

# Chapter 2

## Australia's Third Sector

2.1 This Chapter sets out the terminology that will be used throughout the report. The definitions of terms as they relate to tax concessions afforded the Sector are discussed in Chapter 8. In addition, this Chapter provides a descriptive statistical analysis of the Third Sector in Australia and provides insight into the Sector's value. It highlights the variability within the Sector in terms of differences of size relating to revenue, staffing and resources. It also highlights Australia's existing deficiencies in quantifying the contribution of the Sector.

### What is the 'Third Sector'?

2.2 For analytical purposes the scholarly literature often divides society into four sectors:<sup>1</sup>

- Business (First Sector)
- Government (Second Sector)
- Not-For-Profit, non-government, voluntary, intermediary (Third Sector)
- Family (Fourth Sector)

2.3 The Third Sector in Australia sits alongside the government and private sectors. Third Sector organisations may receive government funding to provide public services, but they are not part of government. Similarly, Third Sector organisations may charge for business services, but are not part of the business sector because their primary aim is not to generate profits for their owners.

2.4 Broadly, Third Sector organisations comprise charities, churches and religious organisations; sporting organisations and clubs; advocacy groups; community organisations; cooperatives; trade unions; trade and professional associations; chambers of commerce; welfare organisations; and service providers, which can be divided into three clear classes of organisations – Mutuals, Social Enterprises and Not-For-Profits.

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1 For reference to the four sectors of society see Helmut Anheier, 'Dimensions of the Third Sector: Comparative Perspectives on Structure and Change', Paper presented at Centre for Civil Society, London School of Economics, August 2000 p. 16. That there should be any division at all is contested. See Simone Chambers and Will Kymlicka, *Alternative Conceptions of Civil Society*, The Ethikon Series in Comparative Ethics (2002), Eva Cox notes that Margaret Thatcher said, "There's no such thing as society". Eva Cox, 'Broadening the Views – A Truly Civil Society', paper presented at the 1995 Boyer Lectures, Broadcast: Tuesday 7<sup>th</sup> November 1995 at 0830 on Radio National, 11 November 1995.

2.5 In the past, the Third Sector has commonly been referred to as the 'Not-For-Profit Sector', used interchangeably with the term 'Non-Profit Sector'. In their submission to this Inquiry, the Fundraising Institute Australia (FIA) made the following statement:

Let's decide the name of the sector!

Currently nonprofit and not-for-profit, along with a number of other terms – NGO, INDGO, NPO, NFP, for social purpose, third sector organisations, voluntary organisations (VO)- are widely used.

The Federal Government has introduced voluntary sector and more recently third sector.<sup>2</sup>

2.6 The term 'Third Sector' is used in this report to highlight firstly the fact that the Third Sector can consist of technically more than 'traditional' Not-For-Profit Organisations, and secondly to follow the lead of countries which have already undertaken Third Sector reform with demonstrated results. The term 'Third Sector' is now widely used internationally, and the UK has an Office of the Third Sector (OTS) which sits within the Cabinet Office. It also avoids naming the Sector by saying what it is not.

2.7 The Third Sector in the UK has a broader definition than what may be commonly applied to the Sector in Australia. The Third Sector includes finance mutuals and trading cooperatives, and Not-For-Profit Organisations (distinct from the misnomer 'Not-For-Profit Sector').

2.8 The OTS regulates the organisations which share the following characteristics:

- non-governmental
- value-driven
- principally reinvest any financial surpluses to further social, environmental or cultural objectives.

The term encompasses voluntary and community organisations, charities, social enterprises, cooperatives and mutuals both large and small.<sup>3</sup>

### **Finance mutuals and trading cooperatives**

2.9 Finance mutuals and trading cooperatives are sometimes excluded from consideration with other Third Sector organisations in Australia. According to the Australian Taxation Office (ATO):

The Tax Office accepts an organisation as Non-Profit where its constituent or governing documents prevent it from distributing profits or assets for the

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2 Fundraising Institute Australia, *Submission 77*, p. 13.

