



Value of the Not-for-profit Sector 2020

The Second Examination of the Economic Contribution
of the Not-for-profit Human Services Sector
in the Northern Territory

AUGUST 2020

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Statement of interests

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Mr Tom Emery is a Research Fellow in the Not-for-profits UWA Research Group. He has undertaken research related to the Not-for-profit human services sector, public policy and broader public finance areas including in relation to taxation policy and economic history. He is not currently a member of a board or governance body of a Not-for-profit organisation.

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Contents

Value of the Not-for-profit sector 2020 Infographic	4
Key points	5
Industry Response	6
Commentary	7
Aim of this report	7
Reading this report	7
The Data	8
The Government / Not-for-profit Nexus – Future data needs	9
Summarised Findings	10
What do charities do?	15
Who do the NT's charities serve?	19
What is the Sector's Economic Contribution?	22
Employment	23
Volunteering	26
What does sustainability look like in this sector?	27
Charity size	28
Financial Position	30
Financial Performance	31
Income	31
Expenses	36
Profitability	39
Concluding Remarks	44
Appendix 1 – Data Sources	45
Appendix 2 – What is a Not-for-profit Organisation?	48
Appendix 3 – Comparison of ACNC Activity Categories & International Classification of Non-profit Organisations (ICNPO)	52
Appendix 4 – References Used in this Report	54
UWA Reports	54
External Reports	55



10,389

Total number of people employed in NT charities

(5,357 full time 1,859 part time and 3,173 casual)
That's 8.2% of the total NT workforce



11,208

Volunteers

Additional productivity is gained from the support of volunteers across NT charities



\$615.5m

NT charities employee remuneration

Employees of NT charities feed this back in the local geographical area in which their organisations operate

Top 3 activities

The main activities undertaken by NT charities are:



Economic, social and community development



Religious activities



Culture and Arts



418

Registered charities work in the NT at 2018

There are 1620 incorporated not-for-profit associations on the NT register (many of these are registered charities)



\$1.301b

Total annual income of NT charities

For every \$1 in government revenue, NT charities earns \$0.83 in other revenue for application against its mission

Key Points

- This 2020 report is based on the 2018 Australian Charities and Not-for-profits Commission (ACNC) Annual Information Data Set. It is the second report in this series. The first report was published in 2017 and focused on 2015 data provided by Northern Territory charities to the ACNC.
- The number of charities headquartered in the Northern Territory shrank from 450 in 2015 to 418 in 2018, or by 7.1%. Additionally, while we do not have data related to them, as at July 2020, there are 1,620 incorporated associations on the Northern Territory register compared with 1,596 in 2015. Importantly, many of these are also likely to be registered charities. These organisations also contributed to the Northern Territory Gross State Productivity (GSP).
- In examining the activities of the Northern Territory's charities, we use the ACNC activity definitions for **Main activity** (the dominant activity reported) and **Other activity** (for all other activities reported by charities). In 2018, the average number of Main activities reported by the Territory's charities was 3 as compared to 6.59 in 2015. Their Other activity mix also contracted with 1.52 service areas on average being reported in 2018 as compared to 2.91 in 2015, signalling contraction in the sector.
- This contraction is likely driven by sustainability and other risk concerns. Importantly, the data does not tell us where the contraction in services has occurred, and so there is also likely to have been a loss and/or a reduction of service access in some parts of the Northern Territory.
- The sector profitability has also polarised as per previous predictions relating to the financial performance of charities in the Northern Territory. The number of charities that made a profit in 2018 rose (55% in 2018, 49% in 2015) as did the numbers of those charities making a loss (29% in 2018, 24% in 2015), while the charities breaking even reduced (16% in 2018, 27% in 2015). This has considerable ramifications for the ongoing sustainability of almost a third of the sector and for those they serve.
- The quality of jobs available in the sector diminished with full and part-time staff numbers shrinking by 5.1% and casual staff increasing by 36.4%. This has considerable implications for risk and efficiency going forward. In all, charities reported employing 10,389 people in 2018 (compared to: 10,226 in 2015 in this sector; and 4,681 employed in the mining sector in 2018). It deployed 11,028 volunteers in 2018 (2015 – 10,949).
- The data sets available for analysis are very restricted and do not provide capacity to develop an understanding of who is being served, where in the Territory those services are being provided and what it costs. Carrying over from our previous report, the need for mature data assets is now critical as changed funding policies and economic and other conditions see a contraction in the service delivery mix of the human services sector. These changes need to be understood in order to ensure service users are not placed in risk and that they receive reliable and sustainable services and supports.

NOTE: all reports and links included in foot notes are also included at Appendix 4 for easy access via live links in PDF format.

Industry Response

It is rewarding for the Northern Territory Council of Social Service (NTCOSS) to once again be able to provide a response to the Biennial review of the contribution of the Not-for-profit human services sector in the Northern Territory. The 2017 report (based on the Australian Charities and Not-for-profits Commission (ACNC) 2015 data set) was ground breaking as it gave us a new perspective on a number of aspects of the sector. It provided clear evidence demonstrating that the NFP sector plays an instrumental role in the NT economy.

This new report, based on the ACNC's 2018 data set, is no less so as we start to develop a data asset which will allow the ongoing comparison between periods while also helping to build a picture of the trajectory of the development of the sector over time.

We note the decreasing number of charities operating in the Northern Territory—down 7.1% since 2015—and the increases in income reported by these organisations—up 36.7% between 2015 and 2018, or an average of 18.35% per annum. However, expenditure has also risen with an increase in overall expenses incurred of 40.3% of which \$615.5m related to employee expenses—an increase of 47% since 2015. Once again, this sector has also contributed directly to the economy by providing employment and opportunities for industry support service providers (e.g. accountants and auditors). The sector continues to be a logical target for economic growth stimulus.

However, we also note that the quality of jobs in the sector continues to be under strain as the number of full and part time employees fell by 5.1% as the number of casual employees grew by 36.4% over the period. This does highlight concerns regarding service sustainability, increased costs associated with staff turnover and increased administrative costs to employers

as employment becomes more transactional.

Data assets are critical for informing policy, supporting forward analysis and for providing a feedback loop for policy and outcomes assessment. However, the difficulties in identifying data reported in 2017 remain serious restraints on our capacity to understand the sector's dimensions and, more importantly, its development trajectory.

Of course, we continue to recognise and appreciate the incredible contribution to the Territory made by its charitable and Not-for-profit organisations. These providers of human services are critical sources of experience and intelligence in one of Australia's most complex operating environments and are at the frontier when it comes to delivering on the kind of community we all want.

NTCOSS continues to advocate for the ongoing compilation of this report every two years and for the development of better data assets which will inform government and the sector more fully. Data sharing by governments and within the sector can drive better outcomes and inform opportunities for collaboration and better targeted resourcing. Additionally, making data available in a more timely way (note this report considers 2018 data, first released in July 2020) will increase its decision making value.

NTCOSS acknowledges and thanks the Not-for-profits UWA Research Team at the University of Western Australia for this second Value of the Not-for-profit Sector Report and look forward to utilising the information it contains into the future.

Deborah Di Natale

**Chief Executive Officer
Northern Territory Council of Social Service**

Commentary

In this section, we have brought together the main results of the research program in order to highlight key results. This has been undertaken with comparison to the 2017 report.

Prior to examining the research results, we have made comments regarding the nature of the data and issues for readers to consider as they move through the report.

Subsequent sections provide more substantial analysis.

Aim of this report

In 2017, the Not-for-profits UWA Research Group at the University of Western Australia and the Northern Territory Council of Social Service (NTCOSS) developed the first report summarising the data available relating to the Not-for-profit and charitable human services sector in the Northern Territory¹.

For the reasons identified below, NTCOSS and Not-for-profits UWA determined to create a report series by undertaking the research and reporting process every two years. This is the second report in the series.

At the time, we expressed our belief that good data combined with the development of a well-thought-through data management plan would assist the Northern Territory Government, the human services sector and the wider community by:

- Identifying sustainability and allocation issues across the Territory;
- Supporting the development of an effective and comprehensive industry plan which, in turn, articulates the priorities, resource requirements and opportunities for

collaboration and efficiency across the system—here a system involves all players including government, the human services sector, philanthropists and, critically, user advocacy groups;

- Supporting better forecasting and decision making for human services providers and government agencies; and, thereby,
- Reducing risk to the users of human services who are the ultimate shock absorbers in the human services system.

This is a sector that is not easily replaced, nor can other sectors seek to emulate its efficiency. Further, it is of course in the government's and community's interests to shepherd this important sector, as a strong Not-for-profit human services sector is essential to ensuring service users are supported sustainably.

As the second report in the series, we are able to start considering any change in the sector since the previous report which provides direction for further analysis. Future reports will add greatly to the power of the data in assessing the trajectory of the sector.

Reading this report

The following will assist readers to contextualise the information in this report:

- The data used in this report was provided by registered charities to the Australian Charities and Not-for-profits Commission (ACNC) for the 2018 financial year;

¹ Please access the first report here: <https://www.research.uwa.edu.au/not-for-profits-uwa#policy-economics>; or here at: <https://ntcoss.org.au/publications/value-of-the-sector/>

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- Quoted data is all related to the 2018 financial year but **we have included the 2015 comparison in brackets next to the 2018 data where possible and useful;**
 - We report on 418 (450) registered charities with their headquarters in the Northern Territory or which only operate in the Northern Territory;
 - However, there are currently 1,620 (1,596) registered associations in the Northern Territory meaning that this analysis does not provide information related to the entire Not-for-profit cohort, as this data is not readily available;
 - Other charities, headquartered and operating elsewhere, also operate in the Northern Territory. One of the key limitations of the ACNC data is the fact that it is not possible to discern the financial and other data relevant to the Northern Territory operations of a charity that also operates outside of this jurisdiction. As such, the data presented here is likely to under-represent the asset that is the Northern Territory human services sector; and
 - Data presented in this report has been faithfully represented but readers should refer to Appendix 1 in order to gain a complete picture of the nature of the data itself and our analytical processes.

The Data

Appendix 1 provides a full description of the data used to support the development of this report. This appendix also discusses our data cleaning process as well as the data sources in

greater detail.

It is important to note at this point that the primary data used here was that released earlier in 2020 by the Australian Charities and Not-for-profits Commission (ACNC). This data relates to information provided by registered charities using the Annual Information Statement (AIS) submission process.

The ACNC data itself is lag data (the 2018 data was released in June 2020 by the ACNC. The previous 2017 report discussed data related to the 2015 financial year and which was released by the ACNC in August 2017) and provides information pertaining to 418 (450) charities with their head office in the Northern Territory.

We have also considered data from a number of additional sources (see Appendix 1) but these data sets do not add materially to the analysis provided primarily because of the age of the data. For instance, in the 2017 report, we commented upon the Australian Bureau of Statistics Nonprofit Satellite Account, which last analysed the sector in 2012-13. However, as this data is now over 7 years old and cannot be used in the analysis of the current situation.

The data provided under the AIS regime include:

- Financial data
- Beneficiary data
- Activity data
- Employee data
- Volunteers data

Importantly, all data considered is self-selected by charities, with this including choices surrounding how they describe their

Main activity and where they operate. These descriptions can be misleading as the ACNC uses different descriptions for activities to those used in the International Classification of Non-profit Organisations (ICNPO). See Appendix 3 for a comparison of the two.

Overall, there is little data available in relation to Not-for-profits that are not registered charities. The most predominant form of incorporation for Not-for-profits is as incorporated associations under the Northern Territory Associations Act of which there are 1,620 (1,596) at the time of writing. However, the form of incorporation does not impact Not-for-profit or charity status and so we cannot discern any further breakdown of data.

There remain, then, considerable data gaps that impact the ability of policymakers, funders and the sector—not to mention the general community—to make decisions and to assess impact. This gap is especially felt in the context of impact reporting—arguably the most important reporting and transparency issue for charities and Not-for-profits.

The Government / Not-for-profit Nexus – Future data needs

It has been long recognised that Not-for-profit organisations are an important asset deployed in the delivery of complex and challenging services by governments.

The nature and purpose of Not-for-profits and the subset of that organisational structure, charities, has been considered in many places. We have provided a description of these organisation types in Appendix 2 for readers' information. Suffice to say at this point Not-for-profits are essentially organisations which do

not distribute profits from operation, or assets from termination, to members.

Charities are a subgroup of Not-for-profits and so the distribution rule applies, but they are also registered with the Australian Charities and Not-for-profits Commission (ACNC) because of the nature of their mission, which falls into the charities definition held in the Charities Act 2013 (Cth). **As such, all charities are Not-for-profits but not all Not-for-profits are charities.**

In 2015, the Northern Territory Government established a set of guidelines intended to support sound governance in relation to funding the Not-for-profit sector². These guidelines are supported by a Statement of Principles agreed between NTCOSS and the Northern Territory Government delineating the key attributes required to be followed in order to achieve a sound partnership.

We do not know the current status of this infrastructure but, anecdotally, we understand that some organisations do use this tool.

Importantly, these principles include that the government and the sector will seek to:

- Achieve the best outcome;
- Act in partnership;
- Be accountable;
- Provide diversity; and
- Take responsibility for working towards a holistic and flexible shared service design, responding to a shared governance model and pursuing long term outcomes.

The Northern Territory Government and the sector, including NTCOSS, also co-developed a human services industry plan spanning the

² See: <https://nt.gov.au/community/non-government-organisations-ngos/guidelines-for-working-with-ngos>

period 2019 to 2029³. This too, was identified as a need in the 2017 report. Amongst other things, this plan focuses on workforce development, intra-industry connectedness, sustainable service providers and quality services. Importantly for this report, the Industry Plan focuses efforts toward the development of a data collection and analysis capacity in order to support the outcomes sought.

The GrantsNT initiative is also an important consideration here. We reported on the development to date of this infrastructure in the previous report and, while some development has taken place in intervening years, there is some way to go to establish this as a complete data set. Once it is established, it is important that this data be made openly available to further contribute to the understanding of the sector as a whole.

These materials are critical as a basis for reducing risk in the provision of government-funded human services. Remembering that the service users bear the ultimate risk here, the development of a data strategy is a necessity in order to create the data assets needed to fulfil these objectives.

Such a strategy should be developed jointly between the sector and the government and would include an assessment and consideration of:

- Undertaking a stocktake of extant data in government and the sector;
- Developing protocols for intra-government and extra-government access to public data; and
- Developing a set of research topics and priorities to inform additional data collection and agreement on resource allocations.

