

**HOW LONG IS A PIECE OF RED TAPE? THE PAPERWORK
REPORTING COST OF GOVERNMENT GRANTS**

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Executive Summary

This study quantifies the time and cost of government generated paperwork for Queensland nonprofit organisations. Fourteen Queensland nonprofit grant recipients kept logs to record government generated paperwork as they completed forms over a 12 month period in 2005. The grant recipients also provided, through a series of interviews, their experiences of government paperwork and in particular grant submission and reporting processes.

How long did the organisations spend on completing government paperwork?

In summary, over the 12 months, the 14 organisations together reported taking an average of 143.57 hours (median of 95 hours¹) to complete government generated paperwork. The average time taken per form was 5.05 hours, but with a median of 1.00 hour.

How many forms were completed by organisations over the year?

The fourteen NPOs completed:

- 46 grant submissions (on average taking 15.17 hours to prepare);
- 157 grant acquittals (average 6.04 hours per acquittal);
- 90 tax forms (average 1.87 hours per form); and
- 111 'other' forms, e.g. database information on client services for Health or Disability Departments (average 1.88 hours).

Grant submissions and acquittals together made up just over 50% of all compliance paperwork for NPOs.

To which level of government were forms submitted?

60% of compliance forms were submitted to state government; 34% to the Commonwealth; only 1% to local government; and 5% to both state and Commonwealth.

What is the cost of compliance?

We found the cost of government generated paperwork to be an average of 1.74% of an organisation's total revenue. This does not include volunteer time because of the difficulties with its measurement and valuation. Submissions (0.85%) and acquittals (0.73%) had the largest average costs.

Is there a difference in compliance costs between small and large NPOs?

Yes. The average cost of compliance for small organisations was 2.76% of revenue, compared with large organisations at 0.36% of revenue—that is, 7.6 times greater for small organisations. This finding is consistent with what other researchers have found in small business, both in Australia and elsewhere.

Why do smaller organisations have higher compliance costs?

One reason for the greater costs of compliance in small organisations relates to who did the work. In small organisations the CEO or manager (on a higher hourly rate) did more of the compliance work (31%, compared with 11% in large organisations). In larger organisations, where division of work was more specialised, much of the

¹ The median is the middle of a distribution: half the scores are above the median and half are below the median. A median that is lower than the statistical average (mean) indicates that the distribution of responses is skewed, with several large responses inflating the average.

compliance was done by the finance manager (47%, compared with 25% in small organisations) with a lower hourly rate.

Does having multiple funders make a difference?

The compliance load increases when NPOs are required to report to multiple funders. NPOs are asked to provide project-specific acquittals, many of which differ in format to the way in which their accounting and data collection systems captures and records data. Converting data to comply with different specifications or special collections is a costly process.

Does it take longer to do certain Departments' forms?

Compliance for Health (state and federal) Departments took significantly more time (22 hours per form) than for other departments. This is because Health Departments make more use of databases, which require extensive data collection. On the other hand, Disability Departments make small grants to many individuals, depending on their needs, and they also allocate 'block grants' to organisations. Reporting on the many individual grants takes comparatively little time (2 hours per form). However, even though they are short, such reports are numerous—one for each client for each quarter, year to date, requirements for next quarter, and the whole year's budget.

An unexpected paperwork cost

Although not falling within our definition of government generated paperwork for NPOs, staff took considerable time assisting clients to complete their own government forms, particular with Disability funded recipients. These shadow costs were reported as significant by some organisations.

How difficult were the forms to complete?

Most responses indicated (on a three-point scale) that the task was "not difficult" (72%). Most had adequate time to complete forms, most delays being due to external auditors being tardy with their audit reports. Few NPOs outsourced form completion to external agents such as bookkeepers, accountants or lawyers. Surprisingly, only half the forms had instructions and just over a third had a specific departmental contact such as a telephone or e-mail contact.

There was occasional praise for government efforts to simplify compliance documentation, but some departments are considered "obstinate" and "unreasonable". The most serious problem is clearly the requirement to extract and reformulate information from financial and data systems within an organisation in ways that meet the requirements of different departmental forms.

What is not measured in this survey?

The survey did not measure the cost of compliance with government laws and regulations in relation to matters such as providing safety equipment, workplace training or quality assurance measures. It only measured the cost of government generated compliance paperwork such as applying for grants or grant acquittals. It did not measure the cost of assisting clients to complete their forms. Case study organisations who were beginning to implement statutorily imposed quality assurance regimes indicated significant implementation costs in such activities.

What can be done to improve the paperwork burden imposed by government on NPOs?

1. Agreement on a Whole of Government data dictionary to standardise financial, client data collection and other reporting terms and adherence to it by government. Only information defined in the data dictionary could be collected from NPOs to minimise the costs of data conversion and special collections.
2. Data should be collected once and duplicate data to government minimised. A computerised data collection product could be provided to small to medium organisations based on the Whole of Government Data Dictionary to implement such an ideal.
3. Any data collected should be either useful to the NPOs in the first instance or returned as useful information to NPOs in a timely fashion after analysis. This should improve the quality of the information collected for all concerned and attitudes towards its collection.
4. Communication about the fate and reasons of failed submissions needs to be improved, made timely and meaningful.
5. All government forms must be accompanied by adequate instructions and a contact point where inquiries can be dealt with in a prompt fashion.
6. Government paperwork should be designed in proportion to the size and capability of the organisations that it is directed to—one size does not fit all.
7. Government should examine its funding submission processes to ensure that scarce NPO resources are not wasted by adopting the use of expressions of interest and other techniques.
8. Further research is warranted to establish the benefits of red tape reduction measures implemented after this research was completed.
9. Further quantitative research is required into the burdens and benefits of statutory mandated quality accreditation processes being currently deployed by several Queensland and Commonwealth departments.
10. Further research needs to be undertaken into the non-paperwork burden of government regulation such as workplace health and safety, corporate entity and taxation provisions.

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Background

Significant funds flow from government to nonprofit organisations (NPOs). About \$10.1 billion of the \$33.5 billion of income received by NPOs in 2000 (ABS 2002:8) was from government sources. In Queensland, where this survey of government paperwork completed by NPOs was conducted, the state government alone made \$3.9 billion in grants and subsidies in 2006-07,² with health and welfare grants amounting to \$983 million, or 11.9% of the state budget expenditure (Queensland Government 2006:120-121).

Government agencies funding NPOs find themselves caught between central agencies such as treasuries, Auditors General and Public Accounts Committees demanding greater levels of accountability for outsourced service provision, and more recently renewed pressures to reduce the red tape and paperwork compliance costs of NPOs. NPOs are themselves caught in a similar vice of demands for increased levels of accountability from their funders through administrative reporting and a public perception reinforced by the popular media that too much is directed to 'administration' and more should be redirected to direct service provision. These pressures on both government funders and recipients are specifically identified and discussed to provide background and rationale for this research project.

Government funders

The size, importance and commensurate risks of government fund transfers, even if not precisely known, has not escaped the attention of Auditors General, Public Accounts Committees and other agencies who have pushed funding and purchasing departments to greater levels of accountability. The Industry Commission in 1995 expressed concerns about the administration of grants, describing government requirements as "varied and ill-defined" and having a "lack of consistency between departments" (1995:380). A number of substantial reports on the issue since that time have also found issues with funding acquittals and associated paperwork. In Queensland, a report identified "significant problems ... with the quality and timeliness of review activities performed and the completion of acquittal forms" (Queensland Audit Office 1999:6) and similar comments were still being made in 2007 (Queensland Audit Office, 2007:19; Service Delivery and Performance Commission, 2007). In Victoria, there were "problems with internal management information systems, the reliance on paper based systems and data quality ... data collection processes lack consistency, are administratively complex and, in many cases, do not appear to have a clear purpose" (Parliament of Victoria 2002:16); and in Western Australia, "[g]overnment agencies are experiencing difficulties ... uncoordinated approach ... multiple and inconsistent accountability requirements for service providers" (WA PAC 2000:xii). These fiscal accountability issues have been extensively chronicled in a series of articles by Nowland-Foreman 1998; Chalmers and Davis 2001; Brown and Ryan 2003; and Meagher and Healy 2003.

More recently counter pressures to reduce red tape generated by government have increased. The Regulation Taskforce commissioned by the Federal Government identified that government agencies across the whole of government were responding to such criticisms by increasing the volume and extent of regulation (Regulation Taskforce 2006). It noted that "... agencies responsible for administering and enforcing regulation have tended to adopt strict and often prescriptive or legalistic approaches, to lessen their own risks of exposure to criticism" (2006:ii).

