

Catholic Social Services
Australia

Valuing social service

Submission to the Productivity
Commission study into the contribution of
Australia's not for profit sector

A Submission by Catholic Social Service Australia
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1 Summary

Catholic Social Services Australia's submission to the Productivity Commissions' Research into the Contribution of the Not for Profit sector focuses on:

- Finding expression for the measurement of the contribution of the not-for-profit sector beyond economic value
- Exploring the challenges and opportunities for more efficient and effective operation of not-for-profit organisations
- Discussing the inefficiencies, challenges and opportunities in relationships with governments
- Exploring the challenges and opportunities available to ensure a viable and sustainable not-for-profit sector
- Current taxation arrangements that contribute to the not-for-profit sector's capacity to generate income and provide employment

2 Introduction

What if government had to choose between measuring the contribution of the not for profit sector and facilitating that contribution? There is good reason to think that the kinds of policies that aim to make the not for profit sector's contribution more visible and quantifiable are not always the kinds of policies that would enable it to function more ethically and effectively.

Much of the sector's contribution cannot be expressed in dollar terms. The problem is not that these achievements are intangible or difficult to measure, but that they are *incommensurable* with values such as social efficiency (See Box 1). Social justice and relationships based around the values of respect and human dignity are two examples.

As the Commission's issues paper notes, impacts are more difficult to measure than inputs, outputs or outcomes. A stronger focus on measurement will inevitably shift attention away from what matters most towards what is easiest to measure. Policy makers tend to underestimate the difficulty of evaluating impact and place too much confidence in proxy measures of performance (usually outputs or outcomes).

Given the difficulty in establishing causality (a requirement for estimating impact), it makes more sense to identify and promote effective practices than to attempt to measure outputs or outcomes across the board. An approach where government supports innovative projects and practices and facilitates rigorous evaluation can help the sector improve its performance over time.

In an attempt to make the work of funded organisations more visible, government departments have contributed to greater fragmentation in service delivery. In pursuit of greater accountability and transparency, policy makers are increasingly splitting funding across a wide range of separate programs, each with its own narrow set of performance indicators. At the local level the result is that agencies devote more resources to administering funding agreements and contracts (tendering, reporting etc) and have more difficulty integrating services in an effective and efficient way.

3 About Catholic Social Services Australia

Representing 66 member organisations, Catholic Social Services Australia is the Catholic Church's peak national body for social services. It advises the Australian Catholic Bishops Conference and Catholic Religious Australia on social policy issues as well as supporting the delivery of a wide range of social service programs.

For over 50 years, Catholic Social Services Australia has assisted and promoted better social policy for the most disadvantaged people in Australian society. This continues a much longer tradition of such engagement by the Catholic Church in Australia. Service to the Australian Community is provided regardless of race, religious or creed.

Catholic Social Services Australia has the mission of promoting a fairer, more inclusive society that gives preference to helping people most in need. It is committed to an Australian society that reflects and supports the dignity, equality and participation of all people. To this end, Catholic Social Services Australia works with Catholic organisations, governments, other churches and all people of goodwill to develop social welfare policies and other strategic responses that work towards the economic, social and spiritual wellbeing of the Australian community.

Our members employ around 10,000 people and provide 500 different services to over a million people each year from sites in metropolitan, regional and rural Australia.

Catholic Social Services Australia's 66 member organisations deliver a vast array of social services and programs. Some of these services are commissioned by governments, some fills gaps in services that ought to be provided by governments, and some express the fundamental mission of the Church. These services include (although not exhaustively);

- Aged Care
- Children's Services
- Drug, alcohol and/or other addiction Services
- Disability Services
- Emergency Relief
- Employment Services
- Employee Assistance Programs
- Family Services
- Financial Counselling
- Housing and Homelessness services
- Indigenous Services
- Mental Health programs
- Migrant and Refugee Services
- Pregnancy Counselling and Support
- Pastoral Ministries
- Policy and Research
- Youth Services

These services and programs are delivered by a vast range of organisations. Our largest member organisation has an annual turnover of over \$100 million; our smallest organisations have little or no annual turnover as direct community services are provided by volunteers. Organisational and governance arrangements for these organisations comprise legal entities in every state and federal jurisdiction, including (though not exhaustively);

- Incorporated entities
- Companies Limited by Guarantee
- Public Juridic Persons
- Voluntary Associations
- Religious Orders
- Episcopal Trusts
- Diocesan Trusts

These bodies draw funding from a vast range of sources, including:

- Government contracts for services delivery at Commonwealth, state and local levels
- Church resources (provided both directly as cash grants and indirectly as “in kind contributions” peppercorn rents, use of capital infrastructure, use of administrative and support systems and personnel etc)
- Public fundraising, both within the Church community and amongst the broader population
- Corporate bodies and philanthropic institutions
- International organisations

The complete listing of Catholic Social Services Australia’s Member Organisations is documented at Appendix A.

4 Scope of Catholic Social Services Australia’s Submission

Bearing in mind the breadth of organisations within the not-for-profit sector – from charities, clubs, people’s organisations - across a range of activities – from culture and recreation, the environment, business and professional organisations, the views of Catholic Social Services Australia reflect those of its members delivering social services within a faith-based mission framework. We are aware that the different groups that make up the sector are likely to hold legitimately different views on some key issues. Reconciling these differing views will be one of the challenges faced by the Commission.

5 Limitations of an Economic Approach to Valuation

The Productivity Commission's issues paper suggests a framework for measuring the not for profit sector's contribution to society. The discussion assumes that this can be done in an apolitical and morally neutral way. However, any rigorous valuation of the contribution of the sector necessarily involves political and ethical judgments.

The contribution of the not for profit sector to society is not analogous to the contribution of business to the economy. There is no single bottom line. Applying economic metaphors such as 'social return on investment' to the work of the sector can result in a distorted perception of the sector's role and the underlying importance of its work.

Much of the contribution of community and faith-based agencies cannot be expressed in economic terms. There are two major issues:

- **Value judgments:** there is no morally or politically neutral way of placing a value on the end results (impacts) of not for profit activity.
- **Not all contributions can be expressed in economic terms:** much of the not for profit sector's contribution relates to objectives that cannot be valued in dollar terms.

While philosophers and legal theorists might argue about whether everything of value can be reduced to a single metric (e.g. the satisfaction of individual preferences), the majority of ordinary people do not think about value in these terms. Rather than being concerned solely with efficiency, most people are also concerned with issues such as fairness.¹ This has important implications for accountability.

5.1 Making value judgments

The Productivity Commission's issues paper rightly draws attention to impacts (e.g. individual wellbeing) rather than just to inputs or outputs. After all, it makes little sense to put a positive value on a training program that does not improve a participant's skills or psychotherapy sessions that leave a client feeling more emotionally distressed than before.

But social impacts cannot be assigned values (dollar or otherwise) without making value judgments. Appealing to established methodologies in welfare economics does not transform the valuation process from an exercise in ethics to an exercise in value-free social science. As economist Mark Blaug writes:

¹ There is a considerable body of empirical research on people's judgments about fairness. Psychologist Tom Tyler and his colleagues report:

Social justice research shows that people's feelings and beliefs are not consistent with the feelings that would be predicted by self-interests theories. For example, a self-interest model predicts that those who receive more compensation for their work will be more satisfied. However this prediction is not borne out by the data. Instead, people's satisfaction is linked to whether they feel they are receiving fair compensation. Those who believe that they are receiving fair compensation indicate greater satisfaction than those receiving higher levels of compensation that they perceive to be unfair (Tyler 1997: 10).

Welfare economics is, after all, that branch of economics concerned with the ethical criteria by which we decide that one economic state of the world is more desirable than another, and to speak of *positive* welfare economics is literally to revel in paradoxical language (Blaug 1992: 126).

Welfare economists often argue that their approach takes into account “*all* individuals’ evaluations of *all* consequences of economic acts — in other words, not only the direct or purely material consequences of such acts” (Bohm 1987: xii). One difficulty with applying this approach consistently is that it can end up assigning a positive value to acts that violate human dignity. For example, a racist might derive satisfaction from humiliating an Indigenous person. There is something perverse about weighing up one person’s preference for not being humiliated against another person’s desire to claim superiority and cause suffering. Most reasonable people would say that the racist’s preferences should not count at all.²

In practice welfare economists do not take “*all* individuals’ evaluations of *all* consequences of economic acts” into account. Their analyses tend to be selective. Not only do they ignore preferences for immoral acts but also demands for greater fairness in the distribution of costs and benefits. A preference for an increase in the share of benefits going to the worst off is ignored in much the same way as sadism or envy.

When applied to the social world, welfare economics almost always involves covert value judgments. Economic analyses of the net benefits of social programs are based on someone’s judgments about which preferences count and which do not. To ensure transparency and accountability, analysts ought to make these judgments explicitly.

Debate over the value of various objectives is healthy and should be encouraged. As political scientist James March has argued, it is a mistake to think that policy makers always begin with a fully developed set of objectives (March 1988).

Box 1. Incommensurability

Measurement problems are not the only obstacle to expressing the not for profit sector’s contributions in dollar terms. A more important obstacle is *incommensurability*. Goods such as social justice or human dignity cannot be weighed up against each other using a common metric.

The problem of incommensurability has nothing to do with the intangible nature of these goods or difficulties in quantifying them. As American legal theorist Cass Sunstein writes:

... ordinary people appear to resist the use of a unitary scale and the claim of commensurability along a single metric ... I claim that two goods are incommensurable if they are not valued in the same way, and if their assessment along a single metric therefore does violence to our considered judgments about how (not how much) these goods should be valued (Sunstein 1997: 262).

A more technical definition comes from philosopher and legal theorist Joseph Raz:

A and B are incommensurate if it is neither true that one is better than the other nor true that they are of equal value (Raz 1986: 322).

² Legal theorist Margaret Jane Radin discusses the way market rhetoric can distort moral judgment in her book *Contested Commodities* (Radin 1996).

5.2 Contributing to a more just, more inclusive society

Social services make a moral and ethical contribution to society. For example, Catholic Social Services Australia's vision is for "a fairer, more inclusive Australian society that reflects and supports the dignity, equality and participation of all people." In their day to day work, our member agencies attempt to put this vision into practice. Moral and ethical principles such as fairness, equality and respect for human dignity cannot be fully captured by an economic approach to valuation. Their value is not exhausted by their contribution to social efficiency.

The social efficiency approach is what guides benefit-cost analysis and, as economist John Quiggin argues, it is an incomplete approach to valuation:

Benefit cost analysis, through the efficiency criterion, can provide a useful measuring rod for comparing different bundles of market and non-market consumption goods. This measuring rod cannot be used to weigh competing moral values. Hence benefit cost analysis can provide useful information in the evaluation of a policy proposal. However, when moral and ethical considerations are involved, benefit cost analysis alone cannot provide a final answer to the question of whether society should, or should not, adopt a given proposal (Quiggin 1993).³

Moral and ethical considerations cannot be reduced to questions of utility or preference satisfaction.⁴ There is no common metric for weighing moral and ethical considerations against efficiency considerations. The problem is one of incommensurability⁵ rather than measurement.

Considerations that go beyond efficiency include procedural justice, distributive justice, respect for human dignity and freedom. Citizens rightly expect their governments and social institutions to take these considerations into account alongside considerations of social efficiency.

The goal of social inclusion cannot be adequately expressed in economic terms. The idea of inclusion depends on an understanding of human relationships and human development that goes beyond the idea that wellbeing is a function of consumption.

³ Quiggin makes the same point in a more recent paper on altruism. He argues that one response:

... is to conclude that moral and ethical concerns such as altruism can neither be disregarded nor incorporated into benefit–cost analysis. As a result, benefit–cost analysis is inherently partial. It is necessary to abandon the objective of total valuation and the implicit promise of a single number which captures all the costs and benefits of any policy proposal (Quiggin 1997).

⁴ This point is widely recognised in the public policy literature. As one textbook explains:

... conflicting views about the rationality of society as a whole (social rationality) or the appropriateness of legal norms guaranteeing rights to property (legal rationality) cannot be resolved simply by appealing to formal economic rules (for example, the Pareto or Kaldor-Hicks criteria) or to formal philosophical principles (for example, Rawls's redistributive criterion). Questions of equity, fairness, and justice are political ones; that is, they are influenced by processes involving the distribution and legitimization of power in society. While economic theory and moral philosophy can improve our capacity to critically assess competing criteria of equity, they cannot replace the political process (Dunn 1994: 288).

⁵ According to philosopher Elizabeth Anderson, "two goods, A and B, are commensurable if and only if there is a scale of overall value by which they can be at least ordinally ranked. An ordinal ranking says that either A is better than B, B is better than A, or that they are equal in value. Unlike a cardinal ranking, it doesn't say how much more valuable one good is than the other. If goods are not commensurable, then it does not make sense to maximize their values" (Anderson 1993).

5.2.1 *Procedural justice*

Procedural justice is about the fairness of processes rather than the fairness of results. The processes and norms involved can vary from case to case (e.g. criminal trials, democratic elections, distribution of income support). Common principles include:

- decisions are made according to rules or principles;
- the rules or principles are public;
- the rules or principles are consistently applied;
- decisions are made using accurate and relevant information; and
- there are opportunities for review when a decision is contested.

Services where fair processes are especially important tend not to be contracted out. These include law enforcement, the court system and the income support system.

Governments may sacrifice efficiency in order to promote procedural fairness. For example, eliminating appeal rights in social security law could save money on administration and allow extra resources to be devoted to service delivery. But it would reduce the fairness of the social security system.

Welfare reforms in the United States resulted in the privatisation of income support eligibility determinations in some states. Part of the reason this was controversial is because of concerns that private firms would sacrifice procedural justice for efficiency. As the American Federation of State, County and Municipal Employees (AFSCME) argued:

The privatization of welfare eligibility determination, and food stamp and Medicaid predetermination, even on a small scale, represents a fundamental shift in delivering income support to low-income populations. Large, for-profit corporations may have strong financial incentives to turn away recipients or provide them with inadequate services, with little public oversight. Especially if contractors are paid set fees for program administration, they may see some services as avoidable costs, and cutting back may help their bottom lines (AFSCME 2006).

