



# Value of Queensland's Not-for-profit Sector

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Its sustainability and economic contribution

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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 and consulting support 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.

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## Summary and Key Findings

This report was commissioned by the Queensland Council of Social Service (QCOSS) using funding provided by the Department of Communities, Housing and Digital Economy under its peak services contract and workplan with QCOSS.

It is focused on building our understanding of the Queensland Social Service Sector. This understanding is developed by focusing on change and its potential impact on the sector service mix—what services it provides, their quantity and quality.

Using the Australian Charities and Not-for-profits Commission (ACNC) data (2016 and 2018 data—2018 data being the latest available) and Australian Bureau of Statistics data, the Not-for-profits UWA Research Team have sought to examine the sustainability and economic impact of Queensland's social service sector. In undertaking this study, the following key findings were established:

- The social service sector belongs to the largest employer group in the Queensland economy.
- It is made up of many organisation types but, due to poor data assets, we have only been able to examine the registered charities headquartered in Queensland of which there were 5,246 in 2018, having increased in number since 2016 by 5.26 per cent or 262 organisations.
- Though charity numbers increased by 262 organisations, those additional charities only employed about half as many staff as those they replaced.
- Queensland's charities increased the number of beneficiary types and Other Activities suggesting that the service mix expanded between 2016 and 2018.
- These organisations reported employing 119,281 full-time and part-time staff in the 2018 financial year, an increase of 0.8 per cent on 2016 figures. The sector also reported an increase in casual staff employed of 4.5 per cent.
- A fall in terms of job quality between 2016 and 2018 is likely: the above increase in

casual staff was accompanied by an increase in part-time staff and a reduction in full-time staff.

- A fall in volunteers deployed was also reported of 12.41 per cent between 2016 and 2018. In all, 324,039 volunteers were reported as deployed in 2018.
- In 2018, income increased but not in proportion to expenses with a commensurate reduction in profitability. Earning the additional income cost Queensland's charities \$196m in net loss.
- Aggregate profit fell by 23.76 per cent in the period between 2016 and 2018.
- 63 per cent of charities falling into a range of profit of between positive 10 per cent and negative 10 per cent failed to achieve a profit covering Health CPI for 2018, while 47 per cent overall performed worse than Health CPI.
- In terms of net assets, the sector experienced an increase of 11.8 per cent between 2016 and 2018. Current assets rose by 4.72 per cent, likely a working capital increase in response to increased activity driven by increased funding.
- Non-current assets rose by 11.76 per cent likely in response to service-specific assets increasing with increased activity and/or increased values being placed on assets for reporting purposes.

Overall, the findings confirm that service mix change is likely underway with potentially increased risk to beneficiaries while financial stress looks likely to continue as profitability reduces. The report also demonstrates that there is a need for better, more mature data assets to be created in order to furnish government, sector leaders and the community with better information for planning and outcomes assessment purposes. If the social service sector is not properly shepherded, Queensland stands the risk of losing vital services and capacity which is expensive and time consuming for government to replace.

## Industry Response

The social service sector aims to improve the lives of people experiencing the most disadvantage and vulnerability in our community. This work is a public function that is essential to both the social and economic health of our communities.

This report notes that Queensland's social service sector contributes *“at the individual and local level in terms of life-necessary service and supports.”* Our sector is also the largest employer group in Queensland and a heavy lifter in terms of our contribution to the state's economy.

Therefore, it should be cause for concern that organisational viability and ability to deliver high quality services is at risk due to growing costs, reduced profitability and poor job quality. While our employee numbers continue to grow, the services delivered as a result of increased income in 2018 actually cost the sector \$196m to deliver—effectively the sector underwrote the delivery of services.

This report makes the important point that the risks associated with not properly understanding and responding to the challenges facing the social service sector are borne by our service users, people who are not able to put in place mitigation strategies.

COVID-19 has reinforced the need for good data about the social service sector. Measures to improve the viability of services and job quality must include taking steps to create mature data assets and data analysis in order that the social service sector, government and the broader community can anticipate challenges, the possible effects they will have and to ensure service delivery continues to be fit-for-purpose.

This report provides evidence that there is a need to properly support and understand the social service sector in Queensland. After a once-in a lifetime economic and social shock, and with community need growing, now is the time.

We thank Professor David Gilchrist and Thomas Emery of the Not-for-profits UWA Research Team at the University of Western Australia for this important piece of work. We acknowledge the funding provided by the Department of Communities, Housing and Digital Economy and we look forward to sharing this report with the sector, government and the community itself.

**Aimee McVeigh**  
Chief Executive Officer

## Contents

Publication Information.....	i
Contact Information: .....	i
Citation Information: .....	i
Statement of Interests: .....	i
Disclaimer: .....	i
Summary and Key Findings.....	ii
Industry Response .....	iii
The Aim of this Report .....	9
Using this report .....	10
COVID-19.....	11
The Nature of the Data .....	12
Analytical Frame - Sector Service Mix .....	13
Service Mix Indicators .....	15
Queensland’s charities .....	15
What Queensland’s Charities Do?.....	16
Who do Queensland’s Charities Serve? .....	17
Economic Contribution .....	18
The Social Service Sector in the Queensland Economy .....	18
Contribution to Employment .....	19
Volunteers .....	22
Comments on Sustainability .....	22
Profitability.....	24
Balance Sheet Strength.....	26
Concluding remarks .....	29
Appendix One – Footnote Links .....	30
Appendix Two – Comparison of Activities .....	31
Appendix Three – Main Activities Reported.....	33
Appendix Four – Other Activities Reported .....	34
Appendix Five – Beneficiary Types Reported.....	35
Appendix Six – A General Description of Not-for-profit Organisations .....	36

## The Aim of this Report

This report has been commissioned in order to document and present the results of our analysis of the social service sector in Queensland, pertaining to the years 2016 and 2018—the latest data available to us—and in the context of building our collective understanding of the sector’s sustainability and economic contribution.

Queensland’s social service sector is a very important asset of the Queensland community and, in ensuring its capacity to efficiently and effectively meet the support and service needs of some of Queensland’s most vulnerable people, we must continue to increase our understanding of its current position and likely trajectory.

Analysis of the sector reveals both the relevance of the sector in purely economic terms—the sector warrants examination due to its very significant economic contribution—and in social terms—the sector is an asset that is both critical and irreplaceable. These two perspectives of the sector are intertwined of course; there are direct and indirect positive impacts in both respects when the sector is healthy and strong, confirming the more deeply we understand the sector the more effectively we can create and implement policy that will enhance both of these aspects simultaneously.

Therefore, we think that the contribution of the Queensland Council of Social Service (QCOSS) in initiating and funding the creation of this report is an important demonstration of QCOSS’ commitment to enhancing the material and social strength of the Queensland community.

An economic and sustainability analysis of the sector cannot be undertaken without contextualising the activities of these organisations by considering:

- the services and supports they provide (activity types);
- the people they support (beneficiaries); and
- their economic strength (financial position

and performance).

We term the first two elements above the “sector service mix” and discuss it in greater detail in the next section. Suffice to say that it is the lens of the service mix through which we consider prospective risk.

*IT IS IMPORTANT WE UNDERSTAND THAT THE SOCIAL SERVICES SECTOR CONTRIBUTES AT THE INDIVIDUAL AND LOCAL LEVEL IN TERMS OF LIFE-NECESSARY SERVICES AND SUPPORTS, AND AT THE STATE AND NATIONAL LEVEL AS A SIGNIFICANT ENGINE FOR ECONOMIC GROWTH.*

Further, in the context of state and national economic development, analytical focus is also placed on employment and economic sustainability. The social service sector is one of Australia’s largest contributors to economic success, acting as:

- Employer;
- Investor;
- Consumer of non-sector ancillary industry outputs; and
- Effecting savings to the public purse in the present and into the future.

As such, the central questions driving our analysis are:

- What do these organisations do?
- Who do they do it for?
- How do they contribute to the Queensland economy?
- What change is apparent between the two years analysed, 2016 and 2018?

In considering the above questions, we are also concerned to appreciate the trajectory of the sector in terms of its ongoing sustainability and what potential risks it may be facing that will, ultimately, be borne by those people the sector serves. As such, considering how change impacts the service mix is a critical aspect.



Therefore, the ancillary - but no less important - questions treated in this report are:

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

Overall, the aim of this report is to support the development and implementation of effective policy in the funding, sustainability and effectiveness of social service provision in Queensland.

### Using this report

Defining the social service sector is problematic though—it is not a homogenous sector and different people have different views of what types of activities should be included and which should not. However, as the substance of this analysis is focused on the ACNC registered entities headquartered in Queensland due to the paucity of data, we have taken the heads of charities defined in the Charities Act 2013 to be social services.

In economic terms, the analysis has focused on the economic contribution of the sector though data limitations prevent a close examination beyond employment and accounting data in the context of the registered charities.

In social terms, the activities and the geographic displacement of the services is only able to be evaluated in a very limited way.

The data used in developing this report is discussed in greater depth in the section below headed “The Nature of the Data”. Suffice to say that, when using this report, it is important to recognise the following limitations:

- The contribution—economic and social—reported here is likely to be understated due to the data limitations and a lack of any real data pertaining to non-charitable nonprofit organisations or organisations headquartered outside of Queensland but operating in that state (see Appendix 6). For instance, as at 2020 the Queensland government reported that there were 22,900<sup>1</sup> incorporated associations in the state while we are able to analyse only 5,246 registered charities of which many are likely to be associations, noting that charitable companies limited by guarantee would be part of the ACNC data but not part of the incorporated associations list.

- The analysis of the sector in the context of the wider Queensland economy is restricted due to the conflation of the social service sector’s economic statistics with those of Health Care and Social Assistance. We cannot answer economic questions relative to the social service sector in isolation in terms of the state accounts and gross state productivity (GSP) as a result. All analysis herein relates to the charitable social service sector.

In using this report then, readers must consider the limitations cited here and ensure they understand the nature and sources of the data discussed below.

Having said this, we believe that the description of the sector provided herein is likely representative of the sector on the ground. Further, the uniform treatment of the data relating to the two years analysed also suggests that identified change is also likely representative though may not be entirely accurate due to data restrictions.

Further, the data restrictions reinforce the importance of further analysis and the practical value of the creation of better and wider data assets that more effectively describe the full nonprofit sector. Such data assets will support better economic and social policy, afford greater analysis of sustainability

<sup>1</sup> <https://www.publications.qld.gov.au/dataset/oft-incorporated-associations-forms-and->

[guides/resource/5a17161f-2866-4c2c-8e03-37fc0f6512f8](https://www.publications.qld.gov.au/dataset/oft-incorporated-associations-forms-and-guides/resource/5a17161f-2866-4c2c-8e03-37fc0f6512f8)

and efficiency while also building a picture of the spread of services and supports in order to respond to the failure of service delivery, which ultimately impacts some of Queensland's most vulnerable people. It is the service and support users who bear the full risk of delivery failure.<sup>2</sup>

The development of data assets should be undertaken collaboratively between government and the sector in order to ensure data needs are recognised appropriately, data is collected efficiently, analysis is carried out cost effectively, and the results—whether good or bad—are made transparent.

Finally, improvement in the quality of data assets will also be enhanced with regular ongoing analysis over time—better data will be inputted, better analysis undertaken as forecasts are compared to actual outcomes and, with experience, users of data will be more effective in their responses to it. The development of a program of data analysis will greatly enhance the capacity of policy makers and practitioners to assess the sector's development trajectory, the impact of policy and to identify risks.<sup>3</sup>

An accessible MS Word version of this report is available on the Not-for-profits UWA website.<sup>4</sup> Throughout this report, where we have identified 2018 data in the main text, we have provided the 2016 equivalent in brackets next to it for comparison purposes.

