RESEARCH AND EVALUATION

Reducing the Compliance Burden of Non-profit Organisations: Cutting Red Tape

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Australian governments now rely on the non-profit sector to provide essential services. Yet, anecdotally, the compliance burden imposed by governments consumes scarce service delivery resources. This study quantifies the cost of government generated paperwork for Queensland non-profit organisations. Fourteen non-profits kept logs to record government paperwork over 12 months. The non-profits also provided their experiences of government paperwork and in particular grant submission and reporting processes. The study finds that government grant paperwork forms the bulk of a non-profits total paperwork burden with grant submissions being the most costly to complete. Costs are clearly regressive with small non-profits bearing a significantly higher burden. Governments need to lead the way and empower the non-profit sector by reducing this administrative burden and releasing the funds for direct service provision.

Key words: non-profit organisations, paperwork burden, case study

Background

With the introduction of New Public Management which espouses the adoption of private sector management techniques for the public sector, the role of government has become one of a facilitator of public goods rather than a direct provider of services (Hood 1995; Pollitt 2003). Notions of contracting out services, a hollowed out state, and creation of markets or quasi-markets for community services abound (Kerr and Savelberg 2001; Lyons 2001; Yeatman and Owler 2001). It is argued by some that this change improves efficiency and releases funds for increased service delivery, moving the emphasis from process or procedural accountability into performance measurement with predicted targets and outcomes (Olson, Guthrie and Humphrey 1998).

In Australia, significant funds flow from government to non-profit organisations (NPOs). In 2000 $10.1 billion of the $33.5 billion of income received by NPOs (ABS 2002b:8) was from government sources and this had grown by 2007 to $25.4 billion or 34.1% of income (ABS 2008). In Queensland, where this survey of government paperwork completed by NPOs was conducted, grants by the state government to the sector have increased with $3.9 billion in grants and subsidies in 2006–07, rising to $4.7 billion in 2008–09 (Queensland Government 2006:120–121; Queensland Government 2008:106). The size, importance and commensurate risks of government fund transfers, even if not precisely known, has not escaped the attention of regulators who have consistently argued for greater levels of accountability. For example, the Industry Commission (1995:380) expressed concerns about the administration of grants, describing government requirements as ‘varied and ill-defined’ and having a ‘lack of consistency between departments’. 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 again such comments were still being made in 2007 (Auditor-General of Queensland 2007:19; SDPC 2007). Similar views have been expressed in Victoria (Parliament of Victoria 2002) and in Western Australia (WALA 2000).

At the same time, pressures to reduce red tape have appeared (Regulation Taskforce 2006; Business Council of Australia 2005; PwC 2005; COAG 2006). The 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). Further, in Victoria, the Department for Victorian Communities in 2005 commissioned an options paper on NPO regulation and its compliance burden (Allen Consulting Group 2006) and the then Victorian government announced in July 2006 that it would reduce the regulatory burden (including on NPOs) by 15% in three years and by 25% over five years (Victorian Government 2006). Moreover, 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 rationalising NPO client data collection and recording (National Community Services Data Committee 2006). The AIHW study concluded that data collection imposed on non-profit welfare organisations through their funding agreements was a considerable impost and recommended ways to reduce the burden.4

Those in the non-profit 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’ (Industry Commission 1995:232–233). Researchers are also reporting issues with compliance costs of grant acquittals arguing they are ‘a significant burden upon already stretched resources’ (O’Neill 1997:130) and are ‘a waste of time to compile’ (Ryan 1997:36–37). At the time of this study, administrative costs were rarely included in grants and thus it imposes an unfunded burden on organisations which amounts to ‘under pricing’ or cost shift.

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. The challenge facing departments is the reconciliation of calls for increased accountability for the grants to NPOs while at the same time demonstrating a significant overall reduction in the costs of such accountability measures. 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.

