



BoysTown

Fresh start.
New hope.

Submission to the Productivity Commission on the Contribution of the Not for Profit Sector

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Executive Summary

The sustainability of not for profit organisations is under pressure. At a time when requests for services are escalating, not for profit agencies are being confronted with rising costs in the delivery of services. This situation is compounded by Government practices that don't provide for the full cost recovery of service delivery. Consequently this Inquiry will need to carefully assess the full range of pressures now being placed on not for profit organisations and ensure that its recommendations will facilitate and not further threaten the long term viability of this sector. This submission provides an overview of the critical issues that impact on the efficiency and effectiveness of not for profit agencies from BoysTown's perspective and provides responses to five of the issues outlined in the Inquiries 'Scope of Review'. Eleven recommendations are proposed for the Inquiry's consideration which we believe will support the continued development and sustainability of the sector and improve its accountability to the community.

This submission was prepared by BoysTown staff with the assistance of Ms Karina Merkel from the Newcastle University.

Recommendations

Recommendation 1:

That the Productivity Commission works with Third Sector agencies to develop a classification system designed to group organisations in accordance with common function and governance arrangements. A measurement framework could then be developed for each organisational category.

Recommendation 2:

That the Commonwealth Government include in a number of new funding contracts specific allocations of monies to trial the use of Social Return on Investment (SROI) methodology to assess its utility in the measurement of the value that Third Sector organisations provide to the community.

Recommendation 3:

That the Commonwealth Government under the auspice of the Council of Australian Governments (COAG) initiate action to review and standardise current State legislation that impacts on the operations of not for profit agencies.

Recommendation 4:

That the Australian Government accept legislative and administrative responsibility for Child Related Employment Checks and the regulation of fundraising including charitable Art Unions.

Recommendation 5:

That the Commonwealth Government under the auspice of the Council of Australian Governments (COAG) initiate action to introduce integrated funding programs in response to key social policy objectives.

Recommendation 6:

That State and Commonwealth Governments recognise both the direct and indirect costs of service provision and the need of not for profit organisations to recover any establishment costs involved in the implementation of new services in the pricing and term of the contract.

Recommendation 7:

That the Commonwealth Government under the auspice of the Council of Australian Governments (COAG) initiate action with State and Territory Governments to develop a contemporary and consistent financial reporting regime for Government funds provided to not for profit organisations.

Recommendation 8:

That the Council of Australian Governments (COAG) initiate action to amend members procurement policies to provide a significant weighting to the achievement of social and community benefits in the decision criteria for awarding tenders for government goods and services.

Recommendation 9:

That the Commonwealth Government initiate an inquiry into the insurance of not for profit organisations, with the objective of identifying strategies to reduce costs, or to offset the impact of these costs, through compensation.

Recommendation 10:

That the Commonwealth Government introduce legislation providing for tax rebates of 150% for donations by individuals and corporations to not for profit organisations.

Recommendation 11:

That the tax exempt status of not for profit organisations continue.

Introduction

BoysTown is a national youth service organisation with over 48 years experience in helping disadvantaged young people who are at risk of social exclusion. Our mission is **'to enable young people, especially those who are marginalised and without voice, to improve their quality of life'**. We work with young people who have been excluded from full participation in family life, community activity and the labour market due to family conflict, trauma, mental health, substance misuse issues, intergenerational unemployment and disrupted education.

BoysTown's capacity to deliver effective outcomes for highly disadvantaged youth is based on extensive experience, evidence-based research and its long standing commitment to working with marginalised young people.

BoysTown currently operates Kids Helpline (KHL), which provides a National 24/7 phone and internet counselling and support service for children and young people aged 5-25. Kids Helpline receives over 500,000 contacts from Australian children and young people in any one year. Counselling is provided on a diversity of issues including: mental health issues, family and peer relationships, loneliness and isolation, difficulty coping with school or work, bullying, neglect, physical, sexual or emotional abuse, self harming behaviour, suicide ideation and drug or alcohol abuse.

BoysTown also delivers regionally-based parenting programs for young people as well as family refuges, and Parentline, a telephone counselling service for parents and carers in Queensland and the Northern Territory.

