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Contribution of the Not for Profit Sector
Productivity Commission
GPO Box 1428
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ICV is grateful it can make a submission to the Productivity Commission's inquiry into the contribution of the Not For Profit (NFP) Sector. This is an opportunity to highlight the need for reform in a sector that adds more in comparative terms to GDP than the mining industry.

Our submission focuses particularly on the following term of reference:

Consider options for improving the efficient and effective delivery of government funded services by community organisations; including improved funding, contractual and reporting arrangements with government, while having regard to the need for transparency and accountability.

Our key recommendations are:

- Eliminating unnecessary red tape on NFP organisations to save costs to governments and NFP organisations, improve efficiency and increase benefits to clients;
- Introducing a simple and generic quality assurance and rating system that measures governance and service delivery standards of NFP organizations;
- Adoption by NFP service providers of impact assessment reporting tools;
- Streamlining child protection and employment regulations across states and territories;
- On-going government funding given the effects of the global financial crisis;
- Increasing access to deductible gift recipient (DGR) categories; and
- Encouraging greater take-up rate of Public Benevolent Institution (PBI) status.

ICV would welcome the opportunity to talk about these matters further. We are available to participate in any Productivity Commission consultations or policy round table that might consider these issues in more detail.

A handwritten signature in black ink that reads "Gregory Andrews".

Gregory Andrews
CEO

29 May 2009

Australian Government Productivity Commission Contribution of the Not for Profit Sector Study

A submission by Indigenous Community Volunteers

Introduction

What is ICV?

Indigenous Community Volunteers (ICV) is a not-for-profit, non-government organisation founded in 2001. ICV helps Aboriginal and Torres Strait Islander peoples harness opportunities and assets available to them to overcome social and economic disadvantage through community and human development projects. ICV is helping to ‘close the gap’ on Indigenous disadvantage.

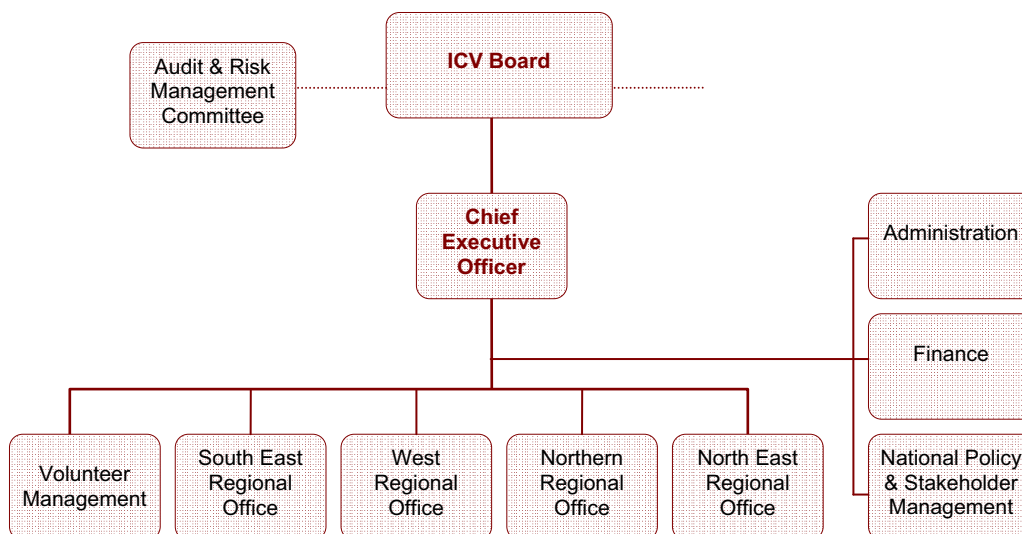
ICV’s core business is matching capable volunteers to community needs. ICV works in partnership with Aboriginal and Torres Strait Islander people - we do things ‘with’ them, not ‘to’ them or ‘for’ them. The evidence on community development shows clearly that this is important for sustainable outcomes.

