

Australian Red Cross response to:

The Draft Research Report on the Contribution of the Not-for-Profit Sector, released on 14 October 2009.

1. Introduction

Australian Red Cross welcomes the draft report of the Productivity Commission's research into Australia's not-for-profit sector and supports the aim of maximising the contributions of the sector to society.

The Productivity Commission project is timely for Australian Red Cross, which in recent years has undertaken significant reform to improve our effectiveness as a leading humanitarian organisation in Australia, as part of the International Red Cross and Red Crescent Movement, the world's largest humanitarian organisation.

In June 2008, following a comprehensive review of our 130 services across Australia, our National Board endorsed the new Strategic Direction for Red Cross Services which transforms the way in which we work and focuses us on Seven Priority Areas:

- Strengthening disaster and emergency services
- Increasing international aid and development
- Addressing Aboriginal and Torres Strait Islander disadvantage
- Overcoming social exclusion by providing bridges back into the community
- Tackling entrenched locational disadvantage
- Championing International Humanitarian Law
- Addressing the impact of migration.

Through our work in each of these areas, in both direct service delivery and strategic advocacy to government and other decision makers, Red Cross seeks to have greater impact in addressing emerging humanitarian issues and assisting the most disadvantaged people in our communities.

A critical element of this new direction is a commitment to evidence based practice and continuous improvement. Red Cross therefore commends the Commission's draft recommendations aimed at "building a better knowledge base" for measuring the contribution of the sector.

As a significant supplier of government funded services and in our unique role as auxiliary to government and public authorities in the humanitarian fields, we applaud the intention of fostering closer relations between government and the sector and improving the effectiveness of government funding.

As a proud member of the not-for-profit sector with a strong commitment to its effectiveness and sustainability, we also strongly support measures recommended to build sector skills and capabilities, stimulate innovation and establish modern, appropriate and streamlined regulatory frameworks.

Our response to the draft research report focuses primarily on the above areas, building on and supplementing our earlier submission in response to the April 2009 Issues Paper.

2. Response to draft recommendations

Measuring the contribution of the sector

Draft recommendation 5.1

Red Cross welcomes a role for the Australian Bureau of Statistics in respect of an Information Development Plan, and particularly sector consultation regarding the scope to improve administrative and other longitudinal data sets to support analysis of net impacts of sector activity.

The conceptualisation of impacts and other ‘spillover effects’ at a sector level, particularly where this is driven centrally, holds both opportunities and perils. The opportunities relate to the national and international momentum around the development of national statistical indicators which overtly measure not just the economic but also the social, cultural and environmental aspects of people’s lives. Loosely conceived as triple bottom line reporting, projects such as the OECD’s ‘Measuring the Progress of Society’ and Canada’s Well-Being Measurement Act are exemplars.

Red Cross is keen to participate in initiatives leading to measurement systems that inform Australians about what is happening in the society in which they live. We see this as providing a better understanding of the problems we face beyond a production-oriented, economic paradigm. As a result Red Cross welcomes a broader mandate for the ABS in respect of the type of statistical frameworks it deploys to tell us something about how we are performing as a society, not just as an economy, and the role and relative contribution of the not-for-profit sector within this.

The perils in improving (broadening) administrative and other longitudinal data sets may well lie in securing national agreement around the concepts of well-being and quality of life, and in the choice of appropriate and accurate measurement. In this respect Red Cross commends the work of those involved in the National Development Index, and notes the involvement of ABS and Treasury in this valuable initiative which has obvious application to an Information Development Plan.

Improving comparability and usefulness of information collected

Draft recommendation 5.2

The particular usefulness of a common framework for measuring the contribution of the not-for-profit sector lies in the ability to harness these measures to broader policy aspirations, for example around social inclusion, social connectedness, regional development goals or a higher order construct of national well being (above).

