



Submission to the Assistant Treasurer

Federal Budget Submission 2013

February 2013

Introduction

This submission outlines eight measures the Community Council for Australia (CCA) believes will significantly strengthen Australia's not-for-profit (NFP) sector and drive real economic savings for government over the coming financial year and beyond. It has been prepared through consultation with the membership of the CCA (see Attachment 1 for a listing of CCA members) and key organisations in the NFP sector. It also draws on recommendations from previous CCA submissions.

It is important to note that this submission does not override the policy positions outlined in any individual budget submissions from our members.

Following a brief background to CCA, the eight key proposals are briefly outlined. Also included is an overview of the current issues for the NFP sector; some more detailed information about the proposals including likely costs; a budget projection; and a summarising conclusion.

CCA recognises the need for fiscal restraint in response to changing economic circumstances, but also believes there are very significant savings to be made through more effective and efficient government engagement with the NFP sector. If Australia is going to achieve more community ownership of local issues and a sustainable and robust NFP sector, there needs to be a genuine commitment from government and other key stakeholders.

The projected total expenditure over three years for implementation of all measures outlined in this budget submission is approximately \$20 million. Given the size and importance of the NFP sector in Australia and the very real economic and social benefits that would flow from these measures, this investment is minimal.

CCA welcomes this opportunity to provide input into the Federal Budget process and to engage in detailed discussion about any issues raised in this submission.

The Community Council for Australia

CCA is an independent, non-political, membership organisation dedicated to building flourishing communities by enhancing the extraordinary work and effort undertaken within the NFP sector in Australia. CCA seeks to change the way governments, communities and the NFP sector relate to one another. This includes establishing a regulatory environment that works *for* community organisations, not against them.

CCA provides leadership to the sector by being an effective voice on common and shared issues affecting the contribution, performance and viability of NFP organisations in Australia, and:

- promoting the values of the sector and the need for reform
- influencing and shaping relevant policy agendas
- informing, educating, and assisting organisations in the sector to deal with change and build sustainable futures
- working in partnership with government, business and the broader Australian community to achieve positive change.

Summary listing of proposed budget measures

The following budget proposals are based on extensive discussions and feedback from CCA members and other key stakeholders. Each measure would deliver real savings to government over the longer term. These measures are outlined in further detail from page four.

1. Provide Deductible Gift Recipient (DGR) status to all registered charities with an initial phase-in period (excluding organisations for the advancement of religion and education). This measure to be funded by limiting two specific FBT concessions (capping meals allowances and limiting multiple claiming of FBT concessions)
2. Establish a Centre for Excellence in NFP Effectiveness (as recommended by the Productivity Commission)
3. Establish a Social Finance Taskforce (as recommended by the Senate Economics References Committee)
4. Ensure the National Compact achieves real change in government practices by establishing:
 - a) an annual red tape reduction report for NFPs
 - b) an independent closed feedback loop to monitor government and NFP relations
5. Increase Government commitment to supporting philanthropy by providing:
 - a) support to allow employers to establish 'opt out' systems of workplace giving to NFPs based on a 0.5% salary sacrifice
 - b) an initial grant totaling up to \$1 million to enable infrastructure to be put in place supporting direct giving through mobile phone billing (as happens in Canada, US and the UK, but not Australia)
6. Support the development of a *Future Blueprint for the NFP Sector* including extensive consultation; economic modeling of future scenarios; identification of ways to capitalise on emerging opportunities; and strategies to address emerging limitations
7. Investigate the impact of the 'Word Investments Ltd.' High Court Decision and related issues on the commercial activities of NFP organisations and actual government revenue as part of a wider independent review of proposed better targeting of NFP tax concessions
8. Establish a NFP bank drawing on dead money accounts to support capacity building in NFP organisations, to generate income and to address social issues

CCA believes these recommendations could and should be delivered within the next two years at minimal cost. They would provide real and sustainable benefits to governments, the NFP sector and the broader Australian community.

Context: not-for-profit reform

The NFP sector contributes over \$43 billion to GDP per annum, encompasses over 600,000 organisations ranging in size from large to very small, and is estimated to employ over one million staff (or eight per cent of all employees in Australia). Current turnover exceeds approx. \$100 billion annually. Over the last decade, the growth in the NFP sector is second only to the mining industry and employment growth has outstripped any other industry.