## COVID-19

Any report examining the social service sector must consider the impact of COVID-19. This is especially the case as the sector was central to the response to the crisis and faced very high-risk levels in a number of service types. However, we are unable to examine this aspect due to the timing of data release.

Of course, the crisis is continuing and there

<sup>2</sup> For further information relating to this issue, see: 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>3</sup> For further information relating to the assessment of risk, see Gilchrist, D. J., 2020, "Green Paper 3: The Value of

Quality Sector Analyses", A Report of Not-for-profits UWA, Perth, Australia. Available from: [https://www.research.uwa.edu.au/\\_\\_\\_data/assets/pdf\\_file/0004/3640981/Green-Paper-3-Proxies-for-Risk-6-October-2020.pdf](https://www.research.uwa.edu.au/___data/assets/pdf_file/0004/3640981/Green-Paper-3-Proxies-for-Risk-6-October-2020.pdf)

are limits to the capacity of any data asset system to deliver meaningful information in real time; especially when service providers are focused on responding to the crisis rather than reporting.

Additionally, many in the sector contributed considerable time and expertise in supporting government decision making in response to the crisis and individual organisations pressed ahead with responses on the ground, notwithstanding the very unstable financial and service environment.

*THE ADVENT OF COVID-19 REINFORCES THE NEED FOR PUBLICLY AVAILABLE, HIGH QUALITY DATA ASSETS IN ORDER TO PROTECT BOTH VULNERABLE PEOPLE AND THE ECONOMY.*

While data could not be generated within the timeframes necessary in a pandemic environment, the experience confirmed that the data assets in situ were insufficient to inform government and the sector. Answers to even some of the most basic questions could not be answered.

As such, the building of effective data assets and transparent communications around their meaning and use will support government and the sector to respond to crises in the future.

Readers need to be cognisant of the prospective impacts of COVID-19 on our conception of the extent to which the current context changes the structure of the sector itself and the environment in which it is working beyond the timeframe of the data being examined in this report.

<sup>4</sup> <https://www.research.uwa.edu.au/not-for-profits-uwa#policy-economics>



## The Nature of the Data

In undertaking this analysis, we have accessed publicly available data assets and secondary analysis undertaken by government agencies such as Queensland Treasury. We have provided the links to this data via footnotes and these are also replicated in Appendix One for convenience.

Where of value, we have also accessed our own data assets. In all cases, the source of data is noted throughout the report and links provided to each source.

The primary data source is the Australian Charities and Not-for-profits Commission (ACNC) charities register. The data held here is made public and downloadable.<sup>5</sup> This data asset is predominantly made up of the Annual Information Statement (AIS) data submitted by charities each year and which is reported annually in the ACNC-authored Australian Charities Report.<sup>6</sup>

Data reported here is gathered via the Annual Information Statement submission to the ACNC made each year by Queensland's registered charities.

However, there is a considerable delay before the data is released. Partly, this delay is caused because different charities have different financial year end dates (e.g. 30 June; 31 December) and charities have six months from the end of their financial year to lodge their AIS.

This means that the earliest data set can be completed is 30 June of the following year. However, subsequent to the AIS' being submitted, the ACNC compiles its annual report and so the delay in data access can be significant. As such, we are only able to review data submitted for the 2018 financial year as the 2019 financial year data is yet to be released. Somewhat arbitrarily, we have determined to compare this data with that submitted for the 2016 year in order to assess the movement over the two-year period.

The AIS asks for information regarding each charity's activities, who they serve, their volunteers and their financial position and performance.

The information requirements are determined in accordance with the size-by-turnover of each charity with small charities having the least substantial obligations and large charities the greatest.

The ACNC delineations of size are described as 'Small', 'Medium' and 'Large'. However, we have further disaggregated the data by adding an additional category of 'Very Large' (see Table One). Our purpose here is to enhance the analysis by examining the charities which have income ranging from \$1m to \$10m as this is a significant group with operational and financial attributes potentially somewhat different from those of organisations turning over in excess of \$10m.

When considering this analysis, it is important to recall that the delineation of charities into size-by-turnover groups is arbitrary. The delineations do not necessarily relate to a

**Table One: Size Categories**

<u>Size</u>	<u>ACNC Sizing</u>	<u>Our Sizing</u>
Small	Turnover < \$250,000	Same
Medium	\$250,000 < Turnover < \$1m	Same
Large	Turnover > \$1m	\$1m < Turnover < \$10m
Very Large	Not Used	Turnover \$10m and over

<sup>5</sup> ACNC data is downloadable from: <https://www.acnc.gov.au/charity/about-charity-register/download-charity-register-data>

<sup>6</sup> <https://www.acnc.gov.au/tools/topic-guides/australian-charities-report>

uniformity of attributes in the organisations aggregated nor is size-by-turnover an indication of administrative resource capacity—amongst other things, these organisations do different things, have different financial attributes and operate in differing locations.

There are also challenges in the lack of uniformity in categorisation of information over time as these have been changed in some cases. In order to address this issue, we have aggregated data to achieve a uniform categorisation across both data sets. That is, where categories have been combined between 2016 and 2018, we have combined the data of 2016 to create the same category; where categories have been disaggregated by adding new categories over the same period, we have retained the old category and combined the 2018 data.

We have also removed data relating to charities that did not provide full data sets, included obviously erroneous data or were considered outside of the relevant data pool. The universities are examples of the latter and these have been removed from the data set.

Importantly, we have ensured that we have analysed the data provided by the same organisations between 2016 and 2018, while providing a reconciliation of the impact of the net change in the number of charities in financial and service capacity terms.

Finally, the categories of activities as defined by the ACNC are different to those used in the International Classification of Nonprofit Organisations (ICNPO). We have provided a side-by-side comparison in Appendix Two.

The poor state of data assets related to this sector severely inhibits our capacity to understand the current and prospective nature of the sector with concomitantly negative impacts on our capacity to understand what risks we are facing.

Readers with queries and comments relating to this data should contact the authors.<sup>7</sup> We are very pleased to discuss the data assets employed, the nature of the data and the data cleaning process.

### Analytical Frame - Sector Service Mix

In considering the sustainability of the social service sector in Queensland, we need to analyse the data and develop commentary that places economic sustainability in the context of purpose.

Charities and nonprofit organisations should not survive just because of their status. They must be efficient and effective in pursuing their mission. Sustainability in this context is not that the organisation survives but that the sector service mix continues to reliably provide services and supports of appropriate quality, quantity and timing to beneficiaries who continue to need them.

As such, using the sector service mix as an analytical frame helps us to consider sustainability issues in the context of purpose and frames the commentary in the context of risk to service users.

We have already discussed the nature of the data assets analysed for this report. However, importantly, additional data restrictions impede a fuller analysis in terms of building a specific understanding of such sector attributes as:

- What organisations do – ACNC data only provides activity data at primary and secondary levels; we do not have the capacity to investigate the proportions of service types undertaken in any one organisation's portfolio of offerings;
- Who organisations serve—we understand the activities and broad beneficiary descriptions but not what is provided as sub-sets within those service types as they are too high level and service offerings can be complex in terms of what is provided under an umbrella sub-sector activity such

<sup>7</sup> Correspondence related to this report should be forwarded to: david.gilchrist@uwa.edu.au

- as disability services or aged care; and
- We do not know where the services are provided other than in the state of Queensland.

However, because of the data limitations already described, we can only report on change identified in the context of the service mix at the sector level. This is very much a macroeconomic perspective—we are concerned with the entire sub-sector in the aggregate—with the obvious constraints on interpretation of our findings at the local level.

For instance, on a particular day in Queensland, the sector service mix has a particular structure. However, from day to day, this structure changes in minute degrees impacting the services and supports received by people—either positively or negatively. The cumulative change over time impacts individual beneficiaries in good and/or bad ways.

If change is detected from year to year in our analysis, it is likely that the service mix is changing more substantially to the benefit and/or detriment of service users.

Our basic contention is that, while change is inevitable, the impact of sector-level change is very likely to be that the service sector mix changes. That is, where our analysis detects change at the macroeconomic level, we are likely seeing the aggregation effect of individual organisations responses to the realisation of sustainability risks and/or sustainability improvements at the microeconomic level.

Our problems in this analysis are two-fold:

- (1) The data does not allow us to determine who is missing out on what and where; and
- (2) The changes detected in the service mix are very unlikely to result in a uniform change across all service types and so extrapolating the change to predict the service mix impact is not possible.

What does this mean for our analysis? Firstly, it means that the analysis points to areas of change that are identified as areas where investigation may be required. Secondly, it reinforces the need for additional data assets at the microeconomic level to support better decision making.

Finally, where the sector service mix is changing, and given we do not necessarily concern ourselves with the survival or otherwise of individual charitable and nonprofit organisations, the change in service mix may not be rectifiable where it results in lost capacity in particular service areas and/or geographic locations. Therefore, the risk inherent in not responding effectively to macroeconomic change in this sector is borne by beneficiaries who may not be identifiable much less services for them replaced.

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

- Change in the number of charities;
- Changes in mix of activities; and
- Changes in beneficiary types reported.

Change in these three elements can be further examined by analysing changes in employed personnel and profitability.

## Service Mix Indicators

We report on our analysis findings in the remainder of this report.

### Queensland's charities

Between 2016 and 2018 there was an overall net increase in the number of charities headquartered in Queensland and operating in that state. In 2018, 5,246 (4,984) charities submitted an AIS, representing an increase of 5.26 per cent on 2016 numbers. Figure 1 provides a graphical representation of the change in charity numbers in size-by-turnover categories.

The change in charity numbers results from the winding up/exiting of charities from the charities register and the addition of newly registered charities. In the case of Queensland between 2016 and 2018, the following reconciliation describes the net change:

Wound Up	↓	568
Established	↑	830
Net Movement	↑	262
Net Employment Result	↓	45.6%

In that reconciliation, we can see that almost half of those employed by the winding up charities were likely lost to the system—they were not re-employed. Further analysis of the employment figures is provided below.

Interestingly, there has been an increase in all categories of size -by-turnover save in the Medium category, which fell by 1.8 per cent over the two years.

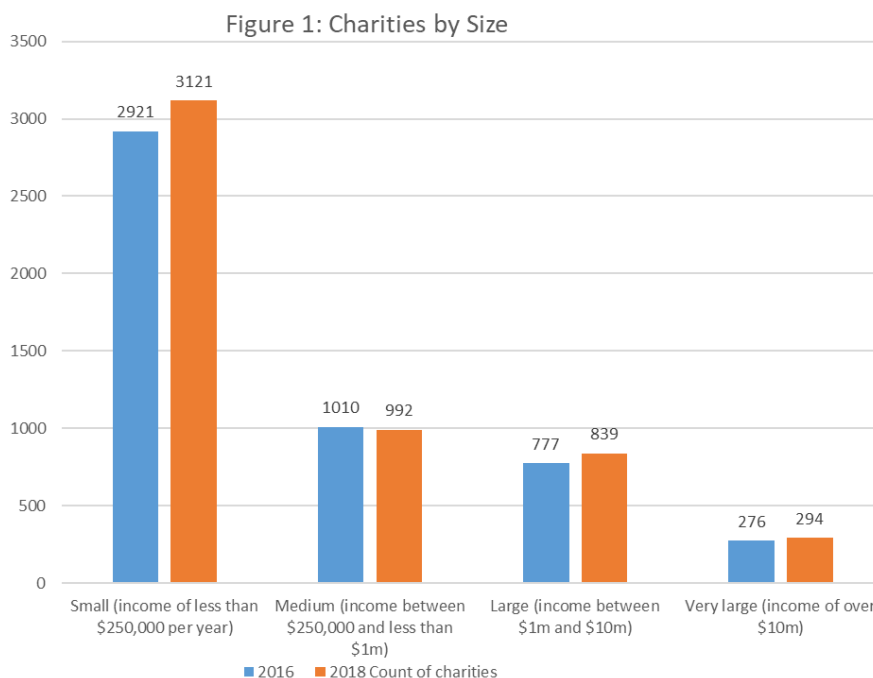
In percentage terms, the following changes were identified:

Small	↑	6.41%
Medium	↓	(1.81%)
Large	↑	7.39%
Very Large	↑	6.12%

The proportion of charities making up the various size groupings is also an important consideration. Changes in this mix may be indicators of change in the service mix itself as well as indicators of change in ongoing sustainability.