These of course run the risk of being such high order indicators that they are too blunt or too abstract to meaningfully contribute to the measurement of programs within their own stated aims and objectives. On this view, a common measurement framework may actually constrain the hand of not-for-profits in being responsive to the needs of beneficiaries because reporting frameworks are pitched 'too high'. As a humanitarian organisation, the key focus of Red Cross is on information which tells us whether we are meeting the needs of vulnerable people. Reporting frameworks which facilitate a broader view about how our work informs broader (higher) national aspirations is an important but additional consideration. This should not distort the focus of the work of individual organisations, nor become an additional compliance burden.

Red Cross believes a common reporting framework represents an opportunity to capture the diversity of ways in which very disparate components of the not-for-profit sector, from large humanitarian bodies to small, single issue organisations, can demonstrate their unique contribution to larger, national goals. In order for this to be effective there needs to be a minimal level of complexity in common measures to reflect the multi-faceted, multidimensional nature of the not-for-profit sector's operations and consequent contributions, particularly where cultural perspectives are involved.

Such a common framework, however, cannot replace a lower level of measurement and reporting about program effectiveness and efficacy, which is not amenable to standardisation and has accountability to outcomes for beneficiaries at its core.

Draft recommendation 5.3

While supporting the idea of basing (financial) input measures on the Standard Chart of Accounts, it is the view of Red Cross that compliance costs could be further minimised by exchanging onerous input/output reporting for alternative accountability methods. Episodic auditing (as opposed to monthly reporting) or an accreditation process would relieve the compliance burden. At worst, input/output reporting might only be required by those not-for-profits which are not accredited.

A common measurement framework would certainly allow not-for-profits to benchmark their performance, which is an important driver of efficiencies. However, by itself, a common measurement framework does little to address the cost of undertaking good quality outcome mapping and measurement of impacts, especially on individuals. Therefore while Red Cross wholeheartedly supports the merit of returning performance evaluation data to service providers to encourage continued improvement in light of evidence, it strongly urges all governments to allocate as standard funding practice an identified proportion of service funding to underwrite the costs of its measurement activities. In addition, consideration must be given to the cost of technology to support effective reporting and evaluation, as this is likely to require investment by a great number of not-for-profits.

Unlike outputs which can be measured at any point in time, the measurement of outcomes is only valid for longer term programs, with 3 years as a minimum in Red Cross experience, and 7 – 10 years where programs are intended to contribute to generational transformation. Red Cross urges the Australian Government to shift program funding cycles to match the timeframes involved in achieving and measuring meaningful change. Red Cross would recommend a 5 year minimum cycle, and longer where services tackle entrenched social and economic disadvantage such as Red Cross has committed to in our development work in Asia and the Pacific, in places of locational disadvantage and with Aboriginal and Torres Strait Islander people and communities.

Improving evidence-based practice through better evaluation

Draft recommendation 5.4

Red Cross supports the idea of a Centre for Community Service Effectiveness as a valuable resource in a sector which, by its character and by its history, has privileged action and service delivery over reflection and measurement. Professional associations such as the Australasian Evaluation Society have much to offer the sector and are an important resource to the proposed Office. However they do not have the mandate to recommend measurement frameworks which advance outcomes associated with wider Government goals, or which articulate with the proposed Information Development Plan.

As part of the historic transformation of Red Cross services (2008), the organisation committed to create and work within a knowledge environment in which measurement is not so much a product or activity as a set of institutional capabilities and commitments to fulfil our mission. For these reasons, Red Cross welcomes a central repository of knowledge which is tailored to the measurement needs of the not-for-profit sector, and facilitates greater consistency and quality of practice, and comparability of results across the sector.

Providing for appropriate legal forms

Draft recommendation 6.1

To provide a sound base for the legal structure for future operations of organisations in the not-for-profit sector, it is important that any legislation which provides for incorporation of associations at the Commonwealth level have a clear and sound constitutional basis. Subject to there being a sustainable basis of Commonwealth constitutional power to make such a law of the Commonwealth (such as referral of legislative powers by the States to the Commonwealth)^[1], Red Cross supports this draft recommendation.