² This includes subsidies to for profit organisations, and is not separated from nonprofit organisations.

Such growing enforcement of regulations creates burdens of compliance on all regulated bodies (particularly on small organisations), and there are simultaneous calls by politicians and business lobbies to reduce the need and costs of compliance. This is evident in a wave of reviews—and calls for review—by various governments, commissions, and business networks, to assess the cost-benefit effectiveness of government regulations (Business Council of Australia 2005; PwC 2005; COAG 2006). This issue has been firmly placed on the public agenda by the Council of Australian Governments by stating its “commit[ment] to reduc[ing] the regulatory burden across all three levels of government“, taking action to address first six specific regulation ‘hotspots’, then a further four areas for cross-jurisdictional regulatory reform (COAG 2006).

This agenda was further raised by Dr Peter Shergold, the then Secretary of the Department of the Prime Minister and Cabinet, who stated: “Bureaucratic red tape can impose regulatory costs, the scale and dimensions of which are often not sufficiently appreciated by the governments who legislate and the public servants who administer” (2006). In this climate, “regulation” and “quasi-regulation” are being assessed in terms of their impact on the compliance burdens on businesses (Productivity Commission 2006; Regulation Taskforce 2006:3).

Commissions and reviews have also been established in the United Kingdom and Europe with similar concerns (Nijsen and Vellinga 2002; National Audit Office 2005; House of Commons 2006). HM Treasury and UK Cabinet Office, are aiming to “measure how much red tape costs businesses and voluntary organisations so we can cut it ... by as much as 25%” (GNN 2006); and there are recommendations for “streamlining and rationalising monitoring, regulatory and reporting requirements” (Gershon 2004:34).

For the first time, this red tape cutting rhetoric is beginning to move beyond business or small business to include NPOs. In the UK, the Better Regulation Task Force (2005:34) asserted that “Too many third sector organisations are still stuck with unwieldy structures and onerous reporting requirements”. The Charity Commission of England and Wales as part of the cross government initiative has a target of a 25% reduction in administrative burdens placed on charities by 2010 with its main focus being areas of accounting and reporting (Charity Commission 2006:3).

The Queensland Government is also taking steps to “ease the burden of red tape faced by thousands of small community organisations across Queensland” (Office of Fair Trading Media Release 2006). The Federal Department of Family, Community Services, and Indigenous Affairs (FaCSIA) has examined ways to reduce ‘red tape’ in respect of government grant procedures (Patterson 2005) and the Australian Institute of Health and Welfare (AIHW) has begun work on client data collection and recording (National Community Services Data Committee 2006). The AIHW study concluded that data collection imposed on nonprofit welfare organisations through their funding agreements was a considerable impost and recommended ways to reduce the burden. The Department for Victorian Communities in 2005 commissioned an options paper on reforming NPO regulation which included a more reasonable compliance burden and levels of nonprofit regulation (Allen Consulting Group 2006). The Victorian government announced in July 2006 that it sought to reduce the regulatory burden by 15% in three years and by 25% over five years and included NPOs in this target (Victorian Government 2006).

NPO funding recipients

Those in the nonprofit sector, like their big and small business counterparts, complain about the increasing paperwork imposed by government regulation. For example, the Industry Commission noted submissions which complained of government generated compliance paperwork, with World Vision Australia claiming that reports required due to “the inconsistency of fundraising legislation cost[ing] at least \$1 million a year” (1995:232-233). The Queensland social service peak body complained that: “Community sector organisations are now faced with increased compliance costs ... and have had to cover these increased costs through reducing the funds applied to services” (QCOSS 2001:12). Researchers are also reporting issues with compliance costs of grant acquittals being particularly costly, for example:

... the ‘itty bitty’ nature of service agreements created enormous amounts of work ... compliance requirements in relation to data collection for performance measurement purposes [was] a significant burden upon already stretched resources (O’Neill 1997:130);

... these reports were a waste of time to compile, and provided public servants with inadequate information upon which judgements might be based (Ryan 1997:36-37);

The requirement to report on every single line item in a budget is really taxing on small organisations, particularly when there are multiple funding sources all of which want different reporting (Ryan and Furneaux 2006:17); and

As an example (and not an unusual one), one youth and family service organisation in Queensland, receives \$4m in grants from Commonwealth, state and local governments. This organisation reports back on 37 separate grants – and thus needs to run a separate excel spreadsheet alongside their main accounting information system. The lack of standardisation within one level of government, means that the information being generated to government is of dubious quality and the compliance costs to the nonprofit organisation are larger than necessary (Flack and Ryan 2005:72).

A worthwhile next step is to measure the costs of government paperwork to confirm that the actual measured cost bears a relationship to the perceptions of stakeholders reported in qualitative research. It will inform both the thrust of red tape reduction programs by government and provide a base to in the future measure whether red tape reduction is in fact decreasing paperwork compliance costs.

This paper focuses on one aspect of compliance—completion of paperwork—rather than attempting to capture all the time and costs for NPOs when meeting their total compliance requirements. The Australian Standard on Compliance Programs (2006) defines compliance as “Adhering to the requirements of laws, industry and organisational standards and codes, principles of good governance and accepted community and ethical standards” which is wider than paperwork generated by governments (Section 1.3.3). Nonprofit organisations are usually included in general regulation regimes such as workplace health and safety, building standards, and food handling but have some quite different requirements in tax, fundraising and corporate entity regulation.

This paper describes a survey which was conducted in Queensland of fourteen NPOs’ paperwork for a twelve month period with most completed during 2005, but some staggering at the end of 2004 or the beginning of 2006. The paper begins by

examining the significant empirical work on the compliance costs of NPOs within the context of other paperwork compliance studies. It then moves to explaining the methodology which involved an intense exploratory study with a small, but purposive, sample of NPOs. This is a departure from the orthodox broad postal survey which focuses on recalled past compliance costs. It was anticipated that this small case study method would provide rich data for informing further empirical investigation using other methodologies, and would also serve as a benchmark which could be referred to in future research endeavours. Although the cost of all government generated paperwork was collected, this paper focuses on the costs of grant application and acquittal reporting. The article concludes by providing some positive directions for both government funders and recipients to pursue in reducing paperwork costs and making those costs expended more effective for both parties.

The compliance literature and NPO participation

The paperwork compliance literature in Australia has been dominated by the analysis of taxation burdens and a great deal of progress has been made on adequacy of measurement methods (Evans, Pope and Hasseldine 2001). Significant qualitative and quantitative work has been undertaken in Australia on small business tax compliance costs such as Pope, Fayle and Chen (1991), Wallschutzky and Gibson (1993), Evans, Ritchie, Tran-Nam and Walpole (1997), a flurry of studies on the costs of GST implementation in 2000 and more recently McKerchar, Hodgson and Walpole (2006). Studies including paperwork other than tax have been regularly attempted by industry bodies (e.g., CPA 2003; ACCI 2004), but measure only self-reported attitudes and perceptions of business to government paperwork burdens. The “Study of the Workload Placed on Small Businesses by Government Paperwork 1992”, conducted on behalf of the Australian Bureau of Statistics (1993) is an exception and attempted to quantify overall paperwork burdens on small business. There is scant literature on general government paperwork for NPOs.

McKerchar, Hodgson and Walpole (2006) examined the compliance costs of small business (with an emphasis on tax compliance costs) in qualitative terms for The Board of Taxation. A case study method was used which included three nonprofit organisations, a professional association, a preschool and a community group in a sample of 30 organisations. The preschool identified their most costly compliance activity as activity licensing requirements and health and safety, the community organisation was concerned with superannuation and GST, while the professional association had negligible concerns because of its size and not being registered for GST. Rasmussen and Pope (2003), in an examination of GST start up costs of small business, disclosed 50 nonprofit organisations in 863 survey respondents but did not comment specifically on the category in their study. The ABS (1993:89) general paperwork compliance study appears to have included 6 NPOs, but again did not report any segregated data of these organisations. Rawsthorne and Shaver (2003) in a self-administered mail questionnaire of a sample of 1800 community service organisation including NPOs, for profit and local government organisations with a 33% response rate measured hours spent per month completing government forms. They found that just over a quarter of organisations allocated more than 8 days a month to client data reporting (26%), with 18% reporting more than 8 days for financial reporting and 10% for performance reporting (2003:52). Organisations perceived an increase of paperwork over the last five years, but did not quantify the cost of such paperwork. As Gurd and Turner put it: “We know so little about this not-for-profit sector that we do not even know how many such organisations there are in

Australia. No one has yet made any attempt to measure their compliance costs. This gap should be filled ...” (2001:79).

