



Submission to the Productivity Commission

**Research into the Contribution
of the Not for Profit Sector**

June 2009

About Us

Communities@Work is a community based, not-for-profit company limited by guarantee, providing community services for people in the Australian Capital Territory.

We care for people of all ages in our community by offering a range of services. These include: quality child care; parenting and family support; leisure and fun programs for youth; financial, food and emergency relief for the disadvantaged; respite and disability services; and home help, transport and social programs for seniors.

The scope of the organisation's activities means that we coordinate services from 32 locations. We provide services directly to some 10,000 people annually.

We have a paid workforce of over 360 staff and a volunteer workforce of around 200. We also approve approximately 150 self-employed family day care and in-home carers.

We are managed by a volunteer Board of Directors. Our programs are funded through fees for service, contracts with governments, corporate sponsorships and donations.

Communities@Work is a public benevolent institution endorsed by the Australian Taxation office to receive tax deductible donations.

We are also a registered training organisation, offering nationally accredited training specialising in children's services, aged care, community services and business management.

Scope

This submission does not address all issues in the Productivity Commission's Issues Paper on the contribution of the not for profit sector released in April 2009.

Rather, the submission comments on selected issues on which Communities@Work has a particular interest and the capacity to provide useful input.

In particular, the submission focuses on the unique nature of the sector, service delivery models, the capacity to attract suitable staff, government tendering processes, the increasing demand for services, growing cost pressures, the research base and measuring the contribution of the sector.

The Nature of the Sector & Service Delivery Models

This study raises a number of issues that are a manifestation of the nature of the sector and its relationship with government.

The not for profit sector is a complex collection of disparate organisations ranging from very small, single purpose entities run by committed citizens to small incorporated bodies and large regional or national organisations operating as corporations with sophisticated management systems and ready access to government and business decision makers. There are also national representative or umbrella organisations which provide advocacy and support services to their members.

Governments have used the not for profit sector as an efficient and cost effective means of delivering services. The sector has the natural access to, and 'on the ground' interface with, those in need and those targeted for assistance programs. Organisations within the sector are generally considered more cost effective in service delivery than government departments due to their lower staff costs, lower administrative overheads, access to volunteers, business sponsorships/support and more flexible operating arrangements.

Given the fragmented and diverse nature of the sector, there is no consistent model for the delivery of services. It could be argued that arrangements for the engagement of the not for profit sector as a service delivery arm of government could be modernised and structured to improve program outcomes and efficiencies.

Small organisations face particular challenges in providing the necessary governance and 'back office' support required. It is important, however, to retain the specialised capabilities of small organisations in dealing with particular social groups or issues. In this context, **an appropriate model of service delivery could be for small, specialised organisations to be**

auspiced by larger bodies that have the economies of scale to provide more cost effective support services.

Consistent with this approach, Communities@Work has recently developed a 'Service Bureau' with the specific purpose of providing support services - such as financial services – to smaller community service organisations within the ACT. Although in its infancy, the Bureau is not only providing cost effective support services to various agencies in the ACT, but also strengthening partnerships between Communities@Work and other community service organisations.

Attracting Suitable Staff

A particular issue facing not for profit organisations is the pressure to offer increased salaries to attract and retain suitable staff. This is particularly relevant in the ACT, where not for profits compete with an extensive public service that offers salaries at the management level that are \$15,000 to \$30,000 more (plus more generous superannuation and maternity leave) than that offered in the not for profit sector. The new FairWork industrial environment is likely to magnify these competitive pressures and create flow-on effects from one jurisdiction to another, together with multi-employer bargaining in the not for profit sector.

It is often argued that significant increases in salaries and conditions should be provided in the not for profit sector to ameliorate the attraction/retention problems faced by the sector. Moreover, it is expected that governments will fund the cost increases. A more likely outcome, however, is that governments will not fund the cost increases and the quality of service delivery will be compromised as not for profit organisations allocate a higher proportion of existing resources to meet salary costs. In an environment of increased demand for community services, the social consequences of such an outcome may be very significant.

The Commonwealth Government has historically recognised that not for profit organisations cannot match public service or private sector salaries and employment conditions, without major adverse consequences for service delivery. To assist not for profit organisations overcome this competitive disadvantage in the labour market, public benevolent institutions such as Communities@Work are able to offer staff capped exemptions on fringe benefits tax. This allows us to effectively offer higher salaries than we would otherwise be able to, while at the same time reduce the cost to the purchasers of our services including governments and fee-for-service clients.

Unfortunately, the current tax-free ceiling of \$30,000 is not indexed and has not been increased since it was first introduced in 2000. Given the importance of this benefit in our ability to attract and retain staff and deliver services, **we recommend that the ceiling be lifted to \$40,000 and indexation be introduced into the applicable legislation.**

Relations with Government

In dealing with the disparate nature of the not for profit sector and consistent with standard procurement processes for dealing with the delivery of commercial services, governments increasingly use formal, competitive tender processes for the allocation of funds and selection of agencies to deliver community services. Within the community sector, this has two adverse effects:

- Considerable time and resources is required to prepare tender submissions, resulting in increased costs and/or the diversion of resources from service delivery;
- The competitive nature of tender processes engenders a lack of cooperation between competing agencies and a dilution of the 'working together' ethos. This is unfortunate in a sector that should be seeking to reduce costs and share information through productive partnerships. It is particularly difficult for smaller organisations to grow in such a competitive environment.