3 Office of the Third Sector, *About Us*, [http://www.cabinetoffice.gov.uk/third\\_sector/about\\_us.aspx](http://www.cabinetoffice.gov.uk/third_sector/about_us.aspx) (accessed 3 November 2008).

benefit of particular people – both while it is operating and when it winds up. These documents should contain acceptable clauses showing the organisation's Non-Profit character.<sup>4</sup>

2.10 However, Professor Mark Lyons argues that there is:

[A] group or class of third sector organisations that permits the distribution of net assets to members if the organisation is wound up, or taken over. The most numerous of these are in the finance and insurance industries: credit unions, (some) building societies and mutual insurers. They are known generally as finance mutuals. Others are known as trading cooperatives. These are established by their members to process or market the product of their labour or to strengthen their power as consumers in particular markets.<sup>5</sup>

2.11 Finance mutuals are currently regulated by the Australian Prudential Regulation Authority (APRA). While very similar to other cooperatives, such as those providing child or health care, or housing or hospitality services (such as clubs), the descriptor 'Not-For-Profit' does not sit perfectly with such organisations because of their winding-up clause. Neither do these organisations belong as part of the Government or Business Sectors. However, the purpose of finance mutuals and trading cooperatives aligns more closely with other Not-For-Profit Organisations, and the winding up value of finance mutuals and trading cooperatives does not have a bearing on their day to day operations. This reinforces the justification of the term 'Third Sector' as the best overarching name.

2.12 The committee received little evidence throughout the course of the inquiry about the disclosure regimes of finance mutuals, trading cooperatives or trade unions specifically. Therefore, the committee is unable to provide recommendations with respect to these organisations.

2.13 Discussions henceforth will focus on Not-For-Profit Organisations which do not completely comprise the Third Sector, but form a major subset within it.

## **Social Enterprises**

2.14 The terms of reference set for the committee's Inquiry ask that contributors consider 'models of regulation and legal forms that would improve governance and management of charities and Not-For-Profit Organisations and cater for emerging social enterprises'. According to the Associations Forum:

We assume “social enterprises” to be either private companies that have been established to assist community causes or Not-For-Profit

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4 Australian Taxation Office, *Is your organisation Non-Profit? – Tax basics for Non-Profit organisations*, <http://www.ato.gov.au/nonprofit/content.asp?doc=/content/33732.htm> (accessed 16 October 2008).

5 Lyons, M. and Hocking, S., *Dimensions of Australia's Third Sector*, pp 2-3, University of Technology, Sydney, 2000.

Organisations that have been recently set up, often by a person called a “social entrepreneur”.

It seems the term social enterprise is new language to describe what has been happening in Australia for many decades: Not-For-Profit Organisations are established for a cause.<sup>6</sup>

2.15 Social Enterprise Hubs Australia, an organisation established and run by Social Ventures Australia (SVA), describes the role of social enterprises:

Many individuals find themselves excluded from mainstream life and employment due to disability, illness or other disadvantage. Businesses that operate for the primary purpose of employing such individuals are known as social enterprises. These enterprises play an important role in overcoming social exclusion and providing real jobs to marginalised Australians.<sup>7</sup>

2.16 In its submission to the committee, SVA states that, in the US and the UK:

...specific legal structures have recently been created which allow for hybrid investment models and tax incentives for social investors. We believe this needs to be considered and developed for the Australian market to encourage investment in the not for profit sector.<sup>8</sup>

2.17 The committee notes that the majority of submissions received did not address the issue of social enterprises. On this basis, the committee is unable to specifically comment on issues relating to social enterprises in this report. However, it acknowledges that social enterprises form a part of the Third Sector, and believes that further research must be undertaken with respect to this category of organisations. This role should be undertaken by government.

