



**Contribution of the not-for-profit sector  
Productivity Commission Research Report, January 2010**

**ACOSS analysis and priorities for future advocacy, February 2010**

**Purpose**

This analysis has been prepared for the benefit of national, affiliate and associate members of ACOSS; for the Councils of Social Service in each state and territory; and for their members. It provides an overview of the Productivity Commission's recent report on the not-for-profit sector and sets out ACOSS priorities for future advocacy in this area. ACOSS invites comments and input on these priorities from our colleagues and members in the sector.

**Contents**

1.	Introduction: the context of the Productivity Commission's report.....	2
2.	Contribution of the not-for-profit sector.....	2
	<i>The contribution of the sector in economic terms</i> .....	2
	<i>Value in non-market terms</i> .....	3
3.	Regulation .....	4
	<i>National Registrar</i> .....	4
	<i>Charities definition</i> .....	5
	<i>Taxation</i> .....	5
	<i>Other regulatory reforms</i> .....	6
4.	Improving knowledge and evaluation .....	6
5.	Workforce, sector development and sustainability .....	7
6.	Future directions .....	9
7.	Further reading.....	10
	ACOSS.....	10
	<i>Other organisations</i> .....	10

For further information and to provide feedback on ACOSS analysis and priorities for advocacy on the contribution of the not-for-profit sector, please contact:

Tessa Boyd-Caine, Senior Policy Officer, ACOSS  
[Tessa.Boyd-Caine@acoss.org.au](mailto:Tessa.Boyd-Caine@acoss.org.au), ph 02 9310 6200

## 1. Introduction: the context of the Productivity Commission's report

Two key aspects of the Productivity Commission's (PC) study into the contribution of the not-for-profit sector are important for this analysis of its recommendations and priorities for social service and welfare organisations. The first is that this is a report about the not-for-profit sector in its entirety. The sector spans a vast range of activities, including culture and recreation to education and research, philanthropy, religion, professional associations and unions to name a few. Within that broad sector, social services comprise less than one-fifth of the sector being studied, at 16%. Health services make up even less of the not-for-profit sector, at 8%. In other words, social and community services comprise part of the subject of this report but are by no means its sole focus.

The second key aspect is the role of the Productivity Commission itself. The Commission describes its focus as being 'on ways of achieving a more productive economy - the key to higher living standards'. This focus requires particular attention to market values and quantifiable activity. Yet many organisations in the not-for-profit sector operate in 'non-market' areas as well; and some do not operate in the market at all. While such activities might exclude these organisations from most measures of economic activity, they are also definitive elements of the not-for-profit sector, for instance, when the mission of a not-for-profit is to support their local community. The fact that such a contribution may be hard to calculate within a market-based framework of economic activity does not make it any less valuable, least of all to the not-for-profit sector. The PC acknowledges this and it is an important consideration for welfare organisations planning future advocacy on the recommendations in this report.

## 2. Contribution of the not-for-profit sector

### *The contribution of the sector in economic terms*

The report provides a range of useful estimates about the size and economic contribution of the broad not-for-profit sector. Out of 600,000 organisations across the sector, around 440,000 of them are small and unincorporated. This leaves only 160,000 with incorporated structures. 4.6 million Australians volunteered with non-profit organisations in 2006-2007, only half of whom volunteered for organisations who also employed staff. Thus small organisations comprise the majority of organisations in the sector; and they rely heavily - and sometimes exclusively - upon substantial support from volunteers. Less than 60,000 organisations are classified as having an active tax role, for instance by employing staff or accessing tax concessions. Employment in the not-for-profit sector has grown from 6.8% in 1999-2000 to 8.5% in 2006-07.<sup>1</sup> Around 50% of the sector's income is self-generated; 33% comes from government; and 10% comes from philanthropic sources.

---

<sup>1</sup> As a percentage of total employment.

Social services make up 16% of the not-for-profit sector and contribute 15% to its growth.<sup>2</sup> The NFP sector has an average annual growth rate of 7.8%, with social services contributing 15% to that total growth. The PC estimates income sources for social services as 55% from government, 5% from philanthropy, 35% self-generated, and 5% from other sources. These estimates contrast with ACOSS' data for the same period which estimated government funding levels were as high as 77% of community organisations' income, with own sources at 14% and client fees contributing some 8% of income. Social services are the largest category of employers within the NFP sector, contributing 25% of overall employment in the sector. But the employment rate in social services masks high levels of casual and part-time workers, a decline in volunteer hours and increasing difficulty in attracting and retaining volunteers; and employment growth was stronger in other areas of the sector.