The strategy would also support the combination of procurement and administrative data with other data sources, including the ACNC data set. Such a plan should also include consideration to the development of appropriate skills for those in government and in the Not-for-profit sector in terms of understanding the attributes of quality data and its use.

This data strategy would provide shared information, increase our understanding of the sector and its needs, develop more equitable relationships, and encourage more mature conversations regarding such aspects as investment needs and pricing for sustainability.

Again, we consider that the development of an NT Data Strategy would positively impact the government's policy interests, the Not-for-profit sector's sustainability and reduce risks faced by people using the services provided⁴.

Summarised Findings

For the balance of this section, we have set out the major findings and made comment.

Who does the sector support?

The most important aspect of this report relates to the people the Northern Territory's charities support. In submitting their AIS data, Northern Territory charities have to provide information regarding the people who are beneficiaries of their work.

In reporting their beneficiaries in 2018, charities could select from a list of 22 beneficiary categories. It appears charities have become more focused in their service types as they

listed only 42.6% of the category entries in 2018, as compared to 2015. In other words, in 2015, charities reported an average of serving 6.59 categories of beneficiary whereas, in 2018, they reported serving an average of 3 categories.

In 2018, charities reported that the top three beneficiaries were:

1. People in rural/regional/remote communities (in 2015 charities reported Aboriginal and Torres Strait Islanders)
2. Aboriginal and Torres Strait Islanders (in 2015 charities reported Women)
3. Families (in 2015 charities reported Men)

The focusing of charities on fewer beneficiary types may mean that resource restrictions, concern as to the future and increasing complexity are all impacting to drive charities to focus more on their areas of expertise.

What does the sector do?

Similar to its beneficiary reporting obligations, each registered charity also has to provide the ACNC with data on their Main activities and Other activities.

In all, there were 28 activities from which to choose in 2018. Unlike the beneficiary reporting, Northern Territory's charities reported the three same top main activities as they reported in 2015, viz:

1. Economic, social and community development
2. Religious activities
3. Culture and arts

The possibility of contraction in activities

suggested in the previous section is borne out in that charities significantly curtailed their reporting of other activities in 2018. In 2015 charities reported an average of 2.91 other activities in addition to their main activity. However, in 2018, charities reported undertaking an average of only 1.52 other activities.

Again, combined with the beneficiaries' data above, this suggests that charities are actively focusing their activities, perhaps in response to resourcing challenges and uncertainty. This was evidenced during the COVID-19 pandemic.

What does the sector look like?

When we describe the Not-for-profit sector, we have a tendency to aggregate by activity (see above) and also by size. Indeed, the ACNC aggregates data by charity size as determined by turnover. There are three sizes which attract some differing regulatory and reporting obligations amongst other things.

Using size by turnover as a method of aggregating data for analysis is a very arbitrary process and readers should be wary in terms of over-relying on size by turnover as an indicator of the nature of each particular group. This is especially so when we consider the vast combination of activities undertaken and beneficiaries supported across the sector.

Additionally, in order to better analyse the data, we introduced a four-tiered size by turnover category set when we developed the first report in this series. We have continued this categorisation in order to maintain comparability.

To help contextualise this discussion, the spread of charities across the various categories is listed here:

Small	180 (232)	↓(22.4%)
Medium	80(75)	↑6.7%
Large	123(119)	↑3.3%
Very Large	35(24)	↑45.8%

An efficient sector

Not-for-profit organisations are a very efficient form of structuring service delivery. In the context of this report, the following efficiency indicators are pointed out:

- For every dollar in government revenue earned, the sector earns \$0.83 (\$1.04) in other revenue (donations, services rendered, sales, etc.) for application against its mission;
- They do not return any proportion of earnings to shareholders;
- Receive donations of assets and other resources, leveraging government procurement;
- Generally, do not pay directors;
- Deployed 11,028 (10,949) volunteers supplementing their workforce and contributing to the community's health;
- They leverage balance sheets built over a long time and resulting from community support, meaning replicability is low; and
- Provide services and supports in regions and areas where For-profit organisations cannot operate with sufficient return on investment.

In all, charity numbers fell during the period by 7.1% overall. The danger in relying too heavily on the arbitrary categorisation of charities by size of turnover is displayed here where upwards income growth reported below has caused 'category creep' as charities have reported larger incomes generating changes in their status, while not reporting an increase in their financial sustainability.

Economic Stimulus and the Sector's Contribution

The Not-for-profit human services sector is also an important element in sustaining and growing the Northern Territory economy—it contributes a significant net economic benefit to the community.

In general economic terms, the Northern Territory Treasury has calculated that the industry groups into which the activities of the Northern Territory's Not-for-profits' and charities' activities are allocated generated \$3.260b toward a total State Domestic Product (SDP) of \$26.2b for 2018, constituting 12.44% of total SDP. For comparison purposes, for the same year, mining contributed \$3,166b or 12.1%⁵.

The sector reported employing 10,389 (10,226) full-time, part-time and casual staff. This compares very favourably to the Northern Territory's mining sector which reported employment numbers at 4,681 for 2018, or 45% of the human services employment numbers⁶.

These employees were remunerated to a total of \$615.5m (\$416.9m) in 2018. Additional productivity was gained from the deployment of 11,208 volunteers, as identified in the last section.

Importantly, the above expenditure is incurred

in employing low paid staff ensuring the remunerative value is fed back into the Northern Territory economy as consumption. However, it appears that the quality of jobs is reducing—charities reported an increase in the number of casual employees between 2015 and 2018 of 36.4% and a decrease in full-time and part-time jobs of 5.1% during the same period.

The quality of jobs is important in a low paid sector as the reliability of income and capacity of staff to meet their families' needs likely impacts staff recruitment and retention, leading to increased costs and higher risks for employers and service users.

Sustainability

Supply-side sustainability is a critical component in ensuring that services are provided in support of people who need them.

Sustainability needs to be considered in three time dimensions, short-, medium- and longer-term. Financial capacity is critical to ensuring this sustainability going forward, therefore, profitability is also critical.

In 2018, the sector reported net assets of \$1.483b (\$952m) and an increase in income of 36.7%, or \$349m, which was absorbed by an increase in expenses of \$347m, or 40.3%, leaving net positive income growth (or margin) of a total of \$2m, or 0.5% shared amongst 418 organisations. This confirms that the For-profit sector cannot replace the Not-for-profit human services sector due to the challenges of making a profit. It also confirms that the sustainability of the sector, operating in a market economy, can easily be threatened when the margin is non-existent.

In terms of profitability, our previously predicted polarisation in the context of the disability

services sector resulting from consolidation and increased specialisation may be being realised across human services⁷. In 2018, 16% of charities broke even compared with 27% in 2015, while those in profit grew to 55% (49%) and in loss grew to 29% (24%). In the same time period, 108 charities exited the sector and 78 new charities were registered.

Additionally, this lack of margin is also likely to drive further consolidation—evidence of which we see in this year's report—but which may be a threat in some service areas due to the fact that: (1) pricing does not provide a sufficient margin to realise the oft-spoken about economies of scale—in order for economies of scale to be realised, there must be sufficient margin; and (2) uncontrolled or unplanned consolidation can cause loss of services and resources in key service areas.

If consolidation and specialisation is occurring (and we will be able to judge this better with the third report, which will allow us to project trajectory), there are considerable implications that are likely to drive unsustainability in service delivery and cause a reduction in service user choice and control, unless appropriate structural change processes are put in place, including building on the Northern Territory Human Services Industry Plan.

Because the data is jurisdiction-wide and because it builds a very limited picture of charities, what they do, for whom and where, the danger arises that policymakers and funders will consider the reported results as uniformly representative across the jurisdiction.

The polarisation of the sector means that supply of services is likely to be curtailed or limited in specific areas that are underfunded and/or where collaborative decision making between policymakers, funders and the sector with

⁷ See our previous reports: Gilchrist, D. J., and P. A. Knight, (2017), *Australia's Disability Services Sector 2017: Report 2—Financial Performance—Summary of Key Findings (National Benchmarking Study)*, A Report for National Disability Services, Canberra. and Gilchrist, D. J. and P. A. Knight, (2018), *Australia's Disability Sector 2018: Report 3 - Financial Performance: Summary of Key Findings, a Report for National Disability Services, Melbourne*. Both reports can be found at: <https://www.research.uwa.edu.au/not-for-profits-uwa#ndis-finance-reports-markets-reports>

local emphasis is not supported. Additionally, one-size-fits-all funding solutions are likely to cause more disruption in the supply-side if local decision making cannot be supported and effective⁸.

That is not to say that consolidation is not good or that all charities should survive just because they are charities. However, without appropriate data sets and collaboration in planning and service design between government, the sector and service users, the uncontrolled termination of organisations will see reductions in services available and assets applied.

As such, it is becoming critical that a data strategy, including the timely collection of service and utilisation data, combined with access to data by the sector and policymakers, is established.

What do charities do?

In this section, we provide analysis of the most important aspects of Northern Territory's charities—their activities and beneficiaries.

The AIS return requires charities to report their main activity and also requests information on their other activities. In reading this data, it should also be remembered that it is very difficult for many charities to discern what their main activity is given they often provide services and supports relevant to many activities.

The options are provided in a list established by the ACNC (see Appendix 3 for the full list). The ACNC list was slightly modified for the 2018 return with "Political activities" removed and "Other recreation" and "Social club activities" were merged in the 2018 data set in order to be consistent with the 2015 reported activities. Figure 1 provides a comparison of reported main activities in 2015 and 2018.

In 2018, charities reported the same top three Main activities as were reported in 2015, though there were reductions in the proportion of charities undertaking these activities:

- Economic, social and community development – 18.7% (20.9%);
- Religious activities (organisations promoting religion and undertaking religious activities) – 17.9% (18.7%); and
- Culture and arts – 11.5% (10%).

Faith-based charities continued to figure significantly with an additional 2% of charities nominating Religious activities as an Other activity, taking the total identifying activity in this area to 19.9% (21%); a slight reduction on 2015 data. Of course, many charities have their roots in faith-based organisations and so the contribution here is likely to be far higher than that recorded in the data.

Consolidation and Retraction?

Other activities are also recorded in this data set and the number of Other activities undertaken can reflect general change in the structure of the sector. For instance, in 2015, charities in the Northern Territory reported undertaking an average of 2.27 other activities, while, in 2018 this average had reduced to 1.52.

As such, this reduction in Other activities undertaken indicates that there has been some structural change in the sector as organisations appear to be consolidating their operations and, perhaps, focusing on a narrower set of activities in order to reduce sustainability risk that may be perceived in the context of staffing and financial resources challenges.

Figure 2 below provides a snapshot of the number of charities reporting undertaking one or more Other activity. While the number of charities has reduced from 450 to 418 in this period, the movement in the average number of Other activities report should not be impacted. It is clear that organisations have reported that they have consolidated their activities.

This is an important issue for policymakers, funders and the sector to consider. The data does not provide sufficient detail to examine this consolidation deeply enough to draw strong conclusions, but there are risks that reducing the number of activities being undertaken will see services curtailed without compensating response, leaving service users to bear the risk and impact of service failure.

In other words, policy makers might be encouraging consolidation with the false understanding that the reduction in service providers is building efficiency when it may well be reducing much needed specialisation. For example, the provision of highly specialized

Figure 1: Charities by Main Activity

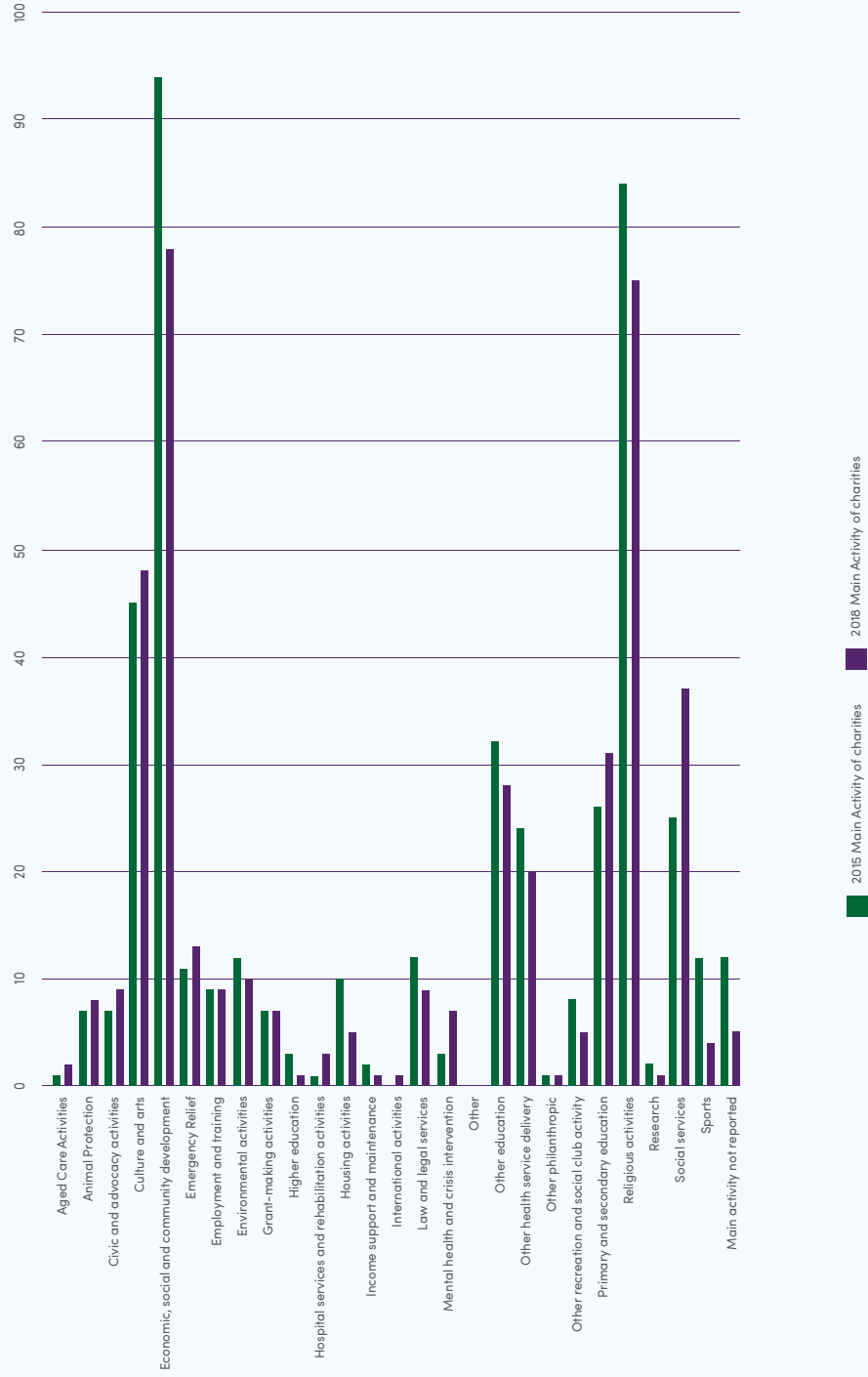
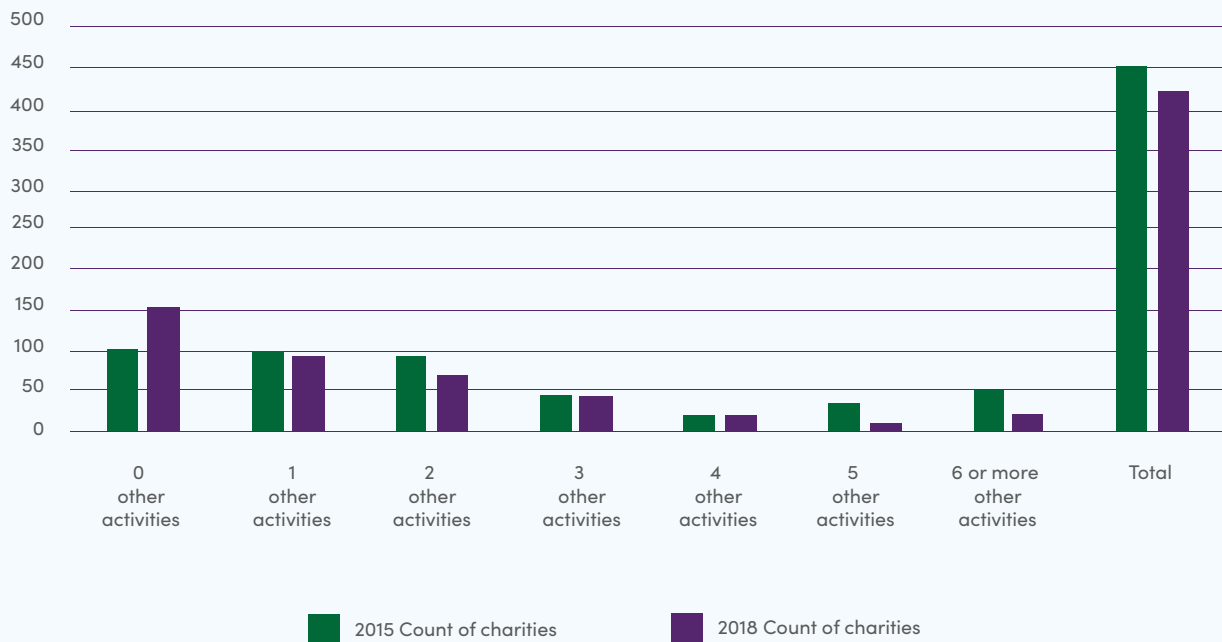


