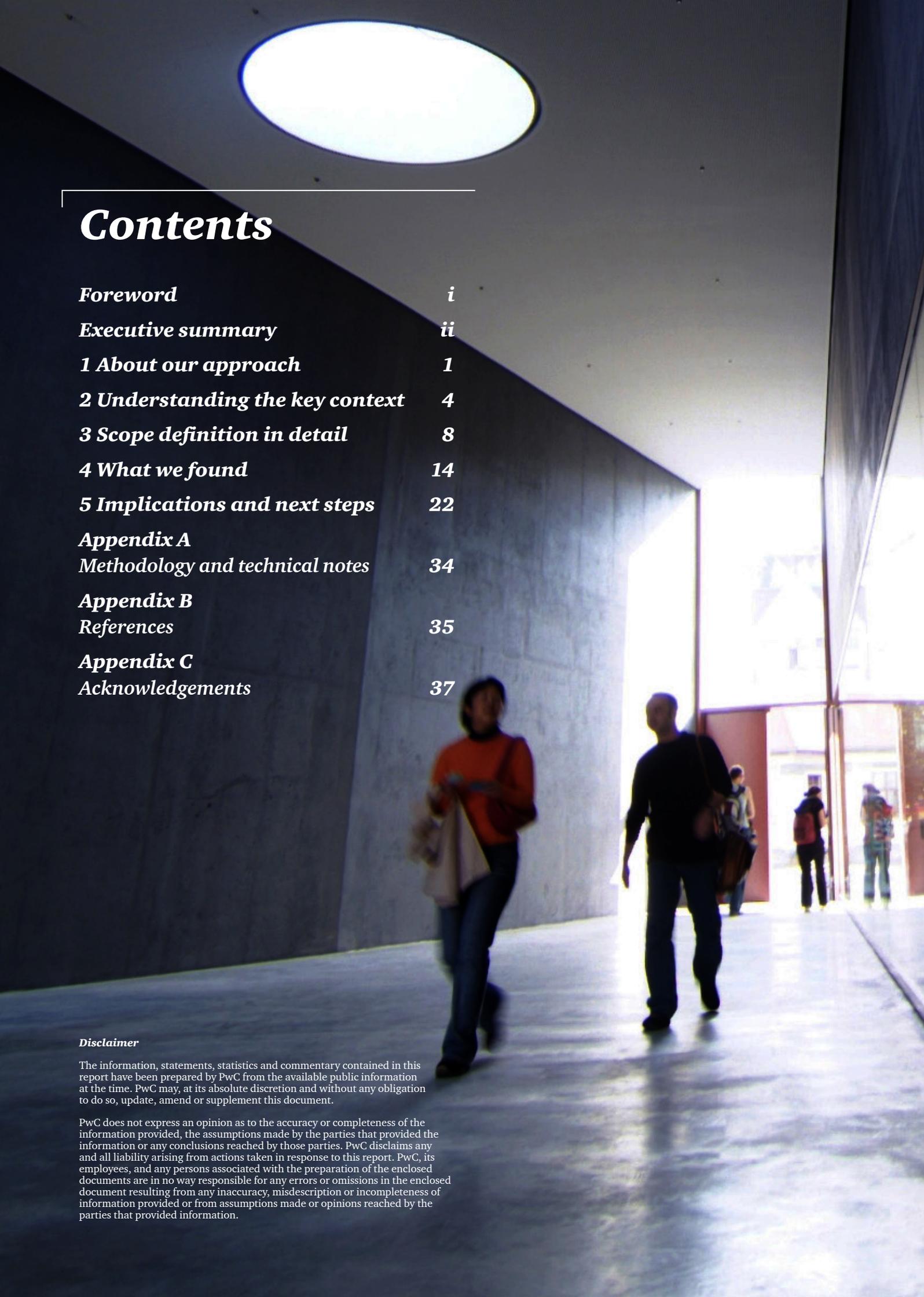


# *Australia's social purpose market*

Understanding funding flows  
and exploring implications





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# Foreword

*As the challenges and demands for services continue to grow and fiscal pressures on Australian governments rise, there has never been a more opportune time to debate the future productivity and impact of the Australian ‘social purpose market’.*