In the absence of a clear and sustainable constitutional foundation for Commonwealth legislation of this type, for not-for-profits to be attracted to take up a new mode of organisation, other mechanisms may be required to provide the framework for the law (e.g. harmonisation) to enable them to have the requisite degree of legal certainty concerning the mode of incorporation.

Red Cross supports the broad principle that 'migration of form' legislative provisions be enacted which would enable a not-for-profit organisation to restructure its legal basis as is appropriate to the changing nature of its activities and the size and complexity of its operations.

However, any 'migration' legislative provisions would need to be developed with care so that such changes of legal structure did not have unintended or unexpected consequences - such as:

- adverse effects upon the legal character of the not-for-profit entity for purposes of Commonwealth taxation laws, or

^[1] The *Corporations Act 2001* is made under a range of constitutional powers (see sub-section 3 (2) – territories power and section 3 (3) – various other powers), including in particular a referral of legislative powers from States (see section 3 (1)), such as the *Corporations (Commonwealth Powers) Act 2001* (Victoria).

- high or onerous restructuring costs attached to such matters as transfers of property and a range of other legal obligations (e.g. obligations to creditors and by debtors).

Furthermore, care would be required to ensure that the 'migration' legislation did not adversely affect other persons such as members of the not-for-profit entity and volunteers as well as employees – particularly employee entitlements (such as continuity of employment and conditions of employees).

Red Cross, like some other organisations in the not-for-profit sector, is a body corporate established by Royal Charter. The Australian Red Cross Society commenced as a branch of the British Red Cross Society in 1914 and was established as a separate body corporate in 1941 by a Royal Charter granted in that year. Today, Red Cross continues to be a body corporate by reason of the Royal Charter.

Given this historical context, in any future different legislative context providing for incorporation of not-for-profit organisations, Red Cross may wish to retain its current mode of incorporation and legal status. Hence, for organisations such as Red Cross, any reform of the legal framework within which organisations in the not-for-profit sector may become incorporated should provide for continuity of existing legal structures whilst permitting 'migration' if they so desired from those structures to any new form which may become available.

Red Cross therefore suggests that the draft recommendation be amended to take into account these considerations.

Reducing unnecessary compliance burdens

Draft recommendation 6.2

Red Cross supports these draft recommendations, particularly in respect of reducing the regulatory complexity for organisations such as Red Cross which operate in all States and Territories of Australia, through harmonised fundraising regulation.

Red Cross further suggests that the process of harmonisation should take into account a reasoned analysis of the necessity for some of the detailed content of regulation whilst providing for appropriate certainty and transparency at a reasonable cost.

Draft recommendation 6.3

Red Cross supports a revised concept of "charitable purposes", based on the recommendations of the 2001 *Inquiry into the Definitions of Charities and other Organisations*, as set out in Recommendation 13 of the Inquiry report.^[2]

In particular, it is desirable to adopt the approach of Recommendation 13 that the 'purposes' of 'charitable purposes' be amplified by examples by way of guidance (as proposed by the Inquiry) on a basis which is expressly non-exclusive. This approach gives substantive content to the concept whilst allowing for reasonable change and development over time to meet changing circumstances.

^[2] See www.cdi.gov.au/report/cdi_chap16.htm

Red Cross submits that the current legislative structures, and reliance on definitions of 'charity' and (particularly for tax purposes) more limited or restricted concepts such as 'public benevolent institution' gives rise to unnecessary complexity and uncertainty for institutions operating in the not-for-profit sector.

An illustration is provided by the necessity for Commonwealth taxation legislation to be amended during 2009 to provide an enhanced degree of certainty as to taxation matters associated with both the utilisation of community donations to the Victorian Bushfire Appeal 2009 and to a degree in respect of future disaster relief donations and efforts generally.

