

CHAPTER 10: STATISTICAL DEFINITIONS AND CLASSIFICATIONS

The Inquiry's terms of reference require the Committee to examine any current use of the concepts of charitable, religious and community service not-for-profit organisations for statistical or academic purposes.

Key principles of statistical definitions and classifications

In the statistical field, a basic distinction is made between concepts, definitions and classifications. Concepts express an underlying idea, definitions describe and delineate, while classifications sort and categorise.

For instance, in considering the non-profit sector or the charitable sector, there would be an underlying idea of what it is (the concept). Given this, certain criteria that organisations need to meet to fall within that sector can be set down (the definition). And depending on the purpose, the sector then can be categorised into its constituent parts (the classification).

Standard classifications and definitions of statistical units and items are essential elements underlying the compilation and presentation of statistics.¹ Accordingly, statistical definitions and classifications are subject to considerable analysis and must meet certain principles or standards before they become established. Three examples of the principles or standards that underlie statistical definitions and classifications are set out below.

- Principles underlying the definitions and classifications of the System of National Accounts² include preciseness, internal consistency, consistency with related statistical systems, comparability among different countries, flexibility in the way in which they are applied, and flexibility in the use of the ensuing statistics.³

1 Australian Bureau of Statistics (ABS) 1998, *Standard Economic Sector Classifications Of Australia (SESCA)*, Cat No 1218.0, Canberra, p 1.

2 The System of National Accounts is explained further below.

3 Commission of European Communities, IMF, OECD, United Nations and World Bank 1993, *System of National Accounts 1993 (SNA93)*, paras 1.29-1.48.

- The Australian Bureau of Statistics (ABS) submitted to the Inquiry that the characteristics of a good classification include:
 - the categories are exhaustive and mutually exclusive;
 - the classification is comparable to other related (national or international) standard classifications;
 - the categories are stable, that is, they are not changed too frequently, or without proper review, justification and documentation;
 - there are not too many or too few categories; and
 - the categories reflect realities of the field to which they relate.
- The Johns Hopkins Comparative Nonprofit Sector Project⁴ evaluates definitions and classifications against the criteria of economy, significance and explanatory or predictive capacities.⁵

Statistical definitions in relation to the not-for-profit sector focus more on the sector as a whole, rather than its constituent parts such as charities, religious institutions or community service organisations. However, entities in the not-for-profit sector can be classified into various subsectors, the boundaries of which may approximate those of charities and related entities. The purpose of statistical definitions and classifications relating to the not-for-profit sector is to provide a basis for collecting and presenting statistics about the sector. The available statistics on the various sectors and subsectors have been discussed in Chapter 6.

Five sets of statistical definitions and classifications relating to the not-for-profit sector and its components are examined here, namely those of the:

- System of National Accounts;
- ABS;
- Australian Nonprofit Data Project;

4 The *Johns Hopkins Comparative Nonprofit Sector Project* is a project of the Johns Hopkins Center for Civil Society Studies. It was established in 1990 as a major inquiry into the scope and role of the non-profit sector in a broad cross section of nations and aims to produce comparable international data on the sector. It involves devising common definitions and classifications for the non-profit sector.

5 Salamon, LM and Anheier, HK 1996, *Defining the Nonprofit Sector: A Cross-national Analysis*, Manchester University Press, Manchester, pp 34-35 and 54-56.

- Australian Institute of Health and Welfare; and
- Global Nonprofit Information System Project.

A detailed examination of these and other sets of definitions and classifications is contained in Appendix G.

The System of National Accounts

The System of National Accounts (SNA) has been adopted by the United Nations as the international standard for national accounts statistics. It provides a comprehensive accounting framework within which economic data can be compiled and presented in a format that is designed for purposes of economic analysis and policy-making. The latest edition of the SNA, the System of National Accounts 1993 (SNA93), was developed jointly by the United Nations, the Commission of European Communities, the International Monetary Fund, the Organisation for Economic Co-operation and Development and the World Bank.