This report was written by PricewaterhouseCoopers Australia (PwC) as part of its partnership with The Centre for Social Impact (CSI):

- PricewaterhouseCoopers Australia (PwC), the largest professional services firm in Australia, with a clear purpose of building trust in society and solving important problems
- The Centre for Social Impact (CSI), a collaboration of three universities: UNSW Australia, Swinburne University of Technology, The University of Western Australia seeking to improve the delivery of beneficial social impact in Australia through research, teaching, measurement and the promotion of public debate.

We have developed this report to:

- estimate the size and composition of the social purpose market in Australia
- put forward a clear point of view about the need for productivity gains for this market
- identify priority themes and example reforms for discussion
- stimulate debate about the key changes required to secure long-term productivity gains and sustainable improvements to key social outcomes.



A handwritten signature in black ink, appearing to read 'James van Smeerdijk'.

**James van Smeerdijk**  
Partner, PwC



A handwritten signature in black ink, appearing to read 'Dr Andrew Young'.

**Dr Andrew Young**  
CEO, The Centre for Social Impact

# Executive summary

*Australia has a mature range of health, welfare and education programs, collectively referred to as a social purpose market. These services are provided in an increasingly complex, mixed market where governments (the Commonwealth, states and territories, and local government) contribute significant expenditure, with supplementary expenditure from the for-profit, not-for-profit (NFP) and philanthropic organisations, and individual citizens. Within the social purpose market, services are delivered by all levels of government, NFPs and the private sector.*

Every year Australia spends more than half a trillion dollars (in excess of \$510 billion) on these social purposes – which is almost one third (32 per cent) of Australia’s Gross Domestic Product (GDP). The significant social and economic challenges associated with Australia’s ageing population mean this figure is projected to increase.

Efforts to improve outcomes for Australia’s social purpose services are often designed to address individual segments within the market, and often underestimate the changing roles of governments, the NFP sector, the for-profit sector, and consumers. The opportunity exists to consider more transformative policy choices and reform directions that will yield the substantial productivity improvements Australia needs to be able to provide a sustainable level of social support to its citizens into the future.



This project had several key aims:

- to fill a gap in the current evidence-base by developing a clear definition of the social purpose market
- as part of the development of this definition, to identify the scope of the social purpose market showing market composition and expenditure flows
- to develop new knowledge by quantifying the payments and services that comprise the social purpose market, calculating an aggregate estimate of total level of investment.

The findings are intended to represent conservative estimates of activity – as measured by expenditure on, and consumption of, social purpose goods and services – within the market. Coordinated action across each of these fronts presents an economic and social ‘win-win’ proposition – an opportunity to achieve improved productivity at the same time as yielding improved social, health, educational and prosperity outcomes for Australia and its citizens.

However, this requires a new approach and a reframed debate in the context of Australia’s federation. It will also require investment of time and effort with all the right partners around the table to identify new, and potentially disruptive, solutions to persistent challenges.

## About our approach

As part of our approach to this project we:

- reviewed and synthesised the national and international evidence-base to distil key themes and findings related to:
  - demographic and population changes
  - other external factors that impact the social purpose market
  - conceptualising a social purpose market
- explored the potential scope of the social purpose market informed by a starting hypothesis that the scope of the social purposes should include those services with the primary purpose of improving the wellbeing of individuals and the community
- analysed the existing methodologies for scoping similar markets, eg social enterprises

- undertook a desktop audit of existing data sources to identify the scope and coverage of data availability for organisations (including government, NFP and for-profit organisations)
- identified funding flows from a range of organisations
- explored, tested and confirmed findings with key representatives at the national, state and territory levels
- produced an overall synthesis, analysis and interpretation of findings.

