

Submission to the Productivity Commission:  
Contribution of the Not-for-profit Sector

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## 1. Executive summary

The Alcohol and other Drugs Council of Australia (ADCA) welcomes the opportunity to provide feedback to the Productivity Commission's study on the contribution of the not-for-profit sector. With about one million employees, the not-for-profit sector is not only a vital contributor to Australia's economy but also central to the well-being and development of Australian communities as it provides services to the most disadvantaged in our society and thus enhances social inclusion. It is important that the contributions of the not-for-profit sector are understood and widely recognised.

Presently, however, the not-for-profit sector faces numerous impediments in daily operations and their provision of government-funded services which will be addressed in this submission. ADCA believes it to be of vital importance that government 'walks the walk' and acknowledges the not-for-profit sector's contributions to fighting social exclusion by deregulating their operations and streamlining reporting requirements. ADCA hopes that the Productivity Commission's study will guide the way towards this direction.

In its submission, ADCA addresses several of the Terms of References (ToRs) underlying the Productivity Commission's study. With its focus being on improving the measurement of the not-for-profit sector's contribution and on removing obstacles to maximising the sector's contributions to society, ADCA argues that the following recommendations should receive serious consideration.

### **ADCA recommends:**

- **Government funding arrangements for not-for-profit organisations to be designed on a longer-term basis to provide security and opportunities for longer-term financial and operational planning**

Many not-for-profit organisations are currently faced with short-term funding arrangements that present serious impediments to not-for-profit organisations as they generate uncertainty, inhibit innovation, make it difficult to retain staff, render longer-term financial planning and proper investment extremely difficult, and stop organisations from pursuing more holistic strategic and organisational goals. ADCA considers a consistent and secure funding stream is vital for ensuring the effectiveness and sustainability of not-for-profit organisations' services and operations, and recommends that all funding agreements be designed on at least a three-year basis as this would enable longer-term approaches and outcomes.

- **A new accounting framework which would allow not-for-profit organisations to conduct single annual reporting to all governments and their different departments for management and acquittal of public funds**

This would decrease the regulatory burden imposed on not-for-profit organisations and eliminate the duplication caused by not-for-profit organisations having to report back to multiple funding bodies under different reporting requirements. Standardisation of reporting requirements and establishment of efficiency benchmarks would furthermore allow comparing different not-for-profit organisations' performance and expenditure patterns. ADCA considers the ability to assess and compare not-for-profit organisations' performance against the

available funds to be of crucial importance for evaluating the efficiency and effective of their operations.

- **The establishment of a separate authority that monitors the acquittal and management of reporting on behalf of all government departments**

Ideally, instead of reporting back to a number of different funding bodies, each utilising different reporting requirements, not-for-profit organisations should on an annual basis report back to one central authority, using a template that accounts for all grants received by one not-for-profit organisation. This would enable the application of consistency and standardisation to reporting requirements, and provide an opportunity to substantially decrease the amount of red tape that not-for-profit organisations are currently facing and hence increase NGO capacity.

- **The establishment of efficiency benchmarks of similar activities performed by different not-for-profit organisations that are to be evaluated against not-for-profit organisations' financial situation as part of a new accounting framework**

These benchmarks would assess the performance of not-for-profit organisations and their outcomes and function as an evaluation tool of not-for-profit organisations' efficiency and capability to function as major providers of social services.

- **A community benefit assessment section to be part of the new accounting framework that enables not-for-profit organisations to report in a consistent manner on the contribution they make to the Australian community**

This section could be utilised by the proposed authority to assess and compare the performance of different not-for-profit organisations, taking their funding arrangements into account. Funding allocation and increases could be based on evaluation of the different sections of the new accounting framework. ADCA strongly believes that data which truly measures performance, and enables comparability between service providers will assist in building capacity in the not-for-profit sector.

- **The establishment of a representative body that serves as an independent voice of the not-for-profit sector to government, business, and media**

A body such as the National Roundtable of Non-profit Organisations or a steering committee as envisaged by the Non-profit Sector Forum in December 2008 would be a way to address the size and diversity of the Australian not-for-profit sector and would establish a mechanism of representation and advocacy on behalf of the not-for-profit sector.

- **Investment in the provision of career incentives and skills development opportunities for employees of not-for-profit organisations**

The not-for-profit sector needs to strengthen its own training provision in order to attract staff, improve staff qualifications as well as providing them with career development opportunities. Additionally gained qualifications need to be formally

recognised and reflected in increased remuneration. Portability of long service leave and qualifications when moving from employment in the public sector to the non-government sector as well as appropriate training and skills development opportunities could attract people to join the NGO workforce.

- **Equal remuneration of not-for-profit sector employees and public sector employees doing similar work**

ADCA welcomes a decision the Queensland Industrial Relations Commission (QIRC, A/2008/5) made in May 2009 on pay parity for community workers in non-government organisations and hopes that it will function as a trigger for similar rulings in other jurisdictions. Community workers employed by the government and their counterparts employed by non-government organisations should be remunerated according to the principle of “equal remuneration for work of equal value” as defined in the Workplace Relations Act 1996. If this principle is not realised, then it is inevitable that the not-for-profit sector’s problem of attracting and retaining qualified staff will become even more apparent.

- **A move away from competitive tendering processes**

For many small to medium-sized not-for-profit organisations, moving key personnel off-line to complete complex funding applications and enter highly competitive tendering processes lies outside their capacities. Competitive tendering processes should be substantially reduced so that service providers can solely focus on delivering their services efficiently and effectively, and grants should be given to service providers based on a qualitative assessment of their service provision.

## 2. Introduction

As the recognised national independent peak body, ADCA represents the interests of the alcohol and other drugs (AOD) sector and provides leadership for the AOD sector. ADCA works collaboratively with government at all levels, as well as the non-government, business, and community sectors to promote evidence-based and socially just approaches aimed at preventing or reducing harm caused by alcohol and other drugs to individuals, families, and communities.

ADCA’s submission to the Productivity Commission is made from two perspectives: firstly, from ADCA’s own perspective as a small not-for-profit organisation advocating on behalf of not-for-profit organisations that are part of a subdivision within the not-for-profit sector, and secondly, from the perspective of small to medium-sized not-for-profit organisations not only providing AOD-related services, but also community services in general.

