider overheads;
- the ability of clients or their representatives to assess and monitor service quality; and
- the provision of information to help clients identify and access appropriate services.

Resourcing by volunteers

Volunteers contribute invaluable non-monetary resources to the sector. They are typically involved as providers of direct services to clients; as supporters of professional staff; as fundraisers; and as leaders through their membership of boards or committees of management.

It is estimated that some 1.3 million Australians contribute 95 million hours annually as volunteers in CSWOs. This is equivalent to about 50 000 persons working a 40 hour week. Volunteers also provide material inputs to some services. Australian Red Cross has over 500 000 voluntary blood donors. Although some Inquiry participants sought to place a monetary value on the work of volunteers, the Commission has not attempted to do so for both conceptual and practical reasons. This is not to under-value the enormous contribution of volunteers to the social services provided by CSWOs.

Volunteers contribute 95 million hours ...

... and need to be better recognised.

Some participants saw volunteers as a threat to greater paid employment or considered that volunteering undermined the

value of individuals. However, most within the sector saw volunteers as a community asset encouraging participation; keeping the sector in the hands of the community; and building networking skills. However, for volunteers to achieve their full potential in assisting the sector, they need appropriate supervision and training, both as service providers and as members of boards of CSWOs. For these reasons, resources need to be adequate for the training, supervision and insurance of volunteers. The needs of volunteers and the important role they can play should be recognised in the principles which Commonwealth and State/territory governments develop for their funding agreements (see Recommendation 7).

ACCOUNTABILITY

Accountability to the public needs tightening ...

The sector generally affirmed its commitment to account to the community for its use of resources. However, it stressed the difficulties it faces because of inadequate resourcing for this task. Participants also cited inconsistent and overlapping reporting requirements of governments which add to costs and inefficiencies, and are a source of great frustration to them.

Public accountability requirements of CSWOs across Australia are currently varied and ill-defined. This is partly due to the diverse legal structure of CSWOs; the lack of specific accounting standards for the sector; and the not-for-profit status of CSWOs which absolves them from the requirement to lodge tax returns.

Accounting standards

... for example by specific accounting standards, ...

The development of specific accounting standards for the sector would improve the accountability of CSWOs. It would help donors and the public generally to compare the performance of CSWOs; governments to assess the effectiveness of CSWOs in providing the services for which they are funded; and CSWOs to minimise their costs of accounting and reporting.

Recommendation 24 (8.1 in the report)

The Commonwealth government should provide funds to the Australian Accounting Standards Board and the Public Sector Accounting Standards Board to develop within two years suitable accounting standards for Community Social Welfare Organisations.

However, the absence of accounting standards for the sector should not stand in the way of funding agreements incorporating provisions which are consistent with existing general Australian Accounting Standards (Recommendation 5).

Accountability of NGDOs

Considerable interest was expressed during the Inquiry about the accountability of NGDOs. Particular concern was raised about

the need for readily accessible information in order to assess what proportion of donations to NGDOs actually reaches the intended recipients in developing countries and what is absorbed as overheads, fundraising and other costs. This particular concern about NGDOs probably arises because the services which they fund are less visible than those provided by CSWOs generally in Australia, and a greater proportion of overall revenue of NGDOs is raised directly from the public than for most CSWOs. Accounting standards developed from the process proposed in Recommendation 24 should also apply to NGDOs.

Notwithstanding this concern about the accountability of funding from the public, the Commission found that in many respects the accountability requirements of NGDOs for the use of government funds are more satisfactory than those of CSWOs as a whole. Indeed, the role of AusAID, and in particular the AusAID/NGO Cooperation Program (ANCP), was held up as a model for the entire sector. The ANCP is designed to supplement existing NGDO activities by providing financial subsidies for activities which promote sustainable development. The NGDOs identify development projects which meet their own priorities. As each participating NGDO becomes more established in the program and proves its credentials, it graduates through a three tiered system which enables it to gain greater funding and autonomy.

... regular reviews of tax benefits status for aid organisations ...