In terms of the spread of charities by size (i.e. the proportion of the population in each size group), the following changes have been identified:

	2016		2018
Small	58.61%	↑	59.49%
Medium	20.26%	↓	18.91%
Large	15.59%	↑	15.99%
Very Large	5.54%	↑	5.60%



This suggests there has been a material change in the service mix, reinforced when the numerical net change is analysed by size-by-turnover groupings:

Small	↑	200
Medium	↓	(18)
Large	↑	62
Very Large	↑	<u>18</u>
Total Net Change		<u>262</u>

The significant increase in the proportion and number of small charities may point to a commensurate decrease in capacity within the sector while the changes in the other categories need to be considered in the context of the service mix as denoted by changes in what charities report they do.

### What Queensland’s Charities Do?

The Annual Information Statement (AIS) data submitted to the ACNC by registered charities includes the identification of one “Main Activity” and requests information on charities’ “Other Activities.” Unfortunately, the selection process does not allow for deep data to be gathered that would assist in the further analysis of the sectors’ activities and contribution. At this point, we also remind readers of the comparison at Appendix Two of the ACNC data categories and those developed by the International Classification of Non-profit Organisations (ICNPO).

Additionally, between 2016 and 2018 the ACNC list of activities was amended merging “Other recreation” with “Social club activities.” As such, we have aggregated the 2016 data submitted under these activities in order to compare the 2016 and 2018 data returned.

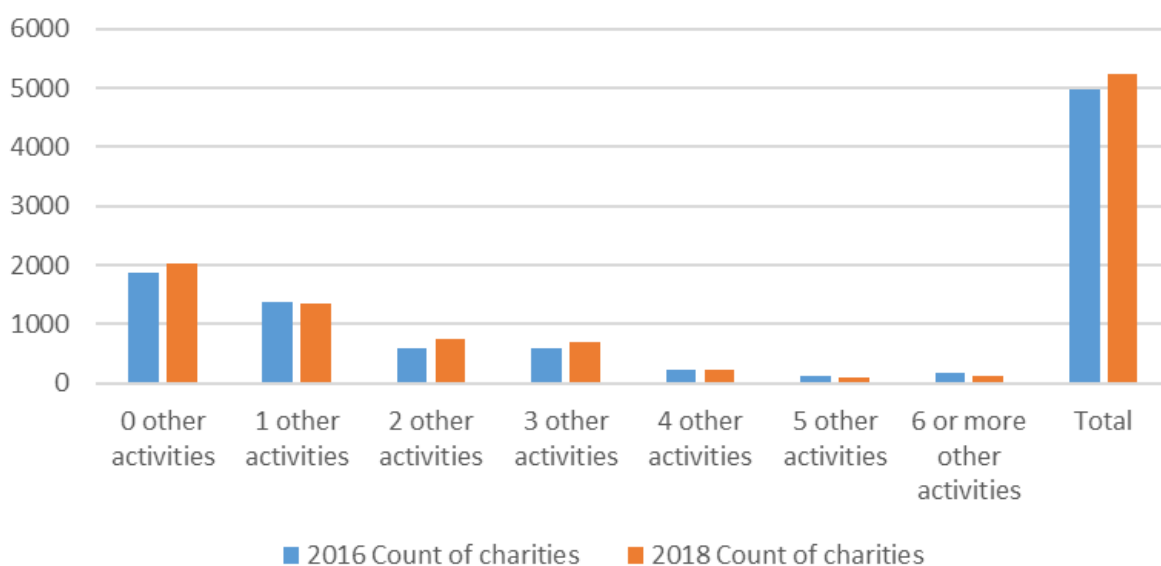
While changes in the Main Activity provide information relating to the sector service mix—changes denoting possible reductions in some services and increases in others—the selection of Other Activities allows us to evaluate the extent to which charities are consolidating or expanding their activities, again giving an indication of the extent to which the sector service mix might have changed between these two periods.

In terms of Main Activity, Religious Activities were the dominant activity reported in 2016 and 2018 followed by Social Services and Other Education as second and third respectively. This ordering did not change between periods.

However, the spread of activities is reasonably broad with the top three reported activities representing a relatively small proportion of the population:

Religious Activities	15.82% (16.31%)
Social Services	11.38% (11.74%)
Other Education	10.48% (10.81%)

Figure 2: Count of Other Activities Reported





Remembering the increase in the population of charities being analysed, the above may still be indicative of a small increase in service delivery capacity within the main activities of Social Service and Other Education. These slight changes may also be indicative of an improvement in data quality. Appendix Three provides a graphical representation of the population’s Main Activity spread.

The change reported in relation to Other Activities supports this perspective as there has been a slight increase in the service types being provided across the sector. However, in 2016, Queensland’s charities reported undertaking 7,300 Other Activities as compared to 7,175 reported in 2018 (see Appendix Four). When the growth in charity numbers is taken into account, this represents a fall of 6.62 per cent in the average number of Other Activities undertaken signifying a likely contraction in service types provided. Figure 2 provides a graphical representation of this data. As can be seen, the proportion of other activities has moved to the right, indicating a slight increase in service mix.

Appendix Four provides a graphical representation of the Other Activities reported by registered charities in 2016 and 2018.

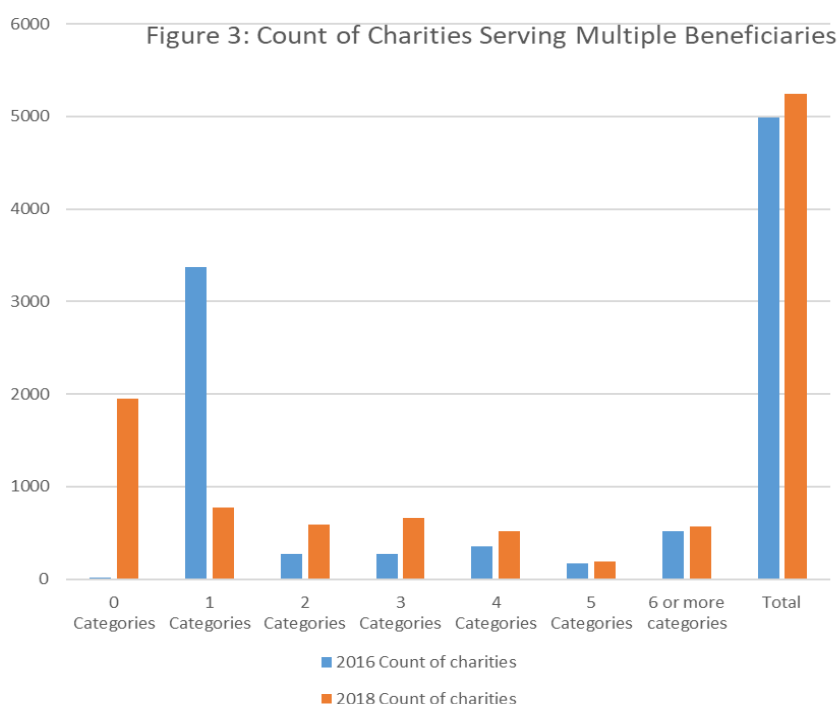
### Who do Queensland’s Charities Serve?

The AIS also requires registered charities to report on their beneficiaries—that is, who they provide services to. Like the spread of Main and Other Activities, movement in the number of beneficiaries reported and the proportion can also be indicators of change in the sector service mix. Taken together with changes in activities reported, the combination can reinforce the trajectory of positive or negative change.

In order to analyse this aspect of the data, we review both the types of beneficiaries served and the number of charities reporting serving more than one beneficiary type. This allows both an assessment of movement in the sector service mix and an assessment of the beneficiary types that may be at risk or may be over serviced.

Appendix Five provides a graphical representation of the cumulative beneficiaries served by Queensland’s charities in 2016 and 2018.

In terms of the top three main beneficiary groups (not all beneficiary groups selected though these are the beneficiaries that charities are likely to prioritise) reported in 2018, General Community in Australia, Children – Aged 6 to Under 15, and Early Childhood – Aged Under 6 were the top,





second and third reported categories respectively.

Figure 3 provides a graphical representation of the count of charities in the population reporting multiple beneficiary types.

It can be seen that there has been an increase in the number of charities reporting two to five categories of beneficiary being served. However, question marks exist over the quality of the data given the significant increase in charities not reporting any beneficiary categories being served.

The average number of categories served did rise slightly between 2016 and 2018 with an average of 2.341 categories being served in 2016 by Queensland's charities as compared to an average of 2.377 in 2018, representing a 1.552 per cent increase in the average number of beneficiaries served.

## Economic Contribution

The economic analysis of the social service sector in Queensland is difficult due to a paucity of data and the nature of the statistical aggregation of the data when national statistics are collected. However, it is important to track indicators associated with the economic contribution and trajectory of the sector in order to support policy making and practice.

### The Social Service Sector in the Queensland Economy

The social service sector, as defined in this report, is aggregated into the Health Care and Social Assistance Category for economic statistical purposes. This means that social service sector data is aggregated with hospitals and other healthcare activities, making state-level analysis of social services difficult.

For our purposes, it is interesting to note that the Health Care and Social Assistance industry contributed about 8 per cent toward Gross State Product in 2016 and 2018 while it contributed \$25.6b in Gross Value Added into the Queensland economy in 2019.<sup>8</sup>

Additionally, in 2019 this sector contributed the largest growth to employment in Queensland while manufacturing contracted during the same period. This group maintained its position as the top-ranked employer in terms of headcount.<sup>9</sup>

Taken together, and acknowledging these data relate to slightly later periods than the periods under review, the contribution to the state economy and the employment value of this industry group confirms the importance of the social service sector in economic development and employment participation. These employment figures are also confirmed by the ACNC's Australian Charities Report which confirms that Australian charities

<sup>8</sup> For the statistical data, please see: <https://www.qgso.qld.gov.au/statistics/theme/economy/economic-activity/queensland-state-accounts>

<sup>9</sup> For statistical data, please see: <https://www.qgso.qld.gov.au/issues/3416/labour-force-201912.pdf>

employed more than 1.3 million people in 2018.<sup>10</sup>

Therefore, it is appropriate to focus on the sector in order to ensure its aggregate sustainability and ongoing productivity.

### Contribution to Employment

The social service sector is a labour-intensive sector. Services and supports cannot be provided other than by relying on well trained and experienced staff.

Additionally, when considering the sector from an economic perspective, the number of people employed is a critical factor as economic participation is a major driver of economic growth. Having said this, we also look at what is termed “job quality” which relates to the number of regular hours and the pay rate as well as the surety of employment. Industry sectors with high job quality are likely to attract and retain better, more experienced staff than those with lower job quality.

