

## 1. Introduction

Australian Red Cross is part of the International Red Cross and Red Crescent Movement, the largest humanitarian organisation in the world. The vision of Red Cross is to improve the lives of vulnerable people by mobilising the power of humanity. Red Cross Societies operate without any political, religious or cultural affiliation. All services are underpinned by seven Fundamental Principles: Humanity, Impartiality, Neutrality, Independence, Voluntary Service, Unity and Universality.

Since 1914, Red Cross has been responding to the needs of people of all ages in suburbs and towns right across the country. Red Cross has 863 branches, 100 offices, 30,000 members, 30,000 volunteers and 2,200 staff spread throughout Australia. Through the delivery of a wide range of support services throughout Australia and an extensive international development programme, Red Cross provides a variety of support to vulnerable and disadvantaged people.

As a proud member of the not for profit sector Red Cross is pleased to contribute to the Productivity Commission's Inquiry into the Contribution of the Not for Profit Sector and offers the following comments in response to the April 2009 Issues Paper.

## 2. The scope of the study

Red Cross welcomes the Productivity Commission's research into Australia's not for profit sector. Red Cross hopes this current inquiry will build on and complement the work of previous inquiries including the:

- 2008 Senate Inquiry Into The Disclosure Regimes For Charities And Not-For-Profit Organisations;
- 2001 Inquiry into the Definition of Charities and Related Organisations; and
- 1995 Charitable Organisations in Australia Inquiry.

Red Cross **broadly supports the findings and recommendations of these previous inquiries**. Red Cross would also like to acknowledge a number of related bodies of work that have a bearing on the not for profit sector including the current Taxation Review, the current consultations on a National Compact and the acknowledgement of the role of the Community Sector in the Social Inclusion Agenda of the current government. We believe that the important role of the not for profit sector is recognised by all political parties represented in the Parliament and we warmly and strongly welcome that fact. Red Cross encourages the Commission to ensure this study's findings are integrated with the findings and discussions from these related bodies of work rather than being viewed in isolation.

We believe that the not for profit sector is genuinely interested in any improvements that can be made to its work and recognises that there is **significant benefit to be gained through increased efficiencies, effectiveness and streamlining of legislation and regulations that govern the sector**. We hope that this current inquiry will result in a range of tangible actions not just further recommendations.

Red Cross acknowledges the terms of reference for this inquiry are very broad but also commends efforts to establish a robust framework which can be used to measure the direct and indirect contributions of the not for profit sector to the Australian community.

The focus of this study, as shown in Figure 1 on page 11, makes sense to Red Cross in terms of allowing meaningful recommendations to be put to government on improving the contribution of the not for profit sector, in partnership with government, in the delivery of services and building of social capital.

### 3. Measuring the contribution of the not for profit sector

#### Nature of the not for profit sector

Red Cross acknowledges there have been some ABS studies on the not for profit sector but overall we feel Australia is lagging behind other countries in routine recognition and measurement at the national level of the contribution of the sector. Examples of countries that have made some inroads into addressing this which the Commission may like to consider include the Office of the Third Sector in the UK, and reporting in national accounts in New Zealand and Canada.

#### Measuring the contribution of the not for profit sector

Red Cross acknowledges that the not for profit sector is a major component of the Australian economy directly contributing around \$80 billion to national income, employing around 1 million Australians and engaging over 20 per cent of the Australian population in volunteering. However, we believe that this is only half the story. Red Cross feels strongly that **the indirect contribution of the not for profit sector also needs to be measured and acknowledged**. For example:

- The not for profit sector produces many intangible benefits to the community such as providing networks and structures which help to ameliorate the fragmentation and social isolation caused by market failure, locational disadvantage and uneven income distribution;
- Compared with 30 years ago, many not for profit organisations (particularly charities) now produce 'public goods' such as education and training, along with forms of social security and public housing, marking a shift to a partnered approach with government, thus helping to build social resilience and social capital;
- In times of economic downturn, not for profit services are a key part of the 'built in stabilisers' of the economy, applying (to the extent that resources and public generosity permit) anti-cyclical investment and expenditure which helps prevent the economy slowing at a greater rate than otherwise;
- The not for profit sector contributes to the development of the intellectual capital of the country through advocacy, service innovation and policy formulation.