Two recent studies are of interest, one examining compliance costs of NPO funding and the other taxation compliance costs exclusively of Queensland NPO taxation. In 2006 a study set in the United States of America, the RAND Corporation conducted a case study of the challenges, time spent and costs associated with funder compliance (Lara-Cinisomo and Steinberg 2006). The study was located in a single organisation that had the objective of preventing child abuse, interviewing 41 staff members to recall their time spent in compliance activities driven by funder requirements. It concluded that staff on average spent 44% of their time on funding compliance tasks with 11% of the organisation’s funds spent on compliance related expenditures (excluding funding submissions). The report observed that improved internal management could drastically reduce compliance times and improve staff morale. The other involved a Queensland survey at the time of the introduction of the Goods and Services Tax (GST) which found on a low 11% response rate ongoing (not implementation) GST costs in relation to “turnover” were 2.2% for organisations with a turnover of under \$10 million (2001:11).

A project of the AIHW examined three client case studies and documented the information collected by four service providers to satisfy their and funder’s data collection requirements to understand the burden of multiple reporting (National Community Services Data Committee 2006). It mapped data collection items and their overlap and mode of record keeping (electronic database, manual paper file system), but did not attempt to quantify the cost. It found that the reporting impost was attributable to:

- “- the requirement of program-centred reporting for service providers to use separate, program provided data collection forms and/or software resulting in the client providing, and the service provider, recording and reporting on the same client on multiple occasions
- the lack of electronic data capture, storage and reporting systems in the community services sector which would give providers the capacity to record data once, from which multiple reporting could occur.” (National Community Services Data Committee 2006:1)

This study seeks to add to the literature by both a qualitative and quantitative examination of the overall government paperwork compliance costs of NPOs.

Methodology

Research design

There are two main approaches to the measurement of compliance costs. On the one hand, information can be obtained by large-scale postal or telephone surveys—usually carried out by commercial polling organisations (as discussed by Sandford 1995). This method has been criticised as being unreliable because response rates are often very low, and “reliability of responses rests on correct interpretation of the questions, the honesty of the respondents and the accuracy of their recall of matters spanning a year or more” (Sandford 1995:378). On the other hand, case studies have been conducted by, for example, Wallschutzky in Australia (1995), Ritchie in New Zealand (2001) and Lara-Cinisomo and Steinberg in USA (2006). It has been argued that the information obtained from case studies is more reliable because “it take[s] the focus away from just measuring the costs at one point of time and

measure[s] costs longitudinally” (Gurd and Turner 2001:80). Bannock (2001) questioned whether small scale surveys are as effective as large scale ones, and concluded that small scale surveys “have produced results which are broadly consistent with larger scale work and therefore have particular value in those countries [such as Australia] where little compliance cost assessment has been made” (p. 87). The case study approach was also used by the ABS (1993) in its general paperwork survey; the ABS researchers opted for four separate rounds of case studies over a 12 month period (1993:4).

This survey used a multiple case study method (Yin 2003:53), conducted over a one-year period. There were two stages in the research. The first stage involved an initial interview to obtain contextual information from the respondents and also to explain the data collection phase. The second stage—data collection—involved the NPOs completing a detailed log form every time they submitted an item of government paperwork. The study was conducted over a 12 month time frame, and each organisation was visited on average six times during the period.

Building on the methodological work and recommendations for better study design of Evans, Pope and Hasseldine (2001) and particularly Gurd and Turner (2001:80), we paid particular attention to selection of the sample, collecting all types of paperwork (not one specific category), frequent collection of data over a period of time in case study organisations and paid attention to valuation of time and costs. We deal with each of these in turn.

Sample case study organisations

In order to capture the complexity of the Australian nonprofit sector and the institutional arrangements in operation, a ‘purposive sample’ was designed according to three criteria. Criteria for inclusion in the sample were (1) the nature of services provided by the organisation; (2) the multiplicity of grant sources; and (3) the size of organisations. By creating a sample based on these three criteria, it is argued that a more comprehensive picture can be obtained of the factors impinging on compliance costs for nonprofit organisations.

In relation to the nature of organisations, the Queensland sample was selected from several welfare sectors (thereby partially replicating the categories used in another ABS survey, “Non-profit Institutions Satellite Account”, 2002:6-7). Organisations within the sample also fitted the classifications of the Australian Nonprofit Data Project: “... the most basic classification within the third sector is according to the kind of work or type of services performed” (CDI, 2001:Chapter 10). The sample included four main areas of activities by the organisations (health, social services, culture and recreation, and ‘other’).

In relation to the second criterion, it was important that all organisations had mixed sources of funding—federal and state, as well as a mixture of funding from different government departments within each sector. Some programs, e.g. Health and Community Care (HACC), were jointly funded by federal and state governments. Some health organisations received funding from at least three departments—Health, Disability, and Community; social service organisations received funding from Communities, Child Safety, Housing, and Disability; culture, recreation, and ‘other’ organisations tended to have simpler funding sources, though they were both federal and state. Previous work had identified views from NPOs that such multiple funders increased workload and complexity, and decreased quality of data provided (Rawsthorne and Shaver 2003; Flack and Ryan 2005).

In relation to the third criterion—size—it is generally assumed that compliance costs fall disproportionately on smaller organisations. Following prior research (for example, Allers 1994; Pope 2001; QCOSS 2001), this survey distinguished small from large organisations. The generally accepted definition in Australian small business research of small business is an annual turnover of \$5 million or less and with 20 or fewer equivalent full time employees, with the majority of small businesses having turnovers of less than \$2 million (ABS 2001; McKerchar, Hodgson and Walpole 2006:9). The application of small business definitions to nonprofit organisations may not be appropriate. First, the turnover levels probably do not reflect the patterns found in the nonprofit sector and many nonprofits have to varying degrees volunteer labour which if not taken into account could mislead if full time employees criteria are relied upon.

The median or average revenue of Queensland nonprofit organisations is unknown, but ranges from virtually no turnover to hundreds of millions for religious bodies. It is estimated that four out of five Queensland incorporated associations have less than \$50,000 turnover, and the government drew a line at \$100,000 turnover for associations that were required to conduct a financial audit (Department of Tourism, Fair Trading and Wine Development 2005:8). A natural break in the size of revenue occurred at \$600,000 and organisations could be categorised as ‘small’ if the annual revenue was below \$600,000, or ‘large’ above \$600,000.

The use of volunteer labour is also not well measured on an organisational basis, but there appears to be significant variations with some organisations relying almost entirely on volunteers, and others with few apart from their governing board or committee. Unlike employees whose numbers, status and hours are relatively accurately recorded for taxation and other regulatory purposes, volunteer hours are not under such strictures. Numbers and full time equivalent (FTE) of both employees and volunteers were sought from sample organisations, with most organisations experiencing difficulties in accurately reporting the volunteer contribution. As will be discussed further below, using solely FTE employee measure the two sample organisations immediately over \$600,000 would be considered as small (under 20 FTE), but when FTE volunteers are included they would be not be regarded as small business. The \$600,000 turnover threshold is a convenient breakpoint in all the circumstances.

The Queensland sample initially engaged 20 NPOs. However, some organisations withdrew over the 12 month survey period, though the majority remained loyal to the task. Reasons for organisations’ withdrawal included turnover of staff; the task of reporting on compliance was simply too difficult (e.g. it was organisationally difficult for a person in one department to provide or coordinate information about the activities of other departments); and organisations were overwhelmed by their own activities and did not make time to complete the logs.

Organisations were categorised in accordance with the International Classification of Nonprofit Organisations (ICNPO) as recommended in *The Handbook on Nonprofit Institutions in a System of National Accounts* (UN 2002) which has been adopted by the ABS with a concordance with the *Australian and New Zealand Standard Industrial Classification* (ANZSIC) (2002). The final sample (of 14 organisations) was made up of the following categories—health (5), social services (4), culture and recreation (3), and an organisation from the Law, advocacy and politics category (1) and one from philanthropic intermediaries and volunteerism promotion (1). We report these last two organisations as ‘other’ for convenience. These organisations maintained a very real interest in the survey, even though it required extra effort on each occasion of paperwork to complete a second form—the survey log form. They

welcomed visits as opportunities to discuss their work, and their problems in dealing with government.

