



VCOSS Submission to

Contribution of the Not for Profit Sector

Productivity Commission Issues Paper

June 2009

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Victorian Council of Social Service

The Victorian Council of Social Service (VCOSS) is the peak body of the social and community sector in Victoria. VCOSS works to ensure that all Victorians have access to and a fair share of the community's resources and services, through advocating for the development of a sustainable, fair and equitable society. VCOSS members reflect a wide diversity, with members ranging from large charities, sector peak organisations, small community services, advocacy groups and individuals in social policy debates.

VCOSS is committed to living out the principles of equity and justice, and acknowledges we live in a society where people are interdependent of one another. VCOSS respects the land we live in and recognises the Indigenous custodians of the country. VCOSS is committed to reconciling all injustices with Indigenous Australians. The VCOSS vision is one where social well being is a national priority, and:

- ❑ ensures everyone has access to and a fair share of the community's resources and services;
- ❑ involves all people as equals, without discrimination; and
- ❑ values and encourages people's participation in decision making about their own lives and their community.

This submission has been prepared by VCOSS with pro bono support from Regina Hill Effective Consulting Pty Ltd and Effective Philanthropy Pty Ltd. The recommendations made in this paper reflect the views of VCOSS.

Regina Hill Effective Consulting
Pty Ltd



Introduction

VCOSS welcomes the opportunity to respond to the Productivity Commission's *Contribution of the Not for Profit Sector Issues Paper*. The Productivity Commission has been asked to review the contribution that the Not for Profit (NFP) sector makes to Australian society. Specifically, the Productivity Commission has been asked to:

- ❑ assess current and alternative measures of the contribution of the NFP sector and how these can be used to better shape government policy and programs so as to optimise the sector's contribution to society;
- ❑ identify unnecessary impediments to the efficient and effective operation of NFPs and measures to enhance their operation;
- ❑ consider ways in which the delivery and outcomes from government funded services by NFPs could be improved;
- ❑ examine recent changes in the relationships between government, business and community organisations and whether there is scope to enhance these relationships so as to improve outcomes delivered by the NFP sector; and
- ❑ examine the impact of the taxation system on the ability of NFPs to raise funds and the extent to which the tax treatment of the sector affects competitive neutrality.

VCOSS welcomes the Government's interest in the NFP sector and its desire to understand how Government policy and practice support the NFP sector to operate more effectively. VCOSS agrees that there is value in:

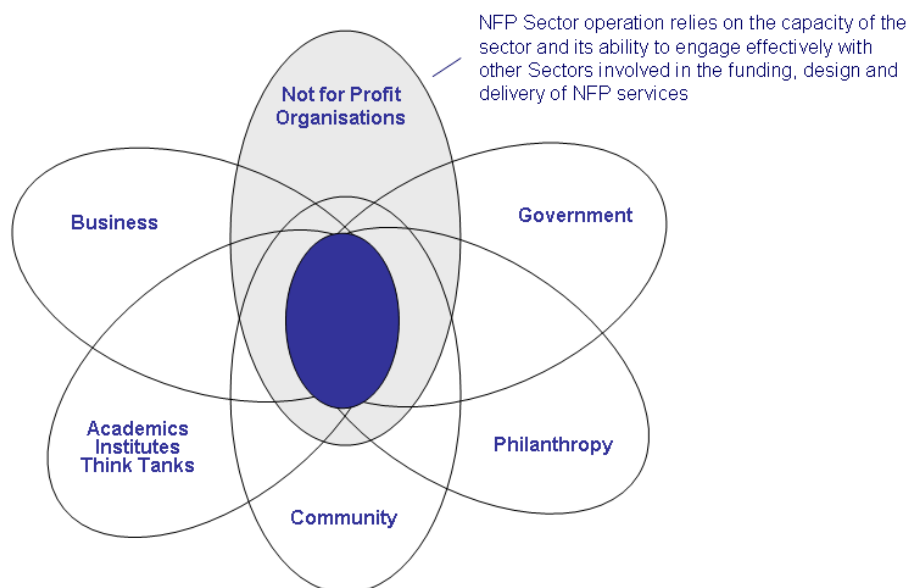
- ❑ better understanding and articulating the contribution that the NFP sector makes to Australian society;
- ❑ better measuring the activity that the sector undertakes and the outputs and outcomes that are delivered through those activities;
- ❑ improving the ability of Government to develop and implement policies and programs that:
 - leverage the NFP sector effectively; and
 - support effective and efficient NFP service delivery;
- ❑ identifying the interdependencies between the NFP sector and other sectors in the economy, including Government; and
- ❑ addressing key capacity constraints, capability gaps and cross-sector issues that inhibit the ability of the NFP sector to work as effectively and efficiently as possible.

However, VCOSS is concerned about the potential for the Commission to focus its efforts on reviewing the methodology applied to financially value the contribution of the sector rather than focusing on factors that will contribute more directly to the ability of the community sector to deliver services more effectively and efficiently. Although VCOSS acknowledges that there is merit in understanding and valuing the contribution of the NFP sector at a macro (national accounts) level, it believes that there is greater value in improving data collection and dissemination to improve policy setting, program design and delivery and helping organisations to better measure (rather than financially value) the outcomes that they deliver. This submission highlights the specific challenges associated with measuring both the social and economic outcomes that are delivered by community sector organisations and makes recommendations as to how government can better support the design, delivery and measurement of community sector activities. Measurement should not be reduced to dimensions that are easiest to measure. It is vital that measurement helps to identify and promote effective services and practices that make a difference to the lives of those people NFP organisations support and assist.

While VCOSS supports the value of this study, we do not believe that the contribution of the NFP sector can be looked at in isolation. The effectiveness and efficiency of the NFP sector is affected not only by the operation of NFP organisations themselves but also by the way in which other sectors, including Government, operate (see Figure 1). Therefore,

it is important that the Productivity Commission takes a holistic approach when assessing the contribution of the NFP sector and considering how the Government, along with the business, philanthropic and academic sectors can best support the NFP sector.

Figure 1 - Cross-sector interdependencies



VCOSS submission coverage and structure

Community sector organisations

VCOSS is the peak body of the non-government social and community sector in Victoria. These community sector organisations (CSOs) represent a significant sub-set of the NFP sector described in the *Issues Paper* and can be defined as follows:

‘Those organisations that are Not for Profit, rely on high levels of volunteerism, and broadly respond to welfare needs. CSOs work in related areas of health, education, employment and community services, amongst other industries. They comprise small informal community groups through to large incorporated organisations, and range in orientation from member-based consumer advocacy groups through to privately constituted but publicly-oriented service providers.’¹

Within the CSO sector, there is a significant diversity of organisations across dimensions such as mission, size, service types and funding sources. VCOSS values the diversity of the sector and believes government social and economic policy should support and encourage diversity. Diversity serves an important function in the social landscape as it supports the policy focus on ‘place-based strategy’ and encourages community engagement with community organisations, thereby strengthening outcomes achieved.

CSOs work across a range of different areas including (but not limited to):

- | | | |
|--|--|---|
| <input type="checkbox"/> Physical Health | <input type="checkbox"/> Carer Support Services | <input type="checkbox"/> Financial Counseling |
| <input type="checkbox"/> Dental Health | <input type="checkbox"/> Respite Care | <input type="checkbox"/> Family Services |
| <input type="checkbox"/> Mental Health | <input type="checkbox"/> Emergency Services | <input type="checkbox"/> Counseling / Support |
| <input type="checkbox"/> Drug & Alcohol Management | <input type="checkbox"/> Material Aid | <input type="checkbox"/> Mediation |
| <input type="checkbox"/> Disability | <input type="checkbox"/> Housing / Accommodation | <input type="checkbox"/> Personal Advocacy |
| <input type="checkbox"/> Aged Care | | <input type="checkbox"/> Legal Aid |
| | | <input type="checkbox"/> Child Protection |

- | | | |
|--|--|--|
| <input type="checkbox"/> Out of Home Care | <input type="checkbox"/> Personal Development | <input type="checkbox"/> Employment |
| <input type="checkbox"/> Residential Care | <input type="checkbox"/> Education | <input type="checkbox"/> Information Services |
| <input type="checkbox"/> Adoption | <input type="checkbox"/> Youth services | <input type="checkbox"/> Volunteering |
| <input type="checkbox"/> Parenting Education / Support | <input type="checkbox"/> Vocational Development / Training | <input type="checkbox"/> Sector Development & Representation (Peak Bodies) |
| <input type="checkbox"/> Early Childhood Development | | <input type="checkbox"/> Advocacy |

CSOs tend to specialise by issue areas and / or target groups.

As an example of the diversity in size, VCOSS categorises its members into small, medium and large organisations. Fifty nine per cent of our members' income is less than \$0.5 million per annum, thirty per cent have an income between \$0.5 and \$2 million and 11 per cent have an income over \$2 million per annum.

VCOSS submission

The VCOSS submission responds to the questions raised by the Productivity Commission in relation to community sector organisations (CSOs). This response does not consider every question in the Productivity Commission's *Issues Paper*. Rather, it focuses on specific issues that VCOSS has undertaken work on or addressed in other submissions. This submission also includes issues raised by VCOSS members and stakeholders in consultations and highlights Victorian programs and initiatives that are relevant to this study.

The Australian Council of Social Service (ACOSS) has developed a comprehensive response to the Commission's *Issues Paper* from a national perspective. The VCOSS submission complements the ACOSS submission by highlighting Victorian specific examples.

In preparing this submission VCOSS has considered:

- the factors that need to be taken into consideration when measuring and valuing the contribution of the sector;
- the steps can be taken by the CSO sector to operate more effectively and efficiently to deliver high quality services to the people that need them;
- how Government policy and practice can be used to support the CSO sector to operate more effectively;
- what changes can be made in other sectors - including Government - to better support the delivery of CSO services; and
- how Government policy and practice can be used to support those changes.

To assist the development of this submission, VCOSS hosted two roundtable discussions in May 2009 to engage the CSO sector and other related sectors in this discussion:

CSO roundtable with the VCOSS Community Sector Futures Task Group (CSFTG): the CSFTG was established in 2007 to provide a forum for the consideration of issues likely to impact on the sustainability and future of the community sector.

Cross-Sector Roundtable: to bring together representatives of the CSO, business, academic, philanthropy and local government sectors to better understand the interactions between these sectors which all impact on the contribution of the not for profit sector. This roundtable involved 18 participants.

A list of roundtable attendees at these meetings is attached in Appendix 1.

In addition, this submission draws on previous work that VCOSS has undertaken into relation to other reviews in Victoria including:

- ❑ the Strengthening Community Organisations Project (SCOP) and the subsequent *Victorian Government's Action Plan: Strengthening Community Organisations* report;
- ❑ the State Services Authority Non-Profit Regulatory Review; and
- ❑ the A Fairer Victoria Project.

Where possible VCOSS has drawn on existing practice examples to identify good practice and identify ways that the Government might better support the operation of the CSO sector.

VCOSS supports the Productivity Commission's decision to undertake a forward looking study but with regard to the recommendations of previous studies and reviews. There have been many reviews of the sector and VCOSS believes it is important that the Productivity Commission promote the implementation of those recommendations that will support and enhance the operations of the NFP sector.

The submission is structured in three parts:

- ❑ Underpinning principles: This section outlines key concepts relevant to understanding the work of the CSO sector;
- ❑ Measuring the contribution of the NFP sector: This section outlines key issues related to measuring the contribution of the CSO sector; and
- ❑ Efficiency and effectiveness of the NFP sector: This section outlines current challenges impacting on CSOs and identifies opportunities to enhance the efficient and effective operation of organisations.

Recommendations

In each section, VCOSS makes specific recommendations to address key issues which impact on the efficiency and effectiveness of the CSO sector. A table of the full list of recommendations is attached in Appendix 2.

In addition, VCOSS has identified three overarching recommendations which we believe the Government should focus on as a matter of priority to support CSOs to operate more efficiently and effectively and to enhance service delivery and outcomes for clients.

Overarching recommendations

1. Establish a Taskforce to revise current ABS and government data collection and dissemination processes and establish a national socioeconomic indicator framework to improve government and CSO policy setting and service planning and delivery including the following focus areas:

- ❑ revise the current ABS and government program based data collection and government budgeting processes to better inform and target policy and program design and delivery;
- ❑ develop a national socioeconomic indicator reporting framework to inform policy and program design and delivery;
- ❑ align and standardise government program reporting requirements and systems to simplify existing processes and support the above data collection processes;
- ❑ align federal, state and local government boundaries to assist in streamlining data collection and simplifying data analysis and interpretation; and

- revise the proposed measurement framework set out in the *Issues Paper* to better support policy and program design and analysis.
2. Establish a Taskforce to develop a long-term, holistic workforce strategy to drive reform on community sector workforce challenges, including:
- remuneration parity;
 - leadership development; and
 - staff development and training (paid and volunteer).
3. Establish a Taskforce to drive key reforms across the sector on regulation, including:
- establish an national regulatory framework for consistent fundraising, incorporation, data collection and disclosure requirements;
 - establish an independent National Regulator to implement the national regulatory framework;
 - establish a Standard Chart of Accounts; and
 - reform charity definitions, in line with Senate Standing Committee on Economics Inquiry into the Disclosure Regimes for Charities and NFPs in 2008 (Senate Inquiry 2008).
4. Establish a Taskforce to drive key reforms across the sector on funding, including:
- establish Pricing Reviews to estimate the full cost of service delivery;
 - implement requirements for three year funding contracts;
 - streamline funding and grant processes;
 - review funding agreements to reduce over-prescription of service delivery outputs and outcomes to allow CSOs greater flexibility in service delivery design; and
 - review central policy frameworks and structures to allow for effective planning and priority at the local level.

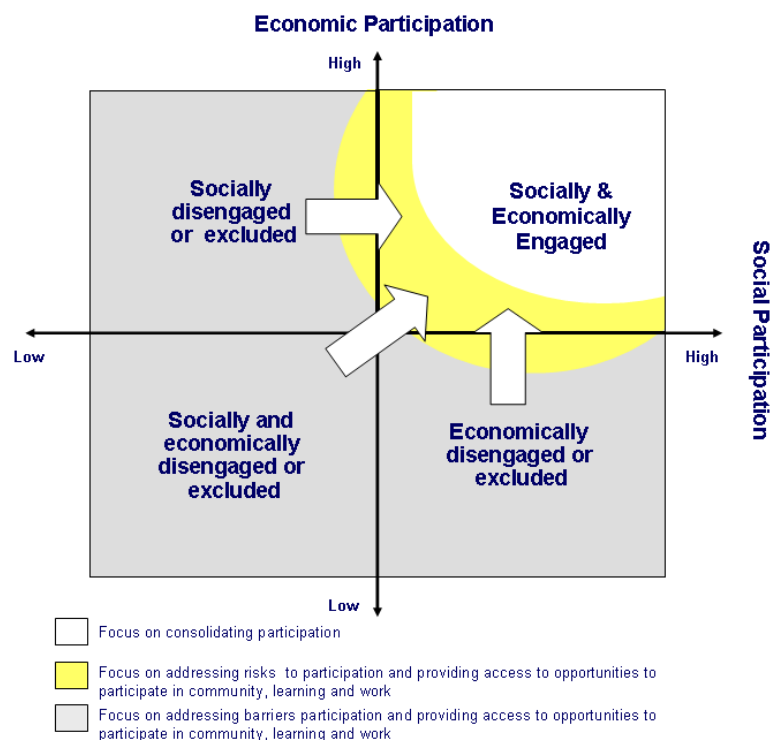
1. Underpinning principles: a framework to understand the contribution of CSOs

This section outlines a number of concepts that VCOSS believes are critical to understanding the work of Community Sector Organisations. These concepts underpin the discussion of measurement (Section 2) and improving the efficiency and effectiveness of the sector (Section 3).

Understanding the work of CSOs

At a fundamental level, CSOs work to promote the socioeconomic wellbeing of Australians by assisting and supporting people to participate in the community both socially and economically.

Figure 2 – Conceptual view of the different ways that CSO’s contribute to the wellbeing of Australians



As noted in the Productivity Commission’s *Issues Paper*, the government is committed to an active policy of social inclusion to ensure the economic and social participation of all Australians. Applying the terms of the government’s social inclusion agenda, CSOs work with Australians to help ensure that they have the capacity, capability and opportunity to:

- learn - participate in education and training;
- work - participate in employment, unpaid or voluntary work including the provision of family and carer responsibilities;
- engage - connect with people, use local services and participate in local cultural, civic and recreational activities; and
- have a voice - influence decisions that affect them.

Many CSOs also advocate for social change to improve opportunities for social inclusion at a systemic level.