## **Not-For-Profit Organisations**

2.18 Not-For-Profit Organisations are a subset of the Third Sector. Recommendation 1 from the Charities Definition Inquiry advocated the replacement of the term 'Non-Profit' by the term 'Not-For-Profit'. That Inquiry heard that there was confusion among members of the community, some of who argued that a Non-Profit organisation should generate no surpluses at all, whereas, in reality, many of these organisations, including charities, 'carry on commercial activities or make investments in order to maximise the income available for it to carry on its charitable purpose'.<sup>9</sup>

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6 Associations Forum, *Submission 107*, p. 14.

7 Social Enterprise Hubs Australia, 'Welcome' page, <http://www.socialenterprisehubs.org/>, (accessed 6 November 2008).

8 Social Ventures Australia, *Submission 139*, p. 3.

9 Inquiry into the Definition of Charities and Related Organisations, *Chapter 11: Not-For-Profit Entities*, [http://www.cdi.gov.au/report/cdi\\_chap11.htm](http://www.cdi.gov.au/report/cdi_chap11.htm) (accessed 16 October 2008).

2.19 However, the committee found that the use of 'Not-For-Profit' still attracts criticism within the sector. Organisations such as Philanthropy Australia have argued that the term Not-For-Profit is deceptive, because it creates 'the perception that profit is not necessary to these organisations'.<sup>10</sup> Similarly Vittoria Borazio of Youth Off The Streets believes that the term is misleading for the general public, who may think that Not-For-Profit is another way of referring to a charity.<sup>11</sup> In adopting this term, the committee accepts that not all stakeholders will be satisfied.

### ***Subgroups of Not-For-Profit Organisations***

2.20 Not-For-Profit Organisations can be divided into further subgroups – those that are charities in the existing system, and those that are not. The committee recognises that there are other ways to break down Not-For-Profit Organisations, including dividing the Organisations according to whether they are Community Sector, Charities under the popular definition, Charities under the legal definition, Public-serving groups, member-serving groups or other.

### ***Charity***

2.21 There is currently no statutory definition of charity in existence in Australia. The common law meaning of charity applies<sup>12</sup>, based on over 400 years of legal precedent. The Australian Macquarie Dictionary defines a charity as:

1. almsgiving; the private or public relief of unfortunate or needy persons; benevolence.
2. something given to a person or persons in need; alms.
3. a charitable act or work.
4. a charitable fund, foundation, or institution.
5. benevolent feeling, especially towards those in need.<sup>13</sup>

2.22 The Australian Taxation Office (ATO) has issued a ruling defining a 'charity' for tax purposes. A charity endorsed by the ATO may be eligible for tax concessions or exemptions that are unavailable to other Not-For-Profit Organisations. The ATO states that an organisation is a charity if:

- it is an entity which is also a trust fund or an institution

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10 Philanthropy Australia, *Submission 42*, p. 1.

11 Ms Vittoria Borazio, Chief Operating Officer, Youth Off The Streets, *Proof Committee Hansard*, 31 October 2008, p. 86.