ADCA believes that not-for-profit organisations across all areas within the not-for-profit sector face numerous obstacles to delivering their services most effectively and efficiently and thus maximising their economic, social, and civic contributions. They are often overburdened with red tape and due to budget and staff constraints struggle to deliver the services they have been contracted for, and to fulfil complex reporting

requirements. It is important that the views of these not-for-profit organisations get heard and in this regard, ADCA welcomes the Productivity Commission's study. At the same time, however, these struggling frontline service providers may not be in a position to articulate their position themselves by submitting a submission as they are caught up in their ongoing operations. It is therefore important that national peak bodies are adequately equipped, both from a financial and a staffing perspective, to advocate on behalf of those most disadvantaged in our society and on behalf of community services providers.

While ADCA in this submission addresses numerous aspects mentioned in the ToRs and issues relating to all four broad categories outlined in the Issues Paper (p.16), it should be noted that special emphasis will be placed on categories two and three as they address aspects such as access to human and financial resources as well as sensible funding arrangements which are considered important presuppositions in order to enable not-for-profit organisations to deliver the best possible outcomes for individuals and the community, and to fulfil their important objective of enhancing social inclusion. Furthermore, ADCA believes that the trends and developments impacting on the not-for-profit sector are addressed throughout the submission and therefore will not be addressed in a separate chapter.

### **3. ADCA and the AOD sector – Who we are and what we do**

The Alcohol and other Drugs Council of Australia (ADCA) is the national peak body for the alcohol and other drugs (AOD) sector, providing an independent voice for people working to reduce the harm caused by alcohol and other drugs.

ADCA is a non-government, not-for-profit organisation which receives approximately 80% of its core funding and major ongoing project funding through the Australian Government Department of Health and Ageing under its Community Sector Support Scheme (CSSS), and the National Drug Strategy Program respectively. Approximately 12% is received through other project grants from State Governments or the Alcohol Education and Rehabilitation Foundation Ltd (AERF). The remaining 8% is generated through ADCA's membership fees, interest and other sources of income (small one-off projects).

As the national peak body, ADCA occupies a key role in advocating for adequate infrastructure support and funding for the delivery of evidence-based alcohol and other drug (AOD) initiatives. In this regard, ADCA represents the interests of a broad group of AOD service providers and individuals concerned with prevention, early intervention, treatment, supply reduction, and research.

Under the new governance arrangements, the ADCA Board is elected by the ADCA membership and consists of a total of nine Board Directors. The ADCA Federal Council comprising one representative per State/ Territory peak plus the ADCA Board, has been established as a key mechanism for coordination and cooperation with State/ Territory peaks. The ADCA Policy Forum comprises the ADCA Board, the State/Territory AOD peaks, and the Chairs of the ADCA Working Groups, and establishes an advisory forum

on key policy issues for the AOD sector. Both the ADCA Federal Council and the ADCA Policy Forum will meet on an annual basis.

At 1 May 2009, ADCA's membership totalled 350, comprising 159 organisational members, 53 associate organisational members, and 138 individual members. These include AOD services, agencies, and individual professionals and practitioners engaged in AOD services throughout Australia, as well as major university research centres, tertiary institutions offering courses in addiction studies and other programs for alcohol and other drugs workers, officers of law enforcement and criminal justice systems, policy analysts, and administration.

ADCA's strategic communication, policy, and advocacy on key issues is developed in close liaison with its broad and diverse membership base across all jurisdictions, the State and Territory peak bodies, as well as other AOD and non-government organisation (NGO) stakeholders.

ADCA is a company limited by guarantee, a public benevolent institution with income tax and sales tax exemption, and a deductible gift recipient.

#### **4. ADCA on measuring the contributions of the not-for-profit sector**

At the end of June 2007, about 41000 economically significant not-for-profit organisations existed in Australia which employed about 884000 staff and engaged 2.4million volunteers. Their total income was \$74.5 billion and they contributed \$35.1 billion or 3.5% to General Domestic Product (GDP) in the Financial Year (FY) 2006/07 (Australian Bureau of Statistics (ABS) 2007, 5204.0). The not-for-profit sector's economic contribution for the 2006/07 FY has been equivalent to that of the Government administration and defence industry and 1.5 times the size of the economic contribution of the agriculture industry (ABS 2007, 5204.0). The Non-Profit Institutions Satellite Account by the ABS quoted here adopts a purely input-based approach to measurement and measures inputs as a proxy for outputs. It provides a measure to evaluate the not-for-profit sectors' contribution in economic terms by looking at its' direct contribution to national income, employment, and GDP, including estimates of the direct monetary value of volunteers' contribution, but it is not a mean to measure the sector's social and civic outcomes. However, in order to create a holistic picture of the not-for-profit sector's contribution, all three, economic, social, and civic outcomes need to be taken into account and it needs to be acknowledged that the sector's contributions are both direct and indirect.

As pointed out in the Productivity Commission's issues paper, comprehensive data sets on the not-for-profit sector's economic contribution exist, but less comprehensive data is available on the sectors' outcomes and impacts which can be attributed to the fact that attribution is more difficult and assessment is on a qualitative rather than a quantitative basis. Previous Australian studies of the not-for-profit sector's contribution subsequently have mostly focussed on the sector's economic outcomes, but ADCA believes that there are not only significant methodological measurement issues in relation to the sector's



social and civic outcomes and impacts, but also significant gaps in coverage in the economic data that has been compiled.

The economic data collected by the ABS only assesses the economic contribution of those not-for-profit organisations that employ staff which are 41000 out of an estimated total of over 700000 not-for-profit organisations currently existing in Australia. While those 41000 not-for-profit organisations have been labelled “economically significant”, it is hard to believe that the remaining 659000 or so not-for-profit organisations combined do not make any contribution at all in economic terms. It therefore has to be questioned how well the Non-Profit Institutions Satellite Account by the ABS reflects the economic contribution of the whole not-for-profit sector.

This leads to another question, namely whether the framework for measuring the contribution of the not-for-profit sector proposed by the Productivity Commission (p.22) only looks at measuring the social outcomes and impacts of those economically significant not-for-profit organisations or of the total number of not-for-profit organisations existing in Australia. The latter approach would certainly be more representative of the sector and thus value the sector’s contribution appropriately, but would require that the input of those not-for-profit organisations not considered economically significant is reflected under the *in-kind support* section of the *Inputs*. And even then the problem of comparability between economic data sets such as the Non-Profit Institutions Satellite Account by the ABS and data on the sector’s social contribution derived from a framework such as the one proposed by the Productivity Commission would remain as different sample sizes would have been used. While in the first case, only economically significant not-for-profit organisations would have comprised the sample size, in the second case the inputs would have been derived from the total of Australian not-for-profit organisations.