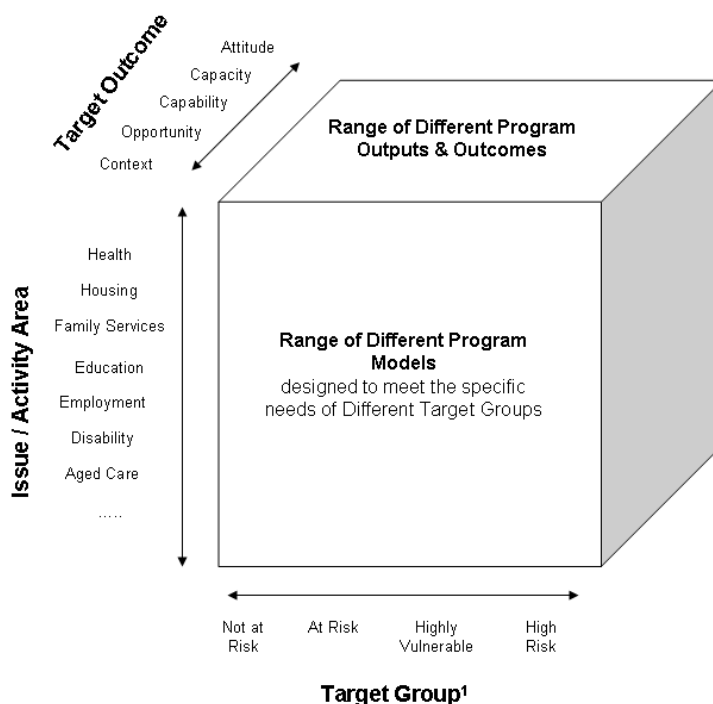
For those CSOs providing services to individual clients (sometimes called participants), they may work on the following domains (or change levers):

- ❑ aspiration – their life goals and aspirations and belief in their capacity to influence or control their future;
- ❑ capacity – their underlying capacity to engage in community, learning or work based on factors such as health, housing and home stability, transport, family issues etc;
- ❑ capability – their underlying skill base (including personal skills, general life management skills, basic literacy and numeracy skills etc) and support network (including both personal and professional support service networks) affecting their ability to engage in community, learning or work and to influence decisions that affect them;
- ❑ opportunity – to participate in community, learning or work and to influence decisions that affect them; and
- ❑ context – the community or regulatory context in which the participant lives and the effect that has on the above factors.

The specific outputs and outcomes that individual CSO's seek to achieve vary depending on (as seen in Figure 3 below):

- ❑ the target group that they are working with;
- ❑ the issue / activity area that they are working in; and
- ❑ the type of intervention / program model that they are applying.

Figure 3 –Understanding the underlying dynamics that drive diversity in the community sector



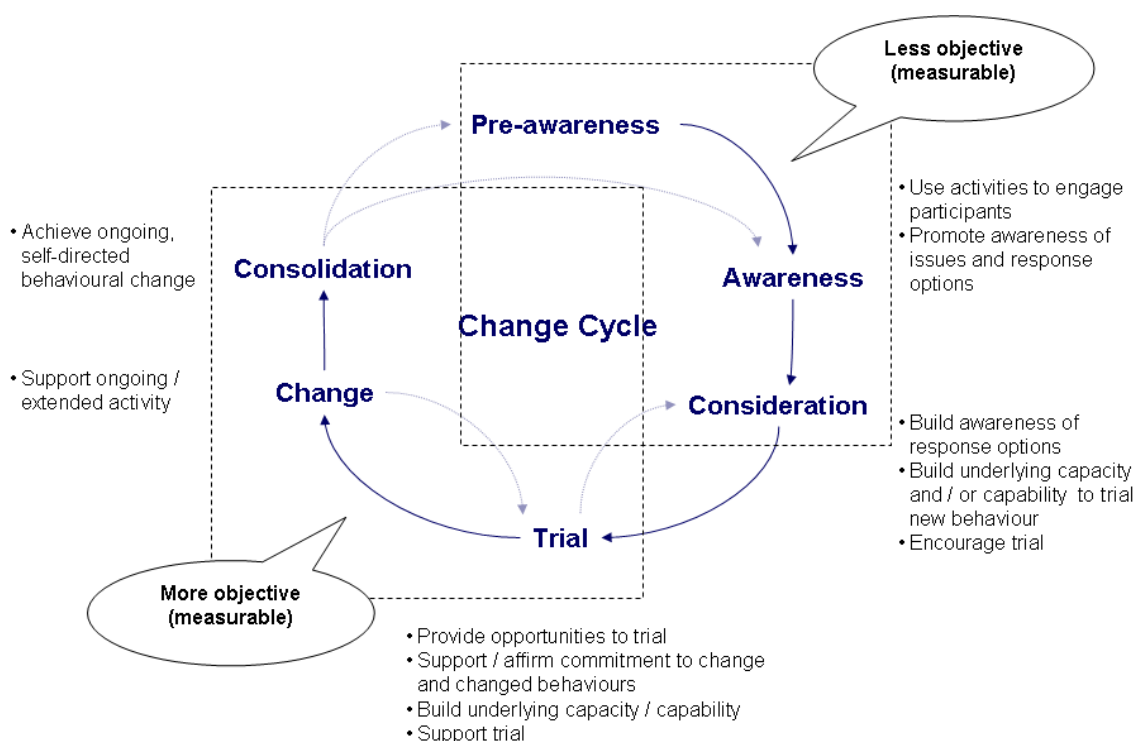
Note (1) Target Group categories based on those used in *Vulnerable Youth Framework Discussion Paper: Development of a Policy Framework for Victoria's Vulnerable Young People.* (Victorian Government, August 2008)

In order to understand and measure the contribution that CSOs make and to assess the relative effectiveness and efficiency of what they do, VCOSS believes that it is important to understand the effect that these differences in focus have.

Target outputs and outcomes vary by issue and/or activity area. Within a given issue area, program design, target outputs and target outcomes will usually vary depending on the target group and what stage in the 'change cycle' the program is working on (the 'change-cycle' is illustrated in Figure 4). As a general rule, the further the movement around the 'change cycle' a program or intervention covers, the more measurable the change.

Figure 4 - Understanding the “change cycle” and how it impacts measurement

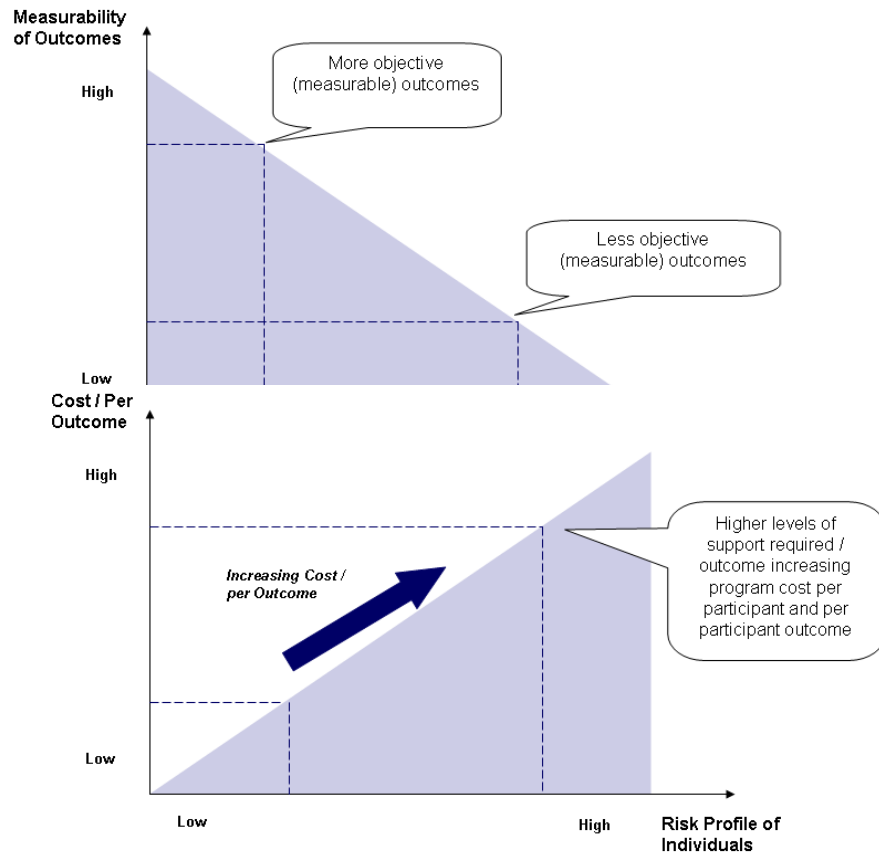
(Note the principles applied in this diagram can be applied equally to cover changes in individual or group status / behaviour or policy or system based changes relating to advocacy based activity).



Programs targeting higher risk groups will often focus more strongly on the first half of the 'change cycle', that is, earlier stage changes in attitude, capacity and capability which are required to deliver more objective changes in social and economic participation. Those changes are critical to clients being able to achieve the higher order changes covered in the second half of the 'change cycle', but, they are often harder to measure.

In many cases, the capacity of higher or more complex need clients (for example the long-term unemployed) to move around the 'change cycle' will be less than that of lower need or less complex clients (for example, the short-term unemployed). As a result, fewer clients will tend to move as far around the cycle, and they will often tend to require higher levels of support and longer timeframes to do that.

Figure 5 - Understanding the relationship between risk, measurability and cost in a CSO context



These concepts have implications for both the measurement and funding of CSO programs and services. Figure 5 above illustrates the inverse relationship between the risk profile of individuals and the measurability of outcomes. It also highlights the increase in cost per outcome where individuals have higher risk profiles.

If programs and services are measured or assessed against the same output and outcome measures and targets, programs working with higher or more complex need groups will tend to look less effective and less efficient than those working with lower need or less complex groups. If funding levels are set without reference to a target group, then programs working with higher or more complex need groups are often likely to be under funded. The funding will not take into account the higher support needs of clients and the longer timeline required to deliver program outcomes.

Care therefore needs to be taken when designing measurement frameworks and funding allocation and service provider selection processes to ensure that appropriate consideration is given to the relative need or risk profile of the target group receiving the service. Client profile needs to also be considered in determining program costs and output and outcome parameters. Care also needs to be taken when interpreting or comparing program performance measures to make sure that like to like comparisons are being made.

Measurement and funding systems, therefore, need to be designed so that programs can be segmented based on target group and intervention model. Comparisons can then be made on a like for like basis.

Consideration also needs to be given to the resources required to support the collection and processing of data that will assist the implementation of measurement and evaluation models. Information technology (IT) system capacity and capability constraints within the CSO sector (including resource, data management, IT and skill gaps) inhibit the ability of many CSOs to collect, process and analyse program data. The key issue is not the lack of desire to monitor, track and learn from program outcomes, it is the ability to do that in an informed, efficient and effective way. This issue is also addressed in Section 3.

Understanding financial and capacity development constraints

In considering how to measure the contribution and improve the efficiency and effectiveness of the community sector, it is important to understand the financial constraints that inhibit the ability of CSOs to invest in capability and system based developments and productivity improvements.

Most CSOs operate as not for profit organisations and rely predominantly on government funding, philanthropic funding and general fundraising to finance their activity. Most government and philanthropic funding is program based, with no or limited allocation being made within that funding to cover non-program or overhead costs, such as evaluation. This often results in under-investment in those areas. This is illustrated in Figure 6.

Figure 6 - The implications of existing CSO funding structures on investments in productivity improvement and program innovation

Revenues	Most funding is program based and is provided below the fully loaded cost of running the program
Less Costs	
Profit / Loss	As a result most CSO's operate at or near breakeven
Less Re-investment	They therefore do not have funds to re-investment in the operation of the business to support improvements in operational efficiency and productivity
Reserves	

As price takers, most CSOs are not in a position to influence the price that is set, particularly by government, for their services. Unlike for-profit businesses, CSOs are not able to build a profit margin into their activity to support reinvestment in their operations to improve productivity or invest in program innovation. In many cases CSOs are forced to stretch already limited resources to cover core activity and / or to rely on one off grants, pooled grants or their own investment income to invest in infrastructure, system or capability based improvements to improve productivity or to pilot innovative program design and implementation.

VCOSS last year commissioned The Allen Consulting Group to undertake an analysis of the ability of CSOs to implement further productivity improvements. The report found that:

‘further productivity gains are unlikely in the sector without jeopardising service delivery outcomes. This is because CSOs have already made significant productivity gains in recent years and further improvements will be very difficult to achieve without the funding to do so. Increasing productivity requires up front investment. CSOs are not adequately funded to enable them to invest in innovation and this impedes their ability to improve delivery of services and increase their productivity. Unlike productivity gains in the rest of the economy,

productivity gains in the community services sector are difficult to achieve given the labour intensive, people-oriented nature of the service.²

If the CSO sector is to make the investments that are required to drive ongoing improvements in capability, infrastructure and productivity then current funding models need to be reviewed and new and innovative ways found to fund investments in those areas.

2. Measuring the contribution

Summary of recommendations

1	Maintenance of NFP National Accounts	Maintain and develop the NFP Satellite Accounts.
2		Focus immediate investment on improving data collection and dissemination to better inform policy setting, program design and delivery, rather than focusing on reviewing the methodology applied to the (financial) value of the CSO (NFP) sector.
3	Improvement of Basic Data Collection	<p>Review existing ABS and government data collection and budgeting processes to support the collection and dissemination of data that allows government and the community sector to track:</p> <ul style="list-style-type: none"> ❑ community needs based on a standard set of key socioeconomic (community wellbeing) indicators (as a proxy for CSO outcomes); and ❑ CSO activity (including what organisations are working on what issue areas with what target groups) <p>by regional (Statistical Local Area or postcode) area on a periodic basis.</p>
4	Adoption of a National Socioeconomic Indicator (Wellbeing) Reporting Framework	Adopt a set of key socioeconomic (community wellbeing) indicators (such as those used in the Community Indicators Victoria Data Mapping System (Victoria), Sustainable Development Indicators (United Kingdom), Social Report (New Zealand) or like systems etc), and report on them at a national and regional level on an annual basis. Disseminate that data using an IT system that has the capacity to allow users to drill down to track performance against those indicators at a regional level.
5	Maintenance of Community Indicators Victoria	Invest in the maintenance and extension of the Community Indicators Victoria Data Mapping System to support community based planning, program coordination and delivery.
6	Alignment of Government Reporting	<p>Review existing federal, state and local government program reporting requirements and systems to:</p> <ul style="list-style-type: none"> a) move towards the adoption of a common set of output and outcome measures for like programs; b) streamline data collection and reporting requirements (including the adoption of common IT packages or systems); and c) reduce duplication in cross-government and cross-departmental reporting.
7	Investment in IT	Invest in the IT infrastructure, data management systems and skills required for CSOs to collect, process and analyse program data for measurement purposes, at the same time as streamlining government reporting and quality processes.
8	Alignment of government boundaries	Align federal, state and local government boundaries to support the coordination and direction of Government policies and programs and support improved data collection.
9	Proposed Measurement	Revise the measurement framework set out in the Commission's <i>Issue Paper</i> to:

	Framework	<ul style="list-style-type: none"> a) make provision to categorise activity by issue area and target group; and b) review the categorisation of outcome and impact parameters.
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Overview of issues

VCOSS believes that there are a number of different reasons for wanting to understand the contribution that CSOs (and NFP organisations more generally) make:

- ❑ at a macro (national accounts) level there is value in understanding the role that CSOs play as an industry in the operation of society;
- ❑ from a policy and program setting perspective there is value in understanding the role that CSOs play in addressing community needs and the relative effectiveness of different intervention models. This is important so that both government policies and programs and CSO operations are based on good practice, and are structured to leverage existing CSO networks, minimise duplication, maximise service coordination and align activity to address community needs;
- ❑ from a service delivery perspective there is a need for government to be able to evaluate the relative effectiveness of different organisations to inform service provider selection processes; and
- ❑ at a more micro level there is value in understanding the impact that individual organisations and programs make to addressing specific issues, to understand what works and to identify and promote effective practices that lead to ongoing improvements in program design and delivery.

Each of these reasons raises different considerations and challenges when it comes to trying to measure and value the contribution of the CSO sector as outlined in Figure 7 below.

Figure 7 - Different reasons for measurement

Purpose	Service Design & Delivery	Funding Allocation & Service Provider Selection	Government Policy Setting & Program Definition	National Accounts
Description	<ul style="list-style-type: none"> • Measure individual program effectiveness and efficiency • Inform program design & development 	<ul style="list-style-type: none"> • Compare alternative service providers 	<ul style="list-style-type: none"> • Assess community needs • Identify service & funding gaps • Define policy responses • Design government programs 	<ul style="list-style-type: none"> • Assess financial contribution to National Accounts • Monitor industry status against key economic indicators
Challenge	<ul style="list-style-type: none"> • Ability to measure less objective outcomes • Ability to compare outcome measures 			<ul style="list-style-type: none"> • Ability to aggregate output and outcome measures
	<ul style="list-style-type: none"> • Ability to segment activity by target group & activity to be able to compare like for like programs 	<ul style="list-style-type: none"> • Ability to segment activity to be able to compare alternative providers on a like for like basis 	<ul style="list-style-type: none"> • Ability to segment activity to compare alternative policy / program interventions 	<ul style="list-style-type: none"> • Ability to value contribution
	<ul style="list-style-type: none"> • Ability to access data to assess unmet community needs & design & deliver programs effectively 		<ul style="list-style-type: none"> • Ability to access data to assess community needs & design policy & program responses 	

It is important to be clear about the reasons why an assessment of the contribution of the CSO sector is being undertaken when thinking about what needs to be measured and how best that can be done. What this information is to be used for, and how it will be interpreted, makes a significant difference to what and how things need to be measured.

