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**Submission to the Assistant Treasurer**

***Federal Budget Submission 2012***

**February 2012**

**Introduction**

This submission briefly outlines key issues for Australia’s not-for-profit (NFP) sector over the coming financial year and provides a summary of the emerging budget implications for government and the NFP sector. It has been prepared through consultation with membership of the Community Council for Australia (see Appendix 1 listing of CCA members) and key organisations in the NFP sector. It also draws on a number of CCA submissions and recommendations made over the last 12 months.

It is important to note that this submission does not replicate the policy positions outlined in the individual budget submissions from our members, but is focused on the broader issues associated with government, NFPs and the Australian community described under the following sub-headings:

1. NFP reform agenda
2. NFP role across government programs and services
3. NFP innovation
4. Treasury and taxation changes
5. The NFP knowledge gap
6. Future financing of the sector

The submission also provides a listing of recommendations. 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. Achieving these savings requires an initial commitment from government and other key stakeholders.

CCA welcomes this opportunity to provide input into the Federal Budget process and would be more than willing to engage in more detailed discussion about any of the issues raised in this submission.

**The Community Council for Australia**

The Community Council for Australia is an independent, non-political member-based organisation dedicated to building flourishing communities primarily 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 and not against them. The mission of CCA is to lead by being an effective voice on common and shared issues affecting the contribution, performance and viability of NFP organisations in Australia through:

* providing thought and action leadership
* influencing and shaping sector policy agendas
* informing, educating, and assisting organisations in the sector to deal with change and build sustainable futures
* working in partnership with the government, the business sector, and the broader Australian community.
**Recommendations**

The following listing of recommendations is drawn from the discussion under each of the key issues outlined in this submission:

1. **NFP reform agenda**
2. The ACNC must be enabled to operate independently and reduce the compliance burden on NFPs through more effective regulation and referral of information and powers from the many local, State and Federal bodies imposing regulatory burdens on NFPs.
3. The single portal for NFP registration and reporting must work effectively to allow key organisational information to be reported once to a central government agency, and then be used by all other government and non-government funding and contracting services as the basis of any reporting and engagement process.
4. The smallest NFPs (less than $500,000) must not be required to meet complex compliance requirements, and a light touch reporting regime should be applied to all NFPs.
5. **NFP role across government programs and services**
6. An NFP impact statement should be included in all major policy proposals across government, even where the impact is considered to be secondary to the primary policy goal. This includes reviewing eligibility for program funding and other government assistance provided to small businesses, etc.
7. **NFP innovation**
8. A dedicated NFP innovation fund should be established to encourage NFPs to provide their own proposals that can more effectively address key government and community priorities.
9. **Treasury and taxation changes**
10. There should be both a one year and two year review of any new regulations in relation to NFP tax concessions that will allow NFPs adversely impacted by the changes to be able to outline their concerns, and enable the government to address unintended consequences or emerging issues.
11. **The NFP knowledge gap**
12. The government should immediately address the NFP knowledge gap by funding the development of an Information Development Plan for the Australian NFP sector, the establishment of a common framework for measuring the contribution of the NFP sector, and a new Centre for Community Service Effectiveness in accordance with the Productivity Commission Research Report *‘Contribution of the Not-for-Profit Sector’*.
13. **Future financing of the sector**
14. The government should establish a Social Finance Taskforce in line with the recommendations of the Senate Economic Committee Report, *‘Investing for good: the development of a capital market for the not-for-profit sector in Australia’.*

**Key issues for the 2012 financial year**

1. **NFP reform agenda**

The NFP sector contributes over $43 billion to GDP per annum, encompasses over 600,000 organisations both large and very small, and employs over 900,000 staff or 8% of all employees in Australia. These economic figures only tell a small part of the story. The real value of the NFP sector is their 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.

Despite the fact that the NFP sector is bigger than tourism or agriculture or communications, it has not benefitted from the kind of strategic reform that these other sectors have experienced. As a consequence there is an immense amount of wasted time, effort and energy associated with the running of many NFPs across Australia. Much of this waste is driven by poor government administration imposing onerous reporting and accountability requirements that serve very limited purposes. This is compounded by the range of regulatory bodies at each level of government and the seemingly unquenchable thirst from bureaucracies and others for more information about the actions rather than the impact of NFP organisations.