It appears that the desire for a framework that measures the contribution of the not-for-profit sector is based on the existence of an assessment framework which measures the effectiveness of public sector service provision. However, a similar approach in relation to the not-for-profit sector would involve identifying a range of indicators related to the various roles undertaken by the sector. However, not enough information on the not-for-profit sector’s contribution seems to be available in order to be measured and assessed, and more research needs to be done to gain a better understanding of the sector’s various roles before it’s performance can be evaluated and ways of enhancements identified. It has been stated in the Productivity Commission’s issues paper that impact assessment studies will provide an important input into populating the framework. At present, however, hardly any impact assessment studies for the not-for-profit sector exist and not enough comprehensive data seems available to populate the framework at all levels. It seems the framework in itself constitutes an impact assessment study.

While it has been claimed in the Productivity Commission’s issues paper that more comprehensive data is available on the inputs level, ADCA stresses the difficulty associated with putting a price tag on the contributions of volunteers as these not only donate their time but also make their specific skill sets available for not-for-profit organisations. During the 2006/07 FY, there were more than 2.4 million volunteers in Australia and an estimation of their total remuneration appears to be difficult, given the



volunteers' diverse input and the fact that one cannot put a price tag on values such as giving and sharing. In this regard, ADCA strongly supports the points put forward by Volunteering Australia in chapter 6 of their submission to the Productivity Commission on the contribution of the not-for-profit sector (Volunteering Australia 2009).

As the national peak for the AOD sector, ADCA promotes evidence-based approaches aimed at preventing the health, economic, and social harm caused by alcohol and other drugs to individuals, families, and communities. ADCA believes that an evidence-based approach to policy-making is essential to achieve the best possible outcomes and that the collection of structural data is a crucial part of monitoring the effects of the not-for-profit sector and its subdivisions, and an important tool in order to understand the sector's inputs. ADCA agrees that a better understanding of how the sector contributes to community well-being would help to inform policy development and to remove impediments to the creation of value by not-for-profit organisations. Currently, however, no comprehensive framework to measure the not-for-profit sector's social and civic outcomes exists, and ADCA believes that a single framework will indeed not be able to measure these outcomes adequately. It has been pointed out that Australia's not-for-profit sector is highly diverse and that several activity qualifications exist within the sector – the ABS has identified nine. Furthermore, a framework as proposed by the Productivity Commission not only faces difficulties regarding the attribution of outcomes and impacts, but even in-kind support on the input-level can be hard to measure.

Instead of talking about the contribution of the not-for-profit sector as a whole, ADCA believes that more research needs to be done to gain a better understanding of the sector and to acknowledge its' diversity and its activity subdivisions instead of treating the sector as a single unit. The differences across the not-for-profit sector in terms of objectives, organisational structure, sources of finance and regulation are too significant to be ignored. Similarly, not-for-profit organisations contribute to economic, social, and civic outcomes in a number of different ways, both direct and indirect. ADCA fears that one single framework might not be capable of capturing the not-for-profit sector's diversity and measuring the contribution of the whole not-for-profit sector adequately.

ADCA acknowledges the draft overarching framework developed by the Productivity Commission as a good starting point and suggests that this framework be utilised in relation to the different activity qualifications within the not-for-profit sector. This approach would enhance the evidence-base for Australia's not-for-profit sector while acknowledging that the sector is too diverse to be covered by one single framework adopting an input-based approach to measurement as it seems deficient to account for all the "black spots" on the four levels of inputs, outputs, outcomes, and impacts. Qualitative, rather than quantitative outcomes such as advocacy outcomes and connection outcomes are particularly hard to measure as it is hard to assess the impact that advocacy and networking by not-for-profit organisations have over the allocation of resources and policy.

Despite not-for-profit organisations' best efforts, there is no guarantee that their advocacy efforts will be successful and reflected in health and social policy legislation as political decision makers are not obliged to take any recommendations made by not-for-profit peak bodies into account. Often, their advocacy efforts seem to be conducted in a

vacuum and advocacy outcomes are highly qualitative and thus hard to measure. In democratic legislative processes, consultation of stakeholders and representatives from both the not-for-profit and the public sector are now common practise. Consultation of these bodies, however, does not guarantee that their position is reflected in the actual law.

The only way in which an impact of the contributions made by the not-for-profit sector could be guaranteed would be if main representatives of the nine activity qualifications the ABS identified within the not-for-profit sector would establish a body which would be granted a seat at the table and whose position would have to be heard and taken into account in any legislative process relating to health, welfare, community, and social services. The establishment of such a body, however, would require major legislative changes. While recommendations made in a consultation process can be adopted or dismissed, their consideration would become compulsory if the body representing the not-for-profit sector would become part of the legislative process. This would guarantee not-for-profit organisations influence over policy and the allocation of resources.

In the United States, a permanent body called Independent Sector has been established which is independent and not government funded. The body serves as an independent voice of the not-for-profit sector to the media, government, business, and international not-for-profit organisations. A body such as the National Roundtable of Non-profit Organisations or a steering committee as envisaged by the Non-profit Sector Forum in December 2008 would be a way to address the size and diversity of the Australian not-for-profit sector and would establish a mechanism of representation and advocacy on behalf of the not-for-profit sector. Participants of the Non-profit Sector Forum called for a seat at the table on significant issues affecting the Australian Community and committed to identify common ground to foster stronger leadership and coordination within the not-for-profit sector (Catholic Social Services Australia 2008; Stephens 2008). ADCA, a participant of the Non-profit Sector Forum, welcomes a collaborative, cohesive approach by the sector but stresses that this will require some effort and coordination within the not-for-profit sector, as gaining bigger influence requires strategic positioning in order to be of assistance to the government and to be best-equipped for influencing policy development.