In addition BoysTown provides individualised personal support, training and employment services for over 5,800 young people per year in communities which have been identified as among the most disadvantaged in Australia. These include: Logan City, Ipswich, Redlands and Inala in Queensland, Blacktown and Campbelltown in NSW, Elizabeth and Port Pirie in SA and the East Kimberley in remote WA. Regional services are targeted to young people at risk of social exclusion, including: early school leavers; long term unemployed youth; Indigenous youth; young people from culturally and linguistically diverse (CALD) backgrounds; young offenders, ex-prisoners and people in detention centres, and young people in transition from the care of the state.

Services and programs provided in these Regions consist of: individual assistance to address problems including homelessness, alcohol or drug abuse, mental illness and learning disabilities, personal effectiveness training and one-to-one coaching, school retention and education extension programs, school-to-work transition programs, accredited pre-employment training in areas of skills in demand, work experience on community projects, paid transitional employment through BoysTown Social Enterprises, job placement assistance, and ongoing mentoring to assist with retention. These programs are underpinned by ongoing youth welfare support within a case management framework.

This submission provides responses to five points of the Commission's seven point 'Scope of Study'.

Issue: Measuring the Contribution of the Not for Profit Sector

- *Assess the extent to which the not-for-profit sector's contributions to Australian society are currently measured, the utility of such measurements and the possible uses of such measurements in helping shape government policy and programs*

The Productivity Commission's Issues Paper on the not for profit sector notes the need for the development of a methodology that can evaluate the contribution of these organisations to the community. However the not for profit sector contains an extremely diverse range of organisations both in terms of their aims and objectives as well as their governance structures. The concept of 'not for profit' can be applied to sporting clubs, environmental and cultural organisations as well as community services that focus on advocating for or meeting the needs of particular segments of the Australian community. Even within these particular fields of interest there is great variety in the size and form of organisations. For instance agencies providing direct services to client groups may be local and volunteer based or national and even international in size and scope of operations employing thousands of professional and administrative staff. There is no industry wide or community accepted definition for a not for profit organisation. Furthermore the term not for profit is a divisive term as service providers must ensure their ongoing sustainability through the achievement of an operating surplus. Some commercially oriented firms are also expanding their operations into areas that have been traditionally serviced by charities. Consequently given this diversity of purpose and form in the sector it is doubtful whether a single measurement framework could be developed.

BoysTown believes that an alternate approach could be to classify organisations currently seen as being not for profit into sub-categories. For example a sub-grouping could be those organisations providing direct support services to clients. A measurement framework could then be developed for each sub-category. If this approach is accepted then collaborative work with the third sector would need to commence to define these sub-categories before any resolution can be reached in relation to a measurement system.

BoysTown is committed to measuring the effectiveness, efficiency and utility of its work with young people. In recent years considerable work has been undertaken in the development of both a performance metrics and outcome measurement framework. An overview of this work will now be provided to the Commission as an example of current activities in response to the need for measurement and to inform the ongoing discussion with Government and other not for profit organisations as to possible directions.

(a) Measuring outcomes for clients

Griffith University in partnership with BoysTown is currently undertaking research into the critical processes that enable marginalised youth to engage in further education, vocational training and work. This research is being funded by the Australian Research Council and BoysTown.

As part of the study a social exclusion index has being developed to assess the degree of social exclusion faced by these young people. This index enables BoysTown to perform pre and post assessments of young people in programs to assess whether their involvement has facilitated social inclusion. This index would be made available to the Inquiry on request.

(b) Measuring outcomes for government and the community

In the past, it has been difficult to quantify the value produced through social intervention programs; however, a new methodology known as the Social Return on Investment (SROI) model calculates the social and economic value of program interventions by tracking their impact on the lives of individuals and the communities in which they live. Impacts include changes in projected tax revenues, offsets against public expenditure on welfare payments and social service programs, decreased legal, penal and public health costs and increased consumer spending.

The Social Return on Investment (SROI) methodology was originally developed by Stanford University and the REDF (formerly the Roberts Enterprise Development Fund) in the mid-1990s and it is now widely used across the US, UK and Europe. SROI helps not-for-profit organisations understand and quantify the social value that they are creating.

The SORI measurement approach captures the economic value of social benefits by translating social objectives into financial measures. For example, when previously unemployed people complete a training and employment program and start a job, not only do they increase their personal income, but they also create value for government by paying taxes and no longer claiming welfare benefits (NEF 2004b:12).