What is the way forward? A worthwhile next step is to actually measure the costs of government paperwork on non-profit organisations to confirm that the actual measured cost bears a relationship to the perceptions of stakeholders reported in the qualitative research. This will inform both the thrust of red tape reduction programs by government and provide a base from which it can be seen whether red tape reduction is in fact decreasing compliance costs.

The focus of this research is on one aspect of compliance—completion of paperwork — both for submissions to obtain funding and the acquittal of those funds. It does not attempt to capture other compliance activities which do not require submission of paperwork to government, for example, costs occasioned with complying with health and safety regulations such as providing improved working conditions, or imposed methods of service delivery to clients.
The article begins by examining the limited empirical studies on paperwork. 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. The article concludes by broadly identifying 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 paperwork burdens in a small business context (see for example, Pope, Fayle and Chen 1991; Wallischtzsky 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)). The insights from this literature to this current study are gained from the methodological developments, particularly in the development of measurement methods (Evans, Pope and Hasseldine 2001).

Paperwork studies (other than tax) have been regularly attempted by industry bodies (eg, CPA Australia 2003; ACCI 2004), and measure 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 by the Australian Bureau of Statistics (ABS 1993) is an exception and attempted to quantify overall paperwork burdens on small business.

There is scant literature on general government paperwork for NPOs. A number of general compliance cost studies have included a small number of NPOs in a larger sample of business organisations, but have not made any findings about such a group (McKerchar, Hodgson and Walpole 2006; Rasmets and Pope 2003; ABS 1993). However, 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) measured hours spent per month completing government forms. They found that just over a quarter of organisations allocated more than eight person days a month to client data reporting (26%), with 18% reporting more than eight days for financial reporting and 10% for performance reporting (2003:52). Organisations perceived an increase of paperwork over the last five years, but the study did not quantify the cost of such paperwork.

A project of the Australian Institute of Health and Welfare (AIHW) aimed to explore the burden of reporting to multiple funding agencies. It examined three client case studies and documented the information collected by four service providers (National Community Services Data Committee 2006). The researchers mapped data collection items and mode of record keeping (electronic database, manual paper file system), but did not attempt to quantify the cost. The study found that the reporting impost was attributable to the use of separate reporting systems by both the funder and service provider and the lack of electronic data capture, storage and reporting systems (National Community Services Data Committee 2006:1).

Two recent studies have attempted some quantification of costs either in time or in the dollar cost of compliance. The first is a 2006 US study where 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. The researchers interviewed 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). One of the observations made was that improved internal management could drastically reduce compliance times and improve staff morale.

The second study which has attempted cost quantification is a Queensland survey taken at the time of the introduction of the Goods and Services Tax (GST) which found the ongoing (not implementation) GST compliance costs in relation to ‘turnover’ were 2.2% for organisations with a turnover of under $10 million (QCOSS 2001:11). This is a high compliance cost for taxation paperwork alone without inclusion of non-paperwork compliance costs such as new GST compliant cash registers and accounting software.

This article seeks to add to the compliance literature by quantifying the costs imposed on the non-profit sector by government mandated paperwork. As Gurd and Turner (2001:79) 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’.

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 (as discussed by Sandford 1995). This method has been criticised as being unreliable because response rates are often very low, they rely on the recall of time spent in the past, 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).

This current study has attempted to improve the research design of prior studies by adopting 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, to collect log forms, to issue new forms, to discuss matters related to the research, and to urge ongoing involvement in the survey. 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).

Prior studies by Evans, Pope and Hasseldine (2001) and Gurd and Turner (2001:80) argued for an improved research design in future studies. In response, particular attention was paid to the selection of the sample, collecting all types of paperwork (not one specific category), frequent collection of data over a period of time and attention to valuation of time and costs. We deal with each of these methodological issues in turn.

Selection of Sample Case Study Organisations

In order to capture the complexity of the Australian non-profit sector and the institutional arrangements in operation, a ‘purposive sample’ was designed according to three criteria: (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 non-profit organisations.