*WHILE IT IS IN EVERYONE’S INTERESTS TO CLOSELY MANAGE PUBLIC EXPENDITURE, THERE ARE CONSIDERABLE ECONOMIC GAINS TO BE MADE IN ENSURING THE SOCIAL SERVICE SECTOR IS FINANCIALLY SUSTAINABLE AND CAN CONTINUE TO BE AMONGST THE LARGEST EMPLOYERS IN QUEENSLAND. THEREFORE, JOB QUALITY IN THIS SECTOR SHOULD BE AT THE FOREFRONT OF POLICY MAKERS’ MINDS.*

As such, job quality can also inform us as to risks in the social service sector—high staff turnover costs money and time, introducing

additional clinical and other risk while services cannot be provided if staff are not there to perform them. Given the labour-intensive nature of the sector, if job quality is poor, there is a likelihood that quality and clinical and service risks borne by the beneficiaries will increase.

Therefore, maintaining and improving job quality is not just in the interests of those employed, it is in the interests of ensuring safe and appropriate quality services are provided to beneficiaries.

In 2018, the Queensland charitable social service sector reported employing 119,281 (118,373) full- and part-time employees and 39,037 (37,360) casual staff via their 2018 AIS. This represented a slight increase of 1.7 per cent by head count on the 2016 figures (a 0.8 per cent increase in full- and part-time employees and a 4.5 per cent increase in casual employees).

In terms of job quality, a slight increase in full- and part-time employees of 908 by head count offset an increase in casual employee numbers by head count of 1,677. However, when examined more closely, we can see that there is a deterioration of job quality as full-time employee numbers shrank over the period to be replaced by casual and part-time staff.

Casual employment is increasingly part of the employment matrix as organisations attempt to manage income risk to ensure financial sustainability.

Figure 4: Employment Numbers

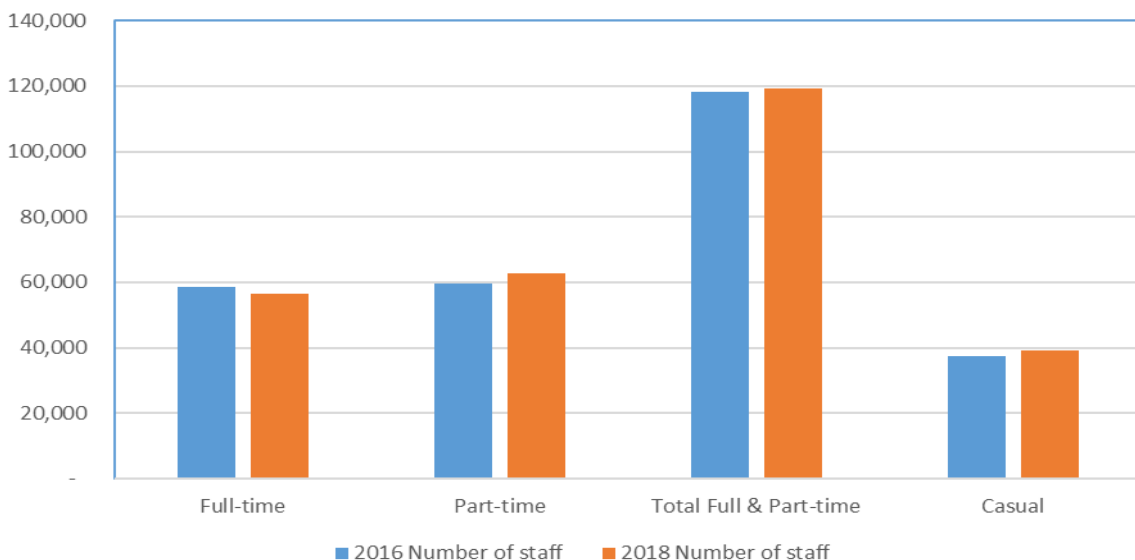


Figure 5: Number of Charities with no Full-time Staff by Main Activity

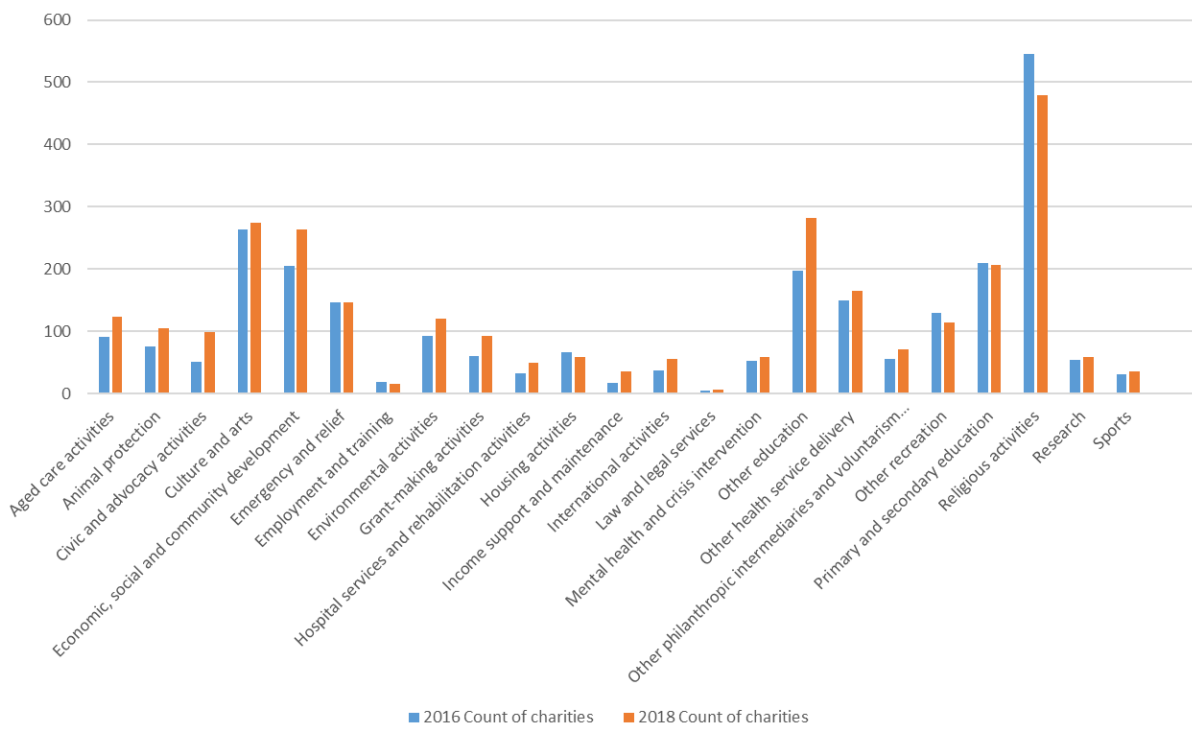
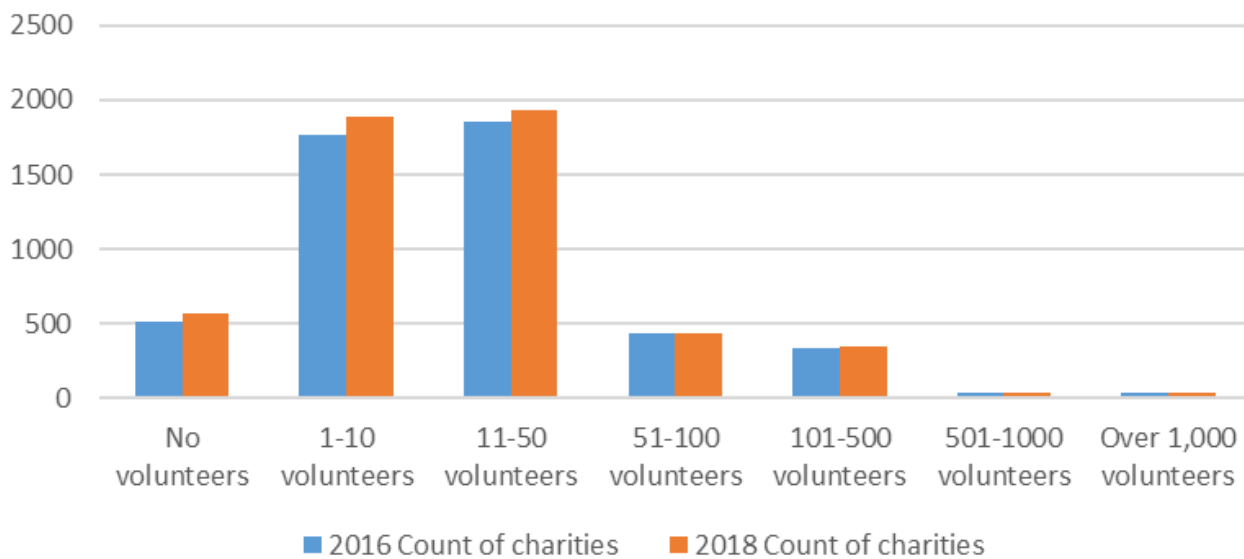


Figure 6: Charities Reporting Volunteer Numbers



### Changes in Employment

Full-time	↓	(2,116)	(3.61%)
Part-time	↑	3,024	5.06%
Total Full/Part	↑	908	0.08%
Casual	↑	1,677	4.5%

Figure 4 provides a graphical representation of these data.

Market-style funding allocation arrangements, such as that created by the NDIS, off-lays risk to service providers directly but increases the risk to beneficiaries ultimately. Additionally, if job quality is reduced over time, the costs associated with recruitment and retention will decrease sustainability and result in increased pressure on the public purse.

Finally, from an economic development perspective, the jobs offered by the social service sector are amongst the lowest paid in the economy. Therefore, when staff are paid, they are more likely to allocate their remuneration to consumption, thereby

increasing the economic benefits provided by the sector. As such, increasing job quality is a logical and important consideration for all stakeholders in this important sector.

In examining the spread of staffing across charities, it can be seen that not all organisations are employers. Therefore, in order to better understand the employment contribution of the sector, we have analysed the employment data by reference to charities' Main Activity. Figure 5 shows graphically the number of charities with no full-time staff while Table Two shows the number of charities employing full- and part-time staff by Main Activity.

It can be seen that significant reductions in employment of these types have occurred in Emergency Relief, Religious Activities and Other Education while Social Services and Economic, Social and Community Development have seen an increase in

Table Two: Number of Charities Reporting Full and Part Time Staff By Main Activity

Main activity	2018 full Time	2016 Full time	Change	2018 Part time	2016 Part time	change
Aged Care Activities	124	120	3.23%	156	141	9.62%
Animal Protection	11	9	18.18%	10	10	0.00%
Civic and advocacy activities	29	19	34.48%	33	26	21.21%
Culture and arts	81	82	(1.23%)	92	96	(4.35%)
Economic, social and community deve	124	109	12.10%	122	107	12.30%
Emergency Relief	40	48	(20.00%)	55	56	(1.82%)
Employment and training	58	59	(1.72%)	53	54	(1.89%)
Environmental activities	43	39	9.30%	46	52	(13.04%)
Grant-making activities	12	12	0.00%	21	21	0.00%
Higher education	18	13	27.78%	14	13	7.14%
Hospital services and rehabilitation ac	72	71	1.39%	64	64	0.00%
Housing activities	1	1	0.00%	4	2	50.00%
Income support and maintenance	14	14	0.00%	15	16	0.00%
International activities	24	23	0.00%	21	25	0.00%
Law and legal services	39	43	(10.26%)	47	48	(2.13%)
Mental health and crisis intervention	268	294	(9.70%)	314	341	(8.60%)
Other education	123	152	(23.58%)	134	179	(33.58%)
Other health service delivery	8	6	25.00%	8	7	12.50%
Other philanthropic	19	27	0.00%	24	41	0.00%
Other recreation and social club activi	250	216	13.60%	245	220	10.20%
Primary and secondary education	351	362	(3.13%)	288	268	6.94%
Religious activities	18	20	(11.11%)	19	17	10.53%
Research	246	237	3.66%	288	267	7.29%
Social services	9	7	22.22%	6	11	(83.33%)
Sports	1982	1,983	(0.05%)	2079	2,082	(0.14%)
Main activity not reported	0	-	0.00%	0	-	0.00%
<b>Total</b>	<b>3964</b>	<b>3966</b>	<b>(0.05%)</b>	<b>4158</b>	<b>4164</b>	<b>(0.14%)</b>

full-time employment. Additionally, there has been an increase in organisations not employing any full-time staff. Sub-sectors registering increases in this category include Economic, Social and Community Development, Environmental Activities and Other Education.