ICV has approximately thirty paid employees, spread across its network in Canberra, Brisbane, Dubbo, Darwin, Perth, the Kimberley and Alice Springs. ICV transitioned from strictly skills transfer to a broader community and human development role in late 2008 believing it was a better way to deliver improvements in the wellbeing of Indigenous Australians.

ICV’s Structure

ICV’s Board has nine directors - including four Indigenous members. There is a Board Audit and Risk Management sub-committee. The Board is currently reviewing its structure and composition. ICV’s Chief Executive Officer reports directly to the Board. In late 2008, ICV restructured itself to better align project and volunteer activities and reorganised its regions to take account of where Aboriginal and Torres Strait Islander populations are and where demand for its services is highest. Figure 1.2 details ICV’s functional structure.

Figure 1.2: ICV’s functional structure



Source: Office of Evaluation and Audit (Indigenous Programs) analysis of ICV information.

Each regional office has a Regional Manger who oversees the work of Project Officers who engage with communities to design and initiate projects and match volunteers to them. The number of Project Officers in any region differs according to need and the number of projects the region handles.

Addressing Key Concerns of the Issues Paper

1 - Measuring the contribution of the not for profit sector

Volunteers contribute a great amount of time, energy, and unpaid support to the NFP sector.

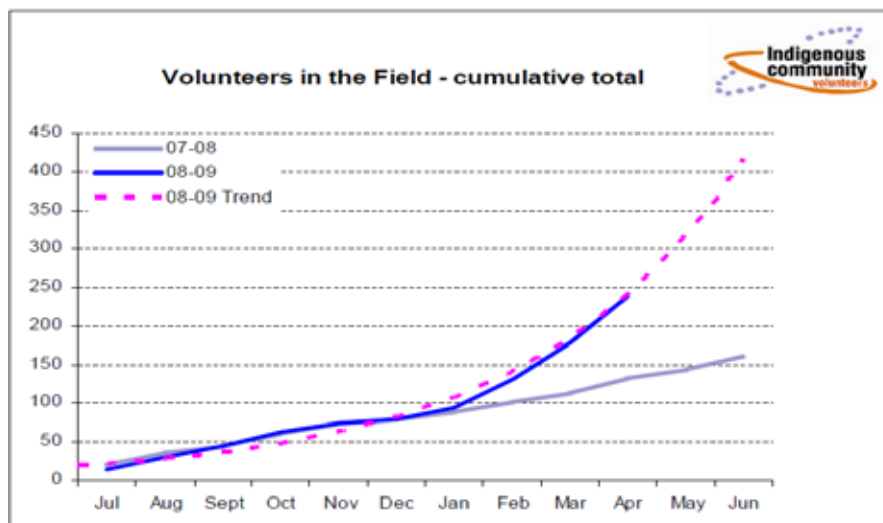
Volunteers make a valuable contribution to society in both economic and social terms. Volunteers provide services which would otherwise have to be paid for or left undone, allowing organisations to allocate their often limited finances elsewhere. The value of the work contributed by volunteers to non-profit institutions in 1999-2000 was estimated to be \$8.9 billion.”ⁱ

“Official estimates suggest that NFP institutions contribute almost ... 3.3% of Gross Domestic Product (GDP) in 1999 to 2000. ... When imputed wages for volunteer services are included, the contribution of NFP institutions increases to 4.7% of GDP.”ⁱⁱ ICV makes a contribution to this.ⁱⁱ

In 2006-2007 ICV placed 204 volunteers into the field. These volunteers contributed the equivalent of \$2,378,000 of their time and efforts or, on average, \$11,656.86 per volunteer. In 2008-2009 to date, ICV has placed approximately 250 volunteers in the field. Using the same calculation, this would mean that they have contributed approximately \$2,914,215.

On this trajectory, it is anticipated that by 30 June 2009, ICV will have 400 volunteers in the field who will have contributed approximately \$4,662,744.