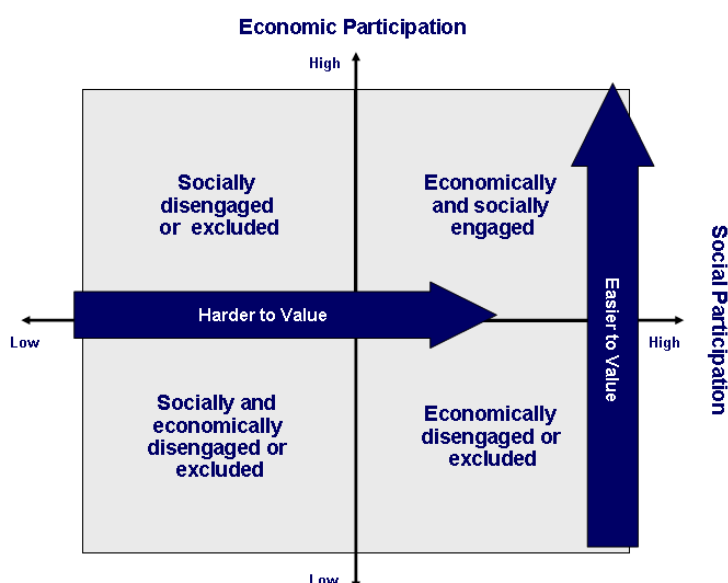
It is also important to differentiate between *measuring* the contribution that the sector makes, based on the services that it delivers and the outputs and outcomes that are delivered through those services, and *valuing* that contribution in financial terms.

There are a number of factors that make measuring and valuing the contribution of the CSO sector and assessing the relative effectiveness and efficiency of CSO activities challenging. For example, CSOs provide a range of services that are designed to deliver a mix of different outcomes, some of which are more readily measurable than others. It is more difficult to measure the less tangible (more subjective) outcomes associated with CSO activities. In addition, capacity and capability constraints in the CSO sector (including resource, data management and IT and skill gaps) inhibit the ability of many CSOs to collect, process and analyse program data.

These challenges make it difficult to put in place a framework that will measure and value the full suite of outcomes that CSOs deliver in a consistent way that would allow those measures to be aggregated across the sector. Many CSO activities do not fit within a standard “market” framework and so do not automatically attract a price that can be used to value the service.

As a general rule it is easier to measure and value outcomes relating to (vertical) shifts in economic participation. It is harder to measure (horizontal) shifts in social participation (see Figure 8).

Figure 8 - Measuring economic versus social participation

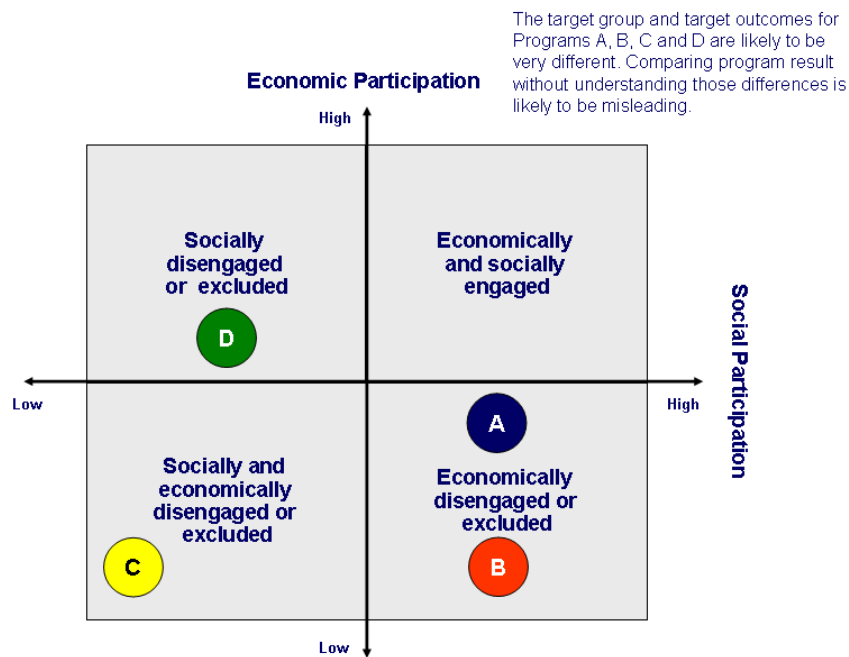


Given that most CSOs are price-takers, the valuation of CSO services at cost (while arguably the most sensible proxy from a national accounts perspective) is not necessarily reflective of the real value of the services that they deliver. As a result, it is difficult to value the full economic and social contribution of the CSO sector.

It is also difficult to compare the effectiveness and efficiency of CSO activities. Differences in target group can result in like programs having very different target outputs and outcomes. Similarly, programs working with like target groups in the same issue area can seek to deliver different outcomes depending on the specific change lever that they are working on (see detailed discussion of these concepts in Section 1). When comparing program results, care needs to be taken to make sure that like for like comparisons are being made. In the absence of effective target group and program based segmentation this can be difficult to do.

It is important to recognise the differences between programs operating in different “participation quadrants” and in different spaces within each quadrant, as seen in Figure 9 below.

Figure 9 - Making “like for like” comparisons



The need to make sure that like for like comparisons are being made is particularly true when applying financial valuation methodologies such as a Social Return on Investment (SROI) analysis.

SROI uses standard discounted cash flow measures to value the economic and social return of activities taking into account independently generated revenue, taxation contributions generated through employment, reductions in expenditure on public services and welfare. It is most commonly (and, it is submitted, appropriately) applied to social enterprise based programs that seek to combine the generation of income with a social outcome.

Although the SROI methodology seeks to value social participation, health and wellbeing based benefits associated with such programs the challenge associated with doing that means that those benefits tend to value them based on reductions in the cost of support service usage.

The limited ability to value improvements in social participation, health and wellbeing, and the fact that improvements in economic participation are only valued when the taxation

returns offset welfare and service expenditure, have significant implications when using the analysis to compare the effectiveness and efficiency of different programs.

For example, an early stage intervention program that works with a high risk target group that achieves changes in the first half of the change cycle (on attitude, capacity and capability) will tend to show lower returns than a latter stage program that is working on the second half of the change cycle translating those outcomes into employment.

Both types of program are important (indeed the latter type of program would not be possible without the former one) but if the outcome of the SROI analysis is not interpreted with care, there is a risk that the former program will be seen as being less effective and efficient than the latter one and as a result potentially be given less priority from a policy and funding perspective.

When interpreting SROI results it is particularly important to understand the differences between programs operating in different “participation quadrants” and in different spaces within each quadrant.

Given the complexity in interpretation it is strongly recommended that SROI analysis only be applied to enterprise based intervention models.

Given the challenges associated with valuing the social contribution of the CSO sector, it is recommended that the Productivity Commission not focus on reviewing the methodology applied to value the sector at a macro (national accounts) level (i.e. valuing the contribution of the sector) but instead focus on improving the efficiency and effectiveness of the sector by improving data collection and dissemination to improve policy setting, program design and delivery. This includes not only the development of a framework to inform how CSOs can measure the outputs and outcomes of their programs but also the collection of data that will support government policy and program development and CSO program design and delivery.

Current data collection and dissemination systems do not allow government or the sector to map service provider networks, service delivery activity or funding on a regional basis (i.e. there is no simple way of identifying who is working in a geographic areas on what issue areas with what target groups). Nor is there a readily accessible system that provides government or the CSO sector with data on community needs (based on key socioeconomic indicators) by geographic region other than aggregated Indices such as the Socioeconomic Indexes for Areas (SEIFA) Indices or tools such as those provided by Community Indicators Victoria.

Differences in federal, state and local government boundaries add to the complexity of mapping funding allocations. Even at a state level, different government departments have developed different regional boundaries. In Victoria for example, Department of Human Services (DHS) regional boundaries do not match the Department of Education and Early Childhood Development’s boundaries. VCOSS acknowledges that there has been work undertaken to align regions between some departments and we support the further progress of this work.

The absence of this data limits the ability of both the Government and CSO organisations to:

- identify and leverage local CSO networks;
- identify gaps in service availability / delivery;

- ❑ understand total government and non-government (philanthropic and corporate) investment by target group and issue area; and
- ❑ drive effective and efficient policy setting, program design and program delivery.

VCOSS contends that these data gaps significantly inhibit the ability of government and the community sector to operate effectively.

In order to address these gaps and improve the effectiveness and efficiency of both the government and CSOs there is a real need to focus on improving basic data collection. In particular, there is a need to focus on:

- ❑ improving the accessibility of data to assist governments and CSOs identify community and target group needs at a regional (SLA or postcode) level;
- ❑ improving the collection and dissemination of data at a regional level regarding:
 - what activity is being undertaken by the CSO sector; and
 - what funding is being invested (including both government and non-government funding); and
- ❑ tracking changes in community needs, activity and investment over time.

VCOSS believes that investment in improving data collection and dissemination will show significantly higher returns than measures focused on attempting to place a financial value the contribution of the CSO sector.

Recommendations

1. Maintain NFP Satellite Accounts

VCOSS believes there is merit in valuing the contribution of the CSO sector at a macro (industry) level as part of the National Accounts and recommends that the NFP Satellite Accounts continued to be maintained and developed over time.

2. Focus on improving data collection and dissemination rather than valuation

To improve the effectiveness and efficiency of both the government and community sectors, it is recommended that the government place priority on improving data collection and dissemination to better inform policy setting, program design and delivery rather than on reviewing the methodology applied to value the sector at a macro (national accounts) level.

3. Strengthen data collection systems and processes

It is recommended that the Productivity Commission review existing ABS and government data collection and budgeting processes to support the collection and dissemination of data that allows the government and the community sector to track:

- ❑ community needs based on a standard set of key socioeconomic (community wellbeing) indicators;
- ❑ CSO activity (including what organisations are working on, what issue areas, and with what target groups;

by regional (Statistical Local Area or postcode) area on a periodic basis.

In doing this, it is recommended that the Productivity Commission review existing data collection processes to incorporate at least the following information:

Figure 10: Minimum funding and activity based data collection requirements

CSOs	Government	Philanthropy
Income pa Revenue pa Profit / Loss pa Reserves	Funding allocation pa	Funding allocation pa
Funding source breakdown	Funding source	Recipient organisation
Staffing numbers	-	-
Staff breakdown by qualification level	-	-
Service delivery locations	Geography	Geography
Target group(s) Target group numbers	Target group(s)	Target group(s)
Activity / issue area	Activity issue / area	Activity issue / area

4. Develop and publish a reporting framework of a standard set of socio-economic (wellbeing) indicators

VCOSS recommends that the federal government adopt a set of key socioeconomic (community wellbeing) indicators such as those used in the Community Indicators Victoria Data Mapping System, (Victoria), Sustainable Development Indicators (United Kingdom), Social Report (New Zealand) or like systems and report on those indicators and a national and regional level on an annual basis.

It is further recommended that this data be disseminated using an IT system that has the capacity to allow users to drill down to track performance against those indicators at a regional level. The adoption of such a reporting framework and dissemination system would assist government and the CSO sector to better target and coordinate policy and program activity and would provide a proxy for understanding the impact of policy and program investments at an aggregated (cross-sector) level over time.

It is recommended that those indicators be selected with reference to international standards in order to allow for international benchmarking and comparison.

5. Invest in the maintenance and extension of the Community Indicators Victoria data mapping system

VCOSS recommends that the Australian Government invest in the maintenance and extension of the regional data mapping activity and reporting system such as that currently delivered by Community Indicators Victoria. This would involve a review the possibility of extending that system to support the development of the reporting system referred to in recommendation four above.

6. Standardise Government program reporting and data collection

VCOSS believes that the most effective way to support the adoption of common output and outcome measurement in the community sector is through existing government reporting frameworks.

Currently there are significant inconsistencies in government reporting requirements. In many cases CSOs receiving program funding from different governments and / or government departments are required to report on different parameters using different IT systems for the same program.

It is recommended that existing federal, state and local government program reporting requirements and systems be reviewed to:

- move towards the adoption of a common set of output and outcome measures for like programs;
- streamline data collection and reporting requirements (including the adoption of common IT packages or systems); and
- reduce duplication in cross-government and cross-departmental reporting.

7. Invest in IT infrastructure and data management systems and skills for CSOs

VCOSS recommends that the Government invest in IT infrastructure and Data Management systems and skills required for CSOs to collect, process and analyse program data for evaluation purposes. At the same time, streamlining government compliance requirements must remain a priority issues as outlined in section 3.6.

8. Align government boundaries

Variations in federal, state and local government boundaries make it difficult to track what government funding is being provided to a given community or region and how community wellbeing is impacted by investments in the community over time.

It is recommended that Council of Australian Governments (COAG) work to align federal, state and local government boundaries to better support the coordination and direction of government policies and programs and support improved data collection.

9. Revise the draft measurement framework (set out in the Productivity Commission's *Issue Paper*)

VCOSS acknowledges that there is value in developing a core set of specific output and outcome indicators that can be used by government and CSOs to monitor and evaluate CSO activity at a program and community level as part of the process of improving data collection and dissemination. However, it is important to recognise that any such set of output and outcome indicators will not be able to cover the full suite of outputs and outcomes that are delivered by CSOs and so will not measure the full contribution of the sector. Any framework of output and outcome measure that is developed must include the collection of data that allows CSO activity to be segmented based on issue area, target group and program type.

The measurement framework that has been developed by the Productivity Commission does not make provision for identifying target issue, target group or program type. As such, although it provides a framework to measure a limited set of output and outcome indicators at an aggregated (national accounts) level, it does not support the segmentation of CSO activity and as such does not provide a basis for like for like comparisons or analysis of that activity. As a result, the proposed framework does not provide an appropriate framework through which to:

- measure individual program effectiveness and efficiency;
- inform program design and development; or
- support the comparison of alternative service providers and support service provider selection or funding allocation.

Although the framework does provide a basis to inform government policy and program setting, the above gaps limit the ability of the framework to address the full needs of the government.

In order to strengthen the framework it is recommended that the Productivity Commission revise the current framework (and supporting data collection and management systems) to:

- make provision to categorise activity by issue area and target group;
- review the categorisation of outcome and impact parameters (or perhaps adopt a dual categorisation structure) to incorporate the higher order domain of change (attitude / aspiration, capacity, capability, opportunity and context) being targeted rather than the specific type of outcome being delivered (service, connection, advocacy, existence or consumption) that is being delivered. These change domains outlined in Section 1 include:
 - aspiration – their life goals and aspirations and their perceived capacity to influence or control their future;
 - capacity – their underlying capacity to engage in community, learning or work based on factors such as health, housing and home stability, transport, family issues etc.
 - capability – their underlying skill base (including personal skills, general life management skills, basic literacy and numeracy skills etc) and support network (including both personal and professional support service networks) affecting their ability to engage in community, learning or work and to influence decisions that affect them;
 - opportunity – to participate in community, learning or work and to influence decisions that affect them; and
 - context – the community or regulatory context in which the participant lives and the effect that has on the above factors.

The outcome categories and parameters identified in the current framework could readily be applied as sub-categories under the above headings.

VCOSS would welcome the opportunity to consult with the Productivity Commission in more detail on this alternative framework.

3. Efficiency and effectiveness

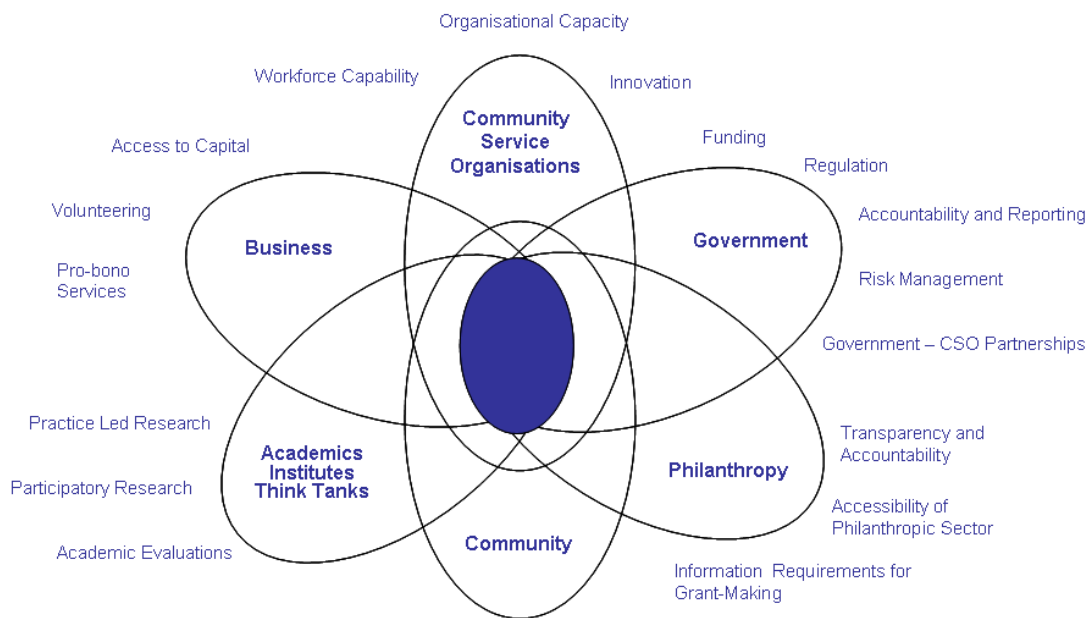
Introduction

As is the case in the business and government sectors, the effectiveness and efficiency of individual organisations in the community sector varies depending on the capability and resources of each organisation and their ability to engage effectively with the clients and communities that they serve. The overall effectiveness of the CSO sector relies on:

- ❑ the capacity of the individual organisations that make up the sector;
- ❑ their ability to collaborate effectively with one another on an intra- and inter-disciplinary basis; and
- ❑ their ability to engage effectively with other sectors involved in the funding, design and delivery of CSO services.

