



Submission to the Assistant Treasurer

Federal Budget Submission 2014

January 2014

Introduction

This submission outlines seven 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 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 CCA members.

Following a brief background to CCA, the seven key proposals are briefly outlined. This is followed by an overview of the current issues for the NFP sector; further details concerning the proposals including likely costs; a budget projection; and a 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 build a sustainable and robust NFP sector, there needs to be a genuine commitment to the sector from government and other key stakeholders. Short-term cutting of the NFP sector in the 2014-15 Federal Budget will end up costing all Australians.

The projected total expenditure over three years for implementation of all measures outlined in this budget submission is approximately \$35 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 this submission raises.

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 by the NFP sector in Australia. CCA seeks to change the way governments, communities and not-for-profits 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 of proposed budget measures

The following proposals have been developed following extensive discussions and feedback from CCA members and other key stakeholders. Each measure would deliver real savings to government over the longer-term. Each is outlined in more detail from page four.

1. Provide Deductible Gift Recipient (DGR) status to all registered charities with an initial exemption of organisations for the advancement of religion and education. This measure to be funded by limiting two specific Fringe Benefits Tax (FBT) concessions, namely 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) drawing upon expertise from Australia's best NFP researchers.
3. Establish a Social Finance Taskforce (as recommended by the Senate Economics References Committee) to identify and promote better access to capital for NFPs.
4. Ensure an independent process in determining charitable status and in driving government red tape reduction by further supporting and developing the Australian Charities and Not-for-profits Commission (ACNC).
5. Increase Government commitment to and support of philanthropy by:
 - a) Re-establishing the Prime Minister's Community Business partnership
 - b) Providing support to allow employers to establish 'opt out' systems of workplace giving to NFPs based on a 0.5 per cent salary sacrifice
 - c) Providing an initial grant totaling \$1 million to establish infrastructure that supports direct giving through mobile phone billing (as happens in Canada, US and the UK, but not Australia)
 - d) Establishing a NFP bank, drawing on dead money accounts to support capacity building in NFP organisations, generate income and address social issues
 - e) Implementing the recommendations of the Corporations and Markets Advisory Committee (CAMAC) into the administration of Charitable Trusts.
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. Support the development of an independent, closed feedback loop to monitor and evaluate the health of the relationship between government and NFPs.

CCA believes these recommendations could be delivered at minimal cost (see budget projection) and within the next two years. They would provide sustainable future savings to governments and offer real benefits to 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 exceeded 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; establish less bureaucratic reporting requirements while building community transparency; increase philanthropy and improve relationships between government and the NFP sector. CCA supports these activities.

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 has already proved to be a positive step towards reducing red tape and supporting the role of the sector.

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 philanthropic giving has levelled out from the high in 2008. At the same time, 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 both 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.

Now is not the time to seek short term cost savings by cutting government support of a sector that seeks to strengthen communities, build connectedness and increase productivity for all Australians.

Description of proposed budget measures

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

The present system of determining Deductible Gift Recipient (DGR) status through the Australian Taxation Office (ATO) favors larger charities that can afford lawyers and lobbyists to assist the progression of their applications. Many smaller NFP charities do not have the capacity to apply for DGR status, and hence they cannot access the community support that comes when donations are tax deductible. It is a complex, costly, and inequitable system – with less than half of all charities having DGR status. It is difficult to justify the distribution of DGR eligibility given the arbitrary and ad hoc manner in which it has developed – all donations made to registered, complying charities should be tax deductible.

With the ACNC determining charitable status, this measure will deliver a fairer system and reduce red tape. This policy is feasible with the initial exemption of organisations for the advancement of religion and education reducing the likely implementation costs to approximately \$120 million per annum. Including all charities would be too costly. Current exemptions for ministers of religion and other concessions based on religious and educational purposes would continue to apply.

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 further information).

This measure would be revenue neutral in the first instance by initial projected expenditure of approximately \$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) drawing upon Australia's best NFP researchers.**

'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 research, 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) to identify and promote better NFP access to capital.

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 while reducing its dependency on the Government sector.

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

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

4. Ensure an independent process in determining charitable status and in driving government red tape reduction by continuing to support and develop the Australian Charities and Not-for-profit Commission (ACNC).

The ACNC has established a positive reputation among NFPs and the broader community, based upon an outstanding first year of operations. In its first year report to the Parliament of Australia the ACNC outlined achievements including: over 57,000 charities registered with the ACNC, an average time of less than 12 days to register the 700 new charities in 2012/13; over 16,000 phone calls and 28,000 items of correspondence responded to by the ACNC; 245 complaints received; and over 1.2 million views of the ACNC website including almost 1 million searches of the on-line charities register. Administrative savings are being delivered to the NFP sector as a result of new Commonwealth grants guidelines now requiring government agencies to first use the ACNC information rather than generate their own through additional information requests; groups including ASIC have signed memorandums of understanding; and State and Territory governments are seeking new levels of collaboration - the work of the ACNC has only just begun, but it has been an impressive beginning.

Recent surveys have revealed that over 80 per cent of the sector and 80 per cent of the community value having a national regulator of charities (*Pro Bono News pre-election survey, ACNC survey of public trust and confidence*).

The establishment of an independent regulator for the sector has been on government and NFP policy agendas for over a decade based on multiple reviews and recommendations.

CCA supports expanding the role of the ACNC to further strengthen the sector, cut red tape and build public confidence.

