

Not for Profits: Communities at Work

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Overview

- The importance of the sector
- Funding challenges, accountability and efficiency
- Undervaluing of the sector by Government
- The way forward

Thank you for the opportunity to speak today.

I'm going to cover these four points over the next ten minutes which isn't a long time so I'll be skating over some issues.

However, the purpose of this talk is to help build the case for our sector – the social sector – to be realigned in a way with the government and the commercial sector that better reflects the value of our contribution to our economy and our society. In the latter part of the presentation I will be focusing on the scene in WA.

A Powerful Sector

- \$33 billion sector
- Directors roles are increasing in complexity – more so than commercial
- The bottom line for NFP is below the bottom line. This is a concept many directors from business find hard to grasp.

Source: Tony Featherstone "Below the bottom line", Company Director, March 08



As you can see from these statistics, the Not for Profit sector is a significant contributor to the economy and the general community.

The social economy contributes 6% to Australia's GDP (including volunteer involvement) – more than the telecommunications or agricultural industries

NFPs are harder to run than commercial enterprises due to their scarce resources, complex problems they solve, difficulties in measuring outcomes and the mix of paid and volunteer staff

The bottom line for the NFP is below the bottom line as Featherstone points out. This is not really understood by business or government.

Client Focus

Not for profit providers have a unique accountability to their clients. There is an important role for not-for-profit providers to harness their operational knowledge and understanding of client needs and advocate on their behalf.

Source: Collette Rogers, "The Impact of the Australian Government Job Network contract on Not for Profit Service providers"
The Australian Journal of Public Administration Vol 66 December 2007 No 4 pp395-405



Our client focus is a strength and is the cornerstone of connection with the community.

The advocacy we bring in our contact with government helps shape policy. A living example are the changes that are shaping up in relation to the Welfare to Work policy at the federal level.

NFPs and Social Inclusion

“So our economy needs a social inclusion agenda...”

Julia Gillard (in Opposition): *Social Inclusion a New portfolio, a new approach*. Centre for Public Policy Melbourne University, 10 April 2007

“A strong, vibrant and innovative not-for-profit sector is essential to the social inclusion agenda and to a healthy Australian democracy...”

Senator the Hon Ursula Stephens, Address to ACOSS Conference, 9 April 2008

Fundamental to the work of the Not for Profit sector is the challenge of bringing those in the margins back into mainstream society. As Julia Gillard pointed out when in Opposition:

There are economic impacts of social exclusion. These include the economic costs of the numbers left out of the productive workforce due to lack of skills now required to compete in a globalised, information based and technologically advanced economy...

Ursula Stephens talks about us being at the pointy end of service delivery

So our sector is a driving force in building community particularly in ensuring those who are marginalized become included. Both federal and state governments now recognize the role played by the Not for Profit sector in relation to implementing a Social Inclusion strategy.

Funding challenges for NFPs

- The real burning issue is not about advocacy, it is about survival as an organization while maintaining a focus on the true mission of the organization
- It is almost impossible for a not for profit to refuse funding that will help them provide services they know are needed by their (disadvantaged) client

David Crosbie, CEO, Mental Health Council of Australia
Jan/Feb 2008 Newsletter

It is difficult for Not for Profits to do their work if the government funded programs are inadequate.

David Crosbie observes that survival is the real issue confronting not for profit organizations because the funding levels of contracts usually do not equate to the complexity of the services being delivered.

Because the Not for Profit sector operates below the bottom line, it gives more. It will sign contracts to ensure services are provided to those in need. However, the tightness of funding levels is such that many NFPs are simply not going for some of the new programs because the funding offered is inadequate.

Compliance and operating costs

“The government also knows that it needs to cut the red tape and layers of imposed bureaucratic reporting that can drain and distress even the largest and most sophisticated organisations, making it difficult for them to achieve their aims.”

Senator the Hon Ursula Stephens
Address to ACOSS Conference
9 April 2008

See also:

Ryan et al “How long is a piece of Red Tape? The paperwork reporting cost of Government Grants”
The Australian Centre for Philanthropy and Non Profit studies QUT March 2008



Historically, state and Federal governments have required more reporting from NFPs than they do from commercial organizations. At last there appears to be some recognition of the burden this imposes judging from Ursula Stephens' recent comments.

The report 'How long is a piece of red tape' confirms what we have known for a long time but now provides the evidence:

- Having multiple funders results in higher compliance costs
- The cost of government generated paperwork to be an average of 1.74% of an organisations total revenue.
- Smaller organisations have higher compliance costs because of the level of involvement required by management

The financial viability of Not for Profits is also being stretched by compliance costs associated with other matters introduced during the term of a contract, but for which no provision for funding has been made.

How are over runs managed?

- **Government** – Treasury provides supplementary funding or allows reallocation of funds
- **Business (for profit)** – pass to consumers, government rescues or buys back the service
- **NFPs** – Absorb costs rather than cut services;
 - Use donations and reserves to top up government funded service
 - Resilience – personal toll for staff

One could argue that every organization experiences growth in operating cost over runs so what's so special about NFPs that we need to treat them as a special case. Well actually I'm not suggesting that NFPs be treated as a special case, but that they should in fact be treated fairly.

If we look at how each of the above sectors generates revenue, we get a clearer picture of why NFPs are under pressure.