The issue of NFP reform has been on the agenda of Federal and State governments for well over a decade. Recent reviews including the Productivity Commission Report into the Contribution of the Not-For-Profit Sector in 2010, Senate Inquiry into Disclosure Regimes for Charities and NFP organisations 2008, and the review of Australia’s Future Tax System 2010, all made significant recommendations about the need for reform within the NFP sector and within government.

Perhaps most importantly in the context of 2012 financial year, the Federal government has made a significant commitment to support reform, including the establishment of the Australian Charities and Not-for-profit Commission. This provides a real opportunity to reduce red tape and implement some of the principles the government signed up to with the National Compact. There are real savings to be made in streamlining government interactions with the NFP sector, although achieving maximum savings will require an initial investment. For the ACNC to make a positive difference the government must ensure:

* the ACNC is enabled to operate independently and reduce the compliance burden on NFPs through more effective regulation and referral of information and powers from the many local, State and Federal bodies imposing regulatory burdens on NFPs
* the single portal for NFP registration and reporting works effectively allows key organisational information to be reported once to a central government agency, and then to be used by all other government and non-government funding and contracting services as the basis of any reporting and engagement process
* the smallest NFPs (less than $500,000) are not required to meet complex compliance requirements, and a light touch reporting regime is applied to all NFPs.

At any given moment there are hundreds, if not thousands, of bureaucrats around Australia seeking reports from NFPs or monitoring compliance information. These endeavours generate significant work, but offer very limited benefit in terms of real accountability or transparency. Significant investment in NFP reform will not only generate major ongoing savings in the longer term, but also benefit our communities.

1. **NFP role across government programs and services**

CCA members have been concerned for some time that the role of NFPs is often not factored into the planning or implementation of major government programs and services. In specific areas such as welfare services, arts or overseas aid for example, relevant government departments often maintain ongoing relationships with the (larger) NFPs they contract or have arrangements with. It is important, however, to acknowledge that the majority of NFPs are not directly connected to any particular government department or area of contracted service provision. Larger NFPs that are more likely to have an ongoing relationship with a government department still describe their overall relationship with government as reactive rather than proactive. NFPs are generally not given an opportunity for real policy input but delivered a take it or leave it contractual option.

There are many areas of government activity where the role of NFPs has not been considered in planning and implementation. This failure to appropriately engage and draw on NFP knowledge is reflected in some of the major policy areas such as the roll out of broadband, productivity and jobs planning, developing a price for carbon, regional development across Australia, transport and infrastructure planning, and other major government initiatives.

Given the critical role played by NFPs in our community in almost every area of significant national policy planning or implementation, government strategy will be enhanced through direct engagement with NFPs. If the Federal government is genuinely interested in delivering policy and practice that strengthens individual and community well-being, the far reaching roles of NFPs must be factored into all policy planning and implementation. This includes reviewing eligibility for program funding and other government assistance provided to small businesses, etc.

Ideally, CCA would like to see an NFP impact statement attached to all major policy initiatives across government, even where the impact is considered to be secondary to the primary policy goal.

1. **NFP innovation**

One area where the lack of strategic engagement between government and NFPs is quite critical is the capacity of NFPs to propose innovative solutions to priority issues including the environment, local culture, recreation, welfare, health, employment, education and other areas of NFP activity.

CCA believes all government contracting with, and funding of, NFPs should have the capacity to allow for innovative proposals to be considered. All too often bureaucracies pre-determine the scope of an issue and the way solutions should be implemented with little involvement of NFPs and even less opportunity for NFPs to propose responses to the identified issues. This top down approach to working in communities from the Federal government does not acknowledge or leverage local knowledge and expertise. Often there is very limited capacity for NFPs to be able to influence the way governments might best achieve their policy goals when working with specific communities.

At present NFPs that feel they could make better use of the resources to serve their community or members need to source funding outside of government. While some NFPs are able to gain support from private philanthropy and others have begun developing their own income streams, there is a large number of NFPs that have very limited capacity to trial or put forward ideas if they fall outside existing bureaucratic and funding limitations. There is also a number of key areas such as structural reform, capacity building and working with those seen as ‘not deserving’ that are less attractive options for private philanthropy.

Enhancing NFP effectiveness could be achieved through a dedicated NFP Innovation Fund established to encourage NFPs to provide proposals addressing key government and community priorities. The structure and operation of this fund would require cross-government collaboration.