The 'reinventing government' movement of the 1990s led a backlash against the public service's focus on rules and process. Some policy analysts believed that too much efficiency had been sacrificed in the name of procedural fairness and accountability. However, the real problem was not the bureaucracy's 'process mentality' but the use of rule-driven systems in areas where efficiency was sacrificed without any worthwhile gain in procedural fairness.

In some cases governments have funded services provided by charities in order to avoid the cost and accountability burden of providing services themselves. A large part of the additional cost of publicly provided services is the cost of abiding by norms of procedural fairness (e.g. not being able to turn away eligible applicants and granting rights of appeal).

5.2.2 *Distributive justice*

In contrast to procedural justice distributive justice is about results rather than processes. While social efficiency focuses on the total value of benefits and costs, distributive justice focuses on how benefits and costs are distributed.

Distributive justice principles can include:

- **Equality of opportunity.** For example, ensuring that all children have the opportunity to take advantage of educational opportunities and develop their potential.

- **Need.** For example, applying means tests to income support payments to ensure that more support goes to those in need and less to those who are able to support themselves.
- **Merit.** For example, ensuring that places in higher education go to those who have demonstrated the highest levels of academic merit (rather than those who have the greatest ability to pay).⁶

Because efficiency usually demands that social services be distributed according to capacity to benefit, there is potential for conflict between efficiency and distributive justice. In some circumstances, placing a greater value on distributive justice can increase the cost per outcome or impact. Unless some explicit value is set on a more just distribution of benefits, this higher cost will appear as inefficiency.

5.2.3 *Practical social justice*

Practical social justice goals can include maximising the incomes or general wellbeing of the least advantaged, ensuring equality of access to education, closing gaps between the health outcomes of different groups (e.g. Indigenous and non-Indigenous), and reducing discrimination by employers against people with disabilities or mental illnesses. Dignity and respect

One of the distinctive features of many social service agencies (both for profit and not for profit) is that they consciously aspire to treat their clients as citizens with rights and human beings entitled to dignity and respect rather than just as stock to be processed (e.g. manufacturing unemployed income support recipients into tax paying employees).

An example of respect for the dignity of clients comes from a report on financial capability project by the Good Shepherd Youth and Family Service:

If the adequacy of income is central to financial capability, it follows that financial education for people living on low incomes should not be based on the assumption that there is enough money to cover expenses. Otherwise it risks providing an inappropriate response that is not only wasteful of resources but also insulting to peoples' dignity (assuming that people need 'budgeting skills' when they juggle a tight budget every day, for example) (Landvogt 2008).

The risk with focusing too narrowly on efficiency is that providers will pay more attention to the purchaser's explicitly stated performance indicators than to the needs and dignity of the client. There is some evidence that this can create tensions between management and staff as well as between staff and clients. For example, a study of a welfare to work agency in the US reported:

To achieve low-cost rapid job placement, management sought to curtail staff attention to clients' needs, but those efforts were never fully successful. Staff continually revolted, and this led to a chaotic and hostile environment, not efficiency. This clash between cost-cutting managers and service-oriented street-level worker was predictable, almost inevitable. Frontline staff were hired for their devotion to client-centered service — they were social workers by either training and/or orientation — yet at WorkOpts they were being asked to forgo their training and ethics for an economic model that they maintain did not benefit them or their clients (Johnson Dias 2007).

5.2.4 *Respect for human dignity*

Respect for human dignity is part of the ethos of many social services agencies. It can have a profound effect on the way they deliver services and relate to clients. Freedom and respect for agency

⁶ For a more fully developed account of how institutions can distribute goods and burdens see Jon Elster's *Local Justice* (Elster 1992).

When combined with the power to impose penalties, a narrow focus on performance indicators such as placements in employment can undermine respect for human agency — enabling clients to choose the kind of life they value. Respect for this kind of freedom or autonomy does not mean ignoring the client's obligations to the broader community (e.g. their obligation to support themselves through paid work if they are able) but it does mean not imposing particular outcomes on a client just because they are administratively efficient.

Ideally, social services should enhance rather than diminish human dignity. This principle can also apply to communities. For example, many people living in remote Indigenous communities place a high value on controlling their own services. Respecting the community's desire for autonomy may involve a considerable amount of negotiation between community representatives and program managers and providers.

5.2.5 *Relationships and social inclusion*

There is a tendency in economic analyses of social services to see individual wellbeing as a function of the consumption of goods and services. In this kind of analysis, all human relationships are reduced to those of producer and consumer.

Social inclusion is not about a person's opportunities to consume goods and services. And it is not just about whether or not they have a job or are relying on income support. Social inclusion is about a person's relationships. To be included is to be part of a family, a community and to be able to relate to government as a citizen with rights and a voice rather than a passive client.

Non-market relationships can contribute to wellbeing in a wide variety of ways. For example, the relationship between a wife and husband can be described in terms of an exchange of cash and in-kind services as can the relationship between parents and children. But to conceptualise sexual relations between people who love and care for each as an exchange of services (that could potentially be exchanged for cash or outsourced) is to misunderstand the nature of the relationship. In the same way the love and care of children cannot be understood simply as an investment made in the hope of a future return. Children cannot be understood as 'durable consumer goods' self-produced by parents (Radin 1996).

While relationships between family members can have economic aspects, there is more to the family life than can be captured in a study of the "relationship between ends and scarce means which have alternative uses."⁷

Not all human relationships are economic relationships and not all market relationships are purely economic in nature. Not all relationships can be valued according to the same metric. Much of what takes place in the community sector involves relationships of love, friendship, compassion and community participation and control.⁸ These relationships are not simply examples of 'service provision' whose aim is to satisfy the preferences of 'consumers' or manipulate their behaviour to make them less of a burden on others.

The important issue for accountability frameworks is that they are able to embrace ethical and social justice values as well as efficiency. In our advocacy work Catholic Social Services Australia seeks to contribute to an ongoing public conversation about values and what they mean for government policy and social service delivery.

⁷ According to Lionel Robbins: "Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses" (Robbins 1945: 16).

⁸ For an example of the ideal of local participation see Deborah Brennan's discussion of the community model of child care (Brennan 1994: 92-95).

6 Promoting Efficiency and Effectiveness

In promoting efficiency and effectiveness, it makes sense to focus on impacts (net outcomes) rather than on inputs, outputs or gross outcomes. Too narrow a focus on program specific outputs or outcomes can result in goal displacement⁹ and a fragmented and administratively cumbersome approach to service delivery. A performance oriented approach built around program silos and narrow numerical indicators can undermine efficiency and effectiveness.

The most efficient and effective way to promote the wellbeing of disadvantaged individuals and communities depends on the individuals' circumstances and on local conditions. When focused on impacts and allowed sufficient autonomy community based agencies can harness local knowledge to make the best use of their scarce resources

In many cases, making the best use of resources will mean integrating services across various programs, portfolios and levels of government.

More integration, more localised solutions and more focus on impacts Catholic Social Services Australia does not mean less accountability. A new accountability framework must balance the need for accountability to the Australian community (via the Government), the need for accountability to the people we serve, the need for accountability to the governors and "owners" of agencies (e.g. Bishops and Religious Congregations) and the ability to provide efficient and effective social services. An accountability framework should also inform policy development and program design

Current accountability and red tape issues are so process focused and so burdensome as to render some services compromised in achieving efficiency and effectiveness.

In a recent survey, 19 of Catholic Social Services Australia's member organisations reported that they were bound by some 620 separate contracts and funding agreements with government at state and federal level.

One of our agencies (Mary MacKillop Family Services in Melbourne) has managed to document the long list of compliance and regulation that they must manage in order to deliver services (the list of some 400 Acts of Parliament, Regulations and Guidelines is provided at Appendix B). This is a stark indicator of the burden of compliance and regulation faced by social services organisations in Australia today. The cost of this compliance is not adequately accounted for in current funding arrangements.

6.1 Focus on impacts

Some government funded programs focus heavily on outputs and outcomes rather than the impacts policy makers are ultimately aiming for. For example, employment services are often more focused on compliance with mutual obligation requirements than on improving job seeker wellbeing or promoting economic self sufficiency.

A narrow focus on outputs and outcomes can put pressure on service providers to sacrifice client wellbeing impacts in order to meet narrowly defined performance standards. For example, an employment service which focuses heavily on compliance with activity requirements (in order to

⁹ According to the Tasmanian Department of Treasury and Finance: "Goal displacement occurs when a few performance targets - typically numerical ones - replace the actual intentions (the objectives) for the delivery of the service."

promote off-benefit employment outcomes) can exacerbate problems such as mental illness, homelessness and family breakdown.

In some cases providers are encouraged to go through the motions of assisting a client when the service is not suitable for their needs. For example, some highly disadvantaged clients are unlikely to benefit (in the short term) from employment oriented services but are forced to meet employment oriented activity requirements. In some cases the needs of the client and the broader community would be better served by sequencing assistance in a more flexible way.

6.2 Harness local knowledge

There is a tendency within some government departments to create one-size-fits-all programs that target a single policy problem and stipulate the delivery of services to address it (e.g. the 'continuum' in DEEWR's Active Participation Model). This kind of program design can prevent agencies from using local knowledge.

Often top-down program designs are based on social scientific literature about 'what works' in program design (e.g. 'work first' versus 'human capital development' approaches in employment services). But as economist Friedrich Hayek writes:

... a little reflection will show that there is beyond question a body of very important but unorganized knowledge which cannot possibly be called scientific in the sense of knowledge of general rules: the knowledge of the particular circumstances of time and place. It is with respect to this that practically every individual has some advantage over all others because he possesses unique information of which beneficial use might be made, but of which use can be made only if the decisions depending on it are left to him or are made with his active cooperation. We need to remember only how much we have to learn in any occupation after we have completed our theoretical training, how big a part of our working life we spend learning particular jobs, and how valuable an asset in all walks of life is knowledge of people, of local conditions, and of special circumstances (Hayek 1945).

Top-down program designs are based on oversimplified models of social problems. They are often designed in a way that prevents service providers from acting on their own local knowledge.

6.3 Enable local autonomy

For policy makers the challenge is to design programs that allow providers enough autonomy to harness local knowledge while maintaining strong incentives for providers to:

- pursue goals established by the government rather competing goals of their own;
- control costs; and
- perform.

The most effective way to balance the need for local autonomy with the need for accountability and performance is for funders to establish long term partnerships with provider organisations that have a proven track record of integrity and shared commitment to program objectives.

To support a more autonomous way of working, local departmental managers should have some authority to vary the conditions of funding agreements and contracts in response to changes in local conditions. Local public service managers need to be capable of focusing on impacts rather than narrow, mechanical indicators of compliance. Coping with this may mean upgrading the classifications of local managers by shifting higher level positions out of state and national offices.

Managers should be encouraged to work more closely with local service providers, visiting sites and working in partnership to solve problems as they arise.

6.4 Encourage integrated service delivery

Policy makers in central offices often attempt to manage social problems by dividing them up into parts and assigning each of these parts to a particular program. Mental health problems will be assigned to programs in the health portfolio, homelessness to programs in housing, employment to programs in the employment portfolio and so on. But on the ground, these problems are not always separable. Frequently they are aspects of a common set of underlying problems.

In defining what constitutes “value for money”, governments generally come from a very narrow perspective relating only to government expenditure and, even worse, to expenditure in individual government programs. Increasingly, Commonwealth purchasing arrangements have shifted the financial risk from government to providers. In this environment, not-for-profit providers are left to perform a delicate juggling act of cross-funding programs, relying on surpluses in one program or moneys from non-government funding streams to fund deficits in other programs.

This “silo-driven” approach is evident in the recent Jobs Services Australia (JSA) tender, has had “collateral damage” and cost for other government purchasers. This is especially the case when the purchaser of an “outcome based” program (such as the JSA program funded by the Department of Education, Employment and Workplace Relations, DEEWR) withdraws its contracts from a local agency.

Case Study

The following information has been supplied by Centacare Toowoomba, a long serving agency committed to the Toowoomba and surrounding community offering a wide range of community services.

Table 1 outlines the impact of the withdrawal of DEEWR-funded services on eight other programs servicing disadvantaged people, including five funded by another Commonwealth Department. As a direct result of losing DEEWR-funded programs, Centacare Toowoomba will be forced to reduce services to Indigenous people, refugees and migrants, remote clients and many with mental illnesses. New DEEWR-funded providers are not delivering such services in Toowoomba and any surpluses accrued by them will most likely be directed outside the Toowoomba community.

Table 1: Centacare Toowoomba Programs at Risk Summary

Program	Funding	Actual 2007/2008	Budget 2008/09	2009/10	No. of Clients
Type	Source	(deficit i.e. CE Contribution)	(deficit i.e. CE contribution)	(Forecast deficit)	per Month
South West Qld Psychology Services	DSQ	-\$24,080	-\$24,310	-\$24,367	58
Refugee & Migrant Services	DIAG	-\$24,114	-\$32,360	-\$34,960	572
Indigenous Services	JAG	-\$28,249	-\$22,946	-\$23,510	164
Sub Total:		-\$76,443	-\$79,616	-\$82,837	794
Early Intervention Services – Roma	FaHCSIA	\$100	-\$11,527	-\$11,559	31
Family Relationship	FaHCSIA	-\$28,589	-\$12,949	-\$13,461	103

Centre					
Family & Relationship Counselling	FaHCSIA	-\$49,785	-\$11,057	-\$30,349	26
Family & Relationship Education	FaHCSIA	-\$6,856	-\$11,920	-\$11,817	15
Primary Dispute Resolution	FaHCSIA	-\$49,610	-\$16,031	-\$15,957	20
Sub Total:		-\$134,740	-\$63,484	-\$83,143	195
TOTAL:		-\$211,183	-\$143,100	-\$165,980	989

Such an example demonstrates the need to move away from “silo funding” to a system of integrated agency funding for a mix of services.