## Volunteers

Queensland's nonprofit and charitable organisations rely heavily on their capacity to deploy volunteers in a vast array of roles—from volunteer board members to drivers and other direct service delivery roles.

It is recognised that volunteering is not only of significant value to the organisations themselves, but it also represents a substantial economic contribution in terms of productivity—government would need to pay considerably more for service procurement without these human resources—and in terms of cost savings over time as volunteering is recognised as important in prevention of depression and maintaining personal health.<sup>11</sup>

Further, volunteers add to the experience base of the sector. The social service sector is complex and so too are the operations of a single social service organisation. Indeed, in many ways, these organisations are much more complex than similar sized organisations in the commercial world—balancing mission and financial sustainability while delivering complex and clinically risky services requires considerable human capital. Social service sector leaders are well credentialed and highly experienced, but no person can have all of the requisite skills. Therefore, the selection and deployment of volunteers who bring different skills to the table is a logical and efficient solution.

In 2016, registered charities headquartered in Queensland reported deploying 369,969 volunteers as compared to 324,039 in 2018—a fall of 12.41 per cent. Of course, it is not possible to determine the extent of any fall in

productivity resulting from this reduction because we do not know how many hours the volunteers were deployed for. That is, fewer volunteers deployed in 2018 may have contributed more in terms of time and output.

Figure 6 provides a graphical representation of the reporting charities categorised according to the number of volunteers they deployed. It can be seen that there has been an increase in charities deploying between 1 and 50 volunteers (1-10 volunteers increased by 7.0 per cent and 11-50 volunteers by 4.3 per cent) while those deploying over 500 have reduced their deployment (501-1,000 volunteers reduced by 5.4 per cent and Over 1,000 volunteers reduced by 7.3 per cent). These reductions may be associated with larger charities which may have strategically exited or reduced their volunteer numbers.

Overall, policy makers and practitioners may be well advised to consider ways to support and encourage the deployment of greater numbers of volunteers in order to reap the social and economic rewards able to be generated in this area though they must also consider the costs associated with recruitment, training and retention—volunteers do not come for free.

## Comments on Sustainability

We have already identified that, ultimately, risk in relation to the social service sector is borne by beneficiaries who rely on the services and supports provided to live their lives.

Further, charities and nonprofit organisations do not deserve to survive simply because of their status but, rather, they have a responsibility to be efficient and effective otherwise their resources should be re-allocated to an organisation that can better deliver more effective services.

However, if we do not understand the extent to which the sector is financially sustainable,

<sup>11</sup> See: Volunteering Queensland for information pertaining to the benefits of volunteering and the economic contribution such activities provide. Website here:

<https://volunteeringqld.org.au/volunteers/benefits-of-volunteering>



there is a significant risk that those much-needed services become less reliable, less clinically appropriate and reduce the ability of beneficiaries to live their lives.

If the sector becomes less sustainable, the service mix is likely to be changed with implications for those people relying on services and supports. If service failure occurs—that is, services are no longer available in a geographic area and/or in relation to a particular service type—there are considerable implications for government and the public purse as the unplanned reduction in services ultimately costs the tax payer.

Such a collapse is also likely to result in the reduction of service capacity in the long run as the sector is not replaceable—if one charity closes, others can pick up the pieces; if many charities close, the resultant collapse in service capacity cannot simply be picked up by inexperienced entities.

Indeed, while we are not concerned with individual organisations, it is important that, where organisations fail financially, they are placed in a position where they can effect an orderly retreat from service delivery so that precious resources such as experienced and trained personnel, service-specific assets and excess financial resources can be re-allocated to appropriate organisations in the sector rather than being re-purposed elsewhere. Such an orderly retreat would also support the safe transfer of beneficiaries from the failing organisation to its replacement(s).

Finally, sustainability in terms of this sector is somewhat different to what may be considered to be the common understanding of this phrase. For nonprofit and charitable social service organisations, sustainability is achieved if:

- It can continue to pursue its mission effectively; and
- Continue to reliably deliver services of the right quality, quantity and timing.

<sup>12</sup> For further information relating to financial sustainability, please see our nonprofit balance sheet tool developed for the Commonwealth Bank of Australia. Accessible here:

If these organisations cannot meet the above, they are unsustainable even if they are financially strong. This is part of the challenge of governing a nonprofit or charity—it is not simply a matter of earning a profit. Indeed, excess profitability can be a sign that services are not being delivered in a sustainable way.

Therefore, we are concerned here with understanding the nature of the balance between financial sustainability and service delivery in the context of service mix.

To be sustainable, nonprofits and charities must make a profit. They need to do this in order to ensure they are able to pay their bills when they are due (short-term sustainability), they can invest to build workforce capacity and maintain reliable service delivery (medium-term sustainability) and they can replace assets and meet changing circumstances in order to remain fit-for-purpose (long-term sustainability). Indeed, making a profit allows these organisations to build their balance sheet, reinvest in the organisation and respond to contingencies (e.g. COVID-19).<sup>12</sup>

To examine the extent to which Queensland's charities are sustainable, we have examined their net assets (financial capacity) and profitability (financial performance) as reported in 2016 and 2018 via the AIS, with a focus on change.

It is important to remember that we use aggregated returns—that is, the sum of the components of the financial performance and resources as reported by Queensland's charities—and so these figures are not intended to be read as consolidations. Consolidation is a particular accounting process that results in a particular type of report.

It is also important to note that we have not verified or audited the data in any way. Therefore, we have taken the data provided via the AIS as read.

<https://www.research.uwa.edu.au/not-for-profits-uwa#nfp-finances>



## Profitability

Changes in profitability in a sector can be indicative of changes in the sector service mix. Changes in service types, the quality and quantity of services delivered may be indicated by changes in profitability as nonprofits and charities strive to balance their financial survival with the service demand they perceive.

Amongst other things, the factors that may cause an organisation to respond in this way include the nature of the funding rationing system, the impact of increased direct and indirect costs and its capacity to replace assets or reinvest to maintain the organisation as being fit-for-purpose in the context of its mission.

Aggregate income for the sector rose by 4.8 per cent from \$16.77b in 2016 to \$17.57b in 2018. Aggregate expenses rose by 6.3 per cent from \$15.94b in 2016 to \$16.94b in 2018.

Importantly, the differential between the income increase and the expenses increase over the two years is negative. That is, it cost Queensland charities \$196m to deliver additional services in 2018 demonstrating that the funding rationing arrangement and/or the levels of funding for these services are unlikely to be sustainable.

The net impact of this increased income was that the aggregate profit fell by 23.76 per cent between the two periods—indeed, aggregate net profit fell by \$197.26m demonstrating that profitability fell across the board as expenses increased. That is, while the additional income cost the Queensland social service sector to service, the original funding sources were also likely inadequate to ensure a profitable outcome.

The source of income is also a critical aspect of this discussion. A common mythology surrounding the charitable sector is that it is the beneficiary of significant government grants.

Leaving aside the fact that the bulk of the

funds transfers from government are for procured services in the same way that governments procure bridge building or other services, only 45.2 per cent (37.4 per cent) of income came from public sector organisations in 2018, the balance coming from own-sourced income such as selling goods and services, and philanthropy.

Changes in aggregate income occurred in the following categories at the top level:

Government Grants	↑	\$1.676b	26.7%
Donations & Bequests	↑	\$ 95m	11.55%
Other Income	↓	\$ 261m	61.32%
All Other Revenue	↓	\$ 707m	7.65%

As indicated above, aggregate expenses rose by 6.3 per cent to \$16.94b (\$15.94b) between 2016 and 2018. The movement is highlighted here:

Employment Expenses	↑	\$ 1.004b	6.3%
All Other Expenses	↑	\$ 256m	3.77%
Interest Expense	↓	\$ 33m	21.77%

The increases in expenses are material, especially when considering the negative margin contribution apparently provided by additional income sources.

It is noteworthy to see interest expenses coming down though changes in interest rates toward the borrower are likely to impact this expense category and so the reduction may not relate to reductions in borrowings, though non-current liabilities did reduce over time.

The distribution of profit margins is an important consideration when examining the financial sustainability of Queensland's social service sector with significant changes in sub-sector profit margins possibly being harbingers of increased financial sustainability risk being faced.

Changes in profit margins are also likely to illicit responses from those charged with governance in individual organisations.

These responses will likely impact the sector service mix and so may help policy makers and practitioners focus their policy arrangements and responses more effectively.

