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*Western Australia's*

*Not-for-profit  
Landscape 2020*

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The Second Report on WA Charities

**October 2020**

## Publication Information

This study was funded and undertaken by Professor David Gilchrist, convener of the Not-for-profits UWA Research Team at the University of Western Australia. The Not-for-profits UWA Research Team is a multi-disciplinary academic group focusing on developing research outcomes that are intended to meet the needs of Australia's Not-for-profit and charitable organisations, policy makers, governments and commentators. These research outcomes are intended to be industry-ready—that is, they are tools and commentary that are based on high quality research while being focused on implementation and practical supports.

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### Statement of Interests:

**Professor David Gilchrist** is convener of the Not-for-profits UWA Research Group and is professor of accounting in the School of Business at the University of Western Australia. He has received funding from governments, peak bodies and individual organisations for various research projects predominantly related to the Not-for-profit human services sector, Not-for-profit financial and performance reporting, sustainability and outcomes reporting, and policy and practice related to those areas. He has been a director and chair of a number of human services and policy organisations over past years and is currently chair of two policy-focused Not-for-profits operating nationally in the education sector.

**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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## Summary & Key Findings

**There is strong evidence of service contraction and financial pressure being faced by WA's charities in the 2018 ACNC data with negative impacts on service mix and a greater risk to service users.**

This is the second report in our series. This study examined the ACNC data provided by charities headquartered in Western Australia. These data relate to the 2018 Annual Information Statement submissions and we compared them with the 2015 AIS data reported on in our first report in 2017.

### Key findings:

- There was a net increase in the number of charities of 10.5% or 356. 743 charities wound up and 1,099 were established, with a loss of 9,356 employees by head count.
- Services are likely contracting as evidenced by:
  - The service mix contracted by 45% - charities provide less service types.
  - The beneficiary mix contracted by 53%.
- Job quality has reduced as aggregate Full- and Part-time jobs have fallen in total by 1,136 or 1.33% while casual employment is up 21.39%.
- Aggregate profitability has fallen by 49% highlighting funding levels are likely insufficient to recover costs of service delivery.

These top line results raise concerns that the sector is under significant financial pressure, is reducing service types offered and, so, changing the service mix. Therefore, there is likely growing unmet demand for services and supports.

Because of very poor data assets and the lack of a co-designed industry plan, this contraction is highly unlikely to be recognised or managed effectively.

Changes in aggregate service mix do not occur uniformly across the aggregate service offering. Rather, organisations that read the economic signals being created out of funding policy are incentivised to focus their efforts in areas where economic resources are commensurate with the economic cost of service delivery.

As such, any unplanned and unmanaged contraction in the service mix and beneficiaries supported are likely to be borne by particular beneficiary sub-groups with others not impacted.

Sustainability of the sector is also important, not for individual organisations but for service users and the public purse. Where there is a reduction in service delivery, ultimately, government must meet the need at an increased cost to taxpayers. Rebuilding sub-sectors after the fact also costs—this sector is not replaceable.

Frustratingly, a more erudite and closer examination of the nature and performance of WA's charitable sector still eludes us as quality data assets remain wanting.

The recent difficulty experienced by government in making even rudimentary decisions relating to COVID-19 is an example of the impact of a lack of data.

There is a real need for a data investment and management plan to be co-designed between government and the sector in order to ensure appropriate data assets are available and appropriate resourcing is provided to the sector to contribute quality data in a timely fashion.

Without appropriate data analysis, the risk borne by people who rely on the services and supports of WA's Not-for-profit and charitable sector and the public purse are placed in greater risk. This risk is evident and a longer-term view required to ensure adequate investment.

## Industry Response

WACOSS commissioned the first report in this series in 2017 with a view to growing our knowledge of Western Australia's Not-for-profit and charitable sector. Our understanding of the sector, what challenges it faces and how it is changing is an important yardstick informing public policy and measuring outcomes achieved.

Without a strong and vibrant Not-for-profit and charitable sector, the Western Australian community will suffer—especially those people who rely on services and support provided by the sector to live their lives.

However, the economy and broader community will also suffer if policy frameworks are developed without an understanding of the nature of the sector and the impact of its contribution. The WA Not-for-profit and charitable sector is one of the state's largest employers and this report identifies that in 2018 the sector employed 107,439 people. This is why WACOSS has consistently argued for greater investment in jobs associated with the Not-for-profit and charitable sector and for greater sustainability.

The COVID-19 pandemic has demonstrated to everyone just how integral health and care work is for the wellbeing and functioning of our society. From doctors and nurses to allied health, social workers and counsellors, disability carers and early childhood educators—the importance of frontline care workers and their central role in our community has never been so apparent.

It is concerning to note that this report identifies that job quality has diminished with full and part time job numbers falling by 1.33% while casual job numbers have expanded by over 21%. The ability for organisations to provide services in great demand and keep their doors open is also under increasing pressure as, not-with-standing increased aggregate income to the sector of \$300m, aggregate surplus declined by 49%. In other words, it is likely that funding for services is not covering the cost of delivery as aggregate expenses rose by 7% or \$724m.

Finally, and most importantly, we note that the mix of services provided by the sector has contracted by 53% over time. This will mean that leaving those reliant on services and supports without the services that they need, which may be life threatening. The change in service mix is likely a reaction by charities and Not-for-profits to poor procurement policies, inadequate funding levels, and a clear confirmation of the association between the economic capacity of these organisations and the work they do, if one was needed.

Thank you to the team at Not-for-profits UWA for investing to develop this report, it is appreciated. The work done in examining this sector creates significant benefits and WACOSS looks forward to seeing this research program continue to contribute to WA's community.

**Debra Zanella**  
WACOSS President

**Louise Giolitto**  
CEO

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## Using this report

This report is the second in the series of analytically-focused reports initiated in 2017<sup>1</sup> and examining the strength, sustainability and prospects for the Western Australian Not-for-profit Sector.

The Not-for-profit and charitable sector is an important national asset. It is economically important—remaining one of the most significant employers in Western Australia—and it serves and supports hundreds of thousands of people, some of whom are the most vulnerable in our community.

## Aim of this Report

This report reviews the same elements that were originally considered in the 2017 report. It examines change and, over time, seeks to build a picture of the trajectory of the sector.

The analysis is intended to answer the following questions:

- What do WA's charities do?
- Who do they do it for?
- How do they contribute to the WA economy?
- How have these things changed between 2015 and 2018?

In doing so, subsidiary questions are also considered, such as:

- How is this change likely to be impacting service users?
- How financially sustainable is the sector?
- How has the nature of employment changed in the sector?
- How efficient is the sector?

## Service Mix as an Evaluative Focus

This is first year where the analysis of change can be considered. While some charities and Not-for-profits should not survive simply because of their status, a

change in the numbers of such organisations needs to be closely managed to ensure risk to service users and to the public purse is reduced to the extent possible.

However, there are several risk elements associated with the sector service mix which can be considered at the whole-of-sector level and are suggestive of the need for closer monitoring.

The service mix relates to the aggregate of service types, quantity, quality and location met by the sector.<sup>2</sup> Change in the nature of the population of charities (what they do, where, and for whom) is unlikely to occur uniformly across all service types, locations and qualities. Therefore, this change is likely to represent service mix change at the aggregate level—we have no way of knowing whether that is positive or negative change, while the risk associated with not knowing is significant.

Unplanned and unsupported changes in the service mix will impact service users negatively, impact efficiency and, ultimately, cost tax payers more as responses to unmet need through alternate infrastructure, such as the primary health system, occur.

There are three elements considered in this report that are likely to be indicators of change in the service mix delivered by the sector:

1. Change in number of charities;
2. Change in what they do (Other activities); and
3. Change in who they serve (Beneficiary types).

These topline indicators can be reinforced by changes in:

- numbers employed—reductions may be symptomatic of service mix retraction; and

<sup>1</sup> The first report in this series is available at: <https://www.research.uwa.edu.au/not-for-profits-uwa#policy-economics>

<sup>2</sup> See Gilchrist, D. J., 2020, "Green Paper 3: The

Value of Quality Sector Analyses", A Report of Not-for-profits UWA, Perth, Australia. Available at: <https://www.research.uwa.edu.au/not-for-profits-uwa#six-years-and-counting-ndis-green-papers>



- Profitability—changes in service mix may be a response to financial sustainability challenges.

These last two elements are dealt with consecutively below.

The lack of data associated with these organisations does leave services users and the public purse at some risk. However, the data can act as a pointer or early warning system with respect to unexpected, uncontrolled, unmanaged and/or unexplained change.

### The Nature of the Data

To undertake this analysis, we have examined data provided by charities headquartered in WA and submitted to the Australian Charities and Not-for-profits Commission (ACNC) for the 2015 and 2018 financial years.<sup>3</sup>

In the 2017 report we also considered data from the Australian Bureau of Statistics and other sources. However, the ABS data is now 7 years old and so we were restricted to studying only charities' ACNC data this year.<sup>4</sup>

Notwithstanding its importance, the poor state of data assets associated with this sector remains an impediment to our understanding of the key economic questions and service mix. Such impediments inhibit our capacity to allocate resources effectively and efficiently, and to ensure public funds are invested wisely. Indeed, the lack of data ensures that we tend to treat this sector differently in economic terms to the rest of the economy—potentially to the detriment of the public purse and service users.

The impact of COVID-19 during 2020 is a

<sup>3</sup> The 2018 data is the latest data made available by the ACNC, having been published in early 2020.