#### Additional capability of the sector in recession

The not for profit sector is also highly efficient in translating its spending into increased national income. Therefore pump priming the economy by the injection of funds through the not for profit sector has a number of advantages in dealing with a recession, namely:

- Funds are rapidly directed to those Australians most in need; and
- Such funding creates immediate employment outcomes (no lags compared with infrastructure projects) as this is what the sector does, quickly and efficiently, with new funding.
- The multiplier effect of an increase in autonomous government spending in this sector is greater and faster than in others as the not for profit sector
  - (i) pays minimal tax therefore a high proportion of every dollar flows on;
  - (ii) has no need to make profits (then to be taxed, saved or redistributed); and
  - (iii) has low overheads at the program delivery level.

#### Conceptual framework for measuring contribution of the sector

Red Cross agrees that a conceptual framework for measuring the contribution of the sector is important and **commends the Commission for considering an outcome based model** rather than an output focused model.

When considering appropriate methodologies for evaluating the contribution of the not for profit sector, Red Cross offers the following observation. Program effectiveness often uses disparate indicators, rather than whole of sector contributions against major national objectives at a national and/or state level. More consistent measures would better inform strategic investment by government into the not for profit sector and would provide a better understanding of the sector's contributions at a 'whole of economy' level over time.

It is essential that impact and outcome measures are included, as well as inputs and outputs, as the latter exclude and devalue the social/community wellbeing contribution of the sector. **Not for profit contributions could be assessed against key social sustainability indicators** that could be included in a national charter (for example a triple bottom line national charter). Trends over time against these indicators could be assessed against the relative expenditure of the not for profit sector and the government.

Key social sustainability indicators might include such impact assessments\* as:

- proportion of households within 400 metres of a quality public transport service;
- level of divergence between constituent urban communities using the ABS SIEFA index;
- education, housing and living standards within Aboriginal and Torres Strait Islander communities versus benchmarks drawn from the wider Australian population;
- accessible urban public domain per capita (parks, gardens, beaches, piazzas, cultural precincts etc);
- proportion of households below the 40th percentile in the income distribution suffering housing stress;
- level of divergence in average per capita incomes between regional and urban areas;
- level of divergence between local average per capita incomes and those in capital cities;
- proportion of the National, State and local cultural heritage estate removed from risk of demolition or decay;
- percentage of metropolitan jobs accessible via a 30 minute public transport ride from the 66th percentile census collector district;
- growth in participation in the workforce and/or training.

\*(Planning Institute of Australia, Liveable Communities, 2004).

Indicators could be built into funding contracts to ensure transparency and consistency in their articulation and to enable development of systems to collect the required information. The process of designing good program evaluations to collect the required information is a specialised field and takes time and resources. To support the collection and interpretation of meaningful and valid indicators, and to enable them to be accessed by government in a consistent format to a) enable comparisons and b) use of the data to inform policy and program development, specific and additional funds need to be provided to enable properly planned and conducted comprehensive program monitoring and evaluation.

## 4. Enhancing the efficiency and effectiveness of the not for profit sector

### Access to human resources

Red Cross has a workforce of 30,000 volunteers and over 2,200 staff spread throughout Australia. Red Cross is fortunate in that historically it has attracted a large number of volunteers who have dedicated significant service to the organisation. We are however aware that, as with many other organisations, the nature of volunteering and the profile of volunteers is changing. Red Cross is currently looking at how it recruits volunteers, the opportunities it provides for volunteers and the profile of its volunteers. In particular we are looking at new strategies for engaging volunteers and opportunities that match the volunteer interests of (in particular) young volunteers and volunteers from diverse backgrounds.

To complement its paid staff and regular volunteers, Red Cross has also adopted a clear strategy for partnering with reputable organisations to enhance organisational capability. This approach has resulted in the development of a number of valuable pro-bono partnerships that are enhancing our organisational capability in areas such as: legal services, risk management, promotion and marketing. Enhanced capacity during Emergency Appeals has also been supported through the provision of call centre support.

Red Cross has also found that businesses are generally keen to provide human resources to support Red Cross through the provision of corporate volunteers. Red Cross is eager to make use of these volunteers and many productive corporate partnerships have been established. However, as one example of some of the issues we face in this area, on some occasions, two categories of impediment often arise:

- An imbalance between the benefits to Red Cross of corporate volunteers versus the financial and human resource costs incurred by Red Cross in accommodating such volunteers (with the balance not in Red Cross's favour); and
- Less than satisfactory alignment between organisations' expectations regarding corporate volunteering opportunities (usually focused on large numbers of people volunteering en masse at specified time) and Red Cross needs.