In relation to the nature of organisational services, the Queensland sample replicated the categories used in the ABS publication, ‘Non-Profit Institutions Satellite Account’ (2002b:6–7). This lists four main areas of activities by the organisations: health; social services; culture and recreation; and ‘other’. The final sample of 14 organisations was made up of the following categories (as specified by the ABS classificatory schema): 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’ to conform to the ABS schema.

In relation to the second criterion, multiplicity of grant sources, 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. Previous research 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; National Community Services Data Committee 2006). Thus, a minimum of three different funding sources (different government funding programs) was required to be included in the sample.

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 broke the sample into small and 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 (ABS 2002a; McKerchar, Hodgson and Walpole 2006:9). However, the application of small business definitions to non-profit organisations may be inappropriate. First, revenue levels do not reflect the patterns found in the non-profit sector and second, many non-profits have volunteer labour, which, if not taken into account will distort the full time employees.

Thus, further consideration of the size criterion is needed. The median or average revenue of Queensland non-profit organisations is not known, but ranges from virtually no reportable revenue to hundreds of millions of dollars for religious bodies. 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. However, given the importance of volunteer labour to the sector it was important for our study that for the purposes of classification of entities we included volunteers in our number of employees. Numbers and full time equivalent (FTE) of both employees and volunteers were sought from sample organisations. The data on both revenue and employees is displayed in Table 1.

The sample was divided between small (8) and large (6) organisations as there was a natural break in revenue at $600,000 and under 10 FTE employees. Given the lack of NPO demographic data generally and no accepted definition of small NPOs in Australia, this was the best possible way forward. The final sample division between small and large organisations is shown in Table 1.

Data Collection

We adopted the approach of the ABS researchers in their study of small business compliance costs where they adopted a two phase approach: first an initial contextual interview; and then each business kept a separate log book over a period of three months (ABS 1993:5–6). We anticipated a quarterly time span may not include compliance activities that may be annual and so requested organisations to commit to 12 months of recording. We were willing to suffer a greater level of withdrawals from the project to obtain additional data. 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, general questions about the nature of their operations, second, information about their estimated typical paperwork burden, a third set of questions aimed to gather evidence on grant submissions and acquittals.

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. Previous research identifies that there is likely to be an over-estimation of recalled time spent on activities which are not core to the respondent’s work, so participants were encouraged to complete the survey form contemporaneously with the government form to enhance data reliability (Sandford 1995; Evans, Pope, and Hasseldine 2001). Each log form asked about the paperwork which had been submitted including details of the type of form and its completion process.

**Valuation of Time and Cost**

Three issues surrounding the quantification of data need further clarification: the basis of costs; what to include in costs; and how to report measured costs.

Given the primary focus of this research – to measure the costs of compliance in relation to government paperwork – the basis of these costs is important. In prior research, the ABS used hours taken to complete paperwork and based costs on the labour rates of those actually completing the paperwork (ABS 1993). For this research, indications of time spent on compliance were completed on site on a special ‘log sheet’. 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. The applicable salary costs in the Australian Industrial Relations Commission, Social and Community (Queensland) Award, 1996 were applied.¹⁰

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**Table 1. Sample Organisations Classified by Revenue and Employees**