Of course, these figures are input based and do not measure the community and human development outcomes of ICV’s work or the significant grass-roots effects of ICV’s programs on Reconciliation. ICV’s evaluations have indicated that Reconciliation is a major outcome of its work for both Aboriginal and Torres Strait Islander people and non-Indigenous Australians.

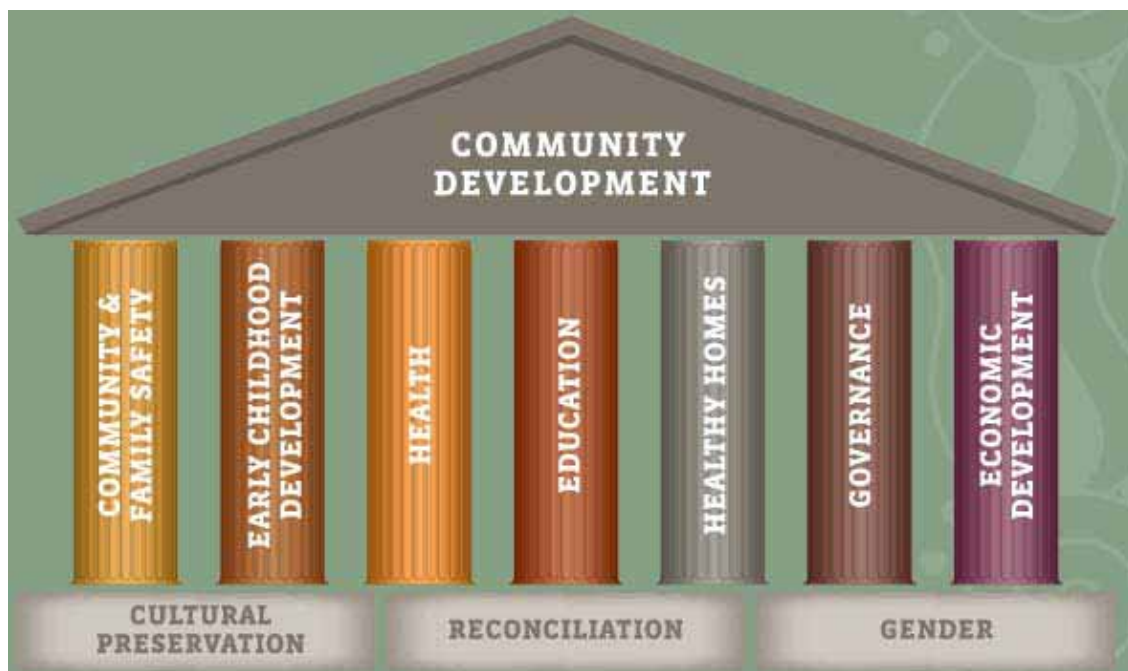


ⁱ Australian Bureau of Statistics. (2008) 4102.0 - Australian Social Trends, 2008. <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Chapter4102008> (Accessed 19 May 2009).

Outcome-based performance measurement

Volunteers are an extremely important asset to NFPs. And NFPs are an extremely important asset for Australia. Yet, depending upon analysis of the balance sheets of expenditure is insufficient. Quality as expressed in outcomes and evidence-based reporting is equally, if not more important. ICV is currently testing an outcomes-based monitoring and evaluation system with the intention of introducing the system across its operations from July 2009. We are calling this a Project Impact Assessment Tool (PIAT). Comprehensive implementation of our PIAT from 1 July 2009 will give us better data on ICV's real impacts with Indigenous communities. This will allow us to be more effective in targeting our resources to make a difference to the lives of Aboriginal and Torres Strait Islander people.

The new PIAT will report against the evidence-based Building Blocks for addressing Indigenous disadvantage that have already been identified and agreed upon by the COAG. It will allow us to measure and report on the impacts that our services are having. These will include changes that have been identified by Aboriginal and Torres Strait Islander people and communities, ICV volunteers, and ICV's Project Officers. The following diagram illustrates the way ICV works to close the gap and to address Aboriginal and Torres Strait Islander issues.