Within certain parameters, the current tax rules which affect 'charities' and 'public benevolent institutions' generally are reasonably well known and understood. However, the tax laws lacked clarity in certain areas including in respect of some impacts from natural disasters – for example, for losses beyond individual losses and in respect of longer term impacts on individuals and communities. Consequently, in the absence of the 2009 legislation, there would have been a high degree of uncertainty about the tax consequences of certain types of proposed expenditure of the Appeal Fund (all of which were designed to provide relief for individuals and communities who were affected by the extraordinarily extensive and disastrous Victorian bushfires of early 2009). The changes in 2009 are not however (and were not intended to be) comprehensive. The approaches in the 2001 inquiry still have relevance.

Red Cross does not of course expect that any legislative framework will resolve all the issues which might arise day-to-day in the application of laws expressed generically which are then applied to specific facts and circumstances. Questions will always remain with difficult issues of application at the margins.

The great need is for an enhanced and clarified definitional and legislative framework which provides a consistent framework to meet present community needs and concepts of 'charity' and allows for a reasonable evolution to meet those needs as different circumstances arise.

Red Cross suggests that the 2001 Inquiry recommendations provide an strong basis for a coherent and reasonable legislative framework which would do much to overcome these problems.

Consolidating Commonwealth regulation and improving transparency

Draft recommendation 6.4

Notwithstanding the special status of Red Cross as an organisation established by Royal Charter (6.1), Red Cross supports the broad principle encompassed by the draft recommendation, on the basis that it is intended to supersede and replace the current multiplicity of regulatory structures under Commonwealth law and in the States and Territories.

However, it considers that, if this conceptual approach is adopted, the nature, content and degree of regulation associated with the consolidation of regulation and improvement of transparency should be considered with great care, consistent with ensuring that the objectives and the benefits to be derived from regulation are achieved in a balanced way without giving rise to excessive costs of compliance.

Red Cross considers that it would be preferable for the proposed national registrar to be constituted as a separate agency rather than being an additional function and separate division of ASIC. The nature of the work performed by ASIC has many dimensions which are not relevant to entities operating in the not-for-profit sector.]

Simplifying processes for and improving effectiveness of tax endorsement

Draft Recommendation 7.1

Red Cross strongly supports this recommendation.

In doing so, it notes that there is currently a range of definitions and concepts provided for by various State and Territory legislation which affect whether a not-for-profit organisation which is a 'charity' may be liable for taxes, duties and charges. These complexities would be overcome by 'mutual recognition' or other processes. Such changes could simplify matters even for organisations operating with one State - so as to ensure a common approach to tax concession status for different forms of taxes, charges and duties within a State or Territory - as well as providing a standard national framework for organisations which have operations in more than one State or Territory.

Promoting social innovation

Draft recommendation 9.1

Social Innovation has the potential to generate transformative change in peoples' lives, and thus reduce the need for humanitarian services over time. Social Innovation Funds to support research collaborations into innovative solutions to social problems are an important and potentially valuable instrument to ensure allocation of resources to ideas which are known to work.

Red Cross has an active and growing research portfolio which harnesses our service-based research needs with expertise from the Higher Education sector. A model which supports and encourages such collaborations for mutual benefit has the support of Red Cross, particularly where this involves Cooperative Research Centres producing research output with a practical and applied focus. However, resource scarcity will always be a constraining hand for an organisation like Red Cross, where service delivery to alleviate vulnerability is a main priority over funded research collaborations.

Draft recommendation 9.2

As a national organisation Red Cross particularly welcomes a structure which aligns State and Territory initiatives with national practice. This is especially so where State and Territory guidance and training on undertaking evaluations advances the Federal agenda, but also acknowledges the importance of local context.

Lowering costs for volunteers

Draft recommendation 10.1

A common approach to 'Working with Vulnerable People Checks' would overcome the current cost differentials across Australia. However in the spirit of fully-costed service delivery (11.1), Red Cross strongly urges the Australian Government to consider underwriting the full cost of police checks for volunteers, by acknowledging these as a

component of the indirect costs associated with humanitarian service provision. Such an approach would signify that the Government recognises and values the benefits to the Australian economy of a strong volunteer workforce, managed and supported by the not-for-profit sector. This would end the current system which effectively imposes a tax on not-for-profit organisations which use volunteers by requiring them to fund police checks.

