



Australian Government
Productivity Commission

Contribution of the
Not-for-Profit Sector

Productivity Commission
Research Report

January 2010

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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 (www.pc.gov.au) or by contacting Media and Publications on (03) 9653 2244 or email: maps@pc.gov.au

Foreword

The Productivity Commission was tasked by the Australian Government with assessing the contribution of the Not-for-Profit sector and impediments to its development. This sector has grown rapidly over the past decade, and now makes up just over 4 per cent of GDP (just under \$43 billion), with nearly 5 million volunteers contributing an additional \$14.6 billion in unpaid work.

Given the sector's wide reach and diversity, improving its efficiency and effectiveness will have broad benefits, especially in the field of human services. While there have been a number of reviews and inquiries over the years, implementing identified reforms has been slow.

While the future of the sector rests largely in its own hands, a wide range of regulatory, institutional and funding reforms are needed to enhance its effectiveness and achieve even better outcomes for the community.

The Commission has been greatly assisted in the conduct of this study by the hundreds of individuals, organisations and government agencies who made submissions, attended consultations and roundtables, and provided advice and research. Thanks are extended to all those who have given so freely of their time. The Commission especially acknowledges the contribution to its work of Professor Mark Lyons, who died last year.

The study was overseen by Commissioner Robert Fitzgerald and Associate Commissioner Dennis Trewin. The staff research team was headed by Dr Jenny Gordon, and included Professor Myles McGregor-Lowndes on a part-time basis.

Gary Banks AO
Chairman

January 2010

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;
- 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;

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- 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.

Chris Bowen

[17 March 2009]

Disclosure of interest

The *Productivity Commission Act 1998* specifies that where a Commissioner has or acquires an interest, pecuniary or otherwise, that could conflict with the proper performance of his function during an inquiry he or she must disclose the interest.

Robert Fitzgerald has advised the Chairman of the Commission that he holds or has interest in the following organisations:

- The Benevolent Society — Director
- Foyer Foundation — Director
- Australian Catholic University — Adjunct Professor
- QUT Centre for Philanthropy and Nonprofit Studies — Advisory Board
- Catalyst for Renewal — Patron
- MacKillop Family Services — Patron.

Dennis Trewin has also advised the Chairman that he holds or has interest in the following organisations:

- Australian Reward Investment Alliance — Trustee and Board Member
- ARC Centre of Excellence for Coral Reef Studies — Chairman, Advisory Board
- Radford College — Board Member
- Institute for Social Research, Swinburne University — Advisory Board and Adjunct Professor
- Chairman, Policy and Advocacy Committee, Academy of Social Sciences

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Abbreviations

AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
ACFID	Australian Council of International Development
ACOSS	Australian Council of Social Service
AIHW	Australian Institute of Health and Welfare
ANZSIC	Australian and New Zealand Standard Industrial Classification
ARC	Australian Research Council
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
CCPA	Centre for Corporate Public Affairs
CDFI	Community Development Finance Institutions
COAG	Council of Australian Governments
CRC	Cooperative Research Centre
CTC	Competitive Tender and Contact
DEEWR	Department of Education, Employment and Workplace Relations
DGR	Deductable Gift Recipient
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
FBT	Fringe Benefits Tax
FCR	Full Cost Recovery
FIA	Fundraising Institute Australia
FTE	Full time Equivalent
GDP	Gross Domestic Product
GST	Goods and Services Tax
GVA	Gross Value Added
ICNPO	International Classification of Non-Profit Organisations
ICT	Information and Communication Technologies
ICV	Indigenous Community Volunteers
IDP	Information Development Plan

ITAA	<i>Income Tax Assessment Act 1997</i>
ITEF	Income Tax Exempt Fund
LSL	Long Service Leave
NFPs	Not-For-Profit Organisation
NGO	Non-Government Organisation
OHS	Occupational Health and Safety
ORIC	Office of the Registrar of Indigenous Corporations
PAF	Private Ancillary Fund
PBI	Public Benevolent Institution
PMCBP	Prime Minister's Community Business Partnership
R&D	Research and Development
RAFTS	Review of Australia's Future Tax System
SME	Small to Medium Enterprise
SROI	Social Return on Investment
VCEC	Victorian Competition and Efficiency Commission