Figure 7: Sector Profitability

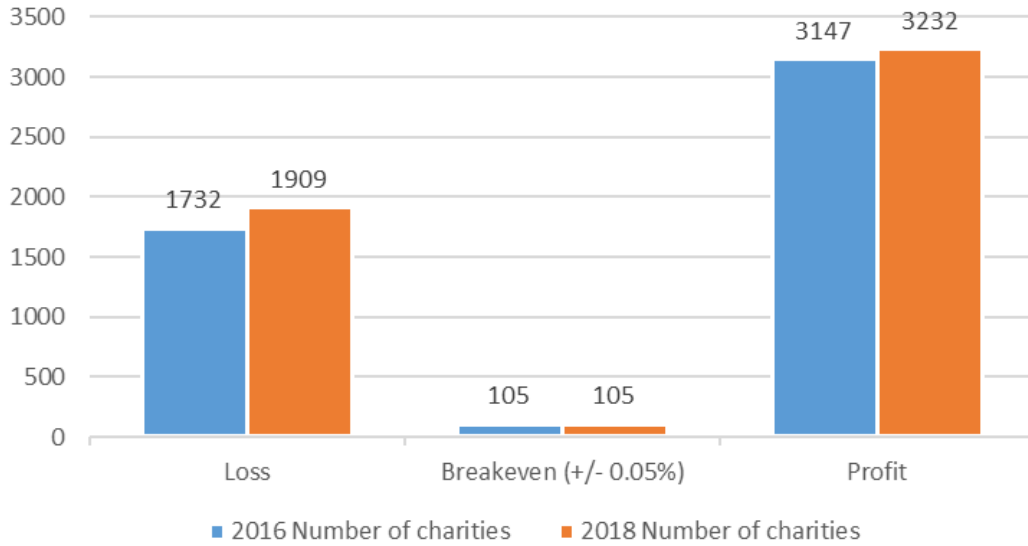
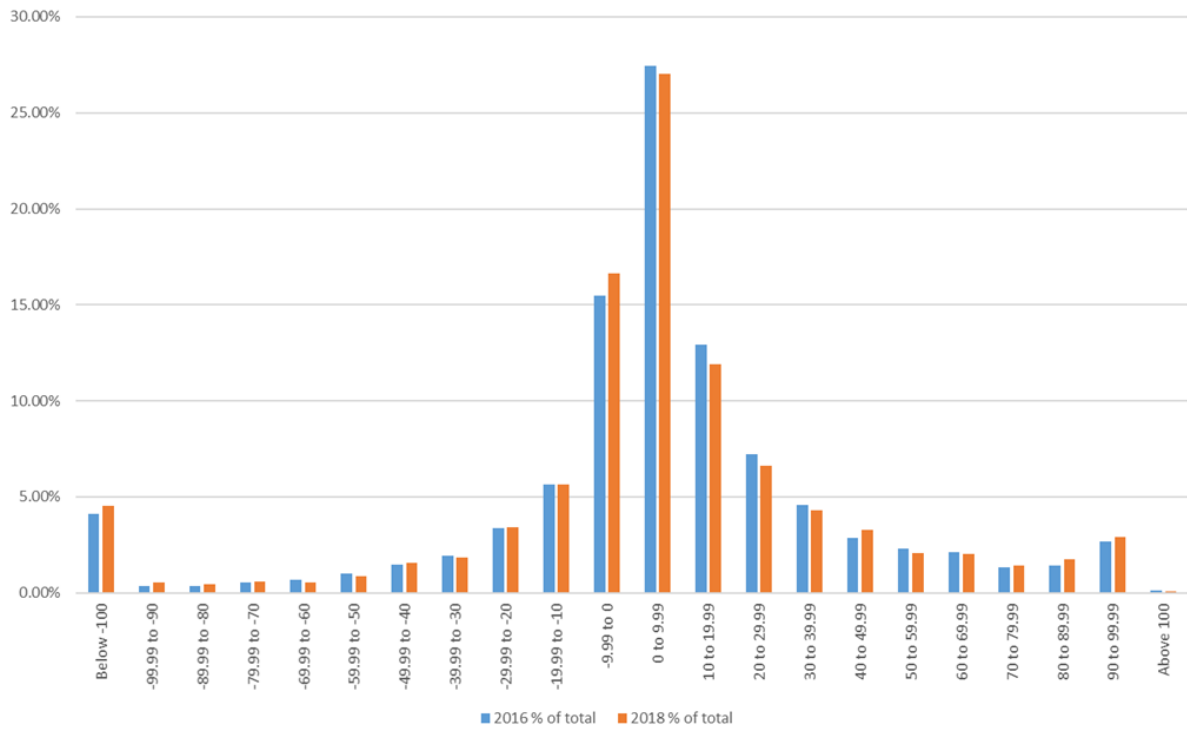


Figure 8: Distribution of Profit Margins



Because the number of charities changed between 2016 and 2018, it is difficult to examine the proportion of organisations by profit margin as we do below because there are fewer charities to allocate between breaks. Therefore, Figure 7 is provided as a simple diagram to show the number of charities falling into the categories of loss-making, profit-making, and breaking even.

Figure 8 provides a graphical representation of the distribution of profit margins across Queensland’s charitable sector in increments of 10 per cent. It can be seen that profits have normalised around breakeven with some increases in positive profitability categories. In all, 37 per cent (35 per cent) of charities made a loss in 2018. However, the level of desired profitability is an important consideration—certainly breaking even does not represent sustainability, but neither is achieving a profit of, say, 1 per cent. Having said this, it is notoriously difficult for nonprofits and charities to determine what profit level they should return. However, setting aside the need for these organisations to consider their profit requirements in the context of their strategic plan and longer-term financial plan, the Australian Health CPI Index is a sound proxy for a profit target.

While it does not necessarily represent the cost increases associated with providing social services, it is a much better estimate than, say, CPI which is often used in determining funding increments. If an organisation is not achieving a profit that covers the Health CPI estimate, then it is arguable that it is not achieving a sufficient profit level to maintain headway as costs increase.

Therefore, we have provided Figure 9 which refines this data by examining the proportion of charities that achieved a profit within the range of minus 10 per cent and positive 10 per cent. In order to assess profitability of these organisations more effectively, we have compared their profit margins in 2018 with the Health CPI for June 2018, which ran at 3.4 per cent.

As can be seen in this figure, 63 per cent of

charities making a profit within the range of minus 10 per cent and positive 10 per cent failed to make a return sufficient to meet Health CPI. This was the same figure returned in 2016.

While the proportion of charities falling into categories of profit margin has not changed at the sector level, changes in sub-sector profitability are indicators of changes in the sector service mix. Figure 10 provides a comparison of median profit margins by Main Activity in order to identify where changes in service mix may have occurred.

Clearly, there are swings and roundabouts in relation to the differing sub-sectors’ profit performance. Small increases in median profit were experienced by Housing Activities (7.4 per cent), Other Health Service Delivery (3.3 per cent) and Environmental Activities (2.8 per cent). On the other hand, decreases in median profit margin were experienced by Primary and Secondary Education (3.1 per cent), Civic and Advocacy Activities (2.6 per cent) and Culture and Arts (2.5 per cent).

### Balance Sheet Strength

The movement in net assets (assets – liabilities) of any organisation provides a picture of the change in its economic capacity. The net assets represent the net wealth the organisation has accrued—these can be exact amounts (e.g. leave owed to staff) or estimates (e.g. asset valuations).

Once again, we can only assess the financial strength of Queensland’s charities at the aggregate level and so this narrative focuses on indicators of risk to the sector service mix.

Aggregate net assets reported in 2018 AIS returns were \$16.925b (\$15.133b) signifying a rise of 11.8 per cent between 2016 and 2018. The breakdown of change in aggregate balance sheet data is:

Current Assets	↑	4.72%
Non-Current Assets	↑	11.67%
Current Liabilities	↑	16.08%
Non-current Liabilities	↓	16.51%

The moderate change in current assets may be representative of an increase in working capital needed to fund the expansion of services represented by the increase in income. The increase in non-current assets may have resulted from an increase in investment needed to meet the increased activity and/or changes in reported values of long-term assets held by Queensland’s charities.

The rise in current and non-current liabilities is likely resultant from the increased income achieved in 2018 and the commensurate costs, most of which will be human resource expenses with attendance increases in leave entitlement liabilities and the like.

Figure 11 provides a graphical representation of the balance sheet account classifications.

Once again, improved data assets would assist greatly in developing our understanding of the trajectory of the sector. Having only top-level information ensures we must surmise the causes of change and so further investigation is required in order to more deeply understand the causes and potential impacts of change in the aggregate social service sector balance sheet.