12 Extension of Charitable Purpose Bill 2004, *Explanatory Memorandum*, The Hon Peter Costello MP, p. 4.

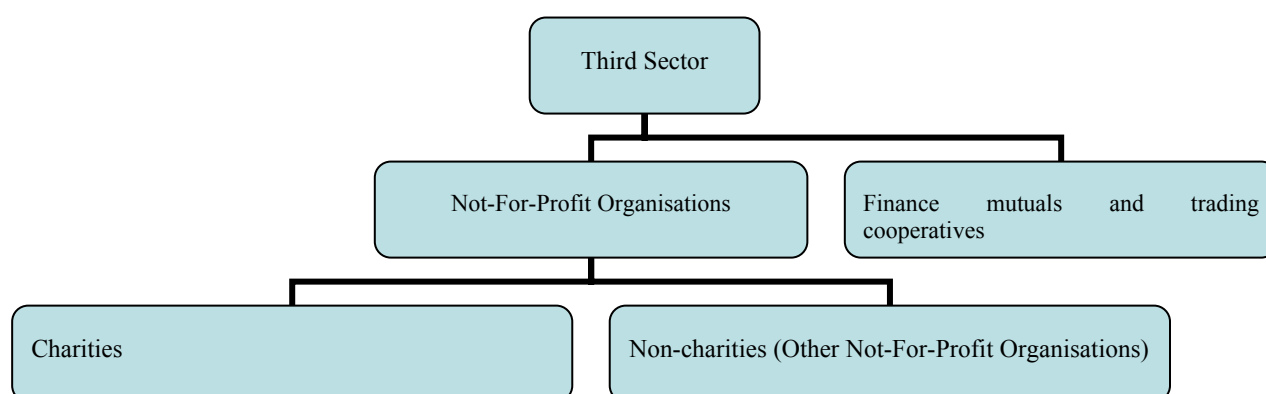
13 The Australian Online Macquarie Dictionary, "Charity", [http://www.macquariedictionary.com.au/152.91.9.9@929FF929383487/-/p/thes/article\\_display.html?type=title&first=1&mid=3&last=3&current=1&result=1&DatabaseList=dictbigmac&query=charity&searchType=findrank](http://www.macquariedictionary.com.au/152.91.9.9@929FF929383487/-/p/thes/article_display.html?type=title&first=1&mid=3&last=3&current=1&result=1&DatabaseList=dictbigmac&query=charity&searchType=findrank) (accessed 17 November 2008).

- it exists for the public benefit or the relief of poverty
- its purposes are charitable within the legal sense of that term
- it is non-profit, and
- its sole purpose is charitable.<sup>14</sup>

### *Non-charity*

2.23 Non-charities are those organisations generally run for and by their members, such as local sporting clubs or community associations. Unlike charities, non-charities may be purely informal, operating without incorporation.

2.24 Diagram 2.1 demonstrates the relationship between organisations within the Third Sector. The committee has provided this basic overview of the Third Sector, aware that the importance of definitions to the Sector lies in the ramifications that a given definition holds for an organisation in respect to its eligibility for tax concessions.



## **International standards**

2.25 The Australian Bureau of Statistics utilises the International Classification of Non-Profit Organisation (ICNPO) in its classification of 'types' of not-for-profit organisation. The ICNPO is a statistical standard for the development of data on not-for-profit institution, developed by the United Nations for its Handbook on Non-Profit Institutions in the System of National Accounts. Under the ICNPO, Not-For-Profit Organisations are included in one of 12 groups, including:

1. Culture and Recreation

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14 Australian Taxation Office, *Is your organisation a charity?*, <http://www.ato.gov.au/nonprofit/content.asp?doc=/content/24483.htm&page=2&H2> (accessed 24 November 2008).

2. Education and Research
3. Health
4. Social Services
5. Environment
6. Development and Housing
7. Law, Advocacy and Politics
8. Philanthropic Intermediaries and Voluntarism Promotion
9. International
10. Religion
11. Business and Professional Associations, Unions
12. Not Elsewhere Classified

2.26 Each of these groups are broken down into subgroups. For example, Group 3, Health, is divided into subgroups: Hospitals and rehabilitation; Nursing homes; Mental health and crisis intervention; and Other health services.<sup>15</sup> The United Nations notes the advantages of this modular approach in classification:

ICNPO makes it possible to group and regroup organizations in order to shed light on components and dimensions of the non-profit sector that might be important for national or comparative purposes.<sup>16</sup>

2.27 However, the INCPO is limited in its use for comparative purposes in Australia due to the unavailability of some data (discussed later in this Chapter). The value of using INCPO as a system in Australia is also restricted given that it fails to differentiate between charities and other Not-For-Profit Organisations. The necessity of maintaining a notional divide between charities and other Not-For-Profit Organisations, which are subsets of the larger Third Sector, is important to this Inquiry given that disclosure regimes may differ according to the subset of origin.

