

BACKGROUND

The Western Australian Council of Social Service (WACOSS) is the peak body of the community service sector across Western Australia. Since 1956, WACOSS has been developing and strengthening the non-government community services sector's capacity to assist disadvantaged and vulnerable Western Australians.

The community sector plays an important role upholding the values and cohesion of our society. People turn to and trust our organisations for support when times are hard. We have proven ourselves to be flexible, understanding and effective in our capacity to help see individuals and families through, and out of, tough times.

With over 280 members, WACOSS has strong relationships with the social services sector and seeks to represent their interests, and those of the individuals and families they assist. Given this relationship, WACOSS is in a unique position to comment on issues in our society that impact upon disadvantaged members of the community.

WACOSS has concerns that Western Australians experiencing disadvantage and social exclusion may bear the brunt of the current economic downturn, and that this would be exacerbated by any reduction in services provided and/or funded by the WA Government. WACOSS strongly advocates for more efficient management of Government expenditure in order to meet the WA community's need for services.

WACOSS hopes that the principles expressed in this submission are of use to the Committee.

EXECUTIVE SUMMARY

This submission addresses key terms of reference of the Economic Audit Committee.

A central proposition of this submission is that efficiencies can be found in Government expenditure through more extensive outsourcing to the not-for-profit community services sector, and better management of that outsourcing.

WACOSS strongly advocates that the Economic Audit Committee give consideration to the role that the not-for-profit community service sector can play in meeting the community's need for service in a cost effective way. The Committee's objective is "to ensure value for money for taxpayers – that is, government is involved in the right activities, they are being delivered for the least cost, and they contribute to the achievement of improved outcomes for Western Australians¹". This objective can be met through more coordinated, more extensive and better managed selective partnering with organisations located in the communities requiring the service.

WACOSS looks forward to continuing to engage with the Committee as it seeks to examine the implications of implementing its decisions.

¹ Department of Treasury and Finance, *Economic Audit Committee Background and Terms of Reference*, Available online: http://www.dtf.wa.gov.au/cms/tre_content.asp?id=2164

ABOUT THE NOT-FOR-PROFIT SECTOR

The non-government community services sector expends approximately \$493 million per year, of which \$343 million is derived from WA Government funding². The sector delivers services to the community in a way that is cost effective and often more efficient than Government³.

The sector provides services in a number of areas including the following:

- mental health;
- disability;
- employment and training;
- aged and community care;
- family, children and youth services;
- alcohol and other drugs;
- indigenous issues;
- culturally and linguistically diverse people;
- justice; and
- housing and homelessness.

The not-for-profit community services sector delivered services to at least 400 000 West Australians in 2006-2007⁴. The not-for-profit human services industry (which includes the community services sector plus some not-for-profit health organisations) employs approximately 36 000 West Australians⁵. The sector is also a conduit for the energies of WA's volunteers, with 84% of WA's 542 000 volunteers devoting their time to assisting not-for-profit organisations⁶. The sector is connected to the WA community; many organisations have arisen as voluntary organisations, and are managed by community-oriented boards.

The breadth and depth of the sector's activities provide compelling reasons for the Committee to examine the Government's relationship with the sector as a site of possible improvement in efficiency.

The sector has access to a significant of volunteers, whose total contribution to the WA Government was assessed by the Department of Premier and Cabinet as being in the order of \$1.6 billion per annum⁷. Many organisations are eligible for concessions on GST and other taxes, either due to charitable status or other tax-exempt status. Organisations in the sector have the ability to supplement income from the State Government through

² figures are for the 06/07 financial year, as cited in Department of Premier and Cabinet for the Human Services Industry Roundtable 2008, *The Human Services Industry in Western Australia: Scoping the Sector*, Available online:

http://www.wacoss.org.au/images/assets/eNews_202/scoping_the_sector_human_service_industry.pdf

³ Productivity Commission 2007, *Report on Government Services*, available online:

<http://www.pc.gov.au/gsp/reports/rogs>. Cited in Allen Consulting Group 2008, *How many wheelchairs can you push at once?: Productivity in the community service organisation sector in Victoria*, Victorian Council of Social Service, Victoria, p.4.

⁴ Australian Council of Social Service, *Australian Community Sector Survey Report 2008*, p. 86. Available online: http://acoss.org.au/upload/publications/papers/4420__Paper%20154%20ACSS%202008.pdf

⁵ DPC 2008, op cit., p.8.

⁶ Australian Bureau of Statistics 2006, *Voluntary Work Australia*, cat. no. 4441.0, Canberra. Available online: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/4441.02006?OpenDocument>

⁷ DPC 2008, op cit., p.11.

grants from the Commonwealth, philanthropic and corporate donations and other activities. These factors combine to ensure that many functions performed by State Government agencies can be delivered at a lower cost by not-for-profit organisations.

