



Australian Government
Productivity Commission

Contribution of the Not for Profit Sector

Productivity Commission
Issues Paper

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The Productivity Commission

The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

Further information on the Productivity Commission can be obtained from the Commission's website or by contacting the Media and Publications section on (03) 9653 2244 or email: maps@pc.gov.au.

HOW TO PARTICIPATE IN THIS STUDY

The Treasurer has asked the Commission to undertake a nine month research study into the contribution of the not for profit sector (attachment A).

In preparing our report, we will draw on discussions with, and written submissions from, people and organisations with an interest in this area and on other research and sources. This paper sets out some issues on which we are seeking views. We will use this issues paper as the basis for consultations with participants. The paper is not intended to be exhaustive — please raise any matter you see as relevant to the study. Nor should you feel obliged to comment on all the matters raised in this paper.

Following consultations and receipt of submissions, a draft report will be prepared and released for public comment. The Commission will then present its final report to the Australian Government for consideration.

The Commissioners on the study are Robert Fitzgerald AM and Dennis Trewin AO.

KEY DATES

Reference received	17 March 2009
Initial consultations	March 2009
Contributions and Measurement Roundtable	April 2009
Policy Roundtables	May 2009
Initial submissions due	29 May 2009
Release of Draft Report	mid September 2009
Draft Report submissions due	late October 2009
Roundtables for Draft Report	October/November 2009
Final report	late December 2009

MAKING A WRITTEN SUBMISSION

There is no specified format for submissions (attachment B). They may range from a brief commentary on a particular aspect of current arrangements to more substantial assessment of a range of relevant issues. Where possible, provide supporting data and documentation. This is a public review and the Commission seeks to have as much information as possible on the public record. ***However, please clearly mark material relating to participants' personal or commercial circumstances that are of a genuinely confidential nature.*** Include a submission cover sheet with all submissions.

If possible, lodge submissions by email as a text document (.txt, .rtf), a Microsoft Word document (.doc) or similar text format, rather than Adobe Portable Document Format (.pdf), to ensure screen readers can read it. Remove any drafting notes, track changes, annotations and other hidden text and marked revisions, as well as any internal links and large logos and decorative graphics (to keep file sizes down). You may also send submissions by mail or fax and we can arrange to record oral submissions over the telephone if you require that.

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1 Scope of the study

What has the Commission been asked to do?

The Commission has been asked to undertake a research study into Australia's not for profit sector. The objectives of the study are to:

- assess measures of the contribution of the not for profit sector and how these can be used to improve government policy and programs and optimise the sector's contribution
- identify unnecessary impediments to the efficient and effective operation of not for profit organisations and measures to improve their contributions
- consider ways in which the delivery and outcomes of government funded services by not for profit organisations could be improved
- examine recent changes in the relationships between government, business and community organisations and whether there is scope to enhance these relationships so as to improve outcomes delivered by the sector
- examine the impact of the taxation system on the ability of not for profit organisations to raise funds and the extent to which the tax treatment of the sector affects competitive neutrality.

In undertaking the study the Commission is to adopt a broad definition of the not for profit sector. It is also to have regard to the findings of the Government's Taxation Review headed by Dr Ken Henry and the 2001 *Inquiry into the Definition of Charities and Related Organisations*.

The full terms of reference are set out in attachment A.

Background to the study

As noted in the terms of reference, the Australian Government is seeking an improved understanding of the contribution of not for profit organisations as a means of informing policy and identifying better ways of working with the sector.

In particular, the Government has identified successful collaboration with the sector as necessary to achieve the goals of its social inclusion agenda, acknowledging

... the critical role the not-for-profit sector plays in delivering services, advising and developing social policy, and advocating on behalf of marginalised groups. A strong

relationship between the government and the sector will be crucial to the success of the agenda and related reforms (Australian Government 2009).

The social inclusion agenda is intended to reduce economic and social disadvantage by removing barriers to participation in employment or other aspects of community life. In addition to being a key service provider, the role of the sector in promoting social cohesion, raising civic awareness and facilitating participation in community activities — all of which have indirect economic and social benefits — is acknowledged by policymakers.

Against this backdrop, the Australian Government has foreshadowed the need for changes in governance arrangements underlying its relationship with the sector, including through a National Compact or agreement setting out the basis on which future collaboration will occur.

What are not for profit organisations?

The not for profit sector is broad, encompassing organisations

... formed by people to provide services for themselves or for others, to advance a cause, to share an enthusiasm, to preserve a tradition, to worship a god or gods. Different groups of these organisations are known by different names: non-government organisations (NGOs), charities, unions, cooperatives, clubs, associations, peoples' organisations, churches, temples, mosques and so on. Collectively, they comprise a third organised sector. (Lyons 2003, p. 2)

The defining characteristic of a not for profit organisation is that it does not distribute profits to members. Other features are a formal governance structure, independence from government, autonomy in decision-making and voluntary participation by members (Salamon and Anheier 1997; ABS 2002).

The sector is a major contributor to the Australian economy, employing close to 885 000 people and utilising the services of some 2.4 million volunteers (ABS 2008). However, by its nature, it is impossible to accurately measure the number of not for profit organisations (box 1). There are significant differences across the sector in terms of objectives, organisational structure, sources of finance and regulation (table 1).

The International Classification of Non-Profit Organisations (ICNPO) categorises organisations within the sector according to the activities they primarily undertake (table 2). The Australian Bureau of Statistics (ABS) uses this internationally accepted standard for defining not for profit organisations as the basis for constructing data on the sector in Australia.

Box 1 How big is the not for profit sector?

Establishing the number of not for profit organisations is difficult because of a lack of reliable data, particularly for those organisations who have not registered their formation through incorporation.

Lyons and Hocking (2000) undertook the first comprehensive attempt to measure the dimensions of the sector in Australia. They estimated that there could be up to 700 000 organisations within the third sector in 1995-96. However, the authors warned that this estimate 'should be treated with great caution.'

The estimate also includes some organisations (such as body corporates and financial and insurance mutuals) which are typically excluded from the sector on the grounds that they can distribute surpluses to members. Excluding these organisations, provides an estimate of a little over 500 000 not for profit organisations in 1995-96 (see table).

Estimated size of the not-for-profit sector, 1995-96

<i>Type of Organisation</i>	<i>Number of Organisations</i>
Companies limited by guarantee	9 000
Incorporated Associations	120 000
Co-operatives	3 000
Bodies Corporate	180 000
Organisations incorporated by other methods ^a	8 000
Unincorporated associations	380 000
Total third sector	700 000
Excluding body corporate entities	180 000
Financial and insurance mutuals ^b	2 000
Trading cooperatives ^b	700
Total not for profit sector	517 300

^a Including trade unions incorporated under industrial legislation; organisations incorporated under the Aboriginal Councils and Associations Act; organisations incorporated under the Education Acts in some states; and incorporated under specific acts of parliament. ^b The number of financial and insurance mutuals and trading cooperatives is based on data for the number of economically important entities.
Source: Lyons and Hocking (2000).

The Australian Treasury (2008) has provided an update on some of these figures. It estimated that in 2007-08, there were approximately 135 000 incorporated associations, 1 800 cooperatives and 11 000 companies limited by guarantee.

Based on organisations that had registered for an Australian Business Number (ABN), the ABS (2008) estimates that there were 40 976 not for profit organisations at the end of June 2007. Together they employed 884 476 people. While this estimate would capture economically significant organisations, it would exclude those which fall below the ABN turnover threshold of \$150 000 and have chosen not to voluntarily apply for an ABN.

Table 1 Differences within the not for profit sector

<i>Feature</i>	<i>Description</i>
Purpose	Some organisations exist to serve only members while others provide services to the wider community. Many do both. Some organisations focus on specific social and economic issues (such as Indigenous welfare, environmental sustainability or advancement of cultural or religious activity). Others have a broader agenda.
Structure	Not for profit organisations range from small, volunteer-based community groups to national service delivery providers employing relatively large workforces. Most do not employ staff but rely on the contributions of volunteers.
Legal status	Most organisations in the sector are unincorporated (that is, they do not have a distinct legal status from their members). The most common corporate structures are Company Limited by Guarantee or Incorporated Associations under relevant state or territory acts. Other legal structures for not for profit organisations include trusts; cooperatives; Aboriginal corporations; religious organisations (including those which are statutory corporations); and organisations formed by Royal Charter or by special Act of Parliament (Senate Standing Committee on Economics 2008. p. 61).
Taxation treatment	Some organisations, such as charities, receive preferential tax treatment. Others such as sports clubs, community service groups and recreational clubs may be subject to the same tax treatment as business.
Financing sources	A small minority of not for profit organisations receive the bulk of their funding from government. Most rely on private contributions (such as fees, philanthropy and 'in-kind' gifts).

The sector undertakes a wide range of activities for members, clients and the public more generally. Although not exclusively, community-serving organisations are more likely to complement the activities of government (for example, supporting the disadvantaged) than member-serving organisations.

Focus of the study

In measuring the contribution of not for profit organisations, the Commission proposes to take a broad view of the sector. However, given the breadth and diversity of the sector, and the complexities of its relationships with other sectors including government, the Commission also considers that a more focused approach may be required to deal with some specific elements of the terms of reference.

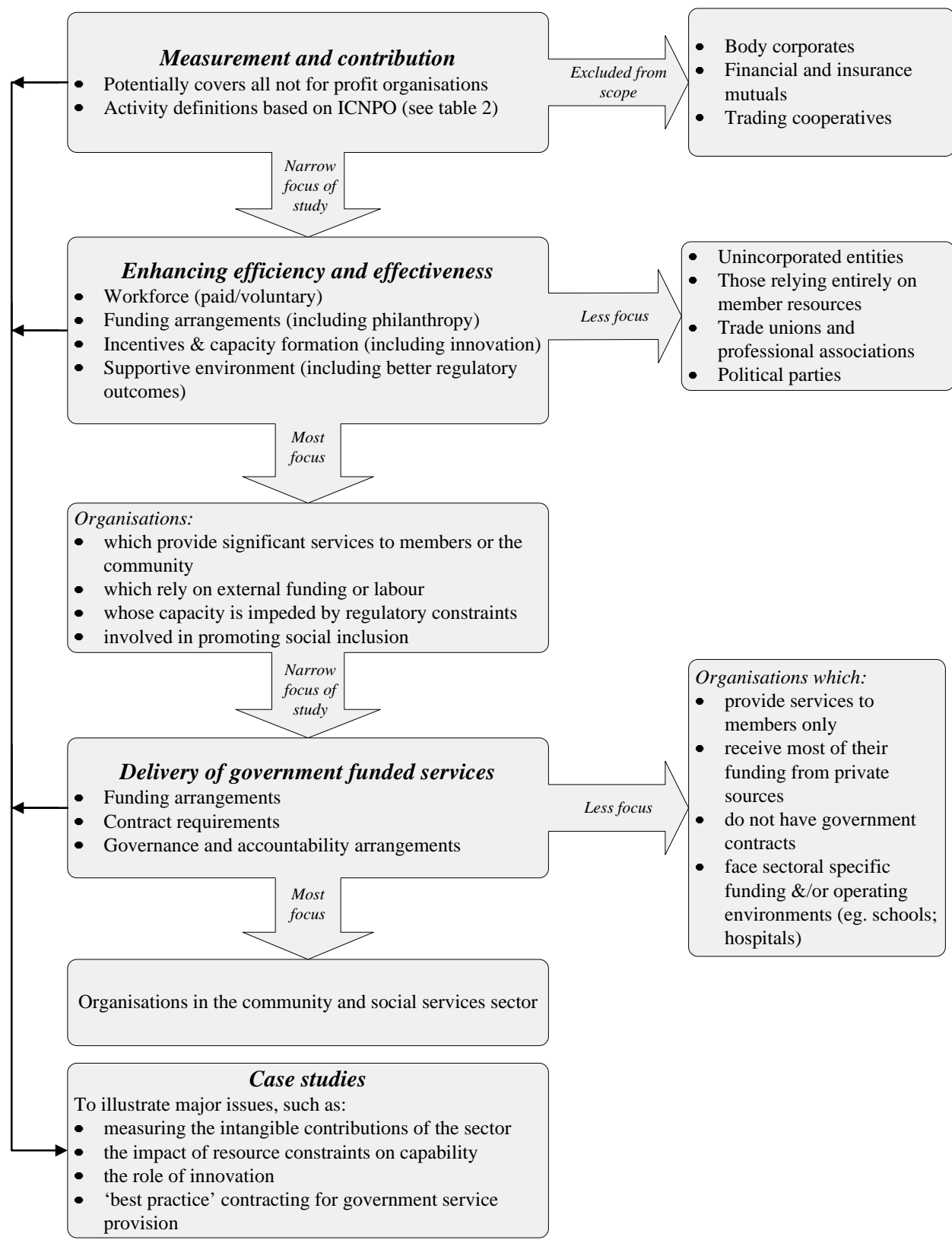
The issues contained in the terms of reference provide a 'filter' through which the study can be progressively focused (figure 1).