2 - Ways of enhancing the efficiency and effectiveness of the sector

Eliminating unnecessary red tape

There are several important issues that could improve the effectiveness of the NFP sector. The first of these is the reduction of unnecessary red tape or administrative burden – both internally and externally imposed.

Recently, the Minister for Families, Housing, Community Services, and Indigenous Affairs (FaHCSIA), the Hon Jenny Macklin, assisted ICV by dramatically reducing red tape and micro-management in ICV's major funding agreement with the Commonwealth. For example, reporting requirements in the revised funding agreement fell from twelve times per annum to twice a year. Overall, the reporting burden dropped

by 60%. Other red tape reductions have allowed ICV to manage its investment portfolio more effectively. This is allowing ICV to get on with its core business of working with Aboriginal and Torres Strait Islander people to 'close the gap'.

It is important to note that the NFP can also impose red tape on itself. Responsibility for elimination of unnecessary red tape does not lie only with governments. Through a business improvement process in late 2008, for example, ICV identified a range of its own unnecessary red tape. This red tape was discouraging communities from working with ICV, distracting ICV staff from focusing on outcomes, and hindering ICV's efficacy and capacity to make a difference. For example, ICV previously required communities to fill out two project application forms and also sign a project contract. Communities are now offered the opportunity of avoiding a formal application form all together. While still officially posted on ICV's intranet site, the project application forms are now unused. In the words of ICV's regional manager for South Eastern Australia, 'we have done away with them'. Instead, communities have a conversation with an ICV Project Officer and then go straight to the project contract stage. When offered the choice of avoiding filling out an application form, few if any people chose the latter. This is a good example of how NFP organisations can eliminate their own unnecessary paperwork. It was particularly unacceptable to communities that they had to complete two application forms under ICV's previous project application system. ICV's project contract and other documents such as proof of insurance are still completed. But the process now is much quicker and easier for ICV's clients and staff.

As a result of less unnecessary paper work, ICV has become more efficient. ICV achieved 200 per cent growth in the number of ICV's projects during the first four months of 2009, compared to 2008. Importantly, eliminating unnecessary paperwork and processes also allowed us to achieve this growth on a cost-neutral basis.

Unnecessary paper work requirements and other rules hinder good development and service delivery outcomes. While it is appropriate that organisations receiving government funding report on the use of that funding, micromanagement of the funding and irrelevant monitoring is burdensome and counterproductive. Unnecessary red tape imposed from either in or outside, results in many small organisation (which most NFPs tend to be²) spending an inordinate amount of staff time on reporting rather than doing what they have received funding to do.