Data collection

We largely adopted the approach of the ABS researchers in their study of small business general compliance costs where they conducted initial interviews and then four separate rounds of case studies, wherein each business kept a log book over a period of three months (1993:5-6). They argued that separate rounds would avoid respondent fatigue, increase representativeness, minimise businesses ceasing operations during the survey period, and reduce the workload on individual businesses (1993:4). We anticipated a quarterly time span may not include compliance activities that may be annual and so requested organisations to commit to twelve months of recording and were willing to suffer a greater level of withdrawals from the project. As government departments rapidly move to three year funding cycles and quality assurance regimes with multiple year cycles this will have to be taken into account in future studies.

The aim of the first interview was contextual. Initial interviews were conducted in late 2004 with senior executives or financial managers of the sample organisations. These semi-structured interviews lasted approximately one hour, and were audio-recorded. The purpose of the initial interview was to glean an overall understanding of the organisation by discussing three main topics. First, there were general questions about the nature of their activities and the resources available to each organisation, such as number of employees and volunteers, gross income, revenue raised through government grants, fundraising, and internal accounting systems. Second, information was sought about each organisation's typical paperwork burden, such as government forms completed in the normal course of activities, levels of government involved (federal, state, or local), estimates of time spent preparing information and completing the forms, level of difficulty of the forms, frequency, changes in volume of paperwork, Goods and Services Tax, fringe benefits and salary sacrificing, whether information was directly accessible or needed to be compiled for reporting purposes, and whether staff felt that the paperwork distracted from the direct services of the organisation. The third set of questions aimed to gather evidence on grant submissions and acquittals, as experienced by each type of organisation. Respondents were asked to recall their success and failure rates in making submissions during the previous year; procedures, time and levels of staff involved in preparing submissions and acquittals; and their opinions on the usefulness of information provided on the paperwork, duplication with other paperwork, and feedback from the government departments concerned.

At the second stage in data collection, the respondents were asked to complete a 'log form' every time they submitted an item of government paperwork, over a 12 month period. Respondents were those responsible for completing or collating information for government forms. Each log form asked about the paperwork which had been submitted: date, department, level of government, funds involved, frequency of the form, availability of contact persons and whether these were used, sufficiency of time, time and process of completing the form, difficulty, instructions provided, and duplication. If completed by an agent (such as an accountant or a lawyer), the log form asked about the reason and the cost of outsourcing.

The research design included monthly visits to organisations, but this frequency was not continued because compliance activities often clustered into quarters. On average, six visits were made to organisations over the year, to collect log forms, to issue new forms, to discuss matters related to the research, and to urge ongoing

involvement in the survey. Telephone calls were made between visits to the organisation to encourage collection and respond to any issues. In case studies, researchers have found such visits to be beneficial because they enabled the development of rapport between researchers and respondents, “which led to more open and honest responses being received” (Wallschutzky and Gibson 1993:517). It has been identified in many studies that there is likely to be an over-estimation of recalled time spent on activities which are not core to the respondent’s work (Sandford 1995; Evans, Pope, and Hasseldine 2001).

Valuation of time and cost

Given the primary focus of this paper—to measure the costs of compliance in relation to government paperwork—the basis of these costs is important. The ABS used hours taken and costs based on the labour rates of those actually completing the paperwork (1993). For this survey, indications of time spent on compliance were completed on site. Back in the office, researchers used log form information to calculate the financial costs of compliance by combining time spent on the task, and the salary level of the person/s doing the task. An indication of salary costs is the Australian Industrial Relations Commission, Social and Community (Queensland) Award, 1996. In general, senior staff in NPOs at the time were paid \$60,000 per annum (approximately \$34 per hour); middle level staff were paid \$40,000 per annum (approximately \$23 per hour); and junior staff were paid \$32,000 per annum (approximately \$18 per hour). An additional 26% was allowed across the board for ‘on costs’ payable by the employer, such as leave, superannuation, and taxes. These rates are generally lower than equivalent remuneration rates in government or business sectors.

Volunteer time was excluded from the calculation of compliance costs because of the difficulty of collection, valuation and not being formally recognised by the accounting standards. Volunteer time is rarely recorded or reported as a direct formal accounting cost to the organisation and there is little agreement on its valuation (Industry Commission 1995:124). Given these difficulties such costs were not included. In some cases, volunteer treasurers were involved in compliance processes, and checked and/or signed documents before submission; in other cases, volunteers were involved in administration or service delivery. If volunteer time was valued and costed, the costs reported in relation to organisations would rise, particularly in small organisations.

Measuring costs of compliance inevitably depends on respondents’ understandings of compliance. The log form provided specific definitions of “government paperwork” and “workload”, as well as directions on ways to measure “actual time spent” on the activity. Nevertheless, definitions of compliance remain difficult in compliance surveys about what constitutes a core cost and what is a cost occasioned by requiring data for a form or report. This problem was referred to by Tan-Nam (2001) as the “accounting-taxation overlap”:

At one end, there are taxpayers (especially small businesses) who regard all the costs involved in the preparation of accounting records as compliance costs, because taxation is the only reason that they have, or at least recognise, for performing those activities. The other extreme might describe tax as no more than a by-product of accounting such that the information relevant to taxation is a final step in an ordinary accounting function (2001, p. 57).

Tran-Nam suggests that questions should “help taxpayers to separate non-taxation accounting costs from the taxation compliance costs” (2001:57-58). In this regard,

Ritchie's study (2001:304) was specifically designed "to disentangle 'core accounting' costs from tax compliance costs". This problem of definition was taken into account during visits to organisations and some adjustments to organisations' responses were made to better reflect a more consistent approach.

Tax compliance literature employs a number of ways in which to present data, such as self-assessed scaled degree of difficulty or psychological stress, hours taken to collect and complete taxation forms, cost through actual or notional labour costs or extrapolated to a percentage of the total tax's revenue. The two studies identified as being closest to the present inquiry presented their results as a percentage of annual revenue (QCOSS 2001; Lara-Cinisomo and Steinberg 2006). This study presented overall measures as a percentage of the sample's revenue and in hours. A proportion of tax yield is inappropriate and extrapolating costs to the whole sector is fraught with many difficulties because of the unknown total number of organisations and their revenue.

Survey results

At the end of the survey period, 449 log forms had been collected, of which 404 logs were relevant to the research (excluding those from organisations which had withdrawn). Generally, respondents were faithful to the task of giving information on submissions, acquittals, and database compliance, though reporting on taxation was less regular. Thus, in the final stage of analysis, a few telephone calls were made to collect information on taxation compliance which researchers considered had probably been done but not reported on (such as annual returns, in addition to monthly and quarterly compliance). Care was taken not to count costs where some organisations defaulted in making returns and one small organisation in particular did not file some mandated tax forms at all.

In summary, over the 12 months, the 14 organisations together reported taking an average of 143.57 hours (median of 95 hours)³ to complete government generated paperwork. The average time taken per form was 5.05 hours, but with a median of 1.00 hour.

Regarding the level of government to which compliance documents had been submitted, 60% of compliance forms were submitted to state government; 34% to the Commonwealth; only 1% to local government; and 5% to both state and Commonwealth.

To investigate the contribution of different types of paperwork to the overall burden, the paperwork was classified as submissions which sought funding, acquittals which reported on actual funded activities, taxation returns such as Business Activity Statements and other paperwork. The other paperwork included forms to ASIC, incorporated association regulators, Australian Bureau of Statistics, fundraising regulators, and workplace health and safety requirements. Included in other paperwork was information for minimum data sets collected about clients mandated by funding agreements, usually in the health/disability sector. It was not included in acquittals as it was not reporting on the specific use of funding through accounting information or performance measures.

³ The median is the middle of a distribution: half the scores are above the median and half are below the median. A median that is lower than the statistical average (mean) indicates that the distribution of responses is skewed, with several large responses inflating the average.