Table 2 Activities usually included within the not for profit sector^a
International Classification of Non-Profit Organisations (ICNPO)

<i>Activity</i>	<i>Includes</i>
Culture & Recreation	Media & communications; Visual arts, architecture, ceramic art; Performing arts; Historical, literary & humanistic societies; Museums; Zoos & aquariums; Sports; Recreation & social clubs; Service clubs
Education & Research	Elementary, primary & secondary education; Higher education; Vocational/technical schools; Adult/continuing education; Medical research; Science & technology; Social sciences, policy studies
Health	Hospitals & rehabilitation; Nursing homes; Mental health & crisis intervention; Other health services (eg public health & wellness education)
Social Services	Child welfare, child services & day care; Youth services & youth welfare; Family services; Services for the handicapped; Services for the elderly; Self-help & other personal social services; Disaster/emergency prevention & control; Temporary shelters; Refugee assistance; Income support & maintenance; Material assistance
Environment	Pollution abatement & control; Natural resources conservation & protection; Environmental beautification & open spaces; Animal protection & welfare; Wildlife preservation & protection; Veterinary services
Development & Housing	Community & neighbourhood organisations; Economic development; Social development; Housing associations & assistance; Job training programs; Vocational counselling & guidance; Vocational rehabilitation & sheltered workshops
Law, Advocacy & Politics	Advocacy organisations; Civil rights associations; Ethnic associations; Civic associations; Legal services; Crime prevention & public policy; Rehabilitation of offenders; Victim support; Consumer protection associations; Political parties & organisations
Philanthropic intermediaries & voluntarism promotion	Grant-making foundations; Volunteerism promotion & support; Fund-raising organisations
International	Exchange/friendship/cultural programs; Development assistance associations; International disaster and relief organisations; International human rights and peace organisations.
Religion	Congregations (including churches, synagogues, mosques, shrines, monasteries & seminaries); Associations of congregations
Business & Professional Associations & Unions	Business associations (organisations that work to promote, regulate & safeguard the interests of special branches of business); Professional associations (organisations promoting, regulating & protecting professional interests); Labour unions
Not elsewhere classified	All other non-profit organisations including cooperative schemes, manufacturers, wholesalers, retailers, cemetery operators

^a This table has been revised from the previous version of the issues paper to correct the omission of the ICNPO Group 9 'International'. *Source:* ABS 2002

Figure 1 **The focus of this study**



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- Measurement of the sector's contribution will encompass all those organisations usually included within the sector (and will follow convention by excluding organisations which can distribute surpluses back to members such as body corporates and financial and insurance mutuals).
 - Enhancing the efficiency and effectiveness of the sector will focus on the workforce and its capabilities, funding, research and innovation and regulatory issues confronting the sector. This aspect of the study will be less relevant for organisations which have chosen not to incorporate (and have avoided the associated regulatory burden); for smaller organisations which exist for, and are resourced by, members; organisations which offer specialised services to members (such as professional associations); and organisations which are subject to unique regulatory arrangements (such as political parties).
 - The focus will narrow further for consideration of options for improving the delivery of government funded services. Within the group of organisations that have entered into a direct relationship with government to provide services there are some, such as schools and hospitals, which have complex, specific funding arrangements which are often linked to funding provided to public sector providers of the same service. A detailed examination of these funding arrangements would warrant separate research studies in themselves (indeed, both health and education funding have been the subject of some recent reviews) and so is not proposed in this study. Given the emphasis in the terms of reference on the social inclusion agenda, the Commission's expectation is that organisations within the community and social services sector will be particularly relevant for this aspect of the study.
 - Throughout the study, the Commission anticipates using case studies to illustrate significant points.

Comments are invited on the Commission's proposed approach of adopting a broad view of the sector for the purposes of assessing its contribution and narrowing the study's focus to consider the specific policy and capacity issues raised in the terms of reference.

Not for profit organisations and government

As set out in the terms of reference, a key rationale for this study is to provide governments with an enhanced understanding of the not for profit sector. This study aims to improve the evidence-base for policy and identify better ways of working with the sector.

Not for profit organisations may provide services in addition to, in competition with, or to fill a gap in, public sector service provision. According to the Australian Council of Social Services (ACOSS 2008), the sector provided services such as disability support, child welfare, residential aged care and housing support to nearly 2 million Australians in 2006-07, including some of the most vulnerable within the community.

As governments have contracted-out areas of service provision, the sector has moved into some more traditional public sector roles (for example, in employment placement and training services). In addition, the sector has increasingly sought financial support from government for its programs. The resulting purchaser-provider agreements have required some adjustments within the sector (for example, in relation to service delivery models and governance arrangements).

There is also common interest in activities which have public, or collective, good characteristics. For activities such as environmental conservation, cultural and sporting events, and heritage preservation, the benefits accrue to the broader community and can be considered ‘public goods’.

Not for profit organisations may also provide benefits to members which, while essentially private in nature, have spillover benefits to the wider community (for example, social and community clubs).

The complementary goals of the not for profit and government sectors have led governments to explore collaborative arrangements, particularly in relation to complex economic and social issues (the social inclusion agenda discussed above is one example, some others are provided in box 2). According to Novak (2002, p. 60):

Partnerships are seen as a beneficial means by which to tackle the multi-dimensional, and increasingly geographically-based, sources of social disadvantage, such as unemployment, poverty and differential access to social services. They also represent a move beyond traditional interactions between the non-profit, government and business sectors such as philanthropic donations and tax incentives.

The approach of this study

This will be a forward-looking study. The Commission considers that it can add most value by focusing on high level institutional, capacity building and policy issues, with the objective of identifying the policies and practices that will enable not for profit organisations to deliver the best possible outcomes for individuals and the community.

Box 2 Not for profit organisations and some recent policy initiatives

- The National Mental Health and Disability Employment Strategy is an Australian Government policy initiative designed to improve employment opportunities for people with disability, including mental illness. As part of the Strategy, employment opportunities are offered through a number of providers including not for profit organisations participating in the Disability Employment Network. The Australian Employers' Network on Disability is a not for profit organisation set up by members of the business community which provides information on employing people with a disability.
- The Not-For-Profit Advisory Group (NFPAG) was established in 2007 to assist the Australian Government Department of Families, Housing, Community Services and Indigenous Affairs in the development of disaster recovery policy. The purpose of the NFPAG is '... to harness expertise, facilitate exchange of information and improve understanding of the roles of the Government and not-for-profit sectors in building community capacity and supporting community recovery from critical events and disasters' (FaHCSIA 2008). It represents a range of organisations, including Anglicare, Lifeline Australia, Volunteering Australia and the Salvation Army. Amongst the work carried out by NFPAG are contributions to a pandemic influenza preparedness policy and development of a statement of relevance of the National Principle for Disaster Recovery for the not for profit sector.
- The Communities for Children is an Australian Government program which provides funding to improve health and development opportunities for children under 5 years of age. The funding is provided through non-government organisations (called Facilitating Partners) who work with local community groups to deliver a range of services including: early learning and literacy programs; development of social and communication skills; child nutrition; and parenting and family support programs.
- Building Stronger Communities is a Victorian Government initiative '... to increase involvement and partnership among members of a community to achieve common objectives. It involves local people, community organisations, government, business and philanthropic organisations working together to achieve agreed social, economic and environmental outcomes' (DPCD 2009b). Under this program, funds have been provided for projects aimed at supporting volunteering; encouraging participation in community events (such as sport, recreation, the arts and lifelong learning); enhancing support networks and improving social infrastructure.
- As part of its 'Blueprint for the Bush', the Queensland Government has provided funding to not for profit organisations to enhance their capacity and improve the effectiveness of service delivery. Funds have been provided to strengthen rural Indigenous organisations; to rural multi-tenant service centres; and for improving workforce capability and development in rural non-government organisations.

In preparing its report, the Commission will draw heavily on input from participants via consultations, roundtables and from written submissions (box 3 provides information on how to make a submission). It will also have regard to relevant previous or concurrent studies, most notably:

- the 1995 review of *Charitable Organisations in Australia* by the Industry Commission
- the 2001 *Inquiry into the Definition of Charities and Related Organisations*
- reviews undertaken by State and Territory Governments such as the *Review of Not-for-Profit Regulation* conducted by the Victorian State Services Authority
- COAG initiatives aimed at improving service delivery in areas such as health, aged care and education
- the recently completed Senate *Inquiry into Disclosure Regimes for Charities and Not-for-Profit Organisations*
- the current review into Australia's future taxation system headed by Dr Ken Henry, including the related investigation into measures to strengthen the financial security of seniors, carers and people with a disability headed by Dr Jeff Harmer.

Recommendations of two previous reviews — the Industry Commission's 1995 Inquiry and the recent Senate Inquiry — are summarised in attachment C.

Consistent with the forward-looking nature of this study, the intention is not to replicate the work of these inquiries. Rather it is to identify those issues raised which have current relevance for the policy framework and the performance of not for profit organisations, and to explore emerging issues for consideration.

Comments are invited on whether the findings and recommendations of previous inquiries remain relevant to the operations of the not for profit sector. Of those that continue to be relevant, and have not been acted on by government, which are the most important for improving the efficiency and effectiveness of the sector?

Box 3 How to make a submission to this study

The remainder of this paper sets out some particular issues on which the Commission is seeking comment. It divides these issues into four broad categories:

- measuring the contribution of the not for profit sector
- ways of enhancing the efficiency and effectiveness of the sector
- the sector's provision of government-funded services
- trends and developments impacting on the sector.