Figure 2: Consolidation of Activities



services may be economically viable by also offering broader, more profitable services. Efforts at consolidation may push providers to only offer the broad-based services at the expense of the specialized ones, creating a service gap. Accordingly, people will be going without services.

This consolidation and re-focusing of activities may well be a good thing as non-viable charities should not be entitled to survive just because they are charities. However, without a planned and orderly retreat from service delivery, the impact of these individual organisations' decisions cannot be evaluated, nor can mitigations be put in place.

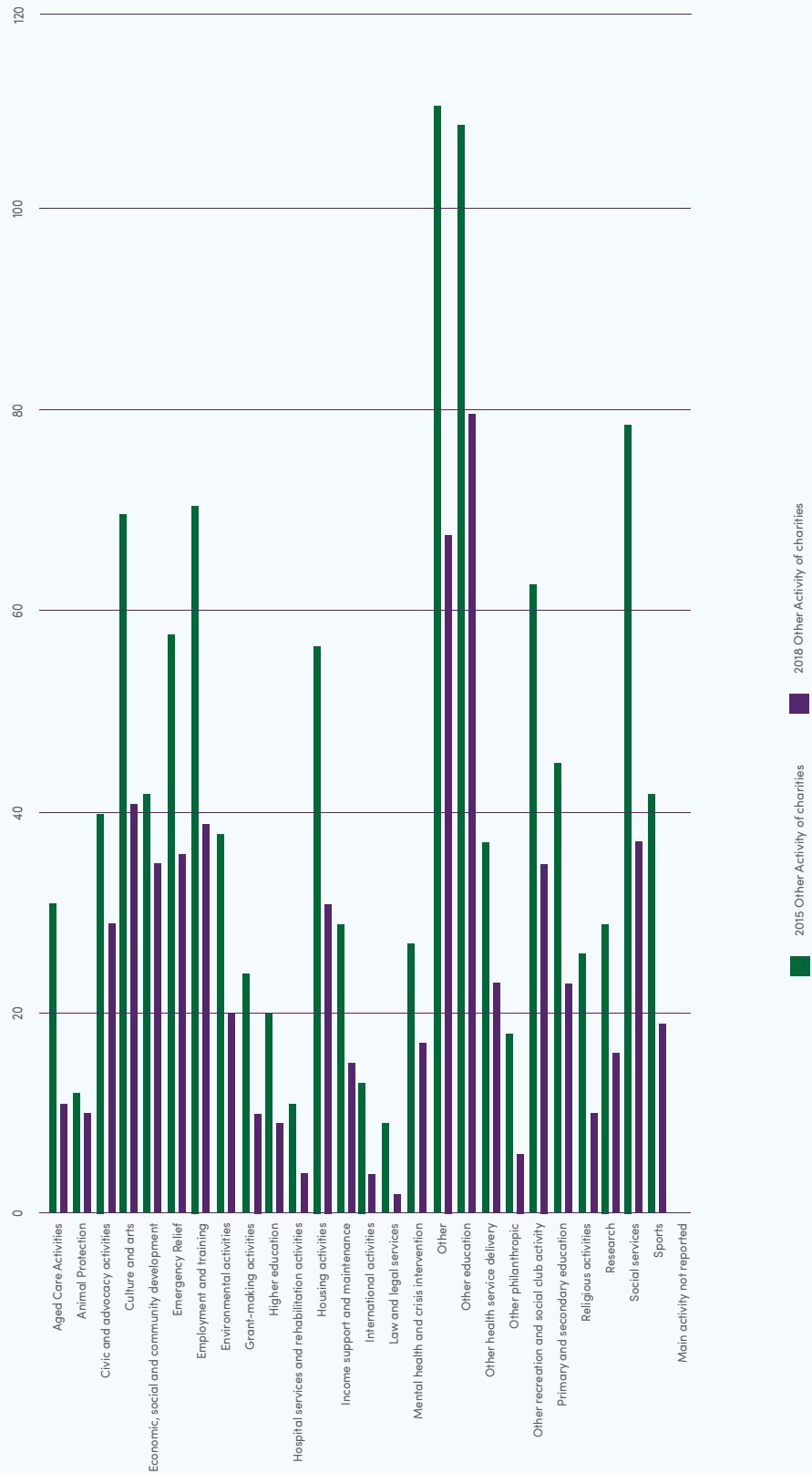
In terms of these Other activities, Figure 3 provides a comparison of reported undertakings in 2015 and 2018. As can be seen, the top three Other activities reported remained

the same between 2015 and 2018.

Other education and social services remained the top two discernible Other activities undertaken respectively while Other continued to score highly. Importantly, the Other category has reduced both figuratively and proportionately, suggesting that charities are being more careful about their data submissions and/or are reducing the number of ancillary activities they participate in. Proportionately, in 2015 almost a quarter (24.7%) of charities reporting undertaking activities that were not included in the list while, in 2018, this proportion had reduced to 16.3%.

Overall, it remains clear that additional data is required here on a more timely basis in order to allow for the better reporting of service changes against utilisation.

Figure 3: Charities by Other Activity



Who do the NT's charities serve?

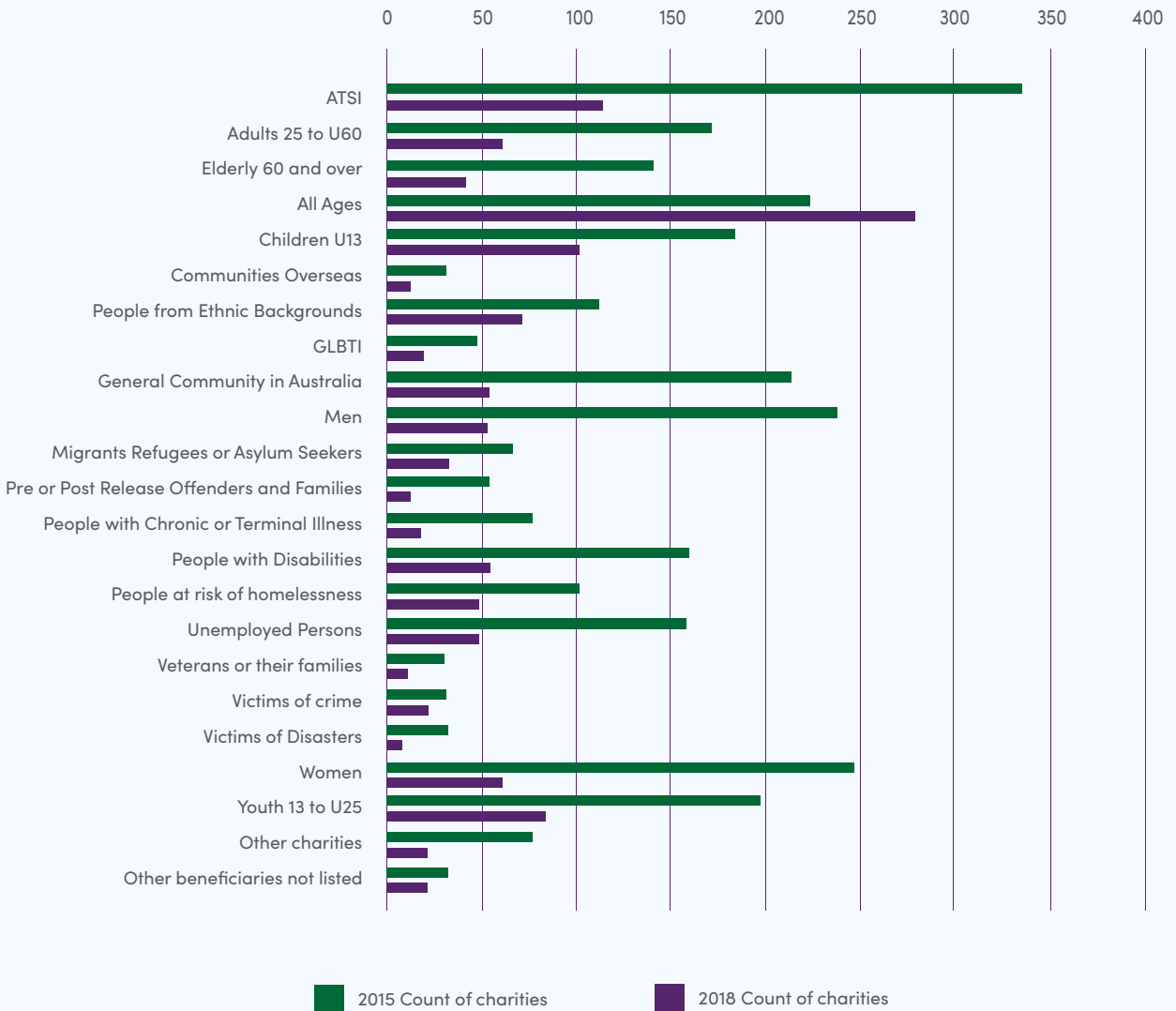
This data also provides some insight into the people served by Northern Territory charities. The charities report their beneficiaries by categorising them into one or more of a list of 22.

These categories changed slightly between

2015 and 2018. As such, we found it necessary to merge Early childhood – under 6 with Children 6 to U15 to the broader category of Children under 13.

Additionally, the categorisation changes included the addition of Rural/Regional/

Figure 4: Beneficiaries



Remote communities, Families and Financially disadvantaged people. These categories were not available in 2015 and so we needed to consolidate these categories with that of All Ages in order to analyse the data. This disaggregation of beneficiary options is a welcome change and important as the selections made by charities in completing their 2018 AIS indicates.

The number of charities selecting the new beneficiary categories in 2018 were:

- Rural/Regional/Remote Communities - 123
- Families - 90
- Financially disadvantaged people - 66

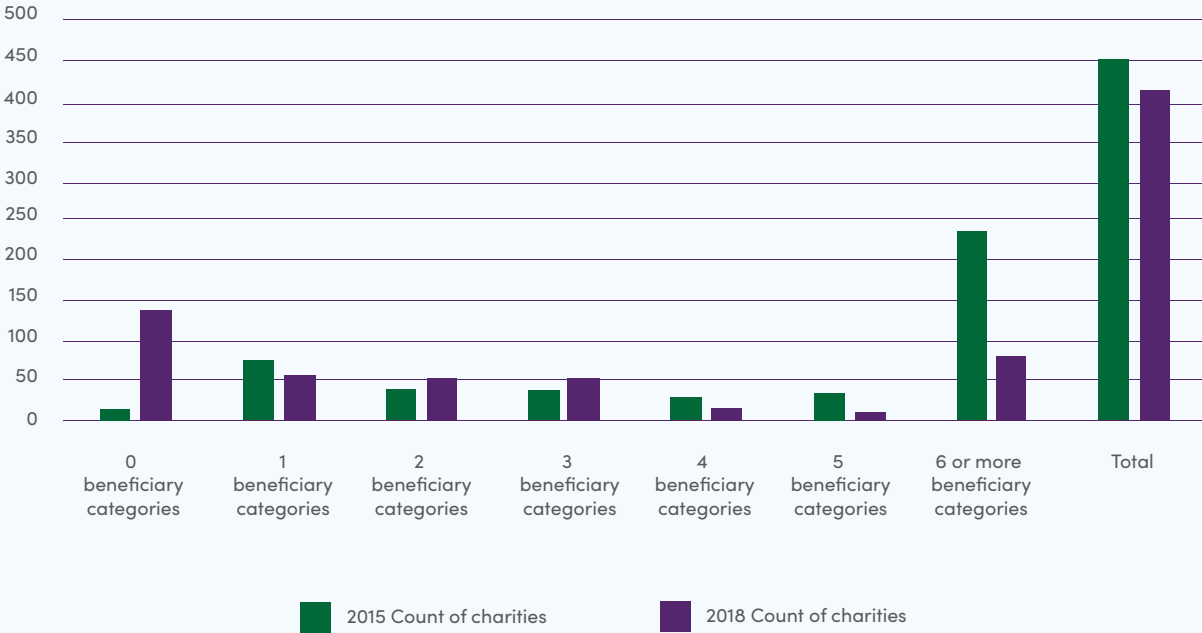
In 2018, the three top beneficiary groups nominated were People in rural/regional/remote communities, Aboriginal and Torres Strait Islanders; and Families as compared to those nominated in 2015 being Aboriginal and Torres Strait Islanders; Women; and Men.