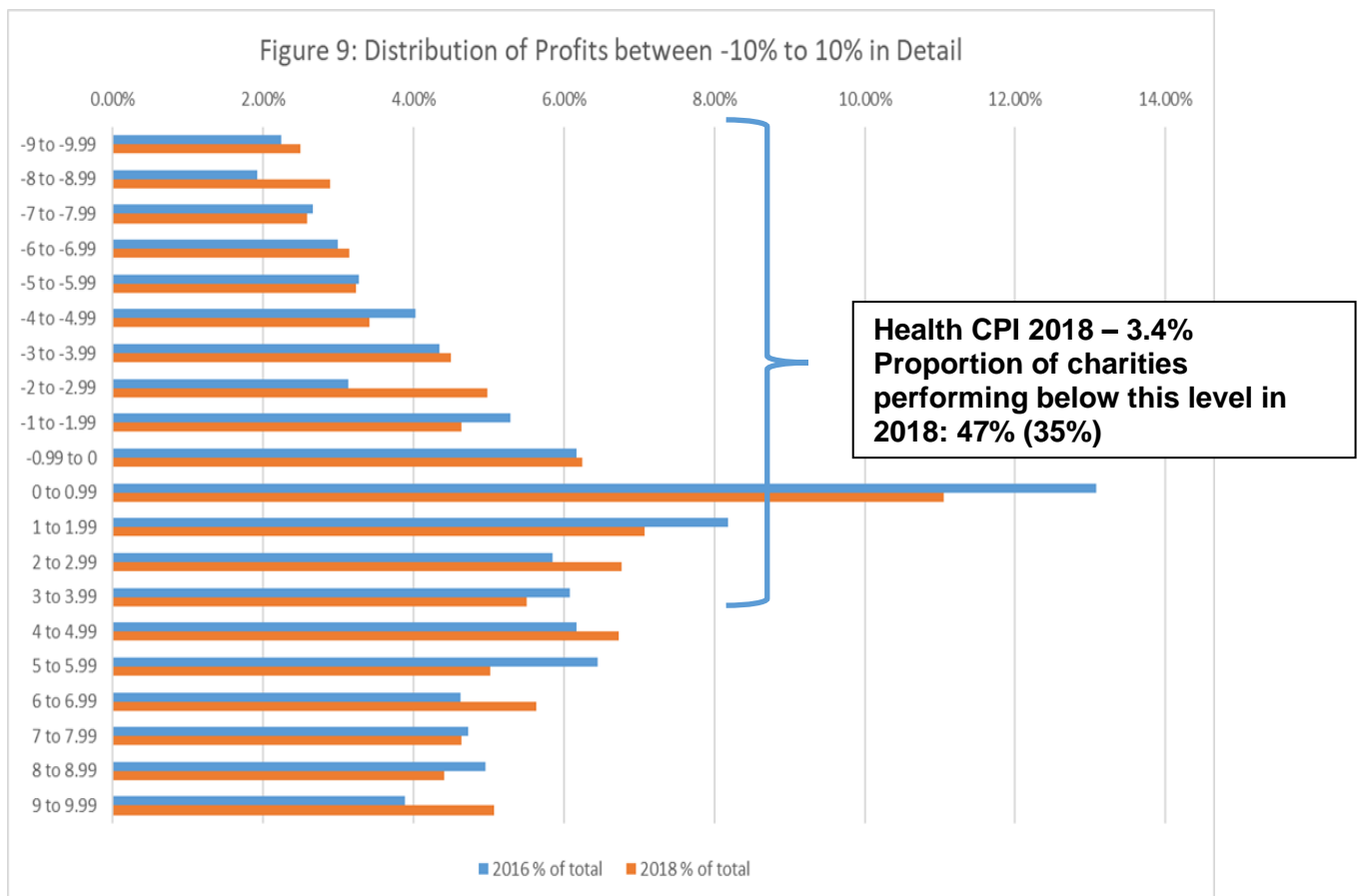
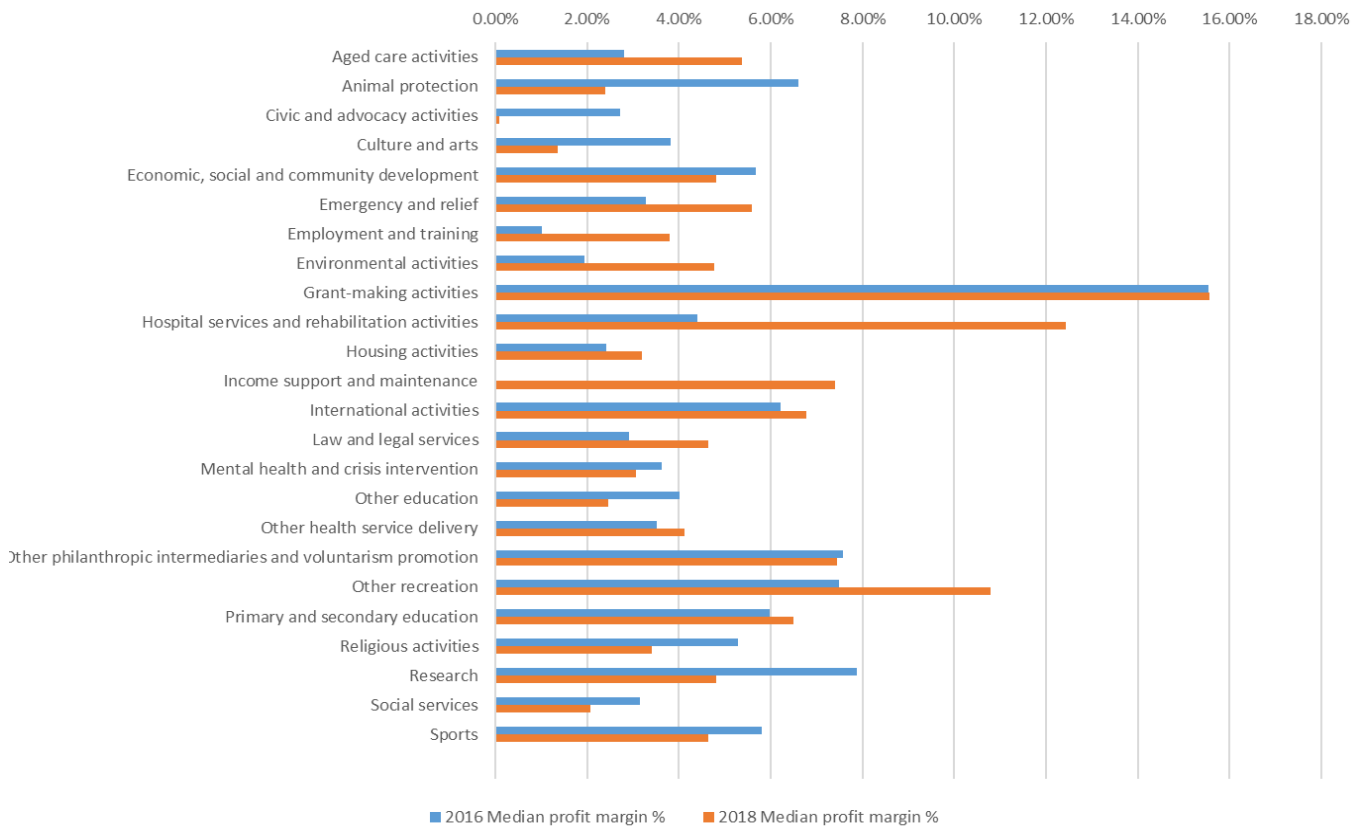
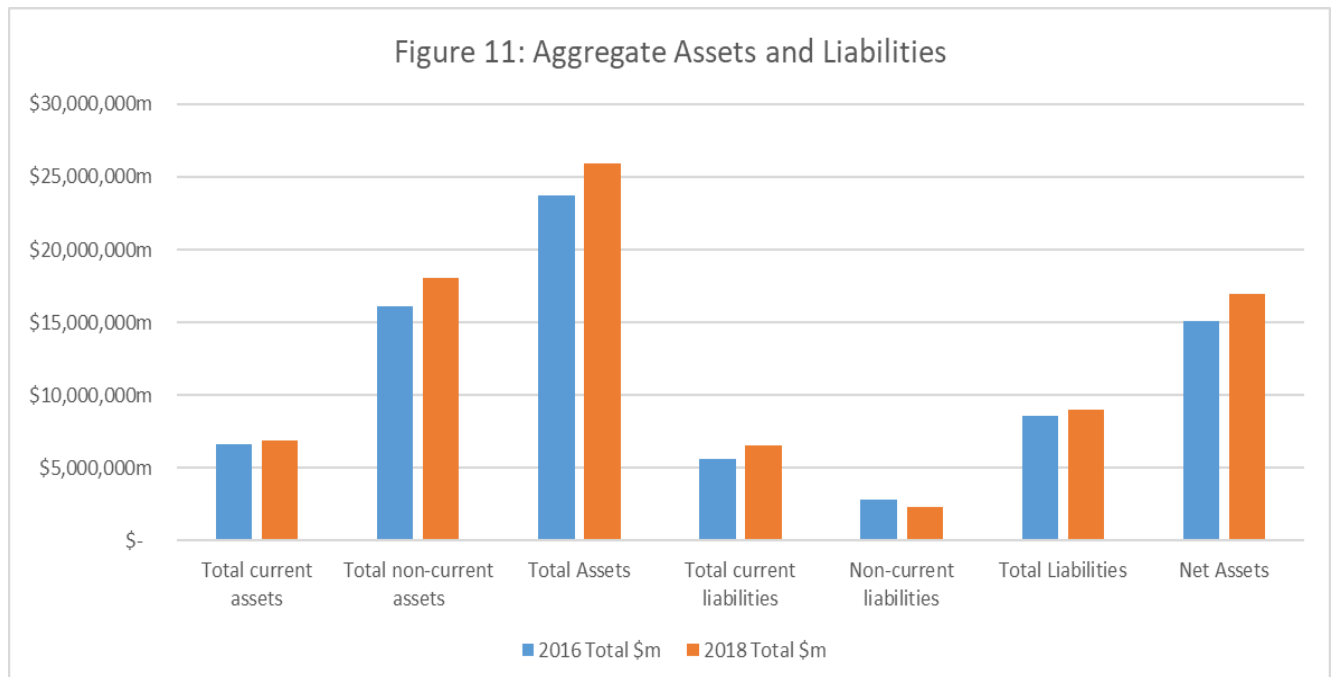


Figure 10: Median profit margin (%) by Main Activity



■ 2016 Median profit margin % ■ 2018 Median profit margin %

Figure 11: Aggregate Assets and Liabilities



■ 2016 Total \$m ■ 2018 Total \$m

## Concluding remarks

The development of this report has allowed the Not-for-profits UWA Research Team to examine in detail the ACNC data relative to the Queensland charities registered with the ACNC. We have also reviewed ABS and other data with a view to identifying whether or not there has likely been change in the sector service mix in that state.

We are concerned that the data assets were immature and lack timeliness such that our analysis was at a very high level. The advent of COVID-19 in particular, but with the effluxion of time generally, we think that further and more deep analysis would be both wise and beneficial to our understanding of the sector service mix and its patterns of change.

Overall, the data points to a changing sector service mix: while service types and beneficiaries have appeared to expand, the financial sustainability of the sector is likely under strain as profitability has fallen and job quality has been reduced.

We consider that the results are such that additional and more granular research is required into sub-sectors and geographic locations in order to assess the extent to which the sector service mix is changing and what the impacts of such change might be.

While it is often considered to be inappropriate in a market-based economic system for sector planning to be undertaken, collaborative examination and planning between sector leaders and government around the sector's development and trajectory would be of great value, reducing costs to the public purse over time and increasing the reliability, appropriateness and longevity of service delivery.



## Appendix One – Footnote Links

	Link
1	Queensland Government Publication: Incorporated Associations: <a href="https://www.publications.qld.gov.au/dataset/oft-incorporated-associations-forms-and-guides/resource/5a17161f-2866-4c2c-8e03-37fc0f6512f8">https://www.publications.qld.gov.au/dataset/oft-incorporated-associations-forms-and-guides/resource/5a17161f-2866-4c2c-8e03-37fc0f6512f8</a>
2	Gilchrist, D. J., P. A. Knight and T. Emery, 2020, Green Paper 1: Data Assets, Efficiency and the NDIS. Available from: <a href="https://www.research.uwa.edu.au/not-for-profits-uwa#six-years-and-counting-ndis-green-papers">https://www.research.uwa.edu.au/not-for-profits-uwa#six-years-and-counting-ndis-green-papers</a>
3	Gilchrist, D. J., 2020, “Green Paper 3: The Value of Quality Sector Analyses”, A Report of Not-for-profits UWA, Perth, Australia. Available from: <a href="https://www.research.uwa.edu.au/_data/assets/pdf_file/0004/3640981/Green-Paper-3-Proxies-for-Risk-6-October-2020.pdf">https://www.research.uwa.edu.au/_data/assets/pdf_file/0004/3640981/Green-Paper-3-Proxies-for-Risk-6-October-2020.pdf</a>
4	Not-for-profits UWA Research Team Website: <a href="https://www.research.uwa.edu.au/not-for-profits-uwa#policy-economics">https://www.research.uwa.edu.au/not-for-profits-uwa#policy-economics</a>
5	ACNC data is downloadable from: <a href="https://www.acnc.gov.au/charity/about-charity-register/download-charity-register-data">https://www.acnc.gov.au/charity/about-charity-register/download-charity-register-data</a>
6	Annual ACNC Australian Charities Report: <a href="https://www.acnc.gov.au/tools/topic-guides/australian-charities-report">https://www.acnc.gov.au/tools/topic-guides/australian-charities-report</a>
7	Correspondence related to this report should be sent to: <a href="mailto:david.gilchrist@uwa.edu.au">david.gilchrist@uwa.edu.au</a>
8	Queensland economic data: <a href="https://www.qgso.qld.gov.au/statistics/theme/economy/economic-activity/queensland-state-accounts">https://www.qgso.qld.gov.au/statistics/theme/economy/economic-activity/queensland-state-accounts</a>
9	Queensland labour data: <a href="https://www.qgso.qld.gov.au/issues/3416/labour-force-201912.pdf">https://www.qgso.qld.gov.au/issues/3416/labour-force-201912.pdf</a>
10	Annual ACNC Australian Charities Reports: <a href="https://www.acnc.gov.au/tools/reports/australian-charities-report-2018">https://www.acnc.gov.au/tools/reports/australian-charities-report-2018</a>
11	Volunteering Queensland: The Benefits of Volunteering: <a href="https://volunteeringqld.org.au/volunteers/benefits-of-volunteering">https://volunteeringqld.org.au/volunteers/benefits-of-volunteering</a>
12	2020 Commonwealth Bank Not-for-profit Balance Sheet Tool <a href="https://www.research.uwa.edu.au/not-for-profits-uwa#nfp-finances">https://www.research.uwa.edu.au/not-for-profits-uwa#nfp-finances</a>
15	Definitions of nonprofit structure types <a href="https://www.ato.gov.au/non-profit/getting-started/know-your-legal-structure/">https://www.ato.gov.au/non-profit/getting-started/know-your-legal-structure/</a>