Participants are welcome to comment on any or all of these (or, indeed, to focus their attention on more specific issues which fall under these broad categories). Comments on any other issues considered relevant to the terms of reference are also welcome.

Wherever possible, supporting information, data and examples, both from Australia and overseas, should be provided to illustrate arguments.

The Commission is currently undertaking a related research study on regulatory burdens in the provision of social and economic infrastructure. It is also conducting a public inquiry on gambling which may overlap with some issues raised in this study. Participants who have made a submission to these other projects that is considered relevant to this study, are welcome to draw it to the attention of the study team rather than resubmitting it.

Further details on the preferred format for submissions and how they can be provided to the Commission are provided in attachment B.

2 Measuring the contribution of the not for profit sector

As noted in the terms of reference, improving the evidence-base for policy can lead to improved outcomes. Among other things, better understanding of the sector may enable resources to be directed to areas where they can achieve the greatest community benefit and facilitate the development of policies which enhance the effectiveness of the sector.

Existing measures of the contribution of the sector

There have been a number of Australian studies, each of which has examined different aspects of the sector's contributions (box 4). The most comprehensive is the work by Lyons and Hocking (2000). This drew on ABS data, taking an input-based approach. The ABS is currently putting together a satellite account for the not for profit sector for 2006-07 to update the account previously published in respect of 1999-2000. This is expected to be available in September.

Box 4 Australian studies on the contribution of the sector**Direct contributions**

The Australian Bureau of Statistics (ABS) produced the Non-Profit Institutions Satellite Account (ABS 2002) to supplement national accounts data. It provides a measure of the sector's direct contribution to national income and employment. Included in the Satellite Account are measures of the value-added by the sector and its contribution to GDP. Estimates are also included on the value contributed by volunteers to non-profit institutions.

Recently, the ABS conducted a survey of not for profit organisations for 2006-07 (ABS 2008) which provided information on value-added and employment in nine activity classifications within the sector. This and other data are being used to provide an update of the Non-Profit Institutions Satellite Account due for release in September 2009. The only other comprehensive study of the sector was undertaken by Lyons and Hocking (2000). However, data on funding sources and expenditure compiled by the Australian Institute of Health and Welfare are available for specific areas of the sector.

Contributions to social capital and community strengthening

The ABS has also developed a framework for measuring social capital, which it defines as:

... the resources available within communities in networks of mutual support, reciprocity, and trust. It is a contributor to community strength. Social capital can be accumulated when people interact with each other in families, workplaces, neighbourhoods, local associations, interest groups, government, and a range of informal and formal meeting places. (ABS 2004, p. 5)

The ABS framework identifies not for profit organisations, along with government agencies and commercial enterprises as vital components of community networks. The Victorian Government has identified the ability to participate in networks, including those created by not for profit organisations as an indicator of community strength (DVC 2006). It has also developed a framework for measuring the strength of local communities (DPCD 2009a).

Contributions of volunteers

Several studies have been undertaken to measure the contribution of volunteers. The ABS produces regular survey data on the number of volunteers, the hours they contribute and the types of activities they are associated with. By imputing a wage to this unpaid labour, the ABS (2002) provides estimates of the direct monetary value of volunteers' contributions. Other studies have attempted to capture some of the indirect benefits of volunteering. For example, a report produced for the South Australian Government (Mayer 2003) indicated that volunteering strengthened social capital and delivered a number of intangible benefits including lower crime, improved health and education outcomes, and gains in economic development.

In addition to the studies which take a sector-wide approach, there have been a number of studies of the contributions made by specific activities or organisations within the sector. These include the contributions made by not for profit organisations in aged care (Allen Consulting Group 2003), surf lifesaving (Allen Consulting Group 2005a), historic heritage conservation (Allen Consulting Group 2005b), and clubs (Allen Consulting Group 2008; IPART 2008).

Comments are invited on how well previous Australian studies have captured the contributions of the sector, particularly whether there are significant gaps in coverage or methodological measurement issues.

There have also been several international studies on the contribution of the not for profit sector (box 5).

Comments are invited on these, or any other, international studies of the contribution of the not for profit sector and their relevance to measuring the contribution of the sector in Australia. The Commission would also welcome information on studies undertaken by not for profit organisations to assess their own contributions.

The nature of the contribution of not for profit organisations

What makes not for profit organisations different?

The defining characteristics of not for profit organisations enable them to make contributions which are distinct from those of the business and government sectors. Indeed, this ability to make contributions in a distinct, and sometimes unique, way provides a rationale for the sector's existence.

Box 5 International studies on the contribution of the sector

- The Comparative Nonprofit Sector Project was established at Johns Hopkins University with the aim of developing a consistent approach to defining, measuring and comparing the size and contribution of the not-for-profit sector across countries. To date, over 40 countries have participated in the project and have each brought a different perspective to the debate on scope and coverage of the sector.
- The UK Government's Office of the Third Sector has initiated a Measuring Social Value Project, to be undertaken by a consortium of private sector and not for profit organisations. The purpose of the project is to '... place financial worth on the social value that an organisation creates through its activities, outputs and outcomes' (UK Government 2008). One of the goals of this project is to increase the evidence base of the impact of the not for profit sector.
- The OECD has established the Local Economic and Employment Development (LEED) program to propose and analysis policy initiatives to promote employment and economic development in local communities. Part of the program's task is to identify and analyse '... the role of social enterprises and the non-profit sector in generating new economic activity and creating mechanisms of social inclusion. It also examines corporate social responsibility and asset building approach as instruments of social cohesion' (OECD 2009).
- A number of international governments and organisations, including the OECD and the World Bank, have examined the impact of social capital — such as that generated by not for profit organisations — in promoting economic development and social cohesion.
- Satellite national accounts have been developed for the not for profit sectors in Belgium, Canada, the Czech Republic, France, Japan, New Zealand and the United States.

As noted above, the absence of a profit motive enables the pursuit of activities which, while valuable to the community, might not be undertaken by business. For many not for profit organisations, this willingness to act in the interests of the community, and the perception that they exist to 'do good', can have significant impacts on the contributions made by not for profit organisations. This additional value comes from the generation of trust, altruistic motives of volunteer workers (and often paid workers who earn less than their market wage), and enhanced organisational effectiveness driven by a focus on meeting the needs of users rather than maximising profits. Reflecting these features, survey data suggest that not for profit organisations are often viewed as more effective service providers than governments or business (box 6).

Box 6 Views on the value of not for profit organisations

Not for profit organisations are generally identified as valued service providers with the community. For example, in the General Social Survey for 2006 (ABS 2007):

- 14 per cent of respondents indicated that they found the services of government and business providers difficult to access, while only 1 per cent identified the same problem with not for profit organisations.
- 17 per cent of respondents indicated that they had difficulties communicating with government service providers and 14 per cent indicated a problem communicating with business service providers. The comparable figure for not for profit organisations was 2 per cent.
- 12 per cent of respondents identified community, charity or religious organisations as a source of support in time of crisis. In comparison, 5 per cent nominated local council or other government services as a potential source of support.

How do not for profit organisations contribute?

The sector contributes to economic, social and civic outcomes in a number of ways.

- *Service delivery* which might be provided to people outside the organisation (such as social support or emergency services) or services provided to members of the organisation (this may include the opportunity to participate in worship through a religious organisation or the socialisation benefits of participating in a community club).
- *Advocacy* on a range of economic, social and civic issues for both individuals and communities of interest. Some not for profits take an advocacy role for individuals. For welfare focused groups this may be on behalf of clients (for example, people with disabilities), while for professional associations and unions this is a service provided for members. Other organisations conduct advocacy on behalf of a community of interest, such as sport fishing organisations that work for access to, and sustainability of, recreational fisheries.
- *Connecting the community* and expanding the social networks available to individuals. Connection through worship, social and sporting clubs and other organisations promoting community engagement are obvious examples, but connection can also occur through volunteering in, for example, a service delivery organisation. Provision of social support services can also provide a means by which socially excluded individuals can re-engage with society.

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- *Enhancing the community endowment* by investing in skills, knowledge and physical, social, cultural and environmental assets to future generations (for example, philanthropy which establishes art galleries or museums; environmental conservation; historical societies which preserve local traditions; or local community groups which maintain social networks which can be drawn on in times of crisis).

The contributions of the not for profits arise directly from their pursuit of these roles, and from the processes by which they pursue their objectives. Contributions of the sector are both direct from the delivery of services to clients, members and the general public, and indirect through the induced changes in government and business activity. Not for profit organisations influence the social values of the community and the ‘social capital’ that underpins the informal and formal institutions that govern market, political and community behaviour.

Comments are invited on this, or other means, of categorising the roles and modalities of contribution of the sector.

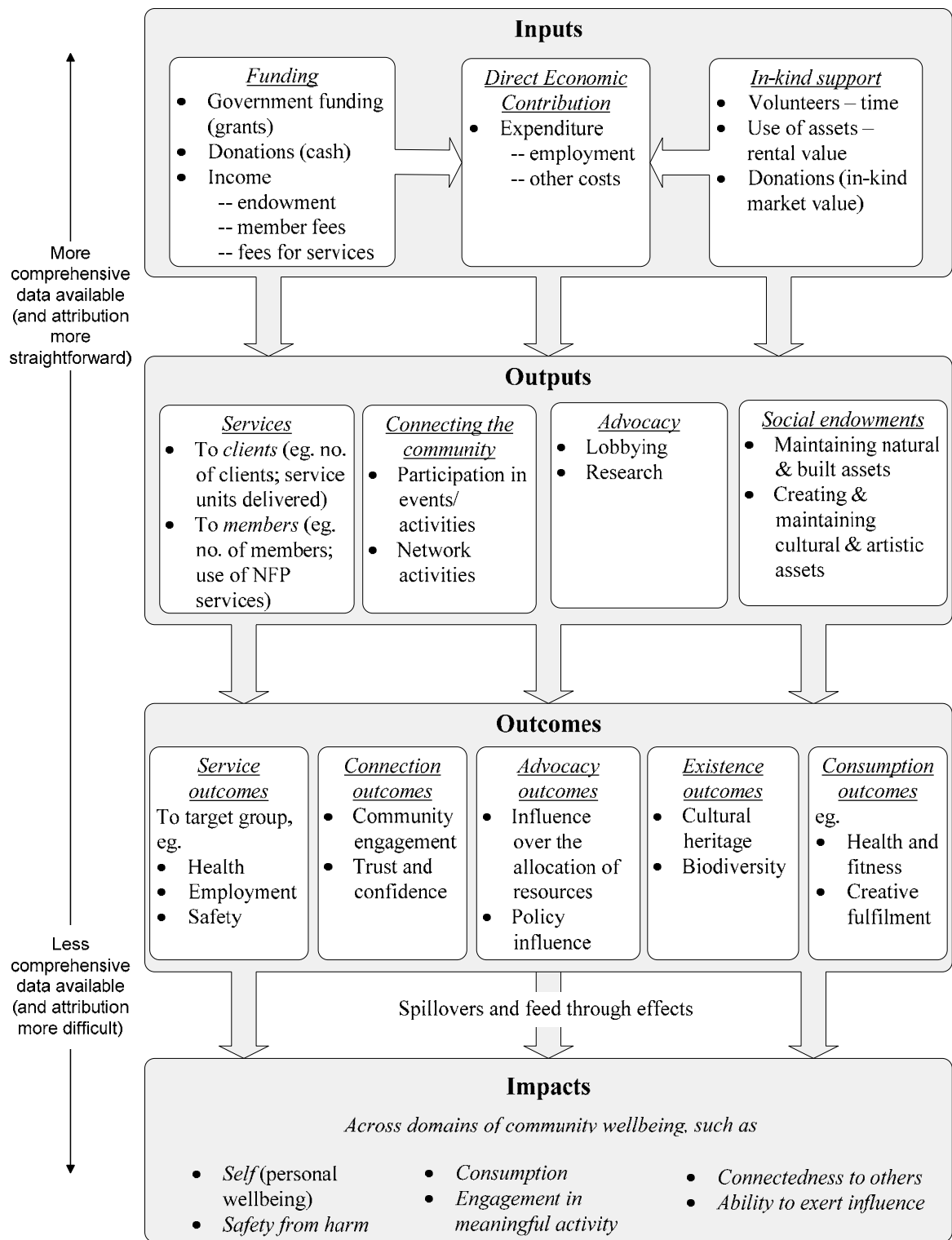
A conceptual framework for measuring the contribution of the sector

An agreed conceptual framework for measuring the contribution of the sector can considerably enhance the value of the statistics compiled. It can provide a coherent picture of the sector, facilitating the use of statistics from different sources to provide a richer approach to measurement of the contribution. In addition, it enables gaps, inconsistencies and duplication to be more readily identified.