<table>
<thead>
<tr>
<th>Size</th>
<th>Range of Revenue</th>
<th>NPO</th>
<th>Revenue</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>$0 to $600,000</td>
<td>Org 1</td>
<td>$45,000</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Org 2</td>
<td>$179,000</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Org 3</td>
<td>$270,022</td>
<td>13.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Org 4</td>
<td>$326,000</td>
<td>3.9</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Org 5</td>
<td>$405,000</td>
<td>3.6</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Org 6</td>
<td>$500,000</td>
<td>8.25</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Org 7</td>
<td>$514,000</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Org 8</td>
<td>$600,000</td>
<td>5.2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Av.$354,878</td>
<td>Av. 5.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Md: $365,500</td>
<td>Md: 4.55</td>
</tr>
<tr>
<td>Large</td>
<td>$601,000 to $5 m +</td>
<td>Org 9</td>
<td>$840,000</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Org 10</td>
<td>$919,000</td>
<td>42</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Org 11</td>
<td>$1,200,000</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Org 12</td>
<td>$2,130,000</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Org 13</td>
<td>$5,240,000</td>
<td>76</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Org 14</td>
<td>$10,400,000</td>
<td>303</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Av. $3,454,833</td>
<td>Av. 82</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Md: $1,204,650</td>
<td>Md: 36</td>
</tr>
</tbody>
</table>
Volunteer time was excluded from the calculation of compliance costs because it is rarely collected, recorded, valued or reported as a direct formal accounting cost to the organisation and there is little agreement on its valuation (Industry Commission 1995:124). However, it is acknowledged that if volunteer time was valued and costed, the costs reported in relation to organisations would rise, particularly in small organisations.

The second issue concerns what to include in costs. Measuring costs of compliance inevitably depends on respondents’ understandings of compliance. 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 compliance 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 (Tran-Nam 2001:57). It is important to give respondents information to help them to separate core costs from compliance costs occasioned by requiring data for a form or report (Tran-Nam 2001:57–58). 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, it is acknowledged that definitions of compliance remain difficult in compliance surveys. 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. Overall, we feel confident that this source of error or bias in this study is minimal due to the personal methodology adopted. Many phone calls of clarification were made between visits by the researchers and the respondents.

The third issue concerns how to report measured costs. Prior literature on tax compliance employs a number of ways in which to present data from hours taken to collect and complete taxation forms, to a self-assessed scaled degree of difficulty; psychological stress; cost through actual or notional labour costs or extrapolated to a percentage of the total tax’s revenue (see for example Tran-Nam 2001). 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), and hours (ABS 1993). This research presents overall measures as a percentage of the sample’s revenue and in hours taken.

Results and Discussion

At the end of the survey period, 404 logs collected were relevant to the research (excluding those from organisations which had withdrawn). Generally, respondents were faithful to the task of recording information. There are five main findings of the study and each is now discussed in detail.

What Types of Activities are Costly?

As noted above the object of this article was to measure paperwork generated by relations with government, not just paperwork generated in response to legislation or regulation. Table 2 details the contribution of different types of paperwork to the overall compliance burden. The paperwork was classified into four groupings: submissions which sought funding; acquittals which reported on actual funded activities; taxation returns such as Business Activity Statements; and other paperwork.11

Submissions and acquittals accounted for about half of the forms by number and also constituted the bulk of time spent on completion. The nature of work involved in drawing up submissions (requests for funding) is usually handled at a higher level than acquittals. Submissions are necessarily developed by the highest level of staff in an organisation, involving planning, budgeting, and 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.
Table 2. Average and Median Hours Taken to Complete and Costs of Compliance as a Percent of Turnover by Type of Form

<table>
<thead>
<tr>
<th>Type of Form</th>
<th>No. of Form</th>
<th>Average Time taken per form (hrs)</th>
<th>Median Average time taken per form (hrs)</th>
<th>Average Compliance cost as a percentage of revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Submissions</td>
<td>46</td>
<td>15.17</td>
<td>6.5</td>
<td>0.85%</td>
</tr>
<tr>
<td>Acquittals</td>
<td>157</td>
<td>6.04</td>
<td>2.00</td>
<td>0.73%</td>
</tr>
<tr>
<td>Tax</td>
<td>90</td>
<td>1.87</td>
<td>1.00</td>
<td>0.07%</td>
</tr>
<tr>
<td>Other</td>
<td>111</td>
<td>1.88</td>
<td>0.75</td>
<td>0.11%</td>
</tr>
<tr>
<td>Total</td>
<td>404</td>
<td>5.05</td>
<td>1.00</td>
<td>1.74%</td>
</tr>
</tbody>
</table>

In summary, over the 12 months, the 14 organisations together reported the average time taken per form was 5.05 hours, but with a median of 1.00 hour\(^{12}\). 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.