Submissions and acquittals accounted for about half of the forms by number and the bulk of time spent on completion. The nature of work involved in drawing up submissions is usually handled at a higher level than acquittals. Submissions are necessarily developed by the highest level of staff in an organisation, involving strategising, consultations, planning, meetings, budgeting, writing several drafts of submissions (up to 17 drafts were reported for one submission), and negotiating with department officials. Many acquittals, on the other hand, are comparatively routine in that they involve collating information from program staff about service delivery, or reporting on expenditure by the finance department of the NPO. Some government departments had already changed their grant funding to three-year cycles, and the organisations' log forms during this period did not include any or many submissions.

The medians for submissions (6.5 hours) and acquittals (2.00 hours) indicate a large range of time taken to complete the submission and acquittal forms. Tax forms were a smaller part of the paperwork burden. Paperwork to corporate regulators (ASIC) and incorporated association regulators was also less significant but, as will be discussed below, it was a burden for the health/disability organisations.

Table 1: Forms by type and average and median hours taken to complete

Type of Form	No. of Forms	Average Time taken (hrs) per form	Median Average time taken (hrs) per form
Submissions	46	15.17	6.5
Acquittals	157	6.04	2.00
Tax	90	1.87	1.00
Other	111	1.88	0.75
Total	404	5.05	1.00

These higher level results require more detailed analysis to identify where the specific burdens of paperwork are falling and their cost. The paper now turns to examine the following issues:

- First, a quantification of the costs of government generated paperwork for nonprofit organisations.
- Second, the relationship between organisation size and compliance cost is examined. This seeks to establish whether the size relationship now widely confirmed in the for profit business sector applies to nonprofit organisations.
- Third, the major activities of the NPOs and their compliance cost is analysed to establish any relationships between activity and compliance cost.
- Fourth, the relationship between organisations with multiple funders and compliance costs is discussed.
- Fifth, the data is analysed by examining the compliance costs by individual government departments' submissions and acquittals paperwork.

Calculating costs of compliance

The log completed on each form submitted included data on the hours taken by different persons in the organisations and their individual hourly rates. This allowed each form to be fairly accurately costed with researchers seeking to ensure that the costs of information that would have been collected even if the form had not required

it (core costs) were not confused with the costs of collecting information for the form. We report the costs in terms of hours taken and cost as a percentage of turnover as adopted in Lara-Cinisomo and Steinberg (2006) and QCOSS (2001).

The survey established the average cost of government generated paperwork to be 1.74% of the total turnover of the case organisation. QCOSS found that ongoing (not implementation) GST costs in relation to “turnover” were 2.2% for organisations with a turnover of under \$10 million (2001:11). Lara-Cinisomo and Steinberg in their single US case study of funding reporting time came to 11% of annual revenue (2006:xiii). These higher costs are explicable in terms of a completely different environment and single case study with possible measurement of core administration costs as well as form necessitated data collection (Lara-Cinisomo and Steinberg 2006) and self administered survey on an unpopular taxation implementation regime (QCOSS 2001).

Table 2: Average time and costs of compliance as a percent of turnover by type of document

Type of Document	Compliance cost
Av. Submission Cost	0.85%
Av. Acquittal Cost	0.73%
Av. Tax Cost	0.07%
Av. Other, eg ASIC, databases	0.11%
Total Average costs	1.74%

We suspect that the methodology used had some part to play for the lower compliance costs reported here. The QCOSS study measured only GST costs at a time close to implementation where costs are higher (Rametse and Pope 2003) and by self-administered postal survey with a small response rate. As noted earlier, it has long been suspected that a self-administered postal survey relying on recall over a significant period of time may overstate compliance costs, particularly when the tasks are disliked or onerous (Sandford 1995; Evans, Pope and Hasseldine 2001). In our initial interview, we asked participants to recall their last average submission and acquittal and estimate the time taken to complete them. The average estimate was 46 hours for a submission and 14 hours for an acquittal as opposed to 15.17 and 6.04 hours as recorded in the log forms.

It is instructive to ascertain where the burden falls on different types of organisations and to identify the paperwork requiring greater resources to complete it.

Does size of organisation make a difference to compliance burden?

It is a strong trend in taxation compliance studies that the burden of paperwork cost falls disproportionately on small business (Wallschutzky and Gibson 1993; Allers 1994; Sandford 1995; Evans, Pope and Hasseldine 2001) and this was also the finding of the QCOSS study (2001:10). The survey results also point strongly to a regressive burden on small organisations across all types of government paperwork. We would also anticipate that if volunteer costs had been recorded that the gap would have even been wider given the amount of volunteer contribution in smaller organisations.

The sample for this survey was fairly evenly divided between small (8) and large (6) organisations and the criteria for this division is discussed above. The first eight organisations fall within the small business definition on a count of FTE employees

and organisations 9 and 10 also have less than 20 FTE employees. However, when estimates of EFT volunteers are included organisation 10 is one EFT person under the traditional small business definition and organisation 10 because of volunteer contribution is well over the dividing line. Organisation 14 is clearly an outlier in terms of both EFT employees and volunteers. Without more data than is currently available about the entire population of nonprofit organisations in Queensland, the natural break in our sample serves as a convenient dividing line for size.

Using the method of calculating costs of compliance as a percentage of annual revenue and total hours, the two size groups by revenue in the Queensland sample were compared: the average cost of compliance for small organisations was 2.76% of revenue, compared with large organisations at 0.36% of revenue—that is, 7.6 times greater for small organisations (see Table 3). When average hours of small and large organisations are examined (152.28 and 131.96 respectively) the gap is not so great, and the cost difference is a product of who completes the paperwork.

If one includes organisations 9 and 10 as small organisations on the basis of employed staff then the average compliance cost is 2.30%. This confirms our finding that the smaller the organisation, whatever the basis chosen for definition, the compliance costs are regressive.

Table 3: Costs of compliance by size of organisation (smallest to largest)

Size	Range of revenue	NPO	Revenue	Employees & Volunteer (ETF)	Total Hours	Compliance cost
Small	\$0 to \$600 000	Org 1	\$ 45,000	3	95	9.04%
		Org 2	\$179,000	1	35.6	0.84%
		Org 3	\$270,022	13.5	46	0.91%
		Org 4	\$326,000	3.9	93.21	1.14%
		Org 5	\$405,000	3.6	487	6.1%
		Org 6	\$500,000	8.25	42.25	0.55%
		Org 7	\$514,000	7	336.15	2.73%
		Org 8	\$600,000	5.2	83	0.79%
				Av. \$354,878	Av. 5.7	Av. 152.28
Large	\$601 000 to \$5 m +	Org 9	\$840,000	19	76.46	0.55%
		Org 10	\$919,000	42	50.96	0.39%
		Org 11	\$1,200,000	23	95.11	0.69%
		Org 12	\$2,130,000	30	141.51	0.26%
		Org 13	\$5,240,000	76	102	0.07%
		Org 14	\$10,400,000	303	325.71	0.17%
				Av. \$3,454,833	Av. 82	Av. 131.96
Av. for all orgs.				143.57	1.73%	

The greater costs of compliance in small organisations relates to the nature of work involved. In small organisations the CEO or manager (having a higher hourly rate) did more of the compliance work (31%, compared with 11% in large organisations). In large organisations, where division of work was more specialised, much of the compliance was done by the finance manager (47%, compared with 25% in small organisations). Where compliance relates to services provided by the organisation, the work was done by program staff (28%), to some extent assisted by administration staff (14%).

In addition to division of work, larger organisations are more likely to have computer technology which is more sophisticated, making it easier to collate information for acquittal purposes. The smallest organisation in the Queensland survey did not have an accounting package (they used Microsoft Excel and “shoebox accounting”), and thus data collection for them required more effort.

Some large organisations did have issues arising from division of labour. In some organisations reporting of compliance activities was limited by organisational difficulties and divided responsibilities. Log forms prepared by one member of an organisation did not necessarily give an accurate reflection of compliance activities undertaken by other members of the organisation. For example, it was organisationally difficult for a staff member in the finance department to report on the activities of program staff. However, respondents were reminded of this issue during regular visits so that such effects were minimised.

Small organisations spent more time on preparing submissions (16% compared with 10% in large organisations) and acquittals (25.5% compared with 21%). They spent similar proportions of their time on tax compliance, but completed far fewer ‘other forms’ than large organisations (8% compared with 33%). These databases include detailed information on clients and services performed for those clients (see Table 4).