The Rudd Government has taken a genuine and active interest in an active not-for-profit sector with appropriate voice and representation to ensure active and proactive participation by the not-for-profit sector. The Government's social inclusion agenda recognises "the critical role the not-for-profit sector plays in delivering services, advising and developing social policy and advocating on behalf of marginalised groups", and that "a strong relationship between the government and the sector will be crucial to the success of the agenda and related reforms" ([www.socialinclusion.gov.au](http://www.socialinclusion.gov.au)). A national compact, an agreement between the Australian Government and the non-profit sector, outlines how the two will work together to improve and strengthen their relationship.

ADCA believes that peak bodies of sub-sectors within the not-for-profit sector are of crucial importance in this regard as they provide easily accessible points of contact for the government and represent and advocate on behalf of those not-for-profit organisations which often have no or limited contact with government. They are often

overburdened with red tape and face budget and staff constraints. ADCA urges the government to 'walk the walk' and acknowledge the not-for-profit sector's contributions to fighting social exclusion by deregulating their operations and streamlining reporting requirements.

## **5. ADCA on enhancing the efficiency and effectiveness of the not-for-profit sector**

ADCA believes that not-for-profit organisations are facing a number of impediments regarding accessing both human and financial resources as well as regarding the regulatory environment they are operating within. These in turn have major impacts on not-for-profit organisations' ability to operate effectively, deliver the best possible outcomes, and enhance social inclusion. Below, ADCA will address these important issues separately.

### **5.1 Access to human resources**

According to Cheverton (2007, p.429), significant anecdotal experience exists in Australia that shows that there are substantial wage differences between paid workers in the third sector, and those in the public and private sector. A 2008 study on Workforce Profile and Issues for the New South Wales (NSW) Alcohol and other Drug (AOD) Non Government Sector conducted by the Network of Alcohol and other Drugs Agency (NADA), stated that "recruiting and retaining staff can be an issue for the AOD NGO sector, largely because the sector's typical salaries are not comparable with those offered by government agencies" (p.20).

This finding is supported by a number of other studies such as a survey by Australia's National Research Centre on AOD Workforce Development (NCETA) on *Satisfaction, Stress & Retention among Alcohol & Other Drug Workers in Australia* in which about half of the respondents (49%) reported dissatisfaction with their pay, and 41% disagreed that their pay scale was fair, particularly when compared to what their counterparts in other AOD agencies were being paid (p.34).

According to the *Australian Community Sector Survey 2008* by the Australian Council of Social Services (ACOSS), 64% of the 725 agencies which completed this survey expressed concern about wage levels, and indicated that they had experienced difficulty attracting appropriately qualified staff, and 43% of respondents named staffing as one of the three most important issues facing services (p.20).

While some may argue that many employees in not-for-profit organisations are not primarily motivated by financial rewards, but are rather motivated by the desire to serve other people and society in general, and that it is therefore the organisation's mission and its values that provide the key for attracting and retaining staff (Cheverton 2007, p.429; Leete 2000), ADCA strongly believes that the comparatively low salaries paid by not-for-profit organisations needs to be addressed in order to attract the appropriately qualified staff that not-for-profit organisations need to operate most effectively and efficiently.

While most not-for-profit organisations which receive their funding primarily from Government bodies would have experienced small annual increases of their funding to reflect Consumer Price Index (CPI) adjustments, these often only, if at all, cover the increase of operational costs, and subsequently do not allow for CPI adjustments of their employees' salaries. ADCA considers this to be a critical issue which needs to be considered in funding arrangements between Government bodies at all levels and not-for-profit organisations. This is especially relevant in financially difficult times in which more individuals struggle with increased living costs. While over the previous 10 years, changes in living costs have tracked closely to the CPI - the living costs of employee households increased by 40.2%, slightly higher than the 36.0% increase in the CPI (ABS 6463.0) – living costs may increase disproportional to the CPI in times of economic downturn.

In current difficult financial and economic times, the not-for-profit organisations' inability to pay salaries similar to those in the public and private sector despite delivery of very similar work, especially regarding community service provision, presents a crucial impediment for the not-for-profit sector to attract appropriately qualified staff. In order to overcome this impediment, the not-for-profit sector needs to strengthen its own training provision in order to improve staff qualifications as well as providing them with some career development opportunities. Presently, the provision of AOD related courses for example in TAFEs and tertiary institutions is highly deficient and urgently requires improvement. At the same time, those who manage to do some training and to increase their skill set are often faced with the newly gained qualifications not being formally recognised and not being reflected in increased remuneration. Thus, the AOD not-for-profit sector is lacking major career incentives which have to be addressed in order to overcome the problem of attracting people to join the AOD NGO workforce. Such incentives, for example, would be portability of long service leave and qualifications when moving from employment in the public sector to the non-government sector as well as appropriate training and skills development opportunities to ensure a highly qualified workforce.

ADCA also draws the Productivity Commission's attention to another impediment that the Australian workforce in general, and not-for-profit organisations in particular, are facing, namely an ageing workforce. According to the Australian Bureau of Statistics' Population Projections (ABS 3222.0), it is predicted that by 2036, one quarter of the Australian population will be over 65. NCETA's survey on *Satisfaction, Stress & Retention among Alcohol & other Drug Workers in Australia* revealed that, as of 2006, almost half of the respondents (48%) were aged 45 and over. At the same time, however, it should be noted that there were no significant age differences for employees in government, non-government, and private sectors.

Nevertheless, an ageing workforce starts to emerge as a severe challenge for the not-for-profit sector as it reveals its' failure to attract younger people entering the workforce and it may continue to do so if the contribution of people working in the not-for-profit sector is not appropriately acknowledged, reflected in both salaries and public recognition of the sector's contribution to the Australian community.

For the whole Australian alcohol and other drug (AOD) sector, comprising government, non-government and private organisations, NCETA not only identified the workforce to be ageing, but also to be female-dominated across all three organisational types, with 69% of employees in government, 61% in non-government and 77% in private organisations being female (NCETA 2006, p.22). This fact has been of significant importance in a recent decision the Queensland Industrial Relations Commission (QIRC, A/2008/5) made in early May 2009 on pay equity for community workers in non-government organisations. The Commission's recognition that the work performed by non government organisations has been undervalued and that this undervaluation has been gender based led to the decision that pay rates will have to be adjusted. This is the first decision of its kind where the Equal Remuneration Principle has not, in the first instance, been applied to seek pay parity between males and females but between non government sector employees and public sector employees doing similar work.