<sup>4</sup> Not-for-profits UWA is developing a data asset framework for WA's charities and will publish this shortly. Access will be free. To register to obtain access to this resource when it is published, please provide your details here: <https://www.research.uwa.edu.au/not-for-profits-uwa#contact>

<sup>5</sup> For further information relating to this issue, see:

case in point where fundamental questions pertaining to sustainability of the human services sector in the state were unable to be answered due to the lack of even some of the most basic administrative data.<sup>5</sup>

In order to develop a data asset that would be serviceable in policy and practice terms, a data plan co-designed between the state government and industry is critical as is sufficient resourcing to the sector to support it in providing data of an appropriate quality in a timely fashion.

When reading this report, it will be noticed that a comparison is made between the 2015 data and that of 2018, disclosing those previous data in brackets against the current data.

Further, Australia-wide charities data is available in the annual Australian Charities Report 2018.<sup>6</sup>

In total, in 2018 3,736 (3,380) charities with their head offices in WA or reported undertaking activities solely in WA were registered with the ACNC as charities and provided data without obvious, significant errors.

Therefore, the data analysed does not represent the entirety of Not-for-profit or charitable activity undertaken in WA, meaning that beneficiaries, employment, and other information provided and commented upon represents a minimum data set—the economic and social outcomes are very likely to be far more substantial than reported here.

For information pertaining to the data set, preparation of the data for analysis and the analysis process itself, readers should

Gilchrist, D. J., P. A. Knight and 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>

<sup>6</sup> The 2018 report was prepared by the ACNC and is available at:

<https://www.acnc.gov.au/tools/reports/australian-charities-report-2018>

contact the authors.

An accessible MS Word version of this report is available on the Not-for-profits UWA website.<sup>7</sup>

### WA's charities

Describing the charitable sector is notoriously challenging, much less describing the broader Not-for-profit sector, of which charities are a sub-set.

The sector is not homogenous. Being fit-for-purpose in the context of their mission, service types, geographic location and their client attributes, means that assessing sustainability, economic contribution and beneficiary attributes is very difficult.

Much policy and commentary is based on aggregate industry-level data (as is this report) which severely reduces its policy and practice value, which benefits most from more disaggregated, sub-sector specific data.

When analysing the charitable sector, it is common to break the population into sub-groups based on size by turnover using

the ACNC delineations:

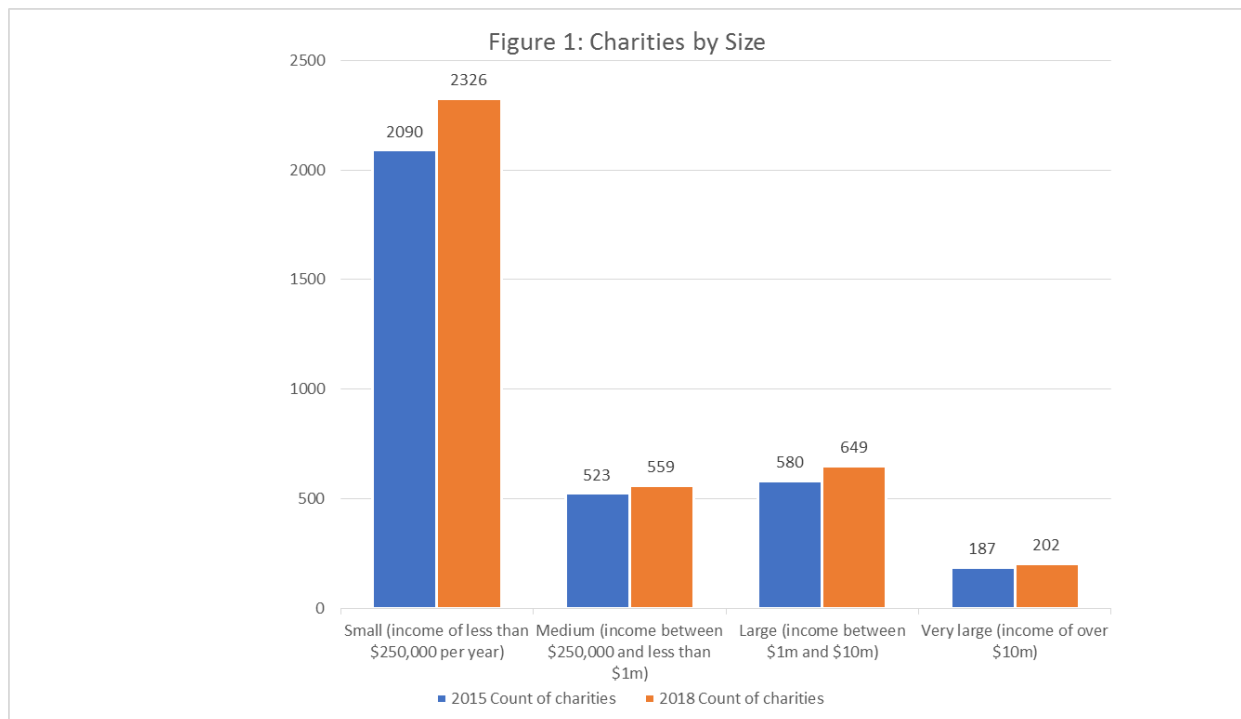
Small turnover < \$250,000  
 Medium \$250,000 < turnover < \$1m  
 Large \$1m and over turnover

In the 2017 report in this series, a fourth size-by-turnover category was introduced in order to afford more effective analysis. This has been retained in this edition for comparative purposes. The segmentation used is:

Small turnover < \$250,000  
 Medium \$250,000 < turnover < \$1m  
 Large \$1m < turnover < \$10m  
 Very Large \$10m and over turnover

Overall, there was a 10.5% increase in the number of registered charities with headquarters in WA or solely operating in the state. Total registered charities were 3,736 (3,380), or an increase of 356 charities. *Figure 1* provides a graphical representation of the increase in registered charities by size.

Clearly there has been an increase in all categories commensurate with a population increase.



<sup>7</sup> See here: <https://www.research.uwa.edu.au/not-for-profits-uwa#policy-economics>



In percentage terms, the following increases were identified:

Small	↑	11%
Medium	↑	7%
Large	↑	12%
Very Large	↑	8%

The spread of charity sizes has also changed in keeping with our view that service mix is likely to have changed. Movement in the spread has been identified as:

	<u>2015</u>		<u>2018</u>
Small	61.8%	↑	62.26%
Medium	15.47%	↓	14.96%
Large	17.16%	↑	17.37%
Very Large	5.53%	↓	5.41%

In terms of the change in charity numbers, the net increase of 356 between 2015 and 2018 includes the following movements:

Wound Up	↓	743
Established	↑	1,099
Net Employment Impact	↓	9,356

Further analysis of the employment figures is provided below.

### Service mix: what charities do

The assessment of the activities of WA charities is also restricted by poor data assets. The Annual Information Statement (AIS), which is used to gather ACNC data, offers charities the opportunity to identify one “Main activity” and also requests information on their “Other activities”.

As identified above, change in the selections made can be indicators changes in the aggregate service mix.

However, the options provided also serve to restrict the ability of charities to report their activities in a full and succinct way, and for users of data to assess comparability. The ACNC has created a list of activities which are compared to the International Classification of Non-profit Organisations (ICNPO) in the appendix.

Additionally, between 2015 and 2018, the ACNC made some changes to the list of activities. The amendments required:

- “Political activities” to be removed
- “Other recreation” and “Social club activities” to be merged

We have recast the 2015 data accordingly to ensure comparability.

*Figure 2* provides a comparison of Other activities undertaken by WA’s charities while *Figures 3 and 4* provide synopses of the data submitted by charities relating to their Main activity and their Other activity respectively. Movement in the Main activities suggests that additional analysis is needed to assess the extent that the aggregated service mix remains relevant to need.

The top three Main activities reported in 2018 were:

- 1<sup>st</sup> Religious activities
- 2<sup>nd</sup> Primary and secondary education
- 3<sup>rd</sup> Emergency relief

Other activities was replaced by Emergency relief as the third most chosen category between 2015 and 2018 hopefully signifying increased discernment in data being provided by charities.