Government could help local agencies by creating more flexible funding streams. This might mean allowing under spends in one program to be used in another or creating flexible funding pools that can be used to take advantage of local opportunities and fill gaps in service delivery.

6.5 Encourage innovation and evaluation

Continual improvement in efficiency and effectiveness depends on innovation. Often there are problems that have been overlooked or misunderstood leading to gaps in service delivery. Innovation can mean developing new ways of identifying, defining and understanding problems, as well as developing new ways of addressing the problems currently identified by policy makers.

While community based providers often have ideas for new ways of assisting clients and administering services, they generally lack the financial resources and research capability needed to undertake a trial, evaluate performance and disseminate what they have learned. Government rarely provides funding for this purpose.

Ministers and departmental managers often underestimate the time and resources needed to get innovative projects off the ground and to evaluate them rigorously. Often it can take four or five years to discover if a new approach is more effective than the existing one. And, as the MDRC’s Judith Gueron explains, rigorous impact evaluation tends to deflate exaggerated claims about program effectiveness:

It takes courage for political appointees to favor independent studies that measure net impacts. Aside from the normal desire to control the story, the challenge comes from the fact that impacts are almost always smaller than outcomes. For example, a job training program may accurately claim that 50 percent of enrollees got jobs, only to have this deflated by an impact study showing that 45 per cent of the control group also found work, meaning that the program actually produced only a modest 5 percentage point increase in employment. It is much easier to sell success based on the 50 per cent than the 5 per cent, and particularly bedeviling to state that your program produced a 5 percentage point gain when another one (spared the blessing of a quality impact study) continues to trumpet its 50 percent achievement (Gueron 2000).

Innovation means learning from failure as well as success. Promoting greater innovation and learning means funding more new projects, evaluating them more rigorously and accepting that many will produce disappointing results.

Too many ministers and senior bureaucrats think that they can push the cost of innovation and evaluation onto the not-for-profit sector and pick up new program designs only when they prove successful. However, experience from the United States suggests that rigorous, large scale evaluation rarely takes place without government support.

It is also common for ministers and program managers to think that programs can be rigorously evaluated after the fact — that it is possible to take a new program to scale and then commission an evaluation to estimate how effective it is. The problem with this is that there is usually no way to estimate the counterfactual — to discover what would have happened without the program in place. DEEWR's employment services are a good example. Because they aim at near universal coverage, there is no way of generating a comparison group.

It is not possible to run full scale programs and, at the same time, evaluate their impact rigorously. A better approach is to trial innovative approaches and then find ways of integrating these approaches into mainstream service delivery.

Government could help promote innovation by providing funding for innovative services in combination with funding and support for rigorous evaluation and dissemination.

6.6 Allocating the cost of risk

Like all activities, social service delivery involves risks. Governments should attempt to allocate these risks in a way that maximises performance, efficiency and accountability. Part of the problem with some of the current arrangements is that risks are misallocated. Non-government agencies bear some risks that ought to be borne by government and government attempts to take responsibility for other risks that should be borne by non-government providers.

6.6.1 Financial risk

In recent years governments have pushed financial risk onto providers. If a provider misestimates the cost of delivering a service and accepts a contract or funding agreement that fails to cover its costs, then the provider is responsible for the shortfall (although those same agencies are frequently required to return unspent funds if actual costs turn out to be overestimated!). For small agencies accepting this kind of risk can threaten their survival. As a result, pushing risk away from government tends to favour larger organisations over smaller ones, because they are frequently better able to deal with the potential cost.

Governments have also pushed some of the costs of policy development onto non-government agencies. Rather than providing funds for research and program innovation, policy makers increasingly expect providers to support innovation themselves and approach government for funding only after they have piloted and evaluated a new approach.

In practice this means that relatively fewer innovations are trialed and those that are, are only rarely evaluated with the kind of rigor that policy makers expect. There are few purchasers of social services and no guarantees that a successful new approach will be purchased.

Church based organisations are established with the expectation that they will exist in perpetuity. Agencies run by Catholic religious orders often rely on assets such as land and buildings that are held in trust. In contrast, most private sector organisations are set up for the 'creative destruction' of the marketplace. They raise capital and expand by exposing themselves to the risk of liquidation. Transferring financial risk to providers can shift the balance towards larger organisations and towards private sector organisations with greater access to "venture" style capital.

6.6.2 Political risk

Another kind of risk has to do with politics and public relations. Governments will sometimes trade off efficiency and effectiveness in order to avoid political embarrassment. For example, Job Network providers are prohibited from offering some kinds of potentially effective assistance to job seekers because opposition parties or the media could present it in a way that is embarrassing to government.

For example, job seekers are more likely to succeed at interview if they are well groomed — particularly if the job involves public contact. Not only will employers respond better to a well groomed applicant but looking good can also improve confidence and self esteem.

However, providers are prevented from offering clients personal hygiene products such as hair colouring, beautician visits or ‘makeovers’ as part of government funded employment services. Rules like this are an attempt by politicians to manage political risk. Incorporating these kinds of political considerations into service delivery undermines both the autonomy of providers and the effectiveness of services.

Rather than address political risks through ad hoc edicts, policy makers should appeal to legitimate principles of public administration.

7 Relationship with Government

In the early 1990s it became popular to talk about government’s role as ‘steering rather than rowing.’ On this model policy makers would identify problems and then go into the marketplace to purchase services (see Osborne and Gaebler 1992).

Steering-not-rowing is a top-down model that relies on a sharp distinction between policy and service delivery. Once a policy is in place, service providers are consulted only about administrative issues — policy is the department’s prerogative.

The problem with the steering not rowing approach is that policy makers often lack the local knowledge they need to identify and frame problems effectively. Without on the ground experience, national and state level policy makers rely on a ‘pseudo-environment’ constructed out of newspaper reports, official statistics, departmental management information systems, and personal anecdotes.

A better approach is to adopt a partnership model rather than a top-down purchaser/provider model — one where government and providers in the not-for-profit sector work together to define problems, frame responses and agree on funding models and appropriate performance indicators.

7.1 Problems with the steering not rowing model

To improve the wellbeing of their clients and local communities effectively and efficiently, agencies need the ability to identify and frame problems, not just the ability to come up with solutions to problems already rigidly framed by policy makers.

In many cases the distinction between policy and implementation is artificial and unhelpful. Often it results in fragmented service delivery when different aspects of a single problem are separated across departments and programs.

For example, services to homeless people with a mental illness might be separated into a housing problem, a health problem and an employment problem — all delivered under separate funding streams and by separate local agencies. It may be that the most effective way to respond is by integrating housing, mental health and employment services into a single local program and sequencing the delivery of services depending on the client’s individual circumstances (e.g. addressing housing needs first in order to stabilise mental health, then addressing employment).

7.2 Problems with inappropriate performance indicators

It may be that the most efficient and effective way to tackle social problems is to adopt a more locally based approach to problem definition and program design. This approach would sacrifice some of the (often spurious) benefits of a single national set of performance indicators in return for more agile and adaptable service provision. For policy makers the choice may be between an

inefficient system that makes program activity more visible and a more efficient system where activity is more difficult to summarise and report on.

Providers are often forced to report against inappropriate performance indicators while their more important achievements go unreported. This problem is endemic to the sector.

Catholic Social Services Australia's member organisations indicate that the reporting requirements of governments are frequently inadequate to capture important information beyond the raw service data. Client centred practice and service development, delivery of quality holistic services (as opposed to serviced determined by various funding silos) and the extension of services beyond the minimum requirements of government programs are important factors that are frequently ignored in standard reporting. However, in many instances the success of the program is contingent upon the unreported activity.

A report on red tape in selected Indigenous communities noted that:

Performance indicators are not very closely matched to funded activity in the majority of funding agreements. As reported [elsewhere in the report] Performance indicators not related to activity, a little over 75% of the schedules have a majority of indicators that are not likely to be useful in managing the activity or organisation well, or informing future policy and program settings. In effect, this means that in 75% of the schedules, performance reporting requirements meet the generally agreed definition of 'red tape' (Morgan Disney and Associates 2006).

The consultants who undertook this evaluation for the Office of Indigenous Policy Coordination suggested that a "simple and low cost periodic evaluation should be considered in place of reporting against performance indicators" for some projects. They suggested field visits to allow more face-to-face contact between departmental staff and funded organisations. This approach would also be useful for non-Indigenous services.

While a face to face approach would provide funding agencies at a local level with higher quality information about program effectiveness, it could make it more difficult to provide comprehensive reports of program activity at a national level. The trade off may be between monitoring for performance and monitoring for an orderly looking set of national reports.

8 Viability and Sustainability

Over time there is a tendency for contracts and funding agreements to become more detailed and prescriptive. Reporting requirements grow to match. These government efforts at control and measurement tend to favour larger bureaucratically sophisticated organisations at the expense of smaller locally based organisations.

If this trend continues there is a risk of a shrinking 'gene pool' of ideas and service techniques in Australian social services. The cost of tighter government control and more detailed, more uniform reporting mechanisms will be a reduction in local autonomy and a decreased ability to harness local knowledge.

There is some evidence that this has already taken place in DEEWR's Job Network system. According to Peter Saunders of the Centre for Independent Studies, many of the benefits of contracting out have been lost:

Coupled with the increasing direction from the centre and the closing down of effective competition in the tendering process, this concentration of JN membership suggests that ten years after the old [Commonwealth Employment Service] model was scrapped, the new system has begun to look increasingly like the old one (Saunders 2008: 26).

The risk is that social services become dominated by a handful of large for-profit and not-for-profit agencies organised around departmental funding silos. The practices of a new reinvented

government will come to resemble the practices of the old service delivery bureaucracies they replace.

Locally based organisations are often deeply embedded in their communities. Part of the reason they are able to advocate on behalf of clients and meet their needs is because of the network of relationships the agency and its staff have within their community. Like the dense interrelationships that exist in the natural environment, these social relationships are easier to destroy than they are to create.

In order to preserve the unique contributions of locally based not-for-profit agencies, government needs to assist such organisations to remain viable now and sustainable into the future.

Uncertainty about long term funding prevents social services organisations from investing in future capacity and undermines their capability to plan and respond to community need. The social services sector is expected to respond to, provide service to and produce longer term impacts addressing problems widely identified and accepted as intergenerational or requiring longer term response strategies. Governments' preference for funding periods based on annual, biannual or triennial cycles undermine the efficiency and effectiveness of the sector.

It is crucial that governments move towards longer funding cycles than current arrangements.

Case Study

Centacare Tasmania has a long history of service in local communities throughout Tasmania, offering a wide range of community services. It is well regarded by those local communities.

Thirteen months prior to the opening of DEEWR's Jobs Services Australia tender, Centacare Tasmania tendered successfully for services in West and North West Tasmania in the mid-contract business re-allocation tender in ESC3 Extended. These services had been operating for only 19 months when the JSA tenders were announced, and Centacare Tasmania lost its entire contract in this ESA.

The business won in August 2007 required the establishment of three full-time and five part-time sites, some in remote areas. The costs of setting up sites and then settling down and improving performance are substantial and take considerable time – especially when services are spread over a wide geography as in this case.

Shutting down sites when they have been given insufficient time to mature and reach their peak is disrespectful to a long standing service “partner” and disregards the high and unnecessary cost to both government and community resources – to say nothing of the human cost to the staff who have worked so hard to establish the services and business and disruption to vulnerable clients.

The loss of the West and North West Tasmania business has cost the agency over \$500,000. Obviously, this loss will result in service reductions to other agency services to disadvantaged Australians, mainly funded by Commonwealth and Tasmanian Governments.

One of the major policy implications arising from the “Dropping off the Edge: the Distribution of Disadvantage in Australia” Report written by Professor Tony Vinson and commissioned by Catholic Social Services Australia and Jesuit Social Services is the nature of response mechanisms aimed at addressing entrenched disadvantage.

As Professor Vinson explains, “Disadvantage entrenched over decades cannot be turned around in a few short years. In fact, our evidence-to-date indicates that when this happens you get a ‘boomerang’ effect – a rebound to previous levels of disadvantage. What is needed is persistent

effort nearer to seven or eight years – as happens to good effect overseas – rather than the Australian norm of 2 of 3. It is possible that an inadequate single ‘dose’ of community assistance may be more harmful than no help at all.” (Vinson, 2007)

Governments can help promote viability and sustainability by offering long term funding agreements, minimising red tape (for example by relying more heavily on site visits for performance monitoring), and creating flexible funding pools that allow agencies to offer integrated services.

8.1 Skill shortages

The social services sector is increasingly under strain to find the qualified staff required to deliver services. This is in part due to the huge growth of demand on social services, a trend that, is projected to continue (This trend is documented in the recent Access Economic report, commissioned by the Major Church Providers, “The Impact of the Global Financial Crisis on Social Services” (2008).

A report published by the Department of Education, Employment and Workplace Relations, “New Jobs: Employment trends and prospects for Australia industries” published in November 2008, predicts that Health and Community Services will be number 1 in the top 5 employment sectors in the 5 years to 2012-13. (DEEWR, 2008: p.iii)

Despite the increasing rate of unemployment in Australia, Catholic Social Services Australia’s members are continuing to canvass the international marketplace to attract staff because the skills required cannot be found locally. Whilst there is some innovation emerging in terms of re-training (career switching) workers in response to the growing rate of unemployment and the global financial crisis, this will have only a limited impact on meeting the growing demands of the sector.

As a national network with a strong presence in regional and rural Australia, Catholic Social Services Australia can report that this is having severe servicing ramifications in regional, rural and remote areas of this country.

These shortages arise from poor workforce planning by successive governments. This lack of planning has direct costs for agencies and these costs should be accounted for in any analysis of the not for profit sector.

8.2 Pay parity

Another factor impacting on the workforce of not-for-profit agencies is the issue of parity between our agencies and the government and commercial sectors.