Some partial frameworks already exist, for example the ABS Non-Profit Institutions Satellite Accounts, which is based on the UN Handbook on Nonprofit Institutions in the System of National Accounts (UN 2003). This framework focuses on measuring inputs as a proxy for outputs, an approach utilised in the National Accounts where output data is not available, such as with government services. The Commission hopes to go beyond the input based approach to measurement to identify output and outcome measures. An outline of the proposed framework is given in figure 2.

There are four layers to the framework for measuring the contribution of the sector. The contribution can be measured in terms of inputs (expenditure, volunteer time); outputs (measures of services and activities delivered, such as number of members as a proxy; media releases, research reports, participation in policy forums); and outcomes (such as changes in employment, health status, fitness, or skills). The outcomes often map directly to the objectives of the organisation or the program it is delivering.

Figure 2 Draft overarching framework for measuring the contribution of the not for profit sector



Source: Productivity Commission internal work in progress.

The final layer of the framework is the impacts of the not for profit sector. Impact measures look beyond the target recipients to the effects on all the community over time. Impacts are usually the result of a complex interaction of actions of government and the not for profits, as well as economic and social conditions more generally. Consequently attribution for impacts is often difficult, made more so as many of the contributions are in themselves necessary, but alone not sufficient, for benefits to arise. For example, it is generally difficult to link improved employment or health outcomes to a single cause (such as the services offered by a community organisation). The activities of some organisations pose specific measurement challenges. For example, the benefits delivered by Australian based international development and aid organisations accrue largely to people living overseas.

Do you agree that a conceptual framework is important? Do you have any suggestions on the key elements of the framework? Are there any specific issues in measuring the contribution of Australian based international development and aid organisations?

As indicators progress through this hierarchy they generally impart more useful information for the purpose of assessing contribution. However, moving through the range of indicators in this way is also informationally demanding and, generally, less comprehensive data are available to construct outcome or impact measures than are available to construct input and output-based measures. Data may need to be sourced from case studies raising issues of representativeness. In addition, many of the sector's contributions are intangible in nature and hence not readily amenable to quantification, so only a subset of outcomes and impacts can be 'valued' in dollar terms. As a result, a range of qualitative and proxy measures need to be explored.

In its annual *Report on Government Services*, the Commission has developed an assessment framework and a range of indicators to measure the effectiveness of public sector service provision. A similar approach in relation to the not for profit sector would involve identifying a range of indicators related to the various roles undertaken by the sector.

Participants are invited to comment on appropriate methodologies for evaluating the contribution of the not for profit sector. The Commission is particularly interested in receiving feedback on the appropriateness of using a range of indicators for this purpose.

Uses of information on the contribution of the sector

While the framework is comprehensive, it is recognised that at the outcome and impact layer and to a lesser extent the output layer, information will be partial. Looking forward, the framework should guide the collection of relevant information for program outputs, outcomes and impacts. It should also assist in identifying the data needed to build a robust evidence base for policy. As the main purpose of the framework is to inform policy this suggests that the priority should be to develop data sources that will better inform policy development and review.

Policy impacts are broader than program delivery. They can affect the costs and access to resources and the objectives of not for profit organisations. To monitor these effects, as well as to understand the potential of the sector, structural data is important. This includes detail about the number of service providers, scale and sources of funding, and demographics and other details of their workforce (including volunteers) and clients. In general, measures of scale of activity are based on inputs utilised, although proxy measures of activity such as memberships can also be utilised.

Program evaluations and monitoring that report on outputs and outcomes are important for accountability to funders (government and others), clients and members. These measures also populate these layers of the framework. Looking forward, widely accepted output and outcome measures could assist in establishing better evaluation practice while still providing accountability. Comparability of such measures would support the compilation of data on the sector.

Impact assessment studies are used to inform policy and program development and can form the basis of robust evidence based policy. They also provide an important input into populating the framework. Impact assessment can provide both quantitative and qualitative measures of the contribution of specific activities of the sector. Over time, meta analysis of such studies can result in a rich picture of the sector and enhance understanding of how, where and why it delivers value to the community.

As noted in the terms of reference, improving the evidence-base for policy can lead to improved outcomes. A better understanding of how the sector contributes to community well-being can inform development of policy to remove impediments to, or support, the creation of value by not for profit organisations. Measures developed to capture the contribution of the sector can also be used to monitor the impact of policy decisions and, at the more direct end of the spectrum, to evaluate the delivery of services by the sector.

Comments are invited on the extent to which existing measures of the sector's contribution have been utilised to inform policy development and monitor policy effectiveness, in Australia and in other countries. What modifications could be made to improve existing measures?

3 Enhancing the efficiency and effectiveness of the not for profit sector

The Government has asked the Commission to identify unnecessary burdens or impediments to the efficient and effective operation of not for profit organisations generally, including unnecessary or ineffective regulatory requirements and governance arrangements, and identify measures to enhance their operation.

The capacity of not for profit organisations to provide services and improve the wellbeing of society in the most efficient and effective manner is influenced by many (often interrelated) factors. In general, their efficiency and effectiveness is affected by the quantity and quality of the human and financial resources they can access, by their capacity to organise and use those resources to best effect, and by the regulatory environment within which they operate.

Access to human resources

The quantity and quality of human resources available to not for profit organisations and the way in which these are managed are important drivers of efficiency and effectiveness. Thus, a fundamental issue for this review is whether not for profit organisations face unique impediments in attracting the people they require, whether in a paid or volunteer capacity.

The availability and use of human resources is influenced by labour market policies or other regulations which affect the cost of using paid or volunteer employees. For example, rules surrounding public liability and special requirements for those involved in work with children or the aged may impact differentially on volunteer and paid labour.

With an ageing population, concerns have been raised about the future supply of the sector's paid and voluntary workforce. In particular, higher participation rates in the paid workforce may reduce the supply of volunteers, while the same trend could increase the demand for not for profit services as informal carers move to paid work. However, changes in the supply of volunteers is uncertain, as higher

workforce participation rates are not necessarily associated with lower volunteering, and can enhance the skills of volunteers (PC 2008).

Not for profit organisations are invited to comment on their experiences with attracting both paid and volunteer workers with the appropriate level of skills. Comments are also invited on the extent to which regulations surrounding the use of paid and volunteer labour adversely affect the capabilities of not for profit organisations to undertake their activities. Where adverse effects occur, how might these be overcome?

Skilled staff and volunteers at management level are also important for efficient and effective organisations. A study by McKinsey and Company (2001) examined the role of effective capacity building in high performance not for profit organisations. The study identified three valuable lessons from entities that have been successful in building organisational capacity:

- the importance of ongoing assessment of the aspirations, strategy and priorities of an organisation promoting an effective focus
- that good management/leadership is vital to building and sustaining capacity
- that capacity building is a time consuming and dynamic process requiring an ongoing commitment to continuous improvement.

Not for profit organisations are invited to share their thoughts on pre-requisites for success (including 'stand-out models' within the sector).

Partnerships with businesses can provide access to a supply of labour generally or particular skills. They may share their resources and organisational skills to assist not for profit organisations to improve managerial capabilities. In this area too, government regulations can affect the incentives facing organisations and individuals to provide and/or use those resources.

Comments are invited on approaches taken by not for profit organisations in forming partnerships with businesses for improving access to human resources and organisational capabilities and also on any impediments experienced. How might any such impediments might be resolved?

Access to financial resources

The quantity and quality of financial resources available to not for profit organisations exert a fundamental influence on the efficiency and effectiveness of their operations. For example, more money or greater security of funding (in either

the level or funding period) could allow an organisation to operate at a larger, more efficient scale of operation. As with human resources, an issue for this review is whether not for profit organisations face particular impediments in gaining access to the quantity and quality of financial resources they require.

Financial resources and fundraising capabilities are influenced by the overall taxation treatment of the sector and those who contribute to it. The tax treatment of donations depends on the legal status of the not for profit organisation (box 7). In addition, not for profit organisations who undertake fundraising activities are also subject to state and territory fundraising regulation, which specify a variety of reporting and disclosure requirements.

Complexity associated with fundraising has been identified as a major issue facing the sector. According to the National Roundtable of Nonprofit Organisations (2008, p. 2):

... it is in tax law that the greatest confusion is to be found. There are a great variety of concessions given by different levels of government, each to a variety of nonprofit organisations. It is impossible to find any set of principles underpinning the legislation that designates these concessions. There are no clear links between the concessions provided and public disclosure requirements. Not surprisingly, in such an environment regulation is confusing, contradictory and often unfair.

Not for profit organisations can also access capital through obtaining grants from governments, setting aside operating surpluses and borrowing funds. Thus, the design of financing arrangements and grants, in addition to the existing assets of the organisation, determine their ability to access capital.

A variety of innovative mechanisms have emerged for improving the financial options of these organisations in countries such as the United States, Canada and the United Kingdom. Within Australia, governments have encouraged the development of community foundations and a variety of specialised financial institutions and partnering arrangements have emerged to broaden the financial options available to not for profit organisations.

Comments are invited on the extent to which institutional arrangements and regulations restrict the financing options available to not for profit organisations. If significant restrictions exist, what options are there to overcome them?

Box 7 Tax treatment of donations

The Australian Council of Social Services (ACOSS) has identified tax status as an important factor in determining a not for profit organisation's capacity to deliver services:

Status as a Public Benevolent Institutions (PBI) attracts particularly generous concessions, including exemptions from FBT. Status as a Deductible Gift Recipient (DGR) not only makes gifting to these organisations attractive, but is a pre-condition for funding by most philanthropic bodies. (2008, p. 27)

Responses to the 2008 Australian Community Sector Survey (ACOSS 2008), revealed wide variations in tax status among providers of government funded services.