In terms of Other activities, the top three reported by charities in 2018 were:

- 1<sup>st</sup> Social Services
- 2<sup>nd</sup> Other
- 3<sup>rd</sup> Other education

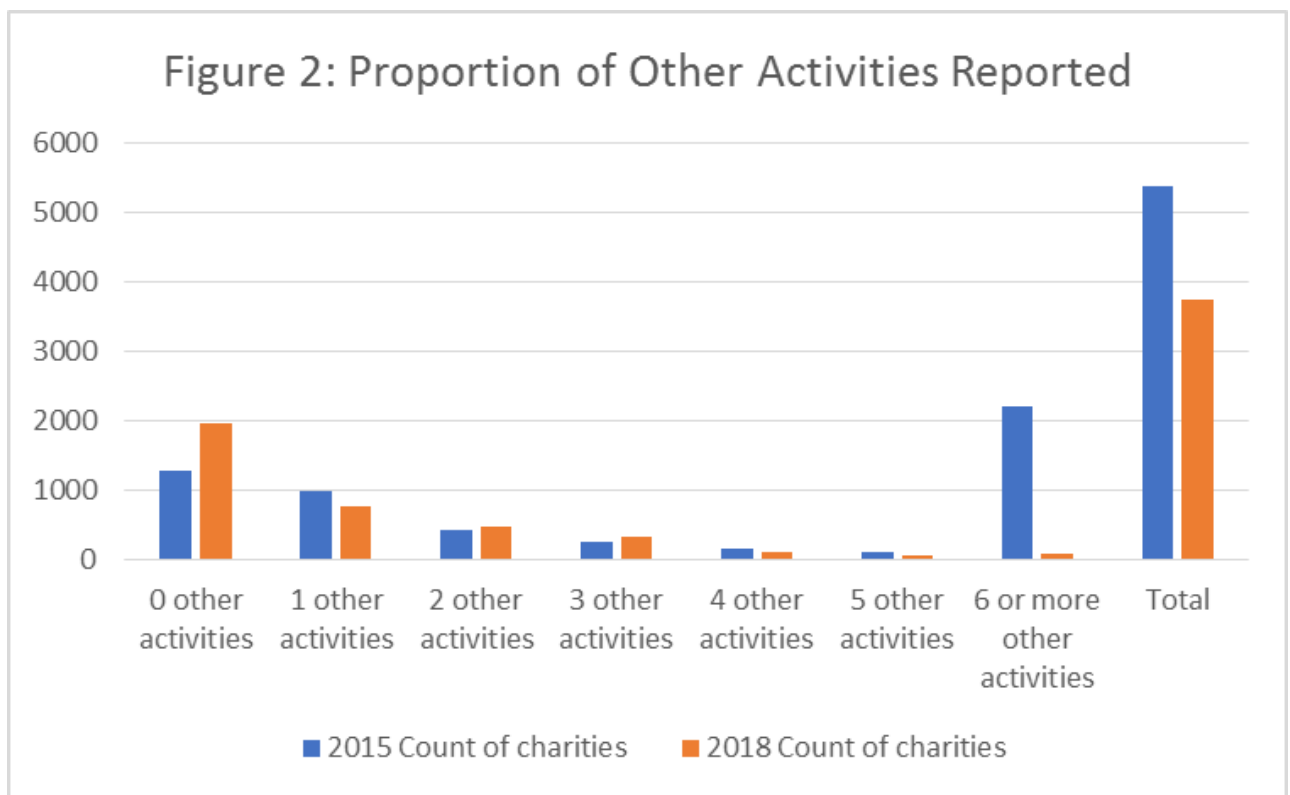
In terms of service mix, the changes in reported activities do not necessarily provide categorical evidence of aggregate change, nor does reported change mean that a risk to service mix is extant.

However, the reported aggregate Other activities data does suggest that further investigation is required as it is likely the mix has changed. In 2015 charities reported that they undertook an average of 2.07 Other activities, compared to only

1.14 Other activities in 2018. The mix of Other activities has fallen by 45%.

Figure 2 provides a graphical representation of the number of charities reporting Other activities in 2015 and 2018.

It can be seen that there has been a consolidation in activities undertaken and, significantly, a falloff in the number of charities that undertake over 3 Other activities.



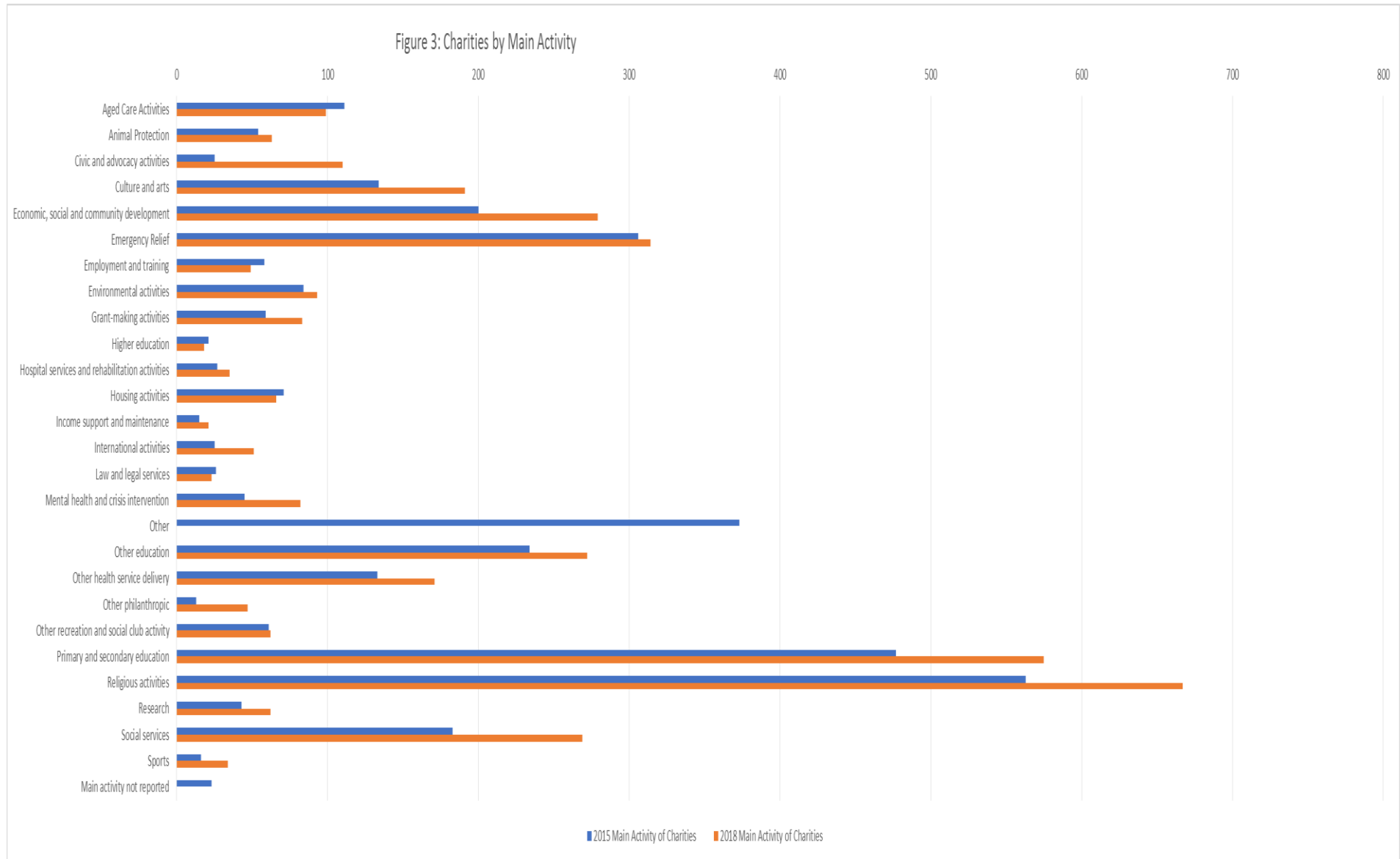
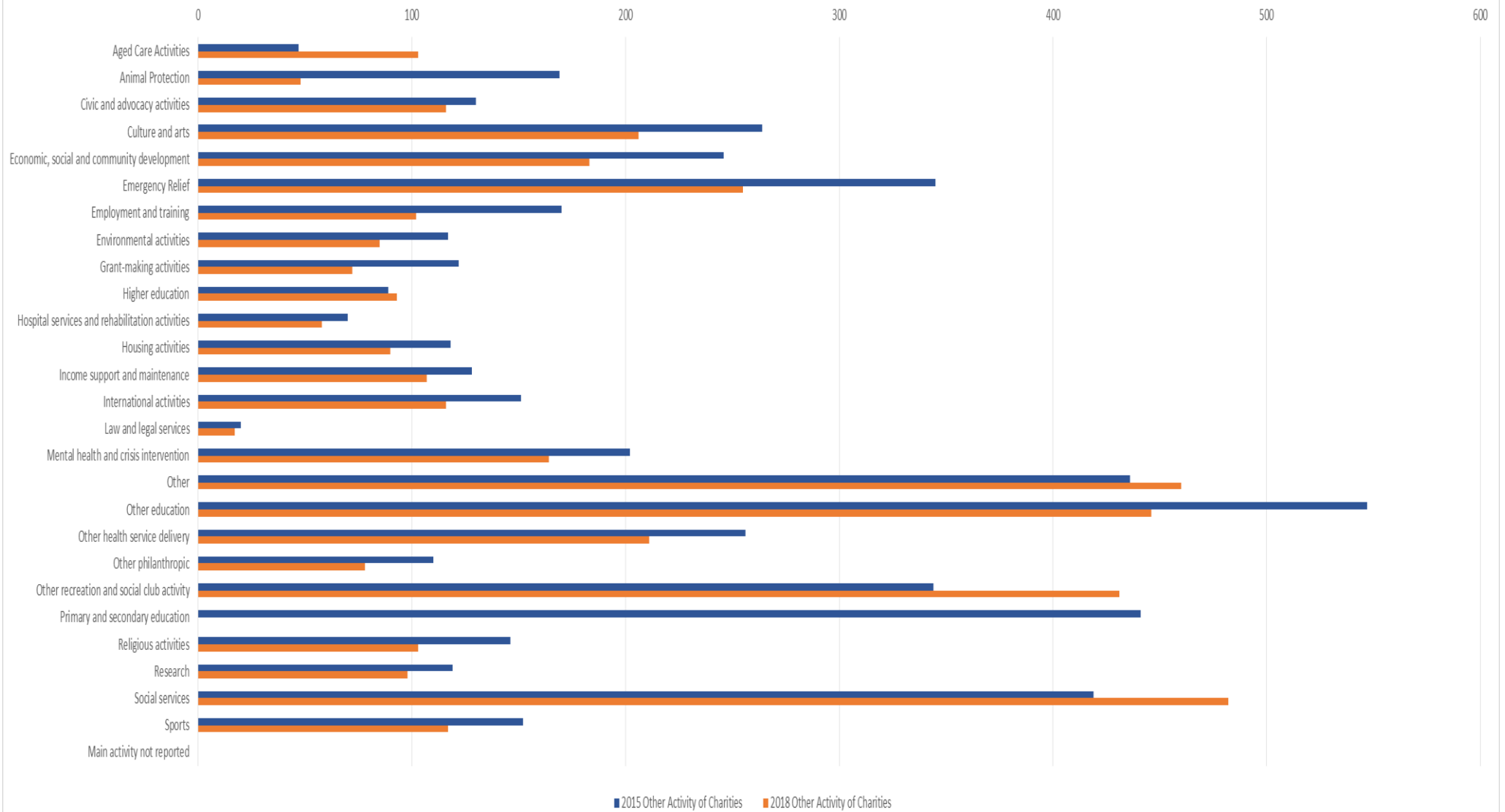