Internal efficiency improvements

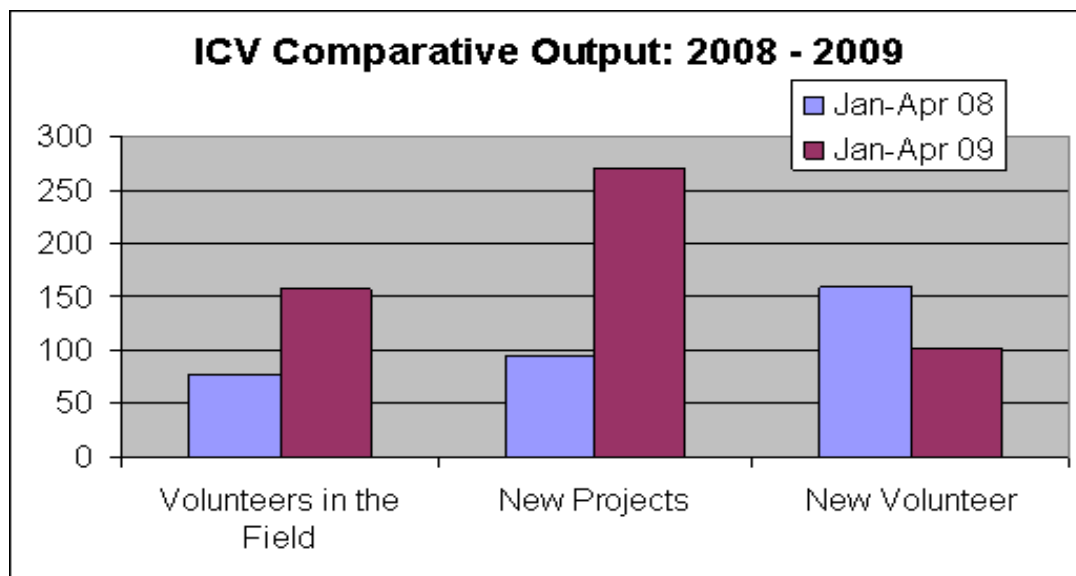
As a way enhancing its effectiveness, ICV adopted in its *2009-2011 Strategic Plan* what it calls "the Hyundai Getz" approach. This is a philosophical and practical policy position about quality, refinement, comfort and overall competence rather than a statement about a particular automobile. In 2008, a number of automobile associations declared the Getz the most economical and affordable car to own and run. To ensure that our procurement reflects our values as a non-government organisation serving Aboriginal and Torres Strait Islander people, ICV purchases high quality, reliable, economical and environmentally-friendly goods and services that meet our needs and those of our clients. We do not over invest to assure quality, refinement, comfort and overall competence. This is more than maximising value for money. It is a philosophical underpinning for a way of doing business that maximises expenditure on programs and minimises expenditure on infrastructure without sacrificing quality.

² The Australian Bureau of Statistics reported that as of June 2007, there were 40,976 not-for-profit organisations in Australia, which employed 884,476 people. This would make the mean size of NFPs 21 staff. ABS (2008) 8106.0 - Not-for-profit Organisations, Australia, 2006-07. <http://abs.gov.au/ausstats/abs@.nsf/Products/8106.0~2006-07~Main+Features~Overview?OpenDocument> (Accessed 22 May 2009).

This philosophy is not about buying the cheapest, it is about buying the most effective for the purpose at the lowest cost. ICV has a moral obligation to achieve desired outcomes for the best possible price.

In its *Annual Plan for 2009-10*, ICV has imposed a 10 per cent efficiency dividend on its non-direct project costs. While there has been some controversy in government circles about the effects of sustained efficiency dividends over many years on small government agencies, ICV sees significant merit in setting such a target for its own efficiency improvements. ICV has not previously imposed such formal and ambitious efficiency targets, and it would be fair to say that this has already resulted in significant savings.

As mentioned above, ICV has also enhanced its efficiency and effectiveness by reducing the administrative burden for communities applying for volunteer assistance – for example, by eliminating unnecessary or burdensome paperwork. In addition, ICV has increased the range of activities that it does in a way that reflects its human and community development model. The graph below shows the measurable difference between ICV's activities in January to April 2008 and January to April 2009 after it had started doing community development as well as improving its internal efficiency and reducing its own red tape. This significant growth has been achieved along with efficiency improvements. There has only been a three percentage point increase in ICV's budget position as a result of our growth.



Good governance

An extremely important asset for any organisation is good governance. ICV promotes good governance in its activities as well as within other organisations. From August to October 2008, the Department of Finance and Deregulation's Office of Evaluation and Audit (OEA) conducted a performance audit of ICV. ICV welcomed this audit and the subsequent report as a useful tool in assessing its governance, performance and areas where it can concentrate efforts on continuous improvement.

ICV sees significant merit in NFP's that are delivering services on behalf of governments having these or similar audits performed. Performance audits are more than a process of ticking with green pens. They are an external process of performance assessment and allow NFP service providers to ascertain areas of potential reform and business improvement.

Good governance is also a necessary condition for reduction of red-tape. To ensure that governments can take a hands-off approach and that organisations can deliver what they promise with government funding, it is critical that they are governed well. If they are governed well, they do not need to be micromanaged. But the government cannot assume that all organisations are governed well and are able to invest monies effectively on behalf of it. ICV therefore supports and encourages evidence-based initiatives that promote good governance.