Any consideration of efficient government expenditure that fails to examine the potential efficiency dividend to be realised through more extensive, better coordinated outsourcing to the not-for-profit sector will not achieve the objective of ensuring value for money for taxpayers.

RESPONSE TO KEY TERMS OF REFERENCE

This submission contains a response to terms of reference three, four, five, six and seven. WACOSS is not in a position to provide comment regarding terms of reference one and two.

3. An examination of the current structure of government agencies to determine whether changes are warranted to better support the efficient and effective delivery of government services.

WACOSS advocates a review of the current structure of government agencies in order to ensure that their structure best meets the needs of the WA community.

WACOSS suggests that the following principles be taken into account when reviewing the structure of government agencies:

- Unnecessary duplication of Departmental portfolio responsibilities should be avoided as far as possible;
- Government agencies should be structured in such a way to facilitate relationships with the not-for-profit community services sector, enabling efficient sharing of data and information and well-managed funding relationships;
- Government agencies should, as far as practicable and appropriate, be structured in such a way to facilitate the implementation of the National Reform Agenda of the Council of Australian Governments;
- Possibilities for efficiency gains through inter-Departmental synergies should be explored; and
- A dedicated Minister for the Community Sector with an appropriately staffed Departmental unit should be established, and aligned with the federal Minister proposed by the Senate Standing Committee on Economics⁸.

WACOSS can provide information regarding the application of these principles on request.

4. An evaluation of the effectiveness of existing performance metrics and options for greater transparency and accountability through improved public reporting.

There is the potential for efficiency gains through better collection, management and reporting of data by Government agencies, and the effective use of this data in agencies'

⁸ Senate Standing Committee on Economics December 2008, *Disclosure regimes for charities and not-for-profit organizations*, Commonwealth of Australia, Canberra. Available online: http://www.aph.gov.au/Senate/committee/economics_ctte/charities_08/report/report.pdf

planning. Performance metrics based on internal operations provide only one element of the information necessary to assess agencies' success in achieving their objectives. Agencies' impact on the WA community is a more appropriate mechanism for assessing the efficacy of Government expenditure. However, it is currently difficult to assess the efficacy of various agencies' activities, as there is a paucity of publicly reported data.

WACOSS advocates the development of a set of social indicators, and the use of these indicators to measure the performance of agencies and guide their planning processes. In recent years the lack of access to such information has compromised the quality and integrity of social policy development and resource allocation.

WACOSS is particularly concerned with the lack of reliable data pertaining to the not-for-profit community services sector. This lack of data means that Government policies pertaining to the sector are formed without sufficient evidentiary basis, and agencies' activities with respect to the sector are unable to be adequately assessed. For example, the most recent and reliable estimate of the number of organisations working in social service delivery in WA is ABS data which has not been updated since 1999-2000.⁹ It suggests that there are 894 such organisations. WACOSS considers this to be vastly inaccurate in 2009. The National Roundtable of Nonprofit Organisations suggests there are around 18,200 organisations delivering social services nationally, and WACOSS estimates that at least 8-10% of those would be operating in WA.

The lack of accurate data concerning the numbers of service providers is one example of an important area of the WA community and economy about which Government agencies are unable to make informed decisions. The lack of updated, quality data that is publicly available means that Governmental planning decisions regarding the sector occur "in the dark", and the impact of policies regarding the sector is unable to be accurately assessed.

In addition to areas such as the number of not-for-profit organisations, for which updated data is not available, there are areas in which data is available but is collected and compiled in a sub-optimal way. For example, the Department for Local Government and Regional Development's *Regional Price Index* provides detail on costs in various regions, but is based on metropolitan expenditure patterns, therefore understating the cost indicators.¹⁰ The lack of data available about expenditure patterns in regional, rural and remote WA is hampering the ability to make informed decisions about necessary resource allocation outside the metropolitan region.

WACOSS advocates the development of a set of social indicators to improve baseline understanding of the WA community, guide Governmental and non-Governmental policies and planning, and establish a commonly used approach to tracking improvements over time. This will lead to greater efficiencies in Government expenditure, and will assist business, philanthropic and community organisations to determine funding priorities. This will also enhance the WA Government's ability to comply with its undertakings in relation to measuring and reporting outcomes of the National Reform Agenda of the Council of Australian Governments.

⁹ ABS *Community Services Report 1999-2000*

¹⁰ Department of Local Government and Regional Development. (2007). *Regional Prices Index 2007*. Online at http://www.gsdc.wa.gov.au/File_Manager/documents/rpi_final.pdf

5. An examination of public sector management and service delivery issues, including procurement, corporate services and asset management.