The size of the NGDO sub-sector has grown substantially in recent years. This is a reflection of increasing public support for it and its fundraising professionalism. This growth has increased the importance of high levels of accountability for donors and of high levels of confidence by the community that NGDOs are appropriate recipients of tax deductibility status.

Recommendation 25 (6.1 in the report)

AusAID and the Commonwealth Treasury should introduce processes of regular review to ensure that Non-Government Development Organisations and their approved funds still meet the criteria by which they were granted tax deductibility status.

Review of tax status

Reviews of favourable tax treatment should not be restricted to NGDOs. Once a CSWO establishes its charitable purpose with

the Australian Taxation Office (ATO), it currently retains its tax exempt status indefinitely. The organisation is required to inform the ATO of any change in its objectives which may alter its tax status, but there is no process by which the ATO monitors these tax exempt bodies. The situation is similar for the status of PBIs. The Commission was informed that many CSWOs were granted PBI status decades ago, and that it is doubtful whether some of them would now be granted that status by tests which currently apply to new applicants.

... and other CSWOs ...

In view of the considerable resources which CSWOs receive through tax concessions, the Commission considers that they should be subject to a process of review to assess whether their status should still apply. This would help assure the community that its resources are continuing to be used for the purposes for which they were originally designated.

Recommendation 26 (12.6 in the report)

The Australian Taxation Office should introduce processes of regular review to ensure that Community Social Welfare Organisations receiving tax deductibility status and other tax benefits still meet the criteria by which they were granted those benefits.

... and a uniform and relevant form of incorporation.


A special form of incorporation

The benefits to the community of uniform reporting by CSWOs under a sector-specific accounting standard (Recommendation 24) would be considerably enhanced if the financial statements of all CSWOs seeking their support were generally accessible. This would also allow a national database on CSWOs to be developed which would encourage public confidence and support. The Commission considers that a uniform and relevant category of incorporation is needed to ensure that the community receives the information it requires about the sector in return for the benefits it receives for its favoured tax status.

Recommendation 27 (8.2 in the report)

The Commonwealth and State/territory governments should establish a form of incorporation under the Corporations Law for Community Social Welfare Organisations. Such organisations would be required to report using the accounting standards proposed in Recommendation 24.

Following the adoption of a sector-specific accounting standard and incorporation of CSWOs under Corporations Law, there should be no need for special financial reporting requirements in State/territory fundraising legislation (Recommendation 19). The Australian Securities Commission would thereby be given the role of maintaining a national database about the sector and its fundraising.



SUPPORT MECHANISMS

Better support mechanisms are required.

CSWOs have organisational requirements similar to many other organisations in the public and private sectors. They need to have access to programs which support their management, and sources of information to support their research and policy development requirements. The sector uses significant amounts of community resources and it is important that these resources are used efficiently and the needs of people are met effectively across a range of services provided by the sector.

Several recommendations made in the report are designed to provide better support for the ways in which CSWOs operate. These focus on benchmarking for improved performance, the statistical and research needs of the sector, the role of boards and committees of management and the funding of peak councils.

Benchmarking for improved performance

The increasing importance of the sector in the delivery of services points to the need for constant striving to improve the quality of management systems (Recommendation 1) and within that framework to achieve and maintain best practice consistently across the sector. Some CSWOs have already introduced management techniques designed to improve their performance and benchmark themselves against others. But the application of benchmarking techniques is in its infancy in the social welfare sector. This technique sets reference points against which the performance of organisations can be assessed with a view to achieving best practice.

Benchmarking can improve quality and performance.

The Commission sponsored an exploratory study of benchmarking in the sector. The outcome of this and other studies suggest that establishing best practice programs within the sector could be of value, both to the sector and to the wider community. Equipping the sector with resources to identify and achieve best practice could lead to substantial improvements in sector performance. The challenge is to design benchmarking programs which do not compromise the sector's concern to provide individualised care of the highest quality.