These figures only tell a small part of the story. The real value of the NFP sector is in the often unattributed contribution to the quality of life we all experience in Australia. NFPs are at the heart of our communities and are what makes us resilient as a society.

The importance of the NFP sector is now being recognised around the world with almost every government putting in place measures to drive improvements. Smaller government and bigger community is a common theme, driven in part by savings but also by a commitment to greater civic engagement and productivity within the NFP sector.

In Australia there are currently initiatives seeking to promote social enterprise; reduce compliance costs for NFP organisations; encourage a diversification of financing options to build a more sustainable funding base; streamline and refine the regulation of NFPs and charities; develop a clearer definition of charities; establish less bureaucratic reporting requirements while building community transparency; and improve relationships between government and the NFP sector (see Attachments 2 and 3). While many of these reforms are in their infancy, the NFP reform agenda has begun and some of the initial savings are starting to be realised.

The Australian Charities and Not-for-profits Commission (ACNC) is now operational. The establishment of the ACNC is the first time the NFP sector has had an independent regulator dedicated to serving their needs. It is a positive step towards reducing red tape and enhancing the role of the sector. The new regulator has followed other reforms including the signing of the National Compact and the formation of the Not-for-profit Sector Reform Council, which seeks to drive reform across government from the Department of Prime Minister and Cabinet.

The recent history of the NFP sector is framed by growth and reform, but there are a number of new issues emerging. The level of individual giving continues to decline from the high in 2008 and the revenue available to governments is effectively falling in real terms against a backdrop of increasing demands and higher community expectations.

There have been numerous reports and recommendations relating to the NFP sector over the last decade, but it is only in recent times that governments have begun to enact some of these recommendations and embark on a long overdue process of reform and enhancement.

In the context of recent changes, the NFP sector is slowly but surely finding its voice, building its power and seeking real reform that will provide substantial savings to government and tangible benefits to the community.

Given the size of the sector and its critical role in our community, the Federal government can achieve significant economic and social benefits if it chooses to invest further in strengthening our communities and our NFPs by supporting the proposals outlined in this submission.

Description of proposed budget measures

- 1. Provide Deductible Gift Recipient (DGR) status to all registered charities with an initial phase-in period (excluding organisations for the advancement of religion and education). This measure to be funded by limiting two specific FBT concessions (capping meals allowances and limiting multiple claiming of FBT concessions)**

The establishment of the Australian Charities and Not-for-profit Commission (ACNC) provides a clear process for determining charitable status. Having a separate process to determine Deductible Gift Recipient (DGR) status through the Australian Taxation Office (ATO) makes no sense. The present system of determining DGR status through the ATO favors larger organisations that can afford to invest in lawyers and lobbying. Many smaller NFP charities do not have this capacity. It is difficult to justify the current distribution of DGR status. Donations made to registered complying charities should be tax deductible.

The initial exemption of organisations for the advancement of religion and schools makes this policy feasible as the likely costs for implementation are approximately \$120 million. Including all charities would increase the cost substantially and make the policy too costly to consider. The existing system should continue to be applied to all organisations for the advancement of religion and education. In practice, this means exemptions for ministers of religion and other concessions based on religious and educational purposes would apply as is currently the case.

Funding to support this measure could come from capping the FBT entitlements for meals allowances and not allowing individuals to claim more than one FBT concession (please see the CCA submission to the NFP Tax Concessions Working Group for more information).

This measure would be revenue neutral in the first instance with initial projected expenditure of \$120 million offset by equivalent savings in ending uncapped FBT entitlements.

- 2. Establish a Centre for Excellence in NFP effectiveness (as recommended by the Productivity Commission)**

'The Australian Government should provide funding for the establishment of a Centre for Community Service Effectiveness to promote 'best practice' approaches to evaluation, with an initial focus on the evaluation of government funded community services. Over time, funding should also be sought from state/territory governments, business and from within the sector.