For example, one of our larger member organisations reports that on a recurrent basis they are funded at levels that cause them to pay staff well under what Government would need to pay its own staff for the same work. As an example, this agency is currently in negotiations with their state government in relation to recurrent funding for disability services. When assessing their requirements in terms of pay and conditions contained within the relevant enterprise agreement, the agency has found that their current government funding is \$5 million less than what they require to meet their staffing commitment and obligations. The irony of this situation is that the pay levels stipulated in the enterprise agreement are considerably less than relevant government salaries.

A further consequence of the incapacity to pay equivalent wages when compared to the government or private sector is that agencies often need to take on newly graduated (cheaper) professionals. Whilst formation is an important facet of social services workforce development – it is the growing trend for some organisations faced with continuous cycles of training staff and then losing them to government jobs – that is at issue. For example, in the field of psychologist/social workers, one of our member organisations based in a regional area reports that they spend time

and funds training new graduates into counselling positions and for registration as psychologists. Once they have registration or general experience, after a couple of years, they leave and seek work elsewhere at a higher salary. Therefore, they are constantly training new, inexperienced staff – a further cost that is not accounted for in existing funding arrangements.

Real wage funding should be a major component of Commonwealth, State/Territory, Local Government funding arrangements for all social services.

9 Tax arrangements

9.1 Fundraising:

Tax concessions provided to donors offer incentives for individuals, businesses and companies to become involved in the work of not-for-profit organisations. They foster not only an opportunity for fundraising in real dollar terms but also positive relationships and partnerships with businesses. These relationships go beyond financial arrangements to support the common good, solidarity with those in need and community building.

The fundraising component of agency revenue usually funds the majority of innovation in the sector and cross subsidises inadequate government funding. It is necessary here to acknowledge there is some provision of specific innovation funds for the sector – i.e.: Federal Government's \$41 million innovation fund within DEEWR - but generally speaking – innovation is not funded by government.

The loss of revenue generated from fundraising has a direct impact on Governments and local communities.

9.2 Fringe Benefits Tax (FBT) Exemptions:

In our joint submission with Catholic Health Australia to the Henry Inquiry, Catholic Social Services Australia outlined its case for retaining the current provisions of the existing Fringe Benefits Tax (FBT) regime for the Not for Profit sector (see Attachment C).

Historically, fringe benefits tax concessions for the Not for Profit sector have greatly assisted employers to attract and retain staff. However, over the years since year 2000, the benefit derived by employees who elect to salary package has been progressively eroded. Inflation and wage adjustments have grown in excess of 30 per cent and 35 per cent respectively, whilst the FBT concession has remained unchanged (non indexed), resulting in a substantial funding cut in real terms.

The sector very much values the FBT concession as a method of helping to retain and attract labour with improved remuneration offerings for its employees. Evidence also suggests the current FBT concessions have been used responsibly by employers.

We have examined and debated both internally and externally over many years the merits of retaining the FBT concessions versus other options such as general pay increases for all 1.2 million employees in the sector, and an adequate increase in ongoing funding. It is worth noting this need for any compensation to cover the values of FBT exemptions to fundraising and other sources of funding.

On balance, the submission put to the Henry Inquiry argues a case to retain and index the current FBT concessions - keep the status quo. The not-for-profit sector is vital to the Australian economy and for the delivery of critically important social and health programs.

The not-for-profit sector is confronted with the challenge of too few professionals in the health and community services sector, creating critical skills shortages that adversely impact service delivery, whilst at the same time finding it very difficult to retain staff. Attracting and retaining labour is a critical issue that confronts all employers in this sector.

The reality is that to abolish FBT concessions and replace them with any of the available options (rebates, grants, pay rises) we canvass in our submission to the Henry Inquiry; this will increase the cost significantly for government. All employees will need to be included in any such arrangements and not just the 65 per cent that have elected to participate to date. We have estimated that the additional/extra cost of abolishing the current FBT concessions with grants, rebates, full wage parity or similar will be in excess of \$2.25 billion per annum. This cost will grow each year in line with inflation and/or wages growth.

We argue, on balance, that the current FBT concessional arrangements should be retained. The FBT concession should be indexed each year. It is of grave concern that until the full costs of service delivery are assessed (including consideration for risk, innovation, workforce planning and development, capital renewal, cross subsidy through fundraising and efficiency, and value adding through community engagement) then services will remain chronically underfunded.

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Appendix A

Catholic Social Services Australia Member Organisations

Boys' Town Engadine	Salesians of Don Bosco
Catholic Care (incorp. Centacare Newcastle)	Diocese of Maitland/Newcastle
CatholicCare Sydney	Archdiocese of Sydney
CatholicCare Wollongong	Diocese of Wollongong
Catholic Healthcare Ltd	
Centacare Canberra/Goulburn	Archdiocese of Canberra/Goulburn
Centacare Catholic Family Services Broken Bay	Diocese of Broken Bay
Centacare Catholic Family Services Wagga Wagga	Diocese of Wagga Wagga
Centacare Catholic Social Services Parramatta	Diocese of Parramatta
Centacare Coffs Harbour	Diocese of Lismore
Centacare Family and Community Services Bathurst	Diocese of Bathurst
Centacare New England North West	Diocese of Armidale
Centacare Port Macquarie	Diocese of Lismore
Centacare Wilcannia Forbes	Diocese of Wilcannia-Forbes
Conference of Leaders of Religious Institutes in NSW	CLRI (NSW)
Daughters of Charity of St Vincent de Paul	Trustees of the Daughters of Charity
Edmund Rice Community Services (NSW)	Christian Brothers - St. Mary's Province
Good Grief	Sisters of St. Joseph of the Sacred Heart
11 Marist Youth Care	Marist Brothers – Sydney Province
Maronite Community and Social Services	Maronite Eparchy of Australia
Marymead Child and Family Centre	Archdiocese of Canberra/Goulburn
Sisters of Charity in Australia	Congregation of the Religious Sisters of Charity
Trustees of the Sisters of Mercy Parramatta (including St Michael's Family Centre Ltd; St Mary's House Campsie; and Mamre Plains Ltd)	Sisters of Mercy - Parramatta Congregation
Sisters of Saint Joseph of the Sacred Heart NSW Congregation Leadership Team	Sisters of Saint Joseph of the Sacred Heart
St Anthony's Family Care, Croydon	Sisters of Saint Joseph of the Sacred Heart
St Carthage's Community Care Lismore	Diocese of Lismore
St Francis Social Services	Franciscan Friars – Order of Friars Minor
St Francis Xavier's Parish, Ballina	Diocese of Lismore
St Joseph's Cowper	Sisters of Mercy - Grafton Congregation
St John of God Casa Venegas	St John of God Brothers
Centacare Casino (St Mary's Parish)	Diocese of Lismore
Trustees of the Presentation Sisters (Wagga)	Presentation Sisters
Catherine House Inc.	Sisters of Mercy, Adelaide
Centacare Family Services Adelaide	Archdiocese of Adelaide
Centacare NT	Diocese of Darwin
Centacare Port Pirie Diocese (Whyalla)	Diocese of Port Pirie
South Australia Province of the Sisters of St Joseph, (including St Joseph's Family Care Centre and 'Ain Karim')	SA Province of the Sisters of St Joseph

Catholic Society for Marriage Education	Lay Association
Centacare Catholic Diocese of Ballarat Inc	Diocese of Ballarat
Centacare Catholic Family Services Melbourne	Archdiocese of Melbourne
Centacare Gippsland (Sale)	Diocese of Sale
Centacare Sandhurst (Bendigo)	Diocese of Sandhurst
Centacare Tasmania	Archdiocese of Hobart
Jesuit Social Services	Jesuits Society of Jesus
MacKillop Family Services	Sisters of Mercy, Christian Brothers and Sisters of St Joseph
Marriage Education Program (Inc.)	Lay Association
Sacred Heart Mission (St. Kilda)	Archdiocese of Melbourne
Sts Peter and Paul Centacare, Nth Melbourne	Ukrainian Catholic Eparchy,
Catholic Marriage Education Services (Perth)	Archdiocese of Perth
Centacare Employment and Training Perth	Archdiocese of Perth
Centacare Geraldton	Diocese of Geraldton
Centacare Kimberley	Diocese of Broome
Centrecare Inc. Perth	Archdiocese of Perth
MercyCare	Sisters of Mercy - Perth Congregation
Personal Advocacy Service	Catholic Archdiocese of Perth
St Patrick's Community Support Centre (Fremantle)	Archdiocese of Perth
Bridgeworks Employment and Training	Sisters of Mercy – Brisbane Congregation
BoysTown	De La Salle Brothers
Centacare Brisbane	Archdiocese of Brisbane
Centacare Cairns	Diocese of Cairns
Centacare Rockhampton	Diocese of Rockhampton
Centacare Toowoomba	Diocese of Toowoomba
Centacare Catholic Family Services Townsville	Diocese of Townsville
Mercy Family Services (Qld)	Sisters of Mercy – Brisbane Congregation
North West Qld Indigenous Catholic Social Services (NWQICSS)	Diocese of Townsville
Sisters of Mercy Brisbane Congregation Leadership Team	Sisters of Mercy - Brisbane Congregation

MacKillop Family Services

COMPLIANCE REPORTING

1. Service Delivery

	Compliance Requirements
Substitute Care	<p>Children, Youth and Young Families Act 2006</p> <p><u>Adolescent Community Placement – Principles and Program Framework, September 1991</u></p> <p><u>Permanent Care Order Guidelines 1993</u></p> <p><u>Adolescent Support Program Document, 1993</u></p> <p><u>Capital Development Guideline 7.7 Fire Risk Management in Community-Based Houses, Sep 2001</u></p> <p><u>Departmental Instructions relating to Community Services, September 1991 (D1/91/7)</u></p> <p><u>Children In Residential Care 1998 Program Guidelines</u></p> <p><u>High Risk Adolescent Quality Improvement Initiative - Service Specifications, December 1997</u></p> <p><u>Mental Health Act 1986</u></p> <p><u>Aboriginal Child Placement Principle November 2000</u></p> <p><u>Adolescent Support Program Document, April 2001</u></p> <p><u>Minimum Standards and Outcome Objectives for Residential Care Services in Victoria, 2002</u></p> <p><u>Protecting Children Volumes 1</u> May 1994 <u>Protecting Children Volume 2</u> Protecting Children Volume 3 - <u>Part 1</u> Protecting Children Volume 3 - <u>Part 2</u></p> <p><u>Protection and Placement Output: Definitions for Performance Measures 2002</u></p> <p><u>Voluntary Placements Handbook July 1993</u></p>

	<p>Compliance Requirements</p> <p>Baseline Standards for Out of Home Care, December 1995</p> <p>Working With Children Regulations 2006</p> <p>Minimum Standards and Outcome Objectives for Residential Care Services in Victoria, 2002</p> <p>Counting Rules for Child Protection & Placement Output Group Performance Measures</p> <p>DHS Management Response to Inhalant Use, February 2003</p> <p>Flexipack Guidelines, November 1995</p> <p>Funding Arrangements for Placement & Support Service Providers, Community Care Division 2001</p> <p>The Home-Based Care Handbook November 2003</p> <p>Practice Standards in Foster Care 1984</p> <p>Procedural Guidelines Shared Family Care, Placement and Support Grant Funding</p> <p>Protection and Placement Output: Definitions for Performance Measures 2002</p> <p>Residential Care Services - Substance Abuse Guidelines, February 2003</p> <p>Wrongs Act 1958</p> <p>Wrongs and Other Acts (Law of Negligence) Act December 2003</p>
Funding agreements and instructions	<p>Community Services Act 1970</p> <p>Departmental Instructions relating to Community Services, September 1991</p> <p>Funding Arrangements for Placement & Support Service Providers, Community Care Division 2001</p> <p>Service agreement information kit for agencies 2003-06</p> <p>Community Care Policy and Funding Plan 2003-2006</p>
Adoption	<p>Immigration (Guardianship of Children) Act 1946</p> <p>Adoption Act 1984</p> <p>Adoption Standards 1986</p>

	Compliance Requirements
	<u>National Principles in Adoption 1997</u> <u>Adoption Regulations 1998</u> <u>Adoption and Permanent Care Procedures Manual 2000</u> Adoption (Amendment) Regulations 2002
Disability Services	Disability Act 2006 Victorian Intellectually Disabled Persons' Services Act 1986 Disability Services Standards
Family Support Services	Service agreement information kit for agencies 2003-06 Community Care Policy and Funding Plan 2003-2006 Family Services Program: Service Standards and Quality Improvement Program, August 1996 Guidelines for Completion of Strengthening Parent Support Program Data 2001/2002 <u>Protocol Between Protective Services and Families First, 1993</u>
Education Services	Education Act 1958 Education Regulations 2000 Transport Accident Act 1986 School Focussed Youth Services Program Guidelines 2003 Psychologists Registration Regulations 2001 Registered Schools Board Regulations 1996

2. Human Resources

	Compliance Requirements
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	Compliance Requirements
HR reporting	Workplace Relations Act 1996
Industrial Relations	
EEO	<p>Equal Opportunity Act 1995 for prevention of harassment and discrimination</p> <p>Racial and Religious Tolerance Act (2001)</p> <p>Racial Discrimination Act (1975)</p> <p>Sex Discrimination Act (1984)</p> <p>Disability Discrimination Act (1992)</p>
Disputes and grievances	Compliance with Dispute and Grievance Settling procedures set out in Workplace Agreement
OHS	<p>Occupational Health and Safety Act 1985</p> <p><u>Victorian Codes of Practice:</u></p> <p>Noise (1992)</p> <p>Provision of OHS Information in Languages other than English (1992)</p> <p>Plant (1995)</p> <p>First Aid in the Workplace (1995)</p> <p>Plant (Amendment No.1) (1998)</p> <p>Workplaces (1998)</p> <p>Manual Handling (2000)</p> <p>Hazardous Substances (2000)</p> <p>Dangerous Goods Storage & Handling (2000)</p> <p>Prevention of Falls (2004)</p>