ICV is in the early stages of discussions with the Office of the Registrar for Indigenous Corporations (ORIC) on how it can work with ORIC and Aboriginal and Torres Strait Islander people to improve the governance of ORIC-registered corporations.

Quality Assurance and Standards

Government, corporate and NFP sectors could benefit significantly from the establishment of a high-quality, well-recognised Quality Assurance and Standards System for the NFP organisations. A Quality Assurance and Standards System would allow governments to reduce unnecessary red tape with the assurance of good governance that is necessary for this to occur.

Currently, a variety of governance standards exist. But they have been developed mostly for the corporate sector. And they are applied inconsistently. Within the NFP sector there are some specific service delivery standards – for example in aged care, child care, disability services etc.

ICV believes that there could be benefit in exploring a more generic Quality Assurance system for the NFP service delivery sector that captures both governance and service delivery standards. These standards could be developed by a fully independent body in consultation with governments, corporate and non-government sectors.

After agreement on the standards, NFP organisations could voluntarily have their operations examined by an approved independent auditor. Once this process was complete, the organisation could be awarded a rating to reflect its governance and service delivery standards.

Any rating system adopted should be highly visible and easily understood by all stakeholders. The star rating system used to rank the energy efficiency of electrical appliances appears to be a good practical example of a system that works well.

The primary benefit for all sectors would be a common set of transparent standards that could be used to measure independently the quality and capability of an NFP organisation to deliver services on behalf of governments. For governments and corporations this is potentially vital information that can be used to inform their investment decisions. It would also help to identify potential risks and appropriate levels of monitoring and regulation.

There would also be significant benefits for NFP organisations. They would have a clear understanding of their strengths and weakness from an independent perspective across both the governance and service delivery areas.

This would help to inform what areas needed to be strengthened and improved. Organisations achieving a high rating could be rewarded by investors reducing the amount of regulation and reporting that is often associated with grants and funding administration. This would free high performing NFP organisations to spend more time on service delivery and less time on red tape wrangling and paperwork.

3 - Sector's provision of government-funded services

ICV depends heavily on the Commonwealth Government for support. Currently, ICV receives a recurrent grant of \$1.7m per annum until the end of the 2009-2010 financial year. In addition, when establishing ICV, the Commonwealth committed a capital base, which ICV invests and draws upon to support its projects and work.

The government funds ICV and ICV delivers services using government funding, so it would be fair to say that ICV provides government-funded services. And many of the projects that ICV facilitates have a traditional service delivery component. Often, these services would not be delivered to Aboriginal and Torres Strait Islander people without the support of ICV. For example, in early 2009 ICV conducted a Rheumatic Heart Disease (RHD) screening project for children in Central Australia where RHD rates are the highest in the world. Local community members advised that a key benefit of the project was that their children had the opportunity of this screening service. Without ICV's assistance, the long distances, logistics and costs of the screening would have prevented it. Furthermore, a number of local people were unaware that RHD was a problem that could be solved through screening and resulting treatment.

A key difference between traditional service provision and ICV's projects is that they are truly community driven. ICV's motto is that it does things *with* Aboriginal and Torres Strait Islander people, not *to* them and not *for* them.

Administrative complexities

A major concern for many NFPs is the inconsistent and heavy burden of reporting on their funding from government sources. Some organisations receive multiple funding from several government departments - and indeed several governments - to do a single task. Each department and government requires its own reporting, addressing its own set of criteria. Reducing administrative burden is thus both cost-saving to the government and to service recipients. By reducing unnecessary red tape imposed on the NFP sector, governments can make each dollar go further and hence improve the efficacy of service delivery investments they make through the NFP. In the international development sector, multiple donors from different countries sometimes combine their funding into one bucket through Sector Wide Approaches (SWAs). These SWAs combine donor resources, reduce donor overlap and significantly reduce administrative and red-tape complexity. Different governments and government departments in Australia could explore SWA-type approaches to support the NFP sector in its provision of services on their behalf.