Figure 4 provides a graphical representation of the number of beneficiary categories reported by charities in 2015 and 2018.

Once again, a dramatic reduction in the number of beneficiary types reported by charities in the Northern Territory is suggestive of charities refocusing on fewer activities in order to improve sustainability.

Figure 5 provides a snapshot of the number

Figure 5: Beneficiaries



of beneficiary categories selected in 2015 and compares them with those selected in 2018. The movement to the left hand side of the graph—toward fewer beneficiaries per charity—is evident in this figure.

Overall, the average number of beneficiaries supported by charities reduced from 6.6 beneficiary categories in 2015 to less than half (3.02) the categories in 2018. This is a material change that warrants further investigation given the potential impact on service users.

Unfortunately, the data is not sufficiently rich to draw specific and actionable conclusions as to who and where the people are and what services they might be missing out on so that mitigations can be put in place. Though the review of combined change in the beneficiary categories selected and activities undertaken may give some clues as to who is affected, where they might be, and what they might need.

If richer data could be gathered that would serve to identify these elements, decisions could be taken and support provided to mitigate the problems.

Once lost though, the re-establishment of service capacity is expensive, time consuming and places the service user in a very difficult situation, as they are the people who must await the re-development of service capacity.

What is the Sector's Economic Contribution?

The economic contribution of an appropriately resourced human services sector is considerable. The key areas where economic outcomes are driven by the Northern Territory human services sector include:

- Employment
- Ancillary industries supporting the sector (e.g. audit, banking, supplies)
- Cost savings through government outsourcing
- Cost savings through health prevention capacity and community engagement

Employment is the main focus of this section as we have a data set related to this area within the ACNC data set. However, it is important to

remember that there are additional economic contributions made by the sector.

Of the very summarised list above, the cost savings, though real, are hard to quantify specifically while the economic contribution of the sector is difficult to identify due to the differences in the way statistics are collected and reported.

However, we can identify clear indicators of the substantial economic contribution of Not-for-profit and charitable organisations in the Northern Territory via various analyses undertaken in developing the government budget and reviewing economic commentary. Specifically, we can consider the industry groupings into which the Not-for-profit and charitable sector is allocated.

Figure 6: Employment Numbers



Indeed, for the 2017/18 financial year, Health and Social Assistance and Education industry categories were reported to have added \$1.749b and \$1.212b respectively to the State Domestic Product (SDP) of the Northern Territory⁹. The Arts and Recreation Services Sector was reported to have added a further \$299m to SDP. Again, these figures incorporate the SDP values generated by the sector but are also a result of the contribution of related industries.

In total then, this industry sector contributed \$3.260b toward a total SDP of \$26.200b in 2018, constituting 12.44% of total SDP. For comparison purposes, for the same year, mining contributed \$3,166b or 12.1%. These are clearly both critical industry sectors for the economic well-being of the Northern Territory.

Policy making, funding and planning should be undertaken for the sector with a view to protecting output, as well as driving efficiencies and ensuring high quality and appropriate quantity of services are delivered.

Employment

In 2018, Northern Territory charities employed 7,216 (7,600) full and part-time staff, and 3,173 (2,326) casual staff, totalling 10,389 (9,926) being an increase of 4.7%¹⁰. This represented 8.2% of the total Northern Territory workforce (8%)¹¹.

Most notably, the drift away from job quality is evident in the data submitted by charities. As can be seen in Figure 6, the number of full and part-time staff has been reduced by 3.9% and 8.1% respectively between 2015 and 2018; while casual employee numbers have risen by 36.4%, suggesting that income growth (next section),

and the reported employment growth of 4.7%, has been in casual jobs, increasing safety risk in human services activities and, potentially, increasing costs associated with on-boarding, training and staff management.

In terms of the distribution of staff amongst the reporting charities, little has changed since 2015. Highlights of the staff distribution include:

- 40.4% (39.9%) of charities did not employ any full-time staff
- 49% (48.4%) of charities reported that they did not employ any part-time staff
- 11.5% (13%) of charities reported that they only employ one full-time staff member
- 14.4% (14.7%) of charities reported that they only employ one part-time staff member
- 23% (23%) of charities reported employing more than 10 staff
- 25% (25%) of charities reported employing less than 10 full-time staff
- 25% (26% of charities reported employing less than 10 part-time staff.

Interestingly, the top three employing subsectors remained the same between 2015 and 2018, being:

1. Economic, social and community development
2. Religious activities
3. Culture and arts

Figure 7 below provides a full picture of the distribution between Main activities and compares these between 2015 and 2018.

Because charities are adept at operating with

⁹ See: https://treasury.nt.gov.au/_data/assets/pdf_file/0012/596829/Gross-State-Product-2017-18.pdf

¹⁰ We did not report on casual staff in the previous report due to anomalies in the data. However, given the proportion of the total work force has remained steady at 8% and the relativities of the data, we consider that we can now reintroduce discussion and analysis pertaining to the casual staff numbers.

¹¹ For commentary on the 2018 Northern Territory workforce, see: <https://australianjobs.employment.gov.au/jobs-location/northern-territory>

Figure 7: Full and Part Time Staff By Main Activity

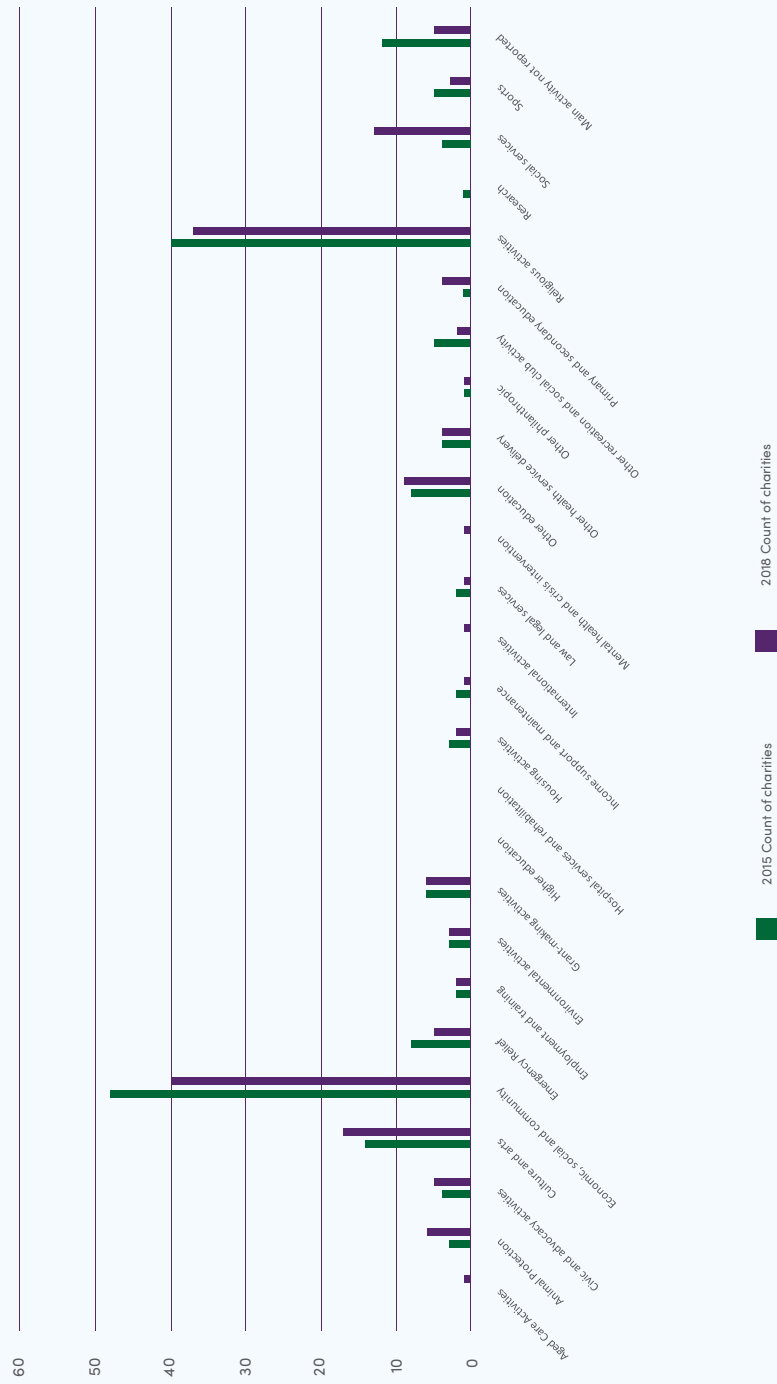
Main Activity	2018 Full Time	2015 Full Time	Change	2018 Part Time	2015 Part Time	Change
Aged Care Activities	1	1	0.00%	1	1	0.00%
Animal Protection	2	4	(100.00%)	2	2	0.00%
Civic and advocacy activities	4	3	25.00%	4	4	0.00%
Culture and arts	31	31	0.00%	28	29	(3.57%)
Economic, social and community development	38	46	(21.05%)	31	31	0.00%
Emergency Relief	8	3	62.50%	4	4	0.00%
Employment and training	7	7	0.00%	6	7	(16.67%)
Environmental activities	7	9	(28.57%)	6	6	0.00%
Grant-making activities	1	1	0.00%	0	2	0.00%
Higher education	1	3	(200.00%)	1	2	(100.00%)
Hospital services and rehabilitation activities	3	1	66.67%	3	1	66.67%
Housing activities	3	7	(133.33%)	3	5	(66.67%)
Income support and maintenance	0	0	0.00%	0	1	0.00%
International activities	0	0	0.00%	0	0	0.00%
Law and legal services	8	10	(25.00%)	7	9	(28.57%)
Mental health and crisis intervention	6	3	50.00%	4	2	50.00%
Other education	19	24	(26.32%)	15	23	(53.33%)
Other health service delivery	16	20	(25.00%)	18	23	(27.78%)
Other philanthropic	0	0	0.00%	0	0	0.00%
Other recreation and social club activity [10b]	3	3	0.00%	3	2	33.33%
Primary and secondary education	27	25	7.41%	26	24	7.69%
Religious activities	38	44	(15.79%)	26	27	(3.85%)
Research	1	1	0.00%	1	1	0.00%
Social services	24	21	12.50%	23	21	8.70%
Sports	1	7	(600.00%)	1	5	(400.00%)
Main activity not reported	0	0	0.00%	0	0	0.00%
Total	249	274	(10.04%)	213.00	232.00	(8.92%)

limited resources, the number of charities operating without any full or part-time staff is a critical part of this analysis. It is also important because this is a complex sector, and so apparent anomalies need to be addressed. For instance, it is interesting to note that, while Economic, social and community development

remained the top employer in the sector in 2018, it also remained the highest reporting sector of charities that did not employ any staff.

As such, it is further evidence of the need for the development of appropriate data assets that can assist in developing policy responses at a

Figure 8: Number of Charities with no Full-time Staff



local level and that can take into account these data challenges.

Figure 8 provides a graphical representation of the number of charities, by Main activity, reporting that they do not employ full time staff.

Volunteering

Concomitant with the important economic value of employment by the sector, the level of volunteering able to be deployed by Northern Territory charities is substantial. This capacity helps to ensure the economic outcomes associated with the sector are achieved (e.g. accruing savings to government; increasing engagement options for community members).

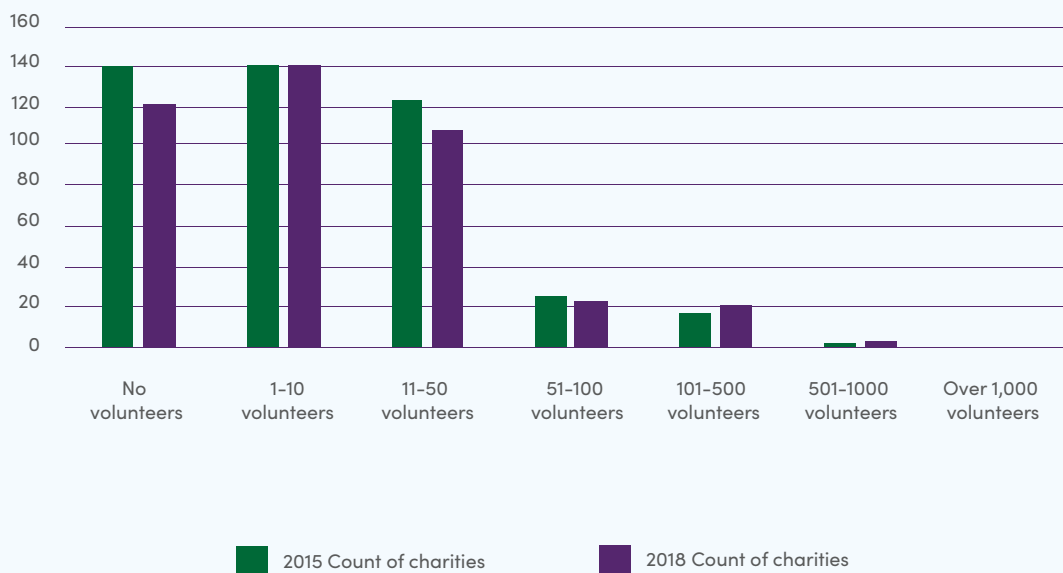
However, just as importantly, the opportunity for volunteer engagement also increases

community cohesion and understanding in relation to some of the challenges being addressed by the sector. Between 2015 and 2018, charities in the Northern Territory maintained their volunteer numbers with 11,028 (10,949) being deployed. Indeed, in 2015, 68.9% of charities reported deploying volunteers while in 2018 70.3% reported similarly.