For severely marginalised people, e.g. ex-offenders, the downstream impacts are even more significant, with substantial savings in terms of public health, social security and justice system costs and benefits in terms of increased productivity and tax revenue. The method is particularly applicable to the type of social business enterprises that provide goods and services to customers in order to provide a supportive training and work environment for individuals who wish to improve their lives.

In relation to the specific application of the SROI model to BoysTown's operations it is currently planned that three indices will be developed. These are:

1. An Enterprise/Service Index of Return.

This is the projected financial income for the Enterprise program compared to the projected cost of delivering the program.

2. The Social Index of Return.

This is the projected financial estimate of the social impacts compared to the projected cost of delivering the program.

3. The Blended Index of Return ('double bottom line').

This is the projected financial income plus the financial estimate of the social impact compared to the projected cost of delivering the program.

Together these three indices will provide a tool to assess the viability of new and current initiatives.

Social Ventures Australia (SVA) is currently piloting the SROI approach with a range of not-for-profit enterprises in Australia. BoysTown is currently constructing a performance management and reporting framework which will enable a SROI model to be piloted in our organisation commencing in the coming year.

Recommendation 1:

That the Productivity Commission works with Third Sector agencies to develop a classification system designed to group organisations in accordance with common function and governance arrangements. A measurement framework could then be developed for each organisational category.

Recommendation 2:

That the Commonwealth Government include in a number of new funding contracts specific allocations of monies to trial the use of Social Return on Investment (SROI) methodology to assess its utility in the measurement of the value that Third Sector organisations provide to the community.

Issue: Enhancing the Efficiency and Effectiveness of the Not for Profit Sector

- *Identify unnecessary burdens or impediments to the efficient and effective operation of community organisations generally, including unnecessary or ineffective regulatory requirements and governance arrangements, while having regard to the need to maintain transparency and accountability;*
- *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*

Impediments to the Efficient and Effective Operation of Community Organisations

There are a myriad number of issues that impact on the operational performance and the cost structure of Not-for-Profit organisations. Instead of attempting to provide a 'shopping list' of impediments ranging across policy and operational matters we wish to highlight two systemic issues that if addressed would significantly enhance performance and lead to substantial cost savings. These two issues are the current split of legislative and regulatory responsibilities between the Commonwealth, State and Territory Governments which results in an overlapping and inconsistent regulatory framework and the current model of funding administration by Government to the community sector. These comments are based on the experiences of BoysTown as both a national deliverer of services and a national fundraiser.

1. The impact of overlapping responsibilities between Commonwealth and State Governments

Prime Minister Kevin Rudd in launching the 'New Federalism' policy acknowledged the deleterious impact that different State and Territory laws and regulations have on the operations of business.¹ From BoysTown's perspective the following matters are examples of how duplicative and contradictory State regulations inhibit efficiency and add cost:

a) Child Related Employment Checks

BoysTown believes that it is essential that a uniform national system for the

¹ http://www.dunstan.org.au/docs/k_rudd_qld_2005_speech.doc

screening of people working with children and young people be introduced in Australia. BoysTown delivers services across all Australian States and Territories. Based on this direct experience and a recently completed review of all State and Territories' legislation concerning employment screening, it is our conclusion that inconsistencies in the design and implementation of State legislation compromises the protection afforded to children and young people. For example there are differences between State jurisdictions in relation to the scope of the suitability check and the implementation of privacy legislation which influences what the employer can be informed about in the situation where there may be past issues in the employment history of a potential employee. Furthermore the different regulatory regimes in each jurisdiction increase the compliance costs to national third sector organisations. This diverts much needed funds from direct services.

Consequently BoysTown contends that common standards need to apply across Australia in relation to the screening of people involved in child related employment. This can be most effectively achieved through the Commonwealth Government funding the introduction of a national employment screening program.

b) Building Regulations and Codes

BoysTown develops and provides social enterprises to assist young people to gain work experience and accredited vocational skills to enhance their prospects for mainstream employment. A social enterprise that is conducted across all States where BoysTown has a regional presence is construction work. There is generally a shortage of these work skills in the Australian economy. For example in the Balgo community in East Kimberley, BoysTown is training indigenous young people in construction work through the renovation of community housing. This social enterprise is supervised by fully qualified registered builders. However each State has its own building codes and licensing requirements. BoysTown construction supervisors consequently need to be conversant with the suite of building codes for each State and to hold registration in relevant States as a builder. This inhibits service efficiency and adds cost.