As previously stated, FaHCSIA assisted ICV by reducing the reporting requirements from twelve times a year to twice a year. The reporting burden dropped by 60%. In turn ICV is doing the same for communities. ICV gives the support that governments cannot give or that Aboriginal and Torres Strait Islander people will not necessarily accept from governments. For example, the Titjikala Art Centre approached ICV to find a web-designer to help it develop its website. ICV found a volunteer, put the volunteer into Titjikala, and finished the project in less than six weeks. The community thanked ICV and stated that it would have taken over six months just to work through the red tape if it had approached a government department to get the same project done. This is a real comparative advantage of ICV and in one sense by investing in ICV the Commonwealth is taking a SWA-type approach.

Streamlining cross-jurisdictional regulatory frameworks

The differing regulatory frameworks of states and the Commonwealth government are a significant impediment to the efficacy of services delivered by the NFP sector, particularly when those services are delivered across jurisdictional borders. For example,

ICV has business locations in three states and two territories across Australia. Each jurisdiction has differing employment laws and regulations. Managing these differences consumes valuable resources and time that ICV could otherwise invest in its programs and services.

Variations in regulations across jurisdictions have a significant administrative burden. In some cases, they also threaten the quality of our programs and prevent ICV from providing the level of services to our Aboriginal and Torres Strait Islander clients that they request. For example, differing standards and procedures for obtaining appropriate checks for working with children are an impediment to ICV's business.

Improving the sequencing and planning of regulatory reforms

Poorly planned or sequenced regulatory reforms also affect ICV's capacity to deliver to its clients. An example of this is the local government reforms in the Northern Territory which over the past 12 months have obstructed ICV's capacity to respond to community requests for assistance. Uncertainty about Public Liability insurance created by the establishment of shires and consolidation of local Aboriginal councils has significantly reduced ICV's capacity to respond to Aboriginal people's requests for assistance.

4 - Trends and developments impacting on the sector

Global Financial Crisis

The effects of the global financial crisis on Aboriginal and Torres Strait Islander people - already the most disadvantaged Australians - will be severe. The global financial crisis will affect most harshly those Australians who are the least able to deal with it. Like other NFP organisations, demand for ICV's services is growing during this crisis. To provide the assistance that Aboriginal and Torres Strait Islander communities request and need, ICV will require on-going support from governments and the corporate Sector.

ICV's income is being affected by the crisis. ICV's investment income and corporate support is under stress. One major corporate sponsor has ceased its financial support despite recognising and appreciating the positive outcomes achieved for it by investing through ICV with Aboriginal and Torres Strait Islander people. Despite very strong demand for ICV's services, we expect it will be challenging to grow corporate financial support over the coming year as a result of the financial crisis. ICV's efficiency dividend program is one means of meeting funding shortfalls. ICV has also made a commitment over the short-term to draw into its capital base if need be to serve the needs of its clients.

But given the contraction in ICV's investment income and difficulty in attracting increased corporate support, the need of on-going government funding during and immediately after the global financial crisis will be high.

Deductible Gift Recipient and Public Benevolent Institution status

To address NFP financial issues that are being exaggerated by the global financial crisis, more NFPs need Deductible Gift Recipient status (DGR). "Only 20,000 of the nation's 700,000 not-for-profits can receive tax-deductible gifts".³ ICV has DGR status.

In addition to DGR status, many, but not all NFPs are eligible for PBI status. "A public benevolent institution (PBI) is a non-profit institution organised for the direct relief of

³ Our Community.com.au (nd) "The Australian Not-for-Profit Sector".
http://www.ourcommunity.com.au/funding/funding_article.jsp?articleId=103 (Accessed 18 May 2009).

poverty, sickness, suffering, distress, misfortune, disability or helplessness.”⁴ PBI status helps NFPs to operate and attract staff because special taxation exemptions allow them to provide their employees with tax free benefits. This is equivalent to providing the NFPs with extra funding. Salary packaging through the provision of fringe benefits is considered highly crucial to the successful recruitment and retention of quality senior staff. ICV is in the process of applying for PBI status. PBI status will allow ICV to compete with organisations that can afford to pay their staff more.

