

CHAPTER 6: THE NATURE AND SIGNIFICANCE OF THE CHARITABLE AND RELATED SECTOR

When many people in Australia think of the way the world they inhabit is organised, they think of it as a duality: business and government. The third group of organisations, organisations that are not part of government and are not run to make a profit for their owners, are generally overlooked. They are a lot more important than most people realise.¹

The scope and diversity of the charitable and related sector

Charities, religious institutions and community service not-for-profit organisations, and other not-for-profit organisations, are involved in many aspects of our lives. They provide a wide range of services, including the distribution of food and clothing, education, health, accommodation, employment advice and training, counselling, legal advice and religious services. They provide these services to a wide range of persons including families, the aged, young people, the poor, the unemployed, the homeless, and people with disabilities.

These organisations can be significant players in the provision of health and welfare services. There are many not-for-profit hospitals and providers of residential and non-residential aged care. The provision of assistance for the disabled, emergency relief, community housing and crisis accommodation is dominated by not-for-profit entities.

Charities and related organisations are not only involved in supporting the disadvantaged or those with special needs. Charities working to advance education, health and religion are open to all members of society. Similarly, charities targeting the young (for example, Scouts and Guides), families or migrants are open to all members of that target group. Charities and related organisations exist to benefit the community as a whole.

¹ Lyons, M 2001, *Third Sector: the contribution of nonprofit and cooperative enterprises in Australia*, Allen & Unwin, Sydney, p xi.

All services are not necessarily provided directly to benefit human beings. For example, entities for the care and protection of animals (such as the RSPCA) or the environment may be regarded as charities. Environment Australia stated in its submission that there are 200 environmental organisations currently listed on the Register of Environmental Organisations, a Commonwealth Government provision that enables environmental groups to receive endorsement as deductible gift recipients (DGRs). Environment Australia also submitted that there are thousands of environmental groups in Australia that have been created to address local environmental issues and to undertake projects funded through a range of programs established by the Government under the Natural Heritage Trust (including Bushcare, Coastcare and Landcare).

Charities and community organisations also operate in the cultural sector. The Commonwealth Department of Communications, Information Technology and the Arts mentioned in its submission that there are currently almost 800 cultural bodies that have DGR status and in addition almost 400 public art galleries, museums and libraries with DGR status. The Australia Council estimates that the total number of organisations engaged in arts and cultural activities (including a vast array of purely volunteer organisations) is several tens of thousands.

Charities can be large organisations. For example, in 1999-2000 The Benevolent Society with an annual operating budget of \$20 million and approximately 500 staff provided services for over 11,000 persons. The Brotherhood of St Laurence offers a wide range of services primarily targeting the most disadvantaged in our community, employing over 600 people and last financial year had a turnover of nearly \$32 million. According to the Catholic Church in Australia's submission, its 3,290 priests, 7,359 religious sisters and 1,189 religious brothers together with lay personnel make it the largest 'employer' in Australia. There are 1,749 schools and other educational facilities, 58 hospitals, 306 nursing homes and hostels and approximately 1,100 social welfare organisations operating under the auspices of the Catholic Church in Australia.

There is also a substantial number of very small charities and community service organisations. The Ross House Association represents over 200 small community organisations. These organisations are mainly self-help groups that provide a continuum of services (from information to counselling) to the disadvantaged. The Local Community Services Association (LCSA) is a peak organisation that represents over 300 Neighbourhood Centres and Community Centres throughout NSW. The LCSA stated in its submission that such centres are 'community organisations located in a neighbourhood, suburb or local government area that work with communities to provide a better quality of life

by responding to local needs through information, networking, planning and providing services’.

While most organisations in the charitable and related sector are involved in providing services to the community directly, there is a number of organisations, known as peak bodies or councils, that represent the interests of their member organisations and have a liaison and advocacy role with governments and the broader community. The Industry Commission, in its 1995 Report *Charitable Organisations in Australia*, provided the following definition of a peak council:

A peak council is a representative organisation that provides information dissemination services, membership support, coordination, advocacy and representation, and research and policy development services for its members and other interested parties.