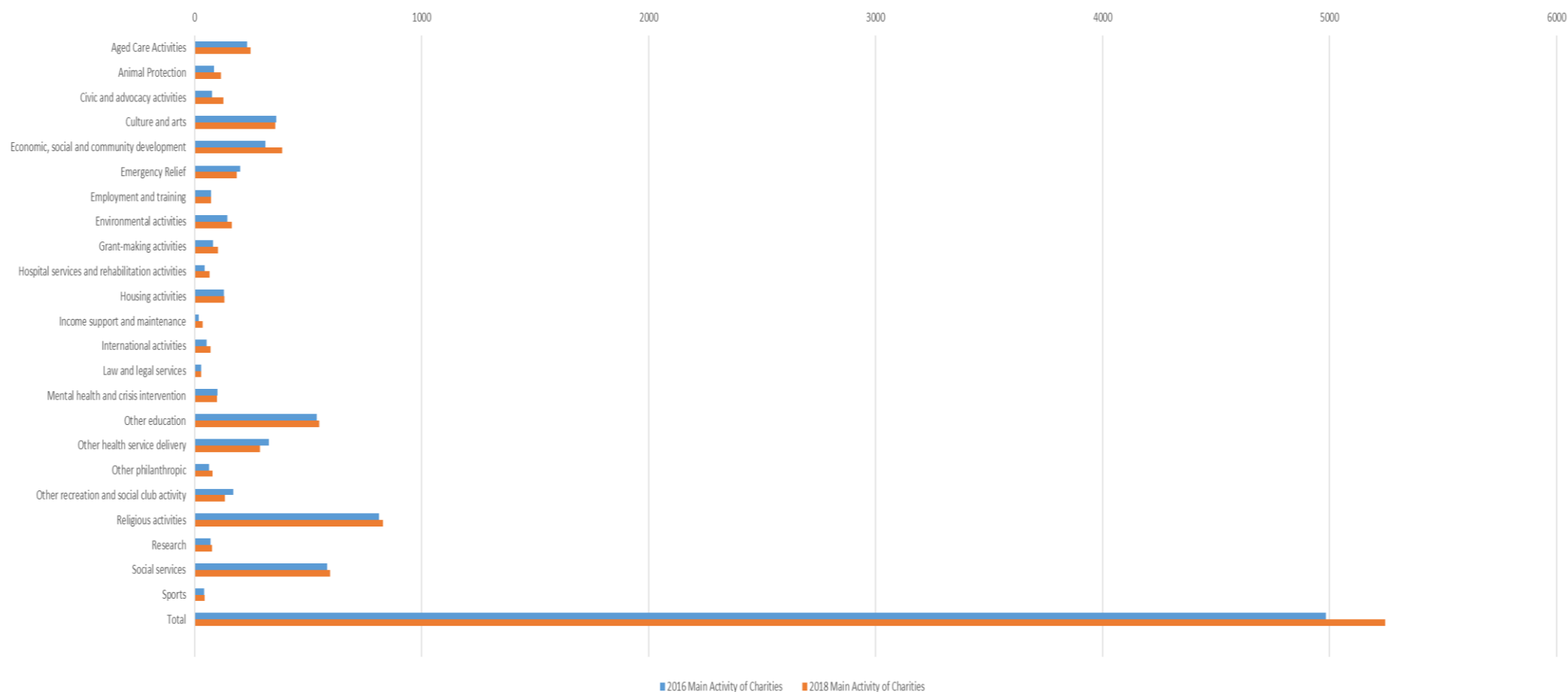
## Appendix Two – Comparison of Activities

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

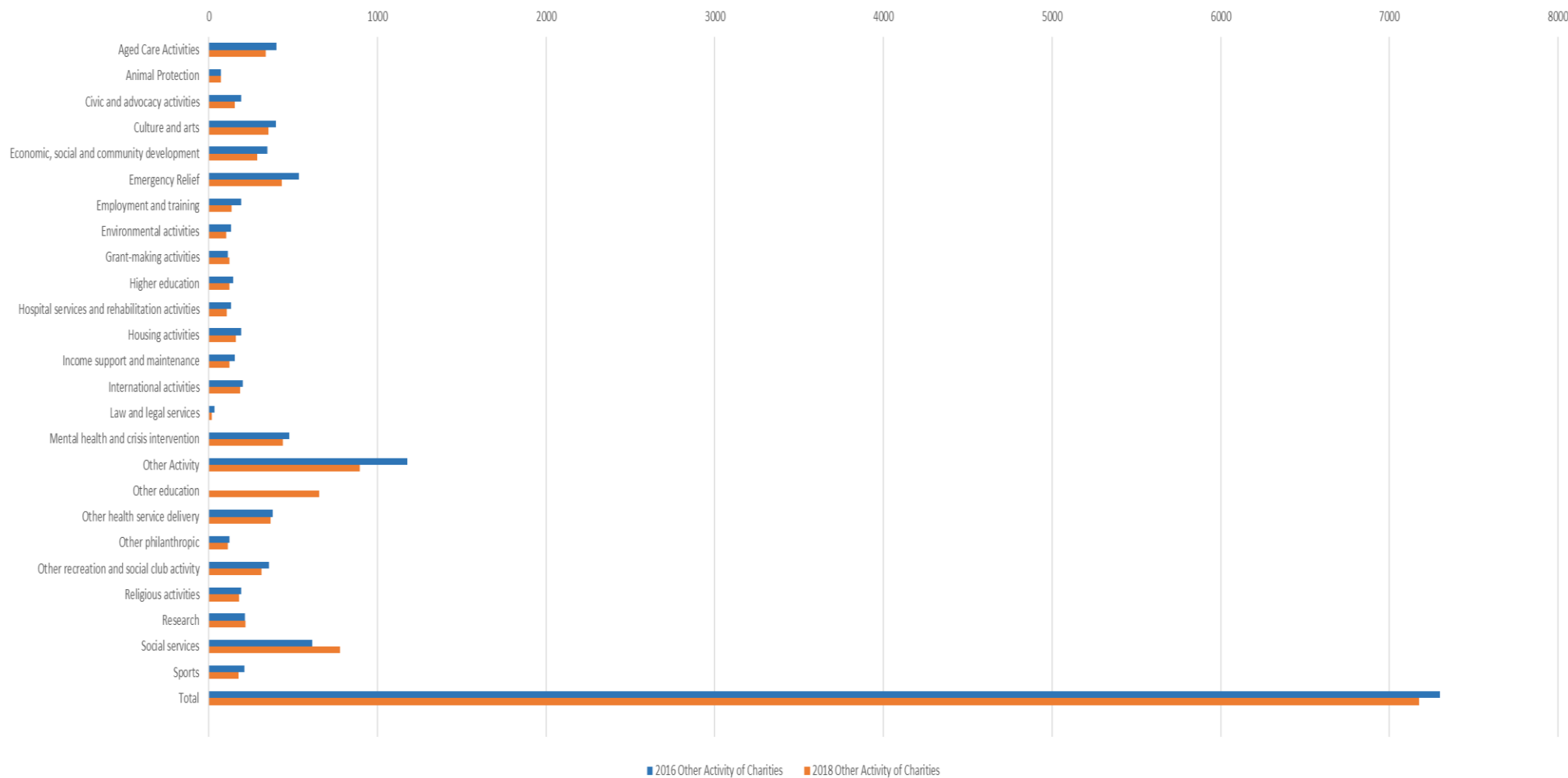
ICNPO Groups and subgroups <sup>22</sup>	ACNC Categories
1. Culture and Arts	
• Culture and art	• Culture and art
• Sports	• Sports
• Other recreation and social clubs	• Other recreation and social clubs
2. Education and research	
• Primary and secondary education	• Primary and secondary education
• 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)

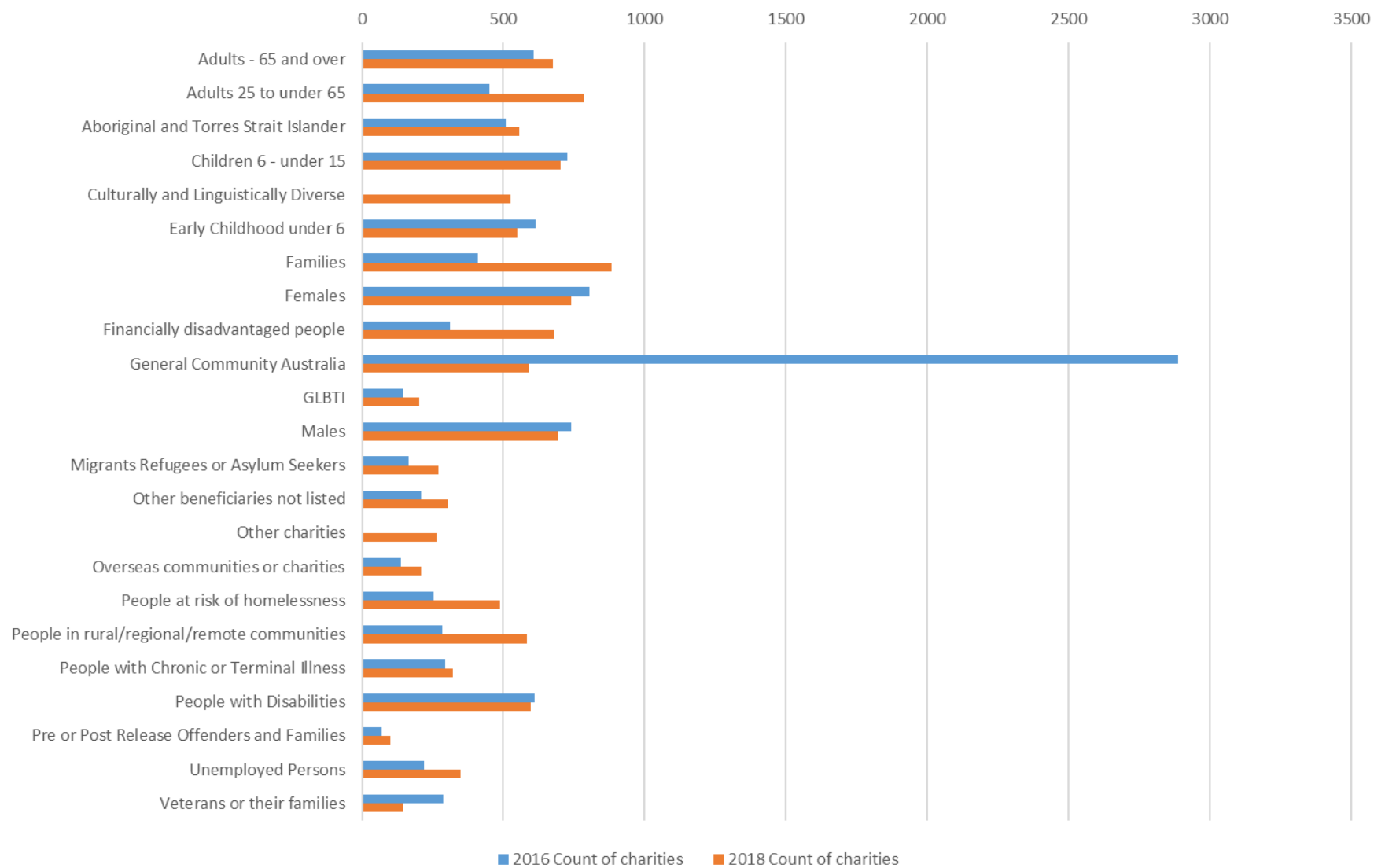
## Appendix Three – Main Activities Reported



## Appendix Four – Other Activities Reported



## Appendix Five – Beneficiary Types Reported





## Appendix Six – A General Description of Not-for-profit Organisations

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 not.<sup>13</sup>

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 a 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,

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<sup>13</sup> The law applying to NFP status is complex, but essentially the constitution of an NFP (or other documents of incorporation) must expressly prevent a NFP organisation from distributing profits from operations, or other assets on winding up, to private individuals or organisations. Other than this, there is no precise definition of NFP that is used by all statistical or regulatory bodies. For example, the Australian Bureau of Statistics excludes from its counts of NFPs mutual organisations in the financial sector, body corporates and universities, hospital and other organisations classified to the government sector. Source: ABS 5256.0.55.001 Information Paper: Non-Profit Institutions - A Draft Information Development Plan, Jul 2010

- 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 a 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.<sup>14</sup> As such, their regulatory obligations may differ depending on their jurisdiction, and in some cases, they must comply with both State/Territory and Commonwealth legislation.

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

**Incorporated Associations:** Queensland based NFPs that wish to incorporate do so under the *Associations Incorporation Act 1981 (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 ACNC:<sup>15</sup>

<sup>14</sup> 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 (Cwth)*.

<sup>15</sup> <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.”

## **Companies 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).