Concerted efforts to overcome Indigenous disadvantage and close the gap

The *Overcoming Indigenous Disadvantage Report, Key Indicators 2007* under its analysis of the ‘things that work’ identified, among other things, the following ‘success factors’:

- community involvement in program design and decision-making - a ‘bottom-up’ rather than ‘top-down’ approach;
- good governance;
- on-going government support (including human, financial and physical resources).⁵

These are the areas in which ICV works. ICV does things ‘with’ communities not ‘to’ them or ‘for’ them. ICV works on the principle of invitation. Aboriginal and Torres Strait Islander communities and individuals invite ICV to work with them in a ‘locally owned’ approach. This does not involve ICV imposing projects on them in a ‘top-down’ manner. ICV works with communities and individuals to develop good governance structures when communities ask ICV to assist them in that way.

While ICV attempts to work as quickly and as efficiently as possible to match a volunteer to a community’s needs, in dealing with Indigenous disadvantage, it is “confronted with problems which have multiple causes or which reflect longstanding economic and social issues”.⁶

Indigenous disadvantage is not something that can be resolved overnight. ICV is attempting to help Aboriginal and Torres Strait Islander communities confront a series of issues to help them master their future. But to do this we must also work with them to overcome the problems of the past. To secure a better future for Aboriginal and Torres Strait Islander people, ICV is overcoming and dealing with the trends of the past as much as it is considering the trends of the future.

ⁱ Centre for Corporate Law and Securities Regulation. The University of Melbourne. (2004) *Reforming not-for-profit regulation project*. p. 14. <http://cclsr.law.unimelb.edu.au/not-for-profit/finalreport/Final%20PDFs/Chapter%201%20OVERVIEW.pdf> (Accessed 15 May 2009).

ⁱⁱ The overall contribution of NFPs has been variously reported. In 2004, the Centre for Corporate Law and Securities Regulation at The University of Melbourne reported:

Official estimates suggest that NFP institutions contributed 3.3% of GDP in 1999 to 2000. When imputed wages for volunteer services are included, the contribution of NFP institutions increases to 4.7% of GDP. They also make a significant contribution to employment, accounting for 6.8% of total employment in 1999 to 2000. In comparative terms, NFP institutions add more to GDP than the mining industry. Even without an imputation for volunteer services, the NFP sector is larger than both the communications

⁴ Australian Taxation Office. (2008) *Is your organisation a public benevolent institution?* <http://www.ato.gov.au/nonprofit/content.asp?doc=/content/26553.htm&page=2> (Accessed 22 May 2009)

⁵ SCRGSP (Steering Committee for the Review of Government Service Provision) 2007, *Overcoming Indigenous Disadvantage: Key Indicators 2007*, Productivity Commission, Canberra. P. 11.

⁶ Australia. Productivity Commission. (2009) *Contribution of the Not-For-Profit Sector: issues paper*. Canberra: April 2009, p. 47.

sector and utilities sectors. Given its size and the nature of the many services it provides, it is clear that a strong NFP sector is vital for Australia's long-term economic prosperity.ⁱⁱ

Our Community.com reported:

- In 2004 Australians donated \$5.7 billion, an increase of a staggering 88% since 1997.
- 13.4 million people, or 87% of adult Australians, made at least one donation.
- The median total donation was \$100 and the average amount was \$424.
- Melbourne and Sydney were responsible for nearly half of all individual donations (47.5%)
- Adelaide had the highest giving rate (with donations from more than 90% of adults).
- About 50% of Australians provided another \$2 billion by way of participating in events.

This represented a total of \$7.7 billion going to support the third sector. Business giving has more than doubled since 2000-01, with more than 525,900 businesses, or 67% of all businesses giving a total of \$3.3 billion.ⁱⁱⁱ