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BERG Not-for-Profit consultation
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A blueprint for charity sector reform - the role of government

As an experienced charity leader, I thank the Australian Government's Blueprint Expert Reference Group (BERG) for the opportunity to make a submission to the Issues Paper released for consultation. The issues raised by the paper provide a useful forum for the sector to ensure civil society can make a more meaningful and impactful contribution to Australia's social and environmental problems.

As the founder of Better Charity, a small boutique management consultancy, I work with charity and not-for-profit (NFP) leaders on strategy, money and risk. Many charity leaders have the skills, expertise and passion for social and environmental change, but face barriers which constrain their organisation's impact. I've outlined some of those barriers in a short submission below. I believe those steps will help government support the charity/NFP sector to deliver transformational change.

Thank you.

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A greater focus on outcomes will drive innovation

The Productivity Commission's 5-year productivity review, *Advancing Prosperity* (2023), found labour productivity growth of government-funded services – such as health, aged care, disability and education – has been close to zero. Many of Australia's charities and not-for-profits (NFPs) deliver those services. *Advancing Prosperity* found innovation is stymied by government funding rules which focus on inputs (activities) and outputs (deliverables) rather than measurable outcomes.

According to BERG's Issues Paper, the NFP sector is experiencing a shift towards outcomes-based funding from government. Yet, only 38% of NFP organisations collect any kind of outcomes data (Institute of Community Directors Australia 2019).

For example, a government grant for a biodiversity conservation project typically includes deliverables such as the number of community workshops held and volunteers engaged, metres of fence erected and/or trees planted. The funding contractor acquits the project and reports progress against the agreed activities and outputs. The outcomes are unknown because there is no funding available for ongoing monitoring and evaluation.

Alternatively, for the same project, government could simply set a desired target for increased species abundance and diversity across the landscape. An outcomes focus will encourage innovation, technology (i.e. acoustic recorders), knowledge sharing, collaboration and workforce skills development.

For an outcomes focus to work, however, government must apply funding and take a genuine long-term approach.

Role of government

Government's role is to provide an evidence-based system for strategically selecting, funding, monitoring, and evaluating long-term public programs that deliver the best outcomes for taxpayer investments.

The role of charities and NFP organisations is to co-design programs with the communities they serve. Sometimes, well-meaning government departments and officials attempt to lead and facilitate the program design process. And it always fails.

Stop under-paying the charity sector

The Productivity Commission's inquiry's draft report *Future Foundations for Giving* acknowledges that government programs are under-funded. Chronic underfunding limits the ability of nonprofits to innovate, recruit talent and apply new technology.

The BERG Issues Paper rightly identifies cost-shifting (government funding cuts) and underfunding (failing to fund both direct and indirect costs) as significant issues. BERG notes that over 60% of sector respondents report insufficient coverage of their full costs, with some government agencies capping funding of indirect costs as low as 7%.

Any charity or NFP that is recovering only 7% of indirect costs is either delivering government contracts at a loss, or is deliberately misleading itself and its funders. In contrast, a charity operating with indirect costs of 30% - invested in the latest technology and highly capable staff - could deliver significantly increased outcomes.

Government should be playing a leadership role - leading by example - by dismissing the “low overhead is good governance” myth that is starving charities of resources. A genuine focus on outcomes should, therefore, remove arbitrary caps on administrative or indirect costs. It is up to the charity or NFP delivering the services to justify its cost structure in the context of delivering agreed outcomes.

Short-term thinking is the enemy of reform

Short-term government policies and funding contracts similarly constrain technology investment and support for staff development. From experience, government grant rounds often offer short-term (12 month) funding contracts with tight submission deadlines. This discourages long-term collaborative partnerships and well-designed project proposals.

Levelling the playing field for talent

Charities and NFPs struggle to compete with the private sector for highly skilled and experienced employees; particularly in areas such as digital communications, fundraising, marketing and information technology. All these roles are critical to the success of charities.

Employees of charities registered as a Public Benevolent Institution (PBI) can salary package up to \$15,900 of their pre-tax income for everyday expenses (such as mortgage, rent, or personal loan repayments) and an additional \$2,650 for meal entertainment and holiday accommodation. This tax benefit allows PBI charities to compete for talent with the for-profit sector.

Employees of non PBI charities, however, cannot claim those benefits. Creating a level employment ‘playing field’ for all ACNC registered charities will attract more highly skilled staff to the charity sector and lift their ability to innovate and deliver social and environmental outcomes.

Call it social impact investing. The Australian Government should be willing to receive less income tax in return for increased productivity and impact.

Blended finance models to scale impact

Government can play a leadership role by creating the environment and framework for outcomes-based public programs run by talented people who collaborate, innovate and evaluate impact. It will open new funding opportunities from sources such as social impact investors, and philanthropy.

Open data for charities

The ACNC's searchable charity database is a terrific resource that is updated in real-time. The public data sets (data.gov.au) are, however, only updated annually after the publication of the ACNC's Annual Charities Report. While this gives the ACNC data exclusivity to generate some media interest from its report, it prevents analysts and the public from understanding and reporting trends.

For example, it is currently impossible to understand the impact of the 'cost of living' crisis on charities, and inform public policy responses. The information is out-of-date (and therefore irrelevant) when it is published. Public data sets on data.gov.au should be updated in real time.