Figure 4: Charities by Other Activity



## Service Mix: Who do WA's charities serve?

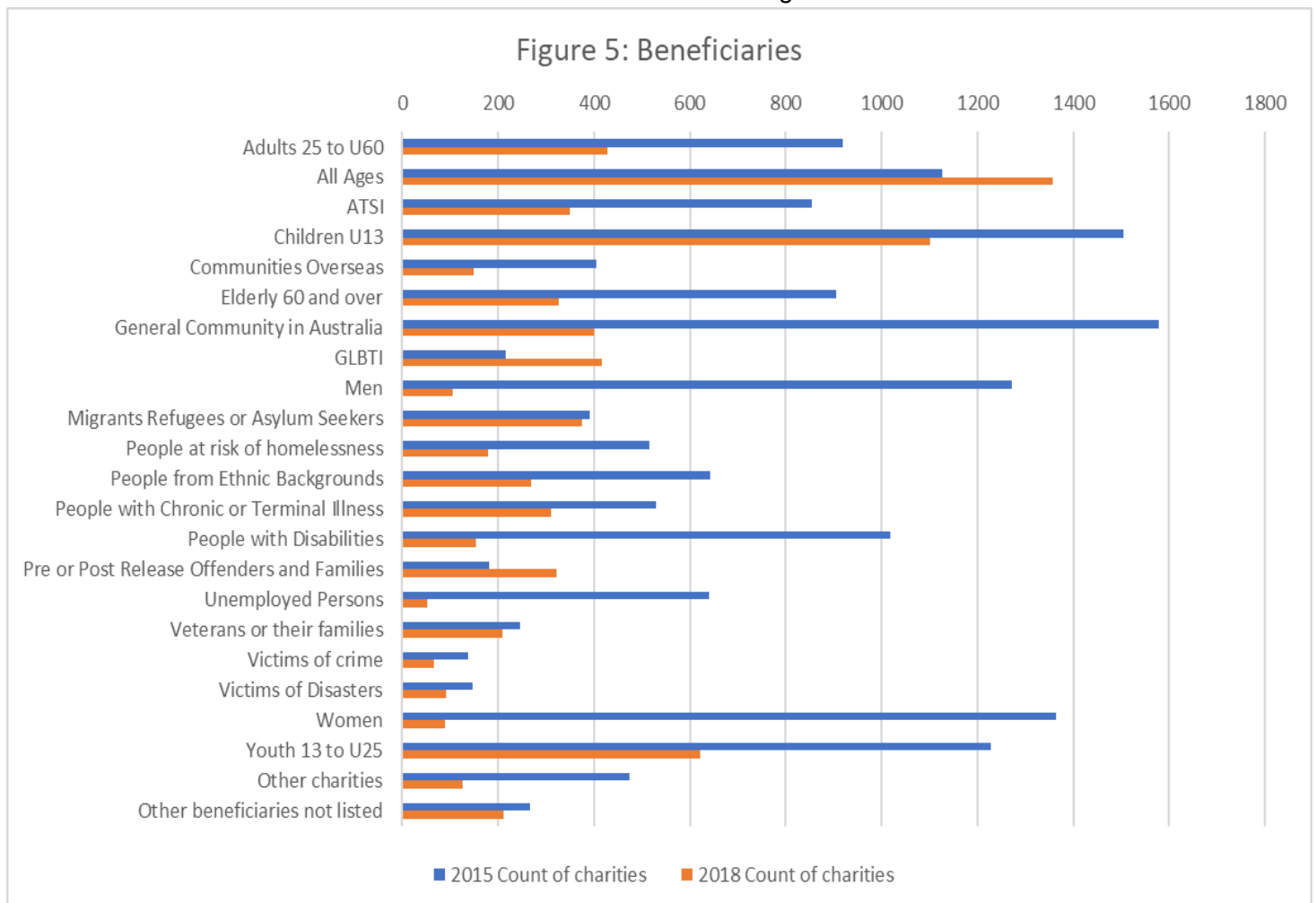
The ACNC AIS also requires charities to report on their beneficiary types. This data serves to identify changes in service user mix from one year to the next, informing the broader position set out in this report that service mix contraction is likely to have occurred.

Again, combined with the reduction in charity numbers, the changes reported in Other activities, the change here reinforces the need for investigation into potential unmet demand in service delivery in the context of aggregate service mix change and what it might mean for service users.

Figure 5 provides a graphical representation of the number of beneficiary categories reported by each charity. In short, WA's charities reported serving 7,714 beneficiary types in 2018 as compared to 16,559 in 2015. While this change may be indicative of charities furnishing better data, this 53% reduction is substantial and is likely to confirm aggregate reduction in the beneficiary mix, especially given contraction across other reported areas.

Reviewing Figure 5 highlights that there were contractions in beneficiary mix across 17 of the 23 categories.

While it is not possible to determine what this has meant for service delivery on the ground, the change is of a magnitude that highlights the very real need for further investigation.



## Economic contribution

Charities and Not-for-profits constitute one of three sectors in the Australian economy. This sector has always been recognised for its social contribution but it is not so well understood that the sector is also a significant economic engine.

Through direct employment, ancillary industries (e.g. accounting and auditing) and building economic engagement opportunities for service users (amongst other economic contributions) the third sector provides tangible economic benefits to Western Australia.

Further, through savings to government by providing services at reduced cost, by contributing to preventative health strategies and through its close proximity to the community to ensure services are appropriately provided, the sector adds to the economic outcome in ways that are also harder to measure.

### The Sector in the WA Economy

In economy-wide terms, the bulk of the sector’s economic activity in Western Australia is aggregated under Healthcare and Social Assistance and Education and Training. In 2018, total Gross State Product (GSP) was \$259.4b. Healthcare and Social Assistance and Education combined contributed 9.2% to GSP.<sup>8</sup>

Importantly, Health and Social Assistance was the largest contributor to economic growth second only to mining for the same year. Indeed, this sub-sector Gross Value Added rose by 8% in 2018/19 as compared to 3% growth in mining.

These figures do not include the arts and culture, recreation or a number of other traditional activity areas of Not-for-profits and charities. Therefore, the aggregate contribution of the sector is likely higher than reported above.

<sup>8</sup> This section has been developed using Government of Western Australia data accessed here: <https://www.jtsi.wa.gov.au/docs/default->

In terms of employment, the Health and Social Assistance sector constituted the second highest employer in the economy with 165,562 people employed or representing 12.24% of total reported employment. Mining constituted 8.27% during the same period while Retail and Wholesale was the biggest employer at 12.4%.

Again, these figures do not solely represent the WA Not-for-profit and charities sector indicating that they are minimum levels of contribution and that the actual contribution is greater. However, they do reinforce the significance of the sector and the importance of developing a cogent economic plan, especially during times of economic downturn such as being currently experienced as a result of the COVID-19 pandemic.

Such a plan would be co-designed with the sector and drive effective investment, reducing risk to service users—those who ultimately bear the brunt of supply-side failure.

### Contribution to employment

The WA charitable sector reported an increase in total employee numbers of 2.78% between 2015 and 2018—total employees reported in 2018 being 107,439 (104,530). However, job quality was negatively impacted with a fall in Full-time employees of 6.12% that countered an increase in Part-time employment of 2.78% and an increase in casual employment of 21.4%:

Full-time	↓	2,419	6.12%
Part-time	↑	1,283	2.78%
<b>Total Full- &amp; Part-time</b>	↓	<b>1,136</b>	<b>1.33%</b>
Casual	↑	4,045	21.39%

Figures 6 and 7 provide additional details regarding employment.

source/default-document-library/wa-economic-profile---february-2019.pdf?sfvrsn=538731c\_4