	Compliance Requirements
	<p><u>Regulations:</u></p> <p>OHS (Noise) 1995</p> <p>OHS (Plant) 1995</p> <p>Equipment (Public Safety)(General) (1995)</p> <p>OHS (Confined Spaces) 1996</p> <p>OHS (Incident Notification) 1997</p> <p>OHS (Issue Resolution) 1999</p> <p>OHS (Manual Handling) 1999</p> <p>Dangerous Goods (Storage & Handling) (1999)</p> <p>OHS (Hazardous Substances) 1999</p> <p>OHS (Lead) 2000</p> <p>OHS (Asbestos) 2003</p> <p>OHS (Prevention of Falls) 2003</p>
Workers compensation	Accident Compensation Act 1985
Information privacy	<p>Information Privacy Act 2000 (Victoria);</p> <p>Health Records Act 2001 (Victoria); and</p> <p>Privacy Amendment (Private Sector) Act 2000 (National).</p>
Whistleblowers protection	Encouragement and facilitation of disclosures, protection of whistleblowers and establishment of a system for investigations under the Whistleblowers Protection Act 2001

3. Finance and Taxation

	Compliance requirements
Annual Reporting – Financial Statements	<p>Corporations Act 2001</p> <p>Accounting Standards and the Corporations Regulations 2001</p> <p>Other mandatory professional reporting requirements</p> <p>Lodge Financial Statements with ASIC within 4 months of end of financial year</p>
Financial and operating delegations	Delegations policy
Tax compliance	<p>GST Tax Laws</p> <p>FBT Laws (relating to PBI organisations)</p>

4. Other Governance Issues

	Compliance requirements
Freedom of Information	Compliance with Freedom of Information Act 1982
Insurance	DHS Non-government insurance guidelines
Information technology	Compliance with software licence requirements

Fire Safety	<p>Building Regulations 1994 – Section 11 (form 15)</p> <p>Capital Development Guideline 7.7 Fire Risk Management in Community-Based Houses, Sep 2001</p> <p>Fire Risk Management Standard 2002 Departmental Instructions relating to Community Services, September 1991 (D1/91/7)</p> <p>Fire Risk Management Standard 2002</p> <p>Lead Tenant/Home Based Care Services Fire Safety Standard, March 2000</p> <p><u>DHS Fire Risk Management Standard, March 2000</u></p>
Building regulations	<p>Compliance with Building Act 1993</p> <p>Building Regulations 1994 – Section 11 (form 15)</p>

Victorian Acts & Regulations

Fundraising Appeals Regulations 1999

Gambling Regulation Regulations 2005

Liquor Control Reform Act 1998

Building Regulations - 2006

Business Names Regulations 2003

Consumer Credit (Victoria) (Administration) Regulations 2006

HUMAN RESOURCES

Accident Compensation Regulations 1990

Accident Compensation Regulations 2001

Emergency Management Regulations 2003

Working With Children Regulations 2006

Drugs Poisons and Controlled Substances (Volatile Substances) Regulations 2004

PLACEMENT & SUPPORT

DHS Management Response to Inhalant Use, February 2003

DHS Practice Bulletin 2004/02

DHS Practice Instruction "Sharing information in out-of home care" - Home based care handbook

High Risk Adolescent Quality Improvement Initiative - Service Specifications, December 1997

Interagency Protocol between Victoria Police and nominated agencies 2004

Office of Housing, 1999, 'Housing Standards Policy Manual'

Procedural Guidelines Shared Family Care, Placement and Support Grant Funding

Protection and Placement Output: Definitions for Performance Measures 2002

QAS for OofHC

Residential Care Services - Substance Abuse Guidelines, February 2002

The Home-Based Care Handbook November 2003

Voluntary Placements Handbook July 1993

Disability

DHS Disability Service Standards

DHS Disability Services Policy and Funding Plan 2003-2006

Family Options Procedures Manual

Flexible Packages Case Management Manual

Funding

Great Break and Holiday Respite Regional Guidelines

Looking After Children (LAC) Framework / Assessment of Action and records

Looking After Children (LAC) Framework / Care and Placement Plan

Looking After Children (LAC) Framework / Essential Information Record

Looking After Children (LAC) Framework / Review of Care and Placement Plan

Making a Difference Procedures Manual

Quarterly Data Collection

RAPT Procedures Manual

Special Support Unit Orientation Manual

DHS Disability Policy

Client Expenditure (CERS)
Fire Policy
Health Care
Locked Doors and Windows
Menstrual Management
Moving Interstate
Policy and Funding Plan
Privacy
Respite
Restraint & Seclusion policy
Victorian Standards for Disability Services

DHS Disability Guidelines

ABI Assisted Community Living
Access to Disability Services Programs
Accommodation Staff Handbook
Accommodation Standards and Design Guidelines
Aids and Equipment guidelines
Chronic Illness Case management
Community Visitors Handbook
Duty of Care
Dyshpasia Interim Guidelines
Early Choices
Emergency Crisis Accommodation
Entry, Exit & relocation
Family Choice Program
Fire Safety Evacuation
Flexible Support Packages
Forensic Service Policy

HIV positive guidelines
Home First guidelines
Human Relations & Sexuality
Inclusive Consultation for people with disability
Individual Program Planning
Insurance Guidelines
Metro Access Guidelines
Motor Vehicles
Neuropsychological Assessments
Pricing Principles
Protection against Infection
QDC Consent list
QDC Guidelines
Tube Feeding

DHS Disability Practice Instructions

Behaviour Intervention Support
Family Options Policies and Procedures
Food Safety
Home First Business Rules
Incident Reporting
Responding to Allegations of Abuse
Restraint & Seclusion Joint Practice Instruction

DHS Disability Protocols

Acquired Brain Injury and Mental Illness
Disability Services Cultural & Linguistic Strategy
Family Intervention Support Services
Corrections, Justice & Disability Services
Disability & Juvenile Justice
Protective Services & Intellectual Disability

Intellectual Disability & Psychiatric Services

Police

Department of Education & Training directives

Census Data

Assessment and reporting

Curriculum & Standards

Human Resources

Initiatives & Programs

ICT in Schools

Professional Development

Key Learning Areas

Student Welfare

Bullying

Transport

Wellbeing

Traffic Safety Education

Admin procedure and Forms

Emergency & Security Management

Evaluation & Audit

Facilities

Tax

Regional Programs

Safety in Schools

Standards & Accountability

Associations

Adult, Community & Further Education

Merit Protection Boards

Victorian Curriculum & Assessment Authority

Victorian Institute of Teaching

Victorian Learning & Employment Skills Commission

Victorian Qualifications Authority

Catholic Education Commission

Superannuation: Employees in Catholic Education

Participation of Women in Catholic Education VIC

Education about AIDS and Care of AIDS sufferers

Accreditation to teach in a Catholic School

Accreditation to teach Religious Education in a Catholic School

Hepatitis B Policy

Confidentiality

Affirmative Action

Pastoral Care

Curriculum, Assessment and Reporting

Curriculum Dev P-12

Curriculum Assessment P-12

Reporting student outcomes

Commercial Sponsorship Arrangements

LOTE

Email and Internet use by staff

Criminal Records Check

Pathways and Transition in Post Compulsory Years

Privacy

Excursions

Catholic Education Office

Educating for Peace

Employment of Staff

Personal Files for Catholic Employees

Enrolment Policy

Christian Education for Personal Development
HIV / AIDS Education
Access to Records
Research Access
Enrolment of students under minimum age
Drug Issues in Catholic Schools
School Fees in primary schools
Sexual Harassment Policy
Enrolment of Year 7 students
Professional Development of Staff
Mandatory reporting of Abuse
Procedures for the management of allegations against lay staff
Privacy Policy in Catholic Schools
Leadership: Role of RE Co-ordinator

Registered Schools Board

Annual Return
Requirements for registration
Conditions for registration
Special Category registration
Procedure for registration of new schools
Refusal to grant registration to a school
Procedures for continuing registration of Existing Schools
Review of registered schools
Closure of a school or section of a school
Cancellation of registration
Registration - Resources

Family & Community Services Service Agreement

DHS - Service Agreement

Community Care Funding Plan

Service Standards

Family Services Program - Service Standards and Quality Framework - August 1996

HACC Standards

Disability Standards

Parent Support

Guidelines for program data - 2001/2002

Protocols

Protocol Between Protective Services & Families First

Research & Advocacy

NHRMC - Guidelines approved under Section 95A of the Privacy Act 1988 - December 2001

Privacy

Case Recording: Policy Advice and Practice Guidelines for Protective Workers (February 1997)

Child Protection & Care Practice Instruction 2003/01 Physical security of client files

Child Protection & Care Practice Instruction 2003/03 Placement referral process

Department of Human Services Interim Privacy Policy Guideline: Use and disclosure for primary and related purposes

Department of Human Services Privacy Policy

Department of Human Services Privacy Policy Making Privacy Work

MFS - An Introduction to Privacy - Complying with Legislation

Sharing information in out of home care 2003/10 - Child protection and care practice instruction

Fire Safety

Fire Risk Management Standard 2002

Departmental Instructions relating to Community Services, September 1991 (D1/91/7)

Lead Tenant/Home Based Care Services Fire Safety Standard, March 2000

DHS Fire Risk Management Standard, March 2000

AS 3806-2006: Compliance Standards

AS/NZS 4360 - 2004: Risk Management

AS/NZS 4360 - 2004: Risk Management Guidelines

Manual Handling (code of Practice No. 25, 2000)

Plant (Code of Practice No. 19, 1995)

Plant (Amendment no.1 to Code of Practice No. 19, 1995) (1998)

Hazardous Substances (Code of Practice No. 24, 2000)

Workplaces (Code of Practice No. 3, 1988)

Dangerous Goods Storage & Handling (Code of Practice no. 27, 2000)

Provision of Occupational Health and Safety Information in Languages Other than English (Code of Practice No.16, 1992)



**Submission to the Review of
"Australia's Future Tax System" -
(Henry Review)**

1. EXECUTIVE SUMMARY

This submission is made by Catholic Health Australia (**CHA**) and Catholic Social Services Australia (**CSSA**) with the technical assistance and support of McMillan Shakespeare Limited (**McMillan Shakespeare**).

This submission addresses issues only in relation to fringe benefits tax for Not-For-Profit Organisations. That is, not for profit charity social services and not for profit health services (**NFPO**).

The Review was requested to consider the fairness of the existing FBT regime for the NFP sector in the Consultation Paper¹⁰ issued in August 2008:

The Australian Government has asked the Review Panel to examine the complexity and fairness of existing FBT arrangements for the not-for-profit sector, and the treatment of fringe benefits in other parts of the tax-transfer system, and to make recommendations to improve equity and simplicity for the long term.

Our submission specifically addresses the questions raised in the review's Consultation Paper¹¹ issued in December 2008:

- Q4.5 *Should people in different circumstances be taxed differently (for example, by age, occupation, location), and what might be the implications of such arrangements? Are tax offsets the best way to achieve differential taxation?*
- Q4.6 *How can fringe benefits tax be simplified while maintaining tax integrity? Would it be better to adopt the general OECD practice of taxing fringe benefits in the hands of employees, rather than employers?*
- Q7.1 *What is the appropriate tax treatment for NFP organisations, including compliance obligations?*
- Q7.2 *Given the impact of the tax concessions for NFP organisations on competition, compliance costs and equity, would alternative arrangements (such as the provision of direct funding) be a more efficient way of assisting these organisations to further their philanthropic and community-based activities?*

¹⁰ Architecture of Australia's tax and transfer system, August 2008 (page 25)

¹¹ Australia's future tax system Consultation paper December 2008

Historically, fringe benefits tax concessions for NFPO have greatly assisted employers to attract and retain staff. However, over the years since year 2000, the benefit derived by employees who elect to salary package has been progressively eroded. Inflation and wage adjustments have grown in excess of 30% and 35% respectively, whilst the FBT concession has remained unchanged (non indexed).

The sector very much values the FBT concession as a method of helping to retain and attract labour with improved remuneration offerings for its employees. The current FBT concessions have been used responsibly by employers.

We have examined and debated both internally and externally over many years the merits of retaining the FBT concessions versus other options such as general pay increases for all 1.2 million employees in the sector.

On balance, we argue in this submission a case to retain and index the current FBT concessions - keep the status quo. The NFPO sector is vital to the Australian economy and for the delivery of critically important social and health programs. For example, Catholic Health operates 21 public hospitals, 54 private hospitals and 550 aged care services throughout Australia, Catholic Social Services Australia has 66 member organisations assisting in the order of 1 million Australian each year.

The NFPO sector is confronted with the challenge of too few professionals (health and social welfare), creating critical skills shortages that adversely impact service delivery, whilst at the same time finding it very difficult to retain staff. Attracting and retaining labour is a critical issue that confronts all employers in this sector.

The broad NFPO sector employs approximately 1.2 million people. The working conditions and challenges in many of the institutions within the sector are at times unattractive to say the least.

The reality is, that to abolish FBT concessions and replace them with any of the options (rebates, grants, pay rises) we have canvassed in this submission, will increase the cost significantly for government. All employees will need to be included in any such arrangements and not just the 65% that have elected to participate today. We have estimated that the additional/extra cost of abolishing the current FBT concessions with grants, rebates, full wage parity or similar will be in excess of \$2.25 billion per annum. This cost will grow each year in line with inflation and or wages growth.

We argue, on balance, that the current FBT concessional arrangements should be retained. The FBT concession should be indexed each year.

(Catholic Health Australia has argued previously for the cap on FBT to be raised in the health setting. For more information please see the Catholic Health Australia pre-budget submission at <http://www.cha.org.au/site.php?id=1749>)

2. BACKGROUND (THE CURRENT OPERATING ENVIRONMENT OF THE NFPO SECTOR)

- 2.1 Salary packaging greatly assists government employers (public hospitals), charities and the not for profit employers to attract and retain staff in the face of better terms and conditions in the private sector and other sectors. It is highly valued by employees and is recognised as some compensation for working and contributing in this very important sector.
- 2.2 Public Benevolent Institutions (PBIs) (charity social services) and not for profit (including public hospitals) receive FBT concessions from the government. Approximately 1.2 million employees are entitled to access these concessions. The current estimated participation rate is about 65%.