### **Size and economic contribution of the Sector**

2.28 According to the National Roundtable for Nonprofit Organisations (NRNO), in 1999-2000 the Sector 'made an economic contribution larger than the communications industry and about equal to that of the agriculture industry; a contribution almost twice as large as the entire economic contribution of the state of Tasmania'<sup>17</sup>.

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15 United Nations, *Handbook on Non-Profit Institutions in the System of National Accounts*, p. 31, [http://unstats.un.org/unsd/publication/SeriesF/SeriesF\\_91E.pdf](http://unstats.un.org/unsd/publication/SeriesF/SeriesF_91E.pdf) (accessed 16 October 2008).

16 United Nations, *Handbook on Non-Profit Institutions in the System of National Accounts*, p. 32, [http://unstats.un.org/unsd/publication/SeriesF/SeriesF\\_91E.pdf](http://unstats.un.org/unsd/publication/SeriesF/SeriesF_91E.pdf) (accessed 16 October 2008).

17 Professor Mark Lyons, *Submission 67*, p. 4.

2.29 The NRNO estimates that there are as many as 700,000 Not-For-Profit Organisations in Australia today, 'most of which are small and entirely dependent on the voluntary commitment of members'.<sup>18</sup>

2.30 Despite this statistic, Australia has never undertaken a comprehensive survey of the Sector, including large and small, incorporated and unincorporated organisations. This is likely to be due to the lack of any central body or register which can track most of the Third Sector organisations in existence in Australia (or at least all Not-For-Profit Organisations) and their sheer number.

There are so many of the kitchen table operations. I have a holiday house down on the Gippsland Lake and there is a permanent population down there of 710 people, but they have got 73 little clubs and organisations.<sup>19</sup>

### ***What do we know?***

2.31 In 1995, the Industry Commission published a report entitled *Charitable Organisations in Australia* which was intended to strengthen the contribution which the charitable sector makes to Australia. Organisations such as those dedicated to the supply of health, education and religious services were not included in the Inquiry, being outside the given terms of reference. However, the authors encountered difficulties even in determining the size of that smaller part of the sector, noting that:

There are considerable difficulties in specifying the structure and size of the community social welfare sector; let alone the various sub-sectors. The sector is comprised of many diverse organisations that provide different combinations of services and derive income from various sources.

Because no public authority imposes uniform standards of financial reporting on CSWOs, there is a lack of statistical data on the sector. Comparable data is therefore difficult to obtain. Previous studies of the sector have adopted different classification systems or defined the sector differently.<sup>20</sup>

2.32 Despite difficulties in determining the size of that sector (labelled as Community Social Welfare Organisation (CSWOs)), the Inquiry determined that its combined total annual expenditure was \$4.8 billion in 1993-94 (equivalent to 1 per cent of GDP), of which \$2.7 billion was from government funding. The report indicated that the sector employed approximately 100,000 people.<sup>21</sup>

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18 Professor Mark Lyons, *Submission 67*, p. 4.

19 Mr Garry Bartlett, Chair, Voluntary and Honorary Work Subcommittee, CPA Australia Third Age Network, *Proof Committee Hansard*, 30 October 2008, p. 84.

20 Industry Commission, *Charitable Organisations in Australia*, Report No. 45, 16 June 1995, p. 18.

21 Industry Commission, *Charitable Organisations in Australia*, Report No. 45, 16 June 1995, p. XVII.



2.33 In 2002, the ABS published the *Non-Profit Institutions Satellite Account* for the year 1999-2000. According to the *Satellite Account*, total income from Not-For-Profit Organisations in that year was \$33.5 billion (equivalent to 5 per cent of GDP), most of which was generated through the sale of goods and services. The sector employed 604,000 persons in 1999–2000, representing 6.8% of total employed people in Australia. The number of volunteers working in the sector was not recorded; however volunteers worked 558 million hours, the equivalent of 285,000 equivalent full time employees.<sup>22</sup>