The timeframes associated with any portability provisions should be no more than 12 months, given that police checks are only valid on the day of issue. A web-based register (which accords with the provisions of *The Privacy Act 1988* (Cth)) might be one way to facilitate point in time checking of a volunteer's certification and thus minimise the risk to beneficiaries, donors and the not-for-profit organisation.

Addressing current and longer term workforce shortages in community services

Draft recommendation 10.2

This is a particularly welcome draft recommendation, which Red Cross has recently foreshadowed by its own institutional commitment to market-competitive remuneration and benefits.

Competitive working conditions are a necessary prerequisite to attract and retain staff with the skills, experience, attitude and education intrinsic to a productive, high quality and sustainable not-for-profit sector. The recommendation to take into account the skill sets required to perform the purchased services [which are] indexed appropriately to market wage growth within that industry sector overturns the historic discounting of such skills because of the humanitarian agenda they serve.

Red Cross would further urge the Australian Government to address gender equity issues alongside industry sector equity issues, to ensure women working in not-for-profits benefit in equitable ways, including in their pay, for the skills and professionalism they bring to their work. Freeing up regulations in relation to people with overseas qualifications may also help to address workforce shortages in the sector.

Draft recommendation 10.3

Red Cross wishes to emphasise the intersection of generational change issues with the supply and demand characteristics in the community services sector. The tendency for younger people (both paid staff and volunteers) to have more episodic and transient engagement with the sector is a complicating issue for workforce planning. This is particularly the case with a younger cohort of volunteers who are more likely than an older cohort to favour an 'in/out' issues-based pattern of engagement, and will often want to engage with multiple not-for-profits as opposed to the historic patterns of enduring membership and continuous involvement which has previously been Red Cross experience.

Red Cross urges the Australian Government to give consideration to the heavy reliance on volunteers in the not-for-profit sector (as many as 30,000 in the case of Red Cross) and to consider the trends in their involvement as an integral part of workforce planning. Publication of national employment trends and statistics would be a useful contribution to not-for-profits' ability to benchmark their performance, in respect of both paid and volunteer staff.

Providing clarity over funding obligations

Draft recommendation 11.1

Where the funded activity is considered essential, as part of the social safety net or an entitlement for eligible Australians, Red Cross would urge the Australian Government to fully fund the service, including making provision to support both the direct and the reasonable associated or indirect costs of that service provision (indicated in 11.2).

Many government agencies do not recognise the actual costs of program delivery and will want to fund the direct costs only and rely on a not-for-profit's other funding sources to cover the indirect costs. The result of this is an unfunded level of support activities that are essential to operate the funded service or program.

Many smaller organisations simply would not have the capacity to raise funds for indirect supports from any other source and do not benefit from economies of scale around the costs of management and governance, human resources, IT and financial infrastructure and so on. If services are not fully funded there is a substantial risk that smaller organisations will be unable to provide the services they are often so well placed to deliver.

Large humanitarian organisations such as Red Cross, while able to achieve significant economies of scale, also face the additional and significant costs associated with having a national presence, especially in physical infrastructure, systems maintenance and personnel that ensure the agency is response ready to be able to implement complex programs (eg. emergency services) both effectively and efficiently anywhere in the country.

Draft recommendation 11.2

Red Cross supports the need for an independent costing exercise to determine the full cost of new and changed services and again notes the need to consider both direct and indirect costs in this process (see 11.1). Red Cross urges governments to draw on the experience of not-for-profits, perhaps by way of an Expert Panel, to provide input around realistic and complete costings, especially for new services or new models of service delivery.

On the issue of service user contributions, Red Cross would be concerned if a fixed fee diminished access to services for the most vulnerable Australians, and therefore urges the Australian Government to be most vigilant to ensure any requirement for a contribution from service users does not become a barrier to access or overwhelm the equity provisions which are at the heart of the not-for-profit sector.