## Drivers of past changes

Over several decades, Governments have responded to enormous demographic and economic changes and opportunities; for example, since 1969-70 Australia’s population has more than doubled, as has economic output per person. There has also been enormous change in government expenditure on social purposes. In 1969-70, \$2,178 (converted to 2013-14\$) was expended on social purposes per capita compared to \$11,542 in 2013-14, representing a 5.3-fold increase.<sup>1</sup>

For instance, in 1969-70, the Commonwealth government spent 1 per cent of GDP on health.<sup>2</sup> In 2013-14, Commonwealth expenditure on health represented 7 per cent of GDP.<sup>3</sup> This reflects large scale policy changes as would be expected over a forty-five year period, including the introduction of Medicare. In addition, this reflects the ageing of the population, increased life expectancy, and increased costs of health technology.

There have also been a series of reforms to the financial and institutional arrangements between the Commonwealth and state/territory governments. This includes the establishment of the Council of Australian Governments, the introduction of the Goods and Services Tax in 2000, and increasing involvement of the Commonwealth government in delivery of services, such as school education.

The key question is whether Australia is positioned to extract maximum value from its investment in social purpose services into the future: how can we achieve the best possible health, social and productivity outcomes?

1 PricewaterhouseCoopers Australia (PwC) analysis

2 J. O. O’Neill, ‘Official year book of the Commonwealth of Australia’, No. 57, Commonwealth of Australia, Canberra, Australia, 1971, [www.ausstats.abs.gov.au/ausstats/free.nsf/0/7C2D2B72598CC79DCA257AF600171041/\\$File/13010\\_1971\\_bk57.pdf](http://www.ausstats.abs.gov.au/ausstats/free.nsf/0/7C2D2B72598CC79DCA257AF600171041/$File/13010_1971_bk57.pdf). Accessed 09 February 2016.

3 Australian Institute of Health and Welfare, ‘Health expenditure Australia 2013-14’, Cat. No. HWE 63, Commonwealth of Australia, Canberra, Australia, 2015, [www.aihw.gov.au/publication-detail/?id=60129552713](http://www.aihw.gov.au/publication-detail/?id=60129552713). Accessed 09 February 2016.

## Drivers of future challenges

The 2015 Intergenerational Report projects that Australia faces 40 years of budget deficits, rising to around 6 per cent of GDP by 2055. The ageing population will place additional pressures on Government expenditure, adding to the fiscal pressures of slower growth and declining ratio of working to non-working population. Treasury has previously estimated that services for the ageing – health care, aged care and pensions – will rise from 25 per cent of government spending in 2010 to 50 per cent by 2050.<sup>4</sup>

In addition, the current global economic environment facing Australia also holds significant risks and uncertainties, increasing fiscal pressures on governments.

The clear implication is that the social purpose sector will come under significant funding pressure.

### Social Purpose Market definition

For the purposes of this report we have used the term *social purpose market* to encompass the scope of interactions between funders, service providers and consumers of social-purpose services, acknowledging that the range of interactions varies widely.

Our scope encompasses government, not-for-profit and for-profit sectors and health, education, social services and welfare and development and housing industries, acknowledging that these are not comprehensive and that our estimates of the total value of the social purpose market is an underestimate accordingly.

## The ‘social purpose market’ – defining our scope

Figure 1 sets out the step-by-step process used to define the scope for analysis of the social purpose market.

Figure 1: Key steps undertaken to scope the social purpose market



### Step 1 What

#### Identify the in scope industry activity areas and outputs

Our starting hypothesis was that these could include: social services, health, education and skills and welfare payments

The starting hypothesis was to develop an estimate of the scale and composition of the market of services designed to improve the health and wellbeing of individuals and communities.

While the scope and definition is open to debate, for the purposes of this analysis, the scope of this review has been limited to health, welfare (including aged



### Step 2 Who

#### Identify the key players

Our starting hypothesis was that these could include: governments (Commonwealth, state and local), for-profit, not-for-profit, philanthropy households and consumers

care), education and housing – key policy areas that have traditionally presented major areas of expenditure on the domestic budget of Australia.

For the purposes of this paper, these services and organisations combined form the working definition and scope of the *social purpose market*.