As explained below, the SNA93 derives a 'definition' of charity by categorising entities in the not-for-profit sector according to how they price their goods and services, and to whom they provide their goods and services. For example, for the purposes of the SNA framework the relevant features of a charity are that its income does not come mainly from the sale of goods or services and that its activities are directed towards households rather than its members or governments or business entities.

The SNA93 defines 'non-profit institutions' (NPIs) in the following way:

NPIs are legal or social entities created for the purpose of producing goods and services whose status does not permit them to be a source of income, profit or other financial gain for the units that establish, control or finance them. In practice, their productive activities are bound to generate either surpluses or deficits but any surpluses they happen to make cannot be appropriated by other institutional units. The articles of association by which they are established are drawn up in such a way that the institutional units which control or manage them are not entitled to a share in any profits or other income which they receive.⁶

6 SNA93, para 4.54.

NPIs are classified according to whether they are engaged in market or non-market production. NPIs engaged in non-market production are classified into the general government sector or to NPIs serving households (NPISHs). NPISHs can be further distinguished as:

- NPISHs which are created by associations of persons to provide goods or, more often, services primarily for the benefit of the members themselves; and
- NPISHs that are created for philanthropic purposes and not to serve the interests of the members of the association.⁷

This second type of NPISH consists of charities and relief or aid agencies.

The SNA93 also includes a number of classifications that may be applied to the non-profit sector and its subsectors, for example the International Standard Industrial Classification and the Classification of the Purposes of NPISHs.

The Australian Bureau of Statistics

The ABS is Australia's official statistical agency. ABS economic collections use a definition for NPIs based on the SNA93. ABS social collections use a broad range of definitions for NPIs, ranging from self-identification by the respondent through to the definition of non-profit organisation used by the Australian Taxation Office.

The ABS classification known as the Standard Institutional Sector Classification of Australia (SISCA) is based on the SNA93. SISCA provides information about groups of economic units that have similar economic functions and institutional characteristics. SISCA includes the category of NPISHs, as defined above.⁸

The Australian and New Zealand Standard Industrial Classification 1993 (ANZSIC) and the draft Australian and New Zealand Standard Product Classification (ANZSPC) are classifications that could be applied to NPISHs. For example, under the ANZSIC NPISHs could be classified according to principal economic activity to industries such as: education; health; community services; libraries; museums and the arts; sport and recreation; religious organisations; interest groups; or public order and safety services.

⁷ SNA93, paras 4.65-4.67.

⁸ ABS, SESCA, p 1.

The ABS has definitions and classifications of religion. The ABS definition of religion⁹ is based on the High Court decision in the *Scientology* case that is discussed in Chapter 20.

The religion class in the ANZSIC consists of units of religious organisations operated for worship or for the promotion of religious activities. However, units of religious institutions mainly engaged in, for example, the provision of education or operation of hospitals or charitable homes are included in the classes appropriate to these activities.¹⁰

The Australian Standard Classification of Religious Groups (ASCRG) classifies the religions in Australia into Buddhism, Christianity, Hinduism, Islam, Judaism and Other Religion.¹¹

The Australian Nonprofit Data Project

The Australian Nonprofit Data Project (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 has recently produced a technical report (entitled *Dimensions of Australia's Third Sector*) that is 'the first comprehensive attempt to map and estimate the dimensions of Australia's third sector'.¹² The ANDP uses ABS data, supplemented by data from other sources.

The ANDP distinguishes the 'third sector' from the government sector and the for-profit or business sector. It defines the third sector as consisting of private organisations formed and sustained by groups of people (usually their members) acting voluntarily to provide benefits for themselves or others, where any material benefit gained by a member is proportional to the member's use of the organisation.¹³

The ANDP distinguishes the following two components of the third sector:

- nonprofit organisations which are prohibited from distributing any part of their surplus or assets to their members; and

9 ABS 1996, *Australian Standard Classification of Religious Groups (ASCRG)*, Cat. No. 1266.0, Canberra, Chapter 1.

10 ABS 1993, *Australian and New Zealand Standard Industrial Classification*, Cat. No. 1292.0, Canberra, Chapter 3.

11 ABS, ASCRG, Chapter 1.

12 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.