In addition to measurement of the number of hours to complete each form, 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 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. Table 2 reports the costs in terms of hours taken and cost as a percentage of revenue as adopted in Lara-Cinisomo and Steinberg (2006) and QCOSS (2001).

The average cost of government generated paperwork in this research is 1.74% of the total revenue of the case organisations. Submissions (0.85%) and acquittals (0.73%) formed the bulk of costs followed by other paperwork (0.11%) and taxation (0.07%) as indicated in Table 2. These results are lower than those reported in the QCOSS (2001) GST cost study (2.2%) and the US Cinisomo and Steinberg (2006) study of funding reporting (11%). A number of factors could be responsible for this difference such as the different funding environment in the case of the American study.

In terms of explaining the difference with the QCOSS funding, we suspect that the methodology used is largely responsible for the lower compliance costs reported here. The QCOSS study measured only GST costs at a time close to implementation where costs are usually higher (Rametse and Pope 2003). Further the QCOSS study was a 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). This view is confirmed by information collected in the initial interview. Participants were asked 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.

**Do Small Organisations Bear a Heavier Compliance Burden?**

Taxation compliance studies clearly indicate that the burden of paperwork cost falls disproportionately on smaller organisations (Wallschutzky and Gibson 1993; Allers 1994; Sandford 1995; Evans, Pope and Hasseldine...
Table 3. Costs of Compliance by Size of Organisation (Smallest to Largest)

<table>
<thead>
<tr>
<th>Size</th>
<th>Range of revenue</th>
<th>NPO</th>
<th>Revenue</th>
<th>Employees</th>
<th>Total Hours</th>
<th>Compliance cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>$0 to $600,000</td>
<td>Org 1</td>
<td>$45,000</td>
<td>3</td>
<td>95</td>
<td>9.04%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Org 2</td>
<td>$179,000</td>
<td>1</td>
<td>35.6</td>
<td>0.84%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Org 3</td>
<td>$270,022</td>
<td>13.5</td>
<td>46</td>
<td>0.91%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Org 4</td>
<td>$326,000</td>
<td>3.9</td>
<td>93.21</td>
<td>1.14%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Org 5</td>
<td>$405,000</td>
<td>3.6</td>
<td>487</td>
<td>6.1%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Org 6</td>
<td>$500,000</td>
<td>8.25</td>
<td>42.25</td>
<td>0.55%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Org 7</td>
<td>$514,000</td>
<td>7</td>
<td>336.15</td>
<td>2.73%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Org 8</td>
<td>$600,000</td>
<td>5.2</td>
<td>83</td>
<td>0.79%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Avg. 152.28</td>
<td>Av. 2.76%</td>
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<td>Md: 88</td>
<td>Md: 1.025%</td>
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<td></td>
<td>Avg.:$354,878</td>
<td>Md:326,039</td>
<td>Av. 5.7</td>
<td>Av. 152.28</td>
<td>Av. 2.76%</td>
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<td></td>
<td>Md: $326,000</td>
<td>Md:4.55</td>
<td>Av. 152.28</td>
<td>Av. 88.5</td>
<td>Av. 0.36%</td>
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<td></td>
<td>Md: $1,665,000</td>
<td>Md:26.5</td>
<td>Av. 131.96</td>
<td>Md:98.56</td>
<td>Md:0.325%</td>
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<td>Large</td>
<td>$601,000 to $5 m +</td>
<td>Org 9</td>
<td>$840,000</td>
<td>19</td>
<td>76.46</td>
<td>0.55%</td>
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<td>Org 10</td>
<td>$919,000</td>
<td>42</td>
<td>50.96</td>
<td>0.39%</td>
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<td></td>
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<td>Org 11</td>
<td>$1,200,000</td>
<td>23</td>
<td>95.11</td>
<td>0.69%</td>
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<td>Org 12</td>
<td>$2,130,000</td>
<td>30</td>
<td>141.51</td>
<td>0.26%</td>
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<td>Org 13</td>
<td>$5,240,000</td>
<td>76</td>
<td>102</td>
<td>0.07%</td>
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<td></td>
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<td>Org 14</td>
<td>$10,400,000</td>
<td>303</td>
<td>325.71</td>
<td>0.17%</td>
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<td>Md: 26.5</td>
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<td></td>
<td>Av. for all orgs.</td>
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<td>143.57</td>
<td>1.74%</td>
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2001; QCOSS study (2001:10)). The results of this study 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 been even wider given the reliance on volunteer contribution in smaller organisations.