Recommendation 28 (13.1 in the report)

The Commonwealth government should fund the establishment of a pilot best practice program for the sector:

- pilot projects should be chosen on the basis of expected net benefits and to cover all major sub-sectors — for example, disability services, home and community care, aged care and employment services;
- relevant Commonwealth government departments should develop pilot projects in consultation with the sector; and
- pilot project outcomes should be widely disseminated in the sector.

The information base about the sector is deficient ...

Statistics and research

The information base on which to develop public policy about the sector is deficient. There are many data gaps in the area of welfare statistics as well as differences in definitions and classifications between data collections. A lack of national focus also limits policy development.

A number of current developments under the auspices of the Australian Bureau of Statistics and the Australian Institute of Health and Welfare should begin to address this deficiency. The Commission considers that the development of a framework for the collection and publication of statistics is a high priority for ongoing research and policy development in the sector.

Recommendation 29 (17.1 in the report)

The Australian Bureau of Statistics and the Australian Institute of Health and Welfare should develop a framework for the collection and publication of statistics. These statistics should facilitate service planning by including information on:

- the programs delivered by Community Social Welfare Organisations;
- the characteristics of Community Social Welfare Organisations; and
- the clients of services.

During the Inquiry the Commission identified two particular

... and ways of funding and delivering services are under-researched.

issues about ways of funding and delivering human services which it considered were under-researched. These are the specification and monitoring of outcomes as a basis for funding and circumstances in which it may be appropriate for governments to fund individual clients directly. There are, of course, other issues in social welfare policy which impinge on service delivery which have high research priorities, such as ways of quantifying the benefits of preventative strategies in order to compare them with services which respond to acute crises.

Unlike the for-profit sector of the economy, there are no special programs at the level of individual organisations to fund research and development for CSWOs. Some of the larger CSWOs commit substantial resources to research, augmented in ad hoc ways from governments and trusts (which tend to focus on these activities). Funds are available for some specific areas of research of interest to CSWOs, such as the Research into Drug Abuse Program of the National Drug Strategy. While CSWOs can apply for funds under these programs, they are designed for a wider field of inquiry than service delivery.

Research is supported by governments in a range of other fields. This is because the gains it brings are perceived to be widely shared across the community. Where this is assumed to be the case, governments provide considerable funding. Many government funded research and development programs designed for the for-profit sector are not appropriate for not-for-profit CSWOs (for example, the 150 per cent tax deduction scheme).

Government departments and instrumentalities, such as the Australian Institute of Family Studies and the Australian Institute of Health and Welfare, do undertake research in human services delivery or sponsor it by way of universities, consultants or the piloting of trial programs by particular CSWOs. However, there is no specific government budget item for research in human services delivery.

The Commission considers that government funding of research projects in the field of human services delivery should be according to the principles recommended in relation to government funding of CSWOs. Furthermore, the Commission considers that any research which is a legitimate requirement for a CSWO's program of development and evaluation within a funded area of service should be recognised in the funding agreement.

The Commission has given some consideration to whether there should be a research budget allocation for the specific requirements of CSWOs, but has no basis at this stage for

An independent evaluation of funding for research is required.

evaluating how priorities should be established and resourced. No research council has been established for the sector along lines which operate in some other sectors to develop criteria for research funding and to allocate available moneys. The Commonwealth Aids Research Grants Committee could be a model. That Committee advises on priorities for research and the level of funding required; makes recommendations on the allocation of available funds; reviews research activities; solicits research in fields where there are deficiencies; and assesses the performance of applicants for funding.

Recommendation 30 (17.2 in the report)

The Commonwealth government should fund an independent evaluation of the extent and direction of funding for research into the delivery of community welfare services.

Such a review should:

- describe the funding available for research into service delivery;
- recommend any desirable redirection of existing funding; and
- recommend on funding arrangements which should apply to research into service delivery issues.

Staff and boards must be appropriately trained.