Employer Type	Concession	Maximum Expenditure (payments NOT subject to GST e.g. mortgage payments)	Maximum Expenditure (payments subject to GST e.g. fuel expenditure)
PBI charity social services	\$30,000 of grossed up value exempt from FBT	\$16,050	\$14,530
Public Health and not for profit health	\$17,000 of grossed up value exempt from FBT	\$9,095	\$8,234

- 2.3 The PBI charity welfare and public not for profit health sectors (**NFPO**) have expressed the following views about the FBT concession that applies¹²:
- It is the major tool for attracting and retaining staff in this very difficult and challenging sector;
 - The concession limit should be indexed on an annual basis (has not changed since 2000);
 - Salary packaging is a method of supplementing remuneration who are extremely low paid but expected to be highly skilled; and
 - The funding by Government is not sufficient to pay all staff full market rates and salary packaging is used as a sensible; practical and efficient way of increasing overall reward (remuneration) compensation.
- 2.4 The use of the FBT exemption is a significant tool for NFPO to attract and retain staff. This sector is under extreme pressure and will continue to be under increasing pressure over the next ten years to twenty years because of the aging Australian population, skills shortages and changing demographics.

¹² Hansard for the Senate Standing Committee On Finance And Public Administration, Reference: Families, Housing, Community Affairs and Indigenous Affairs and other Legislation Amendment (2008 Budget and Other Measures) Bill 2008 on 20 June 2008

2.5 The concessions have not been changed since their introduction in year 2000 despite inflation increasing in excess of 30% and minimum wage increase of over 35%.

2.6 There are many misconceptions about salary packaging in NFPO. The facts are that¹³:

- The majority of employees who salary package are low and middle income earners, earning between \$30K-\$60K pa.
- 48% of participating employees in the PBI sector earn between \$20,000 to \$30,000 per annum; and
- 80% of participating employees in the PBI sector earn less than \$50,000 per annum.

2.7 There are a number of factors that require the government to increase support not-for-profit sector including¹⁴:

- The impact of the global financial crisis that has resulted in an increase in demand for services;
- The labour demands and skill shortages; and
- The substantial demographic changes expected over the next 10-20 years.

2.8 Four primary social service provider networks in Australia are :

- Anglicare Australia
- Catholic Social Services Australia
- Salvation Army
- UnitingCare Australia

2.9 In November 2008, the report on the effect of the global financial crisis commissioned by the primary social services providers (Anglicare Australia, Catholic Social Services Australia, Salvation Army and Uniting Care Australia) group and prepared by Access Economics was published. The Report¹⁵ stated:

The demand for social services is already rising and will rise substantially in the short-term. In many areas — examples include residential aged care, housing, homelessness and family relationship services — demand already outstrips the capacity of agencies to offer assistance. The services most

¹³ Hansard for the Senate Standing Committee On Finance And Public Administration, Reference: Families, Housing, Community Affairs and Indigenous Affairs and other Legislation Amendment (2008 Budget and Other Measures) Bill 2008 on 20 June 2008

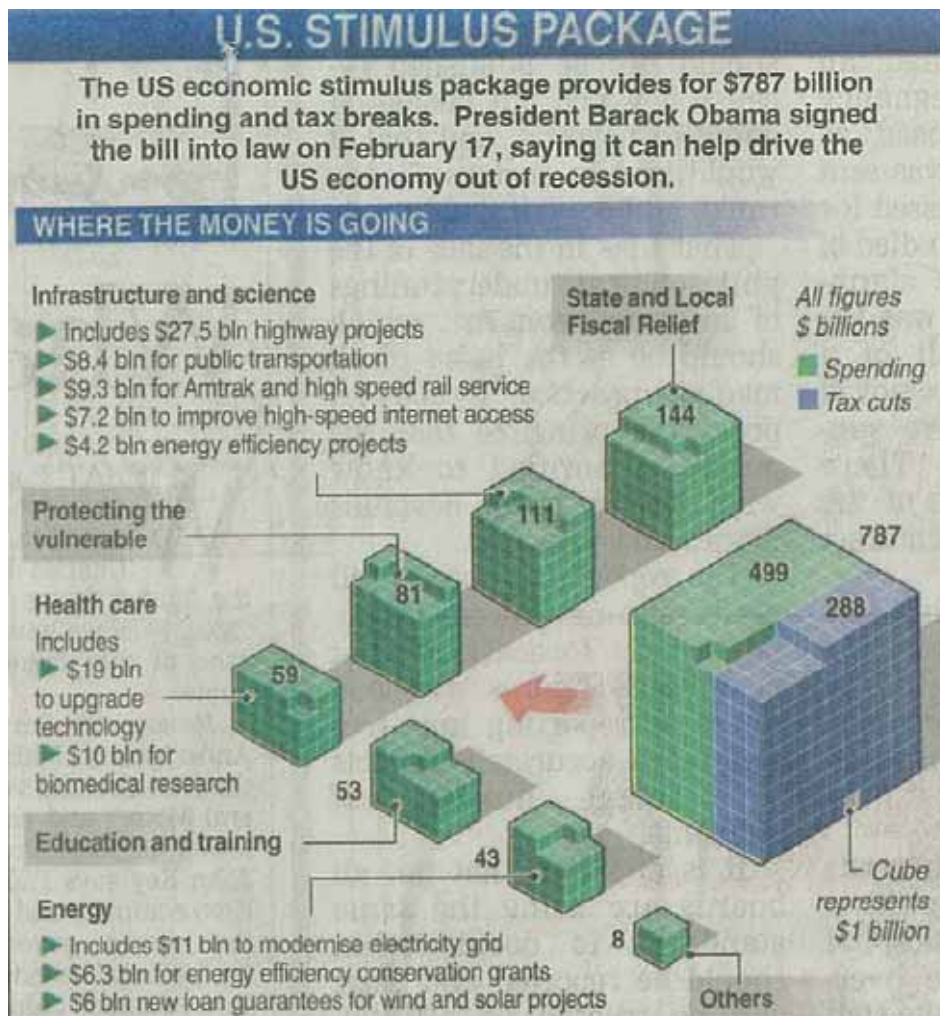
¹⁴ See Industry Skills Council report (ANTA) May 2005

¹⁵ The impact of the global financial crisis on social services in Australia – Access Economics

immediately affected by deteriorating economic conditions are in employment, housing, financial and general counselling and emergency relief.

In addition to being the response of a genuinely civil society, high quality, social services are an integral part of a productive economy. Investment in such services is a benefit not just to those in such desperate need of services, but also reduces long term social costs and enhances the overall productivity of the economy. Investment in social services and social infrastructure should therefore be considered as an essential part of further fiscal stimulus measures. Long term structure change and assistance by the NFPO Sector requires and investment into skills (people) and improving remuneration is a critical starting point.

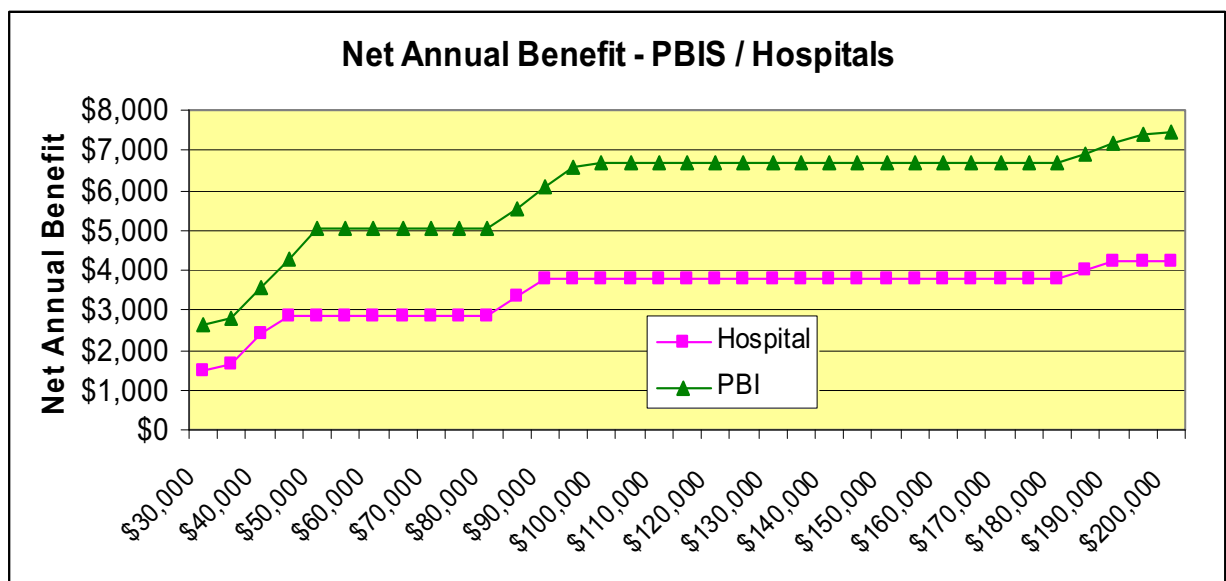
2.10 In the United States the economic stimulus package announced in February 2009 included spending of \$81 billion for protecting the vulnerable and almost \$30 billion for health care. That is almost 20% of the United States spending allocation in their stimulus package. In addition \$53 billion was allocated to education and training. To date there has been no comparable “package” or direct assistance anywhere near that recently announced by the United States.



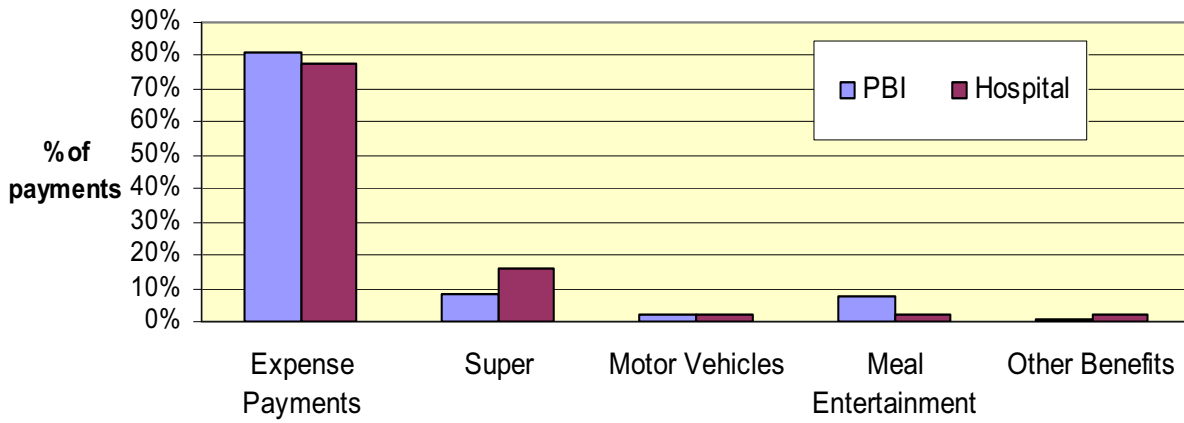
2.11 The following table illustrates the maximum net benefit that any employee earning \$50,000 per annum can receive by salary packaging their mortgage payment up to the maximum allowable amount.

Item	Hospital		PBI	
	No Packaging	Packaging	No Packaging	Packaging
Salary	\$50,000	\$50,000	\$50,000	\$50,000
Mortgage Payments	\$0	-\$9,095	\$0	-\$16,050
Fringe Benefits Tax	\$0	\$0	\$0	\$0
Net Salary	\$50,000	\$40,905	\$50,000	\$33,950
Tax & Medicare	-\$9,750	-\$6,885	-\$9,750	-\$4,702
Net Cash Salary	\$40,250	\$34,020	\$40,250	\$29,249
Mortgage Payments	-\$9,095	\$0	-\$16,050	\$0
Net Cash Salary	\$31,155	\$34,020	\$24,201	\$29,249
Net Benefit		\$2,865		\$5,048

2.12 The chart below illustrates that the maximum annual benefit is dependent on the employee's annual salary.



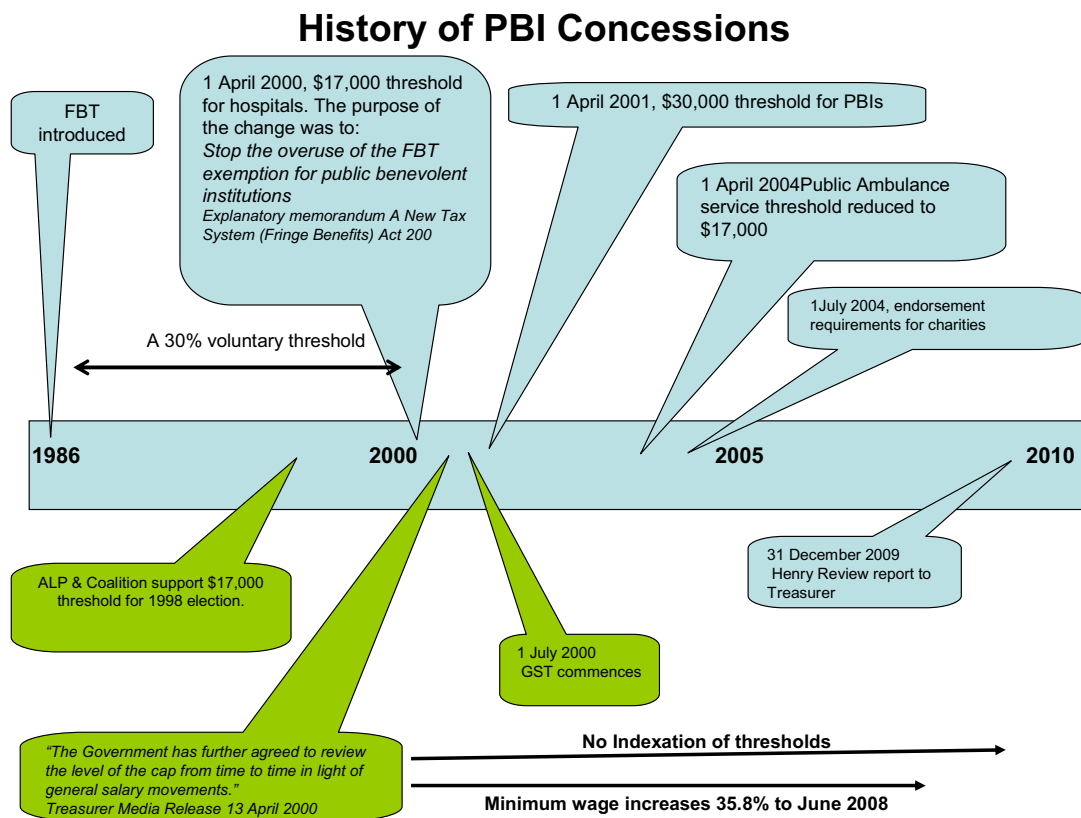
2.13 Although there are other benefits that may be salary packaged for employees of NFPO, the overwhelming employees (80%) elect to salary package expense benefits. These expenses are typically mortgage and rental payments, loan repayments credit card debts and every day living expenses. The types of fringe benefits salary packaged are illustrated in the chart below:



3. HISTORY AND BACKGROUND OF FBT CONCESSIONS FOR NFPO

3.1 Fringe Benefit Tax (FBT) was introduced in 1986 to enable non-cash benefits provided to employees by their employer to be taxed. The taxing of any benefits being derived from the provision of such motor vehicles to employees.