Table 3 shows the compliance costs of organisations. Using the method of calculating costs of compliance as a percentage of annual revenue and total hours, the two groups in the 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. The median is also included in the table and indicates variations in small organisations hours and compliance costs.

The greater costs of compliance in small organisations relate to the allocation of work tasks. 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 ‘shoe-box accounting’), and thus data collection for them required more effort.

The conclusion that the cost is greater for smaller organisations is further borne out by the data in Table 4. Table 4 indicates that small organisations spent more time on preparing submissions (16% compared with 10% in large organisations).
organisations) and acquittals (50.0% compared with 35.6%), the more costly activities. They spent similar proportions of their time on tax compliance, but completed far fewer ‘other forms’ than large organisations (8% compared with 33%).

When the categories of forms are examined by percentage of total revenue a further trend is apparent as shown in Table 5. Small organisations show a higher percentage cost 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%.

Overall, a far greater percentage of 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. Again, computerisation of data which is rudimentary in smaller organisations contributes to the gap.

As a final point, the robustness of the data collected using this methodology as opposed to a self administered survey is again apparent. 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, again pointing to the differences obtained by a more intense methodology.

An important public policy implication of the time spent by smaller organisations in preparation of submissions emerged during the project. Smaller organisation expressed strong feelings of being financially insecure and finding the preparation of submissions challenging and stressful. They noted that larger organisations have specialised staff to prepare submissions, and develop the necessary submission-writing skills which 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 generating unrelated commercial income. Two rejection letters from funders initiated the altered strategy. As a result of an unsuccessful ‘small equipment grant’ the organisation was 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 a most difficult dimension of compliance for all organisations, particularly for smaller 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 or chance of funding success.

What is the Relationship between Major Activities and Compliance Cost?

The largest percentage of total compliance activity was found in health organisations with 53% of the total log forms, social services and culture and recreation were similar (23% and 17% respectively), and only 8% of forms came from ‘other’ organisations. Table 6 reveals the different types of forms completed by organisational type with social service organisations reporting more than three times as many acquittals (37%) than submissions (11%). Health organisations reported 41% of their activities were acquittals and only 9% were submissions. This is explained by the relevant funding departments making greater use of three year funding arrangements.

Those funded by Health and Disability Departments also completed forms required for data collection from clients which were classified as ‘other’. 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, postcode, 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. Collating information for these databases needs to be completed by program staff, such as social workers or nurses, who reportedly were often 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?"

This finding mirrors the results of the United States study by Lara-Cinisomo and Steinberg (2006) where respondents reported resistance to data collection because of its perceived lack of utility even though the data eventually found its way into national reports.

Relationship between Major Funders and Compliance Cost

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 as indicated in Table 7. This is because Health makes more use of client databases, which are time consuming.