Figure 9 provides a graphic representation of the number of charities reporting volunteer numbers aggregated into categories by number deployed.

While the total number of volunteers deployed has not changed (i.e. less than 1% variation on the 2015 data submission), it is clear from the data that there has been somewhat of a reduction in volunteers in smaller organisations with the larger volunteer groups taking up greater numbers.

Figure 9: Charities Reporting Volunteer Numbers



What does sustainability look like in this sector?

Sustainability is a critical consideration for any organisation. However, with regard to the delivery of Not-for-profit and charitable services, sustainability relates to the ability of the organisation to deliver on the mission rather than simply to continue to exist as a corporation. When considering sustainability, Not-for-profits and charities need to think in three broad time periods as described in Figure 10 below.

To achieve what might be described as “mission sustainability”, Not-for-profits and charities need to:

- Make a profit;
- Be able to invest in change management in response to policy, service delivery and user changes;
- Be able to replace and improve operational assets in order for them to remain fit-for-purpose in the context of user needs and funder requirements;
- Be able to develop and enhance their workforce and leadership capacity in order to become more efficient and effective and to meet ongoing challenges and changes in service delivery requirements;
- Be able to be transparent by demonstrating outcomes achieved and to acquit resources provided; and
- Be agile and flexible enough to respond to an emergency, cyclone, flood, and/or pandemic.

If they do not plan to do this, and if the financial arrangements in terms of funding achieved for programs does not support this, the sector’s capacity will diminish, service delivery will suffer and, most significantly, service users will pay the

price.

Ultimately, maintaining the sectors’ capacity is critical but it does not mean that all Not-for-profits and charities should continue to survive because of their nature. Rather, it means that policymakers, governments and the sector need to work together to determine: the nature of the sector needed going forward; what investment capacity needs to be made available; and how poorly managed immediate financial issues, such as pricing, can cause greater cost—social, political and financial—in future years.

Figure 10 offers some guidance on how the Sustainability Time Periods might be measured.

This is especially important where the current funding and service delivery policy arrangements are likely to be causing consolidation in the sector. Uncontrolled consolidation can be counterproductive as it is not undertaken equally across all service areas but likely impacts some service areas more than others. This includes in relation to service type, location and frequency of delivery.

If consolidation is not planned, and if organisations leaving service delivery are not managed so that they can effect an orderly retreat from particular services (by which we mean that they can transfer assets and staff to alternative organisations rather than waiting for resource inadequacies to force a climactic collapse where the staff and resources are likely lost to the sector) supply side failure will lead to adverse outcomes for service users.

As such, sustainability is an important requirement in a number of areas. However, given the nature of the ACNC data asset and limited other data to call upon, we focus in this section on the financial position and financial performance of the sector.

Figure 10: Sustainability Time Periods¹²



Charity size

Before we do that though, it is important to consider the number of charities in the Northern Territory and to consider the evidence for consolidation in the context of sustainability.

Figure 11 provides a graphic representation of the number of charities in the Northern Territory by size. The ACNC determines size by reference to the income earned by the charity each year. Currently, the ACNC delineates charity size by aggregating charities as follows:

- Small < \$250,000
- Medium \$250,000 to <\$1m
- Large >\$1m

However, we have further stratified the Northern

Territory charities by adding an additional aggregation group being Very Large. We have done this in order to increase the value of analysis by aggregated group and to be more specific in this process. As such, the delineations introduced in the previous report and continued to be used in this report are:

- Small < \$250,000
- Medium \$250,000 to <\$1m
- Large \$1m >\$10m
- Very Large >\$10m

We have considered the AIS data lodged by 418 charities in 2018 for this report and compared it to the data provided by 450 charities in 2015. The number of charities that left the sector between 2015 and 2018 was a quarter higher

Figure 11: Charities by Size



(27.8%) than those new charities entering the sector—108 charities left the register and 78 joined it.

Figure 11 provides data on charities by size comparing the two data sets. As can be seen, there has been a 7.1% reduction in the number of charities headquartered in the Northern Territory between 2015 and 2018.

Importantly, in reviewing Figure 11, it can be seen that the reduction of the number of charities has not been uniform across the size categories and that there has been a decrease in smaller charities whereas larger charities have increased in numbers.

This change is likely caused by a combination of factors:

- Small organisations unable to maintain

operations due to pricing regimes;

- Mergers and acquisitions activity means a reduction in numbers of charities, but not necessarily in operational outcomes; and
- Organisations in receipt of income increases, discussed below in the next section, combined with inflationary impacts over the three-year period have seen organisations automatically transition into the next size category as a result of bracket creep.

Again, uncontrolled consolidation can lead to very real issues in the ongoing delivery of services—reducing resources available and seeing specific services curtailed or entirely discontinued—while bracket creep based on income received does not equate to financial sustainability capacity—perhaps the potential

financial problems associated with smaller charities are being magnified by creating fewer larger charities.

These impacts are demonstrable in the ACNC data in that the net reduction in registered charities headquartered in the Northern Territory of 32 organisations resulted in a net:

- loss of 283 paid jobs
- loss of 524 volunteers
- loss of net assets value of \$170.5m

These resources may well have been absorbed into the remaining sector organisations and it is not possible to make this determination. The key issue is the risk that there is a loss of resources, including in relation to skills and experience, as a result of unplanned and managed consolidation. Better data and collaborative planning can help to mitigate these risks and drive a sounder service supply side capacity.

Financial Position

In accounting terms, the balance sheet is used to present the financial position of an organisation. The balance sheet is an important source of organisational information regarding short and longer-term sustainability¹³. Aggregating the sector's reported balance sheets give a view of the sector capacity in this regard.

However, there can also be difficulties in interpreting this data and caution should be taken. For instance, while non-current assets, such as buildings and motor vehicles, may be correctly categorised in accounting terms, many of these assets are provided by philanthropists who may have insisted on establishing

restrictions on the use of the asset and/or its disposal. In other words, the balance sheet may appear strong but significant portions of the funds may not be accessible to be applied in the case of financial difficulty. The ACNC data does not differentiate here. Therefore, the balance sheet strength reported here is likely to be the best-case scenario in real terms¹⁴.

The ACNC data set includes summary data related to the balance sheets of registered charities and this data is summarised differently for each charities size.

In 2018, the charities headquartered in the Northern Territory reported:

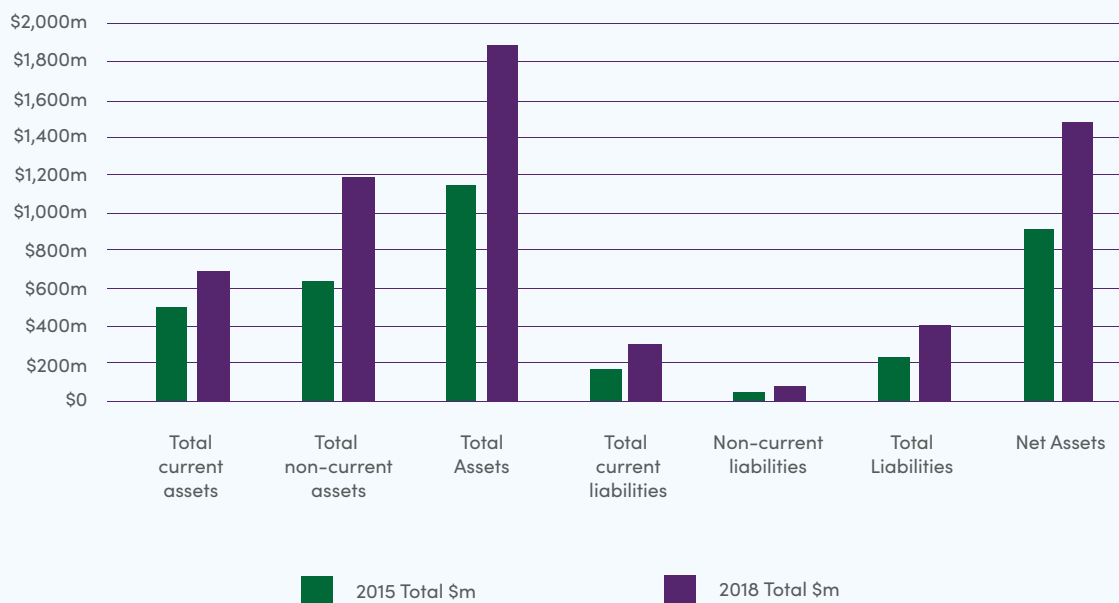
- total assets of \$1.887b (\$1.151b) ↑63.9%
- total liabilities of \$403m (\$237m) ↑70%
- net assets of \$1.483b (\$914m) ↑62%

These net assets grew considerably in the period 2015 to 2018. It is not possible to discern the causes of these increases. However, some considerations include:

- Assets were acquired via philanthropic donations and fundraising;
- Assets were revalued by directors in the context of the accounting reporting requirements, particularly of large charities;
- The consolidation process saw poor performing organisations' balance sheets removed from the analysis; and/or
- Profitability improved for a number of charities increasing equity, as discussed below.

Figure 12 provides a graphic representation of the aggregate balance sheets of registered

Figure 12: Aggregate Assets and Liabilities



charities headquartered in the Northern Territory.

Financial Performance

The income statement or profit and loss report is used as a primary tool to assess the operational financial performance of an entity over a period of time—generally a financial year.

The 2018 ACNC data includes summary data related to the income statement and, like balance sheet information, this is also summarised differently for each size category of organisation. As such, we are only in a position to evaluate at the account category level (i.e. income and expenditure). Similar to our analysis

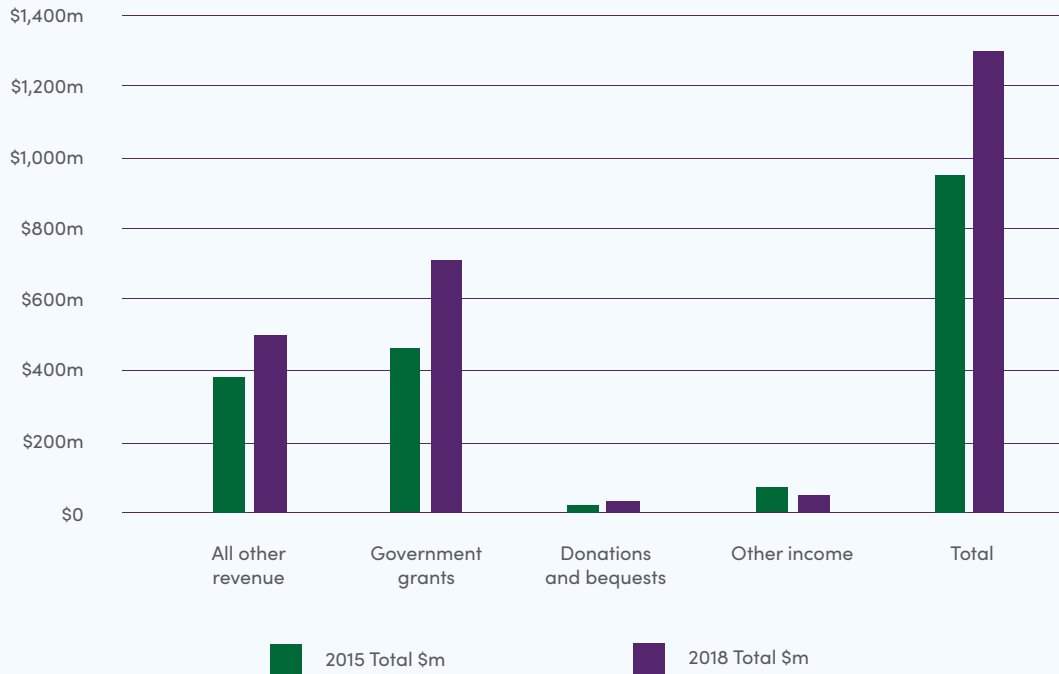
of the balance sheet data, we have aggregated income and expenditure data in order to detect sector-level changes.

In reading the data, the most striking change over the three-year period is that of the increase in income and expenditure, with little impact on the net profit. The sources of income have also changed with government grants, increasing markedly (52.6%) between 2015 and 2018.

Income

Figure 13 shows the distribution of income by income type. When broken down by activity type, the changes in income are significant for Primary and secondary education. This growth

Figure 13: Sources of Income



appears to be primarily driven by a substantial increase in government expenditure (an increase of 715% on 2015) while total income in this area increased by 5,417%.

However, this change may also represent an improvement in financial reporting via the AIS process as data improvements increase with the experience of submitters.

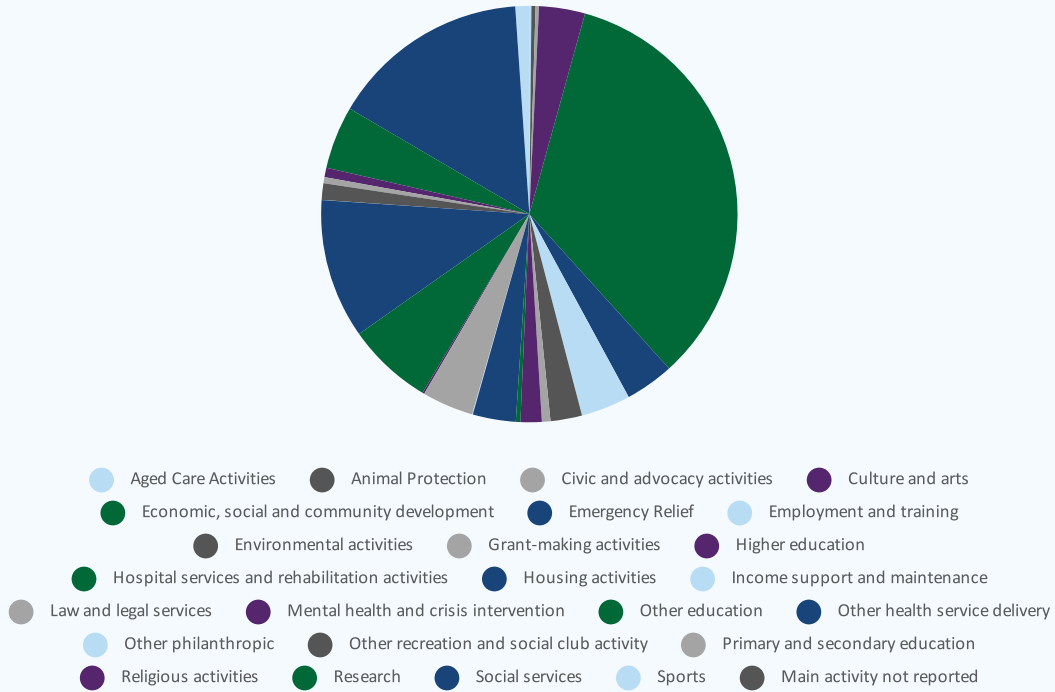
Charities generate income from a range of sources and the ACNC defines four primary categories¹⁵. We provide a brief definitional note here to assist readers who are not familiar with these descriptors.