The WA Government should explore all alternative methods for effectively managing expenditure while meeting community demand for services. A key method for doing so is outsourcing to the not-for-profit community services sector. The following measures should be considered as alternative methods for preserving service levels without increasing expenditure:

- a standard policy for engagement with the not-for-profit sector and the delivery of services by not-for-profit organisations should be implemented;
- more services should be contracted for delivery by not-for-profit organisations; and
- contracts with not-for-profit agencies should be more effectively and efficiently managed.

Each of these initiatives can yield efficiency dividends for the WA Government.

The WA community is likely to rely on services provided and/or funded by Government to a greater degree as a result of the economic downturn. In the long run, demand for services will rise due to the ageing population. Service providers were already struggling to keep up with demand before unemployment began to rise, with nearly 10 000 eligible West Australians turned away from service providers for lack of capacity in 2007-08¹¹. It is vital that Government identifies all possible avenues for improving efficiency in the funding and delivery of services in order to meet community need.

There is the potential for efficiency gain through the implementation of a comprehensive rationale for outsourcing, bringing consistency to agencies' decisions to outsource or not outsource particular activities. There is no clear systemic logic underpinning agencies' decisions to outsource or not outsource particular services, projects or programs. A standard policy underpinning outsourcing that is clearly understood within Government and the not-for-profit community services sector, and is adopted by all Government agencies, has the potential to clarify the relationship between Government and the sector.

A policy rationale and guidelines for outsourcing could streamline the process of tendering for particular services, as it may provide a guide as to which services the Government expects the sector will and will not be relied up to provide. Previous policies have sought to do this¹², but have been inconsistently applied and frequently ignored. The WA Government can yield better outcomes for the community at lower levels of expenditure if outsourcing is more consistent and less ad hoc.

As part of a review of outsourcing arrangements, the WA Government should commit to increasing the breadth and depth of services that not-for-profit community services are called upon to perform. The Productivity Commission has found that non-government

¹¹ ACOSS 2008, op cit., p.86.

¹² for example, Department of Premier and Cabinet and State Supply Commission 2002, *Funding and Purchasing Community Services: A policy statement on a fresh approach to funding and purchasing relationships with the not-for-profit sector*, Perth, Western Australia.

service providers were in many cases more efficient than government providers¹³. Not-for-profit providers have fewer administrative overhead costs, a less bureaucratic style of management, and are generally smaller, more responsive and more flexible than government agencies. They also have tax benefits, including GST concessions and exemptions, and “access to resources that are not costed at market rates (such as donations, church buildings and volunteers)”¹⁴. The WA Government has the ability to meet the level and quality of services that the community requires in a cost effective way. This can be achieved by greater levels of partnership with the not-for-profit community services sector.

Gains can also be made through better management of services delivered by not-for-profit organisations where government fully funds the service. Not-for-profit community service organisations face significant costs associated with compliance with funding and regulatory requirements. High costs of compliance and reporting translate into either lower service levels or higher government expenditure than otherwise would be the case. The WA Government, as part of a review of outsourcing arrangements and the implementation of a new outsourcing policy, should consider better management of contracts and reporting requirements. Further information is available below in WACOSS’ response to term of reference no. 6.

6. Options for regulatory reforms to increase efficiency.

WACOSS is concerned that regulations and contract management practices relating to the not-for-profit community services sector are unnecessarily administratively onerous, and impose costs in terms of lost efficiency. WACOSS strongly advocates the consideration of regulatory reforms and reforms of contract management practices related to the sector in order to increase efficiency. Such reforms have the potential to lower the cost of service delivery for Government and improve the quality and quantity of services provided to the WA community.

Researchers at the Queensland University of Technology have found that the cost of government-generated paperwork is equivalent to 1.74% of an organisation’s total revenue. For smaller not-for-profit organisations this cost is even higher, at an average of 2.76% of total revenue¹⁵. The majority (60%) of these costs are associated with reporting to State Government, with the balance being to local and Commonwealth agencies. A reduction in the red tape burden facing not-for-profit community service organisations will yield a dividend to the WA Government and the community.

The QUT researchers made a number of recommendations for reducing the red tape burden on the not-for-profit sector¹⁶. WACOSS endorses these recommendations, and advocates their adoption in Western Australia. The recommendations are as follows:

¹³ Productivity Commission 2007, *Report on Government Services*, available online: <http://www.pc.gov.au/gsp/reports/rogs>. Cited in Allen Consulting Group 2008, *How many wheelchairs can you push at once?: Productivity in the community service organisation sector in Victoria*, Victorian Council of Social Service, Victoria, p.4.

¹⁴ Productivity Commission, op cit.

¹⁵ Ryan, C., Newton, C. and McGregor-Lowndes, M. 2008, *How Long is a Piece of Red Tape? The Paperwork Reporting Costs of Government Grants*, Working Paper No. CPNS 39, The Australian Centre for Philanthropy and Nonprofit Studies, Queensland University of Technology, Brisbane.