A number of factors impact on the ability of the sector to work as effectively as possible as illustrated in the following diagram.

Figure 11 - Key issue areas



These key issues are discussed in the following sections:

- 3.1 Workforce capability
- 3.2 Organisational capability
- 3.3 Innovation
- 3.4 Government funding
- 3.5 Regulation
- 3.6 Accountability and reporting
- 3.7 Partnerships with government
- 3.8 Philanthropy
- 3.9 Business
- 3.10 Other Comments

3.1 Workforce capability

Summary of recommendations

	Issue	Recommendation
10	Workforce Strategy	Develop a long-term, holistic CSO workforce strategy, in collaboration with the CSO sector, at national and/or state levels.
11	Remuneration	Review and reform award structures between the government and CSO sectors to achieve pay parity.
12	Access to Training	Invest in services that provide information and / or broker opportunities on training for CSOs to improve access to training and development.
13	Access to Volunteering	Invest in services that provide information and / or broker opportunities in volunteering for CSOs to improve access to skills and human resources
14	Tertiary Training	Review training to better align curriculum with CSO skill set requirements and encourage greater collaboration on ongoing basis between the community sector and training providers to do this.
15	Promotion of sector	Invest in initiatives that promote the community sector as a recognised and valued career option to improve recruitment and retention.

Overview of issues

As noted in the Commission's *Issues Paper*, human resources play a significant role in the overall efficiency and effectiveness of the NFP sector. There are currently major challenges associated with workforce recruitment, retention and capability in the sector. Key challenges include:

- ❑ recruitment and retention – there is increasing difficulty in recruiting and retaining staff with appropriate skills and experience. Difficulties in recruitment and retention have been linked to:³
 - Salaries disparity - low salaries compared to other sectors, estimated to be \$10,000 to \$15,000 below the market rate;
 - Nature of work – nature of work is stressful and challenging;
 - Geographic issues – difficulty in recruiting to rural and regional areas where there is often a high community needs, as with other professions; and
 - Limited career pathways – smaller organisations often have limited opportunities for professionals to move into higher roles.
- ❑ high staff turnover – high staff turnover imposes additional costs on organisations in recruiting and retraining staff and can also lead to a lack of continuity in service delivery and a loss of knowledge. The most recent *ACOSS Australian Community sector Survey Report* survey found that the average turnover of staff (the number of staff leaving over the number of staff employed) is 15.9%⁴ which is higher than the Industry average reported by DEWR of between 10% and 12%.⁵
- ❑ limited opportunities for skill development and training – government funding and service agreements do not adequately fund staff training or the associated costs of 'backfilling' when staff are on training leave. Given the increasing complexity of client needs and the skills that staff require, particularly when working in multi-disciplinary teams, there is also an urgent need to reconsider the training that is offered to current

and future CSO staff. Greater collaboration between the community sector and training providers is critical to achieving these improved outcomes.

- ❑ limited support for leadership development – staff working in leadership roles within CSOs also require ongoing training and skill development. There are number of barriers to accessing leadership development opportunities including:
 - the cost of formal training and replacement costs of staff time;
 - time constraints and need to offer programs of varying levels of duration;
 - lack of awareness of options to support leadership development ; and
 - there is a focus on service delivery and day to day management rather than leadership development
- ❑ training and coordinating volunteers – it is estimated that 41 per cent of Victorians volunteer.⁶ While volunteering can bring enormous benefits to the sector, there are costs incurred in the recruitment, development, training and coordination of volunteers that are not adequately funded.
- ❑ access to volunteer opportunities – there is a need for services that provide information on how to access volunteer opportunities in other sectors. While there are numerous pro-bono volunteer brokers available to CSOs, many CSOs often do not know which pro-bono broker to approach for specific skill needs.

A more detailed discussion of these issues is contained in the VCOSS report, *Recruitment and retention in the community sector: A snapshot of current concerns, future trends and workforce strategies*.⁷ The report was published in 2007 and most of the issues remain relevant today.

Victorian initiatives

The Victorian Government has made some progress in developing a comprehensive response to some of these workforce challenges. In 2007, as part of the Strengthening Community Organisations Project (SCOP), the Government undertook a major review of challenges impacting on the NFP sector and workforce issues were identified as a key area for reform.

In response to SCOP and the State Services Review of Not-for-Profit Regulation, the Victorian Government announced a *Strengthening Community Organisations (SCO) Action Plan*. This includes 25 actions to strengthen community organisations. This three year plan is being implemented through the newly established Office for the Community Sector which is located in the Department of Planning and Community Development.

The Victorian SCO Action Plan includes the following action items to address workforce challenges:

- ❑ Action 12: Investing in leadership development, including a feasibility study to investigate appropriate leadership and management developmental opportunities for NFP community organisations;
- ❑ Action 13: Developing a community services workforce capability framework to help address workforce challenges;
- ❑ Action 14: Developing a placement and mentoring program to contribute to shared knowledge and understanding between government and community organisations; and
- ❑ Action 15: Assisting community organisations to better attract, retain and train volunteers through developing a comprehensive volunteer and participation strategy.⁸

In particular, the Victorian Government has committed to:

- ❑ Developing a Workforce Capability Framework - to focus on how NFPs can develop the skills and capabilities they need to continue improving service delivery, address issues relating to recruitment and retention, the need to invest in skills and professional development.
- ❑ Establishing a CSO Sector Workforce Reference Group - established in 2008 by the Office for the Community Sector.

To implement Action 12, the Victorian Government has commissioned a feasibility study to examine the most effective way of developing leadership capabilities in the sector. VCOSS refers the Commission to the outcomes of the feasibility study once the findings are publicly available.

VCOSS workforce and training initiatives

VCOSS highlights the work undertaken to promote the sector as a recognised and valued career option through the VCOSS *Showcasing the Community Sector project*, funded for three years by the Victorian Government through the Community Sector Investment Fund (CSIF). The project aims to demonstrate how the CSO sector is a stimulating, rewarding and enjoyable place to work. In this way, the project takes a long-term view by seeking to attract a new generation of workers into the sector. Further investment by government in these initiatives will go some way towards improving recruitment into the sector.

The VCOSS Training and Development Clearinghouse (the Clearinghouse) provides a mechanism for CSOs to access low cost training opportunities. The Clearinghouse coordinates with a range of training providers across business, academic and NFP sectors to source discounted training opportunities for CSOs. It uses a web-based information hub to communicate information and match training needs with opportunities.

The Clearinghouse also provides information and support for community organisations that want to engage a skilled volunteer through pro bono brokers. Through the website, the Clearinghouse provides information on the types of organisations that broker skilled volunteer placements in Victoria as well as a guide to assist CSOs in how to access skilled volunteers. Support for these types of initiatives across Australia is important to facilitate effective skilled volunteering placement.

Recommendations

VCOSS believes that there are a number of structural issues that must be resolved to address current workforce shortages and meet predicted future demand for suitably qualified and experienced community service workers.

10. Develop long-term, holistic workforce strategies

VCOSS recommends the state and federal governments develop a long term, holistic strategy to address workforce challenges, in collaboration with the community sector.

11. Reform remuneration levels to achieve pay parity

VCOSS emphasises the need to reform remuneration levels in the community sector to achieve pay parity with the public sector. Award structures between sectors should be reformed to adequately take into account the multiple skill sets, responsibilities, authority levels and complex decision making required of those working in the community sector.

VCOSS highlights the findings of a recent case led by the Queensland Services Union that has increased pay levels of community service workers. Queensland community service workers will now receive increases of up to 38 per cent over the next four years. The decision means the salary of a mid-range frontline worker will rise from \$44,365 to

\$55,590 a year by July 2011, while those on the top rung will see their pay increase from \$65,314 to \$84,979.⁹

12. Invest in services that provide information on / broker training opportunities

VCOSS recommends that the government support services that provide information to CSOs on available, low cost training opportunities across academic, government and business sectors. There is a need for services to actively seek out and broker training opportunities across a range of training providers and business. VCOSS highlights the work of the VCOSS Training and Development Clearinghouse as a good example of a mechanism to facilitate access to low cost training opportunities from a variety of sectors.

13. Invest in services that provide information on / broker volunteer opportunities

VCOSS recommends the Government invest in and support information and/or brokering services that assist in brokering volunteer opportunities for CSOs from government and business sectors. VCOSS points to the VCOSS Training and Development Clearinghouse as an example of an effective information and brokering service for the sector for volunteer opportunities. In Victoria, Leadership Victoria and Oxfam Skill Share, among others, have also successfully undertaken this role to the benefit of the CSOs.

14. Review training to better align curriculum with sector requirements

VCOSS recommends the government initiate a review of training courses relevant to the community sector to better align curriculum with CSOs skill set requirements, in consultation with the sector. VCOSS also recommends that the government encourage greater collaboration on an ongoing basis between the CSO sector and training providers on this issue and improve understanding of the existing mechanisms in place to do this.

15. Invest in initiatives that better promote the sector as a career option

There is a need to better position the CSO sector as a recognised and valued career path to improve recruitment and retention which will lead to longer term efficiencies and effectiveness. VCOSS highlights to the Commission the work achieved through the VCOSS Showcasing the Community Sector project as outlined above.

3.2 Organisational capacity

Summary of recommendations

	Issue	Recommendation
16	Access to Capital	Examine options to increase CSO sector access to capital to support infrastructure, system and other capability development needs, in particular (but not limited to): <ul style="list-style-type: none"> a) options to incentivise commercial banks to provide low interest loans; and b) a Future Fund to support NFP Organisational Capacity Development.
17	Aggregated Procurement	Support the development of aggregated buying arrangements for CSOs.
18	Outsourcing Services	Explore the development of outsourcing services, through an independent centralised service centre that can provide outsourcing of back office functions at a discounted price.
19	IT Capability Projects	Support and invest in initiatives that assist CSOs to develop their ICT capability.
20	Shared Sector-Wide IT Service	Develop a shared or collaborative sector-wide service to support ICT and information management needs .
21	Smaller Organisations	Government should review funding allocation and service provider selection processes to take into account that economies of scale benefits in contracting with larger organisations may be offset by losses in efficiencies attached to smaller organisations as well as transition costs, particularly in regional and remote areas.

Overview of issues

The Productivity Commission's *Issues Paper* highlights issues regarding the NFP sector's access to financial resources and raises questions about economies of scale in service delivery. This section outlines some of the fundamental organisational capacity issues that impact of the efficiency and effectiveness of the sector.

Funding constraints

Most CSOs operate as NFPs and rely predominantly on government and philanthropic funding and general fundraising to finance their activity. Most government and philanthropic funding is program based with no or limited allocation being made within that funding to cover non-program or overhead costs. In many (if not most) cases CSOs are forced to stretch already limited resources to cover core back office activity and / or to rely on one-off grants or investment income to invest in infrastructure, system or capability based improvements to improve productivity or to pilot innovative program design and implementation.

Figure 12 - The implications of existing CSO funding structures on investments in productivity improvement and program innovation

Revenues	Most funding is program based and is provided below the fully loaded cost of running the program
Less Costs	
Profit / Loss	As a result most CSO's operate at or near breakeven
Less Re-investment	They therefore do not have funds to re-investment in the operation of the business to support improvements in operational efficiency and productivity
Reserves	

Because CSOs are not able to build a profit margin into their activity, and indeed are often under-funded for program activity, many struggle to be able to (re)invest in their operations to improve productivity or invest in program innovation as illustrated in Figure 12.

Many CSOs do not have adequate infrastructure and / or back office functions such as information technology, legal services, accounting and finance and human resource management required to run their core operations efficiently and effectively. The complexity of current accountability and monitoring requirements means the development of effective back office functions is vital. VCOSS believes that this is a key issue for the Productivity Commission study to address.

The move to competitive tendering and the downward pressure placed on funding levels has exacerbated this issue. Research indicates that overall funding for infrastructure and non-service related activities has been reduced since the shift away from core funding of CSO sector organisations.¹⁰

The challenges associated with maintaining adequately resourced back office functions are particularly relevant for smaller CSOs that do not have the capacity to employ specialist functions in house and so are faced with having to make do without support or source expert advice on an as-needs basis.

This is particularly true with regard to information and communications technology (ICT). The collaborative VCOSS–Monash University *Doing IT Better* project has identified a number of fundamental ICT planning, capacity and implementation issues in smaller and medium-sized CSOs, including:

- lack of expertise needed to make appropriate ICT planning and purchasing decisions;
- insufficient capacity to periodically update ICT infrastructure; and
- absence of skills and resources to enable basic and essential organisational knowledge functions.

The failure of most funding agreements to adequately allocate resources for these needs contributes to the problem

Regulatory and administrative burden

There is also a need to reduce the significant regulatory and administrative burden imposed on CSOs. Complex funding, compliance and reporting arrangements consume valuable resources and reduce organisational capability to both carry out core service delivery and develop innovative responses to local needs. These issues are addressed in more detail in Section 3.5.

Lack of understanding of efficiency advantages of smaller CSOs

In recent times there appears to have been a trend in government contracting towards favouring larger CSOs on the basis that they can deliver 'economy of scale benefits'¹¹ by delivering services more efficiently and effectively. This assumption is also noted in the Commission's *Issues Paper*:

'In preliminary discussions with the Commission, some stakeholders observed that government agencies are increasingly preferring to deal with bigger and fewer parties to minimise their transactions costs with the sector (that is, to increase the agencies' efficiency in dealing with the not for profit sector). This trend raised concerns that it would lead to the amalgamation of not for profit organisations and result in a commensurate loss of diversity. In turn, any such loss of diversity has the potential to reduce the sector's capacity for innovation in the delivery of services and outputs and reduce its client focus. Both outcomes would be likely to have adverse efficiency and effectiveness consequences for the sector.'¹²

The Commission's paper also makes reference to organisations that 'operate at a larger, more efficient scale of operation.'¹³

The assumption of economies of scale efficiencies does not take into account efficiency and effectiveness advantages that are often associated with smaller CSOs. These relate to the understanding that they have of specific client needs, the strength of the relationships that they have with the client groups that they service and flexibility, responsiveness and innovation advantages that often attach to their small scale. Smaller organisations are often well placed to provide highly effective and efficient services. They are often able to be more entrepreneurial and flexible in responding to community needs.

In some cases where the Government has moved to shift service provision from small to large service providers in order to access economies of scale there have been significant transition costs associated with the need to transition client relationships and – in a number of cases – transfer staff from one organisation to another. Those costs have offset potential economies of scale and have usually not been taken into account by government when making the change

Assumed advantages attached to scale are often offset in the case of regional and remote service providers due to the geographic spread of operations. Inefficiencies may also be addressed, for example in the case of procurement and back office services, through access to alternative operational arrangements.

A good example of a smaller CSO that has been able to work efficiently is Kildonan UnitingCare's (Kildonan) response to the Victorian Black Friday Bushfires in February 2008. Kildonan is based in outer-Melbourne and was involved in the delivery of emergency outreach services to bushfire affected areas. Kildonan, due to its small size, had advantages of close lines of communication among staff, an ability to adapt and act swiftly, as well as an ability to deploy staff with decision making capability. Below is an excerpt from a speech given by the Kildonan Chief Executive Officer at a VCOSS forum:

'It took government until the Friday of the first week to implement a case management system that commenced the following week. By that stage we had already had an intake of over 200 people and commenced working through our philanthropic and UnitingCare networks to secure more funding.'

‘Not being too large meant that lines of communication from myself to the staff happened very quickly as too the feedback from them about how things were going and what needed changing.’