2.34 However, the *Satellite Account* warns that it 'does not attempt to measure the universe of entities that could be legally defined to be NPIs'. The report excludes organisations that are mainly controlled by the government, such as universities and hospitals that are run by religious orders but funded by the government. Units operating in the finance and insurance industry and other trading cooperatives are not included in this satellite account as they are in the commercial sphere and are primarily guided by commercial goals and considerations. The ABS concludes the discussion on the validity of inclusions within the definition by saying that 'the scope of NPIs to be included in a NPI satellite account is worthy of further consideration'.<sup>23</sup>

2.35 The ATO has registered approximately 190,000 Not-For-Profit Organisations.<sup>24</sup> In a recently released statistical study, the ABS found that there were 40,976 Not-For-Profit Organisations registered for an Australian Business number in June 2007, employing 884,476 people with another 2,434,815 people volunteering in the sector. It also found that the sector received \$74.5 billion in income in the 2006-07 financial year.<sup>25</sup> These figures exclude Not-For-Profit Organisations with an annual turnover of less than \$150,000 which are not required to register for an ABN, although some may have chosen to do so. There are also an additional 147,000 incorporated associations and co-operatives registered with state regulators. Statistics relating to income and employment are not available for these organisations using a registered incorporated structure.<sup>26</sup> Mr A.D. Lang, representing the Law Council of Australia warns that:

If you look at those figures superficially...you will get a completely misleading picture of the sector. What is not made explicit in the data that has been released is that they only include a sample selected by the ABS of

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22 Australian Bureau of Statistics, *Non-Profit Institutions Satellite Account*, Australian National Accounts, Cat. No. 5256.0, pp. 8-9.

23 Australian Bureau of Statistics, *Non-Profit Institutions Satellite Account*, Australian National Accounts, Cat. No. 5256.0, p. 24.

24 Australian Taxation Office, *Compliance Program 2008-09: Not-for-profit organisations*, <http://www.ato.gov.au/corporate/content.asp?doc=/content/00155156.htm&page=61&H61&mu=45855&mfp=001> (accessed 2 December 2008).

25 Australian Bureau of Statistics, *Not-For-Profit Organisations, Australia, 2006-07*, Cat. No. 8106.0.

26 Department of the Treasury, *Submission 169*, p. 1.

those organisations that are registered under the Australian Business Register. The picture that those statistics gives is quite misleading, and that is a real issue in terms of trying to have a proper debate about the sector...<sup>27</sup>

### ***How big are Not-For-Profit Organisations?***

2.36 Organisations may have differing reporting requirements according to their size and legal structure. The most common descriptor used by respondents to this inquiry was to characterise Not-For-Profit Organisations as 'small', 'medium' and 'large'. The *Corporations Act 2001* (Cth), to which some Not-For-Profit Organisations are subject, describes a small company as one which satisfies two of the three following conditions:

- (a) the consolidated revenue for the financial year of the company and the entities it controls (if any) is less than \$25 million, or any other amount prescribed by the regulations for the purposes of this paragraph;
- (b) the value of the consolidated gross assets at the end of the financial year of the company and the entities it controls (if any) is less than \$12.5 million, or any other amount prescribed by the regulations for the purposes of this paragraph;
- (c) the company and the entities it controls (if any) have fewer than 50, or any other number prescribed by the regulations for the purposes of this paragraph, employees at the end of the financial year.<sup>28</sup>

2.37 In a 2004 report detailing the findings of national survey of not-for-profit companies limited by guarantee, Woodward and Marshall noted that, using the definitions within the Act, 88% of their respondents would be classified as 'small' for the previous financial year.<sup>29</sup>

2.38 Within the third sector itself, the authors concluded that:

Just under a third of NFP organisations surveyed (30%) had an income of less than \$100,000 in the last financial year, and just over a half (53%) had an income of less than \$500,000. These proportions give an indication of what might be a useful figure when distinguishing between large and small organisations for regulatory purposes. Only 36% of organisations surveyed had \$1 million or more gross income in the last financial year.<sup>30</sup>

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27 Mr A. D. Lang, Representative, Law Council of Australia, *Proof Committee Hansard*, 28 October 2008, p. 58.