- Almost half of respondents indicated that they were an Income Tax Exempt Charity (ITEC) only
- 13 per cent indicated that they had Public Benevolent Institution (PBI) status
- 8 per cent had Deductible Gift Recipient (DGR) status
- 16 per cent had ITEC, DGR and PBI status
- 10 per cent had none of these.

Capacity to innovate and use resources to best effect

To improve their efficiency and effectiveness, not for profit organisations need to know what works. This knowledge can be attained through trial and error, learning from other organisations or taking a more structured approach to developing new and better ways to achieve their mission objectives.

Evaluation and research to identify what works

Knowledge of what works, including innovative approaches to organising their resources or delivering their services or outputs, can come from learning from other not for profit organisations (perhaps from benchmarking the performance of comparable Australian and overseas organisations). It can also be pro-active, drawing on research by government, business and academia, as well as their own research which maybe in partnership with others (box 8).

Comments are invited on what factors are impeding the spread of knowledge among Australian not for profit organisations regarding how well they deliver their outcomes and key drivers of their efficiency and effectiveness in doing so. Similarly, the Commission invites comment on what factors facilitate the spread of such knowledge and how these might be enhanced.

Box 8 The role of university research in assisting NFP effectiveness

Universities are increasingly embracing community engagement as an integral part of their teaching, learning and research activities. Indeed, a number of universities consider the level of engagement as an indicator of successful teaching and research. By way of example, the Australian Catholic University established the Institute for Advancing Community Engagement to facilitate the development of mutually beneficial and sustainable community engagement.

Universities are also devoting greater research and teaching resources to the sector. The 'Giving Australia' project, which sought a greater understanding of philanthropy and volunteering in Australia, is an example of collaboration between government, the private sector, the not for profit sector, and two university research centres — the Centre for Australian Community Organisations and Management at the University of Technology, Sydney and the Centre of Philanthropy and Nonprofit Studies (at the Queensland University of Technology).

Recently, the Centre for Social Impact was established as a partnership between the Business Schools of the University of New South Wales, the University of Melbourne and Swinburne University of Technology.

Incentives for innovation and best use of resources

Despite the absence of a profit motive, not for profit organisations generally attempt to deliver as many, and as high a quality, outputs as they can from their available resources. As such, the need to use their resources to get the 'biggest bang for their buck' is a constant discipline. Moreover, demonstrating the best use of their resources is an important factor in attracting financial support. A recent Choice survey, for example, found that 81 per cent of respondents did not know what proportion of their charitable donation reached beneficiaries, yet 94 per cent considered it important to have access to such information. (Although this measure of efficiency may not be consistent with the delivery of better outcomes, it nonetheless illustrates the pressure not for profit organisations face to operate efficiently.)

The not for profit sector can be highly innovative as it is close to members and clients and needs to be responsive to keep members, donors and their workforce happy. The voluntary nature of most boards or management committees usually encourages regular turnover (sometimes due to burn-out). This brings new ideas and opportunities for change. However, there have been suggestions that innovation is being constrained. This maybe due to the regulatory environment or to insufficient resources or skills to try innovative approaches. Requirements associated with

receipt of government funding may also limit innovation. In relation to government funded services, this is considered in the next section.

Comments are invited on the incentives (such as community attitudes and views of donors) on not for profit organisations to operate efficiently and effectively and to take innovative approaches. To what extent do these incentives differ as a result of the funding arrangements faced by an organisation? Are the incentives currently faced by not for profit organisations sufficient to ensure they operate in an efficient and effective manner and, if not, what changes are needed to increase those incentives? Are there constraints on innovation, and if so what can be done to remove them?

Regulatory environment

Government policies and regulations have a significant influence on the way in which not for profit organisations operate and, thus, on their efficiency and effectiveness. Regulations affect how they have to go about their business, the activities that they can undertake, and how they engage with business and other organisations (specific regulation establishing Indigenous organisations is an example of this). In particular, regulations have been introduced to improve transparency and accountability when applying for and receiving any public funding.

More generally, governments have recognised that inappropriate regulation and regulation which differs across jurisdictions imposes unnecessary costs, and have committed to a national regulatory reform agenda that, among other things, is intended to reduce the red tape burden of regulation (COAG 2006). Reforms under this banner (including attempts to bring greater consistency of regulation across jurisdictions) have the potential to reduce costs (and improve efficiency) for not for profit organisations.

There are a variety of rules surrounding the establishment and structure of a not for profit organisation. Many organisations in the sector are incorporated (that is, they have a distinct legal status from their members). According to the National Roundtable of Nonprofit Organisations (2008, p. 2):

At present there are more than 20 different ways to incorporate a nonprofit organisation. This variety is a product of both a variety of specialist forms of incorporation (for example, for trade unions, parent associations), and the existence of a dual state/federal regime. There are eight forms for incorporating as an association and six as a cooperative.

Some (generally larger) incorporated not for profit organisations are regulated by the Australian Securities and Investments Commission and are subject to the same reporting and auditing requirements that apply to corporations. Other not for profit organisations are incorporated associations or trusts. Incorporated associations are governed by state and territory based legislation which differ between jurisdictions. According to the recent Senate inquiry into disclosure regimes, these organisations tend to have fewer reporting requirements than those subject to corporate regulation.

While not subject to a specific regulatory regime, unincorporated not for profit organisations may be subject to broader regulatory arrangements applying to all entities (for example, food safety and occupational health and safety regulation).

A number of not for profit organisations have been established by legislation (for example, the *Cancer Act 1958* (Vic.) established the Victorian Cancer Council). In this case, the enabling legislation also established the rules surrounding the operation of the organisation, including reporting requirements.

Many Indigenous organisations are separately incorporated under Commonwealth legislation administered by the Office of the Registrar of Indigenous Corporations.

Comments are invited on whether the governance and accountability regulations faced by not for profit organisations are appropriate and whether they provide sufficient flexibility to account for the diversity of scale and form of not for profit organisations. Where such regulations are deemed inappropriate or impose an unnecessary burden, how might they be improved? For example, are there significant regulatory burdens associated with not for profit organisations operating across jurisdictions? How might these be addressed?

Comments are invited on the extent to which general regulatory reform under the national reform agenda is benefiting not for profit organisations or whether more focussed reforms are needed to benefit the sector. If the latter, what specific reforms might be needed?

In preliminary discussions with the Commission, some stakeholders observed that government agencies are increasingly preferring to deal with bigger and fewer parties to minimise their transactions costs with the sector (that is, to increase the agencies' efficiency in dealing with the not for profit sector). This trend raised concerns that it would lead to the amalgamation of not for profit organisations and result in a commensurate loss of diversity. In turn, any such loss of diversity has the potential to reduce the sector's capacity for innovation in the delivery of services

and outputs and reduce its client focus. Both outcomes would be likely to have adverse efficiency and effectiveness consequences for the sector.

To what extent are government agencies moving to 'lead provider' relationships — to the potential exclusion of smaller not for profit organisations — and is this compromising diversity of not for profit organisations and the effectiveness of their operations? What options might lessen the potential loss of provider diversity that such a trend might otherwise cause?

A broader issue affecting the efficiency and effectiveness of the sector relates to the constraints imposed by the government on the ability of not for profit organisations to pursue an advocacy role, and what effect these might have on the scope of these organisations to influence the allocation of government resources over time.

Comments are invited on how the environment within which not for profit organisations operate might be changed to enhance the advocacy role of not for profit organisations.

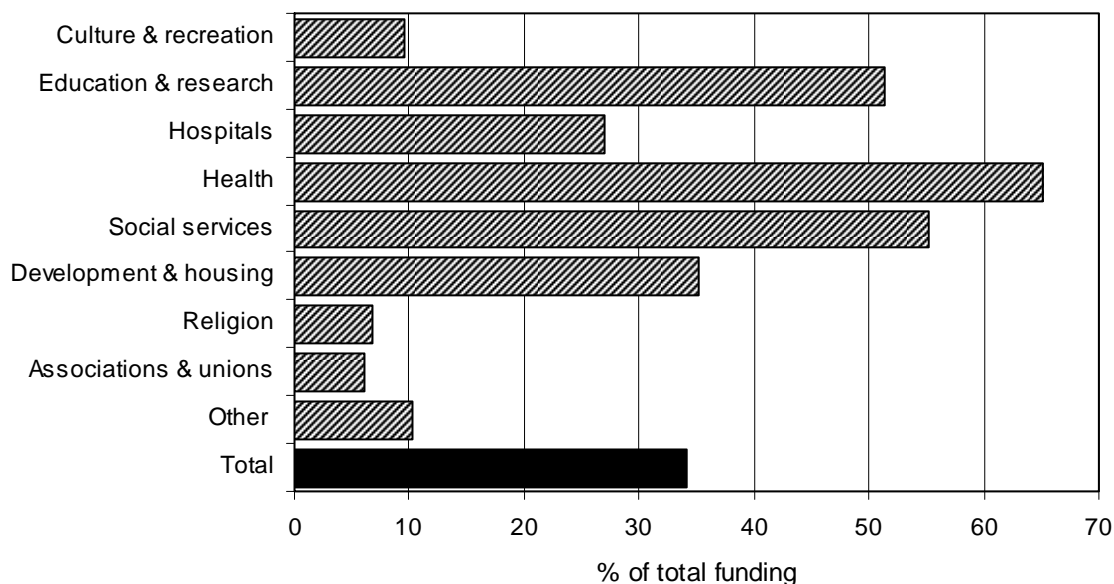
4 Service delivery

The terms of reference specifically ask the Commission to consider options for improving the efficient and effective delivery of government funded services by community organisations, including improved funding, contractual and reporting arrangements with government, while having regard to the need for transparency and accountability.

Trends in government funding and service delivery

Governments provide funding to not for profit organisations for a variety of purposes and in different forms. These range from small, one-off grants to local community groups to support a particular event or activity to significant ongoing funding to provide welfare services on behalf of government. In 2006-07, around a third of the sector's income was received from government (figure 3). A little over two-thirds of this was volume-based funding (paid on a per client or per student basis). Most of this funding is from the Australian and State and Territory Governments (box 9). Local governments provide little direct funding but are important contributors to local community groups through the provision of infrastructure (such as meeting halls and sports grounds) and coordination of local service delivery (for example, in child care and historic heritage conservation).

Figure 3 **Government funding of not for profit organisations**
2006-07



Data source: ABS 2008

In addressing the issue of service delivery, the Commission must distinguish between government funding which is offered in general support of not for profit activities and funding which is provided in expectation that a service will be delivered. This distinction is not always clear. For example, funding for arts programs, museums, or the restoration of historic heritage places all deliver public benefits and could arguably be placed in either category. Relevant distinguishing factors may include the level of funding, whether it is recurrent and the conditions attached to it.

Moreover, distinguishing funding which is provided for service delivery may have been complicated by some recent developments. These include increased reliance of some not for profit organisations on government funding, greater use of competitive funding allocation mechanisms and more stringent conditions and reporting requirements on funding to enhance transparency and accountability (see below).

Comments are invited on what constitutes a 'government funded service'. Where possible examples should be provided.