ADCA welcomes the QIRC decision of what has only been the third Pay Equity case in Queensland (QLD) and hopes that it will function as a trigger for similar rulings in other jurisdictions. ADCA considers pay equity between community workers employed by the government and their counterparts employed by non-government organisations an important acknowledgement that both groups of employees conduct the same kind of work. Not-for-profit organisations' funding arrangements should enable them to remunerate their employees according to the principle of "equal remuneration for work of equal value" as defined in the Workplace Relations Act 1996. ADCA strongly urges Government to adopt this approach and strive to apply the principle of equal remuneration for work of equal value in all jurisdictions as part of adequately acknowledging the not-for-profit sector's contribution to social inclusion.

If this principle is not realised, then it is inevitable that the not-for-profit sector's problem of attracting and retaining qualified staff will become even more apparent. Facing a shrinking workforce, the sector would increasingly struggle to deliver its services which would have major implications for community service provision and issues of social inclusion in Australia. ADCA believes that now is the time to break this vicious cycle and to not only acknowledge, but also strengthen the role the not-for-profit sector plays in Australia's political and social system.

## **5.2 Access to financial resources**

ADCA believes that not-for-profit organisations indeed face a number of impediments in gaining access to the quantity and quality of financial resources they require, and that these have direct impacts on not-for-profit organisations' ability to operate effectively and to attract and retain qualified staff. Lyons (2007) found "evidence that for some important groups of non-profit organisations accessing capital is indeed difficult, even impossible" and he identified the fields of social assistance/ community services, school education, health, community development, and housing as most exposed to this problem (p.2).

In alignment with this, in the *Australian Community Sector Survey 2008* conducted by the Australian Council of Social Service, 52% of the 682 respondents stated that inadequate funding or insufficient resources are major issues facing their service (ACOSS 2008, p.21). Furthermore, a significant 81% of the respondents reported that



Government funding was not adequate to cover the true cost of delivering services (ACOSS 2008, p.23). For the financial year 2006-07, funding from federal, state, and local government accounted for just over a third (34.1% or \$25.4 billion) of not-for-profit organisations' total income of \$74.5 billion. Over two thirds (68.1% or \$17.3 billion) of that government funding was volume based, that is granted on a per student or a per client basis (ABS 8106.0).

ADCA as the national peak for the AOD sector strongly believes that more money or greater security of funding is required in order to allow not-for-profit organisations to operate at a larger, more efficient scale. Thus, ADCA urges the Government to reconsider current funding arrangements for many not-for-profit organisations in the AOD and the wider NGO sector as they are facing a number of impediments in their daily and longer-term operations imposed by short-term funding arrangements such as a lack of security to attract and retain qualified personnel or to make longer term project commitments. Funding arrangements often made not just on an annual basis, but even on a biannual basis, provide no opportunities at all for longer term financial and operational planning, a disadvantage especially felt by smaller not-for-profit organisations.

Overall, the short-term focus that especially small to medium sized not-for-profit organisations apply "appears a consequence of dependence on generally inadequate government funding" (Lyons 2007, p.14). ADCA believes that current funding arrangements are often not only inadequate, but also contain a short-term focus and impose too many regulatory requirements on not-for-profit organisations. In particular finance reports often require complex auditing and accounting reports, and many not-for-profit organisations' staff does not include qualified accounting personnel, which means that external auditors have to be contracted to fulfil regulatory requirements which imposes additional costs to the organisation.

While it has been acknowledged in the Productivity Commission's Issues Paper that not-for-profit organisations generally attempt to deliver the best outputs possible from their available resources, it should be noted that many not-for-profit organisations would be in a position to lift their outputs if their funding situation would be improved as this would allow for longer term planning, operations at a larger scale, and increasing incentives for qualified staff to join the organisation. Under current funding arrangements, many not-for-profit organisations are faced with the impediment of their operational costs not being sufficiently covered. This in turn either leads to the organisation operating at a deficit or service providers having to send potential clients away because they are either not in a position to engage the required number of staff or are funded on a client basis to assist only a certain number of clients.

One of the key findings of the *Australian Community Sector Survey 2008* by ACOSS is that "long term housing and health services (including mental health and drug and alcohol services) were clearly identified as the services and supports most needed by the clients of community services and welfare agencies" (p.16). Despite this high and increasing demand of social services, it seems that funding arrangements between Government and not-for-profit organisations often have not been revised in order to

equip the latter more sufficiently to meet the increased demand and enable them to enhance their service provision.

ADCA is deeply concerned about the fact that from 2005-06 to 2006-07, the number of people who were eligible for a service but were turned away due to limited capacity increased by 24%. One person in every 25 people subsequently did not receive the services they needed, and ADCA urges the Government to take this figure as an incentive to increase funding for social service providers. For a Government that aims to drive social inclusion, the figure of 77083 people being turned away from services they often desperately need, is unacceptable.

When governments contracted out areas of service provision to not-for-profit organisations, they not only established a partnership between the two sectors, but also an interdependency as governments increasingly relied on not-for-profit organisations to deliver social services and advocate on behalf of those that are most disadvantaged in our society. Governments are therefore obliged to provide not-for-profit organisations with the adequate amount of funding in order to enable them to operate most efficiently and effectively.

Many not-for-profit organisations dependent on funding by Government face a number of impediments when it comes to generating their own funds. First and foremost, not-for-profit organisations obviously do not wish to compromise their core funding which often means that they cannot seek funding for their day to day operations but that additional funding sought needs to be in correlation with a specific project. Project funding, however, cannot be used to cover increased operational and staff costs which in most cases are the areas where additional funding would be needed as current funding arrangements do not cover them sufficiently.

Secondly, proactively seeking additional funding requires at least one staff member to spend a substantial amount of time writing tenders, funding proposals, and applications. While time and effort spent on this does not guarantee success, it certainly means that this staff member is not contributing to the direct service delivery the organisation is funded for and clients may have to be turned away because of this staff member not engaging in the actual service delivery. This aspect is also of importance regarding reporting arrangements, as will be outlined in 6.3.