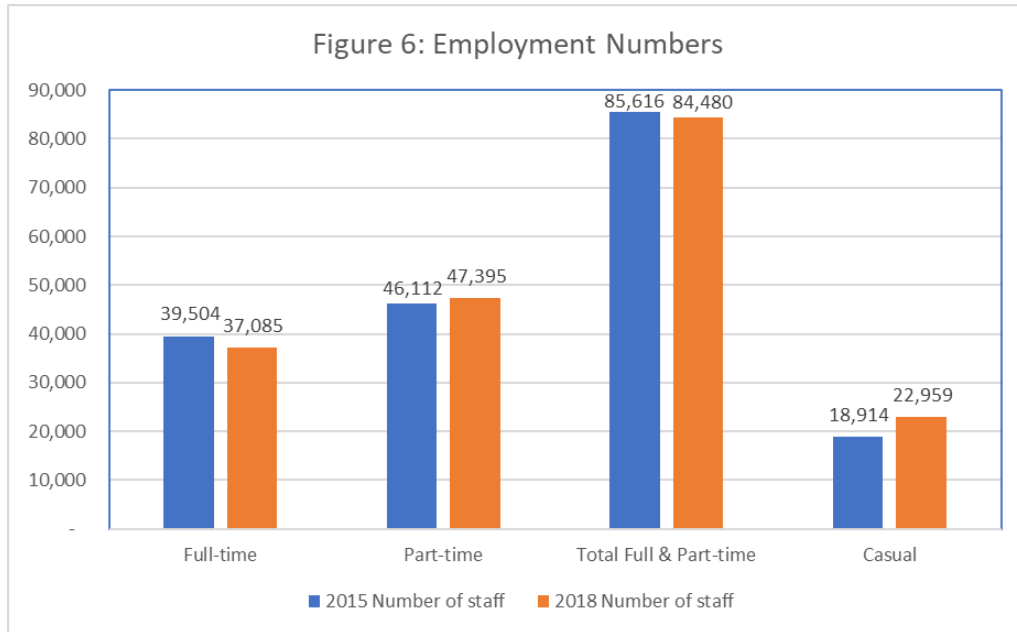


Figure 7: Number of Charities Reporting Full and Part Time Staff By Main Activity

Main activity	2018 full Time	2015 Full time	Change	2018 Part time	2015 Part time	change
Aged Care Activities	65	80	(23.08%)	67	83	(23.88%)
Animal Protection	16	10	37.50%	14	11	21.43%
Civic and advocacy activities	26	10	61.54%	30	14	53.33%
Culture and arts	55	46	16.36%	75	54	28.00%
Economic, social and community development	104	88	15.38%	122	98	19.67%
Emergency Relief	24	27	(12.50%)	35	39	(11.43%)
Employment and training	41	47	(14.63%)	34	38	(11.76%)
Environmental activities	29	28	3.45%	40	36	10.00%
Grant-making activities	10	11	(10.00%)	12	15	0.00%
Higher education	6	1	83.33%	6	4	33.33%
Hospital services and rehabilitation activities	15	14	6.67%	16	15	6.25%
Housing activities	30	35	(16.67%)	30	40	(33.33%)
Income support and maintenance	2	2	0.00%	7	4	0.00%
International activities	7	1	0.00%	3	4	0.00%
Law and legal services	19	23	(21.05%)	20	24	(20.00%)
Mental health and crisis intervention	35	19	45.71%	38	24	36.84%
Other	0	113		0	157	
Other education	93	83	10.75%	125	111	11.20%
Other health service delivery	78	83	(6.41%)	89	86	3.37%
Other philanthropic	4	1	0.00%	5	3	0.00%
Other recreation and social club activity [10b]	7	7	0.00%	15	16	(6.67%)
Primary and secondary education	259	268	(3.47%)	332	322	3.01%
Religious activities	291	275	5.50%	254	232	8.66%
Research	25	22	12.00%	26	27	(3.85%)
Social services	124	87	29.84%	158	98	37.97%
Sports	6	5	16.67%	12	9	25.00%
Main activity not reported	0	12	0.00%	0	10	0.00%
<b>Total</b>	<b>1371</b>	<b>1398</b>	<b>(1.97%)</b>	<b>1565</b>	<b>1574</b>	<b>(0.58%)</b>

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

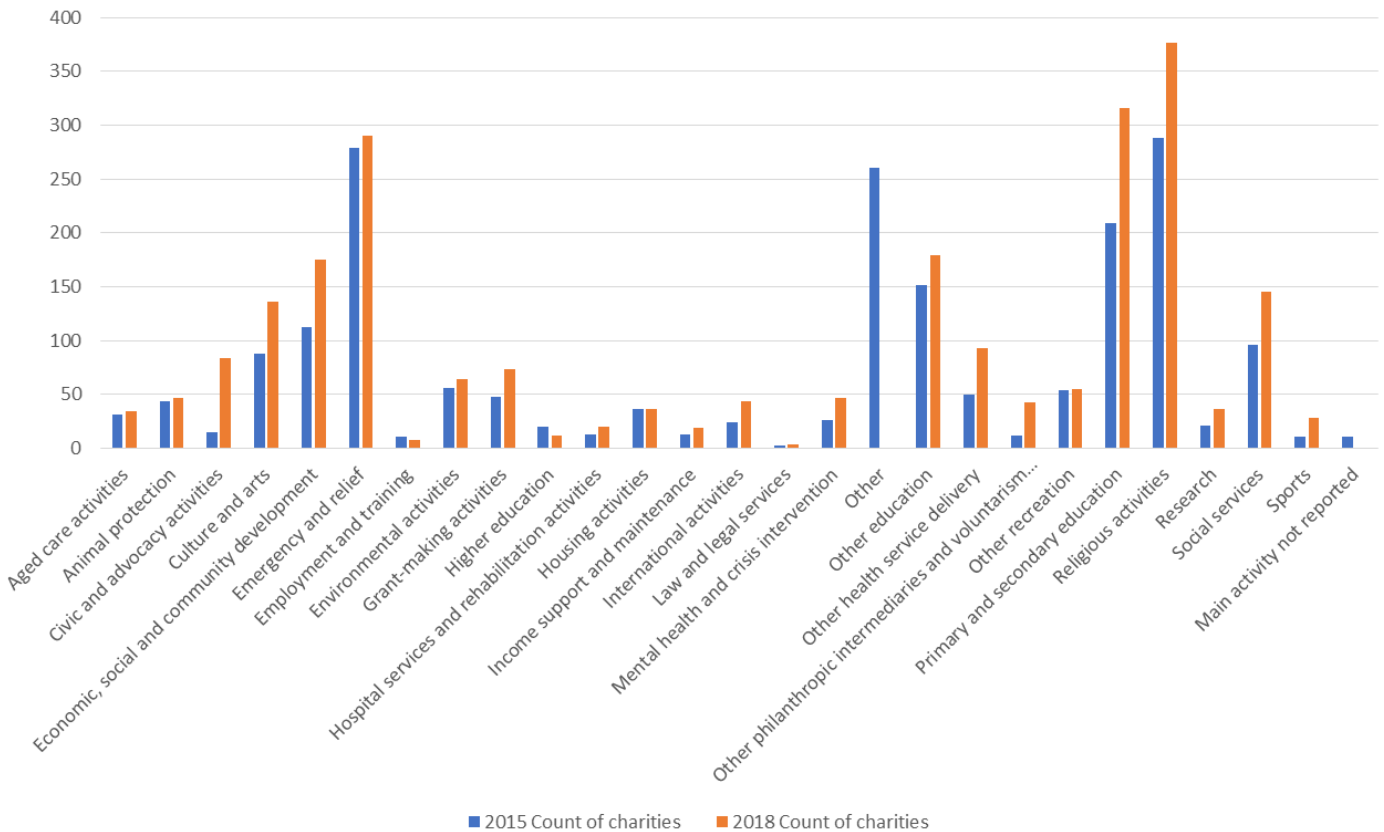
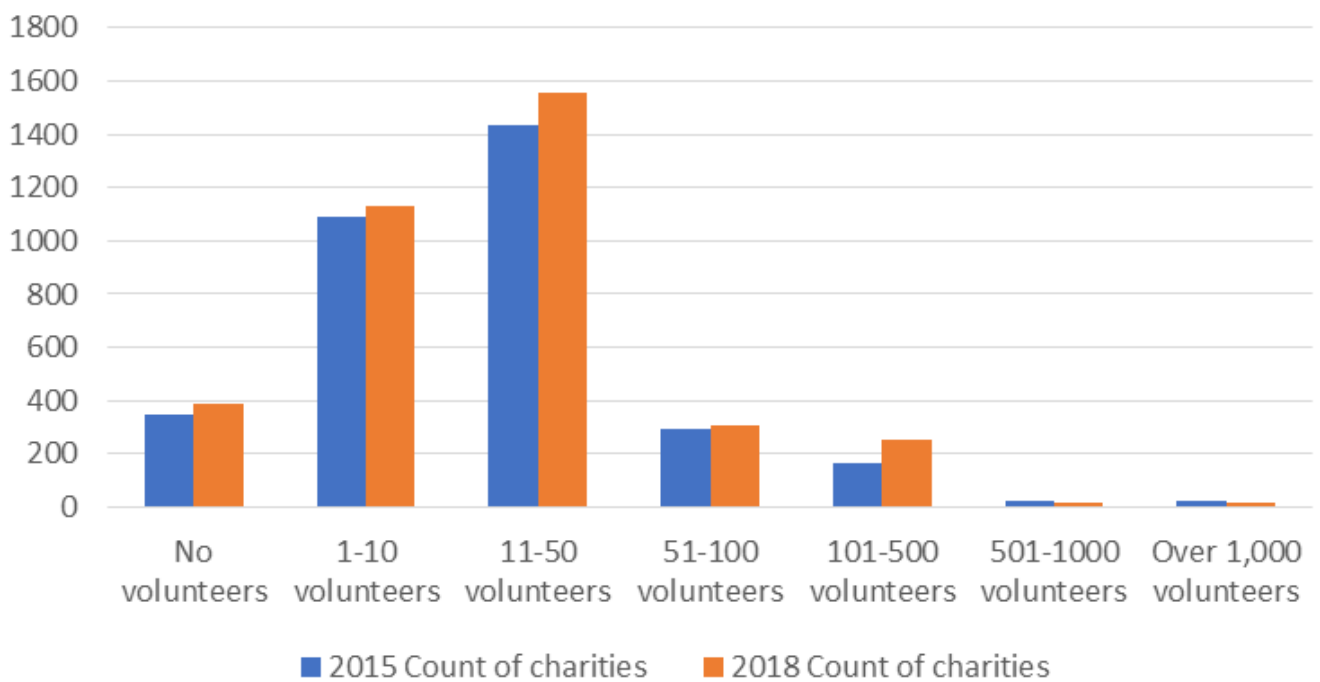


Figure 9: Charities Reporting Volunteer Numbers



Of course, not all charities employ staff and so the spread of charities not employing staff by Main activity is instructive in terms of identifying potential areas of vulnerability in the context of service mix analysis. *Figure 8* provides a graphical representation of the number of charities reporting that they did not employ full-time staff in 2015 and 2018 by Main activity.