Irrespective of where the exact boundary is drawn, the role of the sector in delivering welfare services is clearly central to any definition of government-funded services. This role has expanded in recent years (Lyons 2001; Smyth 2008). Governments fund a large proportion of client-based services provided by many community organisations and, for some of these at least, the share of public funding appears to be increasing (box 9). These organisations generally provide additional and complementary services (such as advocacy) to their clients.

Box 9 Funding community organisations

The Australian Community Sector Survey (ACOSS 2008) surveyed 725 agencies involved in the provision of welfare services including: health services; residential aged care; disability services; home and community care; child care; employment and training services; and housing and homelessness services. In total, these agencies assisted almost 2 million Australians in 2006-07, many of whom were from the most disadvantaged groups in the community.

As shown in the table, over three-quarters of the income of these organisations was received from government.

Funding sources for community organisations ^a

<i>Source</i>	<i>2005-06</i>	<i>2006-07</i>	<i>Change from 2005-06 to 2006-07</i>	<i>Share of total in 2006-07</i>
	<i>\$ millions</i>	<i>\$ millions</i>	<i>%</i>	<i>%</i>
Australian Government	770	875	14	57
State/Territory Government	283	303	7	20
Local Government	5	5	0	0.3
Client fee income	122	128	5	8
Own source income ^b	248	221	-11	14
Total	1 428	1 532	7.3	100

^a Based on the response of 725 organisations to the Australian Community Sector Survey 2008. ^a Includes donations, sponsorships, and sale of goods and services to the public.

Source: ACOSS 2008, p. 22

The Centre for Corporate Public Affairs (2008) conducted a survey of not for profit organisations for a report commissioned by the Commonwealth Department of Families, Housing, Community Services and Indigenous Affairs. On average, governments provided 47 per cent of the income received by the 153 responding organisations. However, the survey also revealed wide variations in funding patterns. One third of respondents indicated that they received 80 to 100 per cent of their income from government.

Welfare services are also delivered by businesses. According to data produced by the Australian Institute of Health and Welfare (AIHW 2007) government funding of welfare services provided by non-government organisations (which includes both not for profit and business providers) increased from 57 per cent of all funding sources in 1998-99 to 62 per cent in 2005-06. The outsourcing of government services to for-profit business has also expanded. In some situations, such as employment services, not for profits compete with for-profit suppliers.

Comments are invited on trends in government funded services, including the extent to which governments are funding the traditional activities or new service initiatives of the not for profit sector and the extent to which governments are 'outsourcing' service provision to the not for profit sector.

Comments are also invited on experiences in relation to the relative treatment of for-profit and not-for-profit providers in competing for government contracts. Do arrangements at the Commonwealth and State/Territory levels provide competitive neutrality? If not, what features result in unequal treatment and how could this be addressed?

Comments are invited on the effect of funding government funding on other services offered by not for profit organisations. Are there significant economies of scale and/or scope in service delivery? How important is the capability of some not for profit organisations to deliver an integrated service to the value they generate?

Arrangements for government funded service delivery

Within the sector, a number of impediments have been identified to efficient and effective service provision. Some of these apply generally across the entire sector and have been discussed in the previous section. Others arise specifically as a result of an organisation's role as a welfare service provider. The most significant of these are discussed below.

Funding arrangements

There has been a shift away from grant-based funding models for service delivery towards 'market-based' models where organisations compete either directly for service contracts from government departments or for clients who receive funding from government in an arrangement similar to a voucher (Lyons 2001; McGregor-Lowndes 2008)

The movement towards more competitive tendering processes was intended to promote greater efficiency in service and facilitate greater client direction of services. However, it has been criticised on a number of grounds. For example, McGregor-Lowndes (2008, pp. 50-51) identified several concerns with current funding approaches:

- A decline in trust among clients because community organisations are perceived to be entering into commercial agreements.
- Unproductive relationships between welfare organisations and government agencies.
- Transferring risk to welfare agencies ‘...irrespective of whether these organisations are in the best position to manage such risks.’
- Use of funding agreements to restrict criticism of government policy and participation of welfare agencies in policy formulation.

On the last point, McGregor-Lowndes argued that attempts by government to encourage greater collaboration through partnership arrangements with not for profit organisations may have been undermined by the employer-contractor relationship between the two sectors. The evidence on this point is somewhat mixed with some researchers (Considine and Lewis 2003; Perkins, Nelms and Smyth 2005) finding evidence of more productive collaborations. And, three-quarters of respondents to the Australian Community Sector Survey (ACOSS 2008) agreed with the statement ‘our organisation is able to speak publicly about the issues facing our clients.’

The level of funding has been another major concern for many in the sector. Over 80 per cent of respondents to the Australian Community Sector Survey (ACOSS 2008) disagreed with the statement that ‘Government funding covers the true cost of delivering contracted services.’ Respondents were roughly equally divided on whether ‘Government funding adequately covers the cost of partnerships and collaborations required in our contracts with Government.’ A related concern is that the administrative requirements and costs associated with the tendering process may favour larger organisations over smaller ones, leading to greater concentration within the sector.

Contract requirements

The sector has also responded to changes in service delivery requirements. In recent years, governments have emphasised mutual obligations, the personal responsibility of welfare recipients, and greater client choice through client directed services. Similarly, within aged care and disability services there are examples of service

innovations directed at extending greater decision making autonomy to clients. The changes have either occurred through general regulations on service providers or through contracts with service deliverers.

While potentially important elements in quality assurance, conditions attached to service delivery contracts can inhibit innovation and flexibility. Around a quarter of respondents to the Australian Community Sector Survey (ACOSS 2008) agreed with the statement ‘contract requirements adversely affect our organisation’s ability to deliver contracted services’; 28 per cent disagreed with the statement and 46 per cent were neutral.

Length of service contracts has been another area of concern. Some service providers have argued that the preference for short-term funding arrangements by government agencies can generate uncertainty, inhibit innovation and make it difficult to retain staff. The Victorian State Services Authority (2007, p. 62) notes that the Department of Human Services shift from one-year service agreements to three-year service agreements in 2003 ‘...was seen by the sector as a positive step that provided for increased certainty and forward planning.’

Governance and accountability arrangements

In addition to the movement towards more competitive funding arrangements, governments have been increasingly demanding greater accountability for the use of funds and for service delivery (McGregor-Lowndes 2008). In its review of the regulatory burden on not for profit organisations, the Victorian State Services Authority (2007) identified four types of accountability mechanisms: financial reporting; service performance (statistics) reporting; compliance with service standards and guidelines reporting; and, client data and other reporting.

However, the extent to which these arrangements have promoted better outcomes in service delivery has been questioned. Among the problems identified are

- unnecessarily burdensome financial reporting requirements (Flack and Ryan 2005)
- effectiveness measures which focused on compliance with legal requirements and client numbers, rather than the measurement of service quality (Meagher and Healy 2003)
- performance indicators which add unnecessarily to costs without improving service quality — ‘A significant issue is that neither ‘product’ nor many complex human services appear to be measurable, or measurable at acceptable cost’ (McGregor-Lowndes 2008, p. 50).

In the Commission's preliminary consultations, concerns were also raised about the need for an organisation to establish its financial and service delivery credentials by providing the same information multiple times to different government agencies (or, indeed, to the same government agency). The problem has been acknowledged by government. According to the Victorian State Services Authority (2007, p. 52):

Where Departments fund [not for profit organisations] to provide a narrow range of services within a single program area, the burden of complying with reporting requirements is relatively light.

However, the burden increases significantly with the number of funded activities. Each separate activity carries with it a set of quality specifications and data collection requirements. Consequently the compliance and reporting burden increases significantly when [funding is provided for] complex human services such as those involving case management of clients that require services under multiple programs.

Similar concerns have been raised in relation to different compliance arrangements across jurisdictions. Also, specific concerns have been raised about undue regulatory burdens on Indigenous organisations.

General regulatory and taxation matters

As noted in the previous section, general regulatory imposts may affect the efficiency and effectiveness of not for profit organisations. In addition, organisations may be subject to specific regulation relating to the services they provide (for example, services to children or the aged).

Tax treatment can also impact on the operations of organisations in relation to other providers, including those from the business sector. There are considerable variations in tax treatment both within the sector and in relation to business (box 10). In undertaking this review, the Commission has been asked to consider how these arrangements may affect the working of competition in the market.

Specific service delivery issues

Some service providers will also face issues specific to the nature of the service that they provide. For example, organisations working to overcome Indigenous disadvantage or to improve mental health outcomes will often be confronted with problems which have multiple causes or which reflect longstanding economic and social issues.

Box 10 Tax concessions available to not for profit organisations

According to the Review Panel for Australia's Future Tax System (2008, pp. 161-162)

Australia applies a range of tax concessions to different types of NFP [not for profit] organisations. These concessions include: income tax exemptions; a higher GST registration threshold; the ability to make supplies GST-free in certain circumstances; GST input credits; capped exemptions from (or rebates of) fringe-benefits tax (FBT); and the ability to receive tax-deductible gifts.

... The complexity of current arrangements was highlighted in the 2001 *Report of the Inquiry into the Definition of Charities and Related Organisations* ... which noted that 'much of the confusion in the sector is related to what tax or other concessions attach to what types of entities'. This complexity can impose administrative and compliance costs for NFP organisations and donors.

In addition to complexity, the uneven application of tax concessions is a long-standing source of concern within the NFP sector.

The table below sets out the main tax concessions available.

Summary of main tax concessions for not for profit organisations ^a

	<i>Charities</i>	<i>Public benevolent institutions and health promotion charities</i>	<i>Deductible gift recipients</i>	<i>NFP and public hospitals and public ambulance services</i>
Income tax exemption ^b	Yes	Yes	—	Yes
GST concessions	Yes	Yes	Yes	Yes
FBT exemption (\$17 000)	—	—	—	Yes
FBT exemption (\$30 000)	—	Yes	—	—
FBT rebate	Charitable institutions only	—	—	—
Deductible gifts ^c	—	Yes	Yes	Yes

^a Entities may have more than one status (for example, a charity could also be a deductible gift recipient).

^b Many NFP organisations are taxable, but may be entitled to special rules for calculating taxable income and lodging income tax returns and may be able to access special rates of tax. ^c Certain non-government NFP organisations are eligible for this concession.

Source: Review Panel for Australia's Future Tax System (2008), p. 162

Against this background, the comments are invited on the efficiency and effectiveness of arrangements associated with the provision of government funded services. Specifically, the Commission seeks comments on:

- opportunities for improving funding and contractual arrangements to promote better outcomes*
- the effectiveness of existing accountability and reporting requirements, including options for improvement*
- how changes in service delivery requirements have affected the effectiveness of not for profit organisations and what changes to those requirements might be warranted to enhance their effectiveness*
- the effectiveness of arrangements for trialling or piloting new approaches to service delivery*
- the effectiveness of program and service delivery evaluation arrangements*
- the extent to which governance and reporting requirements associated with funding and contracted arrangements have replaced 'black letter' regulation.*

Where possible, participants should support their views with evidence. Comments on the extent to which arrangements are necessary to enhance transparency and accountability would also be appreciated.

5 Trends and developments

A number of trends and developments impact on the not for profit sector. In addition to affecting the operation of not for profit organisations, these trends and developments influence the policy environment and condition community and government expectations of the sector.