Thirdly, most not-for-profit organisations which receive their core funding from government are in no position to generate a surplus as their income barely covers operational costs: "Nonprofits that mainly rely on government grants or contracts to fund their activities will generally find it difficult to generate a sufficient surplus to build a capital fund" (Lyons 2007, p.5). There is also no incentive for not-for-profit organisations to build a surplus as funding guidelines require them to return this surplus to the funding body instead of enabling them to create a capital fund. Not being able to keep a possible surplus is another constraint for longer term financial planning.

ADCA is concerned about the fact that many small not-for profit organisations are not only faced with a lack of capital funds and the provided funding not covering all the operational expenses, as this leaves them with little or no money at all to invest in their



organisational capacity on an ongoing basis such as IT and telecommunications, office maintenance, travel, support for Boards, and Occupational Health & Safety, to name just a few (Mr David Crosbie's opinion piece in the Weekend Australian on 7 June 2008). These expenses often force organisations to operate at a deficit. ADCA therefore strongly supports Mr Crosbie's call for a more collaborative approach within the sector to enable back-office mergers and joint delivery of services and programs, and to consider investment funds for not for profits.

Different forms of investment funds for not-for-profit organisations such as charitable tax free bonds have been explored in both the United States and the United Kingdom. However, it should be noted that these methods of charitable fundraising only work for large charitable not-for-profit organisations and do not present an alternative way for small or medium sized not-for-profit organisations to generate additional funds. While in the longer-term, ADCA certainly welcomes and recommends the exploration of new funding streams, it believes that something needs to be done soon to take the financial burden off small and medium sized not-for-profit organisations. ADCA commends that as a first step and as part of its social inclusion agenda, Government revises funding arrangements of central not-for-profit organisations, especially those in the field of social service provision and AOD services, as an increased need for their services has been identified which has not yet been met with revision of current funding arrangements.

### **5.3 Regulatory environment**

While regulations initially have been introduced to improve transparency and accountability when applying for and receiving any public funding, they have mutated into major impediments for many small and medium sized not-for-profit organisations as they present a major administrative burden for organisations which already feel the impact of insufficient staff numbers and funding constraints. ADCA certainly acknowledges the necessity for accountability and transparency of Government funding but questions whether the regulatory requirements currently in place could not be streamlined in order to enable not-for-profit organisations to focus on the effective and efficient delivery of the services they are funded for instead of having to dedicate valuable staff time to comply with a vast number of administrative requirements.

A survey undertaken by the Australian National Council on Drugs (ANCD, 2009a) on *The burden of submission writing and reporting for alcohol and other drug non-government organisations* shows the extent to which not-for-profit organisations in this sector are overburdened with red tape and that they indeed spend an extraordinary amount of time reporting back to funding bodies as well as seeking additional funding. Extensive reporting requirements force many not-for-profit organisations to sacrifice frontline staff in order to appoint administrative staff to meet reporting requirements. Many not-for-profit organisations report back to multiple funding bodies, all with different funding requirements, and the compliance load increases when organisations have to report back to multiple funders (Ryan, Newton, and McGregor-Lowndes 2008). Often, there is not only no consistency across government agencies, but there is also little consistency within particular government departments (Flack and Ryan 2005, p.72), as shown in a case study of a youth and family service organisation in Queensland which receives \$4 million in grants from Commonwealth, state, and local governments and had

to report back on 37 separate grants (Flack and Ryan 2005, p.72). These regulatory requirements are especially hard to fulfil as “unfortunately, [...] government funding of non-profits is not informed by a coherent approach. Each government department and often each program have their own rules for these relationships” (ANCD, 2009b, vi).

Survey results indicated that not-for-profit organisations in the AOD sector completed an average of 11.4 submissions each financial year and that an average of 11.3 funded programs/ projects were reported on by each organisation. On average, it takes not-for-profit organisations 474 hours or 12.5 weeks over a 12-months period to simply report back to funding bodies which is equivalent to 0.3 full-time staff member. 1197 hours or 31.5 weeks are spent on average on submissions, which is equivalent to a 0.7 full-time staff member. A close correlation exists between the time staff spends on fulfilling regulatory requirements and the frequency in which reporting back to the funding body has to occur. According to the ANCD survey, 50% of reports provided to the Australian Government departments were required six-monthly, 26% were required quarterly and 24% were required annually. 38% of reports prepared for State/Territory governments were required six-monthly, 37% were required annually, and 25% were required quarterly. This evidence clearly indicates that not-for-profit organisations operate in a highly regulated environment and that fulfilling reporting requirements is an essential part of their core operational business.

It is evident that the workload on not-for-profit organisations to research and write applications for core and project funding, compile progress reports and end of year project reports, and coordinate and produce an Annual Report to meet Board/ Organisational Member/ Departmental requirements is substantial. In the case of ADCA, some six full-time or part-time officers are involved over any 12-month period to produce a range of applications, core funding and project reports, as well as the Annual Report. It is conservatively estimated that combined, days spent by these officers, add up to a third to half a full-time senior officer's workload. It should be noted that this estimate is based on experienced officers having a complete understanding of the AOD sector, in addition to knowledge of reporting requirements of Government and non-Government funding sources. If inexperienced officers are tasked to do the job, it is feasible the overall annual workload could expand to that of a full-time officer. Compliance costs are often higher for small not-for-profit organisations than for bigger ones with relates to who did the work. In the case of smaller organisations, the CEO often does more of the compliance work whereas in larger organisations division of work is more specialised and much of the compliance can be done by employees paid at a lower hourly rate (Ryan, Newton, and McGreggor-Lowndes 2008).

ADCA receives its core funding yearly under the Community Sector Support Scheme (CSSS) for which both a mid-year and an annual report is required which take an estimated two weeks to compile. The National Drug Sector Information Service (NDSIS) is ADCA's major ongoing project and is contracted for three year periods through the Department of Health and Ageing (DoHA). Over a 12-month period, NDSIS is required to produce quarterly progress reports, a provisional budget and workplan report, a collection development report, an annual activities report, and an audited annual financial statement which take a total of approximately 128 hours or 3.5 weeks to produce. In addition to these reports, the NDSIS has to prepare an annual marketing

plan and conduct an annual survey as well as supply its advisory committee with quarterly reports. In addition, the NDSIS runs the National Inhalants Information Service (NIIS) which is funded by the Victorian Department of Human Services which requires an annual project plan, monthly progress reports, biannual reports, an annual stakeholder report, and an annual stakeholder feedback survey which acquit to about 100 hours or three weeks.