c) Fundraising

The BoysTown Art Union is the major source of funding for our services. To operate this Art Union and other fund raising activities BoysTown needs to comply with the different State based legislation and regulations relating to Art Unions and fund raising. There are inconsistencies between each State in relation to their respective legislation requirements as well as differences between legislation relating to Art Unions and fundraising within singular State jurisdictions. There are numerous anomalies in relation to the administration of stamp duties between States. Reporting and compliance standards also vary and are contradictory between States. The administrative costs and activities required to manage this inconsistent and duplicative regulatory framework reduces the level of funds to services and reduces organisational efficiency.

Recommendation 3:

That the Commonwealth Government under the auspice of the Council of Australian Governments (COAG) initiate action to review and standardise current State legislation that impacts on the operations of not for profit agencies.

Recommendation 4:

That the Australian Government accept legislative and administrative responsibility for Child Related Employment Checks and the regulation of fundraising including charitable Art Unions.

2. Government Funding Administration

The nature of Government funding administration is a barrier to the efficient and effective operation of not for profit organisations. This is demonstrated by the following issues:

a) Government funding is not supportive of holistic intervention models

Contemporary research indicates the need to implement integrated service models to effectively respond to the needs of individuals and communities. However the structure of Government funding restrains the emergence and development of these holistic models. For example, BoysTown as previously stated seeks to end the social exclusion of youth. Social exclusion is not caused by a single issue. Contemporary research including current work being undertaken by Griffith University in partnership with BoysTown is demonstrating that cultural, family and individual factors such as anger, unresolved trauma, alcohol, drug and substance misuse, offending and a deep seated pessimism and hopelessness about the future all interact and contribute to the social exclusion of some young people. Subsequently to effectively work with young people to end social exclusion it is necessary to implement strategies that respond holistically to these issues as it is the dynamic interaction between these factors that causes their social isolation and exclusion. In recognition of this evidence BoysTown has developed a holistic intervention model for working with children and young people. This model is presented in Attachment 1. As this model shows, joined up solutions are needed to end joined up problems.

However Government funding is not structured in a holistic manner. Government tends to fund single issue initiatives rather than holistic interventions. For example, for BoysTown to implement its intervention model it has been required to integrate different funding programs across Commonwealth and State jurisdictions e.g. Commonwealth and State Labor market programs, fee for services (social enterprises), Department of Families, Housing, Community Services and Indigenous Affairs (FAHCSIA) with our own self-raised funds. Although these funding programs support an overall strategy, the reporting requirements are based on sub-component outputs of the intervention strategy rather than the more meaningful reporting of integrated outcomes for youth. Consequently funding program reporting is focused on single issues rather than a strategic perspective which reduces the quality of information provided to Government. Furthermore this situation impacts on BoysTown's efficiency. To meet the requirements of single issue reporting, BoysTown needs to manage and report on a diverse set of funding contracts each with their own individual objectives and reporting standards. This increases administrative costs and reduces service efficiency.

3. Funding does not support the sustainability of Not for Profit Organisations

The true costs of service delivery are not recognised or met in most funding contracts. In negotiating funding contracts the usual procedure is to estimate the direct delivery costs and then add-on a percentage figure for a management fee. This percentage can range across the sector from 5-20% of the service cost. This management fee is intended to cover a proportion of the Manager's time in coordinating the program as well as some administrative costs. There is usually no consideration given to the funding of other required factors needed for the delivery of the program such as regulatory compliance, infrastructure, IT and human resources. Indeed most Governments tend to be very reluctant to fund any capital cost involved in program delivery.

Another critical activity that is inadequately funded is evaluation. BoysTown believes

that evaluation of service delivery is a critical function as it provides evidence as to what has been achieved, what has or has not worked and develops industry knowledge to continuously improve the efficient and effective delivery of services. Governments require this 'real time' knowledge to inform social policy development and priority setting. The importance placed on this function by BoysTown is demonstrated by the funding of an internal Research and Evaluation Group from our own resources. BoysTown strongly contends that the adequate funding of evaluation should be a critical element in every funding contract.