Glossary

Activity	What a not-for-profit organisation does to fulfil its purposes (for example, the services it delivers). Activities produce outputs.
Australian Accounting Standards Board (AASB)	An Australian Government statutory agency responsible for the development and promulgation of accounting standards, including the adoption of International Financial Reporting Standards. The strategic direction of the AASB is set by the parent agency, the Financial Reporting Council.
Award modernisation	The process undertaken by the Australian Industrial Relations Commission to create a system of rationalised awards to operate in conjunction with the new workplace relations system that commenced 1 January 2010.
Black letter law	Those statutes, rules, acts, laws, provisions, etc. that are or have been written down, codified, or indicated somewhere in legal texts throughout history of specific state law.
Charities	Organisations with a charitable purpose, as defined in common law and classified according to the <i>Pemsel</i> case (1891) under the heads of: <ul style="list-style-type: none">• relief of poverty• advancement of education• advancement of religion• other purposes beneficial to the community.
Civil society	Civil society refers to the arena of uncoerced collective action around shared interests, purposes and values. In theory, its institutional forms are distinct from those of the state, family and market, though in practice, the boundaries between the state, civil society, family and market are often complex, blurred and negotiated.
Community care	Aged and disability care services delivered in a client's home or community centre as opposed to a residential or institutional setting.
Community Service Organisation	A society, association or club established for community service purposes (except political or lobbying purposes) that is not carried on for the purpose of profit or gain to its individual members (s. 50-10 of the <i>Income Tax Assessment Act 1997</i> (Cwlth)).
Community services	The sub-set of human services that involve a range of services that provide: relief of poverty, social disadvantage, social distress and hardship; the provision of emergency relief or support; and the advancement of disadvantaged groups.
Community-based services	A sub-set of NFP activities that are organised by the community and benefit the community through enhancing their participation in non-human service areas such as the arts, sport, recreation and environment. As used in this study, this is different from human services, although these too can be delivered from a community base.

Community-purpose	Describes the objectives of an NFP as outcomes that are in the interest of the community ... This community may be formed around a special interest or locality, or be broader and encompass a wider group of people.
Community-wide	The broader community, involving all members of society.
Companies limited by guarantee	Public companies without share capital, where each member's liability is limited to a predetermined amount. Companies limited by guarantee must have at least one member, three directors and an appointed secretary. There are specific disclosure and governance requirements placed on these organisations, which are enforced by members and the Australian Securities and Investments Commission. This structure is usually used by larger organisations.
Competitive neutrality	A principle that promotes equal treatment of competing organisations to promote a level playing field.
Cooperative	An organisation structure where the organisation is owned, controlled and used by members. A cooperative can be either a trading or a non-trading entity and will face different legal requirements depending on type.
Cost-effectiveness	The total cost per unit of outcome achieved; more narrowly, the financial cost per unit of output achieved.
Deductible gift recipient (DGR)	DGR status is granted by the government to eligible NFPs to promote philanthropic giving from individuals and businesses to these organisations. Organisations must be endorsed by the Australian Taxation Office or listed by name in the tax law.
Economically significant not-for-profit organisations	Those organisations with one or more paid employees or revenue above a set annual threshold. The threshold varies by industry code such that those organisations included in the scope of economically significant NFPs make up at least 97.5 per cent of total estimated turnover within that industry code.
Effectiveness	Extent of achievement of the stated objectives.
Efficiency	Production or technical efficiency is achieving the greatest output for a given level of inputs. Allocative efficiency is achieving the outputs that give the greatest community benefits for a given level of inputs available.
Employee	Staff member who is paid in exchange for providing labour. Distinct from a volunteer who is not paid for providing labour.
Fair compensation	Remuneration for staff and payment for capital at the average market rate and no more.
Financial Reporting Council	An Australian Government statutory agency which provides broad oversight of accounting and auditing standards in Australia.
Fringe benefits tax (FBT)	FBT is a tax payable by employers who provide fringe benefits to their employees or associates of their employees.
Governance	The arrangements for decision-making and the process by which decisions are implemented (or not implemented).
Government agency	A government department or agency.
Grant	Funding for a specified purpose directed at achieving goals and objectives consistent with government policy.
Gross value added	The value of output less the value of intermediate consumption; it is a measure of the contribution to gross domestic product made by an individual producer, industry or sector.

Harmonisation	A process through which state/territory legislation and regulation is progressively made consistent. One form of harmonisation is the adoption of model legislation.
Human services	Those services that seek to improve individual and community wellbeing through the provision of care, education and training, and community services. This differs from community-based services (see above).
Impact	The broader effects of an activity, taking into account all its benefits and costs to the community.
Incorporated associations	Incorporation is governed by state and territory legislation and hence varies by jurisdiction. Generally, incorporated associations must have at least five members and be formed for a specific purpose deemed eligible by the relevant jurisdiction. A management committee manages the incorporated association and it must hold an annual general meeting each calendar year. Legislation varies from general Associations Incorporation Acts to individual Acts related to a particular institution.
Indicator	Information or data source used to measure inputs, outputs, outcomes or impacts. Impacts can be positive or negative.
Indigenous corporation	A corporation incorporated under the <i>Corporations (Aboriginal and Torres Strait Islander) Act 2006</i> (Cwlth) and regulated by the Office of the Registrar of Indigenous Corporations.
Input	Any resource used by an NFP to achieve its objectives.
Intermediary	For the purpose of this study, a service provider that offers input support services for NFP businesses and organisations, or acts as a conduit to connect two parties. For example, volunteer clearing houses
International Financial Reporting Standards	International accounting standards set by the International Accounting Standards Board (IASB). Australia is represented on the IASB and its parent body, the International Accounting Standards Committee Foundation.
Managed market	For the purposes of this study, managed markets are defined as those where governments largely fund the provision of a good or service by non-government providers but, to varying degrees, allow market forces to play a role in ensuring economic efficiency and encouraging innovation.
Market wages	Remuneration at a level competitive with wages in the public and private sectors.
Mediating environment	The rules and institutions, formal and informal, that govern the behaviour of people and organisations. These rules and institutions usually reflect the values of society.
Monopsony power	Market power that derives from being a sole (or dominant) purchaser of a specific good or service.
Mutual recognition	Where jurisdictions recognise a status approved by another jurisdiction despite different regulations.
Net benefit	The value of the total present value of benefits less the total present value of costs.
Net benefit test	Use of net benefit estimates to differentiate proposals involving costs and benefits.