The peak council role does not involve direct service delivery. Direct service refers to services provided to clients of member organisations, rather than services provided to members or interested parties. Some organisations, however, have a service provider as well as a peak council role.²

The Industry Commission commented that, based on its own survey, there were at least 188 peak councils operating in 1994. More than 30 per cent of peak councils sampled reported ‘a national focus for policy action with government’.³

Size of the charitable and related sector and its contribution to the economy

The following discussion relies on data about the not-for-profit sector, and where available the charitable sector, produced by the Australian Nonprofit Data Project (ANDP) and the Australian Bureau of Statistics (ABS).⁴ The definitions and classifications underpinning the data presented here are discussed in Chapter 10 and Appendix G.

2 Industry Commission 1995, *Charitable Organisations in Australia*, Report No 45, AGPS, Melbourne, p 181.

3 Industry Commission, pp 182, 186.

4 Extensive data on Australia’s health and welfare sectors have been published by the Australian Institute of Health and Welfare (AIHW). However, AIHW data is generally not provided separately in relation to not-for-profit bodies or charities. For this reason, AIHW data was not used for the purposes of this chapter.

The ANDP is a collaborative project between the Centre for Australian Community Organisations and Management (CACOM) at the University of Technology, Sydney, and the ABS. The ANDP is the first comprehensive attempt to collate data for the not-for-profit sector including the charitable sector.⁵ It relies on ABS data supplemented by data from other sources.^{6,7} Most of the data have been collected for the year 1995-96. The entities covered are restricted to those that employ staff, and would not cover small bodies without employees.

Based on the ANDP data,⁸ the following general observations may be made about the size of the nonprofit and charitable sectors and their contribution to the broader economy.

- In June 1996, there were 31,764 nonprofit sector entities including 18,742 charities that employed staff. (The ANDP estimates that there might have been as many as 700,000 (including 320,000 incorporated) third sector organisations in 1996 but states that such an estimate should be treated with great caution.⁹ Most of these would not employ staff but would rely on volunteers.¹⁰)
- In June 1996, the nonprofit sector was a significant employer, employing 579,367 persons, 6.9 per cent of the persons employed in Australia. Charities employed 398,339 persons, about 4.8 per cent of total employment.
- In 1995-96, the nonprofit sector contributed \$14.6 billion or 3 per cent to Australia's gross domestic product (GDP). Charities contributed \$9.9 billion or 2 per cent of GDP.

5 Lyons, M and Hocking, S 2000, *Dimensions of Australia's Third Sector*, Centre for Australian Community Organisations and Management, University of Technology, Sydney, p vii.

6 The main data source was special industry surveys conducted by the ABS. The ABS does not specifically target charitable, religious and community service not-for-profit organisations in most of its collections. They are categorised as part of the broader non-profit institutions (NPI) group. To the extent they employ staff or undertake economic activity, they are within the scope of a number of surveys that the ABS undertakes. The other data sources include government departments and surveys conducted by the ANDP.

7 The data are based on surveys and are subject to a degree of sample error. They are also subject to other errors such as self-assessment by entities as to whether or not they are a non-profit body.

8 Lyons and Hocking, pp 27-51, 77 and 81-82.

9 Lyons and Hocking, pp 14-15. The third sector is another category that ANDP provides data on. It is broader than the nonprofit sector as it also includes finance mutuals and trading cooperatives.

10 Lyons and Hocking, p 89.

- In employment terms, the nonprofit sector was larger than the communications industry and the accommodation and cafes and restaurants industries combined.