In view of these circumstances not for profit organisations are placed in the position of needing to subsidise Government sponsored programs. In relation to BoysTown currently every Government funded program is supplemented by BoysTown's financial resources. This subsidy is also needed to ensure the quality of service delivery. As previously stated Government funding is single issue focused and does not take into account the range of supports needed to work with a socially excluded youth. For example, BoysTown employs a number of youth workers and trainers to support the work of labour market services as these programs do not fund the counselling and personal support activities which are essential to the engagement of a young person in vocational training or work. To cope with this situation not for profit organisations either need to commit time and resources to fund raising which may distract from service management or else grow to a size where these additional costs are absorbed through economies of scale. This situation is leading to the demise of small 'grass roots' community organisations. By not meeting true cost of service delivery Government's are also compromising service quality.

4. Competitive tendering reduces the quality of service delivery

For most organisations the ability to secure Government funding is essential for their survival. Consequently there is a growing trend for organisations to protect their intellectual property. This IP may centre on local knowledge, networks, research or business operations. This reduces the quality of intra-sector collaboration which can weaken local service planning and the exchange of learning that is essential for innovation.

Furthermore given the competitive tendering process and the need to present well researched and evidence based submissions, the preparation of tenders is an expensive process for Third Sector organisations. Organisations either need to build internal capacity to manage the tendering process or else buy in this skill as required. This activity is another fixed administrative overhead that needs to be recognised in the cost structure of not for profit agencies.

In summary not for profit organisations that contract with Government for the delivery of services have a range of costs which are not usually covered in funding agreements and also need to resource the preparation of tenders and the management of contracts. In addition the establishment of new services usually requires high investment at the front end to cover expenses such as rental agreements, office refurbishment and the recruitment and training of staff. Consequently government needs to recognise these costs in the contract.

Recommendation 5:

That the Commonwealth Government under the auspice of the Council of Australian Governments (COAG) initiate action to introduce integrated funding programs in response to key social policy objectives.

Recommendation 6:

That State and Commonwealth Governments recognise both the direct and indirect costs of service provision and the need of not for profit organisations to recover any establishment costs involved in the implementation of new services in the pricing and term of the contract.

5. Financial Reporting

Commonwealth and State Governments often require not for profits to maintain special financial administration practices for Government funds. For example it is a usual requirement that Government funds be quarantined in separate bank accounts. In Queensland discussion is occurring in relation to the implementation of a standardised Chart of Accounts to be maintained by all organisations receiving State funds.

These requirements are inconsistent with the work of contemporary not for profit agencies. As stated Government funds do not cover the full costs of service delivery. Funds from other accounts are usually needed to top-up government funded services. The impost on not for profit organisations to keep separate accounts for each Government funding contract increases administration cost as there is a cost in maintaining each account and reduces the efficiency of the organisation's financial management function as each account needs to be monitored and reviewed. Furthermore many not for profit agencies are national in scope and have contractual dealings with numerous government departments across State jurisdictions. It is not feasible for a national organisation to adopt a Chart of Accounts from one State without there being national consistency. In addition many not for profit organisations are public companies limited by guarantee and as such are already accountable to the Australian Securities and Investment Commission for their governance practices. It is our view that the current financial reporting practices required by Governments are inconsistent and impairs the overarching objective of achieving transparency in the dealings of not for profit organisations.

Recommendation 7:

That the Commonwealth Government under the auspice of the Council of Australian Governments (COAG) initiate action with State and Territory Governments to develop a contemporary and consistent financial reporting regime for Government funds provided to not for profit organisations.

Issue: Strategies for Improving the Efficient and Effective Delivery of Government-Funded Services by Community Organisations

1. Reform of the Commonwealth Government's Procurement Policies and Practices to encourage the development of social enterprises

An emerging trend in the UK and Europe has been the development of what are known as 'work integration' social enterprises (WISE). These types of enterprises are also known as 'intermediate labour markets' (ILMs) because they provide long term unemployed and marginalised people with a transitional period of paid employment in a genuine work environment, combined with supervision, coaching and mentoring to assist them in making a successful transition to the mainstream labour market (BSL 2007; Finn & Simmonds 2003). The concept is based on evidence based research about the benefits of engaging in productive, paid employment as a means of promoting social inclusion for marginalised people. In addition to providing income, paid work helps disadvantaged people to build self esteem, status and personal

identity, to develop on-the-job skills and to expand their social experience (Spear & Bidet 2005). WISE also produce longer term benefits for the local community which would otherwise experience the negative impact of high crime rates, skills shortages and increased public health and social security costs (Nyssens 2006). In Australia this concept is increasingly being used by not for profit organisations as a response to social exclusion. For example, St Vincent de Paul, the Brotherhood of St Laurence, Mission Australia, the Salvation Army and BoysTown use social enterprises as a strategy to assist in facilitating the social inclusion of their clients.