These impediments may result in Red Cross developing volunteering opportunities that are of short term benefit and that can be time-consuming and costly to administer. The impediments to ongoing corporate volunteering as described above can be resolved by supporting corporates to better understand the costs born by not for profits to support corporate volunteering experiences (including costs associated with insurance, police

checks and training) and through working with corporates to help them understand the core business of the not for profit and the match or mismatch with their own strategies (CSR, staff retention, team building, etc) and the need for flexibility in scoping and negotiating volunteering opportunities.

#### **Access to financial resources**

Red Cross, like other not for profits, has a strong and ongoing focus on raising funds via sponsorships, fundraising, and pursuing grants and tenders to acquire the funds necessary to provide the services it does. There are a number of issues, particularly in relation to fundraising, which make this activity more complex, costly and time consuming than it should be.

As outlined in our submission to the *2008 Senate Inquiry into The Disclosure Regimes For Charities And Not-For-Profit Organisations*, when it comes to fundraising alone, **Red Cross has to comply with seven disparate sets of fundraising legislation**. As a way of dealing with variability in state based legislation, Red Cross often makes internal decisions to have all States and Territories comply with the most stringent legislation or guideline for Australia wide activities such as fundraising. In the case of fundraising legislation this means complying with the *NSW Charitable Fundraising Act 1991*. On one hand, having states and territories comply with this Act as much as possible saves time by ensuring the greatest level of detailed data is obtained. On the other hand, it means that data is collected at a far more detailed level than may be warranted or required by some states with less stringent fundraising legislation. Uniform fundraising regulations would streamline our administrative processes, record keeping systems and reporting as well as reducing resources required to adhere to these regulations.

#### **Capacity to innovate**

Red Cross is a strong supporter of innovation in the not for profit sector but feels that there are a number of impediments preventing the spread of knowledge and of cooperative approaches to resolving complex societal issues. These include:

- The requirement to compete for funds pits not for profit organisations against each other and, whilst this can drive efficiencies, it can also stifle cooperation, and in particular the sharing of best practice knowledge;
- The onerous processes associated with applying for and acquitting grants means valuable time is taken up with these processes that could be spent on innovation and service delivery;
- The lack of long term grant funds to enable stability of staff, planning and program development;
- Funding offered is often provided on the basis of strict unit costs that do not allow for broader value add or objectives to be delivered on; and
- A focus on inputs/outputs stymies creativity, as there is no incentive to take risks or explore approaches which might improve social inclusion or community wellbeing.

## Regulatory environment

Red Cross in its submission to the *2008 Senate Inquiry Into The Disclosure Regimes For Charities And Not-For-Profit Organisations* made a number of comments in relation to governance and accountability regulations faced by not for profit organisations. A key issue Red Cross highlighted was that as a national organisation with services and activities occurring in each State and Territory in Australia we are required to comply with a variety of Commonwealth and State and Territory Acts under which entitlement to a benefit or some other legal outcome turns on the charitable purpose or status of an organisation.

Red Cross believes that **uniform legislation regarding accounting and reporting standards and requirements**, backed up by agreed definitions used by both the not for profit sector and government authorities, would greatly assist organisations like Red Cross to ensure transparency, accountability and consistency and to reduce costs. Uniform accounting and reporting standards would increase efficiency and productivity and would free up valuable resources that could be used for service delivery rather than administration. Uniform accounting and reporting standards could also enable the production of consistent and comparable sector wide data. Comparable sector wide data would enable the setting of benchmarks for efficiency (for example) and could provide information to inform the development of a robust national policy framework for the sector. Comparable sector wide data could also be used to enable the development of a proper understanding of the sector, its role and its contribution to society which would (hopefully) build greater understanding and trust of the sector in the general public.