3.2 The following chart maps out the major changes to FBT for NFPO since the introduction of FBT in 1986:



3.3 From 1986 to the early 1990's salary packaging was generally only provided to executives as part of their remuneration package. Most employees did not receive access to salary packaging as part of their remuneration package.

3.4 During the early 1990's, as government funding decreased many industrial awards, agreements, collective agreements or similar were negotiated to include provisions for "flexible salary packaging". Many awards were varied and agreements made to "allow" for the first time 'award based' employees to participate in flexible salary packaging arrangements.

3.5 Prior to 2000 there was no limit on the amount that employees in NFPO could salary package and FBT was not applicable. However the responsible employers did impose self regulation and limited the amount that could be salary packaged to a maximum 30% of salary.

3.6 There was however a perception that the exemption was being misused and limits were imposed for NFPO.

3.7 The capping limits (FBT free threshold) for the Not-for-Profit Health sector and PBI sector have not changed since April 2000 and 2001 respectively.

3.8 The FBT capping limits were agreed to be reviewed from time to time by the government as stated by the Treasurer at the time ¹⁶.

“The Government has further agreed to review the level of the cap from time to time in the light of general salary movements.”

3.9 Since the introduction of the FBT capping limit¹⁷:

- The CPI has increased by 30.3 % in the period June 2000 to June 2008; and
- the Minimum Wage has been increased by 35.8%.

3.10 The Senate Standing Committee on Finance and Public Administration made the following recommendation in June 2008¹⁸:

The committee recommends that the government consider the appropriate level of the cap on FBT-exempt benefits for NFP sector employees and whether the cap should be indexed to the CPI.

We believe that there is an exceptionally strong and compelling case to increase and index the FBT capping limit for Public Benevolent Institutions to \$40,000 per annum.

(Catholic Health Australia has argued previously for the cap on FBT to be raised in the health setting. For more information please see the Catholic Health Australia pre-budget submission at <http://www.cha.org.au/site.php?id=1749>)

¹⁶ Media Release 022 of 2000 – Treasurer – P Costello - Fringe Benefits Tax: Charities and Non Profit Organisations
<http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2000/022.htm&pageID=&min=phc&Year=2000&Doc Type=0>

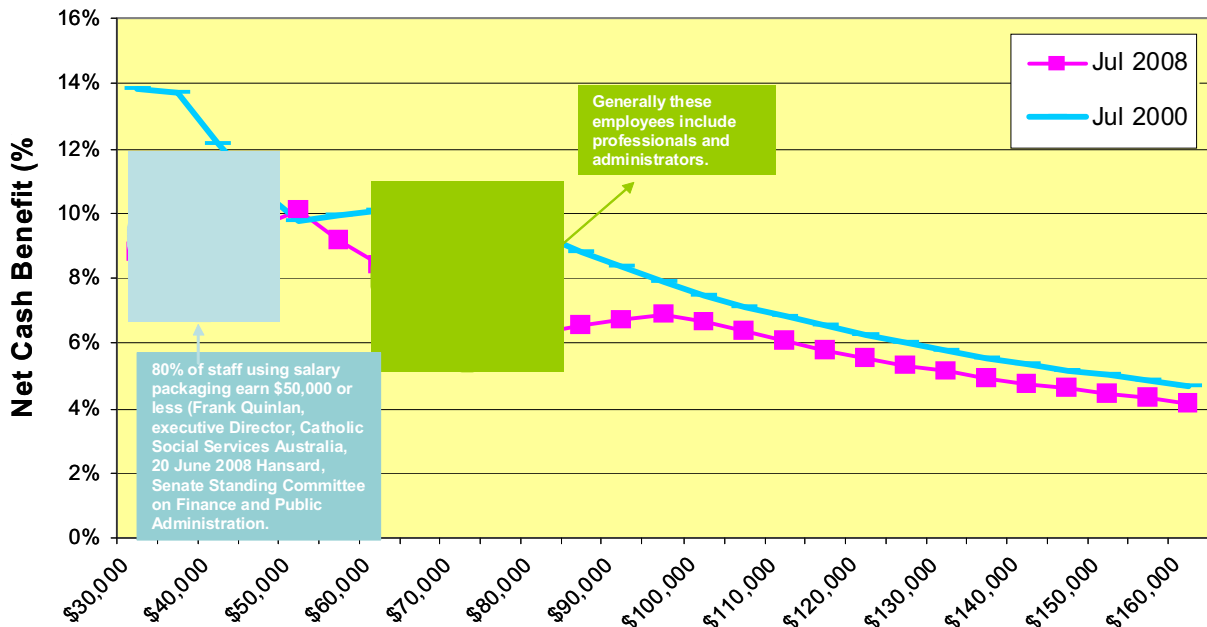
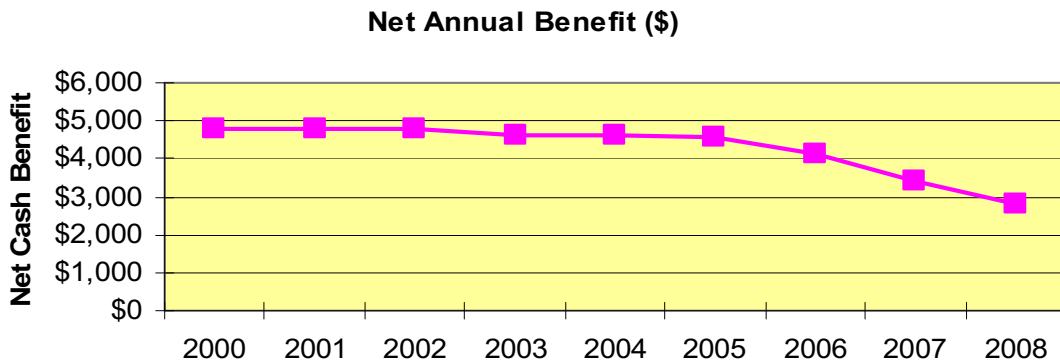
¹⁷ ww

¹⁸ Inquiry into the Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (2008 Budget and Other Measures) Bill 2008

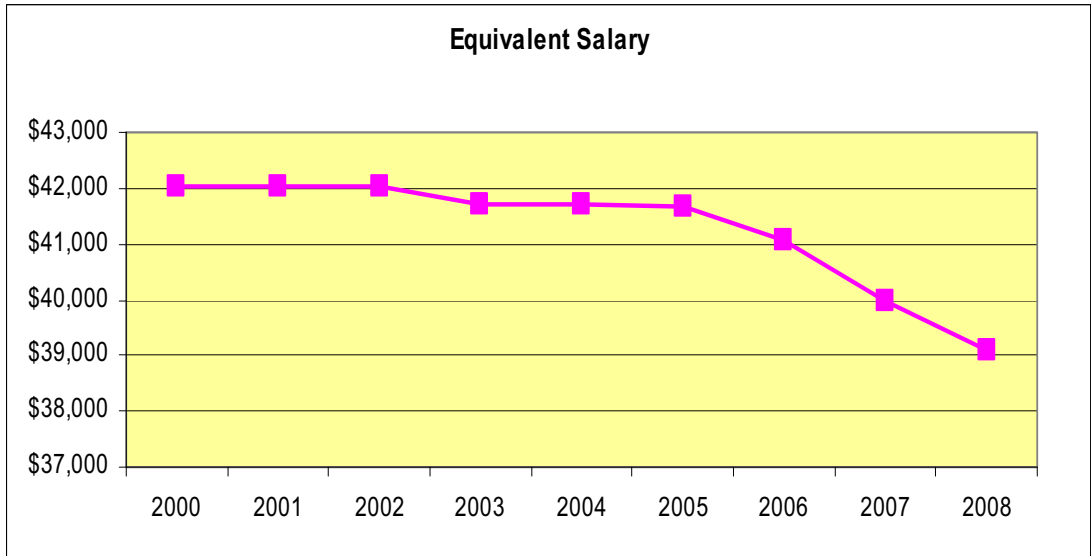
3.11 The following table illustrates the decrease in net annual benefit that has arisen due to the lack of indexation:

Item	Salary Packaging 2000	Salary Packaging 2001	Salary Packaging 2002	Salary Packaging 2003	Salary Packaging 2004	Salary Packaging 2005	Salary Packaging 2006	Salary Packaging 2007	Salary Packaging 2008
Salary	\$35,000	\$35,000	\$35,000	\$35,000	\$35,000	\$35,000	\$35,000	\$35,000	\$35,000
Salary Sacrifice	-\$15,450	-\$15,450	-\$15,450	-\$15,450	-\$15,450	-\$15,450	-\$16,050	-\$16,050	-\$16,050
Net Salary	\$19,550	\$19,550	\$19,550	\$19,550	\$19,550	\$19,550	\$18,950	\$18,950	\$18,950
Tax & Medicare	-\$2,597	-\$2,597	-\$2,597	-\$2,597	-\$2,597	-\$2,326	-\$2,227	-\$2,227	-\$2,227
Net Cash Salary	\$16,953	\$16,953	\$16,953	\$16,953	\$16,953	\$17,224	\$16,723	\$16,723	\$16,723
Net Annual Benefit	\$4,808	\$4,808	\$4,808	\$4,600	\$4,600	\$4,559	\$4,148	\$3,398	\$2,798
Net Annual Benefit (%)	13.7%	13.7%	13.7%	13.1%	13.1%	13.0%	11.9%	9.7%	8.0%

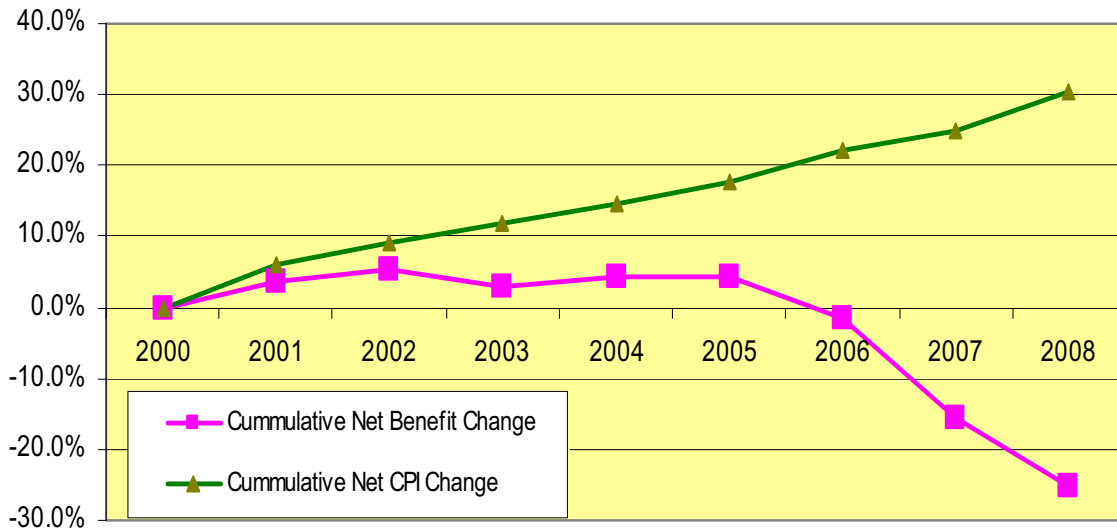
3.12 Since 2000 the net annual benefit for an employee with a salary of \$35,000 has decreased from 13.7% to 8.0% in 2008. That is the net annual benefit has decreased from \$4,808 per annum to \$2,798 per annum. This decrease is further illustrated in the chart below.



3.13 In 2000, this employee with a salary of \$35,000 who salary packaged the maximum amount would have through salary packaging received effectively a take-home salary of \$42,000 per annum. In 2008, a salary of \$35,000 has an equivalent value of about \$39,000.



3.14 Since 2000, the value of salary packaging has decreased by about 30% and the CPI has increased by 30%. Effectively employees in NFPO are almost 60% worse off because of the lack of indexation of the capping limits.



3.15 The NFPO sector is constantly battling to retain and attract staff. This is especially so in mission critical service delivery areas with a dependence on highly skilled staff. The constant erosion of the FBT concession (no indexation) effectively means that the value of the benefit is not as attractive as it once was. Therefore, employers are not able to “package-up” remuneration as attractively as they were able to, in order to compete favourably in the marketplace.