Network governance	Pursuit of societal outcomes between all-of-government, NFPs and business to access resources through jointly agreed and managed arrangements. It requires changing relationships within government to break policy silos and 'join up' to pursue outcomes, and between the government, business and NFP sectors to access the range of resources necessary, or utilise resources differently, to deliver outcomes.
Non-employing organisation	A NFP that uses only volunteers rather than paid employees.
Not-for-profit mutual	A legal form commonly adopted by clubs and similar NFPs that provides services to its members, and does not distribute surplus to members.
Not-for-profit organisation (NFP)	An organisation that imposes the non distribution of profits to the members of the organisation.
Outcome	The effects on a participant during or after their involvement in an activity. Outcomes can relate to knowledge, skills, attitudes, values, behaviour, condition or status. Outcomes can be positive (deliver a benefit) or negative (impose a cost) on individuals.
Output	The product of an activity (for example, the number of people trained in a program or the number of performances of a community orchestra). Outputs lead to outcomes.
Payroll tax	Payroll tax is a state and territory tax. All states and territories exempt employers if their total taxable wages throughout Australia are below a certain threshold and allow larger employers to deduct the threshold amount from their taxable payrolls. Some classes of employers are generally exempt — for example, charitable organisations — and some classes of employees are generally exempt or taxed at lower rates.
Prescribed Private Fund	Private deductible gift recipients which are formed by individuals with a charitable purpose. These have been replaced by Private Ancillary Funds with the passage of the <i>Tax Laws Amendment (2009 Measures No. 4) Bill 2009</i> (Cwlth).
Private Ancillary Funds	Private Ancillary Funds are private deductible gift recipients which are formed by individuals with a charitable purpose (under the <i>Tax Laws Amendment (2009 Measures No. 4) Bill 2009</i> (Cwlth) they replace Prescribed Private Funds).
Professionalisation	Describes the process, over time, of a shift from using volunteer, informal or low qualification labour to using more highly qualified labour, usually employees, to deliver services. This can also refer to implementing more sophisticated business type models.
Proxy indicator	Indirect measure used when a direct measure is unavailable. For example, cost per unit may be used as a proxy for productivity.
Public benevolent institution (PBI)	An organisations that: is a NFP body; is carried on without the purpose of private gain for particular persons; is established and carried on predominantly for the direct relief of poverty, sickness, suffering, distress, misfortune, destitution or helplessness, and acts to relieve conditions or misfortunes that arouse pity or compassion in the community. PBIs are a sub-set of charities that are entitled to additional tax concessions.
Salary packaging	Sacrificing a portion of pre-tax earnings in exchange for non-monetary benefits to increase total salary, taking advantage of FBT exemptions common in the NFP sector.
Skilled volunteering	Describes volunteering (usually through a volunteer's workplace) where professional skills are utilised for the benefit of the NFP (for example, pro-bono provision of accounting, or IT services).

Social capital	The relationships and trust that underpin the functioning of society.
Social enterprise	An enterprise established using a business model to deliver services for the purpose of providing a social benefit, rather than to provide a profit.
Social inclusion	Providing people with the fundamentals of a decent life; opportunities to engage in the economic and social life of the community with dignity; increasing their capabilities and functioning; connecting people to networks of local community; supporting health, housing, education, skills training, employment and caring responsibilities.
Social services	A classification of activities within International Classification of Non-Profit Organisations that is equivalent to community services in this report.
Standard Business Reporting	An initiative of the Australian Government and the state and territory governments, with an objective of standardising, simplifying and improving business–government reporting.
Stated preference approach	A technique to estimate the value of a specific benefit or cost. It relies on surveys to obtain information on people’s willingness to pay.
Value added	The value of output of goods and services less the value of the intermediate consumption inputs used in producing the output.
Willingness to pay	The dollar amount people are willing to pay to obtain a specific benefit or to avoid a specific cost.