Training of staff and management

The emphasis given in the report to quality and performance improvement of CSWOs places particular responsibilities on professional staff and boards. A study of human resources in the sector conducted for the Commission showed that only 44 per cent of paid staff and 9 per cent of volunteers had some form of post-secondary qualification. Industry training boards and training advisory boards have been put in place in each State/territory in recent years in an attempt to develop co-ordinated training and certification programs for the sector, but they are yet to have a major impact.

By the not-for-profit nature of CSWOs, their boards or committees of management are almost always composed of volunteers. Under the Commission's proposal that most CSWOs be incorporated under the Corporations Law (Recommendations 13 and 27), board members would be exposed to whatever risks

attend that legal structure. In this context the governance, roles and responsibilities of CSWOs need to be clarified and board members need to be appropriately trained where necessary to carry out their functions.

The sector needs to include training explicitly in its strategic planning. The Commission supports efforts being undertaken in the sector to develop training and certification programs. The costs of training need to be recognised by governments and CSWOs in the preparation of set price funding agreements (see Recommendations 6 and 7).

Peak councils

CSWOs are themselves serviced by a large number of peak councils, many of which are funded by governments. There were almost 100 peak councils in 1978, and based on responses to a survey undertaken by the Commission the number may have more than doubled since then. Minimally, the relationship between the peak councils and governments should be spelled out in funding agreements which seek to define the role and services required of peak councils. Because peak councils usually have interests across several program areas, and funding them from a single program could compromise their autonomy, the Commission considers that cross-program funding is a preferred method except where the interests of peak councils fall within a single program.

Peak council funding arrangements need review.

Recommendation 31 (7.1 in the report)

Commonwealth and State/territory governments should review their funding policies and guidelines for peak councils to specify:

- appropriate roles and functions;
- responsibilities of funded peak councils and funding bodies;
- selection criteria;
- level and duration of funding; and
- mechanisms for regular review of criteria.

In view of the highly developed role of peak councils in the social policy dialogue in Australia, it is important that the review processes should involve them.



DEVELOPING CO-RESPONSIBILITY

The government-sector relationship needs improving ...

Throughout the report the Commission has taken the view that the government-sector relationship needs to be re-thought and improved. The sector used the term 'partnership' to describe this improved relationship. At many times and in a variety of circumstances during the Inquiry, CSWOs made proposals which they considered would place them on more equal terms in their relationship with governments.

The Commission considers that any operational policies based on the concept of partnership should be consistent with notions of competence, accountability and the different strengths and contributions which each party brings to the relationship. The Commission has preferred to use a concept of co-responsibility in this regard. The strengths which the sector brings to the relationship are its financial contributions raised from the public; goodwill within the community based on its value systems; professional skills and expertise of staff; and recognised advantages in service delivery which involves the contributions of volunteers. Strengths which governments bring apart from their financial contribution include a legislative framework; national, state or regional service delivery frameworks; and a commitment to access and equity.

... to recognise better their co-responsibility.

To the extent that each party contributes in these ways to government-funded services, relationships between governments and the sector are different from the normal commercial transactions of governments. The divisions of power also vary greatly. A small, newly-formed CSWO will not expect to have the same bargaining power with governments as a middle-sized organisation which has been established for more than a century or a large organisation which contributes sizeable money and capital. Yet there are benefits from sharing responsibilities, even with the smallest organisations. Governments, and some of the larger CSWOs, cannot avoid the necessarily bureaucratic forms of assistance which may lose sight of the individual as a unique person.

Quality consultation is needed at three levels, ...

The Commission's attention was drawn to a wide range of consultative mechanisms which operate at different levels of governments and their departments and with various parts of the sector. Some suggestions were made to the Commission that differently structured consultative mechanisms should be put in place for certain services. The Commission does not see that much is to be gained from imposing additional consultative structures. Rather, it is the quality of consultation which takes place within the various consultation arenas which counts. The

*... delivery
of specific
services, ...*

Commission has identified three tiers of consultation which are relevant in this respect.