The above figures underestimate the contribution of the charitable and nonprofit sectors because they do not include the impact of voluntary work. The ANDP estimates that during 1994-95 about 2.3 million people undertook voluntary work through third sector organisations, contributing 374 million hours of their time at a value of about \$7.5 billion. Voluntary labour occurred mostly in community service (105 million hours), sport and recreation (104 million hours) and religion (71 million hours).¹¹

The above ANDP data also exclude a few areas of activity that come under the legal definition of charity. ANDP data for nonprofits and charities exclude publicly funded universities that are established under some form of state government legislation, and school parent associations, both of which are regarded as charities by the Australian Taxation Office (ATO). Parent associations employed 1,900 persons while the inclusion of all universities would add another 100,000 to employment.¹²

11 Lyons and Hocking, pp 89-95. The ANDP's estimates of volunteers are based on a survey conducted by the ABS in June 1995, the results of which were published in ABS Catalogue No 4441.0, *Voluntary Work Australia*. To develop estimates of the level of volunteering for nonprofit or third sector organisations, the ANDP arranged for the ABS to review the responses to the original survey and to exclude volunteering for organisations that were government or for-profit. For this reason the ANDP estimates differ from that in the ABS publication. The ANDP has also allocated the fields of voluntary activity reported in the ABS survey to the relevant fields of third sector activity. To estimate the value of volunteering, the ANDP has valued each hour of voluntary labour at the average hourly rate of ordinary time earnings for full time employees plus employer contributions.

12 Lyons and Hocking, pp 32-35.

The ABS has provided the Inquiry with more recent data on the size and contribution of the not-for-profit sector. These data have been prepared as part of the Global Nonprofit Information Systems Project and are regarded as experimental.¹³ The data, on value added and employment, relate to non-profit institutions serving households (NPISHs)¹⁴ and are set out below.

- The NPISH contribution to gross value added at basic prices (GVA) in 1998-99 was \$15 billion, equal to 2.7 per cent of GVA.¹⁵ When volunteer services valued at market rates are included, the NPISH contribution increases to \$22 billion, 3.9 per cent of an expanded GVA.¹⁶ By comparison, GVA of the agriculture, forestry and fishing industry was valued at \$18.1 billion in 1998-99.
- NPISHs employed on average 511,000 persons during 1998-99, 6 per cent of total employment. With the addition of volunteer services valued at market rates and converted to a full time equivalent basis, NPISHs employed 809,000 persons, 9.1 per cent of total expanded employment.

Composition of the charitable and related sector

According to ANDP data, the charitable sector is dominated by organisations in the human services field, that is, education, health and community services. In terms of persons employed, these fields together made up over 90 per cent of the total charitable sector in June 1996 (Chart 1).

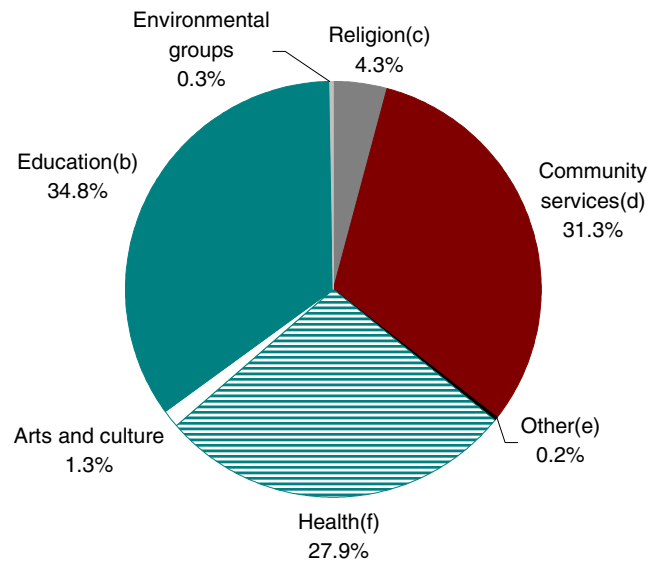
13 The Global Nonprofit Information Systems Project is a joint project of the United Nations Statistics Division and the Johns Hopkins Center for Civil Society Studies which aims to develop standards to help national statistical offices develop more accurate and complete data on nonprofit institutions. More information on this Project is provided in Chapter 10 and Appendix G.