Among its roles, the Centre should provide:

- a publicly available portal for lodging and accessing evaluations and related information provided by not-for-profit organisations and government agencies*
- guidance for undertaking impact evaluations*
- support for 'meta' analyses of evaluation results to be undertaken and made publicly available.'* (Productivity Commission Report: 'Contribution of the Not-for-profit Sector' (2010))

CCA believes there is now a pressing need to act on the Productivity Commission report and bring together the existing collective knowledge around effective NFP practice to create a Centre of Excellence where collaboration and creativity can be fostered and developed.

CCA anticipates the initial cost to government would be in the order of \$5 million each year.

3. Establish a Social Finance Taskforce (as recommended by the Senate Economics References Committee in 2010)

In its report *'Investing for good: the development of a capital market for the not-for-profit sector in Australia'* the Senate Economics References Committee recommended the establishment of a high profile Social Finance Taskforce similar to taskforces established in both the UK and Canada. The following is taken from the Executive Summary of this report:

'The CCA envisaged that the Taskforce should build on the work of this inquiry and provide recommendations to government on the capacity of the sector, its access to capital, enhancing the role of intermediaries and simplifying the sector's legislation and regulations.'

CCA sees this role as critical in the development of a longer term sustainable strategy for enhancing the work of the NFP sector.

This measure would require a two year investment from government to support establishment, the preparation of initial reports and implementation of recommendations.

Costs to government would be in the order of \$1 million each year for two years.

4. Ensure the National Compact achieves real change in government practices:

The National Compact could be an effective vehicle to drive government reform, reduce red tape and make real savings. However, both sectors continue to lack information about whether the relationship between government and the sector is getting better or worse. What gets measured gets done, but there is no formal monitoring or measurement in this area. CCA recommends establishing:

a) an annual red tape reduction report for NFPs

Red tape reduction has been set as one of the three key objects for the new ACNC. The government should support the annual publication of a red tape monitoring report that documents the extent of regulatory and contractual compliance being imposed on NFP organisations. Only by monitoring the imposts on NFP organisations will we be able to tell if there is a real reduction in red tape, duplication and compliance activity.

CCA anticipates the cost to government would be in the order of \$100,000 each year.

b) an independent closed feedback loop to monitor government and NFP relations

Experience in other sectors has shown that where a feedback process can be established that does not focus on public blame and retribution, system change can be driven through active feedback and better information exchange. CCA would like to establish a national feedback exchange program based on regularly collecting feedback from the NFP sector and involving the National Compact Advocates as well as other key stakeholders in addressing emerging concerns from the sector and government departments. Providing an avenue to pursue positive improvements in this relationship is central to achieving real change.

CCA anticipates the cost to government would be in the order of \$100,000 each year.

5. Increase Government commitment to supporting philanthropy:

The most recent Australian Taxation Office records have shown that average deductions claimed for gifts to deductible charities dropped over 10% from 0.38% of income to 0.34% of income in the two years from 2009 until 2011. While The Treasury and some other areas of government may welcome reduced claims for income tax exemptions because they translate into higher government revenue, CCA strongly believes that increased community engagement and financial contributions to NFPs produces a net benefit to governments as well as to NFPs and the communities they serve. Governments around the world have begun to realise that talking about 'foregone revenue' as a loss to government income can reinforce a false economy. If the foregone revenue has been directed to strengthening communities, increasing economic and social activity and improving health and well-being, and, if the money involved has avoided the significant transfer costs of moving into, through, and out of government, it is short term and narrow thinking to portray increased philanthropy as a loss to government. The trend around the world is for governments to encourage greater ownership of local issues by strengthening the role of the NFP sector and reducing the size of government. CCA recommends:

a) support to allow employers to establish 'opt out' systems of workplace giving based on a 0.5% pre-tax salary sacrifice for all Australian workers

When in place, 'Opt out' systems have ensured much higher levels of success in workplace giving programs. With the current 'opt in' systems, less than 2% of Australian workers are in a workplace giving program. If this could increase to 10% of Australian employees donating 0.5% of their pre-tax income, over a quarter of a billion dollars would be raised through workplace giving. This is a very realistic goal that would provide a substantial increase in philanthropy and increase the engagement of Australians in the broader NFP sector.