- The emerging economic downturn is expected to place the sector under pressure as demand for support services increases and funding becomes more difficult to obtain (Access Economics 2008).
- The ageing of the Australian population is likely to present both challenges and opportunities for the sector. It may provide an augmented source of volunteers while increasing demand for health and aged care services. It could also lessen the supply of workers available to service providers.
- Social developments will affect the demand for the sector's services. For example, family breakdowns may result in more calls on the sector for support

while declines in partnered households and family size are likely to reduce the supply of informal carers.

- Technological developments may influence the capacity for innovation. Improved communication tools could enable not for profit organisations to deliver services to a greater range of clients, may change the way services are delivered, or may simply enable more information to be provided on existing services.
- Philanthropy is shifting towards more strategic and proactive approaches involving partnering arrangements (such as, venture philanthropy and tied giving) to secure better outcomes (Lyons and Passey 2006).
- Partnerships with business are increasing rapidly as not for profit organisations seek access to more secure funding sources and specialist corporate skills (Centre for Corporate Public Affairs 2008).
- The role of social enterprises has expanded. Social enterprises are defined as organisations which ‘... undertake any private activity conducted in the public interest, organised with an entrepreneurial strategy, but whose main purpose is not the maximisation of profit but the attainment of certain economic and social goals’ (Novak 2002, p. 60). Examples include Social Ventures Australia and Work Ventures.
- Governments have sought a variety of ways of improving the effectiveness of their service delivery and quality of outcomes in key areas. The Council of Australian Governments recently reached agreement on financing arrangements and performance monitoring for a range of publicly-delivered services, including healthcare, education, disability support, housing, early childhood intervention and services for Indigenous Australians (COAG 2008).

The above list of trends and developments is not intended to be exhaustive and the Commission would appreciate hearing about these, or any other influences, on the sector.

What are the most significant trends and developments that have impacted on the efficiency and effectiveness of the not for profit sector? How has the sector responded to these? Are there emerging trends and developments which are likely to impact on the future capacity of the sector?

Attachment A: Terms of reference

Review of the contribution of the not for profit sector

Background

The Australian Government is committed to an active policy of social inclusion oriented to ensuring the economic and social participation of all Australians irrespective of their circumstances. Community (not for profit) organisations play an important role in combating social exclusion and enhancing the economic, social, cultural and environmental wellbeing of society.

The Government is committed to finding the best solutions to problems of social exclusion by ensuring the not for profit, private and government sectors work together effectively, and by using evidence-based programs and policies. In this context, measurement of the contributions of community organisations, and identification of ways to enhance those contributions, are important.

Further, the Government acknowledges the changing relationships between government, business and community organisations and wants to explore their impacts and future opportunities for optimising such relationships to further the well-being of society.

The not for profit sector has evolved considerably since past examinations, including the Report of the former Industry Commission in 1995 on *Charitable Organisations in Australia* and the ABS's work in 2002 within the national accounting framework, *Non-Profit Institutions Satellite Account*.

Scope of the review

The Productivity Commission is requested to undertake a research study on the contributions of the not for profit sector with a focus on improving the measurement of its contributions and on removing obstacles to maximising its contributions to society. In undertaking the study, the Commission is to:

- assess the extent to which the not for profit sector's contributions to Australian society are currently measured, the utility of such measurements and the possible uses of such measurements in helping shape government policy and programs;

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- consider alternatives for, or improvements in, such measurements or further quantitative and/or qualitative means of capturing the not for profit sector's full contribution to society;
 - identify unnecessary burdens or impediments to the efficient and effective operation of community organisations generally, including unnecessary or ineffective regulatory requirements and governance arrangements, while having regard to the need to maintain transparency and accountability;
 - consider options for improving the efficient and effective delivery of government funded services by community organisations, including improved funding, contractual and reporting arrangements with government, while having regard to the need for transparency and accountability;
 - examine the changing nature of relationships between government, business and community organisations in recent times, their general impacts, and opportunities to enhance such relationships to optimise outcomes by the sector and its contribution to society;
 - examine the extent to which tax deductibility influences both decisions to donate and the overall pool of philanthropic funds; and
 - examine the extent to which tax exemptions accessed by the commercial operations of not-for-profit organisations may affect the competitive neutrality of the market.

In conducting the study, the Commission is to:

- adopt in its considerations a broad definition of the not for profit sector to encompass most categories of not for profit organisations, including Australian based international aid and development agencies;
- seek public submissions and consult widely with State and Territory Governments, government agencies, the community sector, business, and other interested parties;
- have regard to the Government's Taxation Review headed by Dr Ken Henry and the Inquiry into the Definition of Charities and other organisations commissioned in 2002, but, other than as explicitly required by these terms of reference, not to examine in detail matters covered by those reviews; and
- have regard to any other relevant current or recent measurements and reviews conducted in Australia and internationally.

The Commission is to produce and publish a draft report and final report by the end of 2009.

Attachment B: How to make a submission

The Commission invites all interested individuals and organisations to make a public submission to this research study. In your submission, you do not need to address all the issues raised in this paper and you may comment on any other issues that you consider relevant to the terms of reference.

The Commission is currently undertaking a related research study on regulatory burdens in the provision of social and economic infrastructure. It is also conducting a public inquiry on gambling which may overlap with some issues raised in this study. If you have made a submission to these other projects that you consider relevant to this study, you are welcome to draw it to the attention of the study team rather than resubmitting it.

There is no specified format

A submission can be anything from a short note or email outlining your views on a few matters to a more substantial document covering a wide range of issues. Where possible, you should give evidence to support your views, such as data and documentation. Although every submission is welcome, multiple, identical submissions do not carry any more weight than the merits of an argument in a single submission.

Participants are welcome to make subsequent submissions throughout the course of the study. In particular, participants will be invited to make further submissions to respond to the draft report, which is expected to be released in September.

Submissions should be public documents

The Commission seeks to have as much information as possible on the public record. Submissions will become publicly available documents once placed on the study website, which will normally occur shortly after receipt of a submission, unless it is marked confidential or accompanied by a request to delay release for a short period of time. Any confidential material sent to the Commission should be provided under separate cover and clearly marked.

Email lodgement is preferred

If possible, submissions should be lodged by email or as a text or Microsoft Word document (.txt, .rtf, .doc), rather than Adobe Portable Document Format (.pdf), to

ensure screen readers can read them. (Submissions may also be sent by mail or fax and arrangements can be made to record oral submissions over the telephone.)

Please ensure that the version sent to the study is the final version, and that you have removed any drafting notes, track changes, annotations, hidden text, marked revisions, as well as any internal links. Please also remove large logos and decorative graphics (to keep file sizes down). This will enable the submission to be more easily viewed and downloaded from the website. Copyright in submissions sent to the Commission resides with the author(s), not with the Commission.

Each submission should be accompanied by a submission cover sheet containing the submitter's personal and organisational contact details. The submission cover sheet is available at the end of this attachment or from the study's website.

Productivity Commission
SUBMISSION COVER SHEET
(not for publication)
Contribution of the Not for Profit Sector

Please complete and submit this form with your submission to:

By email: nfp@pc.gov.au

OR **By fax:** (02) 6240 3377

Or **by post:**

Not for Profit Sector
Productivity Commission
GPO Box 1428
Canberra City ACT 2601

Organisation:

Street address:

Suburb/City:

State & P'code

:

Postal address:

Suburb/City:

State & P'code

:

Principal contact:

Ph:

Position:

Fax:

Email address:

Mob:

Please indicate if your submission:

contains NO confidential material

contains SOME confidential material (provided under separate cover and clearly marked)

contains confidential material and the WHOLE submission is provided
'IN CONFIDENCE'

Please note:

- For submissions made by individuals, all personal details other than your name and the state or territory in which you reside will be removed from your submission before it is published on the Commission's website

-
- Submissions will be placed on the Commission's website, shortly after receipt, unless marked confidential or accompanied by a request to delay release for a short period of time, where they will remain indefinitely.
 - Confidential material should be provided under a separate cover and clearly marked 'IN CONFIDENCE'.
 - Copyright in submissions resides with the author(s), not with the Productivity Commission.

Attachment C: Government responses to previous studies

This attachment identifies which recommendations from three previous inquiries the government has implemented, partially implemented or not implemented.

Table C.1 Government response to Inquiry into Charitable Organisations in Australia (1995)

<i>Rec. No.</i>	<i>Recommendation</i>	<i>Status</i>
1	<p>The sector, in co-operation with Commonwealth and State/territory governments, and where appropriate with for-profit providers, should develop quality management systems in conjunction with standards for the sector. Such systems and standards should be designed with a view both to improving the outcomes of service delivery and reducing the level and costs of prescriptive regulation.</p> <p>To the extent that governments and the sector agree on the adoption of quality management systems and standards, Commonwealth and State/territory governments should:</p> <ul style="list-style-type: none"> • fund the development of these systems and standards; and • assist in resourcing service providers to obtain initial accreditation of their quality management systems. <p>Such systems and standards should be implemented with appropriate transitional arrangements.</p>	Progress has been made in some jurisdictions
2	<p>Where quality management systems and standards have been agreed, governments should normally seek expressions of interest for service delivery from potential providers which have these systems in place.</p>	Progress has been made in some jurisdictions
3	<p>Commonwealth and State/territory governments should develop a set of principles for the selection of service providers. These principles should include:</p> <ul style="list-style-type: none"> • applications normally be called by public advertisement; • information sought in applications be as simple and standardised as possible; • service and quality management standards be clearly specified; • selection criteria be prioritised; • timetables for the assessment and notification of applicants be specified; • unsuccessful applicants have access to the reasons for their non-selection; and • applications for provision of services be co-ordinated to encompass inter-related services. 	Progress has been made in some jurisdictions

4	<p>Procedures for the selection of service providers should be transparent and designed to encourage a range of providers to express interest in delivering services.</p> <p>Procedures should be in place to ensure that service providers are reviewed from time to time and new providers are given the opportunity to deliver existing services</p> <p>Any assessment of changing from the existing provider should consider costs not met by the new provider, including:</p> <ul style="list-style-type: none"> • discontinuity of services for clients; • redundancy of use-specific assets; and • other costs, for example extra transport of clients or dislocation of staff of the current provider. 	<p>Progress has been made in some jurisdictions</p>
5	<p>Commonwealth and State/territory governments should develop a consistent set of principles for funding agreements across all programs:</p> <ul style="list-style-type: none"> • agreements to be multi-year, typically three year; • agreements to be legally enforceable; • accountability provisions to be streamlined; • accountability provisions to be consistent with Australian Accounting Standards; and • dispute resolution procedures to be built into agreements, preferably by independent mediation. 	<p>Progress has been made in some jurisdictions</p>
6	<p>Where governments set the price at which they purchase a service, they should take into account all cost components required to deliver the service, including, in addition to human resource costs (see Recommendation 7):</p> <ul style="list-style-type: none"> • organisational support; • meeting wider objectives of governments such as consultation, access and equity objectives; and • program development and evaluation. 	<p>Not implemented in practice</p>
7	<p>Where governments set the price at which they purchase a service, they should take into account:</p> <ul style="list-style-type: none"> • training, co-ordination and indemnification of volunteers involved in service delivery; • training of staff involved in service delivery; • training of board members and administrative staff required for organisational support; and • any changes governments prescribe in award or other employment conditions. 	<p>Not implemented in practice</p>