4. OPTIONS FOR IMPROVING REMUNERATION LEVELS TO ASSIST ATTRACTING AND RETAINING STAFF

4.1 The Government in the provision of any program or funding that improves employee remuneration would have the following objectives:

- An efficient and effective delivery system;
- Fair and equitable access to the concession;
- Low cost to employers / employees;
- Minimum cost to government; and
- Easy to understand and comply with.

4.2 The following options are available in relation to NFP organisations improving employee remuneration:

- Replace the FBT concession with the tax free threshold equivalent or support substantial salary increases to the various awards and industrial agreements for NFPO employees and increase funding accordingly for all employees in PBIs and public hospitals (**PAYG model**).
- Remove the FBT concession and increase funding to PBIs / not for profit hospitals (**NFPO**). So that awards or similar can be adjusted in terms of wage and salary levels to market rates (**GRANTS model**);
- Remove the FBT concession and provide all employees with a tax rebate equivalent to the existing concession (**REBATE model**);
- Retain the status quo (**STATUS QUO**);

4.3 The following options in relation to fringe benefits are provided in more detail:

Option	Description	Comments
PAYG Model	Replace the existing FBT concession with a rise in the tax free threshold equivalent for employees in PBIs and public hospitals or support substantial salary increases to the various awards and industrial agreements for NFPO employees and increase funding accordingly.	<ul style="list-style-type: none"> ▪ All employees will now be provided with an additional tax free threshold or an increase of salary of either \$9,095 or (public health) \$16,050 (PBI). Substantial initial and ongoing cost to government. ▪ Employers will have the burden of updating their payroll and administration systems long, lead times will be required. ▪ Cost to government will greatly increase because now all employees will receive the concession or salary increases. This will be an ongoing cost to government and will require indexing or adjustment for wage increases. ▪ There may be complex industrial relations issues. E.g. casuals would receive the same increase as full time employees – generally not practical or cost effective. ▪ May cause wages pressure in other sectors. (Police, Education) private sector, private sector health. ▪ <u>NOT RECOMMENDED.</u>
Grants Model	Replace the FBT concessions for PBIs and hospitals and increase their funding equivalent to the FBT concession in the form of yearly indexed grants so that employers can pay increased wages and salary to <u>ALL</u> employees.	<ul style="list-style-type: none"> ▪ The funding for PBIs and public hospitals will be increased and the employers will be required to pass on the additional funding to all employees as salary increases equivalent to the current FBT concessions for each employee. ▪ May cause wages pressure in other sectors. (Police, Education) private sector, for profit private health. ▪ Increased costs to employers e.g. additional superannuation and other on costs. ▪ Employers are very skeptical of grants and generally don't favor grants as a reliable and efficient delivery mechanism. ▪ Clearly an increase in funds (or a grant) from all sources could not be negotiated or achieved. (eg: Local government, trusts and foundations, charitable

		<p>donors, etc)</p> <ul style="list-style-type: none"> ▪ The cost to administer grants is expensive. ▪ Substantial increase in cost to Federal Government. ▪ Substantial increase in costs to State Governments and all others funders (local government, trusts and foundations, charitable donors, etc) ▪ <u>NOT RECOMMENDED.</u>
Rebate Model	<p>Replace the FBT concession and provide all employees in PBIs and public hospitals with a tax rebate equivalent to the FBT concession.</p>	<ul style="list-style-type: none"> ▪ <u>All</u> employees to receive a tax rebate equivalent to the current FBT concession. ▪ Cost to government will be significant because salary increases will need to be provided to all employees not just those who are salary packaging. ▪ Employees will not accept this model because of the delay in receiving the benefit of the rebate. (up to 12 months delay in rebate payments). If the rebate was paid quarterly there would be additional administration costs to Government in particular and for employees in the reconciliation of payments at the end of each tax year. ▪ Inefficient and confusing to say the least. ▪ <u>NOT RECOMMENDED.</u>
Status Quo	<p>Retain the existing FBT concessions with enhancement (i.e. indexation).</p>	<ul style="list-style-type: none"> ▪ The existing system of salary sacrifice provides an efficient low cost method (because the system already exists) for the provision of tax concessions for PBI and public hospital employees. (less than 1.5% of payments made). The existing concession is recognised by employers as an essential tool in attracting and retaining staff. ▪ The systems and programs to administer the current FBT arrangements are well entrenched and work relatively efficiently. ▪ The existing concession is important to employees in this sector. ▪ There is a growing pressure by employers and employees to index the concessions to keep up with conditions in other sectors.

4.4 We have estimated that the costs of not retaining the status quo is in excess of \$2.2 billion dollars per annum above and beyond the current cost of FBT concessions for the NFPO sector.

4.5 The Tax Expenditure Statement 2007¹⁹ provided the following estimates of the costs of the existing FBT exemptions.

	2008-09 (\$m)	2009-10 (\$m)	2010-11 (\$m)
Capped exemption for certain public and non-profit hospitals (Exemption from FBT up to \$17,000 of the grossed-up taxable value of fringe benefits per employee) - Chapter 6, Item D6 page 142 of TES)	260	270	280
Capped exemption for public benevolent institutions (excluding public hospitals) (Exemption from FBT up to \$30,000 of the grossed-up taxable value of fringe benefits per employee) - Chapter 6, Item D8 page 142	440	460	480
Total	700	730	760

4.6 Therefore the status quo has a significantly lower cost than any of the other options. The status quo is also preferred because of its efficiency and simplicity.

4.7 McMillan Shakespeare has also costed the following in relation to the status quo:

- Indexation of the existing limits;
- Alignment of the exiting limit for public and not-for-profit hospitals with the existing PBI limit.

PBI Limit	2008-09	2009-10	2010-11
Increase in costs (\$m)	93	382	425

Public / Not-for-Profit Hospitals	2008-09	2009-10	2010-11
Increase in costs (\$m)	93	382	425

With indexation of 4% per annum from April 2010 and April 2011

¹⁹ Tax Expenditure Statement 2007 (<http://www.treasury.gov.au/contentitem.asp?NavId=035&ContentID=1333>)

Q4.5 Should people in different circumstances be taxed differently (for example, by age, occupation, location), and what might be the implications of such arrangements? Are tax offsets the best way to achieve differential taxation?

We believe that the existing regime for taxing fringe benefits differently for NFPO should be maintained i.e. there should be exemptions from FBT for NFPO.

NFPO organisations should continue to access FBT exemption that enables their employees to maximize the net benefit of their salary.

We believe that all employees in NFPO should be able to be provided with the benefit of the FBT exemption by their employer through salary packaging arrangements.

The original purpose of the FBT exemption remains, taxation support for organizations that provide services to the poor, sick and needy. This is a “special sector” that rightfully has special FBT exemptions.

The issue of which organizations meet the criteria for obtaining an exemption is a separate debate and should not be used as the justification for removing the existing exemption from all NFPO.

The FBT exemption enables NFPO to maximize their funding in the provision of services. It remains the most effective method of the government supporting this sector.

The removal of the existing concessions without significant additional funding by government would impact dramatically on the services provided to the community by the NFPO.

The maintenance of the FBT exemption for NFPO is, on balance, the best option. In terms of cost to government, efficiency and simplicity.

Q4.6 How can fringe benefits tax be simplified while maintaining tax integrity? Would it be better to adopt the general OECD practice of taxing fringe benefits in the hands of employees, rather than employers?

We do not believe that the OECD practice should be adopted for NFPO.

In terms of pure efficiencies and compliance, shifting the point of taxation from 69,000 employers who currently submit FBT returns, to circa 1 million employees, does not make practical sense. Everyday working Australians need less administration and taxation burdens not more. Additionally, from an ATO perspective collection from employers is more efficient and is likely to have a higher level of compliance. Put simply, any attempt to change the current FBT arrangements is likely to make the ATO’s collection efforts more complex, expensive and less effective.

The current arrangements are relatively simply, easy to administer and are generally well understood. The NFPO sector has been very actively engaged in FBT since the early 1990's.

A model that moves the liability for FBT from the employer to the employee will add significant costs to the provision of services by NFPO. New systems will need to be developed which will create both costs and confusion.

Q7.1 What is the appropriate tax treatment for NFP organisations, including compliance obligations?

This submission is clearly focused on this key question. We have demonstrated and argued that the current FBT arrangements are the most efficient, cost effective and best options for NFP organisations. Largely due to the impracticality of "unscrambling the egg".

From a compliance obligation point of view, the evidence suggests that there are extremely high levels of overall compliance with the current FBT concessions and requirements.

Most employers in the sector have been offering flexible salary packaging arrangements for more than 10 to 12 years. Industrial awards or similar were all charged back in the early to mid 1990's. The sector is very well catered for with many competent outsourcing administration companies delivering low cost services to our employers.

The current FBT arrangements are well understood by both employers and employees and are very much developed. Payroll systems or similar, including administration staff understand the compliance requirements of the current FBT arrangements. A massive burden, both in terms of costs, administration and industrial relations would prevail if the current arrangements were eliminated or changed in any substantive way.

Q7.2 *Given the impact of the tax concessions for NFP organisations on competition, compliance costs and equity, would alternative arrangements (such as the provision of direct funding) be a more efficient way of assisting these organisations to further their philanthropic and community-based activities?*

Our submission clearly sets out our key arguments and points for retaining the current FBT concessions - the status quo.

We have no confidence or trust that direct funding will be funded at the appropriate and adequate levels to adequately compensate for current benefits, particularly given the diversity of funding sources (commonwealth, state and local government, corporate philanthropy, private philanthropy and charitable donations) that contribute the wages of NFPOs, or that any immediate compensation gained would enjoy any longevity.

Short term funding cycles, changing economic circumstances and three year elections are key factors that inevitably erode the certainty of direct funding. Moreover, direct funding will conservatively cost the government an additional \$2.2 billion annually above and beyond the current cost of the FBT concessions provided for by the government.

5. RECOMMENDATIONS

5.1 We recommend the following to the Review:

- **Retain the FBT concessions for PBI and Public Hospital employers and their employees because:**
 - It is the most cost effective option for Government;
 - It is understood and valued by employers and employees;
 - It is the most practical;
 - There are systems and services already in place to administer the current FBT regime that maintain compliance and integrity;
 - It is very efficient for employees, employers and government.

- **Index the existing maximum amount from year 2000 and maintain the indexation each FBT year thereafter;**

- **Benefits should be grossed-up at the employee's marginal tax rate and not the highest marginal tax rate by Medicare levy.**

(Catholic Health Australia has argued previously for the cap on FBT to be raised in the health setting. For more information please see the Catholic Health Australia pre-budget submission at <http://www.cha.org.au/site.php?id=1749>)

6. MEETING WITH REVIEW PANEL

The Catholic Health Australia, Catholic Social Services Australia and McMillan Shakespeare would welcome the opportunity to present to some or all of the members of the Review panel to add further detail to this submission and to provide further insight on the use of salary packaging for NFPO.

7. FURTHER INFORMATION

For further information on this submission please contact either:

- Martin Laverty, Chief Executive Officer, Catholic Health Australia on (02) 6260-5980 or martinl@cha.org.au.
- Frank Quinlan, Executive Director, Catholic Social Services Australia on (02) 6285-1366 or frank.quinlan@catholicocialservices.org.au.
- Anthony Podesta, Executive Director, McMillan Shakespeare Limited on 03 9635 0100 or anthony.podesta@mcms.com.au

8. ABOUT CATHOLIC HEALTH AUSTRALIA

21 public hospitals, 54 private hospitals and 550 aged care services are operated by the Catholic Church around Australia. Catholic Health Australia is the member body representing each of these services.

Catholic Health Australia is the largest non-government provider grouping of health, community and aged care services in Australia, nationally representing Catholic health care sponsors, systems, facilities, and related organisations and services.

The sector comprises providers of the highest quality care in the network of services ranging from acute care to community based services. These services have been developed throughout the course of Australia's development in response to community needs. The services return the benefits derived from their businesses to their services and to the community; they do not operate for profit; they are church and charitable organisations. The sector plays a significant role in rural and regional Australia, demonstrating its commitment to the delivery of services where they are needed irrespective of whether any or minimal return on investment is derived.

The Catholic health ministry is broad, encompassing many aspects of human services. Services cover aged care, disability services, family services, paediatric, children and youth services, mental health services, palliative care, alcohol and drug services, veterans' health, primary care, acute care, non

acute care, step down transitional care, rehabilitation, diagnostics, preventative public health, medical and bioethics research institutes.

Services are provided in a number of settings, for example, residential, community care, in the home, the workplace, hospitals, medical clinics, hospices, correctional facilities, as well as for people who are homeless. In addition, services are provided in rural, provincial and metropolitan settings, in private facilities as well as on behalf of the public sector.

The sector plays a significant role in Australia's overall health care industry representing around 13 percent of the market and employing around 35,000 people.

9. ABOUT CATHOLIC SOCIAL SERVICES AUSTRALIA

Catholic Social Services Australia is the Catholic Church's peak national body for social services in Australia and provides 66 member organisations provide social services to over a million Australians a year, delivering services in local communities in metropolitan, regional and remote Australia.

We work with Catholic organisations, governments, other churches and all people of good will, to develop social welfare policies, programs and other strategic responses that work towards the economic, social and spiritual well-being of the Australian community.

Catholic Social Services Australia is a commission of the Australian Catholic Bishops Conference, reporting to the Bishops through a Board of 9 persons appointed by the Conference.

10. ABOUT MCMILLAN SHAKESPEARE LIMITED

McMillan Shakespeare Limited is a public listed company on the Australian Stock Exchange (ASX Code MMS). We provide remuneration services to approximately 1,000 employers throughout Australia, including administration services for salary packaging on behalf of employers to about 200,000 employees and novated motor vehicle leasing services for about 30,000 novated motor vehicle leases.

Our clients include federal and state government departments and agencies, statutory authorities, local government, Public Benevolent Institutions, public and not-for profit hospitals, independent schools and private sector companies.