On the other hand, Disability Services Queensland (DSQ) makes small grants to many individuals, depending on their needs. This creates a heavy burden because even though reports are short, they are frequently required. Thus a more revealing measure is not how long it takes to complete a piece of paperwork, but the number of pieces of paperwork required for the one client. One organisation reported ‘7 acquittals for each client – one for each client for each quarter, one year to date, requirements for next quarter, and the whole year’s budget’. Each report needed to be separately done because it was difficult to pull individual funding back from the major Profit and Loss. Another problem highlighted was that each client’s records are finalised at different times through the period. An additional cost which fell outside the definition of compliance was the assistance given by NPOs in assisting clients to complete forms which can be complex and time consuming. One disability services provider said:

"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."

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.

What is the Effect of Multiple Funders?

An examination of the compliance documents indicates that 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 governments.

Previous work in the area has suggested that the compliance load increases when NPOs are required to report to multiple funders (Rawsthorne and Shaver 2003; Flack and Ryan 2005; National Community Services Data Committee 2006). 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.

A further complicating factor arises because there is no consistency between departments in the financial treatment and accounting terms for grant acquittals. The major variations occur around the expense item for labour costs. Flack and Ryan (2005) report a total of 113 different line descriptions in the funding 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. In this study, 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 struggled 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’; and ‘It requires considerable reformulation of our own chart of accounts’.

**Other Issues in Submission and Reporting Processes**

The survey instrument and the pre-survey interview gathered comments designed to assess the NPOs’ general impressions of government forms. A number of common themes arose.

First, most (72%) indicated that the compliance documents were not difficult to complete. Moreover, almost all respondents were satisfied that adequate time had been allowed for completion of the government forms (94%), and there was assistance, if needed, to complete the forms, with about one half (46%) including instructions, and just over a third (35%) including a specific contact point. However, one comment made several times was the difficulty of providing information which depended on audited financial statements being available with timely audit provision being problematic.

When asked about the usefulness of the data collected for the organisation’s own purposes, the response was varied. One typical 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 apart from satisfying their funding conditions. This was particularly acute for small organisations where at the pre-survey interview only 28% of the organisations believed that the information collected for the forms was ‘very useful’ to the organisation itself. The small organisations’ staff expressed concern about taking the limited resources of the organisation away from service delivery to compliance issues. They felt more strongly than larger organisations about spending any time on activities which appeared to have little benefit to achieving the organisation’s mission. Rarely did they recall receiving any communication about the information provided to the department or about what role it played.

Several other themes emerged from the study. First, as indicated above some organisations incurred significant costs in assisting clients to complete their paperwork obligations. Second, organisations reported that newly introduced quality standards imposed in Queensland via funding agreements and legislation, were very time consuming for them, but these costs were not measured because they were costs of becoming familiar with new requirements and did not generate paperwork back to the department. For example, one Queensland department was 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’ (Queensland Government 2005:15–16).

Conclusion

This study used an in depth case analysis to probe the paperwork burden imposed by government on NPOs. The advantage of this study is that it improves on prior studies through the methodological approach of using contemporaneous recording procedures as a first step in providing a more accurate estimation of time and cost than that which can be elicited in self administered recall surveys.

While a definitive quantitative measurement on the size of the compliance burden cannot be made from such a small sample, there are some strong themes which emerge from this research with some important implications for social public policy. First, the main paperwork burden for NPOs arises from applying for funding submissions and the acquittal process resulting from this process, arguably necessary activities if NPOs are to continue to deliver services. However, the processes can be vastly improved for all organisations.

At the extreme, in the submission process we found examples of small organisations who had withdrawn from the process specifically because of the costly nature of the process. Whether this is a desirable public policy outcome needs to be debated. Do we want small organisations in the public policy mix? Arguably, small organisations provide diversity to the sector, and provide important social outcomes by providing immediate, on the ground support in many situations (Lyons 2001; Yeatman and Owler 2001). Continuing refinement needs to take place to prevent waste of scarce resources, particularly by small organisations who can least afford such costs. One possible solution is to have a range of alternate funding options available from expressions of interest and multiyear funding to a tiered submission process based on organisational size. These would reduce submission costs, while still preserving a range of different types of delivery organisations. Another strategy is to build the organisational capacity of small non-profit organisations to meet the challenge of paperwork. The UK Compact (Home Department 1998) with the community sector; and the ‘strengthening community organisation’ proposals of both the Queensland (2005) and Victorian Governments (2007) are examples of intentional capacity building of small organisation’s administrative resources and resilience.