Health services comprise 8% of the broader not-for-profit sector and include hospitals and rehabilitation, nursing homes, mental health and crisis intervention and other health services. They make up 17% of the sectors' value<sup>3</sup>; and contribute 18% of the sector's employment, with an average annual growth of 8.1% from 2000-2007. Compared with social services, health services attract higher levels of government funding (almost 70%) but lower levels of funding from philanthropic, self-generating and other income sources. Unlike social services, the health sector saw a growth in volunteer hours.

### ***Value in non-market terms***

The not-for-profit sector makes a significant contribution beyond market-based economic activity. 'Non-market' contributions include the promotion of social cohesion and cultural, environmental and other community benefits. While these aspects of the sector receive less attention, the report also implicitly acknowledges the sector's role in strengthening civil society, for instance by recognising that not-for-profit organisations are trusted more than government or corporate organisations.

While these elements are acknowledged, the lack of economic data through which to evaluate their contribution means they receive less attention than they might deserve. There is little analysis of the support provided by non-profit organisations for individuals, or their role in fostering community cohesion. For representative structures and peak bodies like the Councils of Social Service across the country, policy development and advocacy are also major aspects of the sectors' work that, while difficult to quantify within a framework of market-based values, nonetheless constitute important contributions of the sector.

---

<sup>2</sup> Growth calculated on the basis of gross value added. See 4.2 at page 62 of the Report for full explanation.

<sup>3</sup> Gross value added, see above.

Notwithstanding the limitations of a market-based approach, the report is a thorough and detailed account of the range of activities across the sector. The PC conducted extensive consultation with the not-for-profit sector throughout its study and social and community services made a significant contribution to the report through oral and written submissions. It is a testament to the value of these contributions that the report draws heavily from the many submissions made by non-profit organisations throughout its discussion.

### **3. Regulation**

#### ***National Registrar***

Perhaps the most important recommendation in this report is for a national Registrar to bring together regulatory functions across the sector. Operating as a 'one-stop shop' for regulation, those functions would include endorsement and registration for Commonwealth tax concessions; the submission of corporate and financial information; and registration for national and/or inter-jurisdictional fundraising activities. The establishment of a national regulator has been a major platform of community sector advocacy for more than a decade and it remains an absolute priority to ensuring effective regulation of the sector.

The PC's recommendation for a registrar notes that this body could be situated within ASIC. In line with the recommendations of the 2001 Inquiry into the Definitions of Charity and to ensure the effectiveness of regulation in the sector, it is vital that a national Registrar be independent. Having expertise on the sector will determine the regulator's capacity to support the sector, particularly to ensure that the sector is accountable to its members or clients, funders and the community; and that the sector understands and complies with its regulatory responsibilities. While there might be some opportunities for cost-sharing and other efficiencies with existing regulators, ACOSS maintains that a truly independent body is essential for the success of a national regulator of the not-for-profit sector.

We support the PC's recognition that capacity building and sector development are important objectives but must remain separate to the functions and structure of a regulator. The role of the states and territories in sector development is extremely important and we support the PC's recommendation that they maintain primary responsibility in that regard. However, the regulatory and registration functions of a national Registrar for the not-for-profit sector should not be duplicated at other levels of government. The PC argues that small, local and unincorporated organisations are better regulated at the level of states and territories; and that a national regulator should exist alongside the current structure of state-based regulation such as Incorporated Association Acts. ACOSS does not support this proposal for a dual regulatory structure. The creation of a national Registrar would not preclude a simple regulation structure for smaller organisations, including the vast number of unincorporated organisations in the sector. Most importantly, a single regulatory body would be able to improve consistency, effectiveness and compliance in the regulation of the sector across the broad not-for-profit sector.

### **Charities definition**

We strongly endorse the PC's recommendation that the Commonwealth adopt a statutory definition of charitable purpose in accordance with the recommendations of the 2001 Definitions of Charity Inquiry. Such a reform would significantly improve clarity surrounding the role and contribution of the not-for-profit sector. The recommendations of the 2001 Inquiry have widespread support from social service and community organisations and their adoption is long overdue. The 2001 Inquiry's recommendations can be found [here](#).

### **Taxation**

The prospects of taxation reform have been another major concern for social and community services. The review of Australia's Future Tax System (Henry review) holds prospects for reform of both the taxation and transfers (payments) systems that could have extensive implications for social services and their clients. ACOSS has undertaken extensive policy development and made a range of submissions on the taxation and transfer systems, with a view to ensuring that Australia has a simple, adequate and fair taxation system for all.

For many of our members, the potential reform of tax concessions for the sector has attracted the greatest interest in the Henry review. The PCs study took place within a similar timeframe to the Henry review and there was some speculation across media and sector organisations that the PC's recommendations would intersect with the tax reform agenda. Importantly, the PC was given a taxation reference specific to considering whether tax exemptions for not-for-profit organisations affect the competitive neutrality of the market.<sup>4</sup> In this regard, the PC concluded that current tax concessions on gaming income provided to clubs by governments breach competitive neutrality.