Annually, ADCA coordinates Drug Action Week (DAW), a national awareness campaign, which requires application for funds, progress reports, and an end of project evaluation report, which add up to about six weeks of work. Ongoing for a total of 16 weeks, ADCA staff write funding and project applications to seek additional project funding with a success rate of one in 12. Reporting back to the Alcohol Education Rehabilitation Foundation (AEF) on grants for projects such as the publication *Tips and Tricks* and the *Ethics Project* add up to about six weeks of work. To undertake this work, ADCA officers need to be taken off-line and as a result core activities need to be reprioritised and often opportunities are lost.

The overall volume for reporting requirements that not-for-profit organisations are facing leads to an imbalance between delivering the projects and services that the organisations have been funded for and the regulatory requirements. It is the responsibility of the funding bodies to streamline and standardise these requirements and to reduce the frequency of reports. ADCA believes that annual reporting requirements are in most cases sufficient for exercising accountability and transparency for expenditure of government funds.

The current lack of standardisation of reporting requirements leads to the question how funding bodies can use the financial information gained through the reports “to develop comparable data on financial performance or to build efficiency benchmarks of similar activities by different nonprofit organisations. The data appears only to be useful in determining whether the funds have been spent in accordance with the terms of a specific funding agreement” (Flack and Ryan 2005, p.73). Given the size and complexity of Australia’s not-for-profit sector, establishing some standard reporting procedures would not only allow to compare different not-for-profit organisations’ performance and expenditure patterns but it would also allow to conduct comprehensive return-on-investment studies for different sectors within the not-for-profit sectors. ADCA considers the ability to assess not-for-profit organisations’ performance against the available funds to be of crucial importance for evaluating the efficiency and effective of their operations.

ADCA therefore recommends a new accounting framework which would allow not-for-profit organisations to conduct single annual reporting to all governments and their different departments for management and acquittal of public funds. This would eliminate the duplication caused by not-for-profit organisations having to report back to multiple funding bodies under different reporting requirements. ADCA welcomes recommendations made by the ANCD as part of their recently conducted survey (2009a) to establish streamlined standardised online reporting templates consistent across all government departments. This may require the establishment of an agency that monitors the acquittal and management of reporting on behalf of all government departments. The ANCD in its recommendations referred to this agency as “a separate

NGO liaison unit" (ANCD 2009a). Ideally, instead of reporting back to a number of different funding bodies, each utilising different reporting requirements, not-for-profit organisations would on an annual basis report back to one central agency, using a template that accounts for all grants received by one not-for-profit organisation. This procedure possesses high potential to substantially decrease the amount of red tape that not-for-profit organisations are currently facing.

As mentioned in the Productivity Commission's issues paper, ADCA is deeply concerned about the trend that government agencies seem to increasingly prefer to deal with bigger and fewer parties to minimise their transaction costs with the sector. A number of stakeholders identified this development as a mean to increase the agencies' efficiency in dealing with the not-for-profit sector. ADCA strongly believes that this development needs to be reversed and that instead of reducing the number of contacts between government agencies and the not-for-profit sector, interaction between the two sectors needs to be streamlined and made more efficient and effective. Attempts to minimise transaction costs with the not-for-profit sector by limiting contact with the sector to its big players directly opposes the Government's claim that not-for-profit organisations contribute greatly to promoting social inclusion. The solution to minimising transaction costs for government agencies thus cannot be reducing contact with the majority of not-for-profit organisations but has to be streamlining the required level of interaction, thus making it more efficient for both the not-for-profit organisations and government agencies.

ADCA is also concerned about the serious constraints that current funding arrangements impose on its ability to pursue an adequate advocacy role on behalf of those most disadvantaged in our society. As the national peak for the AOD sector, ADCA urges governments at all levels to reconsider current funding arrangements for both ADCA and the State/Territory AOD peak bodies in order to position them better to pursue their advocacy role.

ADCA fully agrees with the conclusion made by Flack and Ryan (2005) in their essay that "government funders need to standardise their requirements, so that both governments and nonprofit organisations are able to move to the next stage of a more thorough performance assessment which is so crucial to the legitimacy and accountability of both the government funders and the nonprofit organisations" (p.75).

## **6. ADCA on the sector's provision of government-funded services**

During the 2006-07 financial year, not-for-profit organisations received \$74.5 billion in income (ABS 8106.0). Funding from federal, state, and local government accounted for just over a third (34.1% or \$25.4 billion) of total income. This figure evidences that many not-for-profit organisations increasingly rely on government funding to feed their ongoing operational costs and to deliver their services. Increased dependency of the not-for-profit sector on government funding has been accompanied by a shift away from grant-based funding models for service delivery towards market-based models where organisations compete for service contracts from government departments (Lyons 2001).

Establishing more competitive tendering processes was intended to promote greater efficiency in services, but ADCA is concerned about the fact that instead, they disadvantage small to medium-sized not-for-profit organisations to be contracted as service providers as they often do not possess the capacity to be competitive. Given the impediments they are facing in accessing appropriately qualified staff and financial resources, they often struggle to even deliver on their contracted services. For many not-for-profit organisations, moving key personnel off-line to complete complex funding applications and enter highly competitive tendering processes lies outside their capacities.

Moving towards more competitive tendering processes can subsequently only be seen as a mean by government agencies to reduce the points of contact with the not-for-profit sector as tendering processes are clearly in favour of bigger not-for-profit organisations as these possess the staff capacities to manage both service delivery and large volumes of administrative requirements. It can be assumed that even the bigger not-for-profit organisations will experience some form of disadvantage when the tendering process is open to both not-for-profit organisations and private enterprises.

ADCA strongly recommends that funding providers move away from competitive tendering processes as these often present an impediment for not-for-profit organisations to gain access to additional financial resources rather than a welcomed, easily accessible opportunity to secure additional funding. Competitive tendering processes should be substantially reduced so that service providers can solely focus on delivering their services efficiently and effectively, and grants should be given to service providers based on a qualitative assessment of their service provision.