‘Our speed and coordination in the initial response highlights the malleability and adaptability of smaller organisations have, a characteristic that is not only critical in an emergency, but critical in turbulent environment such as the one we are currently in.’¹⁴

It is important to recognise that there are efficiency and effectiveness tradeoffs for both small and large organisations. The most ‘efficient’ sized organisation will be dependant on the nature of community needs, the type of program response required and the geographic location, not simply the size of the organisation.

Recommendations

16. Investigate options to improve access to capital

VCOSS recommends that the Government investigate additional mechanisms to provide CSOs with access to funding to support investment in infrastructure, system and capability development. This would be in addition to reviewing existing Government funding models. The Government should specifically explore the following options:

1. Low interest loan schemes

It is recommended that the Government investigate options to incentivise / support commercial banks to provide CSOs with access to low interest loans to fund investments in infrastructure, system and capability development. In order to increase the preparedness of banks to participate in such a scheme it is recommended that the Government:

- ❑ Review taxation laws to incentivise the provision of low interest loans; and
- ❑ Investigate the option of allowing Prescribed Private Funds (PPF) holders to invest their funds in a NFP Low Interest Loan Guarantee Fund on the basis that those funds be able to be drawn on by commercial lenders to offset low interest loan defaults and thereby reduce the risk associated with the issuing of such loans.

2. Establish a ‘Future Fund’ to support NFP organisational capacity development

It is recommended that the government consider establishing a ‘Future Fund’ for the NFP sector that could be used to fund ongoing capability development in the NFP sector. Such a fund could be established with the support of the philanthropic and commercial sector by applying a matching grant arrangement and / or allowing PPF holders to invest funds in the Fund.

17. Support development of aggregated buying arrangements

VCOSS recommends that the Government support the development of aggregated buying arrangements to support the NFP sector. This would enable CSOs to collaborate and purchase products in bulk at a reduced price either through a group purchasing arrangement and / or by having their purchases aggregated with government or corporate procurement functions. Taxation laws could be reviewed to incentivise business to incorporate NFP purchasing requirements in their procurement activity.

18. Explore the development of outsourced services

The government should explore the potential to develop an independent centralised service centre that can provide outsourced back office functions for CSOs at a discounted price. Such centres could also act as a broker to provide CSOs with access to specialist pro-bono support.

19. Support ICT capability development projects

There are a number of initiatives that can be used to assist CSOs to develop their ICT capability that should be supported by Government. There should also be efforts made to extend current non-government support.

An example of a successful sector-led initiative is the three-year collaborative VCOSS–Monash University *Doing IT Better* project. This project builds information and ICT capacity in the sector through undertaking case studies with a number of organisations to identify issues and trial solutions, as well as providing information resources to build-know how and assist decision making and planning. The *Doing IT Better* project is currently supported by and the corporate sector, with no government or philanthropic support to date.

20. Support a shared or collaborative ICT Support Service

VCOSS recommends that a shared or collaborative sector-wide support service be developed to support the ICT and information management needs of the sector. This need was identified in the VCOSS–Monash University *Doing IT Better* project in 2008 with the outline of a proposal developed during the 2008 *Doing IT Better* conference. It would be similar to other successful programs in the UK (the ICT Hub’s ‘circuit riders’ project) and New Zealand (the Wellington ‘e-rider’ project).

The purpose of this type of service is to help CSOs understand what ICT services or infrastructure they require to meet their needs and how to make an appropriate service or infrastructure purchase decision. It could also incorporate a help desk or systems maintenance and repair function. Additionally, such a service would be ideally placed to advocate for the sector on ICT related issues.

A sector-wide approach has advantages over a more disaggregated approach, as it is more readily sustainable, draws on a greater range of skills and expertise across technical staff and has the ability to share learnings across the sector.

21. Recognise the efficiency gains of smaller organisations

VCOSS recommends the government review funding allocation and service provider selection processes to acknowledge and take into account the efficiency advantages of small organisations.

The Australian Government should review the full set of parameters for efficient and effective service delivery and recognise that economies of scale benefits in contracting with larger organisations may be offset by losses in efficiencies attached to small organisations as well as transition costs in moving from contracting arrangements from small organisations to large organisations. The efficiencies of economies of scale are particularly likely to be offset in regional and remote areas. The Government should formally acknowledge that the most ‘efficient’ sized organisation will be dependant on the nature of community needs, the type of program response required and the geographic location of the community, not the size of the organisation.

3.3 Innovation

Summary of recommendations

	Issue	Recommendation
22	Organisational Capability	Adequately fund and support CSO organisational capabilities to free up resources to allow for CSOs to innovate in service delivery
23	Access to Capital	Improve access to funding / capital to trial innovative programs and explore mechanisms such as Government Innovation Funds, quarantining allocations in service agreements, as well as leveraging support from philanthropic and private sectors

Overview of issues

VCOSS supports the Productivity Commission's statement that the NFP sector can be highly innovative but that innovation is often constrained by the regulatory environment or insufficient resources or skills. CSOs are often well placed to identify and respond to issues of community concern given their close connections with the people and communities with whom they work. As a result, CSOs often generate new ideas that meet the changing needs of communities. As noted by the Victorian Government in the SCO Action Plan:

'Community organisations are often at the forefront of meeting changing patterns of community interest and social need. Their ability to grow and innovate is crucial to their long term sustainability and to our wider ability to develop services in the future.'¹⁵

However, there are a number of significant constraints inhibiting the ability of CSOs to develop innovative responses. A key constraint is the lack of flexibility in many government funding agreements with CSOs. The over-prescription of service delivery targets and deliverables in service agreements often hinders the ability of CSOs to innovate and develop solutions at a local level responsive to community needs. In addition, the administrative and regulatory burden imposed on CSOs diverts valuable resources away from strategic planning and the time to develop innovative initiatives.

The Victorian Government has recognised these issues and committed to building capacity of organisations to encourage innovation:

Action 17: Building capacity for Innovation and Growth –The Government will explore options to build capacity for innovation and growth in the sector through full or partial funding, engaging business and philanthropic organisations, and the use of three year service agreements.'¹⁶

Philanthropy can, and has, played a key role in funding innovative, higher risk initiatives and has complemented mainstream Government activity. This is discussed further in Section 3.8.

There is also a need to improve the evaluation of outcomes of innovative projects to understand what works and why. It is important that learnings are disseminated within the sector and across sectors to inform practitioners and decision makers. Given that philanthropy has played an important role in the trialling of higher risk initiatives, it is particularly important that there is good communication between the government and philanthropic sector in sharing evaluations and learnings.

Recommendations

22. Improve organisational capability to innovate

VCOSS recommends increased support for organisational capability in order to free up resources and allow organisations to be more innovative in service delivery. For specific recommendations on supporting increased organisational capability, refer to Section 3.2 and 3.5.

23. Improve access to funding and capital to trial innovative programs

VCOSS recommends that the government supports initiatives to improve access to funding and capital to trial innovative programs. Options to do this include:

- Government Innovation Funds;
- quarantining additional allocations in government service agreements for innovation.
- leveraging support from the philanthropic sector; and
- exploring relationships with the private sector for access to capital – see Section 3.9.

VCOSS believes that CSOs should have the capacity to innovate through more flexible government service arrangements. However, in the absence of reform to government funding arrangements, specific funding allocations for innovative programs is critical.

3.4 Government funding

Summary of recommendations

	Issue	Recommendation
24	Flexible Funding	Review government funding arrangements to reduce over-prescription of service delivery outputs and outcomes to allow CSOs greater flexibility in service delivery design to be responsive to local needs
25	Funding Levels	Establish pricing reviews and develop pricing frameworks to move toward adequate funding for the full cost of service delivery including dedicated funding for core operations in government funding arrangements
26	Annual Adjustments	Review government funding arrangements to ensure that CSOs are adequately funded for annual cost increases at a level that enables CSOs to compete effectively in the market for labour, goods and services

Overview of issues

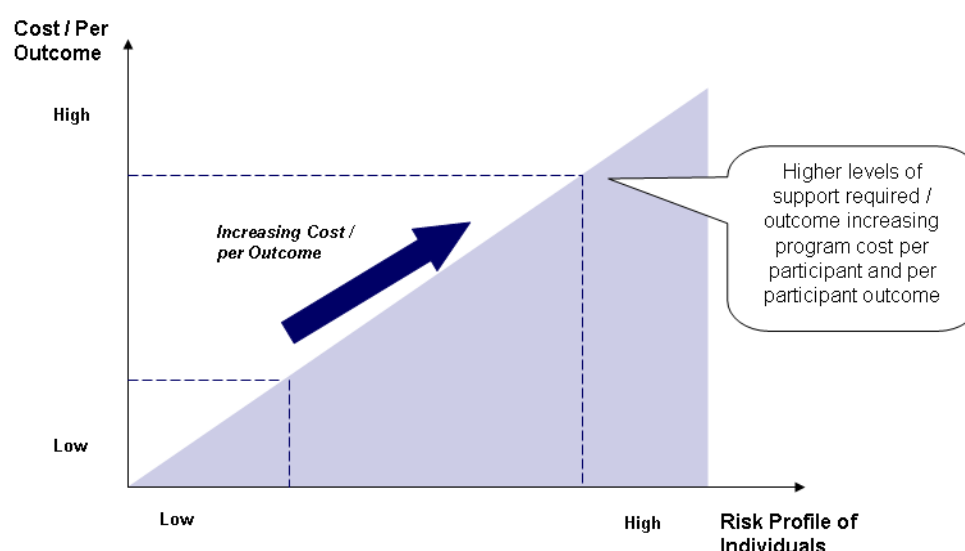
The Productivity Commission outlines a number of factors that impede efficient and effective service provision including:

- ❑ funding arrangements; and
- ❑ contract requirements.

VCOSS believe that reform of government funding arrangements is critical to enhance the efficiency and effectiveness of the community sector. Currently key constraints in government funding arrangements include:

- ❑ government funding is generally not segmented by target group and intervention model and as a result funding does not take into account variations in the level of resources required to support different programs (see Figure 13 below). Funding is often based on average cost per participant or a calculation that takes that into account. CSOs working with higher need or risk clients or issues or in regional and rural areas are likely to have a higher cost per participant or per participant outcome based on support requirements and service cost.

Figure 13 – Cost per outcome



- ❑ lack of flexibility in service delivery and deliverables at a local level - funding arrangements often over-prescribe service delivery targets and deliverables. This constrains the ability of CSOs to innovate and develop solutions that are responsive to local needs.
- ❑ inadequate funding to CSOs for full cost of service delivery – government funding agreements do not adequately cover the full costs of service delivery, particularly non-program (overhead) costs. Operating costs that are often under-funded or not funded at all include:
 - financial and accounting systems;
 - human resource development and training (paid and volunteers);
 - infrastructure development and maintenance;
 - compliance, quality assurance and evaluation;
 - knowledge and data management;
 - network development;
 - partnership development and maintenance; and
 - community strengthening and engagement activities.
- ❑ inadequate funding for annual cost increases – There are two elements in the case for adequate funding. First, there is the issue of getting the base price right so that it covers the full cost of service delivery. Secondly, appropriate price indexation must be applied to ensure that the value of the base price is not eroded over time. Without adequate indexation, the funds allocated at the beginning of a funding agreement will not be worth the same value over the life of the agreement and organisations will have to cut back on service delivery or subsidise government funding with other sources of funding.
- ❑ last year VCOSS commissioned the Allen Consulting Group to undertake an analysis of price indexation as part of negotiations for the 2009-2012 Funding and Service Agreements between the DHS and the health, housing and community services in Victoria.¹⁷ The report found that inadequate indexation did not allow CSOs to meet labour and operating costs and it recommended increased price indexation based on movements in the Wage Price Index (WPI) and movements in the Consumer Price Index (CPI).

While VCOSS welcomed an increase in price indexation for the 2009-12 funding period, this price index only applies to Department of Human Services and some Department of Education and Early Childhood Development funded organisations. VCOSS continues to advocate for a price index to apply across government to ensure all CSOs keep pace with rising costs. VCOSS believes that this issue should be addressed at a national level too.

- ❑ problematic risk management approach - changes in the delivery of community services toward an outsourced delivery model and competition policies have transferred greater risks to CSOs while increasing accountability requirements. While the application of new risk management business strategies in government funding agreements has reduced the risk exposure of governments to risks in service delivery some extent, it has been problematic for the delivery of community services, particularly in the case of health, community and family services.

Current risk management practices - that are based on outputs in precise terms within set timeframes - are problematic in cases of health, community and family services where outcomes are dependent on relationships rather than technical outputs.¹⁸ This issue is further exacerbated in the shift toward more preventative approaches in service delivery away from technical outputs. The limitations of output based funding for health, community and family services are well recognised

(see the findings of the 2002 the Victorian Parliament, through its Public Accounts and Estimates Committee)

These issues are further exacerbated by the complexities the CSOs are now facing in being contracted to deliver services through increasingly sophisticated governance arrangements, including networks and cross-disciplinary approaches, for example the CHILD First model introduced in 2007. Government risk management must recognise the complexity of what government is asking the CSO sector to achieve within highly complex service delivery arrangements. Government needs to move to modern thinking around risk management approaches to better recognize the challenges that CSOs face in solving long-term, complex social problems.

- ❑ Lack of clarity and understanding of why government funds the sector – does the Government fund the sector because it's a cheaper way to deliver services, or is it committed to the sector because of a genuine belief that the sector's role in working with and engaging communities, has a social value beyond a narrow view of program outcomes? Without clarity on why Government funds the sector, it is difficult for CSO and Government to build an effective partnership in the delivery of services.

Initiatives in Victoria

The Victorian Department of Human Services (DHS) has developed a Price Review Framework. Through this framework, the Government aims to identify the full cost of services, and to assess options for full and partial funding, as well as other contributions to the costs of service delivery.

The Victorian Price Review Framework provides a guide for program staff and service providers to use when prices are being reviewed to address the need for consistency and transparency during the review process. It includes:

- ❑ guiding principles for price review;
- ❑ factors to take into account to agree to a price review;
- ❑ price review methodology;
- ❑ a schedule of Victorian Department of Human Services program and outputs with their price review status listed;
- ❑ a price review tool which includes a cost analysis table; and
- ❑ a pro-forma for monitoring the price review process.

VCOSS has welcomed the development of the DHS Price Review Framework but we remain concerned that while significant resources are dedicated to the reviews there is no guarantee that full funding for the pricing outcomes of completed price reviews will be provided by government.

Recommendations

24. Increase flexibility in service deliverables in government funding arrangements

VCOSS recommends that government funding arrangements be reviewed to reduce over-prescription of service delivery and deliverables. This should allow CSOs to have more flexibility in service delivery and design to innovate and be responsive to local needs. VCOSS recommends the government establish a framework, in collaboration with the sector, to do this.

Increasing the flexibility of government funding arrangements requires a clear central policy framework with structures to enable effective planning and priority setting at the local level.

25. Adequately fund the full cost of service delivery and core operations

VCOSS recommends that government adequately fund the full cost of service delivery and / or provide dedicated funding for core operations of organisations. As a first step toward this, VCOSS recommends that the government conduct pricing reviews and develop pricing frameworks, at state and/or national levels, drawing on the experience in Victoria. These reviews would take into account the following costs in addition to service delivery costs:

- financial and accounting systems;
- human resource development and training (paid and volunteers);
- infrastructure development and maintenance;
- compliance, quality assurance and evaluation;
- knowledge and data management;
- development and maintenance of CSO networks;
- development and maintenance of partnering arrangements; and
- community strengthening and engagement activities

26. Adequately fund annual cost increases at a level that enables CSOs to compete

VCOSS recommends that the government develop a mechanism to determine annual cost increases to ensure that the funding CSOs receive keep pace with costs at state and federal levels.

27. Issue a statement to clarify why the Government values the CSO sector

VCOSS recommends the government issue a clear statement of its purpose in funding the sector to deliver services on its behalf. This statement would act as guiding principles for partnership arrangements between government and the community sector.

3.5 Regulation

Summary of recommendations

	Issue	Recommendation
28	National Framework	Establish a National Regulatory Framework for NFPs that streamlines and harmonises regulations for the sector across fundraising and charity gaming, incorporation, disclosure and reporting and tax concessions
29	Independent National Regulator	Establish an Independent National Regulator for the NFP sector, as endorsed by the Senate Inquiry 2008, to drive regulatory reform oversee regulation of the sector.
30	Fundraising Laws	Establish nationally consistent fundraising laws and establish a National Fundraising Act, with a referral of powers from states and territories to the commonwealth, as endorsed by the Senate Inquiry 2008 in its Final Report
31	Specialist Legal Structure	Develop an improved NFP Specialist Structure for NFPs through a referral of State and Territory powers, as endorsed by the Senate Inquiry 2008 at Recommendation 7 of its Final Report
32	Tiered Reporting	Establish a tiered reporting system based on size be established under the legislation for a specialist legal structure, in line with the Senate Inquiry 2008 Recommendation 10 of its Final Report
33	Chart of Accounts	Establish a Standard Chart of Accounts for use by all departments and NFPs, as endorsed by the Senate Inquiry 2008 at Recommendation 12 of its Final Report
34	Charity Definitions	Simplify and modernize charity definitions, in line with the Charities Inquiry 2001 Recommendation 13 of its Final Report
35	Advocacy Activities	Reform charity laws to which the extent to which charity may engage in advocacy activities without jeopardizing charitable status, in particular
36	Taskforce	Establish a Taskforce to implement the recommendations of the Senate Inquiry 2008, as recommended by the Senate Inquiry 2008 Recommendation 15 of its Final Report

Overview of issues

While recognising the importance of accountability and regulation of the NFP sector, VCOSS contends that the current level of and complexity in regulatory and taxation arrangements for CSOs is burdensome and inefficient. As outlined in the Commission's *Issues Paper*, there have been a number of reviews and inquiries at both national and state levels regarding regulation. VCOSS believes that the Productivity Commission should draw together existing recommendations and seek the implementation of key recommendations as a matter of urgency, particularly regarding regulation and taxation.