13 Lyons and Hocking, p 1.

- organisations that permit the distribution of net assets to members if the organisation is wound up or taken over (for example, credit unions, building societies, mutual insurers and trading cooperatives).¹⁴

The ANDP's most basic classification within the third sector is according to the kind of work or type of activities performed. These categories are: community services; health; education; other human services; religious organisations; philanthropic intermediaries; arts and culture; sport and recreation (including registered clubs); interest groups; other nonprofit organisations; finance, insurance and superannuation; and trading cooperatives.¹⁵

On the basis of its definition of nonprofit organisations and its activity classification, the ANDP indicates the dimensions of the charitable and related sector. For example, the ANDP estimates the dimensions of organisations fitting the 'legal' meaning of charity by summing data on nonprofit organisations in the fields of: accommodation for the aged; other residential care; other non-residential care; nursing homes; other health services; research; nonprofit hospitals (public and private); education; other human services; religion; philanthropic intermediaries; libraries and museums; parks and gardens; performing arts; environmental groups; and emergency services.¹⁶

The Australian Institute of Health and Welfare

The Australian Institute of Health and Welfare (AIHW) is a national agency that generates and reports data on the health and welfare of Australians. It collates data collected by government and non-government bodies to present comprehensive health and welfare information. It also promotes standardised data definitions and collection methods and publishes standards and classifications for health and welfare statistics.¹⁷

The AIHW does not have a definition of charity, nor does it publish data in relation to charities. The ABS advised in its submission that the AIHW has developed a broad definition of an 'agency' for all community services data collections. This is very general and covers all organisations or sub-units that are responsible for the provision of services, whether charitable or not. The individual collections further define an 'agency' for their specific collection purposes. The AIHW presents data for what it terms 'non-government

14 Lyons and Hocking, p 2-3.

15 Lyons and Hocking, pp 27-61.

16 Lyons and Hocking, p 76.

17 Australian Institute of Health and Welfare, *Corporate Plan 1999-2002*, AIHW, Canberra, pp 4-5.

community service organisations' that operate as either for-profit or not-for-profit.¹⁸

The AIHW has published the National Classifications of Community Services (NCCS). It contains three classifications, namely the national classification of community services activities, the national classification of community services delivery settings and the national classification of community services target groups.

The Global Nonprofit Information System Project

The Global Nonprofit Information System Project (GNISP) is a joint project of the United Nations Statistics Division and the Johns Hopkins Center for Civil Society Studies. It aims to develop standards to help national statistical offices develop more accurate and complete data on nonprofit institutions. The project is still in the development phase. The ABS is participating in the project.

The GNISP is developing a definition of the nonprofit sector for international use. The working definition draws on information from the Johns Hopkins Comparative Nonprofit Sector Project and fits into the SNA93 framework. The ABS advised in its submission that the working definition currently being tested is:

The Nonprofit Sector consists of Nonprofit Institutions that: (1) are self-governing organisations (2) are private (3) are voluntary (in the sense of non-compulsory) and (4) do not distribute surplus to those who own or control them.

The GNISP uses a classification known as the International Classification of Nonprofit Organisations. This is an activity-based classification, which cuts across industry groups.

Conclusion

The focus of the definitions used for the collection of statistics on not-for-profit organisations is the not-for-profit sector as a whole. Most of these are based on the entity's activity or organisational structure, rather than on the basis of the entity's purpose. Nevertheless, classifications of the not-for-profit sector can

18 Australian Institute of Health and Welfare 1999, *Australia's Welfare 1999: Services and Assistance*, AIHW, Canberra, p 8.

allow for subcategories that correspond to, or are close to, charities and related entities.

Statistical definitions and classifications are designed for the purpose of producing relevant, meaningful and comparable statistics. Nevertheless, the Committee has been able to draw on some of the principles that underpin them in considering definitions and classifications of charities and related entities that will apply in the legislative and administrative fields.