28 *Corporations Act 2001* (Cth), s 45A.

29 Woodward, Susan and Marshall, Shelley D., *A Better Framework: Reforming Not-for-Profit Regulation* (2003) p. 21, University of Melbourne, Public Law Research Paper No. 70; Centre for Corporate Law and Securities Regulation Working Paper.

30 Woodward, Susan and Marshall, Shelley D., *A Better Framework: Reforming Not-for-Profit Regulation* (2003) p. 40, University of Melbourne, Public Law Research Paper No. 70; Centre for Corporate Law and Securities Regulation Working Paper.

2.39 Other submissions to the current Inquiry suggested alternative descriptors and definitions. For example, the CPA Third Age Network Committee recommends that associations that are not prescribed associations in line with the Victorian *Associations Incorporation Act 1991* (organisations with a gross annual revenue under \$200,000 and gross assets under \$500,000<sup>31</sup>) be labelled as 'Micro' Not-For-Profit Organisations.<sup>32</sup>

### ***'Reach' of Not-For-Profit Organisations***

2.40 Not-For-Profit Organisations can also be defined in terms of their 'reach'. The majority of Not-For-Profit Organisations in Australia are 'micro' organisations, operating within a local area and run by local volunteers. However, Not-For-Profit Organisations in Australia are probably now less likely to be based purely within a single state, and more likely to operate at a national level. A number of Australian Not-For-Profit Organisations (mainly charities, such as Oxfam Australia and the Australian Red Cross) also participate in overseas as well as domestic operations.

### ***Who represents Not-For-Profit Organisations?***

2.41 A number of peak bodies operate in Australia for Not-For-Profit Organisations. Notably, these include: the Australian Council for International Development (ACFID), which is 'an independent national association of Australian non-government organisations working in the field of international aid and development' with a membership of 68 organisations<sup>33</sup>; the Australian Council of Social Service, which is the peak council of the community and welfare sector, and Fundraising Institute Australia (FIA), the peak body for fundraising in Australia. According to FIA:

Our members are both individual – some 1,700 individual members working in around one thousand charities and nonprofit organisations – and organisational – more than 80 organisational members with a combined turnover in excess of \$1.1 billion and thousands of staff.<sup>34</sup>

2.42 However, given the 700,000 Not-For-Profit Organisations estimated to be operating in Australia, the vast majority of not-for-profits are not members of a peak body. The CPA Third Age Network Committee claims that it is unaware of any peak body representing small Not-For-Profit Organisations. It attributes this to 'the extraordinary diversity of purposes, huge number of entities, national geographic spread and very small size'<sup>35</sup> of Not-For-Profit Organisations. If this is the case, large

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31 *Associations Incorporation Act 1981* (Vic), s 3.

32 CPA Third Age Network Committee, *Submission 39*, p. 3.

33 Australian Council for International Development, *Submission 164*, p. i.

34 Fundraising Institute Australia, *Submission 77*, p. 3.

35 CPA Third Age Network Committee, *Submission 39*, p. 3.

Not-For-Profit Organisations have a vehicle which can defend their interests; but smaller organisations are unlikely to receive the same level of advocacy.

### **Funding**

2.43 Although the Committee heard that the Sector is funded largely by the government through contracts and grants to carry out a variety of tasks within the local community, Professor Lyons estimates government funding is only a third of the overall income of the Sector.<sup>36</sup> 'Government funding' in this context does not include the indirect support that Not-For-Profit Organisations receive through their eligibility for tax concessions and exemptions. The committee heard that, excluding GST concessions, tax forgone by Not-For-Profit Organisations in 2007-08 is 'expected to cost [the Government] \$890 million'.<sup>37</sup> In utilising the available concessions and exemptions, these organisations may not have the same operating costs as businesses.