At the level of delivering specific services there must be good teamwork between individual CSWOs and the program departments which fund them. Many CSWOs, particularly the larger ones, appear to have ready access to senior departmental officers, though some claim to be alienated from the process. The Commission considers that its proposals regarding quality management systems (Recommendations 1 and 2), funding agreements and selection of service providers (Recommendations 3 to 9) and government agency structures, skills and operational protocols (Recommendation 10) are the appropriate vehicles for bringing the parties together in better relationships at this level.

Other approaches need to be considered to develop better relationships. One is to encourage some CSWOs to tender voluntarily on behalf of others. Lead agencies would negotiate funding agreements with governments allowing smaller organisations increased opportunities to focus on service delivery. These lead agency organisations might manage all of the services for a particular region of specific service across a whole State or even nationally. This approach would only operate effectively when organisations voluntarily enter into these relationships.

*... program
development and
review ...*

Another approach is to encourage smaller organisations to form networks to integrate services in a particular region or a particular type of service. Representatives of the network could then negotiate agreements with governments.

A further opportunity for consultation occurs during program development and review discussions. These involve service development peak councils (such as ACROD) and service user peak councils (such as the Councils of the Ageing) and focus on specific areas of service needs. They also frequently involve, by invitation of departments, those CSWOs which are seen to use best-practice in the field. Considerable consultation appears to take place at this level, but the sector frequently claimed that it is locked out of the processes of formulating policy and is only able to respond to policy proposals once they have already been formulated. A considerable body of knowledge is to be found at this level which should be used by governments to enhance the development of public policy.

*... and social
policy.*

At the most general level, governments consult with the sector on a broad front of social issues. The relationship here is frequently taken up at ministerial level and with the social policy peak councils of which the Councils of Social Service are the most widely embracing. Given the political nature of this

relationship, the partnership between governments and the sector at this level can inevitably be tense.

As most of the funding of the larger peak councils comes from governments, it is important that the basis of their funding should not threaten the stability of these consultations when, from time to time, political positions differ. It is also important that funding does not become a means of co-opting CSWOs or peak councils as advocates for government policies. The proposal which the Commission has made with respect to specifying the role of peak councils in their funding agreements (Recommendation 31) is important in these regards.

Benefits for the sector

The proposed changes aim to ...

The report proposes some significant changes in the ways in which the community social welfare sector operates. These are designed to strengthen the capacity of the sector to provide services; to raise its own resources; to establish better relationships with governments; and to improve its management and service practices.

... establish a more assured basis with government ...

The recommendations should strengthen the sector's ability to provide services to its clients by placing CSWOs on a more assured basis with governments through their funding agreements. Agreements would typically be multi-year and legally enforceable; unless contracted for on a price competitive basis, they would take into account the full costs of the service (including support costs); and selection criteria and reasons for success or failure in tendering for service would be specified. Basing funding agreements on outputs rather than on inputs would improve the allocation of resources within the sector. Accountability to governments would be simplified between services and across government jurisdictions.

... encourage community support ...

The recommendations would encourage members of the wider community to give time and financial assistance to the sector. The training, co-ordination and insurance needs of volunteers would be recognised in funding agreements between CSWOs and governments. The extension of tax deductibility to most CSWOs would allow some groups to appeal more directly to the public for support. Uniformity of fundraising regulation between jurisdictions should reduce costs of national appeals, and reform of tax restrictions should provide a better basis for trusts to grow their assets and broaden their distributions to CSWOs. But of fundamental importance, the greater transparency and standardisation of information about the performance of CSWOs, and the drive towards best practice and quality management, should encourage even greater confidence by the community to

*... provide
assurance for all
parties ...*

support the sector.

These changes would promote a greater sense of co-responsibility between the sector and governments. Putting financial agreements on a sounder footing and building in dispute resolution procedures would provide greater assurance for all parties. Government would also receive comfort in its requirements to ensure best value for the community resources it spends in the sector through tendering processes which encourage best practice and build in quality assurance. Funding agreements with peak councils should also place their relationships with both constituent organisations and governments on a sounder footing.