BoysTown's view is that there are still major obstacles to the development of social enterprises in Australia. This is because they are routinely excluded from tendering for state and local government service contracts because of a lack of understanding of their fundamental nature and purpose.

Social enterprises differ from commercial business operations in the sense that their primary function is to provide marginalised people with an opportunity to achieve positive change in their lives. While they ultimately produce substantial downstream benefits for individuals and for the community, they will always find it difficult to compete on price and efficiency with commercial contractors who are able to employ skilled staff. Their employees generally face substantial obstacles to engagement in learning and work (e.g. functional illiteracy, substance abuse problems, learning difficulties, mental health issues or involvement with the justice system). Paid work helps them to build self esteem, status and personal identity, to develop on-the-job skills and to expand their social experience, but they require ongoing support, mentoring and coaching before they are ready for open employment.

In recognition of this problem, the UK and the European Union (EU) have invested considerable energy in opening up the tendering for the provision of publicly-funded services to the not-for-profit sector by ensuring formal recognition of the long term social and economic value provided by social enterprises. In 2005, the UK government published the "National Procurement Strategy for Local Government". The strategy requires all local authorities to ensure that tender specifications for delivery of public services include clauses which specify wider social, environmental and community benefits. These are now used as selection criteria in awarding contracts.

In the UK, social enterprises can now secure local government contracts on the basis of their capacity to deliver multiple social, economic and environmental benefits to the community as measured through the concept of social return on investment (SROI) (NEF 2004; REDF 2005). Social enterprises now operate in key markets such as construction, health and social care, education and training, employment creation, public maintenance, leisure, transport and waste management (SEC 2005: 6). The government also provides them with support and advice on how to win public sector business by proving their capacity to provide value for money to purchasers.

In 2006, the EU issued a Public Procurement Directive that local authorities in member states can include community benefit clauses in tender specifications for delivery of public services, as long as the contract meets with government procurement policy guidelines and produces best value for money (Social Enterprise Coalition 2005: 4). European social enterprises now operate in key markets such as construction, health and social care, education and training, employment creation, public maintenance, leisure, transport and waste management (Social Enterprise Coalition 2005: 6).

In BoysTown's view, this type of approach offers substantial promise as an innovative way of addressing the problems of social exclusion and long term unemployment in disadvantaged communities. Based on continuing advocacy of the multiple benefits which can be provided through social enterprises, BoysTown has been able to secure agreements with state and local governments in Queensland, New South Wales and South Australia to fund enterprises employing long term unemployed marginalised young people to deliver publicly-funded services. Our enterprises now operate in the

areas of housing refurbishment, property maintenance, landscaping, horticulture, graffiti removal and environmental rehabilitation. We have also secured a similar agreement for public housing works which will enable the establishment of a community-based social enterprise in a remote Indigenous community in WA.

However, BoysTown's view is that Australian governments need to recognise the potential that this type of approach has to offer in seeking to address the problems of persistent social exclusion in disadvantaged communities. There also needs to be a new approach to public procurement that includes the use of clauses focused on the achievement of social and community benefits, for example, community infrastructure development, urban renewal and environmental rehabilitation and maintenance.

The Federal Government could lead the way in this regard by providing policy direction, information and advice regarding the inclusion of social and community benefit criteria in tenders for the provision of publicly-funded services (see the UK Office of Government Commerce 2006, 2007). Tenderers whether from the commercial or not for profit sectors could make submissions not only on price but also on the basis of social and community benefits generated by the tender e.g. the number of long term unemployed people that would be employed in the enterprise.

Recommendation 8:

That the Council of Australian Governments (COAG) initiate action to amend members procurement policies to provide a significant weighting to the achievement of social and community benefits in the decision criteria for awarding tenders for government goods and services.