14 The NPISH sector is a subset of the nonprofit institutions sector. Its scope is different from the charitable sector. It includes charities (such as welfare organisations and non-government schools) but also non-profit community and member organisations serving households that are not charities. It excludes publicly funded universities (which the ATO treats as charities). In comparison, the ANDP data for the nonprofit sector covers the NPISHs sector but also other nonprofits such as trade associations and employer groups; however, ANDP data on charities aims to cover a subset (that is, the charities component) of the NPISH sector. ANDP data for nonprofits and charities excludes most public funded universities.

15 This first basis for valuation, the SNA basis, relates to the concepts of valuing production enunciated in the System of National Accounts, 1993 (SNA93). The SNA93 provides guidelines used in the Australian system of national accounts. There is no value attached to provision of volunteer services within the SNA93 boundary of production.

16 This second basis for valuation is an extension of the SNA93 boundary of production to include values for volunteer services at market rates of pay. The second basis of valuation has the effect of adding around \$7 billion to the SNA93 value of NPISH production.

Chart 1: Employment by field of activity, June 1996^(a)



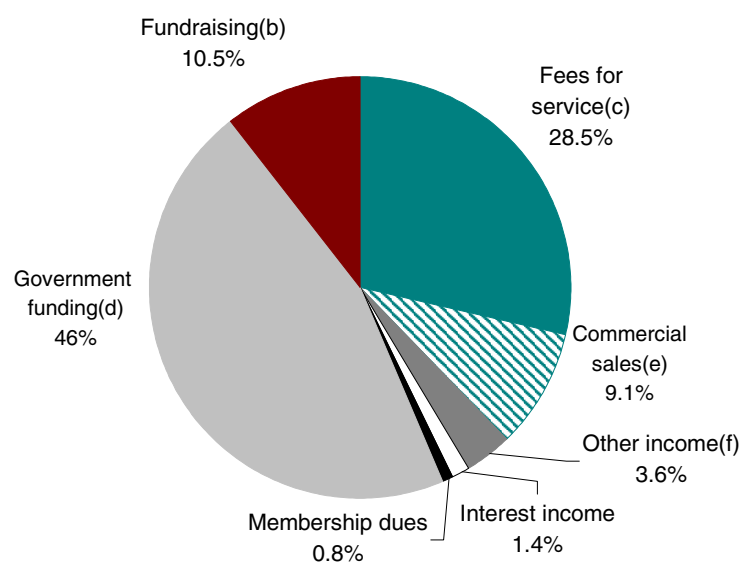
- (a) Employment indicates the total number of people employed, including all paid staff, full-time, part-time and casual at the time of the survey (mostly in June 1996). Excludes volunteer labour.
- (b) 'Education' includes research but excludes parent organisations.
- (c) Most clergy are classified as self-employed and are not counted as employees and are therefore excluded from 'Religion'. (In the 1996 Census there were 13,491 people who described themselves as Ministers of Religion.)
- (d) 'Community services' includes 'Other human services' (ie, housing, legal, community transport and employment services) but excludes child care and nursing homes.
- (e) 'Other' includes philanthropic intermediaries and emergency services.
- (f) 'Health' includes nursing homes.

Source: Lyons and Hocking, pp. 18, 27-50 and 75-77.

Sources of funding

ANDP data shows that, in 1995-96, 46 per cent of the revenue of charitable organisations was contributed by governments, with commercial sales and fees for service together contributing 37.6 per cent and fundraising 10.5 per cent (Chart 2).

Chart 2: Charities – sources of revenue, 1995-96^(a)



(a) All income received during 1995-96.