Such a fund would also require some form of seed funding. CCA has advocated the use of unclaimed superannuation funds and bank accounts that have lapsed by more than 10 years as a source of potential funding for investment into NFPs that are able to put forward innovative proposals. Another option is a small levy across various government program areas that involve NFPs to support innovation.

The NFP Innovation Fund would provide the capacity for government to support innovative NFP proposals addressing specific areas of government concern as well as testing alternative approaches to achieve desired policy goals.

1. **Treasury and taxation changes**

There have been extensive discussions amongst CCA members about government proposals in relation to the taxation treatment of unrelated commercial activities of NFPs and changes announced in last year’s Federal budget. There have also been discussions about the economic impact and potential flow on effects of changes to the ‘in Australia’ provisions, the new definition of charity and fundraising regulation.

In each of these areas, CCA has been actively providing input through the various consultation mechanisms established by the government through the Treasury and in other forums. Without wanting to repeat all the points and recommendations made in CCA submissions on these important policy changes, there is a fundamental concern that needs to be acknowledged in this submission.

Many NFPs feel as though the government is in some way trying to restrict their access to income or reduce the concessions they currently receive. While CCA support any move to address the misuse of charitable status and the associated taxation concessions to achieve commercial gain rather than benefit a community, there is only a very small minority of NFPs who need to be targeted in addressing potential rorting of concessions and other charitable benefits.

The dangers in some of the changes proposed by the Treasury are that they needlessly create an additional compliance burden on NFPs while achieving very limited benefits in terms of reducing rorting or increasing government revenue. For example, CCA is very concerned about the proposal that NFPs will not be able to claim GST or FBT exemptions for any of their commercial activities, even where those activities may be related to achieving the purpose of the organisation. In practice this may mean a local community welfare group running a cake stall, sausage sizzle or weekend car wash may have to work out the staff time allocated to these activities and ensure no FBT is claimed for the percentage of staff time used, as well as ensuring GST is paid in relation to the income received from these activities. Making a small NFP comply with such a difficult accounting and compliance task creates real barriers to community engagement and fundraising.

Interestingly in relation to income tax concessions for the commercial activities of NFPs, the Treasury has indicated there should be a threshold for commercial activities to enable smaller NFPs to operate smaller scale income producing activities without having to consider what may be a complex set of definitions and compliance issues. Why is no such threshold being applied to GST and FBT concessions? This is just one example of the kinds of concerns raised in relation to proposed changes to NFP tax concessions.

To address these concerns, CCA is seeking a phase-in period for any new taxation arrangements being imposed on NFPs. Ideally there would be a one year and two year review of any new regulations in relation to NFP tax concessions. Such a review would allow NFPs adversely impacted by the changes to be able to outline their concerns and enable the government to address unintended consequences or emerging issues.

The government has committed to trying to strengthen, not weaken, the NFP sector. Any proposed changes to tax concessions must not undermine the capacity of NFPs to focus on their invaluable work for their communities, and be able to seek and obtain funding for this work from a variety of sources including self-generated income. If the income obtained by NFPs is being directed to the charitable purpose, this can only benefit our communities. Such additional income is not a loss to government, it is a gain for the community.

Within this context, CCA urges the government to note the concerns of NFPs as expressed in the hundreds of submissions and representations made to the Treasury on these issues.

At the very least, CCA believes it is important to put in place a clear review process to ensure no lasting damage is done through the proposed changes in eligibility for NFP tax concessions.

1. **The NFP knowledge gap**

Three critical recommendations were made by the Productivity Commission Research Report *‘Contribution of the Not-for-Profit Sector’* that have not been implemented, despite being accepted by government: the development of an Information Development Plan for the Australian NFP sector; the establishment of a common framework for measuring the contribution of the NFP sector; and funding a new Centre for Community Service Effectiveness to promote best practice approaches in evaluation and related issues. These three inter-related recommendations all address a fundamental gap in developing a stronger NFP sector in Australia.

The NFP sector in Australia is significantly impeded by a lack of knowledge. In many cases, government and NFPs are operating blindly with little evaluation of program impacts and limited access to best practice models. This knowledge gap ensures failure and success are rewarded in the same way, and poor practice and best practice continue to come and go, often driven more by individual commitment than evidence and good information.