All other revenue: This is all self-generated revenue arising from the carrying out of ordinary activities and that is not included in other categories. For example, it includes

fees for service, membership income, sales of goods and other operating income. This is the largest single source of income. **In 2018, Northern Territory charities generated over a third—38.8% (41%) or \$504.5m (\$389m)—of their income from their operating activities.**

Government grants: These are defined as “*financial assistance provided by the government to the charity for a particular purpose, such as for the charity to provide goods or services to others in accordance with the terms of the grant*”. This category includes all service contracts with governments, for example, where a government ‘contracts out’ the provision of child protection, emergency or health services. It counts income from all governments, including the Commonwealth, State/Territory and Local governments.

Figure 14: Income Source by Main Activity



Just over half—54.8% (49%) or \$712.7m (\$467m)—of charity income was sourced from government contracts or grants in 2018. As such, governments are a major source of income for the sector (either directly or through the provision of person-centred funding), and therefore have significant influence over the sustainability of the sector. For some services, such as child protection, the government is the only buyer of services.

Charities that specialise in these services can be wholly dependent on government contracts.

As such, it is important to remember that governments are also major buyers of services from the For-profit sector.

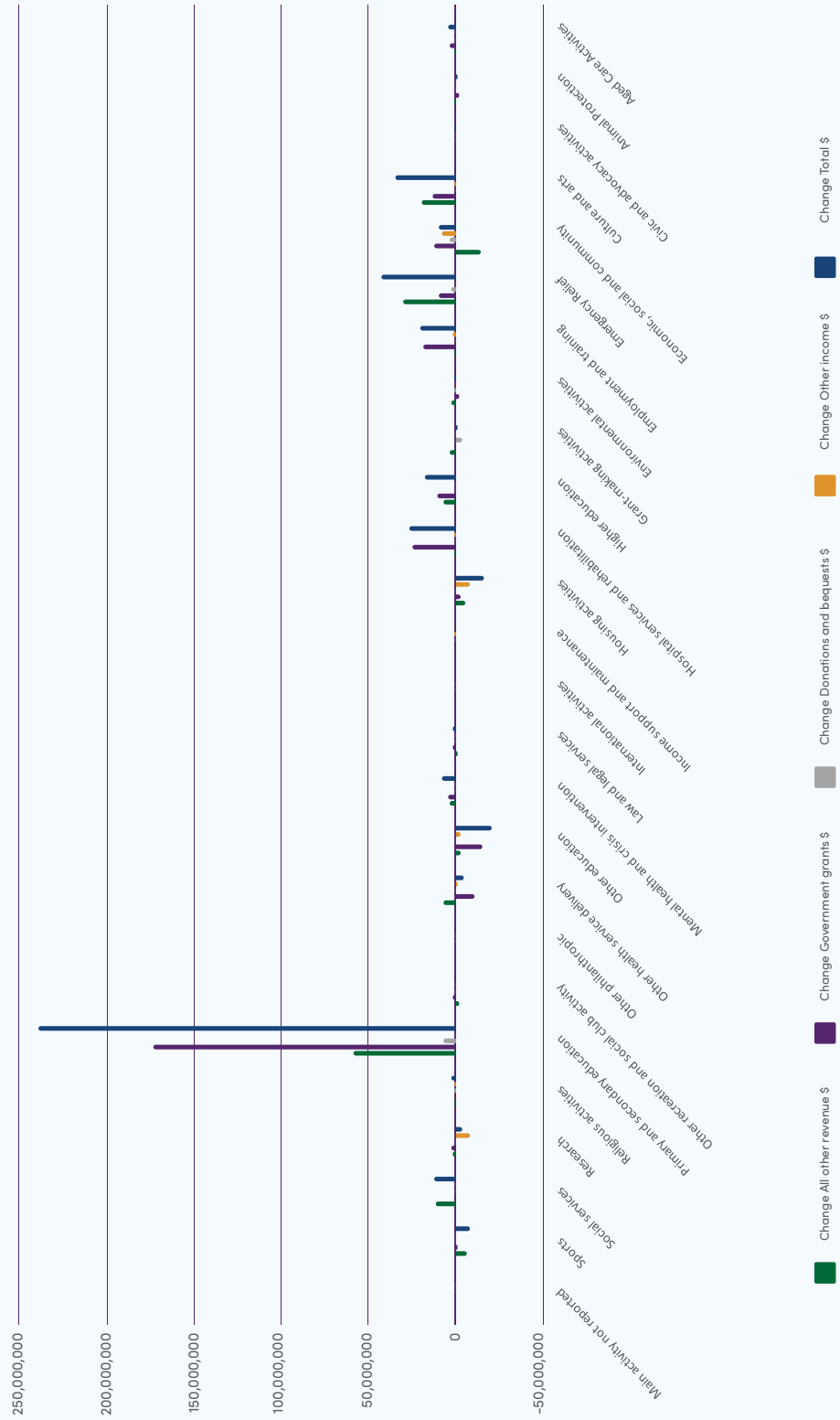
To provide context, the Australian Bureau of Statistics data on Engineering and Construction

Activity shows that more than 25% of income for this sector is work done by the private sector for the public sector¹⁶.

Donations and bequests: Donations and bequests are voluntary resource support provided to charities in the form of cash, gifts or in-kind support. In 2018, \$32.19m (\$23m) worth of donations and bequests were made Northern Territory charities, which represented 2.5% (2.4%) of their total income. This is an area where policy makers and others may find additional information of importance as economic and other circumstances impact the propensity for people to donate to this important sector. Drivers of increases here—40% increase occurred between 2015 and 2018—are as important to understand as drivers of decreases.

¹⁶ ABS Cat No. 8762.0 Engineering and Construction Activity Australia 2016.

Figure 15: Change in Revenue by Main Activity



Other income: This includes income not included in any of the above categories, and also includes income earned outside the ordinary activities of the charity, such as via the sale of an asset.

In 2018, Northern Territory charities raised a further \$51m (\$74m) or 3.9% (8%) from these sources. The reduction in this income line of over 50% between 2015 and 2018 may be indicative of a conservative perspective being taken in not realising assets. However, as this is only the second report, a trajectory cannot be determined yet.

Figure 14 shows the sources of income by Main Activity between 2015 and 2018, and Figure 15 provides an analysis of the variation in income by Main Activity between 2015 and 2018.

As a group, the Main activities receiving the

highest proportion of government-sourced income are human services. However, in terms of the top three Main activities receiving government-sourced income, Law and legal services remained at the top of the list with 92.3% (90.4%). Hospital services and rehabilitation was next with 90.7% (52.6%) and then Aged care activities with 87.3% (89.8%).

In terms of major change in the proportion of government-sourced income as an income source:

- Mental health and crisis intervention generated 62% from government sources, falling from 85% in 2015 – income increased significantly across all sources for this Main activity area such that government sourced income increased by 364%. However, the proportion of government funding to other-sourced income dropped significantly. The

Figure 16: Expenditure



other major income source increase for this Main activity was All other revenue rising by \$3.158m;

- Other health deliveries fell from 82% in 2015 to 75% in 2018 – total revenue fell by 4.8% with the balance being made up predominantly of an increase in All other revenue of 5.4%;
- Other education government-sourced income fell from 64% to 59.6% – experienced a 33.6% drop in total income: 38% drop in government-sourced income, 15.7% drop in All other revenue and a 50% drop in Donations and bequests; and
- Animal protection government-sourced income fell from 61% in 2015 to 14.3% in 2018 – increased reliance on other revenue which rose by 49.5%.

In terms of Main activity areas that predominantly self-funded for 2018, highlights relating to the proportion of nongovernment-sourced income were:

- Emergency relief – 87.2% (97%)
- International activities – 100% (nil report 2015)
- Grant making activities – 96.7% (100%)
- Sports – 99.2% (85.5%)
- Main activity not reported – 100% (100%)

Expenses

The challenges associated with summarised data and definitions apply equally to our analysis of the expenses incurred by the Northern Territory's charities between 2015 and

2018.

Essentially, the expenses data is categorised into four types: Employee expenses, All other expenses, Grants and donations, and Interest expenses. Figure 16 provides a graphical representation of the changes in expenditure for each category.

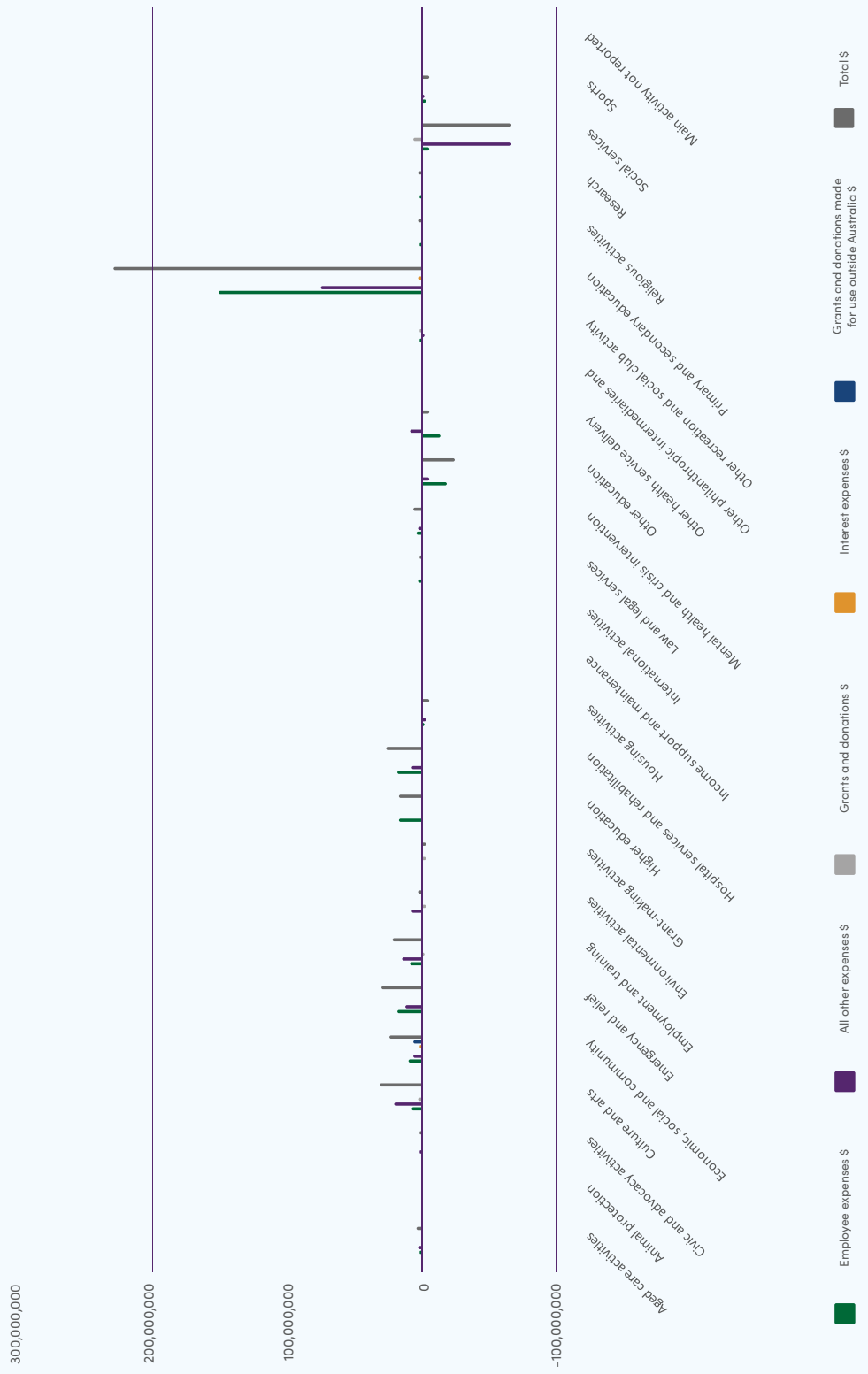
In line with the increase in income achieved between 2015 and 2018 described above, there were changes in expenditure also incurred. Overall, expenses increased during this period by 40.27% (2015 – \$860.3m; 2018 – \$1.207b). The change in expenses levels for each category are:

- Employee expenses ↑ 47.62%
- All other expenses ↑ 32.64%
- Grants and donations ↑ 30.71%
- Interest expenses ↑ 246.83%

Employee expenses are likely driven by increased activity resulting from funding increases already identified. However, importantly, this area of expenditure is also impacted by changes in the employment arrangements of the workforce and so, given the decrease in job quality discussed above, one would expect to see direct employment costs reducing. However, the Employee expenses, as a proportion of total expenses increased from 48.46% in 2015 to 51% in 2018 suggesting that savings have not yet been realised.

All other expenses relate to any expense that falls outside of the other categories and includes all operating and other expenses. These increased by 30.7%, totalling \$555.5m (\$418.8m), which represents a slight decrease in portion of total expenses, at 46% (49%).

Figure 17: Change in Expenses by Main Activity



The increase in Interest expenses is an issue that warrants investigation. The data does not provide sufficient detail. However, it is likely that this expense area related to an increase in indebtedness arising from loan funds being applied to asset renewal, change management processes and other investments to meet expansion requirements given the income increase experienced during the period.

However, equally, there may be an increase in this expense line due to the need of some organisations to loan funds to meet working capital requirements. This is a likely scenario for a number of organisations given the very fine margin (0.5%) resulting from the increase in income of 36.7%.