2.44 Other funding for the Sector comes through the sale of goods and services, donations, bequests, fundraising and corporate sponsorship. From research on philanthropy in Australia, it was found that:

- In 2005, Australians donated \$5.7 billion to non-profit organisations
- A further \$2 billion was provided by Australians who bought raffle tickets, or attended charity auctions and similar events
- ...
- Over half a million Australian businesses provided \$3 billion to non-profit organisations as gifts of money, goods and services and sponsorship<sup>38</sup>

2.45 Not all donations made to Not-For-Profit Organisations can be claimed as tax deductions. In 2004/05, \$1.47 billion was claimed, which seems to indicate that Australians do not donate to Not-For-Profit Organisations primarily to receive tax concessions. Indeed, the *Giving Australia Report 2005* concludes that, based on an estimate of donations by individuals, only one in four of these donations is ever claimed as a tax deduction.<sup>39</sup>

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36 Professor Mark Lyons, *Proof Committee Hansard*, 29 October 2008, p. 64.

37 Mr Christopher Leggett, Senior Adviser, Personal and Retirement Income Division, Department of the Treasury, *Proof Committee Hansard*; 29 October 2008, p. 21.

38 Queensland University of Technology, Centre for Philanthropy and Nonprofit Studies, *Current Issues Information Sheet 2007/2: Tax Deductible Giving in 2005-05*, p. 1.

39 Australian Government, *Giving Australia: Research on Philanthropy in Australia*, <http://www.philanthropy.org.au/community/transcripts/Giving%20Australia%20Summary.pdf> p. 36 (accessed 2 December 2008).

## **Volunteering**

2.46 Submitters to this Inquiry highlighted the value of the contribution made by volunteers within the Sector:

- During 2004, 6.3 million Australians, 41% of adults, volunteered a total of 750 million hours of labour for non-profit organisations of all sizes
- This voluntary contribution was equivalent to an additional \$13.3 billion donated to the non-profit sector
- In 1999-2000, when the contribution of volunteers (then estimated at \$8.9 billion) is added to the financial data, Australia's non-profit sector contributed \$42 billion to the national economy. This was equivalent to the contribution of the mining industry
- The latest ABS Voluntary Work, Australia Survey (2006) has shown that volunteering figures have decreased. In 2006 5.4 million people (34% of the adult population) volunteered 713 million hours of time.<sup>40</sup>

2.47 Despite figures indicating a recent drop in volunteering hours, volunteering remains a significant way in which Australians support Not-For-Profit Organisations. The committee heard that volunteering figures have the potential to increase, as a toughening economic climate means that people may volunteer more in lieu of providing financial donations.<sup>41</sup>

2.48 The committee notes that the figures describing volunteering hours may not be precise, since the value of volunteering to micro organisations cannot be effectively captured. Evidence provided to the committee suggests that even large organisations have no processes in place to actively quantify the contribution of volunteers.

## **Committee View**

2.49 The committee notes the estimates provided of the size of the Third Sector in Australia but also notes that the data is incomplete and fractured. The committee notes that to maximise the effectiveness of government policy in relation to social inclusion, it would be useful to gain an accurate picture of the Third Sector in Australia through improved data collection.

2.50 However, the committee declines to make a specific recommendation in relation to this issue at this time. In the current environment, the committee believes that an accurate descriptive analysis of the Sector is impossible to achieve. However,

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40 Keating, K., *The National Governance of the Non-Profit Sector*, 2007, p. 5. sourced from the National Roundtable for Non-Profit Organisations.

41 Senator Rachel Siewert and Ms Vittoria Borazio, Chief Operating Officer, Youth Off The Streets, *Proof Committee Hansard*, 31 October 2008, p. 89.

Chapter 6 contains a recommendation which may allow for the capture of information relating to all of these organisations.

**Recommendation 1**

**2.51 The committee recommends that all Australian Governments agree on common terminology for referring to organisations within the Sector. Governments should also develop a common meaning for terms referring to the size of these organisations, including 'micro', 'small', 'medium' and 'large'. This standard terminology should be adopted by all government departments.**