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Table C.1 (continued)

<i>Rec. No.</i>	<i>Recommendation</i>	<i>Status</i>
8	Payments under funding agreements should be for achieving defined outputs or outcomes wherever possible. In defining outputs or outcomes, the quality of service should be incorporated through appropriate service standards.	Progress has been made in some jurisdictions
9	Funding agreements for Community Social Welfare Organisations should be of two kinds. Most funding agreements will be for service delivery programs which have defined outputs or outcomes which should be funded in accord with Recommendation 8. Funding agreements for programs where outputs or outcomes cannot be clearly defined, for example community development, should be based on achieving jointly-negotiated and agreed objectives, and payments should fund (or part fund) overheads and staff salaries.	Progress has been made in some jurisdictions
10	Commonwealth and State/territory governments should review the structures, skills and operational protocols of government agencies in the light of their changing relationships with Community Social Welfare Organisations.	Progress has been made in some jurisdictions
11	The Commonwealth government should retain the income tax free status of Community Social Welfare Organisations.	Implemented
12	The Commonwealth Treasury should conduct a review to determine the most cost effective way of removing any distortions faced by Community Social Welfare Organisations due to the dividend imputation system in Australia.	Implemented
13	The Commonwealth government should allow tax deductibility of donations made to all Community Social Welfare Organisations that: <ul style="list-style-type: none"> • relieve poverty or benefit the community through the advancement of social welfare; and • are incorporated under the form of incorporation outlined in Recommendation 27. 	Partly implemented
14	The \$2 lower limit for donations in order to gain tax deductibility should be removed. Individual organisations should decide which donations are to be treated as tax deductible — for which they would issue receipts and keep records in the prescribed way.	Not implemented
15	Assets bequeathed to charitable organisations that enjoy tax deductibility status should be free from any capital gains tax liability.	Implemented

16	The Council of Australian Governments should simplify and standardise the criteria for input tax exemptions for Community Social Welfare Organisations with a view to reducing inconsistencies between taxes and across jurisdictions.	Not implemented
17	The Commonwealth government should remove the exemption from fringe benefits tax of Community Social Welfare Organisations which are Public Benevolent Institutions in two years time. To the extent that income tax exempt organisations continue to receive a rebate on their fringe benefits tax, all Community Social Welfare Organisations should also receive this rebate.	Not implemented
18	The Council of Australian Governments should consider approaches to achieving greater efficiency and effectiveness of fundraising regulation among States/territories. Two suggested approaches are: <ul style="list-style-type: none"> • uniformity of legislation; or • mutual recognition of legislation. • Specific consideration should be given to addressing issues of: <ul style="list-style-type: none"> • public disclosure of the role of contract fundraisers; • public nuisance and donor privacy; and • the types of organisations to which regulation applies. 	Not implemented
19	When incorporation of Community Social Welfare Organisations under Corporations Law is achieved, financial information requirements currently found in State/territory fundraising legislation should be removed from State/territory legislation.	Not implemented
20	The Australian Taxation Office should not impose restrictions on the accumulation of income by charitable trusts. If necessary, section 23(j) of the Income Tax Assessment Act 1936 should be amended to allow charitable trusts to accumulate funds, provided the whole of the funds and any income derived from them are used for charitable purposes. Any specific statement in the trust deed in relation to funds accumulation should, of course, continue to apply.	Not implemented
21	State/territory governments should amend legislation to allow their Attorneys General to consider applications to waive restrictions imposed on trusts by inoperative inheritance legislation.	Not implemented

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Table C.1 (continued)

Rec. No.	Recommendation	Status
22	<p>Community Social Welfare Organisations should have a publicly available policy on client fees for each of the services they provide. Governments should require such a policy as a part of funding agreements. The policy on client fees should be based on consideration of:</p> <ul style="list-style-type: none"> • economic circumstances; and • individual need. <p>It should also recognise principles of access and equity.</p>	Difficult to assess the extent of implementation
23	<p>Commonwealth and State/territory governments should examine the opportunities for individual funding for clients on a service by service basis, taking into account:</p> <ul style="list-style-type: none"> • the availability of current and potential service providers; • service provider overheads; • the ability of clients or their representatives to assess and monitor service quality; and • the provision of information to help clients identify and access appropriate services. 	Progress has been made in some jurisdictions and service areas
24	<p>The Commonwealth government should provide funds to the Australian Accounting Standards Board and the Public Sector Accounting Standards Board to develop within two years suitable accounting standards for Community Social Welfare Organisations.</p>	Progress has been made in some jurisdictions
25	<p>AusAID and the Commonwealth Treasury should introduce processes of regular review to ensure that Non-Government Development Organisations and their approved funds still meet the criteria by which they were granted tax deductibility status.</p>	Progress has been made
26	<p>The Australian Taxation Office should introduce processes of regular review to ensure that Community Social Welfare Organisations receiving tax deductibility status and other tax benefits still meet the criteria by which they were granted those benefits.</p>	Implemented
27	<p>The Commonwealth and State/territory governments should establish a form of incorporation under the Corporations Law for Community Social Welfare Organisations. Such organisations would be required to report using the accounting standards proposed in Recommendation 24.</p>	Not implemented

28	<p>The Commonwealth government should fund the establishment of a pilot best practice program for the sector:</p> <ul style="list-style-type: none"> • pilot projects should be chosen on the basis of expected net benefits and to cover all major sub-sectors — for example, disability services, home and community care, aged care and employment services; • relevant Commonwealth government departments should develop pilot projects in consultation with the sector; and • pilot project outcomes should be widely disseminated in the sector. 	Progress has been made in some jurisdictions
29	<p>The Australian Bureau of Statistics and the Australian Institute of Health and Welfare should develop a framework for the collection and publication of statistics. These statistics should facilitate service planning by including information on:</p> <ul style="list-style-type: none"> • the programs delivered by Community Social Welfare Organisations; • the characteristics of Community Social Welfare Organisations; and • the clients of services. 	Progress has been made
30	<p>The Commonwealth government should fund an independent evaluation of the extent and direction of funding for research into the delivery of community welfare services.</p> <p>Such a review should:</p> <ul style="list-style-type: none"> • describe the funding available for research into service delivery; • recommend any desirable redirection of existing funding; and • recommend on funding arrangements which should apply to research into service delivery issues. 	Not implemented
31	<p>Commonwealth and State/territory governments should review their funding policies and guidelines for peak councils to specify:</p> <ul style="list-style-type: none"> • appropriate roles and functions; • responsibilities of funded peak councils and funding bodies; • selection criteria; • level and duration of funding; and • mechanisms for regular review of criteria. 	Progress has been made in some jurisdictions

Source: IC 1995

Table C.2 Recommendations from the Senate Inquiry into disclosure regimes for charities and not for profit organisations^a

<i>Rec. no.</i>	<i>Recommendation</i>
1	The committee recommends that all Australian Governments agree on common terminology for referring to organisations within the Sector. Governments should also develop a common meaning for terms referring to the size of these organisations, including 'micro', 'small', 'medium' and 'large'. This standard terminology should be adopted by all government departments.
2	The committee recommends that the Government establish a unit within the Department of Prime Minister and Cabinet specifically to manage issues arising for Not-For-Profit Organisations. The unit should report to a Minister for the Third Sector.
3	The committee recommends that there be a single independent national regulator for Not-For-Profit Organisations.
4	The committee recommends that the Australian National Regulator for Not-For-Profit Organisations should have similar functions to regulators overseas, and particularly in the UK, including a Register for Not-For-Profit Organisations with a compulsory sign-up requirement. The committee recommends consultation with the Sector to formulate the duties of the National Regulator. As a minimum, the Regulator should: <ul style="list-style-type: none"> a) Develop and maintain a Register of all Not-For-Profit Organisations in Australia. Once registered, the Commission should issue each organisation with a unique identifying number or allow organisations with an ABN to use that number as their Not-For-Profit identifier. This could be enabled using existing ASIC website resources. b) Develop and maintain an accessible, searchable public interface. c) Undertake either an annual descriptive analysis of the organisations that it regulates or provide the required information annually to the ABS for collation and analysis. d) Secure compliance with the relevant legislation. e) Develop best practice standards for the operation of Not-For-Profit Organisations. f) Educate / Advise Not-For-Profit Organisations on best practice standards. g) Investigate complaints relating to the operations of the organisations. h) Educate the public about the role of Not-For-Profit Organisations. The voluntary codes of conduct developed by ACFID and FIA respectively should be considered by the Regulator when implementing its own code of conduct.

- 3 The committee recommends that the Commonwealth Government develop the legislation that will be required in order to establish a national regulator for Australia.
 - 6 The committee recommends that, once a Register is established and populated, this information should be provided to the ABS, who should prepare and publish a comprehensive study to provide government with a clearer picture of the size and composition of the Third Sector.
 - 7 The committee recommends that a single, mandatory, specialist legal structure be adopted for Not-For-Profit Organisations through a referral of state and territory powers. Given the degree of change such a legal structure would mean for some not-for-profit organisations, the legal structure must be developed in full consultation with these organisations.
 - 8 The committee recommends 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 organisations.
 - 9 The committee recommends that a National Fundraising Act be developed following a referral of powers from states and territories to the Commonwealth.
This Act should include the following minimum features:
 - It should apply nationally.
 - It should apply to all organisations.
 - It should require accounts or records to be submitted following the fundraising period with the level of reporting commensurate with the size of the organisation or amount raised.
 - It should include a provision for the granting of a license.
 - It should clearly regulate contemporary fundraising activities such as internet fundraising.
 - 10 The committee recommends that a tiered reporting system be established under the legislation for a specialist legal structure.
 - 11 The committee recommends that the tiers be assigned to organisations based on total annual revenue
 - 12 The committee recommends that the Commonwealth Government work with the Sector to implement a standard chart of accounts for use by all departments and Not-For-Profit Organisations as a priority.
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Table C.2 (continued)

<i>Rec. no</i>	<i>Recommendation</i>
13	The committee recommends that a new disclosure regime contain elements of narrative and numeric reporting as well as financial, in acknowledgement that the stakeholders of the Sector want different information to that of shareholders in the Business Sector. The financial reporting should be transparent and facilitate comparison across charities.
14	The committee recommends that the national regulator investigate the cost vs benefit of a GuideStar-type system (a website portal that publishes information on the aims and activities of Not-For-Profit Organisations) in Australia to encompass all Not-For-Profit Organisations.
15	<p>The committee recommends that a Taskforce be established for the purposes of implementing the recommendations of this report. The Taskforce should report to COAG. Its membership should include:</p> <ul style="list-style-type: none">• a government representative from the Commonwealth;• a COAG-elected representative to speak for states and territories;• one or more qualified legal experts with expertise with the major pieces of legislation affecting Not-For-Profit organisations;• a representative from an organisation which manages private charitable foundations;• an accountant with not-for-profit expertise; and• a number of representatives from the peak bodies of Not-For-Profit Organisations, including a representative from a peak body for social enterprises. <p>The Taskforce should actively seek to ensure that the measures of reform that it implements do not impose an unreasonable reporting burden on small and micro Not-For-Profit Organisations.</p>

^a The Australian Government has not yet released its response to this Inquiry.

Source: Senate Standing Committee on Economics 2008

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