The annual budget for the ACNC is less than \$15 million per annum, much of which is saved through reduced requirements for government officials to undertake similar functions within other agencies.

5. Increase Government commitment to and support of philanthropy

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 it is short-term and narrow thinking to treat increased philanthropy and social impact investment as a government loss. The whole community benefits if so-called 'foregone revenue' has been directed to strengthen communities, increase economic and social activity and improve health and well-being; and if the money involved has avoided the significant transfer costs of moving into, through, and out of government. Philanthropy and social investment are about encouraging greater ownership of local issues by strengthening the role of the NFPs and reducing the size of government. CCA recommends increasing philanthropy by:

a) Re-establishing the Prime Minister's Community Business Partnership

CCA welcomes and supports the Government's commitment to re-establish the Prime Minister's Community Business Partnership and has made a separate submission supporting its role to promote philanthropy; to provide an avenue for increased community and business engagement with NFP organisations; and to provide a level of advice to inform relevant Government policy.

CCA believes approximately \$2 million per annum would be required to support the activities of the Community Business Partnership.

b) Providing support to allow employers to establish 'opt out' systems of workplace giving to NFPs based on a 0.5% salary sacrifice

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

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

c) Providing 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)

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 per cent 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 providing an initial investment of less than \$1 million dollars.

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.

d) Establishing an NFP bank, drawing on dead money accounts to support capacity building in NFP organisations, 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 to underwrite an initial investment in the bank. The NFP bank would then act as an accessible low interest rate investor in projects that 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.

e) Implementing the recommendations of the Corporations and Markets Advisory Committee (CAMAC) into the administration of Charitable Trusts

CAMAC has made a number of recommendations about the need for greater information and scrutiny, to ensure Charitable Trust funds are administered and spent appropriately to achieve their charitable purpose. CAMAC made a number of recommendations about the need for greater information and scrutiny, but as yet there is no government reaction to the recommendations of CAMAC. This is unacceptable for donors and the community and CCA believes the Government should review, endorse and implement the recommendations presented in the CAMAC report on Charitable Trusts.

CCA believes implementing the CAMAC recommendations involves minimal additional costs.

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 and 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 in 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. Support the development of an independent, closed feedback loop to monitor and evaluate the health of the relationship between government and NFPs.

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 regular feedback collections from the NFP sector and the involvement of 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.

Budget implications (costings)

In considering the budget implications of the seven 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. This is consequently 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		
	2014/15	2015/16	2016/17
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. Maintain ACNC (allowing for offsets)	2.0	2.0	2.0
5. Increasing support for philanthropy	3.4	3.4	2.0
6. Future blueprint for the NFP sector	0.3	-	-
7. Not-for-profit bank	1.0	1.0	-
Total (excluding savings except FBT capping and ACNC offsets)	\$12.7 million	\$12.4 million	\$9 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 deliver real economic and social benefits for governments and our communities now.

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. Achieving these gains however, requires more than window dressing documents and hopeful edicts. Achieving positive change requires some initial investment.

This submission is asking for a commitment of approximately \$35 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 stronger, more resilient and productive communities across Australia.

Current Membership – Community Council for Australia Attachment 1

Organisation

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

Drug Arm

e.motion21
 Family Life Services Centre,
 Foresters Community Finance
 Foundation for Alcohol Research and Education
 Foundation for Young Australians
 Goodstart Early Learning

Good Beginnings Australia

HammondCare
 Hillsong Church
 Illawarra Retirement Trust
 Lifeline Australia
 Maroba Lodge
 Melbourne Citymission

CEO/Director

Sandra Dill
 David Templeman
 Carrie Fowlie
 John Ryan
 John Peacock
 Marc Purcell
 Alison Verhoeven
 Rachelle Towart
 Fiona Reynolds
 Bethwyn Serow
 Julie Reilly
 Chris Voll
 Kate Davidson
 Anne Gawen
 Rebecca Vassarotti
Dr Dennis Young (Director)
 Karina Posanzini
 Jo Cavanagh
 Belinda Drew
 Michael Thorn
 Jan Owen
 Julia Davison
Jayne Meyer-Tucker (Director)
 Stephen Judd
 George Aghajanian
 Nieves Murray
Jane Hayden (Director)
 Viv Allanson
 Rev. Ric Holland

Missions Interlink

Mission Australia

Musica Viva Australia

Opportunity International Australia

Philanthropy Australia

Pro Bono Australia (Associate member)

Relationship Australia

RSPCA Australia

SARRAH

Save the Children

St John Ambulance Australia

Social Ventures 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

Variety Australia

Volunteering Australia

Wesley Mission

Wesley Mission Victoria

Work Ventures

Workplace Giving Australia

World Vision Australia

YMCA Australia

Youth Off The Streets

YWCA Australia

Pam Thyer

Toby Hall (Director)

Mary Jo Capps (Director)

Rob Dunn

Louise Walsh

Karen Mahlab

Alison Brooke

Heather Neil (Director)

Rod Wellington

Paul Ronalds

Peter LeCornu

Michael Traill

Ian Higgins

Edward Kerr

Anne Hollonds (Director)

Steven Persson (Director)

Andrew Young

Lisa O'Brien (Director)

Wesley Noffs

Neil Wykes

Brett Williamson

Keith Garner (Director)

Rob Evers

Arsenio Alegre

Peter Walkemeyer

Tim Costello (Chair)

Ron Mell

Fr Chris Riley

Dr Caroline Lambert