It is also instructive to identify that there has been aggregate growth in the number of charities not employing people in the Main activity categories of Emergency Relief, Economic, Social and Community Development, Culture and the Arts, Primary & Secondary Education and Social Services.

It is also likely that the data is maturing as time goes on given that there are no charities reporting that their Main activity was Other in the 2018 data set.

Charities and Not-for-profit organisations also rely heavily on volunteer contributions to maintain their sustainability. *Figure 9* compares the number of volunteers reported by the charities, which has increased steadily for organisations with up to 500 volunteers, but there have been reductions in charities with up to 1,000 volunteers (-9.1%), and above (-26.1%).

In 2015 we were unable to report the total volunteer numbers due to a number of issues with the collected data. In 2018 we are able to report that charities deployed 212,229 volunteers adding to their efficiency and contributing to the capacity of people to participate in the community.

## Sustainability

Ultimately, risk associated with many services provided by the WA charitable sector are borne by the people who rely on the services provided to live their lives. Therefore, sustainability is a critical

consideration when analysing the sector—not for individual charities but for service mix and reliability.

Additionally, sustainability is also critical because unplanned and unmanaged change in terms of supply-side contraction can be destructive—trained and experienced staff can be lost, assets can be re-purposed elsewhere and government must spend public money on substitutions in order to ensure stability and reliability of services, and to meet crises.

Finally, sustainability is different for this sector compared to others. Indeed, for a charity or Not-for-profit organisation to be considered sustainable, it must be able to continue to meet its mission: delivering services of the right quality, quantity and in the right timing. If such organisations cannot continue to meet their mission, they are not sustainable even if they are financially strong—the purpose of the organisation is not the organisation itself, as it may be in the commercial world.<sup>9</sup>

Of course, financial sustainability is a critical requirement to ensure mission sustainability. As such, in this section we review the key indicators of financial performance (profit) and financial capacity (net assets).

We use aggregated profitability and net assets figures. It is important to note that these figures have not been developed using an accounting consolidation process but, rather, simply summed in order to give a broad picture of movements and sector value.

Commensurate with the statement above, charities and Not-for-profit organisations are not entitled to survive just because of the nature of their organisation. Rather, they must be mission-centric, efficient and effective.

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<sup>9</sup> See: Gilchrist, D. J., and D. Etheridge, (2020), *The Not-for-Profit Balance Sheet: A Resource for Directors and CEOs*, A Report for the Not-for-Profit

Sector Banking Team at the Commonwealth Bank of Australia Ltd, Sydney, Australia.

Therefore, the commentary here relates to the development and husbanding of the sector for efficiency, effectiveness and mission—where change is appropriate, it should be pursued with the sector in mind and the preservation of its skills and capacity in the aggregate.

### Profitability

Achieving profitability is critical for any Not-for-profit or charitable entity. Profitability is important for achieving short-, medium- and long-term sustainability as shown in *Figure 10*.

It can also be an indicator of consolidation in the sector and/or contraction in service mix because increases in sector aggregate profit can be driven by changes to the types of services provided in the context of service costs and the drive to reduce costs in response to funding.

Total aggregate income rose between 2015 and 2018 by just shy of \$300m, or 2.7%, while aggregate expenses rose during the period by \$724m, or 7%. Total aggregate income for 2018 was \$11.493b (\$11.194b).

The aggregated reported profit for the sector fell by \$424m or 49% between 2015 and 2018.

At the top level, changes in aggregate income occurred in the following categories:

Government Grants	↑	\$1.233b	31.3%
Donations & Bequests	↑	\$19.9m	4.5%
Other Income	↓	\$105m	24.5%
All Other Revenue	↓	\$850m	13.3%

The falloff in other income is suggestive of reductions in sales in fee-for-service areas and may also be suggestive of the inherent risk in reliance upon less sustainable and reliable income sources.

There was an across-the-board increase in aggregate operating expenses between 2015 and 2018 of 7.0% or \$724m, with the following categories of expense showing movement:

Employment	↑	\$421m	7.2%
All Other Expenses	↑	\$265m	6.3%
Interest Expenses	↑	\$10.7m	19.0%