CCA anticipates there would be no additional costs to government in this measure.

b) an initial grant totaling up to \$1 million to enable infrastructure to be put in place to support direct giving through mobile phone billing (as happens in Canada, US and the UK, but not Australia)

Mobile giving allows individuals to simply text a number with a donation (usually \$10 maximum) and the amount appears on their mobile phone bill. Donors automatically have access to on-line receipts for all donations, only reputable registered charities (licensed) can use the mobile giving platform, and 100% of the donation goes to the charity. The back office is managed by a separate NFP organisation that collects a license fee from registered charities using the service.

This service is not currently available in Australia. CCA recommends drawing on the expertise of organisations involved in the successful Canadian and US models and an initial investment of less than \$1 million dollars. Mobile giving is a significant source of charitable funding internationally.

CCA anticipates the cost to government would be in the order of \$400,000 in the first year, but diminishing from that point and not requiring any further government support within 4 years.

6. Support the development of a *Future Blueprint for the NFP Sector* including extensive consultation; economic modeling of future scenarios; identification of ways to capitalise on emerging opportunities; and strategies to address emerging limitations

The future of Australia's NFP sector is too important to our economy and our communities to be allowed to grow in a largely ad hoc way with little real planning or strategic investment. At present there is no plan, no strategy, no real projection about the future viability or even the sustainability of the current levels of growth across the NFP sector.

CCA has been in discussions with a number of groups including leading NFP groups, trusts and foundations, major corporate and finance bodies, and others who have expressed a strong interest in participating and contributing to the development of a blueprint for the NFP sector. All these groups have recognized the importance of this work.

With the Federal government as a joint partner and supporter (and not the sole contributor), a forward looking blueprint for the NFP sector could be in place within 12 months.

CCA anticipates the cost to government would be in the order of \$300,000

7. Investigate the actual impact of the 'Word Investments Ltd.' High Court Decision and related issues on the commercial activities of NFP organisations and actual government revenue as part of a wider independent review of proposed better targeting of NFP tax concessions.

CCA welcome the deferral of the proposed new arrangements in the provision of concessions to NFPs engaged in commercial activities.

CCA understands the government's concern that there may be a flow on impact on future government revenue if some NFPs chose to apply the findings of the Word Investments Ltd High Court Decision (2008) to develop tax avoidance strategies. At the same time, CCA believes the potential impact on government revenue may be overstated, and that there may be other more targeted ways to ensure inappropriate tax avoidance schemes are stamped out.

Given the time lag since the 2008 High Court Decision, it seems appropriate to ground future policies and projections of costs in the evidence that will have emerged in the last four years.

CCA supports an independent review involving external experts as well as government officials that can draw on de-identified ATO data and other primary sources to develop a report that identifies both the real impact of the High Court Decision and possible strategies to address any emerging shortfall in government revenue. This review will need to provide an overview of emerging trends and changing behavior by NFPs that may be associated with the Word decision. It would also need to consider the unintended consequences of any proposed policy changes.

One of the strategies to reduce tax avoidance by organisations using charitable status to limit tax liabilities may be to strengthen the definition of charity ensuring funds raised in the name of a charitable organisation are primarily directed towards the charitable purpose.

CCA anticipates the cost to government would be in the order of \$300,000

8. Establish a NFP bank drawing on dead money accounts to support capacity building in NFP, to generate income and to address social issues

This policy proposal is partly based on international models where NFP banks have been established drawing on a one off substantial capital injection of funds usually provided by government. CCA is seeking \$500 million from lapsed unclaimed bank accounts and superannuation funds or the Future Fund to underwrite an initial investment in the bank. The NFP bank would act as an accessible, low interest rate investor in projects that would generate increased income and returns to loan applicants (NFP organisations). Examples might include underwriting a merger between two NFP organisations or the expansion of an aged care facility to increase bed numbers and build economies of scale for the provider.

The NFP sector needs additional avenues to access capital investment given there are often real barriers preventing NFPs accessing for-profit financial markets.

CCA expects the initial cost to establish the bank will be in the order of \$2 million over two years. Once established, the bank would be run as a revenue neutral program.