Government – taxes, fees, royalties, federal funds, etc

Business (for profit) – shareholders, contracts, sales etc

NFPs – Largely government funded, but also donations, fundraising, corporate philanthropy, bequests etc. Philanthropy is often directed at innovation, it is not meant to top up government contracts.

Increasingly, NFPs are drawing on other sources of funding to pay staff higher wages in order to retain them.

This begs the question: Are we inefficient?

Questions of Efficiency

- Value for money – does government know what this means?
- Talk of an Efficiency Dividend for NFPs?
- Auditor General Reports (and other statutory authorities)
- Failed government commercial contracts

How can government negotiate in good faith with NFPs when it doesn't even know or understand the cost of providing a service it is contracting? Would it do this with the commercial sector? It would detail the cost of every component!

What does government mean by "value or money" when it does not understand the value adding that takes place in an NFP, when the services of the whole organization are applied to support the client of a specific program. How then can government ask for an efficiency dividend as a trade-off if it makes concessions made to the sector when it hasn't even got its own act together?

The Auditor General each year raises serious questions about the operational and contractual efficiency of individual government departments. If NFPs operated this way they would go bankrupt. Add to this the list of spectacular failures by government where it has had to buy back services it contracted out to commercial enterprises because they ended up costing government significantly more than they originally thought. This is even after they have spent hundreds of thousands of dollars having consultants advise them on costing models.

Perhaps it is the NFP that should be asking the government to demonstrate an efficiency dividend before we sign a contract.

How the NFP sector is viewed by Government

- Government patronizes and uses the NFP sector:
 - Church/charity/volunteer origins
 - Its client group is “electorally insignificant”
 - It is a female dominated industry
- The NFP sector is now a multi billion dollar industry in WA but this doesn't seem to be understood by government

So this raises the question of “How does the government view the NFP sector?”

Although unintentional, the December 2007 WA government announcement of CPI increases for NFP programs was extremely patronizing.

It described the government as giving the NFP sector a helping hand. The truth is that government was in catch up mode, making good promises it had made years earlier but only implementing now.

Even so, the CPI only applied to three areas. However, we are advised this will be fixed in next week's budget.

What could prompt government to behave this way now and in the past?

- Our origins in church based charity?
- The fact that we deal with the least powerful and the least electorally relevant?
or
- The fact that this is a female dominated sector?

Wherever it comes from it needs to change. The NFP sector is large and diverse, employs significant numbers of staff and provides services to hundreds of thousands of people in this state. There is no room for a second class citizen attitude by government.

“Growing economy puts pressure on expenses.”

- \$252 million public sector wage increases

“...These services are essential to sustaining critical services to our burgeoning population...”

- Our staff are denied the industrial democracy that enable public servants to bargain for increased wages.
- What does this say about how our staff and customers are viewed?

In December 2007 the Treasurer stated in a media release that while revenue was strong it had to be measured against the government's salary bill which has been revised upwards by \$252 million because of demands being made by various groups in the public sector. He described these services as essential to sustaining critical services to our burgeoning population.

Somehow, it seems the government funded services of NFPs are not seen as important to our burgeoning population. Given that government is now the largest funding source for many NFPs, wouldn't it also seem logical for his advisers to consider that NFP staff might benefit from wage rises or even that funding levels are grossly inadequate in the first place.

There appears to be a belief in government that staff of NFPs are not primarily interested in wages and conditions, that they are simply driven by passion. There is no doubt that there is passion in the sector which drives service to the community. But NFP staff have to live as well and they are being poached by both government and the private sector in droves because the enormous disparity in wages.

It sends a poor message to the community sector staff particularly as many staff are excluded from an industrial process by which they can argue for better pay and conditions.

The way forward

- Government needs to behave as “one”
- Apply the same recognition by government to the NFP sector that applies to the commercial sector
- Contracts must be flexible and be more than a “contribution” to service
- Treasury must insist that departments know the value of services
- Treasury should second someone to WACOSS

The sector must be treated fairly and have its value recognised. Government agencies need to adhere to government policy in their dealings with NFPs. Some simply snub whole of government agreements that have been made with the NFP sector. How can you have joined up government when departments don't even take notice of government policy?

Funding needs to be more than a “contribution” to a service, it must be full funding. Government has no right to expect NFPs to use their reserves, or donations, to top up government funded services.

Treasury needs to insist on better financial modeling by government departments that are contracting services to the Not for Profit sector. Contracts must allow some level of flexibility.

Treasury needs to second someone to WACOSS to assist with financial modeling and for government to learn about NFP service costs. WACOSS has been asking for this for months, so why the delay?

A Time for Action

- If we are to continue to provide these valuable services to our clients:
 - Our value must be recognized
 - Funding increased
 - Wages and conditions improved
 - Client focus in contracts improved

The Government is to be commended on beginning to take steps forward, for example the Human Services Round Table and its newly announced commitment to a Social Inclusion strategy. But more needs to happen sooner.

There are twenty CEOs from medium to large NFPs who have been meeting regularly to prepare a campaign for increased contract funding that will allow for improved service provision, wages and conditions. They have set up a central fund which will be used to mount a very public campaign to draw attention to the issues currently facing the NFP sector because of poorly funded government contracts.

The ASU is also circulating a petition which is calling for the same and will be lodged with the Legislative Council.

We can no longer afford to be patronised and treated as a poor cousin in service delivery to the community. It is not fair to our clients, staff or the community in general, who see us as providing essential services that help develop and sustain well being in our community.

THANK YOU.