It should also be noted that the cost of collecting service user contributions is not always economically viable, such as where the costs of collecting and accounting for funds received outweighs the contribution made.

Draft recommendation 11.3

Red Cross welcomes the recommendation that service agreements and contracts include provision for reasonable compensation for providers for the costs imposed by changes in government policy that affect the delivery of the contracted service. This is because there can be a substantial time lag between 'wind up' infrastructure investments and 'wind

down' or exit costs (lease payments, staff reductions or re-deployments). In the experience of Red Cross, this is especially common in service provision contexts which need to be dynamic in order to respond to a fluid legislative environment, for example in the case of asylum seekers which is a core area of Red Cross work.

Ensuring appropriate independence

Draft recommendation 11.4

Red Cross greatly appreciates the Australian Government's understanding of the importance of independence to not-for-profits, particularly to those organisations including Red Cross for whom humanitarian independence is crucial.

Australian Red Cross plays a unique role in assisting those in need within the community through a distinctive relationship with the Government. As auxiliary to the public authorities in the humanitarian fields (under international law and domestically via the Royal Charter) Australian Red Cross is under the obligation to work towards reducing suffering of the most vulnerable people in a manner consistent with the seven fundamental principles of the International Red Cross and Red Crescent Movement. These principles require Australian Red Cross, like all 186 such Red Cross and Red Crescent National Societies world-wide, to act with independence from government and in particular to provide assistance in an impartial manner and to maintain neutrality by not taking sides in controversies. The principle of independence agreed upon by countries that have ratified the Geneva Conventions of 1949, such as Australia, states:

'The National Societies, whilst auxiliaries in the humanitarian services of their governments and subject to the laws of their respective countries, must always maintain their autonomy so that they may be able at all times to act in accordance with the principles of the Movement'

A clear example of this can be found in international law regulating armed conflict in which Australian Red Cross, as a National Society, has the obligation to carry out humanitarian activities to assist victims during times of conflict. In a similar manner Governments, including within Australia, have agreed to specific guidelines relating to responses to disasters which take into account in the legal, policy and institutional frameworks the unique auxiliary role of National Red Cross Societies. This auxiliary role is subject to the capacity of the institution to remain independent from broader political concerns of the Government.

The Australian Government attends the International Conferences of the Red Cross and Red Crescent Movement and has made a number of specific pledges to facilitate Australian Red Cross actively cooperating with the Government in a manner consistent with the fundamental principles, including the principle of independence.

Obviously adherence to regulations and agreements in relation to elements of the implementation of programs is required to ensure all not-for-profits, including Red Cross remain trusted and transparent institutions. However working in a political environment in which Government values, respects and understands the importance of independence of institutions such as Red Cross greatly assists in fostering a strong and vibrant humanitarian sector.

Getting the model of engagement right

Draft recommendation 12.1

Red Cross strongly supports arrangements for purchasing and managing government funded services which foster competition in the not-for-profit sector. When prudently applied this drives a culture of efficiency and continuous improvement, resulting in better outcomes for all stakeholders, including better value for government.

Red Cross commends the flexibility and responsiveness foreshadowed in the draft recommendation that government choose the model of engagement with not-for-profits that best suits the characteristics and circumstances of the service being delivered.

While the purchaser-provider model may provide greater transparency in the funding interaction, in the face of complexity and uncertainty around intended outcomes, collaborative interaction between the government and funded service provider is a more responsive approach (see 12.2).

At the other end of the spectrum, outcomes might be clearly articulated but unit-based funding models are not matched by a consistent, regular and substantial through-put of clients, leaving not-for-profits in an uncertain and financially precarious operating environment. This is particularly the case for smaller and more specialised areas of work that lack the predictability of large, volume driven enterprises.