Budget implications (costings)

In considering the budget implications of the eight key measures outlined in this submission, CCA has taken a relatively conservative approach to the projection of actual costs. There is a lack of data that would enable the real benefit of each recommendation to be costed accurately. Consequently, this is an indicative budget outlining costs but not benefits. It represents a starting point for further discussion and more detailed economic modelling.

It is important, however, to note that CCA believes the measures proposed in this budget submission will generate significant longer term savings for both governments and NFPs.

Area of Activity	Expenditure \$ million		
	2013/14	2014/15	2015/16
1. DGR status to charities / capped FBT	-	-	-
2. Not-for-profit Centre of Excellence	5.0	5.0	5.0
3. Social Finance Taskforce	1.0	1.0	-
4. Measuring the National Compact	0.2	0.2	0.2
5. Increasing support for philanthropy	0.4	0.3	0.2
6. Future blueprint for the NFP sector	0.3	-	-
7. Review impact of Word Investments	0.3	-	-
8. Not-for-profit bank	1.0	1.0	-
Total (Excluding savings other than FBT capping)	\$8.2 million	\$7.5 million	\$5.4 million

Conclusion

As noted in the introduction, the purpose of this submission is primarily to promote Federal government measures that CCA believes will strengthen the NFP sector into the future, as well as delivering real economic and social benefits for governments and our communities.

There are undoubtedly many individual NFP organisations (including CCA members) that will be seeking to have the Federal government fund specifics for the benefit of their own clients and communities. Most of these budget proposals from the NFP sector are important and have real merit.

At the same time, CCA believes that over the past two decades, the NFP sector as a whole has not benefited from any detailed economic analysis by governments across Australia. This is despite the very considerable contribution the broader NFP sector makes in terms of employment, productivity and community resilience.

Governments around the world have recognised the importance of driving real reform in the way they engage with their communities and with the NFP sector. The harsh reality for most governments is that income levels are stalling while demand for services is continuing to increase. Part of the solution to this dilemma is achieving real productivity within government and within the NFP sector, but achieving these gains requires more than window dressing documents and hopeful edicts. Achieving positive change requires some initial investment.

This submission is asking for approximately \$20 million over three years, most of which would be spent on a Centre of Excellence for the sector. Given the size of the NFP sector and its value to governments and our communities, this is a very nominal amount.

Achieving broad reform across the NFP sector will take time, but the returns in the longer term will be very beneficial for government, NFPs and the broader community.

The NFP sector is too large and too important to be left on the margins of economic debates and major policy reforms within Australia.

Investment in enabling the contribution of NFPs to be more efficient and effective will ultimately deliver flourishing communities where economic growth and participation, engagement and belonging become fundamental aspects of all communities across Australia.

Current Membership – Community Council for Australia (February 2013)

Attachment 1

Organisation

Access Australia's National Infertility Network Ltd.
 Access Community Group
 Alcohol and Other Drugs Council of Australia
 Alcohol Tobacco and Other Drugs Association ACT
 ANEX
 Associations Forum Pty Ltd
 Australian Council for International Development
 Australian Healthcare and Hospitals Association
 Australian Indigenous Leadership Centre
 Australian Institute of Superannuation Trustees
 Australian Major Performing Arts Group
 Church Communities Australia
 Connecting Up Australia
 Consumers Health Forum of Australia

Drug Arm

Foundation for Alcohol Research and Education
 Fundraising Institute of Australia
 Goodstart Early Learning

Good Beginnings Australia

HammondCare

HETA Incorporated
 Hillsong Church
 Illawarra Retirement Trust
 Lifeline Australia
 Maroba Lodge Ltd
 Melbourne Citymission
 Missions Interlink

Mission Australia

Musica Viva Australia

Opportunity International Australia
 Philanthropy Australia
 Principals Australia Institute
 Pro Bono Australia

RSPCA Australia

St John Ambulance Australia
 Social Ventures Australia

Surf Lifesaving Australia

The ANZCA Foundation
 The Australian Charities Fund

The Benevolent Society

The Big Issue

The Centre for Social Impact

The Smith Family

The Ted Noffs Foundation
 Volunteering Australia Inc

Wesley Mission

WorkVentures Ltd

World Vision Australia

YMCA Australia
 Workplace Giving Australia
 Youth Off The Streets
 YWCA Australia