*... promote
professionalism
...*

Greater professionalism by managers and employees would be built into funding agreements through the explicit recognition of the costs of organisational overheads; staff training needs; program development and evaluation; and any ensuing research and development requirements. Quality would be built in at all stages through quality management systems and related accreditation of services providing a common framework and set of standards for all providers, which would replace the need for constant inspection by governments. A pilot best practice program and the emphasis on quality management systems would lead to professional excellence at all levels of service provision. Longer and legally binding funding agreements would give greater security for staff employment.

*... and support
the values of the
sector.*

The proposals also are designed to support the values which, since its earliest days, have underpinned the sector's contribution to the community. They will help enshrine the principle that individuals and communities should have prior right to meet their own needs and those of families and fellow citizens.

Ultimately, however, all of the proposals are aimed at ensuring that CSWOs are even more capable in the future than they are today to cater for the diverse needs of a range of people in our community — people who have come to rely on CSWOs for the provision of high quality services, delivered with care and understanding.

TERMS OF REFERENCE

I, GEORGE GEAR, Assistant Treasurer, under Part 2 of the Industry Commission Act 1989 hereby:

1. refer charitable organisations in Australia to the Commission for inquiry and report within fifteen months (subsequently amended to eighteen months) of the date of receipt of this reference;
2. specify that for the purpose of this inquiry, charitable organisations be defined as:
 - (a) non-government establishments, organisations, associations or trusts that are primarily established otherwise than for the purpose of profit or benefit to the individual members of the organisations, and the principal objects or purposes of which are charitable or benevolent, and which provide any of the following:
 - (i) welfare services, including income support and the provision of clothing, goods and food;
 - (ii) community services, such as care in people's homes or community centres provided to frail older people, younger people with a disability, and those requiring post acute or palliative care;
 - (iii) accommodation services, such as emergency shelters and hostels, and homes for children, frail older people, or people with disabilities;
 - (iv) nursing or convalescent homes, drug referral and rehabilitation, and blood transfusion services;
 - (v) employment and training services for the unemployed and people with disabilities;
 - (vi) advocacy, referral, counselling, and legal services; and
 - (vii) emergency and development assistance overseas;
 - (b) any businesses owned by those organisations covered in paragraph 2 (a) above;
 - (c) any peak bodies which represent organisations covered in paragraph 2 (a) above; and
 - (d) any establishments or companies which provide fund raising services for welfare or charitable purposes;
3. specify that the Commission examine and report on:
 - (a) the size, scope, efficiency, and effectiveness of the services provided in Australia by charitable organisations;

- (b) the size and scope of, and funding arrangements for, those services delivered overseas by charitable organisations; and
 - (c) the administrative efficiency of charitable organisations;
4. without limiting the scope of this reference, request that the Commission report on:
- (a) the nature and appropriateness of the interaction between assistance and services provided in Australia by charitable organisations and those provided by government programs;
 - (b) the extent to which any assistance currently provided in Australia by any of governments, charitable organisations, or the private sector, could more effectively be provided by either of the others, having due regard to client confidentiality, comparability of eligibility conditions and entitlements across the nation and accountability of public funds and for services provided;
 - (c) the role of charitable organisations in the provision of goods and services to or on behalf of governments and competition between charitable organisations and business enterprises;
 - (d) the appropriateness of any legislation or regulations governing the activities of charitable organisations;
 - (e) the effect on charitable organisations of relevant industrial agreements and arrangements;
 - (f) the appropriateness of the present taxation treatment of charitable organisations;
 - (g) the effectiveness of current government financial or other assistance to charitable organisations, including any measures which could be taken to maximise the benefits of such assistance; and
 - (h) current funding sources of charitable organisations and any impediments to their capacity to raise funds or attract voluntary labour;
5. specify that in considering the effectiveness of the provision of services by charitable organisation and the appropriateness of their interaction with Government programs, the Commission have regard to the objectives of the organisations and the objectives of particular programs under which specific activities are funded;
6. specify that the Commission take account of any recent substantive studies undertaken elsewhere; and
7. specify that the Commission have regard to the established economic, social, industrial relations and environmental objectives of governments.

16 December 1993