Figure 10: Sustainability of Not-for-profits

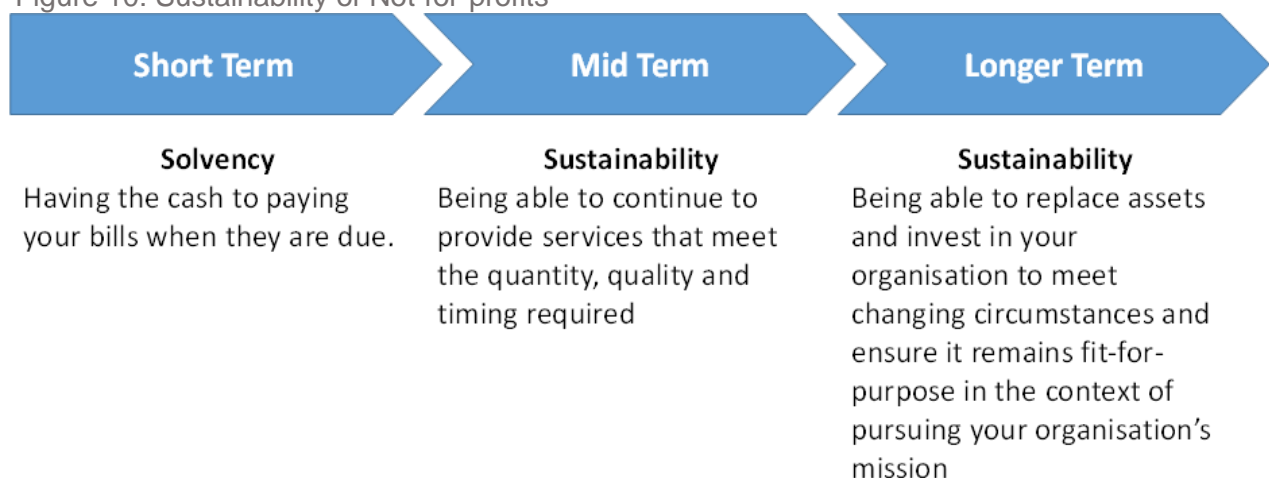


Figure 11: Distribution of Profit Margins

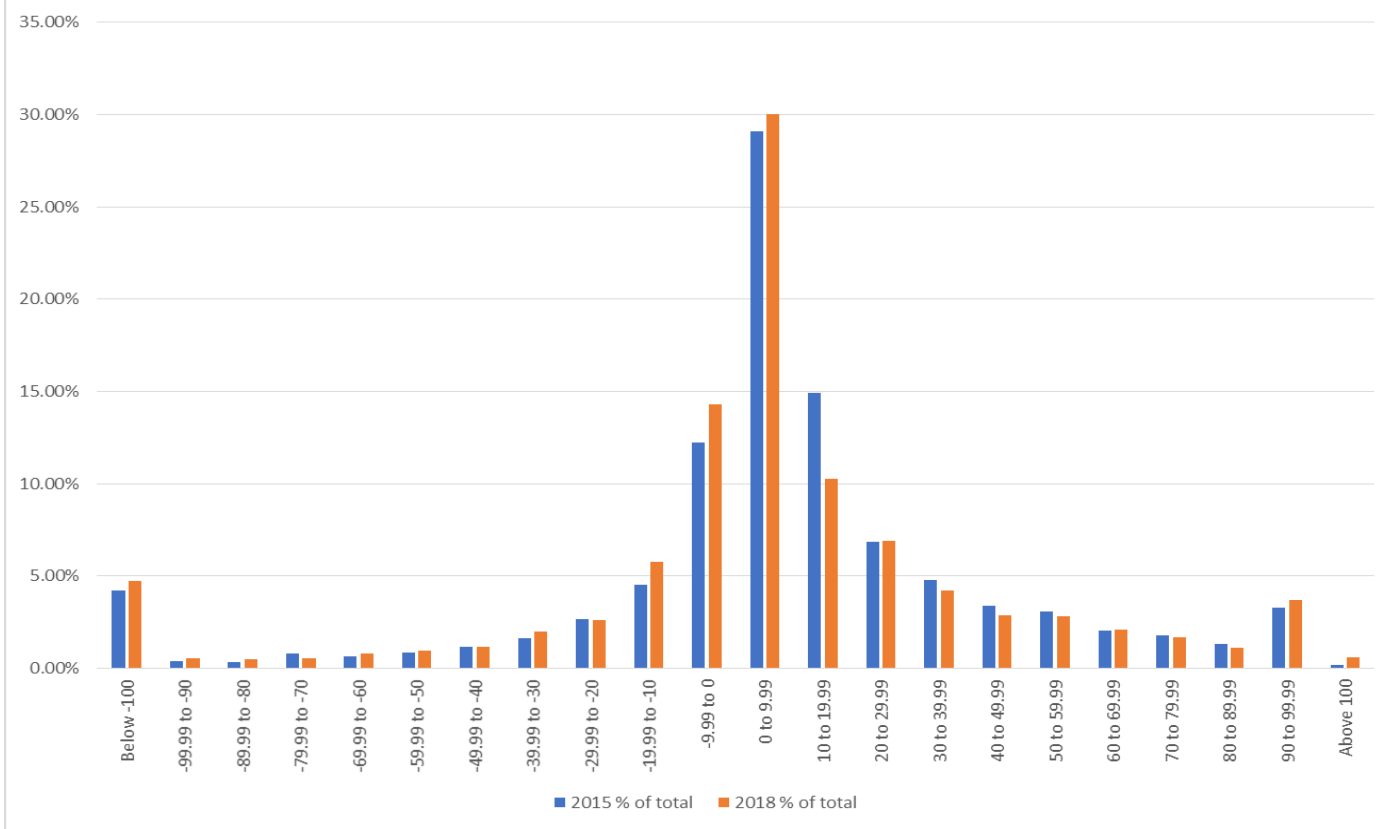
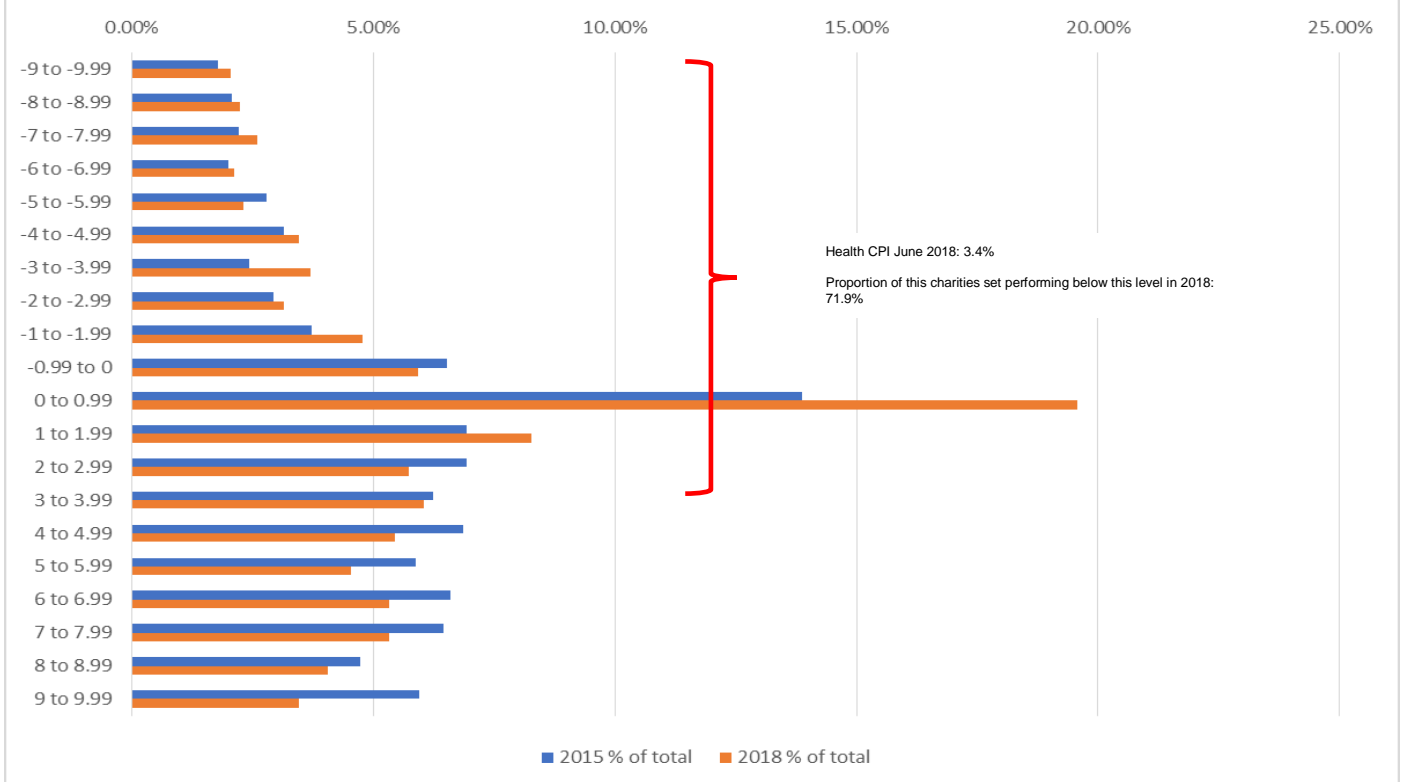
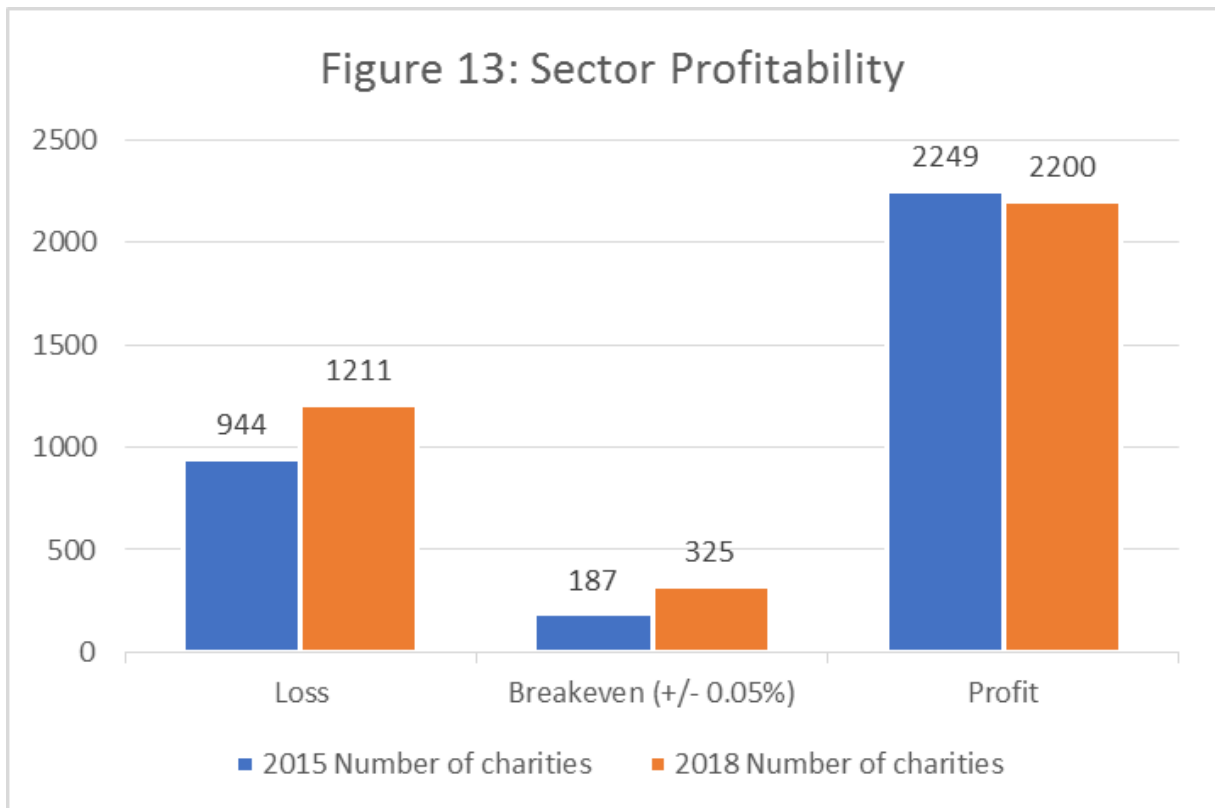


Figure 12: Distribution of Profits between -10% to 10% in Detail





Increases in expenses against increased income may mean that funding for service delivery is not covering the comprehensive costs of these services—a very significant issue from a user’s perspective. It is also concerning that interest expenses have risen by 19% during the period and further examination is warranted in the context of whether the loan funds represented here are being invested in long term assets.

The distribution of profit margins assist us in understanding the impact of financial performance on service mix—if not specifically the services themselves, it assists in identifying that service mix changes are likely given the change in profitability. It also assists us in identifying the quantum of possible change resulting from poor financial performance, however caused. *Figure 11* provides a graphical representation of the profit spread of WA’s charities for the 2018 financial year.

Examining the aggregate profitability without considering the spread gives a false impression of the financial

performance of the sector. If organisations are too lean they are likely to be under significant financial pressure; if they are too profitable questions arise as to funding levels; if charities are making losses their financial trajectory is poor increasing the risk to service users.

Readers should note that *Figures 11* and *12* represent the profit spread by proportion of charities. As such, the comparison between years can be deceptive because there are fewer charities in 2018 to be prorated into the profitability categories thus giving the appearance of better performance between the years reported. To demonstrate this, *Figure 13* provides a simple distribution of profitability and compares the periods.