Beyond that, the PC commented on the way the not-for-profit sector is taxed, but stopped short of making specific recommendations for reform. The PC observed that tax concessions mask the true funding needs (or deficits) of the not-for-profit sector and are complex, costly and distorting. Such concessions include the fringe benefit tax exemption, which many sector organisations rely upon to top-up salaries that are otherwise inadequate. Yet the PC report provides no further detail about possible directions for reform in this regard.

In the absence of the release of the Henry report, the lack of direction or clarity from the Commonwealth government about its priorities for tax reform have caused significant uncertainty and instability amongst our membership, especially in the face of persistent and unsubstantiated rumours. While the Government has sought to reassure ACOSS that it understands the importance of many of these concessions for the sector and would not make significant changes without consultation, this has not assuaged sector anxieties.

---

<sup>4</sup> Competitive neutrality is 'a principle that promotes the equal treatment by governments of competing organisations to achieve a "level playing field"' (Productivity Commission 2010:197).

Moreover, Commonwealth government has noted that it has not wanted to pre-empt the PC's recommendations in terms of the taxation of the not-for-profit sector. While the PC has confirmed that it met with the Henry review to discuss the scope of the two studies, it had no knowledge of the framework being considered by the Henry review and so could not make recommendations about the taxation of the sector (beyond those in relation to competitive neutrality).

### ***Other regulatory reforms***

There are a number of specific recommendations to aid the removal of onerous and unnecessary 'red tape' contained in the report. This is particularly important for our sector, as more than one-third of ACOSS members report that red tape adversely affects their ability to deliver services. The first step in this agenda has been the development of a standard chart of accounts ([see ACOSS analysis](#)). While we support such initiatives, the most important steps towards reducing red tape and ensuring effective regulation of the sector would be achieved through the establishment of an independent, national Registrar.

#### **4. Improving knowledge and evaluation**

ACOSS welcomes the PC's recommendations to improve knowledge about the sector and to develop a common framework for reporting on and evaluating the contribution of the sector. The PC recommendations set out a basis for determining knowledge and evaluation in terms of the sector's inputs, outputs, outcomes and impacts. In particular, the PC has recommended a reporting framework based on the identification of 'mission' classifications that would encourage the development of common measures and indicators. The proposed classifications are 'service delivery', 'exerting influence', 'connecting the community' and 'enhancing the community endowment'. The use of such classifications would establish a framework capable of recognising the range of activities that not-for-profits engage in, from service delivery to policy development, advocacy and community development. ACOSS proposed such an approach in our submission to this study and there is a significant body of work within the community services and welfare sectors that could inform its approach. These measures could also aid the sector in improving its contribution and effectiveness, through the results of evaluation and its implications for improved policy development and service delivery.

The PC recommendation to establish a Centre for Community Service Effectiveness would provide the mechanism to collect meaningful and comparative data consistent across all levels of government. The report recognises that current reporting requirements set by governments do not lend themselves to the accumulation of useful data for the sector and often are an onerous burden on non-profit organisations. A Centre along the lines of the PC's recommendation would have the potential to improve the information available about not-for-profit organisations and to take further important steps towards reducing red tape across the sector.

The structure and functions of such a Centre receive far less attention in the report. The relationship between research, policy and practice will be important aspects of its structure and will determine its effectiveness. Resolving these questions may also present opportunities for sector organisations interested in the intersection between research and action. Some in the sector have also expressed concern that, while a Centre for Service Effectiveness has a lot of merit, there is also a risk that adopting

national approaches to measurement and evaluation would impose rigid, one-size-fits-all conditions on the sector. That approach would not address the needs and capacities of the huge range of community service organisations; and might fail to ensure adequate resources and support for organisations to learn from and implement new approaches. The network of Councils of Social Service will be engaged in the process of establishing a Centre for Community Service Effectiveness to guard against such concerns.

In addition to the introduction of a Centre with implementation and coordinating functions, we remain committed to improving the capacity of existing operations that can support the collection and analysis of information about the sector. In particular, research undertaken by the Australian Bureau of Statistics (ABS) could be improved to provide a more useful set of data on the sector. ACOSS advocates that the ABS should:

- a. increase its sample size significantly to allow it to produce a breakdown of the nine or 12 (preferably 12) ICNPO categories into sub categories and by State and Territory;
- b. undertake the Not for Profit Organisations Survey (with the increased sample size) every 3 years and also release the data in the Australian and New Zealand Standard Industrial Classification (ANZSIC) Class;
- c. be funded by the Commonwealth Government to undertake these two operations above; and
- d. undertake the Community Services Industry Survey at five-year intervals.