NFPs are driven by the need to better serve their communities and many go to extraordinary lengths to try to improve their programs and services, often at the cost of investing in their own infrastructure or employee terms and conditions. Most NFPs would like to have the resources necessary to be able to fully document, evaluate and measure their impact, or at the very least, to be able to compare their performance to other organisations working in similar areas. While some NFPs are able to gain support for this area of evaluation and measurement of impact, the reality is that most NFPs are unable to fully demonstrate the benefits their services deliver to their communities.

If there is one area of very clear neglect in the Australian NFP sector, it is in information, research, evaluation and impact measurement. Without a major investment in these areas, Australia will not be leveraging the commitment and willingness of NFPs to work to achieve the best possible outcomes for their communities.

CCA urges the Federal government to make the investment needed to close the knowledge gap for the NFP sector in Australia.

1. **Future financing of the sector**

The not-for-profit sector contributes over 4% of GDP in Australia. It is a massive sector with an enviable record of growth over the past decade. Can this growth be maintained? If so, how and what does the future financing of the sector look like?

The Senate Economics Committee tabled a report on 25 November 2011, *Investing for good: the development of a capital market for the not-for-profit sector in Australia*, which explores finance options for the NFP sector.

The inquiry conducted by the Senate Economics Committee received many submissions and held public hearings across Australia and has presented a considered report. The primary recommendation of this Senate Report is the establishment of a Social Finance Taskforce with terms of reference that include considering the role of Community Development Finance Institutions in Australia and the potential of Social Impact Bonds.

CCA believes it is important to act on the recommendations of the Senate Report and immediately establish a Social Finance Taskforce. The future of Australia’s NFP sector is too important to our economy to continue to grow in largely ad hoc ways with little real planning or strategic investment.

**Conclusion**

As noted in the introduction, CCA has taken a broad view of Federal budget priorities for the Australian NFP sector. Individual areas and organisations (including CCA members) will be seeking to have specific programs funded and supported.

Achieving broad reform will take time and investment, but the returns in the longer term will be significant for government, NFPs and the broader community.

The not-for-profit sector is too large and too important not to become a more significant player in good public policy and community practice across 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.

**Attachment 1**

**List of Members – The Community Council for Australia**

1. Aboriginal Employment Strategy Ltd. – Danny Lester
2. Alcohol and other Drugs Council of Australia – David Templeman
3. Alcohol Tobacco and Other Drugs Association ACT – Carrie Fowlie
4. Associations Forum Pty. Ltd – John Peacock
5. Australian Indigenous Leadership Centre – Rachelle Towart
6. Australian Institute of Superannuation Trustees – Fiona Reynolds
7. Australian Major Performing Arts Group – Susan Donnelly (Director)
8. Church Communities Australia – Chris Voll
9. Connecting Up Australia – Doug Jacquier
10. Consumers Health Forum of Australia – Carol Bennett
11. Fundraising Institute of Australia – Rob Edwards
12. Good Start Childcare – Julia Davison
13. Good Beginnings Australia – Jayne Meyer Tucker (Director)
14. HammondCare – Stephen Judd (Director)
15. HETA Incorporated – Sue Lea
16. Hillsong Church – George Aghajanian
17. Illawara Retirement Trust – Nieves Murray
18. Lifeline Australia – Dr Maggie Jamieson
19. Maroba Lodge Ltd. – Viv Allanson
20. Mental Health Council of Australia – Frank Quinlan
21. Mission Australia – Toby Hall (Director)
22. Musica Viva Australia – Mary Jo Capps (Director)
23. Opportunity International Australia – Rob Dunn
24. Philanthropy Australia – Deborah Seifert
25. Principals Australia – Liz Furler
26. RSPCA Australia – Heather Neil (Director)
27. St John Ambulance Australia – Peter Lecornu
28. Social Ventures Australia – Michael Traill
29. Surf Life Saving Australia – Brett Williamson (Director)
30. The ANZCA Foundation – Ian Higgins
31. The Benevolent Society – Richard Spencer (Retiring Director)
32. The Big Issue – Steven Persson (Director)
33. The Centre for Social Impact – Peter Shergold
34. The Smith Family – Lisa O’Brien (Director)
35. The Ted Noffs Foundation – Wesley Noffs
36. Volunteering Australia Inc. – Cary Pedicini
37. Wesley Mission – Keith Garner (Director)
38. WorkVentures Ltd. – Arsenio Alegre
39. World Vision Australia – Tim Costello (Chair)
40. YMCA Australia – Ron Mell
41. Youth Off The Streets – Fr Chris riley