



RESEARCH NOTE

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Charitable Organisations in Australia Industry Commission Inquiry

In December 1993 the Assistant Treasurer, the Hon. George Gear, gave a reference to the Industry Commission to inquire into the operations of charitable organisations in Australia. The Commission received 450 submissions from individuals and community organisations, conducted 23 public hearings across Australia and visited over 130 organisations before producing its Draft Report for public comment in October 1994.

The main focus of the inquiry was to examine and report on the scope, efficiency, effectiveness, funding and administrative arrangements of the services provided in Australia by charitable organisations.

The organisations included in the scope of the inquiry were Australian non-profit community welfare and non-government overseas aid development organisations. The Report refers to these organisations collectively as Community Service Welfare Organisations (CSWOs).

Characteristics of the Sector

CSWOs provide care, accommodation, welfare services and support services to children, families, people with a disability, the aged, the unemployed, those suffering addictions, the homeless, refugees, and disadvantaged members of the community.

In 1992-93 there were approximately 11 000 CSWOs with a total annual expenditure of more than \$4.4bn of which \$2.7bn was directly funded by governments. CSWOs received \$900 million in client fees and in excess of \$400 million in indirect funds from governments in the form of tax concessions and exemptions.

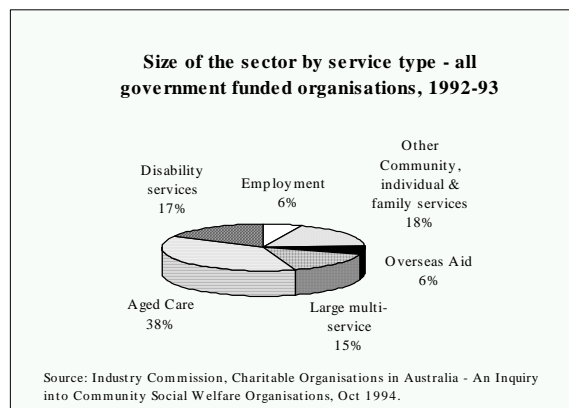
Further, the Australian public contributed over \$500 million in donations. The largest 50 organisations have recurrent expenditure in excess of \$10 million and collectively spend about \$1.5 billion.

CSWOs employ approximately 100 000 people, most of whom are female and work on a part-time basis. It is estimated that about 1.3 million volunteers work in the sector for a total of 95 million hours each year. This is equivalent to 50 000 persons contributing 40 hours per week.

The strengths of CSWOs lie in their capacity to identify and respond rapidly and flexibly to community needs; their ability to provide user-friendly and personal services; and to involve the community through participation in fundraising and voluntary work.

Graph one shows a breakdown of the community service sector by service type for 1992-93.

Context of the Inquiry and Issues Addressed



There was general concern in the community service sector from the outset regarding the suitability of the Industry Commission to conduct the inquiry given that its

experience is primarily in analysis of traditional commercial markets as opposed to a community service sector whose very existence is a result of market failure.

Another major concern of the community service sector was how exactly the Industry Commission was going to examine the efficiency and effectiveness of the services provided and the administrative efficiency of the organisations, given that there are currently no official performance indicators or benchmarks in the community service sector by which efficiency can be measured accurately.

Nonetheless the Report is written against the current social policy background of increasing government devolution of service delivery to CSWOs. It seeks also to incorporate the Commonwealth's principles of social justice. The Industry Commission has outlined draft recommendations on the basis of the following core issues:

- resourcing CSWOs through - direct and indirect government funding, client fees, fundraising, and volunteer contributions;
- improving quality and performance;
- accountability;
- support mechanisms - research and development, staff and management training, and peak councils; and
- developing partnership between the sector and the government.

Comments on Draft Recommendations

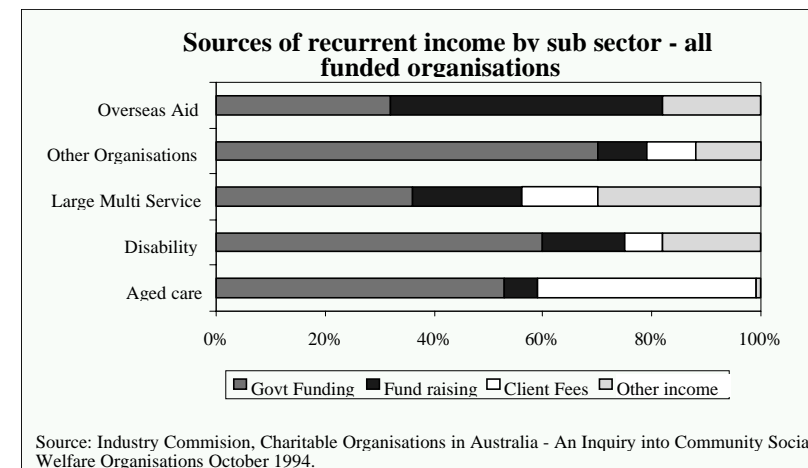
Overall the Industry Commission made twenty five draft recommendations. Many of the draft recommendations were well received by CSWOs, for example:

- three year funding agreements;
- funding agreements should take into account the full cost of service delivery;
- extension of tax deductibility of donations to all CSWOs;
- removal of lower limit on donations for tax deductibility;
- capital gains tax exemption on assets bequeathed to CSWOs with tax deductibility status;
- uniform or mutual recognition of fundraising legislation between States; and
- collection of data on State and Commonwealth social welfare programs by the ABS.

CSWOs, however, have expressed serious reservations regarding some of the other draft recommendations, for example:

- tied program funding by governments;
- emphasis on output based funding;
- selection of service providers by open tender process;
- revenue neutral package of assistance to replace input tax exemptions to be developed by Council of Australian Governments;
- removal of exemption from Fringe Benefits Tax; and
- requirement to become incorporated and comply with Australian Securities Commission reporting standards.

The CSWOs are particularly concerned about the recommendation



for payments under funding agreements to be for defined outputs. The Commission's preference to judge efficiency by quantitative outputs rather than qualitative outcomes requires an identification of "best practice". CSWOs are characterised by different philosophies and approaches to service delivery depending on community needs at any given time. The differences in service provision caters for the diversity of community needs and provide a choice for consumers. Any move toward prescriptive output based funding could serve to undermine the very responsive nature of CSWOs.

The recommendation for selection of service providers by open tender assumes CSWOs are in competition with each other for the same market. This is generally not the case; rather co-operation and networking are the relevant paradigms. CSWOs are concerned that competitive price tendering could see a situation where the lowest price tender is chosen without regard for quality issues and regardless of whether the service can be provided effectively at that price.

Whilst CSWOs acknowledge the need for standardised accounting procedures in order to promote transparency of their operations for greater public confidence and support, they fear a requirement for detailed accounting proce-

dures and private sector managerial "professionalism" may compromise their autonomy, flexibility, responsiveness and diversity in providing and developing vital community services.

Final Report

The Industry Commission invited further public comment on its Draft Report and recommendations. Further submissions were received from the community and another series of public hearings have been conducted. The final report from the Commission is expected to be handed to the Government in late June 1995.

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