Table 4: Differences in compliance between small and large organisations by percentage of time spent in completing forms

Size of organisation	Type of form			
	Submissions	Acquittals	Tax	‘Other’, e.g. ASIC, regulators
Small	16.1%	50.0%	25.5%	8.5%
Large	10.0%	35.6%	21.0%	33.3%

When the categories of forms are examined by percentage of total revenue a further trend is apparent. Small organisations show a higher percentage of revenue across all types of paperwork, but it is closer in respect of the other documents category. Submissions are a significant cost for smaller organisations being 1.436% as compared to 0.07% for larger organisations and acquittals were 1.137% with larger organisations being just 0.178%.

Table 5: Average hours and compliance cost as a percentage of turnover by size and type of document

Size of organisation	Type of document			
	Submissions	Acquittals	Tax	‘Other’, e.g. ASIC, OH&S & databases
Small				
% of revenue	1.436%	1.137%	0.11%	0.14%
Av. hours	11.72	10.84	2.08	8.78
Large				
% of revenue	0.07%	0.178%	0.02	0.09%
Av. hours	16.84	3.99	1.82	1.34

Overall, a far greater percentage of compliance logs came from large organisations: 77% from large organisations, and 23% from small. There was a significant difference in the time taken to complete (all) compliance documentation—it took small organisations 8.8 hours on average, and large ones only 3.9 hours. This discrepancy could result from factors such as greater expertise and division of work in larger organisations with senior staff of small organisations juggling a diverse range of tasks, filling in forms being just one.

In the pre-survey interview small organisations estimated an average of 54 hours to complete an average submission (large organisations estimated 49 hours) and for acquittals, estimations were 15 and 10 hours respectively.

These figures are supported by anecdotal evidence which suggests that smaller organisations, which may be less financially secure, spend more time preparing submissions for funding. Larger organisations may have specialised staff who prepare submissions, and therefore tend to develop the necessary submission-writing skills which could help them to be more successful. As one person put it:

These big guys, like X organisation [name withheld to preserve confidentiality], they've probably got an entire department doing only tenders. The smaller people, like ourselves, we're asking our co-ordinators to become managers, to keep doing their jobs plus do this—and it may or may not be their forte to do submissions, because [submissions] are huge, and you've got to use the right buzz words.

At one extreme, one small organisation simply gave up preparing submissions, and turned to other methods of generating funds, such as appealing for donated assets, and producing farm produce for sale—thus generating unrelated commercial income in order to continue to provide their normal welfare services. This organisation applied for a “small equipment grant”, and were informed in their letter of rejection that “over 10,200 applications were received” (letter from Federal Department of Family and Community Services, 23 May 2005 held on file by authors). The same organisation reported that another of their applications—for innovative funding—had to compete in a field of 145 applications for very limited funds, and ultimately the funds were distributed amongst 11 organisations (letter from Disability Services Queensland, 3 May 2005 held on file by authors).

Clearly, the preparation and processes of submissions are generally considered to be the most difficult dimension of compliance for all organisations, particularly for small ones. As will be explained in following sections, during our monthly visits, it became apparent that there was a strong begrudging of paperwork that appeared to have no utilitarian purpose and a rejected grant proposal or letters as mentioned above were particularly galling to staff.

In terms of general attitudes towards compliance, there were further differences between small and large organisations. When comparing use of departmental contacts offered on compliance forms, more small organisations reported that a contact was provided (55%, compared with 28% of large organisations). Also, small organisations were more likely to make use of the contact provided (20%, compared with 7% in large organisations). More small organisations reported that the contact had been helpful (16%, compared with 5% in large organisations). A greater percentage of large organisations reported that tasks were “not difficult” (76%, compared with 61% small organisations). This all points to the increased time taken to complete paperwork when not performed by specialist staff who are specifically tasked and recruited with skills and aptitude in this area.

More small organisations complained about duplication (33%, compared with 13% large) and their opinion about the usefulness of the information collected (half of the small organisations believed the information was of little use whereas of large organisations 60% found it useful). Our small organisations' staff expressed more concern with the limited resources of the organisation and the overwhelming need for their organisation's services. This may be due to their proximity to actual service delivery and the implications of resource constraints played out on the front line on a daily basis. They felt strongly about spending any time on activities which appeared to have little benefit to achieving the organisation's mission in assisting those in need and often did not see the point in much of the detailed reporting to departments. Rarely did they recall receive any communication about the information provided to the department or about what role it played. This view was evident in larger organisations, but most strongly held amongst small organisation staff. It was a particularly strong conviction of volunteers. This is despite the Australian Institute of Health and Welfare publishing regular reports drawn from such data collection as part of its core mission and being readily available in print or through the Internet for such organisations. The paper returns to this theme later as a possible explanation for the discrepancy between actual costs and perceived costs, particularly in small community service organisations.

Do the major activities of organisations make a difference?

Organisations in the different sectors of the survey had different patterns of compliance activities. In addition to financial and tax compliance, organisations most affected by the need to complete regular databases are those funded by Health and Disability Departments. These include the minimum data set (MDS) for Queensland Health, the Commonwealth State/Territory Disability Agreement National Minimum Data Set (CSTDA NMDS), or the Ongoing Needs Assessment (ONI). Such databases require data on every client served, such as full address, post code, name of parents, date of birth, and details of services provided. In the case of the ONI, the service provider is required to assess and complete a lengthy form on each client's functionality (such as continence management, ability to handle shopping, housework, medicine, money, and hygiene). The collation of personal information on clients, and services performed for each client, and then completing the databases, is very time-consuming. When averages are calculated for each category of organisation, database compliance was greater in Health/Disability organisations than in other categories. Of the total compliance activities recorded in all log forms, the largest percentage came from health organisations (53%), social services and culture and recreations were similar (23% and 17% respectively), and only 8% from 'other' organisations.

Another difference between organisations in the four sectors is the ratio of submissions to acquittals. Of all their compliance activities, social service organisations reported more than three times as many acquittals (37%) than submissions (11%); similarly, health organisations reported 41% of their activities were acquittals and only 9% were submissions (see Table 6). These departments made greater use of three year funding arrangements.

Table 6: Types of compliance by type of organisation

Type of Organisation	Submissions	Acquittals	Tax	Other
Social Services	10.9%	37.0%	23.9	28.3%
Health	9.0%	40.6%	13.2%	37.3%
Culture & Recreation	22.4%	20.9%	47.8%	9.0%
'Other'	6.1%	69.7%	24.2%	0%

Collating information for these databases needs to be completed by program staff, such as social workers or nurses, who may be resistant to the administration involved. They see little use of the data by government or the organisation itself and rarely receive any feedback about its quality or importance. As one finance officer put it:

Generally the social workers are not the sorts of people who happily fill in forms—they are resistant. But if we don't have all the information, then the database is incomplete, and when we submit the stats to the department, they get rejected because some of the boxes aren't completed. Quite frankly, we often just make up the information. Does it matter if the post code isn't quite right?

A similar observation was also made in Lara-Cinisomo and Steinberg's single case study of an American NPO with the object of preventing child abuse (2006).

The survey sample included one sporting organisation. It is a state-wide development body, which receives triennial funding to "grow the sport" amongst many small clubs. This particular organisation did not report on any grants made by the Department of Sport and Recreation through 14 different programs, e.g. Club Development Program, which provides grants of \$500 to \$4000 to a club. Acquittal information for these grants is minimal—a club is required to acquit once-off at the end of the program by describing the benefits of the funded activities, and completing an expenditure statement reporting only receipts and invoice numbers. Such grants do not require quarterly or annual acquittals.

Does having multiple funders make a difference?

The compliance load increases when NPOs are required to report to multiple funders. NPOs prepare submissions in varying formats to different departments, and all the departments require acquittal information in project-specific terms. While government departments are interested in the financial position and sustainability of the whole entity—and therefore ask for copies of audited annual financial statements—they are primarily interested in income and expenditure for their specific grant. NPOs are thus asked to provide project-specific acquittals, many of which differ in format.

In a parallel project (Flack and Ryan 2005), the researchers worked with Queensland government funding departments and NPOs to devise a standardised Chart of Accounts for NPOs. The driving force for the project was the fact that there was no consistency between departments in the financial treatment and accounting terms for grant acquittals. Based on an analysis of funding documents from 24 Queensland state funding departments, the researchers found extensive differences in definitions and categorisations used by departments. These differences create significant accounting challenges for NPOs; for example, the analysis of government funding documents produced a total of 129 different revenue line items and 836 different

expense line items. The major variations occurred around the expense item for labour costs. Their analysis revealed a total of 113 different line descriptions in the documents relating to direct labour costs; for some departments, 'salaries' covered salaries only; others included salaries and on-costs; others included 'costs of employment', such as 'staff training' and 'protective clothing'; others included staff transport. Given that each financial transaction is recorded once only, these variations created considerable compliance costs for NPOs because each acquittal required re-casting of expenditure; some funders used categories such as 'direct' and 'indirect' expenditure; others used 'recurrent' and 'non-recurrent' expenditure; or 'administrative' and 'operating costs'.