(b) 'Fundraising' includes donations, grants, bequests, and revenue from special events, fetes, raffles, opportunity shops and sponsorship.

(c) 'Fees for service' is revenue raised by charging clients for services provided.

(d) 'Government funding' includes all revenue received from governments for operating purposes, whether in the form of grants or as payment for contracted services.

(e) 'Commercial sales' refers to revenue from goods and services sold to members or the public where such goods and services are not part of the charity's 'core business'.

(f) 'Other income' includes revenue from the lease of property and sale of assets.

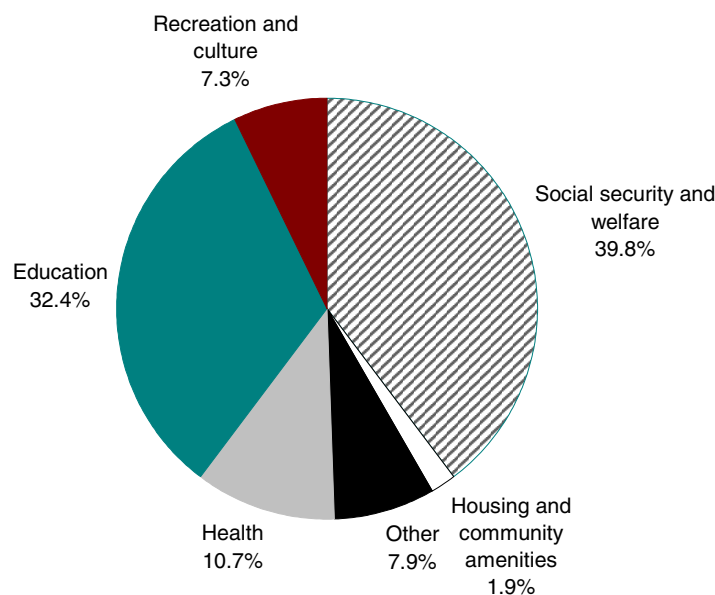
Source: Lyons and Hocking, pp. 18-19 and 77.

Government support of the sector

ABS data on government finances shows that, in 1999-2000, Australian governments' current and capital grants to the NPISH sector totalled over \$11 billion. (Separate data on grants to charities is not available.¹⁷) Of this, Commonwealth Government grants were \$4.8 billion (predominantly for welfare and health purposes), State government grants were \$6.2 billion (predominantly for education, welfare and health), and local government grants were \$20 million (predominantly for recreation and culture and welfare).

Chart 3 shows, for all levels of government, grants to NPISHs according to purpose. Governments' grants were incurred overwhelmingly for welfare, education and health purposes.

Chart 3: All Australian Governments – grants to nonprofit institutions serving households, by purpose, 1999-2000^{(a)(b)}



(a) Covers both current and capital grants (accruals basis) by the general government sector to NPISHs.

(b) The grants have been classified according to the Government Purpose Classification.

Source: ABS Government Finance Statistics data (unpublished).

¹⁷ As already noted, the NPISH sector is different from the charitable sector. For instance, it excludes public universities (which are treated by the ATO as a charity). Commonwealth grants to universities were \$4 billion in 1999-2000.

Government support to the sector is also delivered through tax expenditures, that is, tax concessions designed to provide a benefit to a specified activity or class of taxpayer. The ATO collects data on endorsed Income Tax Exempt Charities (ITECs) and DGRs. Information provided to the Inquiry shows that, to 13 June 2001, 40,202 entities were endorsed as ITECs and 17,152 entities were endorsed as DGRs. (Most DGRs will also be ITECs.)

Tax expenditures can be delivered through a tax exemption, tax deduction, tax rebate, reduced tax rate or by deferring a tax liability. Table 1 shows some examples of tax expenditures relating to charities and other not-for-profit bodies, their estimated cost to revenue in 1999-2000 and their projected cost in 2000-01 and 2001-02.