Although the compliance requirements of accounting and reporting standards are significant, there are other, perhaps more onerous compliance obligations to which Red Cross and similar organisations must adhere. Given the breadth of activities in which Red Cross engages, from the sale of goods and services, to fundraising, to training and to aged care and programmes that benefit children, there is a complex compliance requirement, particularly as the rules that regulate these activities at various levels of government can be varied. Despite their resource limitations, not for profit organisations have a great onus to comply with all relevant regulatory requirements not only because of the purposes to be served by the regulatory regimes but also because of the vulnerable nature of their beneficiaries and the high reputational risks and consequences that attach to any actual or perceived non-compliance.

Red Cross acknowledges the need for robust and enforced regulation of activities by not for profit organisations. However, it may be appropriate for governments to carefully consider the design and complexity of compliance regimes to ensure appropriate regulation and including in funding allocations enough to meet the cost of achieving compliance. As with regulation generally, in designing regulation which is specific to the not for profit sector, or which may affect the sector, the purposes to be served by the regulation need to be carefully identified, as well as the efficacy of the proposed regulatory regime to serve those purposes.

As Red Cross is an organisation working in all States and Territories it is less likely to gain significant benefits from state-by-state reforms. Regulatory reforms should occur on a national or federal level in order to remove inconsistencies and uncertainties in the compliance requirement which arises from the lack of harmonisation between the States and Territories and as between them and the Commonwealth. **A guiding principle for regulatory reform is that overall it should not create burdensome reporting and administrative obligations on not for profit organisations**, but should streamline such processes.

As outlined in our response to the *2008 Inquiry Into The Disclosure Regimes For Charities And Not-For-Profit Organisations* Red Cross **supports a move towards a single national regulator for the not for profit sector**, which should replace current state based regulatory requirements. Red Cross recommends that a model along the lines of the Charities Commission in the UK be considered for Australia. This body should be embedded in a statutory framework, independent of government and independent of existing organisations such as ASIC and the ATO.

A single national regulator should be a resource to both large and small organisations. The inclusion of an advisory and support role within the regulator to assist organisations (especially smaller ones) with issues such as auditing, taxation, legal and governance advice would provide a valued service and would make a valuable contribution to the development of the sector.

A single national regulator should have responsibility for assessing the not for profit sector's contribution at the national, state and local levels as appropriate, which would allow a better focus on geographic areas of disadvantage. As a first step in a larger reform process, there should be significant streamlining of existing processes through the introduction of mutual recognition or harmonisation of legislation across state and federal jurisdictions.

### **Lead provider**

The concept of a 'lead provider' raised by the Commission is one that can both benefit and hinder organisations. Using a lead provider model (or selective tender model) can reduce time and costs associated with competitively applying for funds, can allow greater levels of program planning and can address issues of staff retention (through being able to offer longer employment contracts). This in turn can enhance service delivery and innovation. The tension arises when organisations are not considered 'lead providers' – how do these organisations gain access to the funds on offer or become providers in the sector? Whilst broadly supportive of the lead provider concept, Red Cross also wishes to acknowledge the importance of a diversity of providers in a sector, particularly where the diversity of providers ensures a tailored response that addresses the diversity of client needs and the sometimes highly specialised needs of some clients.

### **Advocacy**

Advocacy is a very important component of the work of the not for profit sector and it comes as a part of the responsibility that we accept working with low-income, disadvantaged and marginalised people. With this work comes a responsibility to give voice to the needs of our clients and to deal with the structural causes of the problems experienced by these people where they are less able to advocate for themselves. However, Red Cross also acknowledges that advocacy rights are accompanied by responsibilities and obligations. Among these are that advocacy should be evidence based, non-party political and non personal.

Red Cross ensures that any advocacy it undertakes is in line with our Fundamental Principles. We acknowledge that advocacy is mostly direct and private but can also be public and that both are legitimate when applied correctly. Red Cross strongly believes that receipt of government funding should not prevent organisations from undertaking responsible advocacy and is happy with current contractual arrangements that allow this.

## **5. Service Delivery**

### **Funding arrangements**

Not for profit organisations, and the services they provide may receive government funding at various levels from zero to 100 per cent. Other than the fact that they receive some government funding, they have little in common and vary greatly in terms of their objectives, scale, duration, services and operating context.

Not for profit organisations need sufficient and sustainable funding and independence in order to pursue their objectives efficiently and effectively. To this end, they should be encouraged to measure and include a component to cover the full costs of operating services (including staff overheads, office space, administration, evaluation, etc) in applying for government funding. On the funders' side, government agencies should be encouraged to consider the realistic costs and full benefits of not for profit services, and not only the lowest price. Additionally it is imperative that sufficient funds are also provided to enable reinvestment, continuous improvement and innovation, as is the case in the for profit sector.