If that is so, the pricing of services needs to be considered in the context of sustainability. Additionally, the collection of better data may

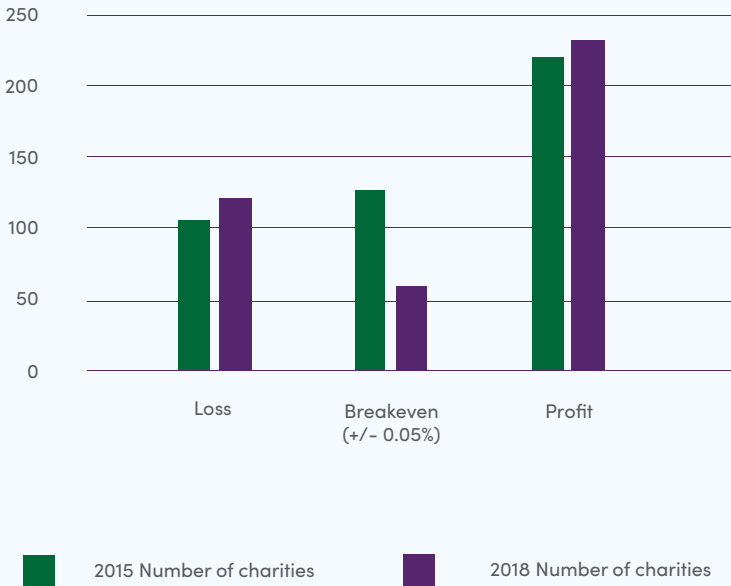
also help to highlight those charities that are financially struggling so that appropriate mitigation can be put in place.

At best, these costs reduce efficiency and effectiveness; at worst they are representative of failing organisations. The polarisation reported previously in this report is an indication of the sectoral dichotomisation between those providers with financial capacity and those without.

The activities undertaken by charities will also change their expense profile—differing activities generate different expense categories in different mixes. Analysing the expenditure mix by Main activity helps us to pinpoint sub-sectors where further investigation is warranted.

Figure 17 provides the change in expense by Main activity. Across the board, almost all Main

Figure 18: Sector Profitability



activity types incurred additional expenditure between 2015 and 2018.

Profitability

Any organisation operating in a market economy needs to generate profits in order to remain sustainable over the short-, medium- and longer-term. The “Not-for-profit” tag given to the organisations discussed herein relates to the inability for members to profit from their membership in economic terms, not that the organisation should not make a profit. A Not-for-profit cannot distribute profits or assets to members operationally or on termination. It can and should make a profit though in order for it to be functional and sustainable organisation and this aspect is discussed above.

The difficulty lies in the determination of what an appropriate profit level is. It is important that it be sufficient to build an organisation’s balance sheet in order to create the reserves necessary for ongoing sustainability¹⁷.

However, there are also advocacy and other pressures on charities and Not-for-profits forcing directors and CEOs to be concerned as to how much profit they should be seen to be making.

Using an index can be helpful but it is important to ensure the right index is used. For instance, CPI is often quoted in the context of Not-for-profit’s and charities’ funding and costs. However, this is not a relevant figure for most Main activities as it does not index the relevant costs—it applies to households.

Therefore, costs indexes such as the Health Group in the Australian Bureau of Statistics CPI data may be more useful. In September

2018, this index ran at 3.2% as compared to 1.9% for CPI. This is a significant variance when considering that pricing for services by governments often relies to some degree on CPI rather than a more appropriate index.

A Not-for-profit should maintain a profit level of at least the relevant index in order to remain sustainable.

In 2018 the AIS data reported indicated that the polarisation predicted by our research team following the implementation of the NDIS is likely to be coming into effect. As can be seen in Figure 18 above, profit levels have dichotomised away from the breakeven centre toward either profit (55.5% in 2018 compared with 49% in 2015) or loss (29% in 2018 compared to 23.5% in 2015).

This polarisation has already been discussed above. However, it is important to remember that the analysis of the sector at the sector level is not sufficient to determine the potential impacts on services users and the economy resulting from this action. The service mix of each charity is likely to be different depending on service type, location and user profile. Therefore, those organisations that have achieved profitability are not necessarily comparable with those that have not. In other words, this result is not evidence of separation of better from worse-performing organisations but more likely an indication of the impact of pricing and other attributes on certain service types and client attributes.

This comment is reinforced by reference to our analysis of profit generated by Main activity type. Figure 19 provides a graphical expression of this data.

As can be seen, the two significant Main activities in this data set are:

¹⁷ For further information regarding reserves and Not-for-profits, please see: Chartered Accountants Australia and New Zealand, 2020, *NFP Insight: Not-for-profit Cash Reserves*, Sydney, Australia. It is available at: <https://www.research.uwa.edu.au/not-for-profits-uwa#external-research-resources-contributed-to>

Figure 19: Net profit by Main Activity



Figure 20: Distribution of Profit Margins



- Social services (32.4% sector profit contribution in 2018 compared to 12.1% in 2015)
- Economic, social and community development (26.8% sector profit contribution in 2018 compared to 54.7% in 2015)
- Emergency relief (14.1% sector profit contribution compared to 1.1% in 2015)

Major reductions in profitability by main activity occurred in:

- Primary and secondary education: ↓23,132%
- Other education: ↓206%
- Culture and arts: ↓533%
- Other recreation and social club activities: ↓106.9%

It is also important to consider the profit distribution within the cohort of charities reporting this date. The distribution assists us in understanding profitability across the sector.

Figure 20 provides us with a perspective on this spread, with 39% (47) of charities returning data suggesting their results fell between breakeven and 9.99%. It is clear, too, that profitability has increased generally across the cohort.

It is pleasing to see the increased profitability across the majority of the cohort. It is the loss-making group and the breakeven group that need further analysis.

Clearly, the mix of services offered by these organisations together with data on their user cohort would be of significant value in determining whether or not the financial failure of these organisations will impact service users

negatively. Again, charities should not survive just because they are charities but there are ways that transitions can be achieved in the most efficient manner and with minimal risk to service users.

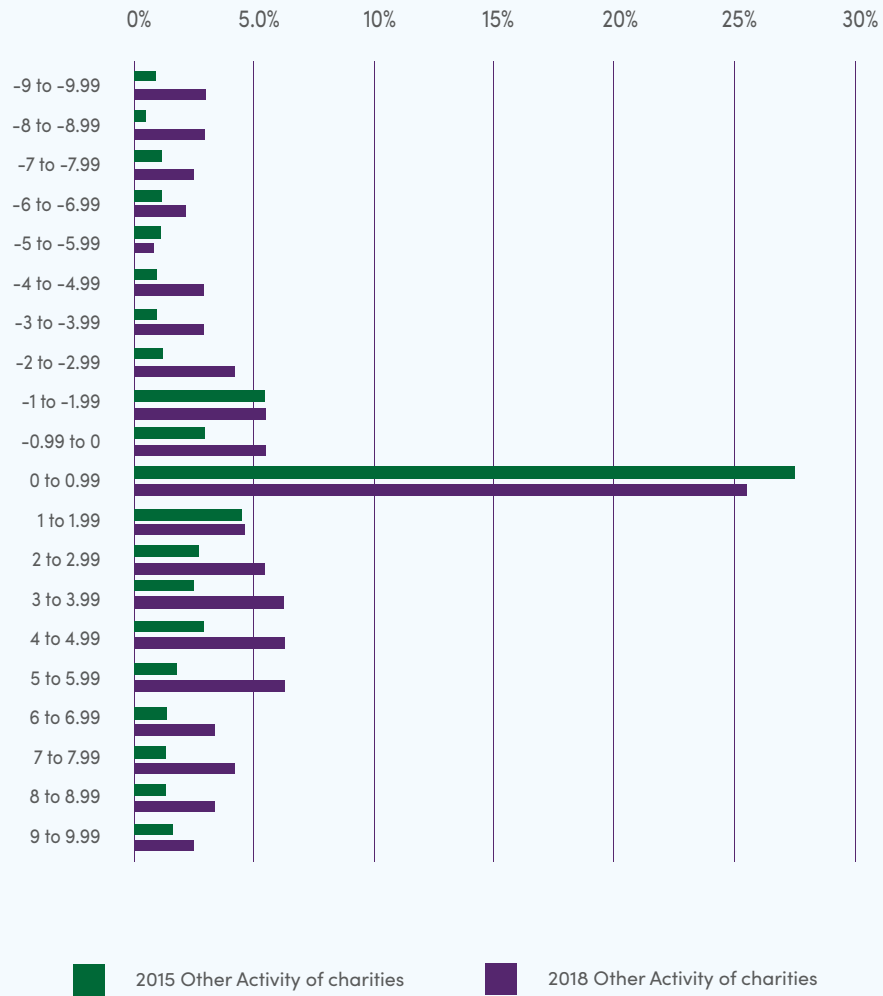
Figure 21 assists us to analyse the cohort of organisations breaking even more closely—it breaks down further the results of organisations making a loss up to -9.99% and making a profit up to 9.99%.

As can be seen, a marginal improvement in profitability occurred in the context of those organisations breaking even (i.e. achieving between 0% and 0.9% net profit)—in 2018 25.5% (27.6%) of organisations achieved this outcome. This combines with slight increase (0.2%) in the proportion of organisations achieving a profit of between 1% and 1.99%.

However, it is arguable that these profit margins are really at breakeven levels. This is especially so if we consider that more than 35.5% (34.7%) of charities achieved a profit margin of less than 3% when Health CPI for the same period was 3.2% as identified above.

If Health CPI was the hurdle profit rate for sustainability—and something of this order at least needs to be achieved—then 64.45% (58.25%) of charities headquartered in the Northern Territory would have performed poorly in 2018.

Figure 21: Distribution of Profits between -10% to 10% in Detail



Concluding Remarks

The Not-for-profit and charitable human services sector is a critical component of any society. Its purpose and activities are vital to the provision of services and supports to many people and, over most people's lifetimes, it is likely that we will all call on the sector at some point.

Effectively, the sector is an infrastructure asset that has been developed and honed over many decades. It is the result of the activities of many people who have donated time and money and of the community's general desire to ensure all people have the best opportunity for living the best life they can.

It also provides significant economic value to the community, directly via employment and also by mobilising resources, such as donations and volunteers, that would not be available had the sector not been there. Therefore, the active management of the sector, via sound policy and collaborative intent between sectors, is also a critical issue for the Northern Territory.

The creation and use of appropriate data assets, the building of capacity and effective collaboration to support local decision making will enhance the sector's capacity while also ensuring the service user is able to achieve the outcomes sought.

Of course, as has been confirmed throughout this report, charities and Not-for-profits have no right to survive just because of their nature. Indeed, they must be efficient, effective and accountable for their contribution—accountable to service users, to funders and the broader community.

However, without an active and nuanced approach to the development of this sector, the opportunity inherent in it will be lost. Perhaps more importantly, allowing the sector

to diminish through inaction or through policy imposition that does not ultimately actually meet the needs of the service user will see us as a community struggle more and more to meet those needs. Positive and effective policy frameworks, collaboratively developed, will help to position the human services sector in the Northern Territory to continue its important work into the future.

Appendix 1 – Data Sources

The development of a report such as this is very dependent upon the data sources available to researchers—both in terms of its content and timeliness. The quality of the data, including its accuracy and presentation, also impact the quality of reports developed. Therefore, it is critical that readers of this report appreciate the nature and sources of the data used when reading this document.

ACNC Data Set

As with the 2017 report, this report is predominantly based on the Australian Charities and Not-for-profits Commission (ACNC) data base created out of the Annual Information Statement lodgements made by each registered charity. Indeed, the data used to develop this report was the data provided by registered charities for the 2018 financial year as compared to that provided for the 2015 financial year and used to create the 2017 report in this series.

The data submitted by each charity is mandatory but differentiated depending on the size of the organisation by turnover—small, medium and large. As such, we need to report at the level of the common data provided to the ACNC, as opposed to all data.

The data provided by charities in their AIS includes what we describe as ‘administrative data’ including the address of the head office, which states/territories the charity operates and so on. Additional information includes financial data, activity types pursued and beneficiaries of their services.

However, while this is interesting in the analysis of charities operating in the Northern Territory, the data is limited such that we do not know,

beyond the fact of their existence in that jurisdiction, the level of engagement undertaken in the Northern Territory and what organisations do there if they also report that they operate in other jurisdictions.

For instance, a charity may have its head office in Sydney but operate in the Northern Territory but we can judge from the data the extent to which that organisation is engaged outside of New South Wales. Therefore, we have only reported on those charities that are headquartered in the Northern Territory as we cannot deduce from the data set those data that are relevant only to the Northern Territory.

As such, this data likely under-represents the size, activities and employment contribution of this sector in the Northern Territory. Of course, charities headquartered in the Northern Territory can also operate outside of that jurisdiction and so activities and financial resources will flow both ways.

Additional considerations relating to the ACNC AIS Data include:

- Different charities have different financial year-ends. The majority (65%) use 30 June while the next most used date is 31 December (21%). Therefore, when we discuss the financial reporting period, it may be different for different organisations;
- The use of differing year-end reporting dates also extends the data collection period thus impacting the timing of reports;
- The data used in this report was downloaded on 29 June 2020 from data.gov.au—the most up-to-date data available from the ACNC;
- Readers should be aware that some

charities do not have to provide all data (e.g. faith-based charities do not necessarily have to provide financial data) and some charities provide the ACNC with data but are granted an exemption so that their data is not included in the data set or published (e.g. where the negative potential impact on the charity and/or its clients is considered by the Commissioner of the ACNC to be greater than the public value achieved in publishing the data; and

- Additional resources, including the annual Australian Charities Report produced by the ACNC may assist readers with additional context and information¹⁸.

Data Cleaning and Exclusions

The data provided to the ACNC via the AIS system is contributed by personnel from each registered charity. Prior to commencing our analysis of the ACNC data, we undertake a cleaning process designed:

- to allow us to closely review the data via the use of exception reporting processes;
- identify obvious material errors and omissions;
- identify data points that may cause misrepresentation in the data analysis; and/or
- remove data elements from the data set in order to decrease the material impact of incorrect reporting.

Neither the online reported data nor and hard copy data has been audited or verified by the University of Western Australia. However, our analysis did identify some obvious anomalies

and, where material, these data were excluded. This removal consisted of data provided two charities only.

Data accuracy will likely improve over time as data collection continues.

Other Data Sets Reviewed

As part of the analysis process, the Australian Bureau of Statistics (ABS) Not-for-profit Data Satellite Account for 2012/13 was accessed.

This data is obviously very old now and it is hoped that the ABS will continue the development of this Satellite Account in the future as it provides a wider view of the Not-for-profit sector as it is not restricted to the collection of charities data only.

Northern Territory Government Data Sources

In developing our resource set prior to analysis we sought to access data via the Northern Territory Government. However, we were unsuccessful in this endeavour due to data being held confidentially or because it has not been collected. We were also keen to access data from the GrantsNT initiative which was being developed as we finalised the 2017 report in this series. However, we were unable to access aggregate data from this source and we understand that it does not yet operate fully.