If one organisation is reporting to multiple funders (up to 37 programs in one organisation), their compliance activities were time-consuming, frustrating, and—it has been suggested—of dubious reliability. Many organisations struggle to keep separate records for each grant or each project. Survey log sheets included complaints such as: "It was very difficult to extrapolate data on consultations. We had to revise reports from our Consultation Database to fit the requirements of the report"; "It was difficult to extract information from our financial statements for the department's headings"; "It requires considerable reformulation of our own chart of accounts".

The Queensland Government, since this study, is incrementally moving towards a Standard Chart of Accounts and financial data dictionary across all funding departments which it is anticipated should reduce the paperwork burden of conflicting financial data collection and reporting (Auditor General of Queensland 2007). Once the process is settled, there is a unique opportunity for further research into the impact of the changed reporting environment.

Of the various departments to which compliance documents were submitted, the total paperwork activities were spread as follows: one third (37%) went to DSQ because the funds client packages to individual disabled clients, rather than programs which are offered by NPO organisations; one-quarter to ATO (24%), and far fewer to Departments of Communities (9%), Health (7%), Culture and Recreation (6%), and Housing (3%), and various other federal and state departments. Of all logs submitted to DSQ, 98.6% came from large organisations which serve many individuals.

Issues with government submission and reporting forms

Compliance with some departments' requirements took longer than others. Compliance for Health (Queensland and Commonwealth) took significantly more time (22 hours per form) than for other departments. This is because Health makes more use of databases, which require extensive data collection. On the other hand, DSQ makes small grants to many individuals, depending on their needs, and they also allocate 'block grants' to organisations. Reporting on the many individual grants takes comparatively little time (2 hours per form). However, even though they are short, such reports are very detailed and time consuming: "23 acquittals – one for each client for each quarter, year to date, requirements for next quarter, and the whole year's budget", and "It is difficult to pull individual funding back to one Profit & Loss"; and from another organisation which serves 120 or more individuals, "client's records are finalised at different times through the period" (see Table 7).

Table 7: Length of compliance time by departments

Type of Organisation	Average time for compliance	Average Cost per form
Health	21.5 hours	\$1,105.00
Culture & Recreation	15.7 hours	\$ 714.00
Communities	4.6 hours	\$ 221.00
Housing	2.9 hours	\$ 102.00
DSQ	1.9 hours	\$ 134.00

The most expensive cost per form was with state and commonwealth health departments at \$1,105.00. As noted above this average cost per form can be misleading as to the overall burden on NPOs because the number and frequency of the forms need to be considered as well.

Most compliance is done on a quarterly basis. Submissions, however, were spread out over the year—one third on a once-off basis (37%) and 33% on an ‘other’ basis (as opportunities arise). Most acquittals are done on a quarterly basis (67%), 21% annually, and a few monthly (8%). Tax forms are spread evenly between quarterly (48%) and monthly (46%). Most organisations (69%) which provided database information did so on an occasional basis.

Improvements in submission and reporting processes

Using questions asked in the ABS (1993) paperwork study as a model, the Queensland survey included questions in the log forms to assess NPOs’ general impressions of government forms. Comments were also gathered in the pre survey interview and during visits to the organisations to gain a depth of understanding about paperwork issues.

First, the survey attempted to measure the level of difficulty in completing compliance documents. Most responses indicated (on a three-point scale) that the task was “not difficult” (72%). There was occasional praise for government efforts to simplify compliance documentation: “Forms for service agreements with Department of Communities have been revised. Forms are better presented.” Some responses were negative: “The form was complicated, and not always relevant”. In general, when asking about respondents’ views on compliance forms, quantitative results were positive, but qualitative results were more negative—comments on log forms indicated that several tasks were considered “onerous”. The most serious problem is clearly the requirement to extract and reformulate information from financial and data systems within an organisation in ways that meet the requirements of different departmental forms. It would seem that some departments have made serious attempts to improve and simplify their systems, while comments on log forms show that other departments are considered “obstinate” and “unreasonable”.

Second, a series of questions were asked to ascertain the level of assistance and guidance provided to NPOs in completing forms. About half included instructions (46%) and just over a third (35%) included a specific contact point. One fifth of small organisations (20%) reported use of the contact point compared with only 6% of large organisations. Departments are more likely to provide a contact when a submission is being made—73% said that a contact was provided for submissions, only 41% said it was available for acquittals, and a large majority (81%) reported that there was little support for ‘other’ forms, e.g. databases.

Almost all respondents were satisfied that adequate time had been allowed for completion of the government forms (94%). However, one comment made several times was the difficulty of providing information which depended on audited financial statements being available: “Time insufficient because completion of this form depended on audited financial statements”; “Budget process not able to be completed until after audit. This was due on 31st July”.

When asked whether the data collected was useful for the organisation’s own purposes, this question was less well answered than others. One log response was “The task was onerous—a great deal of information had to be elicited from clients which is of no use to our organisation.” It became clear to researchers at the pre-survey interview and during visits many of those who completed forms and their management perceived little value for their organisation in collecting information beyond core financial information apart from satisfying their funding conditions. This was particularly so for small organisations where at the pre-survey interview only two (25%) organisations believed that the information collected for the forms was very useful to the organisation itself. The very largest organisations with multiple funding sources also found the information collected of less use to the organisation.

There is some duplication of information on various government forms—usually contact information about the NPO—but this was not considered to be a major issue. Of all organisations, 71% reported that there is no duplication, and 17% said there was some duplication. Possibly as a reflection of pressure of work, more small organisations complained about duplication (33%, compared with 13% large). Log comments on duplication included: [the form] “duplicates original grant proposal form in asking for types of programs, outcomes for users of the Centre, role of co-ordinator”; “duplicates past submissions and service agreement”; “duplicates every other year’s applications”; “duplicates performance framework report”.

On the issue of outsourcing compliance activities to an external advisor, only three organisations had done so (ten occasions, in total). In various instances, external accountants completed forms on the organisations’ behalf, because “the form was too difficult”; organisations “were afraid of penalties”; and another organisation responded “We already pay him to do an audit, so he just does the BAS”; also, one organisation said they just “did not have time”.

Various government departments have already moved toward funding on a triennial basis, which appears beneficial to both departments and funded organisations. From the departments’ point of view, having cohorts of organisations making submissions during specific periods simplifies the grant allocation process, and regularises their acquittals, periodic payments, and general monitoring of those organisations. From the NPOs’ point of view, submissions are required to be developed less often, and theoretically the workload and preparation could be spread over longer periods of time—though it would be problematic for unsuccessful applicants to have to wait for the next round of funding (in three years’ time).

Recommendations from findings

A number of positive developments to reduce compliance costs and increase the quality and usefulness of the data collected are suggested from the findings. First, it would be a significant advance if government departments standardised and aligned their submission applications, contract/service agreements, and acquittal processes for funding welfare services—as is being encouraged by Queensland Treasury (Auditor General of Queensland 2007). However, at government level such alignments are being “encouraged”, rather than made mandatory for departments. Understandably, different departments need to collect information which is specific to the nature of services being provided; nevertheless there is room for greater alignment. A whole of government data dictionary for grants and submissions should be developed with the assistance of NPOs for both financial information and client data collection. This would foster creating data once and using it many times which is in itself more efficient and also assists to diminish the view that the information collected is of little value. Such information should either be of apparent value to the organisation itself or aggregated and analysed by the collecting authority and communicated back to the NPO sector in a useful way. Departments need to be held to account for showing the information collected is in fact of some public benefit. This would provide a bright line between information that should be collected and that which is merely burdensome red tape. It would also close the communication loop which the sector believes is missing with little knowledge of why such information is in fact being collected. If the information required is useful to the organisation immediately or once processed by departments, then we would expect attitudes to its collection to change. The paid staff in this study do not readily recall the Australian Institute of Health and Welfare publications or use the material in their processes. Volunteers had almost no knowledge of such a body or its publications from collected data. The basis of standardisation in Queensland could be the QUT Standard Chart of Accounts (Flack and Ryan: 2005; Auditor General of Queensland 2007) and the Australian Institute of Health and Welfare’s National Community Services Data Committee’s data set work (2006).