Regulation

The regulatory and administrative burden imposed on NFPs is a well documented issue and VCOSS will not go into more detail about these issues in this submission. A brief summary of pressing regulatory issues outlined by the Public Interest Law Clearing House (PILCH) is as follows:

- (a) multiplicity of NFP regulation and regulators causes inconsistencies, duplication and confusion and is far more complex than the regulatory framework for business;
- (b) existing disclosure regimes do not provide information that is of real interest to NFP stakeholders – information such as the number of members and volunteers, financial position including sources of funding and fundraising expenses, any remuneration of directors and narrative information about the NFP's objectives and activities – which is exacerbated by the lack of an NFP-specific accounting standard;
- (c) to incorporate, an NFP currently has to choose between an incorporated association – which limits the NFP's activity to one State – or a public company limited by guarantee – which carries with it the often prohibitive expense of a full annual audit; and
- (d) the current tax treatment of NFPs is overly complex, and the recommendations of the Charity Definition Report (2001) have been ignored.¹⁹

For small to medium NFPs the impact of these issues is even greater given their scarce financial resources.

Taxation

Definition of Charities

There is a need for a clear and consistent rationale for charity definitions and taxation concessions. The definition of charity is unclear and outdated. The distinction between charities and related organisations is confusing and outdated. There is little understanding of the distinction between a charity, a Public Benevolent Institution (PBI) and other non-profit organisations.

In particular, the definition of a PBI needs to be updated as it currently requires that the organisations dominant purpose is providing benevolent 'relief'. The focus on 'relief' means that organisations which also provide education, training and advocacy for example, are unable to qualify. The 'prevention' of poverty is not generally regarded by the courts as an appropriate purpose for a PBI.²⁰ The law pays too much attention to how services are provided rather than their main purpose. This has the effect of excluding organisations whose main activity is prevention and promotion, policy development, research and advocacy, and support for direct service providers, even where this work aims to improve the circumstance of vulnerable and disadvantaged people. Many PBI that assist disadvantaged people but are not, or no longer, predominantly engaged in direct service delivery are at risk of losing their deductible gift resiliency and FBT-exempt status. While there have been partial responses by government, these have created arbitrary and inconsistent access to gift deductibility for health and welfare organisations.

Charities and advocacy

The law places constraints over the extent to which a charity may engage in advocacy activities and receive charitable status. Under a complex set of rules, NFPs whose *primary purpose* is legislative change cannot be granted charitable status. However, NFPs seeking legislative change that is *incidental to or helps further* other charitable purposes may be granted charitable status.

Charities that engage in advocacy to benefit the groups or communities they serve play an important role in policy development and public debate. Judgments have failed to make a crucial distinction between engaging in public debate as a means to achieving a charitable purpose and political activity generally.

VCOSS highlights *Changemakers Australia*'s articulation of the current challenges in this area:

'Currently two major legal and/or administrative impediments limit advocacy for public policy reform:

- ❑ the current definition of 'charity'. Organisations advocating public policy reform may not be given the status of a charity because their purpose or activities may be considered to be political on the grounds that they seek to change legislation or government policy or to promote a view on social or political issues.
- ❑ the current definition of Public Benevolent Institutions (PBIs), one of the major categories of organisations eligible to receive tax deductible gifts under income tax law, requires an organisation to be providing 'direct relief' and advocacy is not considered to meet that requirement.

There are three consequences of these limitations for organisations advocating public policy reform:

- ❑ such organisations are unlikely to obtain the taxation benefits associated with Tax Concession Charity (TCC) and/or Deductible Gift Recipient (DGR) status.
- ❑ such organisations are excluded from receiving philanthropic funding from trusts or foundations which require grant recipients to have TCC and/or DGR status as well as receiving funding from individuals who seek a tax deduction for their gift.
- ❑ even where an NFP has charitable status, philanthropic trusts and foundations are reluctant to fund advocacy for public policy reform for fear of losing their own charitable status.²¹

The 2008 Senate Standing Committee on Economics 'Inquiry into disclosure regimes for charities and NFP organisations' (Senate Inquiry 2008) notes that many organisations supported broadening the definition of what is considered a charitable purpose, for a number of reasons:

'If you go back to what is the charitable purpose, it is actually something that is not for private benefit but for public purpose, then philosophically and personally I would say that political debate, in the way we have it in a democratic country, is of public benefit, and the evidence for that is in all the countries that do not have it. In that sense, I would probably prefer a broader approach.'

'..if planting trees is for public benefit and therefore is a charitable purpose, then surely stopping them from being knocked down is a public benefit. It just does not make sense otherwise.'

'[I]n broadening that definition we should be able to allow not-for-profit organisations, and philanthropic organisations which fund them, to more effectively address discrimination and disadvantage and work towards greater equity through undertaking a range of activities which assist them to fulfil their charitable purpose.'²²

Victorian initiatives

VCOSS refers the Productivity Commission to the recommendations of two major reviews in Victoria to reduce the regulatory and administrative burden:

- ❑ Strengthening Community Organisations Project (SCOP) 2007; and
- ❑ The State Services Authority Review (SSA) 2007

VCOSS highlights the recommendations made by the Victorian SSA Review 2007 to reduce the regulatory burden:

- ❑ reform the Associations Incorporation Act and related reporting framework for NFPs;
- ❑ simplify fundraising regulation;
- ❑ streamline service agreements and minimize undue burden from changes to legislation and quality standards on service providers;
- ❑ streamline grants and develop whole-of-government guidelines, consistent application and acquittal processes and adopting a Standard Chart of Accounts;
- ❑ improve regulatory support and develop an online functionality for interacting with government and improving the provision of compliance advice;
- ❑ lead national reform requiring engagement or agreement of other jurisdictions.”²³

The Victorian Government has incorporated some of these findings into the *Victorian Government's Action Plan: Strengthening Community Organisations* which outlines a number of reforms around regulation (Action 1 – 11), in particular:

Action 2: Review of audit requirements – Consumer Affairs Victoria (CAV) will review audit requirements for NFP organisations, including setting out options for raising audit thresholds.

Action 3: Regulatory consistency - The government will work with community organisations and the Commonwealth Government to develop a regulatory framework which is appropriate for both large and small NFPs.

Action 4: Amendments to trading and model rules - Model Rules under the Associations Incorporation Regulations 1998 will be simplified. The AIA will be amended to provide greater operational flexibility to incorporated associations.

Action 5: Additional administrative reforms - CAV will undertake a series of other amendments to the AIA to further reduce administrative burdens on the sector, by improving internal grievance procedures, emerging the roles of Public Officers and Secretaries and allowing small associations to apply for voluntary cancellation.

Action 6: Update of the Fundraising Appeals Act - government will introduce a number of regulatory reforms to streamline and modernise the registration practices for NFP fundraising organisations. In addition, the definition of fundraising will be updated; and CAV will lead efforts to identify current exemptions to fundraising registration requirements.

Action 7: Enhancing regulatory awareness and engagement - This Action is specifically designed to enhance engagement between service providers and government on changes to the regulatory environment.

Action 8: Enhanced regulatory support - CAV in consultation with the Office for the CSO sector will investigate the provision of additional regulatory support to the sector.

Action 11: Inter-governmental collaboration and reform - the government is strongly committed to pushing for national reform to harmonise legislation impacting the NFP sector. The government will present to the Council for Australian Federation an overview of the proposed NFP regulatory reforms in Victoria and seek agreement on priority areas of harmonisation²⁴

VCOSS also draws the Commission's attention to the Victorian Government's *Reducing the Regulatory Burden* initiative, which is a commitment to reduce the administrative burden of State regulation on businesses and NFPs by 15 per cent over three years and 25 per cent over five years from 1 July 2006. In the 2007-08 Progress Report, this initiative is reported to have reduced a net reduction in the administrative burden based of \$162 million p.a.²⁵

While various initiatives by the Victorian Government are a step in the right direction, there is still a lot of work required at a state level and need for national reform.

Recommendations

28. Establish a clear national regulatory framework for NFPs

VCOSS recommends that a national regulatory framework for NFPs be established to streamline and harmonise regulations, particularly across:

- Fundraising and charity gaming;
- Incorporation;
- Disclosure and reporting regimes and related data collection; and
- Endorsement as a 'charity' for the purposes of Federal and State concessions.²⁶

29. Establish a national independent regulator for NFP sector

VCOSS supports the Senate Inquiry 2008 Recommendation to establish a single independent national regulator for NFPs. The Inquiry into the Definition of Charities and Related Organisations 2001 (Charities Inquiry 2001) also recommended the establishment of independent administrative body for charities in recommendation.

VCOSS supports a national independent regulator as it has the main advantage of being a specialist body designed to meet the unique needs of the NFP sector. It will also play an important role in overseeing the introduction of a national regulatory framework that harmonises regulations across jurisdictions.

A national regulator, with a register of NFP and regularly updated reports, will assist Government in collecting information when seeking to work with NFPs.

VCOSS endorses the rationale outlined for an independent national regulator in the Pilch Submission to the Commissions' current study:

'...the wide variety of legal structures and inconsistent disclosure regimes make the non-profit sector challenging to administer and challenging for the public to understand'

'Federal bodies such as the ATO and ASIC are not in the best position to regulate the sector and nor do they want to. Currently the ATO has de facto responsibility for the regulation of the sector given its role in determining charity status amongst NFPs, and assessing their eligibility for tax concessions. While the latter function is one that falls within the ATO's mandate of protecting Australia's revenue base, we

submit that the initial classification of charity status should be performed by a body that is independent from the ATO.

ASIC finds itself in a position where, again by default, it is required to oversee the relatively small proportion of NFPs that are incorporated as companies limited by guarantee. ASIC is not an ideal regulator for the NFP sector given its primary focus is on the for-profit sector which poses very different challenges to the regulation of community-based NFP organisations. The result is that many NFPs find ASIC to be inaccessible to non-business people and an inappropriate regulator for the NFP sector.

An independent national regulator which has a public education and training support function in addition to its regulatory responsibilities will go far to reduce the level of confusion currently within the sector. This proposition is not a new suggestion, and was recommended to respective governments in both 2001 and 2008.

There is clearly a demand from the NFP sector for an independent body with sole responsibility for the administration and regulation of the NFP sector.²⁷

VCOSS emphasizes that a National Regulator should be closely linked to other broader government policy frameworks (for example service delivery reforms) to ensure that regulatory reform through an independent regulator does not become siloed from other related reforms in Government.

30. Develop nationally consistent fundraising laws

VCOSS supports the Senate Inquiry 2008 Recommendation 9 for a National Fundraising Act, with a referral of powers from states and territories to the Federal Government. It is vital that a national approach be taken given the environment of neglect at a state and territory level in fundraising reform to date. Even where there has been progress at a state level these reforms will be piecemeal if undertaken in different jurisdictions in an uncoordinated way.

31. Adopt an improved NFP specialist structure

VCOSS supports the Senate Inquiry 2008 Recommendation 7 that an improved specialist legal structure be adopted for NFPs through a referral of state and territory powers, in consultation with organisations. An improved NFP Specialist structure would involve simplified structures for organisations to incorporate as an NFP and expand operations across state and territory borders or amalgamate with another group.

32. Establish a tiered reporting system

VCOSS supports the Senate Inquiry 2008 Recommendation 10 that a tiered reporting system based on size be established under the legislation for a specialist legal structure.

VCOSS endorses Pilchconnect's recommendation in its submission to this study:

'That a tiered regime of reporting obligations based on size should be introduced, with full auditing only being required from larger NFPs. Those NFP's with annual revenue of, say, less than \$500,000, should only be required to report in accordance with a standard that is simplified and tailored to the needs of NFP stakeholders. Filing fees should be modest and again, a sliding scale based on

size should be introduced. More work needs to be done to test what are the most appropriate thresholds in the light of the size of those organisations currently on the ASIC and state-based incorporated associations' registers.'²⁸

33. Establish a standard chart of accounts

VCOSS supports the Senate Inquiry 2008 Recommendation 12 for the Commonwealth Government to work with the sector to implement a standard chart of accounts for use by all departments and NFPs as a priority.

34. Simplify and reform definition of charity

VCOSS recommends reforming and modernising the definition of charity in line with the Charities Inquiry 2001. In particular, adoption of Recommendation 13 of the Charities Inquiry 2001 will allow for the inclusion of organisations that focus on preventative measures and human rights.

Further, VCOSS recommends rationalising the categories of charity, public benevolent institutions and other NFPs. VCOSS supports a three tier classification structure upon which Government regulation and access to tax and other concessions could be based, as proposed by the Charities Inquiry 2001. The Government must establish how each category of not-for-profit should be treated in relation to the various types of concessions available at the federal and state levels within a consistent and clearly articulated framework. VCOSS believes that the most generous concessions, such as FBT Exemptions and DGR Status, should be restricted to Benevolent Charities.²⁹

35. Clarify law in relation to the advocacy activities of charities

VCOSS recommends that charity law be reformed to allow "NFP organisations with a dominant purpose that is charitable, altruistic and for the public benefit to be able to engage partly or entirely in advocacy for public policy reform in support of that purpose, while at the same time (a) meeting the requirements of a charity and (b) being able to qualify as a PBI" (as proposed by Changemakers Australia).³⁰

36. Establish a taskforce to implement the recommendations of the Senate Inquiry 2008

In line with the Senate Inquiry 2008 Recommendation 15, establish a Taskforce for the purposes of implementing the recommendations of the Senate Inquiry 2008 Report.

3.6 Accountability and reporting requirements

Summary of recommendations

	Issue	Recommendation
37	Accountability and Reporting	Standardise and simplify Government accountability and reporting requirements in Government service agreements to: a) streamline administration; and b) support more structured data collection and evaluation activity across the CSO sector.
38	Interoperability	Resource a collaborative project to develop an interoperability framework to encompass performance monitoring and quality assurance processes.

Overview of issues

A key constraint for the CSO sector is the compliance burden caused by multiple quality standards, accreditation systems, data collection and reporting required by government funding and service agreements.

Many agencies are funded by more than one government program. This means CSOs often have multiple reporting obligations. Different programs may use different service monitoring information systems so agencies need to collect and report on multiple yet often near-identical datasets. This is a significant compliance burden that draws resources from core service delivery. The Victorian Government's Stronger Community Organisations Project: Report to the Steering Committee noted that:

'Juggling different funding amounts, objectives, timeframes and associated reporting requirements is an administrative challenge which impedes focus on the primary purpose of the organisation. Meeting multiple quality standards and managing risk adds to this complexity.'³¹

A similar problem occurs with quality reporting. Each funded program uses one of a number of different quality assurance frameworks, forcing many agencies to report against a number of similar but distinct sets of criteria. VCOSS members have to manage multiple reporting and monitoring frameworks for government funding, with some having up to twenty-one separate requirements to the one department.³²

This multiple data handling problem could be greatly relieved by a combination of standardisation of data and quality reporting requirements and the development of an interoperability framework to enable data to be recorded once but used multiple times as required. Interoperability is a quality of an information system that enables data captured for one particular purpose to be subsequently exchanged or re-used for other purposes.

Victorian initiatives

VCOSS refers the Productivity Commission to the recommendations of two major reviews in Victoria which looked at reducing the burden of compliance on CSOs:

- ❑ Strengthening Community Organisations Project 2007; and
- ❑ State Service Authority Non-Profit Regulatory Review 2007.

The Victorian Government has recognised some of the compliance challenges in the *Strengthening Community Organisations Action Plan*:

Action 1: Reducing the burden of reporting - The Government will investigate options to streamline the process for community organisations to submit annual financial statements. Options may include the use of online technology.

Action 9: Ensuring service agreement consistency - Departments will jointly explore opportunities to drive greater consistency in service agreements and accreditation systems by aligning quality and accountability requirements. In particular:

- ❑ establish minimum data requirements for effective performance monitoring;
- ❑ review the data that service providers are required to collect against the minimum data requirements and rationalise reporting accordingly; and
- ❑ establish regular reporting of data back to each reporting organisation.

Action 10: Grants reform - Department of Treasury and Finance and Department of Planning and Community Development will investigate the feasibility of streamlining the financial and accounting terms used in discretionary grant agreement reporting and will promote the use of a standard chart of accounts and data dictionary by grant applicants.