##### **5. Workforce, sector development and sustainability**

The PC's recommendation that government funding include market wages is a vital step towards addressing the growing disparity in pays between workers in social and community services and comparable roles outside the not-for-profit sector. ACOSS strongly supports this recommendation and sees it as another step towards ensuring adequate and appropriate wages for sector workers, alongside the equal remuneration case to be run in 2010.

Another key recommendation for the sector's sustainability and capacity to develop is that the intention of government funding be clearly identified in terms of whether it constitutes full funding of services or a contribution only. This recommendation flows from the PC's finding that governments generally fund only 70% of the cost to the



sector in providing services, with the remaining costs being covered by fees and organisations' own resources. Better clarity and transparency around government funding arrangements would increase organisational capacity to identify where and how its own income should be directed.

We welcome the PC's support for several key ACOSS recommendations, including the dedication by governments of a small proportion of their program funding for innovative approaches and projects within the sector. Funding for innovation would provide support for organisations to test and refine the programs they offer to support low income Australians and their communities.

Much of the PC's report considers the nature of relationships between nonprofits and those outside the not-for-profit sector, primarily government. As the PC acknowledges, processes such as financial reporting are informed by relationships with the sector but they can also determine these relationships. Social services are already well-aware of this and ACOSS submissions to the PC study discussed this at length.

ACOSS supports the PC's recommendation for an Office for not-for-profit sector engagement within a central agency of the Commonwealth government. We advocate that this should be located within the Department of Prime Minister and Cabinet for two reasons: to reflect the importance of relationships with the sector across many government departments; and to strengthen the leadership of the Deputy Prime Minister in achieving social inclusion.

An Office for NFP sector engagement would play a pivotal role in striking a more even balance in relationships between the sector and government. That balance needs to be informed by greater levels of understanding about respective roles and responsibilities and a greater sense of common purpose. The sector is more than keen to share its expertise with government in the design of programs and contracts to achieve more responsive and innovative service outcomes. This re-engineered relationship needs to acknowledge the value and independence of the community services and welfare sector. Governments should consult meaningfully through representative structures (including appropriate lead times and times for responses) around program and policy implementation and to appoint peak body representatives to relevant Inquiries.

Relationships can also be improved through better understanding between individuals working in the different sectors. This could include public servants undertaking voluntary work in the community services and welfare sector and a program of secondments between the two. Leadership programs such as Sydney Leadership run by the Benevolent Society and the Leadership Victoria Program bring together leaders from government, not for profit and business sectors and are another practical way to enhance better understanding.

## 6. Future directions

The PC's report lays out a clear agenda for reform. The study received extensive submissions from social and community service organisations and draws heavily on these in its report. ACOSS will be seeking to work closely with the Commonwealth government and, through the COSS network, with all governments to ensure that this historic opportunity for reform is not lost.

ACOSS priorities for advocacy arising from this report are as follows:

- i. The establishment of a national, independent regulator of the not-for-profit sector, in line with the PC's recommendation for a Registrar. Its function would be to drive the development of reforms and their implementation across the sector.
- ii. A legislated definition of charitable status based upon the 2001 Inquiry into the Definitions of Charity.
- iii. Recognising the important contribution by the sector in the areas of policy development and advocacy, as well as services and programs.
- iv. Consulting appropriately across the sector in the identification, introduction and implementation of any reforms.

These priorities provide an opportunity for a collaborative approach across the not-for-profit sector on key proposals that have strong and widespread support. The first two priorities are reforms that have long been supported throughout the sector and are based on extensive work over many years. The second two priorities relate to the relationships and context within which the sector undertakes its work and are areas that require constant and ongoing attention both within the sector and in its external relationships. Beyond these priorities, ACOSS will be working with our members and colleagues in the sector to support sector reform across a wide range of areas, including the further development of ideas such as the recommendation for a Centre for Community Sector Effectiveness.

ACOSS invites comments and feedback from our members and colleagues in the sector on the analysis and conclusions we have drawn from the PC's report. The priorities for advocacy that are set out in this document will guide ACOSS in future work with the sector and government. These are open to suggestion, addition, or further refinement and we welcome your comments.

## 7. Further reading

### ACOSS

- [Submission to the PC draft report](#) (November 2009)
- [Initial submission to the PC study](#) (June 2009)
- [Submission to the Inquiry into the disclosure regimes for charities and not-for-profit organisations](#) (September 2008)
- [National Compact - Discussion Paper](#) (August 2008)
- [A charity by any other name](#) (August 2003)

See also the websites of the Councils of Social Service in each state and territory for further information.

### *Other organisations*

- [Productivity Commission research report into the contribution of the not-for-profit sector, January 2010](#)
- [Submission by PilchConnect, a service within PILCH \(Vic\)](#)
- [A question of balance: principles, contracts and the government-not-for-profit relationship \(PIAC and Whitlam Institute, 2009\)](#)