¹⁶ Ryan, et al. 2008, op cit.

What can be done to improve the paperwork burden imposed by government on NPOs?

1. Agreement on a Whole of Government data dictionary to standardise financial, client data collection and other reporting terms and adherence to it by government. Only information defined in the data dictionary could be collected from NPOs to minimise the costs of data conversion and special collections.
2. Data should be collected once and duplicate data to government minimised. A computerised data collection product could be provided to small to medium organisations based on the Whole of Government Data Dictionary to implement such an ideal.
3. Any data collected should be either useful to the NPOs in the first instance or returned as useful information to NPOs in a timely fashion after analysis. This should improve the quality of the information collected for all concerned and attitudes towards its collection.
4. Communication about the fate and reasons of failed submissions needs to be improved, made timely and meaningful.
5. All government forms must be accompanied by adequate instructions and a contact point where inquiries can be dealt with in a prompt fashion.
6. Government paperwork should be designed in proportion to the size and capability of the organisations that it is directed to—one size does not fit all.
7. Government should examine its funding submission processes to ensure that scarce NPO resources are not wasted by adopting the use of expressions of interest and other techniques.
8. Further research is warranted to establish the benefits of red tape reduction measures implemented after this research was completed.
9. Further quantitative research is required into the burdens and benefits of statutory mandated quality accreditation processes being currently deployed by several [Western Australian] and Commonwealth departments.
10. Further research needs to be undertaken into the non-paperwork burden of government regulation such as workplace health and safety, corporate entity and taxation provisions.

WACOSS also advocates an approach to regulation of the not-for-profit sector that distinguishes between agencies according to their size. The charities and not-for-profit review of the Senate Standing Committee on Economics recently recommended that Australian Governments develop common terminology for 'micro', 'small', 'medium' and 'large' agencies¹⁷, and reduce the regulatory burden in particular for micro and small agencies. Given that compliance and reporting costs represent a higher proportion of expenditure for smaller agencies, such an approach will deliver greater efficiency for public expenditure in WA.

7. A review of existing state taxes and recommendations for reform.

WACOSS believes that the high and rising demand for services funded and/or provided by Government means that services must take precedence over any lowering of the taxation burden.

¹⁷ Senate Standing Committee on Economics December 2008, *Disclosure regimes for charities and not-for-profit organizations*, Commonwealth of Australia, Canberra. Available online: http://www.aph.gov.au/Senate/committee/economics_ctte/charities_08/report/report.pdf

If taxation reform is to occur, WACOSS advocates for a State tax system that:

- raises adequate revenue to fund an acceptable level of services and infrastructure;
- neither imposes undue compliance costs on taxpayers, nor administrative costs on government;
- utilises tax bases that minimise the scope for tax evasion;
- achieves both horizontal and vertical equity;
- is progressive – i.e. the burden of taxation should fall upon those most able to bear it;
- is transparent enough in aim, objective and operation for most citizens to understand;
- includes concessions and benefits to enable people on low incomes to participate fully in society;
- supports broader policy objectives including the alleviation of poverty; achievement of sustainability goals and environmental protection, reduction of the use of harmful substances (including tobacco and alcohol), encourages regional development, and the attainment of social justice and social cohesion;
- avoids entering into a mutually destructive “bidding war” with other states to reduce taxation or provide incentives to business.
- is designed with consideration of the overall impact of State, Commonwealth and Local Government taxation, fees, charges and penalties, concessions and benefits on individuals and groups within the State; and
- is stable and predictable enough for individuals, businesses and government to make long term plans for their financial future.

Further detail regarding these principles is available in WACOSS’ submission to the State Tax Review¹⁸ and WACOSS’ comments regarding the State Tax Review Issues Paper¹⁹.

WACOSS also advocates that the WA Government adopts any recommendations of the Henry review that pertain to the simplification of reduction of the taxation burden on not-for-profit associations.

The Senate Standing Committee on Economics has recommended that the Henry review “include an examination of taxation measures affecting Not-For-Profit Organisations with a view to simplifying these arrangements and reducing confusion and cost of compliance for these organisations²⁰”. This recommendation encompasses a review of State taxes including payroll tax, land tax and stamp duty with regard to their impact on not-for-profit organisations.

¹⁸ Western Australian Council of Social Service 2005, *State Tax Review Submission*, Available online: http://wacoss.org.au/images/assets/eNews_151/submission_tax_review2005.pdf

¹⁹ WACOSS 2006, *WACOSS Comments on State Tax Review Issues Paper*, Available online: http://wacoss.org.au/images/assets/eNews_151/comments_feb2006.pdf

²⁰ Senate Standing Committee on Economics, op cit., p.93.