It is the view of Red Cross that while in theory a positive and empowering approach, some client directed service delivery models can pose significant risks in the context of disadvantaged and vulnerable people. This is because of the responsibility governments have to ensure equity of access and minimum levels of service quality, whilst also supporting clients to make informed and educated choices. To ameliorate this Red Cross would urge governments to consider applying to all providers a code of ethical marketing practice to protect the interests of vulnerable people accessing services in competitive market conditions.

Ongoing dialogue about funding models and intended outcomes are central to a productive engagement between not-for-profits and the Australian Government.

Draft recommendation 12.2

Red Cross would particularly welcome any commitment to extended life collaborative relationships as these match the timeframes involved in assisting transformational change. Based on current trends, Red Cross would face the uncertainties of navigating three funding cycles across the term of its commitment to invest and work within communities experiencing locational disadvantage for 7 – 10 years. Measures which provide confidence to not-for-profits to invest in outcome driven programming, local infrastructure and maintaining a long term presence in communities are crucial to achieving robust, inter-generational change.

Equally, the work of Red Cross with client groups in complex and dynamic legislative environments underlines the importance of working closely and freely with governments. In some areas of work short term, experimental programs which are marked by mutual agreement about intended outcomes and a willingness' to adopt innovative approaches are an important investment in the sector's relationship with government, and likely to produce better, more client-focussed outcomes.

Draft recommendation 12.3

It is the view of Red Cross that best value for money for the community can be best achieved where there is encouragement of an environment which actively encourages not-for-profits to freely exchange learnings, models of practice and practice wisdom. While competition can be an effective driver of innovation and cost containment in some areas, a competitive funding model which simply positions not-for-profits against one another can limit the wider benefits which arise from constructive engagement and partnering by not-for-profits large and small. We need a sector that provides joined up services based on achieving outcomes through harnessing complementary capabilities and service priorities, rather than one driven by competitive advantage.

This is not to say that competition in the sector does not also produce positive results, rather to advocate that in taking decisions about use of competitive processes an assessment needs to be undertaken of both the gains and losses of the approach being used and the model modified accordingly.

Intra-sector networking and collaboration are, arguably, productivity gains which could be included among the impacts captured by common measurement frameworks underpinning the performance and contribution of the sector.

Red Cross would urge the Australian Government to define 'best value for money for the community' in its broadest sense and to use this definition as a guiding principle in the work of its purchasing agencies and through the work of the Centre for Community Services Effectiveness (see 5.4).

Draft recommendation 12.4

While Red Cross believes lead agency models can provide scope for smaller agencies to continue adding to the important diversity of the not-for-profit sector, we also recognise there are risks of favouring 'sameness' at the expense of diversity. This can have disproportionate effects for smaller agencies, such as Aboriginal community-controlled organisations and in rural and remote regions where the number and diversity of service providers is already limited.

Without scrutiny, a lead agency model runs the risk of creating a pseudo-compliance role for not-for-profits which is more properly borne by the government. This is particularly the case where a lead agency acts as a broker, rather than a direct service provider, and may be removed from the skills, experience and knowledge needed to effectively recognise and respond to the issues facing disadvantaged and vulnerable people.

A lead agency model also runs the risk, if not policed, of creating limitations to access and equity either through geography or ideology. This would be of considerable concern to Red Cross, who recommends that lead agencies should face stringent requirements to overcome the potential pitfalls outlined here.

Improving management and appropriate sharing of risk

Draft recommendation 12.5

Red Cross supports this recommendation. A focus on outcomes, as opposed to outputs, requires a longer time frame. Where intergenerational or social change is part of those outcomes, Red Cross has committed to working with communities for a minimum of 7 – 10 years, and urges governments to adopt funding cycles which match their aspirations for long-term, sustainable social change.

Services and programs that rely on the political whims of the government of the day for their continuation are often not enabled to look over the horizon and invest in achieving longer term outcomes that are so desperately needed. Longer term funding models are essential to achieving real change for vulnerable people.