1. Offsetting the Cost of Insurance

A critical operational expense contributing to the cost profile of not for profit organisations is insurance. Similar to many other not for profit services providing support to high risk groups, insurance premiums for BoysTown are particularly high. The reason for the high premium is that not for profit organisations usually need to carry the risk emanating from community projects and activities with high risk groups. For example as part of our social enterprise program in the indigenous community of Balgo, BoysTown staff are training young indigenous people in construction work through the renovation of community housing stocks. Due to the social issues in the community the insurer requires a \$200,000 excess. In other words BoysTown is carrying a \$200,000 risk for every housing renovation due to our commitment to work with indigenous people in this community. This is another factor that diverts much needed funds from direct service delivery.

Recommendation 9:

That the Commonwealth Government initiate an Inquiry into the insurance of not for profit organisations, with the objective of identifying strategies to reduce costs or to offset the impact of these costs, through compensation

Issue: The impact of Taxation on Not for Profit Organisations

- *Examine the extent to which tax deductibility influences both decisions to donate and the overall pool of philanthropic funds; and*
- *Examine the extent to which tax exemptions accessed by the commercial operations of not for profit organisations may effect the competitive neutrality of the market*

1. Taxation Incentives for Individual and Corporate Giving

BoysTown believes that another essential issue is that there are not enough tax deductible incentives to attract donors. This is increasingly important as not for profit agencies rely heavily upon philanthropic funds in order to provide social services.

A recent study by The Australian Centre for Philanthropy and Non Profit Studies on philanthropy in Australia showed that tax changes support a philanthropic culture (Madden and Scaife, 2008). At present 40% of the wealthiest Australians - "those with assets in excess of \$1.2 million apart from the family home, or with annual taxable personal incomes of \$100,000 or more - are only engaged in minimal giving (Madden and Scaife, 2008). The report noted that the level of Australian's economic wealth has risen over the years but this has accelerated at a much faster rate than charitable giving. Giving behaviour is likely to be increased if more significant tax incentives were provided. Increases in giving behaviour by individuals may also be facilitated by Government campaigns promoting the value of not for profit organisations.

BoysTown also acknowledges that corporate philanthropy is also a major form of funding that not for profit organisations rely on. Since all reasonable tax expenditures are deductible, companies have no special tax advantage for spending on philanthropy as opposed to other corporate purposes (Kramer and Porter 2002).

BoysTown proposes that a tax rebate of up to 150% be provided by Government to corporate organisations and private individuals on income donated to charities. This tax rebate scheme would operate in a similar manner to other taxation initiatives used by Government to promote private investment, such as in the Australian Film industry.

Recommendation 10:

That the Commonwealth Government introduce legislation providing for tax rebates of 150% for donations by individuals and corporations to not for profit organisations.

2. The issue of tax exemptions for the commercial operations of not for profit organisations

There needs to be very careful consideration given to the development of a definition of commercial operations in the context of not for profit organisations. For example as previously stated in Europe and now in Australia there has been a trend for the development of social enterprises as a medium by which socially excluded people are engaged in supported work activities designed to prepare them for open employment. These social enterprises are not commercial operations as the skill level of participants is low and the focus is placed on the personal development of the participant rather than the making of profit. Due to the high investment needed in the training, mentoring, counselling and case management of participants it is not possible for these enterprises to be profit making. In fact BoysTown has to subsidise its social enterprise activities from funds raised. Consequently there is a strong argument for the exclusion of these ventures from any taxation review due to the non-profit nature

of these operations and the fact that generally there is no profit.

A second consideration is that not for profit agencies enter commercial operations due to the structure of government funding that generally does not cover full service delivery costs and a lack of available philanthropic funds. Research indicates that any profit from purely commercial operations of not for profit organisations are reinvested into the organisation to serve the public good (Lasprogata & Cotten, 2003 in Duncan, 2007). If these ventures were taxed then Government would need to reconsider its current funding practices to the third sector.

Recommendation 11:

That the tax exempt status of not for profit organisations continue.