We did access Northern Territory Government departments' 2018/19 annual reports in order to identify aggregate data related to grant making and procurement of services from Not-for-profits and charities. However,

minimal information was reported with some commentary in reports identifying specific grants or activities (e.g. \$23.3m allocated to housing and homelessness support programs delivered by non-government organisations [Dept. Local Government, Housing and Community Development]; Grants awarded totalling \$200,000 to support non-government organisations to implement initiatives designed to increase awareness about suicide and suicide prevention [Dept. Health]).

Other annual reports accessed included:

- Territory Families;
- Department of Attorney-General and Justice; and
- Department of Chief Minister.

It is hoped that aggregate data provided as a result of the establishment of the GrantsNT initiative will drive the development of a more robust and substantial data asset that will, in turn, support decision making, strategic development of services and better outcomes reporting processes.

In 2017 we reported that poor data management leads to poor outcomes and negatively impacts sustainability. It does cost in time and money but returns are substantial if the process is planned and data managed appropriately.

Appendix 2 – What is a Not-for-profit Organisation?

Not-for-profit (NFP) organisations are entities that exist to achieve a purpose. Their purpose can be almost anything from the provision of sports and arts services, operating hospitals, providing membership insurance services, to child protection, employment services, emergency services, fundraising and aged care. The main difference between a NFP and a For-profit entity is that NFPs cannot distribute profits or assets to private individuals or organisations—whether those individuals or entities are members or not¹⁹.

Our perception of NFPs is often influenced by our contact with them as providers of local community or human services, such as volunteer groups, sports clubs or kindergartens. These organisations are typically small, self-funded and run by volunteers. However, they can also be very large and employ many people.

The term ‘Not-for-profit’ is confusing

The term ‘Not-for-profit’ has created misunderstandings about whether NFPs can or should make a profit.

All organisations, whether they are a For-profit or NFP, must make a profit to survive and be sustainable in the short-, medium- and long-term. The difference is that the primary purpose of a NFP is to fulfil its mission, and profit is a means to achieve this. Profits are reinvested into the activities and infrastructure of the NFP for the greater benefit of the community.

In contrast, For-profit organisations can distribute profits to shareholders. This is one of, if not their main, purpose.

Another significant difference between For-

profits and NFPs is the relative ease with which For-profits can shift their capital. NFPs are established to fulfil a certain purpose and cannot shift capital away from that objective to pursue higher financial returns in other sectors. If they cannot be financially sustainable while pursuing their mission, often their only option is to close. This means that NFPs are more likely than For-profits to continue to operate in market sectors even when returns are low or negative.

What is a charity?

A charity is one type of NFP, which means that all charities are NFPs, but not all NFPs are charities. The difference between a charity and other types of NFPs can also cause confusion. For example, most community sports clubs are NFPs but are not able to register as charities.

For an NFP organisation to be classified as a charity, it must meet certain requirements defined by the Charities Act 2013 (Cwth). In particular, its purpose must fall under at least one of the Act’s 12 identified “charitable purposes”. These charitable purposes are:

- advancing health,
- advancing education,
- advancing social or public welfare,
- advancing religion,
- advancing culture,
- promoting reconciliation, mutual respect and tolerance between groups of individuals that are in Australia,
- promoting or protecting human rights,
- advancing the security or safety of

Australia or the Australian public,

- preventing or relieving the suffering of animals,
- advancing the natural environment,
- promoting or opposing a change to any matter established by law, policy or practice in the Commonwealth, a state, territory or another country (where that change furthers or opposes one or more of the purposes above), and
- other similar purposes 'beneficial to the general public' (a general category).

Being registered as a charity gives an NFP some benefits, including the possibility of tax concessions, and therefore organisations that can register as charities will generally seek to do so.

Typically, organisations that provide human services such as disability care, aged care, education and support for the environment will meet the requirements, but organisations such as sports clubs, industry co-operatives and member-based insurance or financial institutions generally will not. It is worth noting that even if they are registered as charities, eligibility for additional tax concessions is not universal, but dependent on the charity meeting specific requirements.

What about an organisation's legal structure?

An organisation's legal structure does not impact its status as a NFP.

As it is the purpose and constitution of the entity that defines its status as a NFP, NFPs can have

almost any legal structure, including being a limited liability company. In fact, many NFPs operate as unincorporated associations – which means that it is not a separate legal entity from its members. These are typically small organisations, such as fundraising groups, faith-based entities or neighbourhood and volunteer clubs.

If NFPs wish to incorporate, they can do so under State/Territory government legislation or under Commonwealth legislation. As such, their regulatory obligations may differ depending on their jurisdiction, and in some cases they must comply with both State/Territory and Commonwealth legislation²⁰.

Several entity types are more common for NFPs, and some are specifically designed for use by NFPs. These are as follows.

Incorporated Associations: NT based NFPs that wish to incorporate do so under the Northern Territory of Australia Associations Act 2017 (the Associations Act).

Trusts: A Trust is a legal structure in which the Trustee(s) hold money and property for the benefit of its beneficiaries. They can distribute funds or provide services directly.

Company Limited by Guarantee: These are a type of public company established specifically for use by NFP organisations. They are formed under Commonwealth Legislation and regulated by the Australian Securities and Investments Commission.

The following are definitions of the main legal structures used by NFPs as articulated by the ACNC²¹.

²⁰ This section aims to provide a brief overview of legal structures, but this is a complex area of law and this is not a full explanation. For example, there are a number of Commonwealth Acts that impact this area of which the principal act is the Corporations Act 2001 (Cwlth).

²¹ <https://www.ato.gov.au/non-profit/getting-started/know-your-legal-structure/>

Unincorporated Associations

“An unincorporated association is not recognised as a separate legal entity to the members associated with it. It is a group of people who agree to act together as an organisation and form an association. The group can remain informal and its members make their own rules on how the group is managed. The rules may also be referred to as a constitution. An unincorporated association is however an entity under tax law and treated as a company for income tax purposes.”

We do not know how many of these organisations there are as they are typically not registered. They can include organisations such as toy clubs, fundraising groups, parents and citizens (P&C) or volunteer clubs. These organisations operate under the jurisdiction of Tort law as well as the taxation law of their state/territory and the Commonwealth.

Typically, these organisations do not receive funding from government nor do they contract with government as funders generally prefer to work with incorporated organisations.

Incorporated Associations

“An Incorporated Association is a legal entity separate from its individual members. Associations are incorporated under state or territory legislation generally in the jurisdiction in which they operate. An incorporated association may operate outside the state and territory in which it is incorporated if the entity is registered with the Australian Securities & Investments Commission (ASIC) as a registrable Australian body under the Corporations Act 2001. An incorporated association can continue in perpetuity separate [to, and regardless of

changes in,] the membership. It also provides financial protection by usually limiting personal liability to outstanding membership and subscription fees, or to a guarantee.”

This limitation of liability is usually provided by the legislation under which the association is incorporated—so its effect can be different in different jurisdictions.

This form of incorporation is the oldest form in Australia for NFPs other than those incorporated via Private Act of Parliament and may be considered to be the “traditional” form of incorporation as a result.

Trusts

“A trust is an obligation imposed on a person or other entity (the trustee) to hold property for the benefit of beneficiaries or for a particular purpose. In legal terms, a trust is a relationship not a legal entity. The trustee must deal with the trust property in line with the settlor's wishes as set out in the trust deed (or will in the case of a deceased estate). Trusts are widely used for investment and business purposes as well as for the advancement of a charitable purpose.”

Company limited by guarantee

The Corporations Act 2001 is administered by the ASIC. NFP organisations registered with ASIC include:

- Public companies limited by guarantee – the most common type of company structure for NFP organisations registered with ASIC;
- Proprietary companies limited by shares – such as a business that is wholly owned

by a charity that has a similar charitable purpose;

- Registered Australian bodies – such as an incorporated association registered under a State Act and registered with ASIC if it carries on business outside the state or territory in which it is registered;
- Foreign companies – such as a charity formed or incorporated outside Australia but registered to carry on business in Australia;
- Some reporting obligations under the Corporations Act 2001 do not apply to charities that are registered with the Australian Charities and Not-for-profits Commission (ACNC).

Appendix 3 – Comparison of ACNC Activity Categories & International Classification of Non-profit Organisations (ICNPO)

ICNPO Groups and subgroups ²²	ACNC Categories
1. Culture and Arts	
• Culture and art	• Culture and art
• Sports	• Sports
• Other recreation and social clubs	• Other recreation and social clubs
2. Education and research	
• Primary and secondary education	• Primary and secondary education
• Higher education	• Higher education
• Other education	• Other education
• Research	• Research
3. Health	
• Hospitals and rehabilitation	• Hospital services and rehabilitation activities
• Nursing homes	• Aged care activities
• Mental health and crisis intervention	• Mental health and crisis intervention
• Other health services	• Other health service delivery
4. Social services	
• Social services	• Social services
• Emergency and relief	• Emergency and relief
• Income support and maintenance	• Income support and maintenance
5. Environment	
• Environmental activities	• Environmental activities
• Animal protection	• Animal protection
6. Development and housing	
• Economic, social and community development	• Economic, social and community development
• Housing	• Housing activities
7. Employment and training	• Employment and training

8. Law, advocacy and politics	
• Civic and advocacy organisations	• Civic and advocacy activities
• Law and legal services	• Law and legal services
• Political organizations	• Political activities
9. Philanthropic, intermediaries and voluntarism promotion	
• Grant-making Foundations	• Grant-making activities
• Other philanthropic intermediaries and voluntarism promotion	• Other philanthropic • Philanthropic promotion
10. International	
• International activities	• International activities
11. Religion	
• Religious activities	• Religious activities
12. Business and professional associations, unions	
• Business associations	• Not included
• Professional associations	• Not included
• Labour unions	• Not included
13. Not elsewhere classified	Other (free text to describe)

Appendix 4 – References Used in this Report

UWA Reports

In this appendix we provide the links for all references included in footnotes throughout this report. All the reports listed below can be found on the NFPs UWA Research website via

this link: <https://www.research.uwa.edu.au/not-for-profits-uwa>, alternatively the page can be located through Google by searching for “Not-For-Profits UWA research”.

Foot Note Number	Reference and Link
1	NTCOSS Value of the Not-for-profit Sector 2017. Available from: https://www.research.uwa.edu.au/not-for-profits-uwa#policy-economics ; or https://ntcoss.org.au/publications/value-of-the-sector/
4	Gilchrist, D. J., P. A. Knight & T. Emery, (2020), Green Paper 1: Data Assets, Efficiency and the NDIS. Available from: https://www.research.uwa.edu.au/not-for-profits-uwa#six-years-and-counting-ndis-green-papers
7	Gilchrist, D. J., and P. A. Knight, (2017), Australia’s Disability Services Sector 2017: Report 2—Financial Performance—Summary of Key Findings (National Benchmarking Study). Available from: https://www.research.uwa.edu.au/not-for-profits-uwa#ndis-finance-reports-markets-reports
7	Gilchrist, D. J. and P. A. Knight, (2018), Australia’s Disability Services Sector 2018: Report 3 - Financial Performance: Summary of Key Findings. Available from: https://www.research.uwa.edu.au/not-for-profits-uwa#ndis-finance-reports-markets-reports
8	Gilchrist, D.J., P. A. Knight, C. A. Edmonds and T. J. Emery, 2019, Six Years and Counting: The NDIS and the Australian Disability Services System - A White Paper. Available from: https://www.research.uwa.edu.au/not-for-profits-uwa#six-years-and-counting-ndis-white-paper
12	Gilchrist, D. J., and D. Etheridge, (2020), The Not-for-Profit Balance Sheet: A Resource for Directors and CEOs. Available from: https://www.research.uwa.edu.au/not-for-profits-uwa#nfp-finances .
13	Gilchrist, D. J., and D. Etheridge, (2020), The Not-for-Profit Balance Sheet: A Resource for Directors and CEOs. Available from: https://www.research.uwa.edu.au/not-for-profits-uwa#nfp-finances .
14	Gilchrist, D.J., (2017), Issues Paper: Better Financial Reporting for Australia’s NFPs. Available from: https://www.research.uwa.edu.au/not-for-profits-uwa#nfp-finances
17	Chartered Accountants Australia and New Zealand (CAANZ), (2020), NFP Insight: Not-for-profit Cash Reserves. Available from: https://www.research.uwa.edu.au/not-for-profits-uwa#external-research-resources-contributed-to

External Reports

Foot Note Number	Reference and Link
2	Northern Territory Government, (2020), Good Practice Guidelines for Funding Non-Government Organisations. Available from: https://nt.gov.au/community/non-government-organisations-ngos/guidelines-for-working-with-ngos
3	Northern Territory Human Services Industry: Ten Year Plan (2019-2029). Available from: https://www.nthsip.com/the-plan
5	Dept. of Treasury and Finance, Northern Territory Government, (2018), 2017-18 Economic Brief. Available from: https://treasury.nt.gov.au/___data/assets/pdf_file/0012/596829/Gross-State-Product-2017-18.pdf
6	Minerals Council of Australia, (2018), Annual Report 2018. Available from: https://minerals.org.au/sites/default/files/~MCA%20Annual%20Report%202018_FINAL.pdf
9	Dept. of Trade, Business and Innovation, Northern Territory Government, (2019), Output and Income Data. Available from: https://business.nt.gov.au/business-and-economic-data/business/nt-key-business-statistics/output-and-income
11	Australian Government, (2018), Northern Territory workforce, 2018. Available from: https://australianjobs.employment.gov.au/jobs-location/northern-territory
15	ACNC, (2014), Annual Information Statement (AIS) data 2014. Available from: https://data.gov.au/data/dataset/acnc2014ais
16	ABS, (2016), Cat No. 8762.0 Engineering and Construction Activity Australia 2016. Available from: https://www.abs.gov.au/ausstats/abs@.nsf/mf/8762.0
18	ACNC, (2018), Australian Charities Report 2018. Available from: https://www.acnc.gov.au/tools/topic-guides/australian-charities-report
19	ABS, (2010), 5256.0.55.001 Information Paper: Non-Profit Institutions - A Draft Information Development Plan, Jul 2010. Available from: https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5256.0.55.001Main+Features1Jul%202010?OpenDocument
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NTCOSS acknowledge the Traditional Owners of country throughout the Northern Territory and recognise their continuing connection to land, waters and culture. We pay our respects to their Elders past, present and emerging. Aboriginal sovereignty has not been ceded.