Further, the Department of Treasury and Finance (DTF) and The Victorian Department of Planning and Community Development (DPCD) are investigating the feasibility of streamlining financial and accounting terms used in discretionary grant agreement reporting. The Government is also starting to promote the use of a standard chart of accounts and data dictionary for grant applications.

VCOSS also highlights the work that is being undertaken by the Victorian Government. The Department of Justice (DOJ), Department of Human Services (DHS), Department of Planning and Community Development (DPCD) and the Department of Education and Early Childhood Development (DEECD) to explore opportunities to drive greater consistency in service agreements and accreditation systems by aligning quality and accountability requirements. For example, the DHS Business Development Branch is undertaking a project to determine how best to streamline quality systems across all relevant DHS program areas. In addition, DHS is also undertaking work to develop single funding agreements with Aboriginal Organisations where standard terms and conditions in all agreements will be used.

VCOSS has also established an *Interoperability Working Group* (IWG) to clarify the specific issues around data and information systems and (hopefully) work with government to implement appropriate reforms. To date the VCOSS Interoperability Working Group has been funded by private donors and in-kind contributions from community CSOs. There is a great need for government funding and support for sector leadership of and engagement with this essential work.

The national evidence-based reform agenda within the Australian CSO sector requires investment in ICT infrastructure at both sector and individual agency levels that exceeds the resources currently available to CSOs. Such investment must take into account national approaches to interoperability such as those been pioneered in the sector through pilot projects like the *Better Integrated Standards and Quality Assurance Systems Project* (funded by the Victorian Department of Planning and Community Development and involving MacKillop Family Services, Connections Uniting Care and the Children's Protection society in partnership with the e-scholarship Research Centre at the University of Melbourne).

It must be recognised that the value of such investment is not limited to productivity improvements; consolidating ICT and partnership infrastructure also strengthens the knowledge and governance capacity of the community sector and consequently its ability to give voice to the needs of vulnerable and disadvantaged citizens.

Recommendations

37. Standardise and simplify government accountability and reporting requirements

VCOSS recommends that Government work to standardize and simplify accountability and reporting requirements to:

- ❑ streamline administration for CSOs;
- ❑ support more structured data collection and evaluation activity across the CSO sector.

38. Collaboratively develop an Interoperability Framework

VCOSS recommends that the Federal Government resource and participate in a collaborative process — involving state and commonwealth governments and CSOs as equal partners, and drawing on expertise from the academic sector and ICT industry — to develop an interoperability framework for service data and quality monitoring systems to operate within. This project should draw on existing innovative projects and should also facilitate access by CSOs to sufficient resources to establish and maintain the necessary ICT infrastructure.

3.7 Partnerships with government

Summary of recommendations

	Key Issue	Recommendations
39	Government Structures	Establish appropriate government structures (departments / agencies / units) to: a) Improve the relationship between CSOs and government, and b) Effectively drive the coordination and implementation of policy priorities for CSO sector across whole of government.
40	Formal Agreements	Encourage the establishment of formal partnership arrangements, where appropriate, between government and the community sector to improve government engagement with CSOs, drawing on success of Victorian Human Services Partnership Agreement.

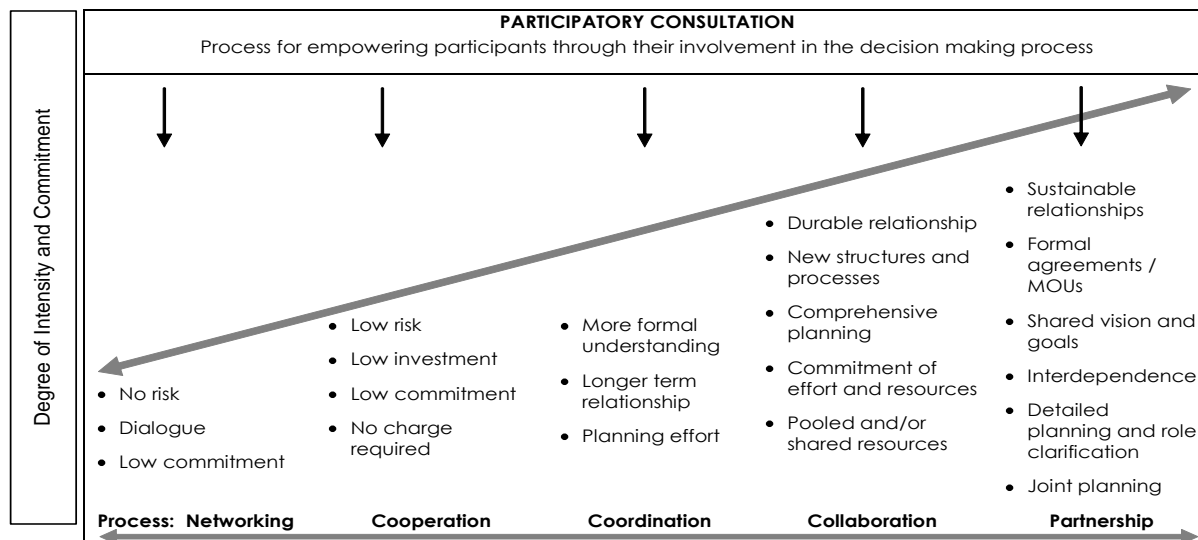
Overview of issues

While the Commission does not explicitly invite comments on partnerships between community agencies and community agencies and government, VCOSS considers this to be a critical issue for the study. CSOs engage in partnership arrangements with various tiers of government at local, state and federal levels. Effective partnership and collaborative arrangements between CSOs and government are critical to improving the delivery and outcomes of community services. This section deals with partnerships at state and federal government levels. Partnerships with local government are also critical for CSOs but VCOSS has not consulted widely on this issue as part of this process.

Since 2000 there has been an increase in the focus of partnerships and network governance as a conduit for service provision in Victoria. There is a greater emphasis placed on cooperation and collaboration in planning and service delivery by organisations to achieve improved service system coordination. This approach can yield significant benefits to the integrated planning of policy, procedures and systems which is in the interests of those accessing services.

It is important to recognise that there is a spectrum of partnerships and networks that lie along a 'continuum' with progression based on the degree of commitment, change required, risk involved, levels of independence, power, trust and a willingness to share 'turf' (see Figure 14). Different types of partnerships and collaboration are required to achieve different outcomes and each have different resource requirements. This needs to be better understood by government in planning, developing and resourcing partnership arrangements.

Figure 14: Partnerships along a continuum



@ Success Works 2002

This diagram indicates that not all situations require a full partnership. There may be some partnerships at the 'networking' end of the spectrum, whilst others may be more resource intensive at the 'partnership' end of the spectrum. The type of partnership, and the associated resources, needs to be clearly defined and understood by all stakeholders to ensure greater success.

Successful partnerships usually share a set of common traits which should be taken into account in the funding and development of partnering arrangements by Government. A recent evaluation of partnerships between CSOs and Victorian Department of Human Services, indicated that successful partnerships evidenced the following traits:

- shared vision and goals;
- trust;
- similar philosophical base;
- respect for and understanding of differences between members;
- equality and mutual accountability that allows for balanced involvement and shared workload between partners;
- clear purpose for working together and links with other programs;
- commitment to the partnership and desire to succeed across all levels of membership;
- clear roles and responsibilities for all members;
- communication that is two way and transparent;
- systems for managing difficulties and challenges;
- agreed evaluation and reporting mechanisms;
- having the right people at the table with suitable knowledge, authority and expertise;
- sufficient resources, including time and skills for the partnership and for members to participate;
- efficient and effective use of resources;
- follow through on actions by all members;
- flexibility and allowance for informal practice; and
- partners having a history of working together.³³

In Victoria, there are a number of initiatives underway which aim to enhance CSO and government partnerships.

Human Services Partnership Agreement

The Human Services Partnership Agreement (HSPA) was first signed in 2002 and was designed to improve the way the Victorian DHS engages with community service providers and advocacy groups. This partnership framework formally recognises that partnering is a collaborative arrangement between government and the sector, is based on mutual respect and acknowledges the different and complementary roles and responsibilities of each of the partners. The Human Services Partnership Implementation Committee (HSPIC) was established in 2004 to assist the development of the partnering framework and to play a role in evaluating the partnership.

HSPA is designed to strengthen and improve services to achieve better outcomes for the community and to build a more integrated service system in Victoria. The HSPA 2005-2008 agreement sought to progress work on five partnership priority areas: sector viability, sustainability, improved services around person and place, creating a partnership culture and shaping policies and priorities. A workplan is being developed for the most recent agreement, now called a Memorandum of Understanding.

A key outcome from HSPA has been a more collaborative approach between DHS and CSOs. DHS funded CSOs in Victoria have largely welcomed the partnership as a way of working that is more constructive and respectful. The value of the partnership was highlighted in a recent evaluation of the partnership which found:

‘Strong support for the need to form partnerships between CSOs and DHS programs for increased service integration and better outcomes for Victorians accessing services.’

‘All regions identified significant benefits in partnering for individual CSOs and the broader service sector.’³⁴

Specific achievements include of the *HSPA* include:

- ❑ a consultation and collaboration protocol which advances the way parties to the Partnership agreement collaborate and consult to plan and deliver high quality services;
- ❑ clearer negotiation arrangements on key issues around funding and service agreements, including:
 - securing three year funding agreements which enabling CSOs to place greater emphasis on planning, collaborative problem solving and continuous improvement; and
 - the development of a Price Review Framework that acts a guide for program staff and service providers to use when service prices are being reviewed to improve transparency and consisting in the price review process. A significant achievement being the principle that price reviews will take into account the full costs of delivering services.
- ❑ the bi-annual Secretary’s Partnership Forum convened by the Secretary of DHS provides an opportunity for peak and statewide organisations and senior Departmental staff to meet together to exchange information and discuss program developments.

Office for the Community Sector

The Office for the Community Sector (OCS) was established in 2008 and is regarded as a key step toward improving the partnership between government and the NFP sector in Victoria. The OCS was established to lead the coordination and implementation of policy priorities affecting the NFP sector across the whole of the Victorian Government. The

need for the OCS was a key issue raised by the CSO sector in the Stronger Community Organisations Project (SCOP) and VCOSS commends the Victorian Government for establishing the office.

The OCS has responsibility for implementing the *Victorian Government's Action Plan: Strengthening Community Organisations* which was released in April 2008. The objectives of the Action Plan are:

- ❑ to simplify and streamline Government's interactions with not-for-profit (NFP) community organisations; and
- ❑ to enable NFP community organisations to invest in their own capabilities and long term sustainability.

The 25 actions in the Action Plan are grouped under the following five themes:

- ❑ reducing red tape for NFP community organisations;
- ❑ building the capacity of community organisations;
- ❑ supporting innovation and growth;
- ❑ enhancing NFP community organisations in local community life; and
- ❑ engaging with the NFP community sector and coordinating efforts across government.

The OCS has established several working groups to progress this work with representatives of the NFP sector and other stakeholders:

- ❑ NFP Reference Group;
- ❑ Regulatory Reform;
- ❑ Grants Reform;
- ❑ Service Agreements;
- ❑ Workforce;
- ❑ Workforce Capability Framework; and
- ❑ Support Services & Networks.

VCOSS supports the work of the OCS and recognises that the Office has a significant task leading and coordinating the implementation of the Action Plan across the whole of the Victorian Government. There is a need to develop an implementation strategy, in consultation with the community sector to accompany the Action Plan with a clear timeframe for achieving milestones, with monitoring and evaluation processes.

Recommendations

39. Establish government structures to enhance CSO - government partnerships

VCOSS recommends that state governments establish structures and establish appropriate mechanisms (i.e. departments/agencies/units) to:

- ❑ improve the relationship between CSOs and Government, and
- ❑ effectively drive the coordination and implementation of policy priorities for CSO sector across whole-of-government.

VCOSS draws the Commission's attention to progress made in Victoria in establishing the Office of the CSO sector (OCS) in 2008

40. Encourage formal partnership agreements between governments and the community sector

VCOSS recommends encouraging the establishment of formal partnership arrangements, where appropriate, between state government departments and the community sector to improve Government engagement with CSOs.

VCOSS draws on the positive experience of the Human Services Partnership Agreement (HSPA) between DHS and CSOs as a good example of formal partnership arrangements that may be relevant for other jurisdictions.

3.8 Philanthropy

Summary of recommendations

	Issue	Recommendations
41	Transparency Requirements	Establish minimum transparency requirements for philanthropic donations that receive tax benefits to make it clear a) who is the donor b) who is the recipient c) geography d) target group e) activity issue / area and f) the public benefit intended.
42	PPF Expenditure	Establish threshold expenditure level requirements for Prescribed Public Funds to ensure that donations with tax benefits are reaching society for the intended public benefit.
43	Information on Philanthropy	Explore ways to increase accessibility of information on philanthropic sector to CSOs, including: a) requirements for public contact points for philanthropic donations with tax benefits; and b) more affordable / subsidized public directories.
44	CSO Provisions Gift Deductibility	Publish on the Australian Tax Office Website the CSO Provision for Gift Deductibility (i.e. whether a CSO has Gift Deductibility Status Item 1 or 2 to improve information available to philanthropists in grant-making.

Overview of issues

As outlined in the Introduction, VCOSS believes that the contribution of the NFP sector cannot be looked at in isolation. The effectiveness and efficiency of the sector is affected the operations of other sectors, including the philanthropic and business sectors. The following two sections address some of the issues arising from the relationships formed between CSOs and the philanthropic and business sectors which should be addressed as part of the Commission's study.

Government is primarily responsible for the core funding of community services in Australia. However, the philanthropic sector plays a significant role in funding CSOs where government funding is not available or falls short of the full costs of service and program delivery. In particular, philanthropy has a strong role in funding:

- ❑ innovative, higher risk initiatives that complement core services. The rising complexity of social problems in modern society requires innovative solutions, which Government may not be well placed to trial or pilot;
- ❑ activities that will improve outcomes for the community but are not direct service delivery, including evaluation, policy development, capacity building, research and advocacy;
- ❑ programs that assist the community to access and engage with government funded services.³⁵

There has been a shift to more strategic and engaged philanthropic giving in Australia in recent times. However, there is a need for better coordination across the philanthropic, Government and the CSO sectors. Coordination is beneficial as it brings together, and unites, a variety of experiences, knowledge and resources to meet community needs. Government and CSOs cannot be expected to achieve social outcomes alone. Greater collaboration between government and philanthropy would also help to enhance information exchange about community needs and funding gaps.

Two examples of collaboration between philanthropy and government in Victoria include:

- ❑ *Social Traders* – This initiative was established in late 2008 and is the result of collaboration between the Victorian Government, a private family trust and a consortium of CSOs. Social Traders aims to create an environment for social enterprises to grow and be sustainable. It aims to develop the skills base of grass roots social enterprises and engage the corporate and philanthropic sectors to contribute skills, expertise and resources to emerging social enterprises.
- ❑ *The Victorian Aboriginal Economic Development Group* - This group provides advice to the Ministerial Taskforce on Aboriginal Affairs and brings together public, private and philanthropic sectors in partnership with Indigenous communities. It has been formed to explore options to close the economic gap for Indigenous communities in Victoria and examine ways to improve the transition of young Indigenous people from schooling to further education and training and employment. The selection of its members from various sectors is designed to assist in engaging the community and employers and government in the development of these solutions. It includes high level recognition by government that “improving Indigenous economic outcomes is not something that government can achieve alone.”³⁶

VCOSS is concerned that there is a lack of transparency in allocations of philanthropic funding, with few requirements for philanthropists to declare who is donating, to whom and for what purpose. Philanthropists can make donations and receive tax benefits without any requirement to communicate to the public how the donation will benefit the community. VCOSS believes that there should be some accountability mechanisms to accompany a tax exemption.

In addition, there are no minimum spending requirements of Prescribed Private Funds (PPF).³⁷ This means there is little incentive for funds to be released from PPFs to the community for the intended purpose. Given PPFs receive tax benefits for contributing to broader public good, the failure of funds to reach the public is problematic. This issue should be a priority area for action given PPFs are the fastest growing form of philanthropy in Australia.

There are also constraints in CSOs being able to easily access information on the philanthropic sector. It is often difficult to find a public contact point for philanthropists. Public directories of philanthropic funds often have a charge associated with them constraining CSO access to information in cases where this is not affordable.

A significant constraint for philanthropists is the lack of information on CSO provisions for Gift Deductibility. Philanthropists require information about an organisations provision for gift deductibility when making a donation i.e. whether it is endorsed as DGR Item 1 or 2 in section 30-15 of the Income Tax Assessment Act 1997. Many grant-makers are limited to giving to organisations with a certain type of DGR status. In particular, Prescribed Private Funds (PPFs) can only provide funding to organisations with DGR Item 1 status. Information about whether an organisation has a DGR Item 1 or 2 status is not available on the Australian Business Register (ABR).