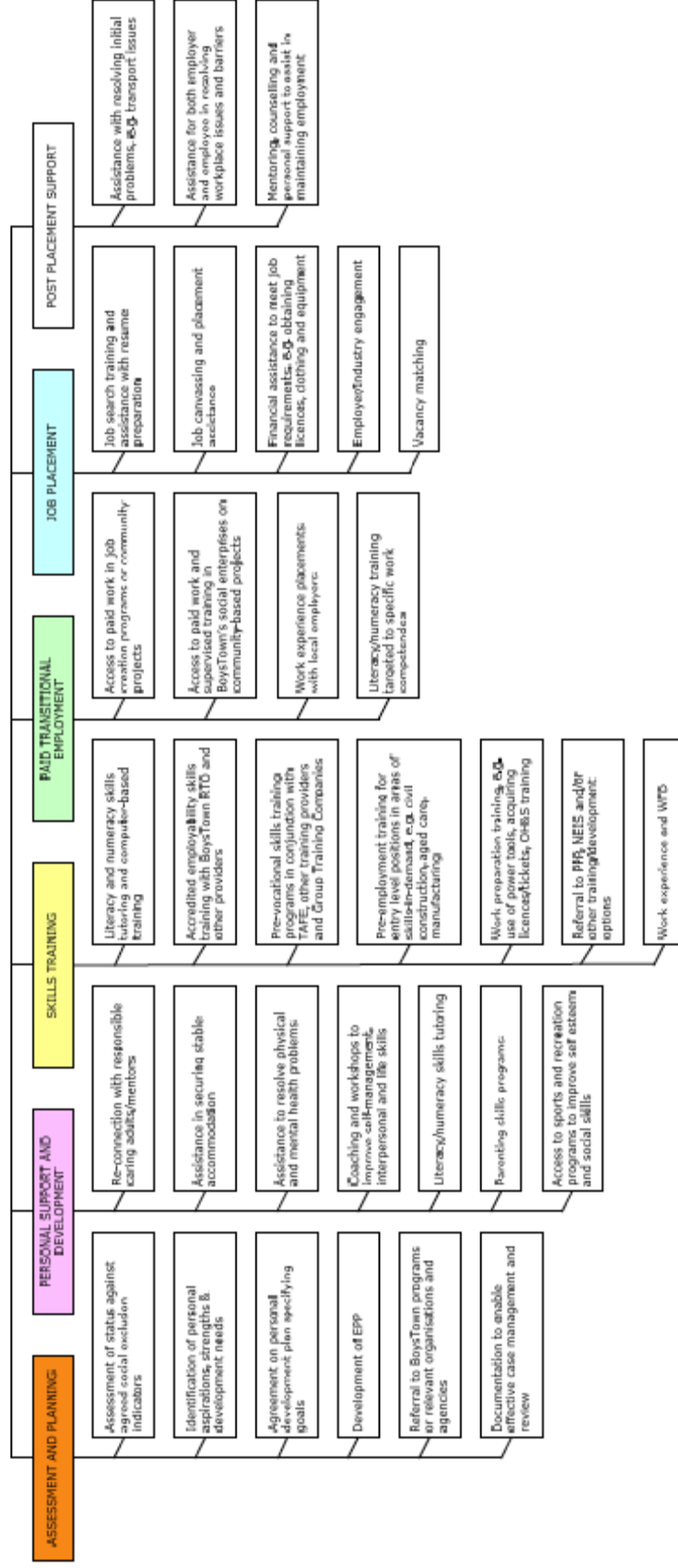
Attachment 1: BoysTown's Social Inclusion Model



Social Inclusion Model

BoysTown

BOYSTOWN ENABLES YOUNG MARGINALISED PEOPLE TO ACHIEVE SOCIAL INCLUSION BY PROVIDING:



WHILE INVOLVED IN BOYSTOWN PROGRAMS ALL YOUNG PEOPLE RECEIVE INDIVIDUAL CASE MANAGEMENT AND YOUTH WORK SUPPORT AND HAVE 24/7 ACCESS TO PROFESSIONAL COUNSELLING

MEASURES OF SUCCESS: changes in status against key indicators as measured at point of entry; progression through programs; exits from BoysTown; and longitudinal surveys. Key indicators include: accommodation status; level of dependence on welfare benefits; physical and mental health status; Incidence of offending behaviour; level of participation in valued social activities; literacy/numeracy levels; educational qualifications; level of information retrieval and exchange skills; level of employability/vocational skills; level and range of work experience; employment status; and decreased dependence on welfare.

BoysTown works in close partnership with regional stakeholders to optimise resources, support and opportunities for marginalised young people. Stakeholders include: government departments, community groups, mental and legal services; youth welfare agencies; education and training providers; employers and industry groups; employment services providers; and Indigenous and CALD community leaders and organisations.

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