Table 1: Tax expenditures relating to charities and related entities

Type of tax expenditure ^(a)	1999-2000 (Estimate) \$m	2000-01 (Projection) \$m	2001-02 (Projection) \$m
Deductions for gifts to DGRs ^(b)	250	276	300
Fringe benefits tax (FBT) exemption for public benevolent institutions (PBIs) excluding public hospitals	210	240	240
FBT exemption for public hospitals	230	135	135
FBT exemption for religious institutions	180	170	175
Rebate of FBT for some non-government, non-profit organisations	65	50	40

(a) Estimates are not available for the cost to revenue of the income tax exemption for religious, scientific, charitable or public educational institutions.

(b) DGRs consist of some charities (for example, PBIs and cultural and environmental organisations) and some non-charities. Not all charities are DGRs. See Chapter 4.

Source: Commonwealth Treasury 2001, *Tax Expenditures Statement 2000*, Table 5.1.

Contribution of the nonprofit sector to particular industries

Some fields of activity such as interest groups and religion are comprised solely of nonprofit bodies, while in fields such as legal services, housing or transport, nonprofit organisations make only a very small contribution.¹⁸

Nonprofit bodies and charities make a significant contribution to the community service, education and health fields. ANDP data for 1995-96¹⁹ shows that:

- In the community services field 57 per cent of employment was in nonprofit bodies.²⁰ In more specific subfields of community services, nonprofits provided places for 46 per cent of the average number of children in all forms of child care and places for 85 per cent of the average number of hostel residents.
- For hospitals, 15 per cent of total employment, 17.5 per cent of total patient days in all hospitals, and 52 per cent of patient days in private hospitals were accounted for by nonprofit hospitals. Nonprofits accommodated 43 per cent of the residents in intensive residential care.
- Nonprofit schools accounted for 29 per cent of total employment in all schools and 29 per cent of pupils in all schools.

According to the ANDP, nonprofit bodies in 1996-97 employed 27 per cent of persons employed in all performing arts organisations.²¹

In its submission to the Inquiry, the Department of Health and Aged Care noted the following:

In 1998-99 there were 755 public acute and psychiatric hospitals in Australia with total recurrent expenditure of \$13.77 billion, all of which have PBI status.

18 Lyons and Hocking, p 82.

19 Lyons and Hocking, pp 82-86.

20 This ANDP figure for the nonprofit community services sector includes nursing homes and child care.

21 Lyons and Hocking, pp 86-87.

In 1998-99, there were 128 not-for-profit private hospitals...[of which] 76 were religious/charity oriented. Not-for-profit private hospitals, as a whole, constitute 44 per cent of private hospital beds.

Charities and related organisations comprise 64 per cent of providers of residential aged care, 66 per cent of providers of Community Aged Care Packages, 64 per cent of providers of Home and Community Care services. Of organisations funded in 1999-00 to provide services under the National Respite for Carers Program, 69 per cent were charitable, religious or community bodies.

The Department of Family and Community Services in its submission noted that over 90 per cent of the Department's disability employment assistance providers would be charities, and that nearly all community housing organisations and Supported Accommodation Assistance Program agencies are church agencies or not-for-profit organisations.

Conclusion

The information provided in submissions, together with data from the ANDP and the ABS, has allowed the Committee to gain a broader understanding of the not-for-profit sector and its constituent parts (including charities, religious institutions and other community service not-for-profit organisations).

The charitable sector contributes about 2 per cent to GDP and about 5 per cent to national employment. But it is also supported by a considerable volunteer effort. It is a very diverse sector, although it is concentrated in the areas of health, education and welfare. Charities are engaged to a considerable degree in the delivery of government programs and receive about half of their funding from government.

This picture of the sector has served as a background to the Committee's consideration of the issues. For example, it has provided a context for the Committee's consideration of the appropriate categories within charity, the relationship of charities to other parts of the broader not-for-profit sector, and the relationship between government and charitable activity.