Constant changes and unnecessary differences in forms and programs create expenditure of time and planning on the part of departmental staff in designing and implementing systems and processes, as well as NPO staff in complying with requirements, including start up costs for each new program (such as employing staff). Tax compliance work has shown that constant alterations to the regulatory regime of paperwork places significant cost and stress upon organisations (Rasmetsse and Pope 2003).

A second suggestion is that departments could give greater recognition to the fact that “one size does not fit all”, when designing submission and acquittal processes. In this regard, there could be different processes for grants of \$20,000 or under, as opposed to grants of \$100,000, for example, as less detailed acquittals are required for smaller grants. Such a distinction has already been made by at least one department. A further distinction could be made between recipient organisations of different sizes, making allowances for smaller organisations by having simpler and less time-consuming submission processes.

Third, the process of submissions at present involves high costs with limited returns and requires real expertise within NPOs. Government purchasing and tendering rules should take account of whether as the Queensland Auditor General (2007) put it, a department was purchasing, investing or giving in respect of the transfer of resources from government. Different levels and styles of accountability are often more

appropriate than a one size fits all procurement model drawing upon a state's stores precedent. The submission process could be made more sensitive to the resources within organisations; for example, the process could be handled in two stages, starting with public calls for expressions of interest by NPOs requiring only one or two pages—as is already done by some departments on the Internet. Departments could consider these expressions of interest relatively speedily according to basic criteria, and then follow up by inviting more detailed submissions from organisations which are suitable. This would prevent a waste of scarce resources on both sides, as well as discourage preparation of submissions by NPOs who are unlikely to succeed. Fourth, feedback by departments to NPOs on reasons for success and failure in submissions needs to be improved. Several Queensland respondents mentioned that they did not understand why their submissions had failed, and would welcome help in subsequent submissions. Some comments here: “feedback is available only if you request it”; “It's not really feedback—they'll commiserate with you”; and “We get feedback only when something is wrong”. Some progress has been made in this regard by departments appointing community liaison officers who make supportive (and monitoring) visits to NPOs, and contracting bodies (such as the Institute for Healthy Communities) to build capacity in NPOs by appraising them and making “quality improvements” to enhance their organisational and financial profiles, and promote sustainability. Such efforts by departments certainly promote accountability and transparency of government departments, especially if they are required to provide feedback to NPOs giving reasons for success or lack of success in their submissions.

Fifth, auditors should be encouraged to complete their audit in a more timely manner, instead of keeping NPOs waiting for months for their annual financial statements. At the heart of the resolution of this issue is providing nonprofits with full funding for the audits. The rising costs of audits for organisations and their constrained ability to find funds for such ‘non-direct service delivery’ expenses combined with a shortage of qualified auditors is at the heart of the issue. One comment here was “The time was insufficient because completion of this form depended on audited financial statements”. Such delays put NPOs under severe pressure because they are required to submit audited statements for the year ended June, usually by September.

Finally, government departments which insist on making NPOs collect data sets through funding agreements should consider several actions. The first is, as suggested above, to ensure that the information from all data sets is shaped into useful information for NPOs and communicated back to them for their own use. There appears to be little appreciation of the Australian Institute of Health and Welfare's publications drawn from such data collection. Second, the funding agreement should contain adequate compensation for the costs of collecting the information and this should be apparent to nonprofit organisations. If the government has to pay the full economic cost of collecting the data, it might be expected that only that which was necessary and valued will be collected.

Issues for further research

Compliance involves more than filling in forms which report on financial matters and services performed. It includes non-paperwork demands of development work such as keeping well-informed of new government policies, quality and accreditation standards and processes, and interpreting and implementing these policies. One Queensland department is currently in the process of implementing “a set of 11

Standards for Community Services”, each of which needs to “meet five criteria” and relies “on four types of verification” (SNGO 2005:15-16). The Strengthening Non-Government Organisations Report of this department goes on to say—

Some service providers may struggle to meet the standards and this is a good thing ... Assessment against the standards will highlight deficient areas and provide a solid evidence base against which to measure progress ... Ultimately, however, a small number of organisations will not be able to meet these standards (2005:17).

In addition to meeting these stringent standards and abiding by changing policies, NPOs are required to undertake a range of ‘hidden’ compliance activities—which are not usually captured and measured by compliance studies. Coping with new departmental policies and processes, and related inspection visits by department officials, was described by one NPO respondent as “a monstrous iceberg”:

The Queensland government has a new set of standards for state-government funded community organisations. We’ve had to grapple with a manual about 4 inches thick of the 11 standards that we will have to abide by. All of the developmental work is the below-the-waterline stuff of this monstrous iceberg.

And when delivering services, NPOs often undertake work which is not strictly ‘compliance’, though it is necessary to help their clients:

The Co-ordinators fill in forms for our [200 disabled] clients. We have to take rent from our clients’ pensions before they get their funds, because they’re living in our houses. So one of the administrators has to fill out all of the forms which then go to the Public Trustee. This is not recorded in the survey. I don’t know how long it actually takes them – I don’t see it as “compliance” but it’s certainly part of the work that we have to do.

Thus paperwork is not the only time consuming part of compliance. This survey specifically measured time and costs spent on paperwork compliance, and thus did not capture development compliance. Research to assess this dimension of the compliance burden would be useful.

Another dimension of compliance which requires further research is the fact that ‘parent bodies’ apply for grants on a national or regional basis, on behalf of their branch offices. At regular intervals, the head offices then collect implementation information and do the necessary compliance paperwork. This pattern became apparent in the Queensland survey, but a different research instrument and method would be required to capture the extent and costs of such compliance being done elsewhere in head offices on behalf of the NPOs.

In the Queensland survey, some organisations diligently reported the involvement of volunteers in the compliance activities, most of them did not. While calculation of volunteer time and the (virtual) value of these services were not costed in this survey, they could be a significant factor if total compliance costs for NPOs were being measured.

As noted above, the Queensland government’s incremental adoption of the Standard Chart of Accounts for financial reporting may have an impact on the paperwork burden of NPOs and the quantification of the impact of this policy change would provide useful policy information for future red tape reduction.

This survey included a careful analysis of small organisations versus large ones in their responses to compliance, and it found that compliance costs and effort were significantly greater in small organisations. It has been suggested that division of labour enables large organisations to deal more effectively with compliance—especially submissions. On the other hand, lack of dedicated staff for some compliance tasks was a real problem for small organisations, often creating a negative reaction to compliance activities. If small NPOs are to be valued then research is required to find ways to ease the burden of compliance for small organisations. It is not simply an issue of government's making a choice to favour large organisations as auspicing, shared back offices and bureau arrangements may provide solutions to the paperwork burden. We heard many times the comment made by one respondent: "The government truly believes that bigger is better. It is trying to rationalise small organisations, and push them aside".

Conclusion

The Queensland survey has demonstrated that it is difficult to establish costs of compliance without establishing an agreed understanding of what constitutes compliance, and how best to measure time and effort spent on compliance activities. The research methods used in such a survey inevitably enable—and limit—findings. However, the survey offers a benchmark for 'red tape reduction' measures.

This work confirms tax compliance studies with small business that paperwork compliance costs are regressive for small organisations. It confirms that self administered recall by participants of paperwork costs is likely to be unreliable and even more so where the task is perceived of as little value or usefulness to the organisation or government. The submission process in Queensland and federally requires ongoing refinement to prevent waste of scarce resources, particularly by small organisations who can least afford such administrative costs. A range of options from expressions of interest to a tiered submission process based on organisational size should be actively pursued to reduce red tape costs.

It is arguable whether—at 1.74% of revenue—the average of compliance costs for the 14 organisations in the sample can be considered high or low or a significant burden for the organisations. Those in the organisations generally had the attitude that submission and acquittal paperwork was a burden to varying degrees and resources could be better used. No doubt the annoyance factor of spending valuable time on what was perceived to be just paperwork of little value may elevate the issue to a higher level than it deserves in the range of challenges facing organisations. Much of the taxation compliance literature has concluded for some time that the compliance burdens for small businesses were "over-stated"—"compared to other problems faced by small business, such as cash flows, poor sales and high costs, compliance costs are not a first-order problem" (Wallschutzky and Gibson 1993:541).

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