ADCA recommends the establishment of efficiency benchmarks of similar activities performed by different not-for-profit organisations that are evaluated against not-for-profit organisations' financial situation and are part of a new accounting framework which would allow not-for-profit organisations to conduct single annual reporting to all governments and their different departments for management and acquittal of public funds. These benchmarks would function as an evaluation tool of not-for-profit organisations' efficiency and capability to function as major providers of health and social services. They would furthermore be a valuable tool for detecting funding deficiencies. Currently, 81% of respondents of the *Australian Community Sector Survey Report 2008* conducted by ACOSS disagreed with the statement that government funding covers the true cost of delivering contracted services (p.23).

In addition to the concern that tendering processes may favour larger organisations over smaller ones and thus lead to greater concentration within the not-for-profit sector, ADCA also questions government agencies' preference for short-term funding arrangements. ADCA believes that short-term funding arrangements present serious impediments to not-for-profit organisations as they generate uncertainty, inhibit innovation, make it difficult to retain staff, render longer-term financial planning and proper investment extremely difficult, and stop organisations from pursuing more holistic strategic and organisational goals.



ADCA urges funding bodies to move to longer-term funding arrangements where funding is agreed to in principle on a two or three year basis given that the organisation performs well and manages its finances wisely which can be assessed by evaluating the efficiency benchmarks of similar activities performed by different not-for-profit organisations against not-for-profit organisations' financial situation which are part of a new accounting framework. This would eliminate uncertainty about future funding arrangements and give not-for-profit organisations an incentive to pursue operational and strategic goals on a larger scale.

The not-for-profit sector has not only witnessed a movement towards more competitive funding arrangements but also a development of governments increasingly demanding greater accountability for the use of funds and for service delivery. Over time, not only the demand for health and social services and thus the workload of many not-for-profit organisations increased, but also the red tape associated with receiving government funds. In many cases, administrative requirements becoming more frequent and complex has not been accompanied by funding increases which would enable employing additional staff to tackle the increased administrative burden without having to move frontline workers off-shore. It has to be acknowledged that fulfilling the complex administrative requirements currently put to not-for-profit organisations take up valuable staff time which otherwise could be spent on delivering the services that the not-for-profit organisations have actually been funded for. ADCA questions how overburdening small to medium sized not-for-profit organisations with red tape leads to improved accountability and efficiency of service provision.

There is no doubt that not-for-profit organisations currently operate in a highly regulated environment and spend an extraordinary amount of time on both reporting on funding and seeking funding. The increased demand in social service provision has often not been met by additional funding and thus in the case of many not-for-profit organisations, staff are being asked to do more and more with often very limited resources (ANCD 2009b). ADCA seriously questions to what extent increased accountability arrangements have promoted better outcomes in service delivery. ADCA does not deny the fact that accountability and transparency are important aspects of any contract signed by two parties where one side receives funding in exchange for delivering services on behalf of the other side. Nevertheless, accountability arrangements between government bodies and not-for-profit organisations need to be streamlined and standardised since at present, reporting requirements rather present an impediment to effective and efficient service delivery than enhancing better outcomes in community service provision. The not-for-profit sector faces unnecessarily burdensome financial reporting requirements (Flack and Ryan 2005), which prevents them from delivering the best possible outcomes. The burden of red tape increases with the number of grants a not-for-profit organisation receives as they all entail different reporting and data collection requirements.

In order to assess the performance of not-for-profit organisations and their outcomes, ADCA suggests that part of a new accounting framework which would allow not-for-profit organisations to conduct single annual reporting to all governments and their different departments for management and acquittal of public funds would not only be efficiency benchmarks of similar activities performed by different not-for-profit organisations that

are evaluated against not-for-profit organisations' financial situation, but also a section that enables not-for-profit organisations to report in a consistent manner on the contribution they make to the Australian community. This community benefit assessment section could subsequently be utilised by an independent NGO liaison unit to assess and compare the performance of different not-for-profit organisations, taking their funding arrangements into account. Funding allocations and increases could be based on evaluation of the different sections of the new accounting framework. ADCA strongly believes that data which truly measures performance, and enables comparability between service providers will assist in building capacity in the not-for-profit sector (Flack and Ryan 2005).

## **7. AOD and NGO sector supporting comments**

The development of this submission has been accompanied by a wide consultation process that ADCA conducted with other not-for-profit organisations and NGOs both within and outside the AOD sector. ADCA understands that a number of independent AOD not-for-profit organisations intend to lodge supporting submissions.

## **8. Conclusion**

As the national peak organisation for the AOD sector, ADCA welcomes the Productivity Commission's study on the contribution of the not-for-profit sector. While improving the measurement of the not-for-profit sector's outcomes and impacts is part of the Productivity Commission's study, ADCA hopes there is common understanding that the not-for-profit sector is both a vital contributor to Australia's economy, and to the well-being and development of Australian communities as it provides services to the most disadvantaged in our society and thus enhances social inclusion.

ADCA is pleased that the Rudd Government has acknowledged the critical role the not-for-profit sector plays in delivering services, advising, and developing social policy and advocating on behalf of marginalised groups. It has taken a genuine interest in an active not-for-profit sector with appropriate voice and representation, exemplified in commissioning the Productivity Commission with this study. Along with that, ADCA urges government to 'walk the walk' and to acknowledge the not-for-profit sector's contributions to fighting social exclusion by deregulating their operations and streamlining reporting requirements. ADCA hopes that the Productivity Commission's study will guide the way towards this direction.

ADCA welcomes that there are currently a number of research projects being undertaken in order to gain a better understanding of the sector, such as a survey by the Centre for Corporate Public Affairs on the impact of the economic downturn on not-for-profit management. ADCA believes that an evidence-based approach to policy-making is essential to achieve the best possible outcomes and that the collection of structural data is a crucial part of monitoring the effects of the not-for-profit sector and its subdivisions and an important tool in order to understand the sector's inputs. ADCA agrees that a better understanding of how the sector contributes to community well-being would help to inform policy development and to remove impediments to the creation of value by not-



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for-profit organisations. Any framework measuring the not-for-profit sector's contribution would, however, have to pay credit to its size and diversity.

ADCA would be pleased to assist the Productivity Commission further in its study on the contribution of the not-for-profit sector, and to expand on any of the issues addressed in this submission.

ADCA contact details:

Mr David Templeman  
Chief Executive Officer  
Ph: 02 6215 9805

Ms Kathrin Stroud  
Strategic Communications and Policy Officer  
Ph: 02 6215 9814

The Alcohol and other Drugs Council of Australia online: [www.adca.org.au](http://www.adca.org.au)

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