The burden of acquitting the funding submissions proved to be costly for both small and large organisations. This is not a desirable public policy outcome. Acquittals need to be able to demonstrate that the funds have been used appropriately, and the data needs to be able to be drawn from the normal system records within an organisation, not become a separate reporting process in itself. There are two significant initiatives which could be implemented which would go a large way to attainment of these goals. First, there needs to be a rationalised standard (at both state, federal and local levels) for financial and other reporting. This will eliminate duplicative collection of the same data using different classifications. This issue has previously been raised (see for example, Flack and Ryan 2005; Auditor-General of Queensland 2007; National Community Services Data Committee 2006). However, it is crucial that a whole of government approach be taken to this issue immediately. The sector needs to have a strong foundation from which to move forward. The second improvement relates to a rationalisation of the amount of information collected. Government funders need to clarify the purpose of the acquittal information. For example, if the purpose of client data set collection is to inform policy, then sampling by external agents may be less burdensome than having all funded NPOs collect the information from all clients. Another path would be to ensure the information collected is of use to the organisation in its management and returned to it after analysis by government, thus offsetting the burden of collecting the information. This should already happen with health organisations with the AIHW publications drawn from such data sets, but there was limited evidence in this study of such use by NPOs.
This research makes similar findings to small business tax compliance studies that paperwork compliance costs are regressive for small organisations. Compliance costs were significantly greater in smaller NPO organisations. It appears that division of labour enables large organisations to deal more effectively with compliance—especially submissions. If smaller NPOs are to be valued for their attributes such as proximity to their stakeholders, flexibility, innovation and social capital creation, then research is required to find ways to ease the burden of compliance for small organisations. It should not be simply an issue of governments making a choice to favour large organisations.

Our research points to a future research agenda. First, 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 (Wallschutzky and Gibson 1993:541). NPO red tape reduction initiatives offer the opportunity of rationalising paperwork and moving towards more appropriate performance measures of government funding and purchase of community services. This issue deserves further research. Second, paperwork is not the only compliance burden facing NPOs. While general industry licensing burdens which apply to other than the non-profit sector may be dealt with under general red tape reduction initiatives, the imposition of funder directed quality standards and audits requires further investigation as does NPOs assistance in completing client paperwork.

Endnotes

1. We acknowledge the ‘heroic’ efforts of the organisations and their staff who assisted over a year in the conduct of this research. The research method was itself a significant paperwork burden for each organisation and in particular smaller organisations. Without their cooperation this research would not have been possible.

2. Throughout this article the term ‘non-profit organisation’ is used. However, several other terms are used in the literature and amongst practitioners and academic researchers, non-government organisations; third sector organisations, not-for-profit organisations.

3. This includes subsidies to for profit organisations, and is not separated from non-profit organisations.

4. Reviews have also been undertaken in the United Kingdom and Europe with similar concerns (Nijsen and Vellinga 2002; National Audit Office 2005; House of Commons 2006; Gershon 2004). For the first time, this red tape cutting rhetoric is beginning to move beyond 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).

5. This survey had a 33% response rate.

6. The study had an 11% response rate.


8. The majority of small businesses have turnovers of less than $2 million.

9. The first eight organisations fall within the small business definition on a count of FTE employees and organisations. Nine and 10 also have less than 20 FTE employees. However, when estimates of FTE volunteers are included, organisation nine is one FTE person under the traditional small business definition and
organisation 10, because of volunteer contribution, is well over the dividing line.

10. 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.

11. The other paperwork included forms to Australian Securities and Investment Commission (ASIC), incorporated association regulators, ABS, 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.

12. 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.

References