Draft recommendation 12.6

An equitable and appropriate sharing of risk and the costs of risk mitigation (eg insurance costs) should drive risk management within a framework which is consistent with Australian Standards for risk management. Risk adversity by contracting agencies has the potential to result in the unreasonable ‘shifting’ of risks onto the not for profit sector at a cost to both parties.

A professional approach through the use of trained staff is recommended by Red Cross. A risk mitigation or “risk smart” approach, which looks to ensure effective management of the inherent risks associated with community service delivery in the not-for-profit sector is appropriate, recognising that there are likely to be some residual risks to both parties.

Attempts to eliminate or avoid risk would most likely result in paralysis in a service environment in which risk is often endemic. The humanitarian sector must accept and manage risk as part of its day-to-day business, and urges governments to adopt an approach which recognises this.

There are cost considerations involved in setting up risk management frameworks that need to be factored into funding arrangements in addition to the direct costs of risk mitigation which may manifest themselves in higher staffing numbers (for safety reasons), insurance costs, etc. For smaller not-for-profits there is a need for additional external support which may be best achieved through the Office for Not-for-Profit Sector Engagement having a facilitative role.

Streamlining tendering, contracting and reporting requirements

Draft recommendation 12.7

Red Cross supports the intent of this draft recommendation, however the success of this will be contingent on the model chosen to implement it. The overarching intent should be to reduce complexity, volume and repetition of information which government agencies require from not-for-profits engaged in the deliver of government funded services. Integral to this is a consistent approach to tendering, contracting, reporting and acquittal across all levels of government and sharing of information between agencies. A centralised whole-of-government data bank for capturing standard organisational details (legal, financial, key personnel, etc.) would preclude the current need for not-for-profits to supply the same or similar information multiple times over in multiple different ways.

Acquittals are particularly burdensome as requirements vary significantly between agencies.

Red Cross supports the concept of Master Agreements proposed by the Commission but recognises that individual services/ programs require contractual documentation that clearly specifies deliverables, service standards, reporting requirements, etc.

In relation to use of pre-qualifying panels of service providers Red Cross would caution that the approach taken to establishing such panels should not be as onerous as current tendering processes and does not preclude those unable to bear the costs of seeking panel endorsement. Red Cross recently completed a pre-qualifying process for a state funded service that included a requirement to answer 179 separate questions and include 78 attachments to provide evidence of organisational policies, brochures and forms. A simpler model of applying for funding can be found in the new FaHCSIA streamlined funding application form which Red Cross commends as a good approach.

Where pre-qualifying panels are used there would need to be processes to periodically allow new, appropriately qualified entrants to come in to the market. To maintain the integrity of panel arrangements performance benchmarks should be established against which service provider performance can be transparently reported on, in addition to compliance with quality standards and other contractual requirements.

Red Cross would also encourage the Commission to look at models such as the Victorian Government's Department of Human Services Funded Agency Channel (<https://fac.dhs.vic.gov.au/home.aspx>) as a good example of a secure, interactive portal that houses a variety of information related to funding contracts, and also supports collaboration throughout the human services sector.

Supporting effective relationships and driving change

Draft recommendation 13.2

A central authority to drive and manage the implementation of recommendations, such as an Office for the Not-for-profit sector, is an important and timely initiative. However, whilst recognising the breadth of reforms envisaged in this draft report, Red Cross cautions against any approach that would lead to an increase in compliance and reporting without delivering tangible benefits to the sector.

Red Cross is particularly supportive of an Office which has the responsibility and the ability to support and drive initiatives such as recording and reporting against national well being indicators as part of the Information Development Plan, and to oversee coordination and consolidation of Commonwealth regulation measures (6.4).

3. Conclusion

As previously stated Red Cross strongly advocates for reforms aimed at improving the effectiveness of the not-for-profit sector, recognising both the key role of government in leading this reform and the need for the sector to actively commit to and engage in the reform process.

We look forward to the final recommendations of the Productivity Commission and to working in partnership with Government and the not-for-profit sector to achieve its vision.

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