While it is acknowledged that it is the responsibility of government to ensure it is obtaining 'value for money' outcomes for the taxpayer and that open, competitive tender processes can help achieve this end, it is also important to ensure that not for profit agencies devote maximise resources to service delivery rather than administration or government compliance processes.

In this context, there may be scope for governments to develop and nurture a more holistic approach to service delivery by establishing long term working relations with community sector organisations. **This could be achieved by, for example, the establishment of a panel of providers (through an initial tender process) for a particular type of service that could be accessed over a number of years to deliver services as required.** This would reduce the number of tender processes and give not-for profits greater certainty for planning purposes. Governments and organisations could develop such partnerships based on total transparency of costs and service delivery modes. Arrangements could also involve some organisations providing support to smaller groups as well as overseeing the delivery of consistent and cost effective services across geographic areas.

Demand for Services and Cost Pressures

Recent studies have highlighted the growing demand for community services. For example, the Australian Community Sector Survey (ACSS) published by the Australian Council of Social Service in 2009 indicates that in 2007-08 there was a 19% increase in the number of people receiving services from respondent not-for-profit agencies. In the same year, there was a 17% increase in the number of people that respondent agencies turned away.

Taking account of the more recent impact of the global financial crisis, it could be expected that these numbers increased further in 2008-09.

The ACSS survey indicates that those areas in which demand for services most exceeds supply are the areas of child welfare (49% of people turned away as a percentage of total people assisted), youth (30% turned away) and housing/homelessness (30% turned away). Demand for services offered by Communities@Work is consistent with this trend, with relatively high waiting lists for women's transitional housing and family support services, and increased demand for youth services and support in relation to issues linked to child/youth welfare and behaviour.

The demand for community services from not for profit organisations is unlikely to abate. It is significant to note, for example, that a 2009 Social Research Survey of Households with Children commissioned by Family Relationship Services Australia revealed that 47% of respondents preferred to seek relationship services from a community (non profit) organisation, compared with 35% who preferred a privately operated service and 10% who preferred a service provided by government. This is consistent with other research which shows that community organisations are often the most trusted and accessible point of contact for people.

Matching resources with demand is a fundamental challenge facing not for profit organisations. The ACSS survey shows that 76% of respondents considered that inadequate funding or insufficient resources were major issues facing their service. According to the survey, the expenses of respondent organisations increased by 6.9% in 2007-08, while funding increased by 3.4%. Some 85% of respondents disagreed with the statement that 'government funding covers the true cost of delivering contracted services'.

While there is an expectation that community organisations have lower costs and can rely on the generosity of volunteers, this is at odds with increasing compliance and reporting requirements and continuous quality improvement systems. In particular, Communities@Work has experienced significant increases in reporting requirements resulting in increased overhead and administration costs.

It is important that governments recognise the costs of complying with reporting requirements and regulatory standards in providing funding for the delivery of various services. This may involve the development of sophisticated costing models or 'funding calculators' that take account of appropriate salary levels and administration costs.

It would also appear that there is an urgent need for an overhaul of the regulatory regime applying to not for profits. Arguably, the complexity and duplication of the more than 20 means of incorporation and different fundraising and other laws is impeding the sector's ability to respond efficiently to particular issues and deliver more effective solutions to its clients. We therefore support the **establishment of a single national regulator** for

the not for profit sector that would be responsible for rationalising the regulatory framework. In this context, **the recommendations of the 2001 Definitions of Charity Inquiry provide a useful starting point for regulatory reform.**

Research Base

It is important that community service organisations be responsive to community needs and have access to up-to-date and relevant research to inform their decision making. Access to quality research is essential in identifying community needs, evaluating program effectiveness and introducing innovative solutions to new and contemporary community issues.

Unfortunately, the cost of professional, high quality research is frequently beyond the limited budgets of not-for-profit organisations and there is a need for cost effective solutions to the research challenge. While national and State based research and data is often available, this is of limited value in addressing local needs which can vary significantly across jurisdictions.

To address the research challenge, a number of approaches could be taken:

- The provision of **incentives for innovation and research**, such as recognition programs and awards that highlight new and evolving practices
- The encouragement of **research partnerships** amongst not-for-profits and between not-for-profits and academia
- The encouragement of greater **sharing of research outcomes** within the community sector through, for example, the establishment of research 'clearing houses'
- The establishment of a **central agency to coordinate research** across the sector (the single national regulator referred to above could fulfill this role) by identifying common research needs, avoiding duplication of the research effort, facilitating research partnerships and acting as a conduit for information on research outcomes and studies across the sector.

Measuring the Contribution of the Sector

As indicated in the Commission's discussion paper, frameworks for measuring the contribution of the not for profit sector focus primarily on inputs such as government funding, expenditure and volunteer time.

Communities@Work supports the proposed framework outlined in the discussion paper which attempts to also measure outputs (eg. client numbers, participation in events, research), outcomes (eg. health, employment) and impacts (well-being, connectedness). Indeed, in developing key performance indicators for Communities@Work, there has been a particular focus on client numbers to help gauge community interest in various programs.

While it is recognised that there is limited data on measures such as outcomes and impacts because of the intangible nature of many of these measures, **if a framework could be developed that provides a practical means of measuring qualitative outcomes and impacts this would provide a more comprehensive and meaningful measure of the contribution of the not-for profit sector.** Moreover, a nationally consistent framework for the measurement of the sector's contribution that includes **agreed performance indicators to standardise reporting arrangements** would aid comparative evaluation of the efficiency and effectiveness of various services. This would result in more optimum decision making by governments in respect of resource allocation and help to deliver the best possible outcomes for the community.