CEO/Director

Sandra Dill
 Samantha Hill
 David Templeman
 Carrie Fowlie
 John Ryan
 John Peacock
 Marc Purcell
 Prue Power
 Rachelle Towart
 Fiona Reynolds
 Bethwyn Serow
 Chris Voll
 Anne Gawen
 Carol Bennett

Dr Dennis Young (Director)

Michael Thorn
 Rob Edwards
 Julia Davison

Jayne Meyer-Tucker (Director)

Stephen Judd (Director)

Sue Lea
 George Aghajanian
 Nieves Murray
 Dr Maggie Jamieson
 Viv Allanson
 Rev. Ric Holland
 Pam Thyer

Toby Hall (Director)

Mary Jo Capps (Director)

Rob Dunn
 Deborah Seifert
 Heather Parkes
 Karen Mahlab (Assoc. Member)

Heather Neil (Director)

Peter LeCornu
 Michael Traill

Brett Williamson (Director)

Ian Higgins
 Edward Kerr

Anne Hollonds (Director)

Steven Persson (Director)

Andrew Young

Lisa O'Brien (Director)

Wesley Noffs
 Cary Pedicini

Keith Garner (Director)

Arsenio Alegre

Tim Costello (Chair)

Ron Mell
 Peter Walkemeyer
 Fr Chris Riley
 Dr Caroline Lambert

Attachment 2

National Compact Extract: signed by sector organisations and Government 17/3/10

Shared principles of the National Compact

The Australian Government and the Third Sector will work together according to these principles to achieve their shared vision:

- We believe a strong independent Sector is vital for a fair, inclusive society. We acknowledge and value the immense contribution the Sector and its volunteers make to Australian life.
- We aspire to a relationship between the Government and the Sector based on mutual respect and trust.
- We agree that authentic consultation, constructive advocacy and genuine collaboration between the Sector and the Government will lead to better policies, programs and services for our communities.
- We believe the great diversity within Australia's Third Sector is a significant strength, enabling it to understand and respond to the needs and aspirations of the nation's varied communities, in collaboration with those communities.
- We commit to enduring engagement with marginalised and disadvantaged Australians, in particular, Aboriginal and Torres Strait Islander people and their communities.
- We recognise the value of our multicultural society and we will plan, design and deliver culturally responsive services.
- We share a desire to improve life in Australia through cultural, social, humanitarian, environmental and economic activity. To achieve this, we need to plan, learn and improve together, building on existing strengths and making thoughtful decisions using sound evidence.
- We share a drive to respond to the needs and aspirations of communities through effective, pragmatic use of available resources.
- We recognise concerted effort is needed to develop an innovative, appropriately resourced and sustainable Sector.
- We acknowledge the need to develop measurable outcomes and invest in accountability mechanisms to demonstrate the effectiveness of our joint endeavours.

Priorities for action

Implementing the Compact principles will require coordinated engagement across Government and collaboration with the Sector to develop action plans. These plans will detail how the Compact's eight priorities for action, outlined below, will be met.

1. Document and promote the value and contribution of the Sector.
2. Protect the Sector's right to advocacy irrespective of any funding relationship that might exist.
3. Recognise Sector diversity in consultation processes and Sector development initiatives.
4. Improve information sharing including greater access to publicly funded research and data.
5. Reduce red tape and streamline reporting.
6. Simplify and improve consistency of financial arrangements including across state and federal jurisdictions.
7. Act to improve paid and unpaid workforce issues.
8. Improve funding and procurement processes

Reference: www.nationalcompact.gov.au/resources/national-compact/

Attachment 3

Statement of government support for PC recommendations (extract from the Communiqué from the second meeting of the Not-For-Profit Sector Reform Council, 18 May 2011)

With regards to the Productivity Commission research report, Contributions of the Not for Profit Sector, the Minister advised that the Commonwealth Government has accepted 'in-principle' all but one of the recommendations relating to the Commonwealth. The one recommendation not supported was recommendation 9.5 pertaining to program related social innovation funds. While encouraging greater innovation is critical, the Government believes this should be pursued in other ways.

Reference: www.notforprofit.gov.au/node/140