Red Cross would recommend a focus on better quality, consistent measurement and reporting of impacts/outcomes as a way of reducing the propensity to look for quick fixes, and short term grant funding by allowing long term investment effects to be measured.



The not for profit sector is not dissimilar to the for profit sector in that economies of scale exist at the larger end of the sector, as well as breadth and diversity of capability. This should be recognised by governments taking a 'tiered' approach to the sector in its relationships – preferred providers at the 'big' end and perhaps smaller, contract based relationships for the shorter term at the smaller end, as a general rule. However Red Cross would caution against a system that hinders the ability of smaller or niche organisations from providing tailored responses to clients with highly specialised needs.

### **Contractual obligations**

In relation to contracts with all levels of government concerning government funding or the provision of services to vulnerable people on behalf of government, Red Cross would like to highlight that:

- Requirements for insurance and/or indemnity arrangements, although clearly appropriate for the coverage of professional services and the like, can at times be excessive and not always directly relevant to the type of work or service being carried out;
- Contractual obligations for financial reporting and ensuring the availability of records for inspection can be uncertain or unduly onerous and may not reflect ordinary commercial requirements (even allowing for the different context); and
- Contractual arrangements required by some departments are becoming increasingly detailed thus increasing the cost of delivery of services. As with general regulation, there is a need to balance the extent of contractual reporting and compliance with the purposes to be achieved by requiring that reporting.

Not for profit organisations, such as Red Cross, are increasingly having to establish specialist legal and compliance units to navigate the diverse obligations they must comply with including understanding and negotiating the complexity of government grants and funding arrangements. This is in addition to the contractual arrangements created through partnerships with the private sector.

While Red Cross acknowledges that improvements in sector and program measurement over the past decade have had a positive impact on effective monitoring and evaluation of funding initiatives, the measurements have been very financial and economic in focus. The increased emphasis on efficiency and reduced concern about the long term benefits of program activities ultimately reduces the client benefits to clinical, measurable deliverables for the sake of fulfilling contractual reporting requirements. This in turn can mask the real benefit to beneficiaries which can jeopardise the ongoing provision of funds.

## **6. Trends and developments**

Red Cross acknowledges the various trends outlined in the background paper. We accept the need for an increased business like focus and business like systems and structures for the not for profit sector, particularly in larger not for profits like ours. However, the cost of developing these systems is an ongoing issue for organisations, including our own. **The cost of setting up, enhancing or streamlining IT systems such as databases to manage data collection and reporting costs time and expertise that not for profits don't necessarily have or can afford to acquire.** These infrastructure requirements are generally not funded by government or philanthropic organisations and are not appealing to corporate and public donors. It is an ongoing challenge to respond to the level of professionalism rightly required and expected within the funds available.

## 7. Conclusions and recommendations

Red Cross would like to conclude by reinforcing its belief in the importance of the not for profit sector and its invaluable contribution to society. Red Cross also supports the view, which we are sure will be reflected in many other submissions that the time has come for significant reform of the sector. Red Cross agrees that issues such as accountability and transparency need to be addressed but would also **call for a stronger government focus on supporting and strengthening the sector** to enable it to effectively, efficiently and innovatively respond to the complex social and humanitarian issues we face in the 21<sup>st</sup> Century.

In relation to the variety of issues raised in the Commissions background paper, Red Cross makes the following recommendations.

1. That the Productivity Commission assess the evidence and recommendations presented in the 2008 Senate Inquiry Into The Disclosure Regimes For Charities And Not-For-Profit Organisations, the 2001 Inquiry into the Definition of Charities and Related Organisations, the 1995 Charitable Organisations in Australia Inquiry and **make recommendations for significant national reform** of the not for profit sector and the regulations that govern it.
2. That as part of its information gathering process the Productivity Commission examine international best practice and experience from overseas bodies such as the Charities Commission (or equivalent) in the UK, New Zealand and USA.
3. That the Productivity Commission actively engage with the not for profit sector through roundtables and advisory group structures to plan for the reform of the not for profit sector and that any implementation of reforms be undertaken in partnership with representatives of the not for profit sector.