Recommendations

41. Establish minimum transparency requirements of donations with tax benefits

VCOSS recommends that the government establish minimum transparency requirements for philanthropic donations that receive tax benefits that outline:

- ❑ Who the philanthropic donor is;
- ❑ who the recipient organisation is;

- where the organisation is located;
- target client group;
- activity issue / area; and
- the public benefit intended.

This is to ensure accountability to the public for the tax benefit and also to improve information on funding flows.

42. Establish threshold expenditure requirements for PPFs

VCOSS recommends that a minimum threshold spend for PPFs be established to ensure that funds are reaching the community for the intended public benefit.

43. Explore ways to increase accessibility of information on philanthropic sector to CSOs

VCOSS recommends that the Government explore ways to increase accessibility of the philanthropic sector through:

- requirements for public contact points for philanthropic donations with tax benefits; and
- subsidised / low cost public directories of philanthropic grants.

44. Publish CSO provision for Gift Deductibility on ABR website

VCOSS recommends that information on CSO Provision for Gift Deductibility - i.e. whether it is endorsed as DGR Item 1 or 2 in section 30-15 of the Income Tax Assessment Act 1997 – be made available on the ABR website to assist philanthropists in decision making.

3.9 Business sector

Summary of recommendations

	Issue	Recommendation
45	Targeted Volunteering	Invest in and support the expansion of Targeted Volunteer Programs with the business sector.
46	Social Procurement	Expand social procurement schemes that incentivise and require business to provide pro-bono services in legal, accounting, finance and HR

Overview of issues

In Australia, there has been a trend toward increased community and business partnership arrangements. In a survey of the ways in which NFP organisations in Australia mobilise resources, 39% of respondent organisations reported at least one partnership with a business organisation.³⁸ Partnerships can involve small medium or large businesses teamed with small, medium or large NFP organisations.

There is a current trend away from ad hoc corporate philanthropy towards more strategic community investment. Strategic community investment involves businesses creating 'shared value' with the community while at the same time producing strategic competitive advantage as part of corporate social responsibility programs.³⁹

There are a variety of models of engagement between businesses and CSOs ranging from one off transactional arrangements to more strategic partnerships including:

- ❑ cash donations: the traditional and most common form of corporate giving. In 2005, it was estimated that 68% of corporate giving was in the form of direct financial donations.⁴⁰
- ❑ non-financial resource sharing: donations of goods and services to local community groups or projects, estimated to comprise 16% of corporate giving;⁴¹
- ❑ employee volunteer programs comprising:
 - non-targeted: an 'extra pair of hands' type of volunteering for example working bees.
 - targeted (may be classified as):⁴²
 - pro-bono assistance – where a business donates a service through its skilled work force, such as legal, financial or IT skills.
 - capacity building volunteering - focuses on transferring skills rather than providing skills. It can involve one-off projects, project based part-time assignments, regular ongoing commitments and/or full time secondments

The needs and capacities of both the business and the CSO are important in determining which modes of engagement are most appropriate.

Barriers and success factors of Corporate Social Responsibility programs

A recent VCROSS report on Corporate Social Responsibility (CSR), highlights the following barriers and key success factors in the implementation of effective CSR programs⁴³:

1. Barriers to implementing CSR programs

- ❑ lack of capacity: of both CSOs and corporations in terms of personnel, infrastructure / technology and the financial cost;
- ❑ lack of experience: many CSOs without experience of CSR engagement are not actively pursuing it as an option; and
- ❑ difficulty in finding partners: CSOs have at times found it difficult to find corporate partners. Partnerships are often instigated by business rather than CSOs.

2. Key success factors of CSR programs

- ❑ planning: both CSO and business need to have a clear understanding of the objectives of the CSR relationship;
- ❑ corporate leadership: involvement by senior management in the business sends a clear message to staff that the company is committed to the CSR program. This is important in enhancing staff commitment to volunteering; and
- ❑ measurement: mutually agreed measurement of CSR programs to ensure that the program is working.

There have been mixed experiences with Employee Volunteer programs. A recent VCOSS Report on CSR highlights the following:⁴⁴

- ❑ while volunteering has the capacity to provide great value to business partners, employee volunteers and CSOs, if implemented badly the program has the potential to drain resources and be counter productive;
- ❑ a Volunteering Australia study notes that there 'was very strong support for corporate volunteering within the NFP sector'. Another anecdotal study by Philanthropy Australia in 2006 suggests that corporate volunteering is perceived as a necessary burden by some CSOs and sometimes as a service provided to business partners in exchange for funding; and
- ❑ there are not enough genuine volunteer opportunities to meet all corporate demand.

VCOSS members report many positive experiences with targeted volunteering programs. This involves matching specialised, targeted skills from the business sector with CSO needs for certain skill and resources. VCOSS supports the continued expansion of targeted volunteer programs.

Incentives to expand pro-bono services

Given CSO organisational capacity constraints including back office functions, there is a need to better leverage specialised pro-bono services from the business sector. This includes, but is not limited to, business support services for strategic review, legal, IT, HR and financial services. However, there needs to be an appropriate incentive scheme to engage business to provide these pro bono services.

In Victoria, social procurement schemes have been successful in incentivising corporate law firms to provide pro-bono legal services for the CSO sector. Under this scheme, the Government contractually requires legal firms to provide pro bono services of at least 5% of the value of the legal fees they derive from government contracts.⁴⁵ VCOSS members report positive results from this scheme for the sector. There may be scope to expand this scheme to other back office services such as accounting, finance and human resources.

Leveraging business sector expertise for policy reform

There is a potential to better leverage business sector expertise in advocating to the government on issues impacting the CSO sector (for example corporate law firms may be well placed to advocate on specific charity law reforms). There may be scope for a Business Representative Body to represent on issues related to the CSO sector.

Recommendations

45. Invest in the expansion of targeted volunteer programs

VCOSS recommends that the Government invest in and support the expansion of targeted volunteer programs with the business sector.

46. Expand social procurement schemes for pro-bono support services

Given current constraints on CSO organisational capacity, it is recommended that the government expand social procurement schemes and incentivise business to provide pro-bono services in legal, accounting, finance and HR services. VCOSS refers the Commission to the success of the Victorian social procurement scheme in providing pro-bono legal services to the CSO sector.

3.10 Other comments

As part of VCOSS consultations, a number of other comments were made to improve the efficiency and effectiveness of the sector that have not explored in detail but warrant consideration by the Commission. These include:

Under-utilisation of academics / institutes in program evaluation - there is scope for improved collaboration with academics / institutes and CSOs to evaluate outputs and outcomes of CSO programs. One VCOSS member expressed problems in accessing evaluations by academics within timeframes tenable to program timelines and/or funders.

Under-utilisation of practice led research - there is scope for greater recognition and utilisation of 'practice led research' (this is a form of academic research which incorporates an element of practice in the methodology or research output).

Under-utilisation of participatory research - academic research needs to better involve communities in the research process, rather than just studying them (participatory research is defined as systematic inquiry, with the collaboration of those affected by the issue being studied, for purposes of education and taking action or effecting change).

Under-utilisation of practice wisdom - by government, business, philanthropy and academics in policy making, program design and funding allocations for service delivery.

Appendix 1: Consultations

The following organisations participated in VCOSS consultations. However, the views expressed in this submission do not necessarily reflect the views of these organisations.

Roundtable with the VCOSS Community Sector Futures Task Group

- MacKillop Family Services
- VCOSS
- Travellers Aid
- Community Child Care Victoria
- Centre for Excellence in Child and Family Welfare
- Wesley Mission Melbourne

Cross-sector roundtable

- ANZ
- Association of Neighbourhood Houses and Learning Centres
- Berry Street
- Community Connections
- Federation of Community Legal Centres
- Freehills
- Grattan Institute
- Hanover Welfare Services
- Kildonan Child and Family Services
- Melbourne Community Foundation
- National Disability Services
- PilchConnect
- Salvation Army
- Victorian Employers' Chamber of Commerce and Industry (VECCI)
- Victorian Local Governance Association
- Whitelion

Appendix 2: Full list of recommendations

	Issue	Recommendation
1	Maintenance of NFP National Accounts	Maintain and develop the NFP Satellite Accounts.
2		Focus immediate investment on improving data collection and dissemination to better inform policy setting, program design and delivery, rather than focusing on reviewing the methodology applied to the (financial) value of the CSO (NFP) sector.
3	Improvement of Basic Data Collection	<p>Review existing ABS and government data collection and budgeting processes to support the collection and dissemination of data that allows government and the community sector to track:</p> <ul style="list-style-type: none"> ❑ community needs based on a standard set of key socioeconomic (community wellbeing) indicators (as a proxy for CSO outcomes); and ❑ CSO activity (including what organisations are working on what issue areas with what target groups) <p>by regional (Statistical Local Area or postcode) area on a periodic basis.</p>
4	Adoption of a National Socioeconomic Indicator (Wellbeing) Reporting Framework	Adopt a set of key socioeconomic (community wellbeing) indicators (such as those used in the Community Indicators Victoria Data Mapping System (Victoria), Sustainable Development Indicators (United Kingdom), Social Report (New Zealand) or like systems etc), and report on them at a national and regional level on an annual basis. Disseminate that data using an IT system that has the capacity to allow users to drill down to track performance against those indicators at a regional level.
5	Maintenance of Community Indicators Victoria	Invest in the maintenance and extension of the Community Indicators Victoria Data Mapping System to support community based planning, program coordination and delivery.
6	Alignment of Government Reporting	<p>Review existing federal, state and local government program reporting requirements and systems to:</p> <ul style="list-style-type: none"> d) move towards the adoption of a common set of output and outcome measures for like programs; e) streamline data collection and reporting requirements (including the adoption of common IT packages or systems); and f) reduce duplication in cross-government and cross-departmental reporting.
7	Investment in IT	Invest in the IT infrastructure, data management systems and skills required for CSOs to collect, process and analyse program data for measurement purposes, at the same time as streamlining government reporting and quality processes.
8	Alignment of government boundaries	Align federal, state and local government boundaries to support the coordination and direction of Government policies and programs and support improved data collection.

9	Proposed Measurement Framework	Revise the measurement framework set out in the Commission's <i>Issue Paper</i> to: c) make provision to categorise activity by issue area and target group; and d) review the categorisation of outcome and impact parameters.
10	Workforce Strategy	Develop a long-term, holistic CSO workforce strategy, in collaboration with the CSO sector, at national and/or state levels.
11	Remuneration	Review and reform award structures between the government and CSO sectors to achieve pay parity.
12	Access to Training	Invest in services that provide information and / or broker opportunities on training for CSOs to improve access to training and development.
13	Access to Volunteering	Invest in services that provide information and / or broker opportunities in volunteering for CSOs to improve access to skills and human resources.
14	Tertiary Training	Review training to better align curriculum with CSO skill set requirements and encourage greater collaboration on ongoing basis between the community sector and training providers to do this.
15	Promotion of sector	Invest in initiatives that promote the community sector as a recognised and valued career option to improve recruitment and retention.
16	Access to Capital	Examine options to increase CSO sector access to capital to support infrastructure, system and other capability development needs, in particular (but not limited to): c) options to incentivise commercial banks to provide low interest loans; and d) a Future Fund to support NFP Organisational Capacity Development.
17	Aggregated Procurement	Support the development of aggregated buying arrangements for CSOs.
18	Outsourcing Services	Explore the development of outsourcing services, through an independent centralised service centre that can provide outsourcing of back office functions at a discounted price.
19	IT Capability Projects	Support and invest in initiatives that assist CSOs to develop their ICT capability.
20	Shared Sector-Wide IT Service	Develop a shared or collaborative sector-wide service to support ICT and information management needs .
21	Smaller Organisations	Government should review funding allocation and service provider selection processes to take into account that economies of scale benefits in contracting with larger organisations may be offset by losses in efficiencies attached to smaller organisations as well as transition costs, particularly in regional and remote areas.
22	Organisational Capability	Adequately fund and support CSO organisational capabilities to free up resources to allow for CSOs to innovate in service

		delivery
23	Access to Capital	Improve access to funding / capital to trial innovative programs and explore mechanisms such as Government Innovation Funds, quarantining allocations in service agreements, as well as leveraging support from philanthropic and private sectors
24	Flexible Funding	Review government funding arrangements to reduce over-prescription of service delivery outputs and outcomes to allow CSOs greater flexibility in service delivery design to be responsive to local needs
25	Funding Levels	Establish pricing reviews and develop pricing frameworks to move toward adequate funding for the full cost of service delivery including dedicated funding for core operations in government funding arrangements
26	Annual Adjustments	Review government funding arrangements to ensure that CSOs are adequately funded for annual cost increases at a level that enables CSOs to compete effectively in the market for labour, goods and services
28	National Framework	Establish a National Regulatory Framework for NFPs that streamlines and harmonises regulations for the sector across fundraising and charity gaming, incorporation, disclosure and reporting and tax concessions
29	Independent National Regulator	Establish an Independent National Regulator for the NFP sector, as endorsed by the Senate Inquiry 2008, to drive regulatory reform oversee regulation of the sector.
30	Fundraising Laws	Establish nationally consistent fundraising laws and establish a National Fundraising Act, with a referral of powers from states and territories to the commonwealth, as endorsed by the Senate Inquiry 2008 in its Final Report
31	Specialist Legal Structure	Develop an improved NFP Specialist Structure for NFPs through a referral of State and Territory powers, as endorsed by the Senate Inquiry 2008 at Recommendation 7 of its Final Report
32	Tiered Reporting	Establish a tiered reporting system based on size be established under the legislation for a specialist legal structure, in line with the Senate Inquiry 2008 Recommendation 10 of its Final Report
33	Chart of Accounts	Establish a Standard Chart of Accounts for use by all departments and NFPs, as endorsed by the Senate Inquiry 2008 at Recommendation 12 of its Final Report
34	Charity Definitions	Simplify and modernize charity definitions, in line with the Charities Inquiry 2001 Recommendation 13 of its Final Report
35	Advocacy Activities	Reform charity laws to which the extent to which charity may engage in advocacy activities without jeopardizing charitable status, in particular
36	Taskforce	Establish a Taskforce to implement the recommendations of the Senate Inquiry 2008, as recommended by the Senate Inquiry 2008 Recommendation 15 of its Final Report
37	Accountability and Reporting	Standardise and simplify Government accountability and reporting requirements in Government service agreements to: <ul style="list-style-type: none"> c) streamline administration; and d) support more structured data collection and evaluation activity across the CSO sector.
38	Interoperability	Resource a collaborative project to develop an interoperability

		framework to encompass performance monitoring and quality assurance processes.
39	Government Structures	Establish appropriate government structures (departments / agencies / units) to: <ul style="list-style-type: none"> c) Improve the relationship between CSOs and government, and d) Effectively drive the coordination and implementation of policy priorities for CSO sector across whole of government.
40	Formal Agreements	Encourage the establishment of formal partnership arrangements, where appropriate, between government and the community sector to improve government engagement with CSOs, drawing on success of Victorian Human Services Partnership Agreement.
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45	Targeted Volunteering	Invest in and support the expansion of Targeted Volunteer Programs with the business sector.
46	Social Procurement	Expand social procurement schemes that incentivise and require business to provide pro-bono services in legal, accounting, finance and HR

Endnotes

- ¹ J Barraket, 'Community Sector Sustainability: Research Evidence and Public Policy Implications', paper prepared for Sector Sustainability Task Group, August 2006.
- ² The Allen Consulting Group, 'How Many Wheelchairs can you push at once? - Productivity in the community service organisation sector in Victoria', Report to VCOSS, December 2008, p.v.
- ³ Precision Consultancy, 'Strengthening Workforce Capability: A Capability Framework for the Victorian CSO Sector', September 2007, p.p. 6-8.
- ⁴ ACOSS, 'Australian Community Sector Survey Report,' ACOSS Paper 157, Vol 1 – National, 2009.
- ⁵ Precision Consultancy, 'Strengthening Workforce Capability: A Capability Framework for the Victorian CSO Sector', September 2007, p.p. 6-8.
- ⁶ Victorian Government, 'The Victorian Government's Action Plan: Strengthening Community Organisations', April 2008, p.15.
- ⁷ VCOSS, 'Recruitment and Retention in the Community Sector: A Snapshot of Current Concerns, Future Trends and Workforce Strategies', Researched by VCOSS as part of the Showcasing the Community Sector Project funded by the Victorian Government, April 2007, See <http://www.vcross.org.au>.
- ⁸ Victorian Government, 'The Victorian Government's Action Plan: Strengthening Community Organisations', April 2008, pp 28-21
- ⁹ M Wenham, Courier Mail, 8 May 2009, p.8.
- ¹⁰ J Barraket, 'Community Sector Sustainability: Research Evidence and Public Policy Implications', paper prepared for Sector Sustainability Task Group, August 2006, p.17.
- ¹¹ Economies of Scale is the cost advantage that a firm receives when it expands – it is the reducing of cost per unit as more items are produced.
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- ⁴⁴ VCOSS Training and Development Clearing House, 'Corporate Social Responsibility, A NFP Perspective, Interviews with the Sector,' February 2009, pp20-24.
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