Figure 14: Median Profit Margin by Main Activity

Activity type	2018	2015	Variance
Aged care activities	4.01%	4.32%	-0.31%
Animal protection	4.36%	6.19%	-1.83%
Civic and advocacy activities	4.68%	5.56%	-0.88%
Culture and arts	2.03%	5.83%	-3.80%
Economic, social and community development	1.43%	4.95%	-3.52%
Emergency and relief	9.09%	5.97%	3.12%
Employment and training	0.40%	0.24%	0.15%
Environmental activities	3.34%	1.00%	2.34%
Grant-making activities	16.22%	13.39%	2.83%
Higher education	13.22%	6.31%	6.92%
Hospital services and rehabilitation activities	1.27%	8.17%	-6.91%
Housing activities	7.00%	11.11%	-4.11%
Income support and maintenance	7.31%	35.71%	-28.40%
International activities	0.00%	-3.47%	3.47%
Law and legal services	0.46%	1.18%	-0.72%
Mental health and crisis intervention	5.03%	6.54%	-1.51%
Other		2.85%	-2.85%
Other education	1.50%	4.88%	-3.39%
Other health service delivery	1.63%	4.42%	-2.80%
Other philanthropic intermediaries and voluntarism promotion	13.78%	-58.00%	71.78%
Other recreation and social club activity [22b]	7.33%	1.66%	5.66%
Primary and secondary education	1.98%	7.97%	-5.99%
Religious activities	6.13%	0.00%	6.13%
Research	1.88%	3.87%	-1.99%
Social services	4.04%	3.42%	0.63%
Sports	5.63%	5.61%	0.03%
Main activity not reported		0.00%	0.00%

When funding arrangements are applied in the form of Quasi-Markets, the service mix is also impacted as, increasingly, charities respond to price signals. Movement by some charities toward more profitable service types ensures that profitability increases for some. On the other hand, the act of picking the winners ensures that other charities continue to provide services which are less profitable but, often, constitute a higher risk to service users or that service users go without.

As such, the service mix is likely represented by changes in the profit

spread. *Figure 13* shows that there has been a move left in the chart with charities' reported financial results becoming less robust.

Looking more closely at the spread, there are real concerns associated with the charities that are reporting between 10% profit and 10% loss as shown in *Figure 12*.

Health CPI for June 2018 ran at 3.4%. While this is not necessarily a sound proxy for charities generally, it is clear that the cost increases faced by human services charities at least would suggest that they

need to return at least 3.4% profit in order to stand still.

As can be seen, if we bracket the charities segments performing at or less than 3.99% profit, 71.9% of all charities are performing below this bar. This will mean that certain services are extremely vulnerable to a lack of financial resources and/or a move away from the provision of financially risky service types by charities.

Figure 14 provides the median profit achieved by charities by Main activity in order to highlight areas where profit has grown and where it hasn't.

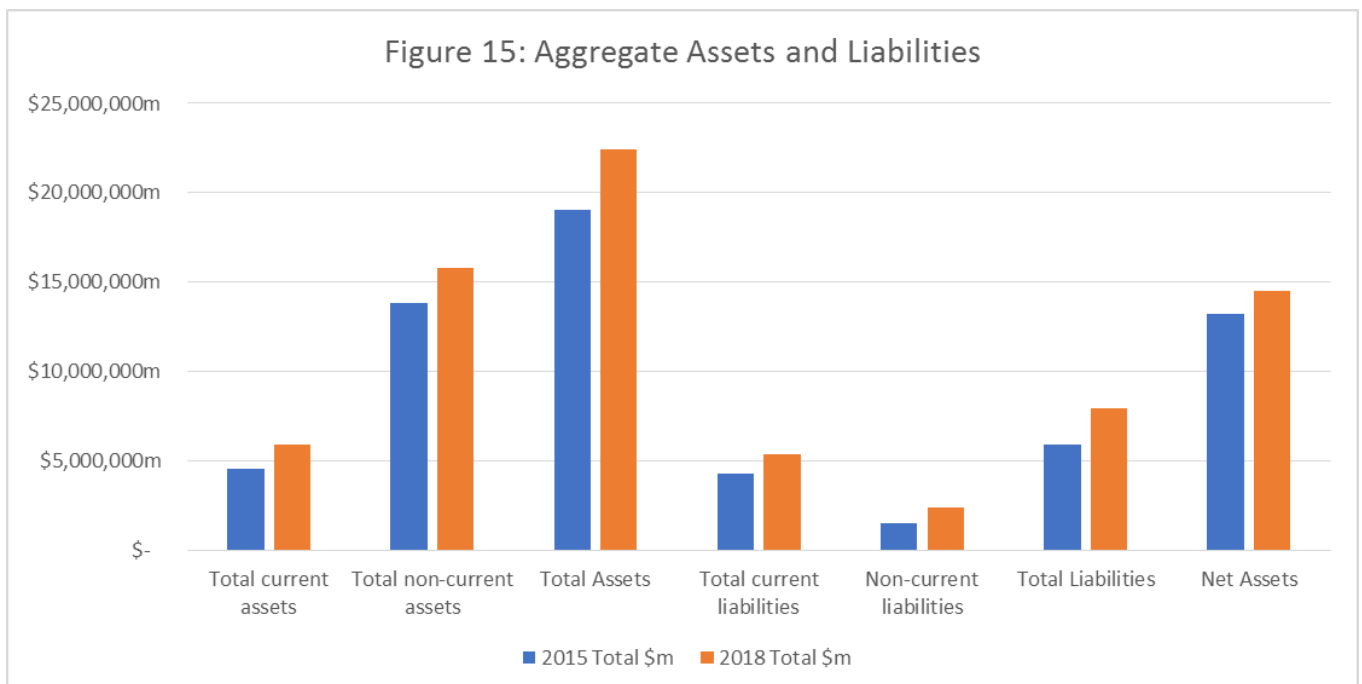
### Net Assets

The movement in net assets of any organisation give an indication as to the trajectory of its financial capacity. As with all other sections in this report, the nature of the data asset reviewed ensures that only a high level assessment of the net assets of WA's charities can be undertaken.

The net assets of an organisation represent the net wealth it has accrued. In the case of charities and Not-for-profits, the representation also relates to the value of the organisation on windup to like organisations.<sup>10</sup>

Aggregate net assets reported for 2018 were \$14.513b (\$13.191b) representing an increase of 10.01%. Figure 15 graphically represents the aggregate balance sheet classes.

Aggregate net current assets rose by 127.2% which may be an indication of working capital inefficiencies—that is, organisations may be retaining cash given uncertainty in funding levels. This can represent inefficiency where cash reserves are not utilised effectively. However, charities also need to consider their levels of cash maturely in the context of the economic framework as they see it.<sup>11</sup>



<sup>10</sup> For additional information pertaining to Not-for-profit balance sheets, see our Not-for-profit Balance Sheet Tool developed for CommBank here: <https://www.research.uwa.edu.au/not-for-profits-uwa#nfp-finances>

<sup>11</sup> For further information regarding cash reserves, please see Chartered Accountants Australia & New Zealand Not-for-profit Cash Reserves Guide here: <https://www.research.uwa.edu.au/not-for-profits-uwa#external-research-resources-contributed-to>

Total net non-current assets increased in value by 108% or \$306m over the same period. While this is a significant increase in proportional terms, the increase is only 1.6% of total assets.

Importantly, all liability classes have increased during the same period—total liabilities increased by 34% commensurate with increases in interest costs. Indeed, non-current liabilities have increased by \$921m or 62% while current liabilities have increased by \$1.093b or 25.5%.

This reinforces comments above relative to the reduction in charity numbers, but also raises increased concern, as less charities are carrying a numerically greater value in liabilities. That is, liabilities have risen while the number of charities carrying them have fallen.

Further work is required in order to determine the causes and nature of the changes in these balance sheet classes.

However, it is clear that there is a trajectory developing of contraction in the sector combined with increased financial pressure. This situation will likely lead directors of WA's charities to make decisions related to financial survivorship that may negatively impact services users.

## Concluding remarks

The regular analysis of this data series is critical for developing an understanding of the change in service mix amongst other elements.

Appreciating the economic contribution of the sector and the need for its continuation in an efficient and effective manner is also of high importance.

While the next report in this series, due in two years' time, will make an additional contribution by allowing us to start considering the trajectory of the sector more fully, it is hoped that better and more detailed data will become available in the interests of reducing risk to service users.

## Appendix – Comparison of Activities

This appendix provides a comparison between the ACNC activity categories and those adopted in the International Classification of Nonprofit Organisations (ICNPO).

<b>ICNPO Groups and subgroups<sup>22</sup></b>	<b>ACNC Categories</b>
<b>1. Culture and Arts</b>	
• Culture and art	• Culture and art
• Sports	• Sports
• Other recreation and social clubs	• Other recreation and social clubs
<b>2. Education and research</b>	
• Primary and secondary education	• Primary and secondary education
• Higher education	• Higher education
• Other education	• Other education
• Research	• Research
<b>3. Health</b>	
• 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
<b>4. Social services</b>	
• Social services	• Social services
• Emergency and relief	• Emergency and relief
• Income support and maintenance	• Income support and maintenance
<b>5. Environment</b>	
• Environmental activities	• Environmental activities
• Animal protection	• Animal protection
<b>6. Development and housing</b>	
• Economic, social and community development	• Economic, social and community development
• Housing	• Housing activities
<b>7. Employment and training</b>	• 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)