### Step 3 How

#### Identify the key resources or inputs

Our starting hypothesis was that these could include: taxes, transfer payments, fees-for-services, donations and fundraising

<sup>4</sup> Commonwealth of Australia, ‘2015 Intergenerational report: Australia in 2055’, Commonwealth of Australia, Canberra, Australia, 2015, [www.treasury.gov.au/PublicationsAndMedia/Publications/2015/2015-Intergenerational-Report](http://www.treasury.gov.au/PublicationsAndMedia/Publications/2015/2015-Intergenerational-Report). Accessed 09 February 2016.

## Mapping income and expenditure flows

This study was based on publicly available data. The availability and consistency of this data were limiting factors in ensuring a comprehensive analysis, with some data only available for particular sectors or industries. However, the following were identified:

- services and payments at an aggregate level for the four social purpose market activity areas outlined above: education; health; social security and welfare; and housing and community amenities
- services and payments for the education, health and social security and welfare activity areas at a more detailed level as more detailed data was available for these activities.

## Limitations

An important limitation of this analysis is that we have not looked at all segments of the social purpose market. Instead, we have focused on four key segments of the social purpose market (health, education, social services and housing). This results in an underestimate of the true size of the social purpose market in Australia.

Funding sources for social purposes are diverse and include funding from governments (through various sources and levels of government), NFP and for-profit organisations, philanthropy and individuals.

Some services and payments within the market have not been quantified in this analysis due to the lack of data. The majority of the data gaps are in the quantum of payments from consumers to for-profit producers of social purpose goods and services.

Data relating to government (all levels) and NFP expenditure on social purpose market goods and services appeared to be more readily available compared to the for-profit sector. For this reason, expenditure estimates presented in this report are likely to underestimate the scale of total expenditure.

## Results

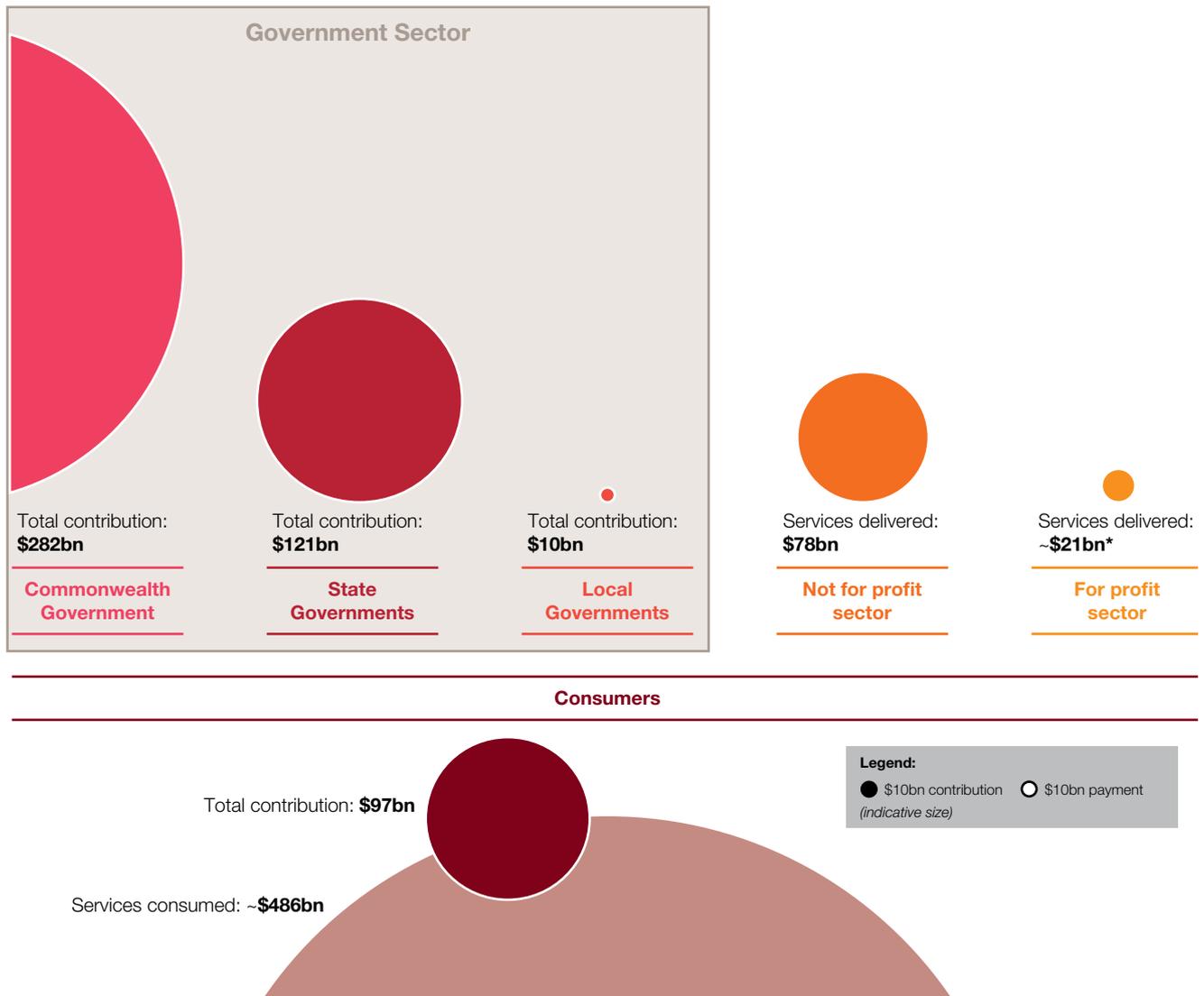
Key findings include:

- The social purpose market is estimated to be worth more than half a trillion dollars (approximately \$510bn) per annum
- Expenditure on the social purpose market represents just under one third of GDP (32 per cent)
- Services delivered (and percentage share of the total market) include:<sup>5</sup>
  - education – \$113bn (or 22 per cent)
  - health – \$169bn (or 33 per cent)
  - social security and welfare – \$171bn (or 34 per cent)
  - housing and community amenity – \$33bn (or 6 per cent).
- The Australian Government is a key contributor within the social purpose market by providing \$282bn (or 55 per cent) of payments and services
- A significant amount of Australian Government support is provided through state/territory governments who receive transfer payments of \$39bn from the Australian Government
- State/territory governments contribute an estimated \$121bn (or 24 per cent) of payments and services – the majority of this supports the provision of education (\$56bn) and health (\$42bn)
- Consumers contributed \$97bn (or 19 per cent) to the market in the form of payments to both public and private service providers
- Government grants to the NFP sector, which includes charities, totalled \$44bn (or 9 per cent)
- The NFP sector of the social purpose market delivered \$78bn (or 15 per cent) in services to consumers
- The prominence of non-government players (both NFP and for-profit sectors) varies across services, including health and education
- The private sector is heavily involved in the provision of health services:
  - private health insurance – supported the delivery of \$13bn worth of services
  - hospitals – \$12bn
  - dental services – \$9bn.

<sup>5</sup> The total value of services delivered is less than the estimated value of the social purpose market due to incomplete data on consumer contributions to the NFP and for-profit sectors in particular, and contributions that are expended as operating costs and other overheads that do not translate into services delivered.

Figure 2: Estimate of total contribution: key players in the social purpose market

### Social purpose market: Key players



\*estimate is understated due to the lack of data for for-profit organisations

### Implications and next steps

This analysis has demonstrated that the social purpose market in Australia:

- represents a substantial proportion of GDP (conservatively estimated at more than half a trillion dollars or almost one third of overall GDP)
- is subject to substantial existing demand and growing demand pressures as well as a raft of external influences.

Our snapshot of the social purpose market includes payments and services, market composition and an aggregate estimate of the total level of investment and extent of social purpose activity. The complexity of completing this snapshot underlines the need for better systemic collation of system and program data to inform policy and practice decisions.

Despite these data limitations, we can still draw several important implications from the analysis. PwC and The Centre for Social Impact co-hosted two workshops in July and August 2015 with key organisations and individuals from the government and NFP sectors, to begin exploring findings on the social purpose market, and key implications and opportunities going forward.

The purpose of the workshops was to explore and identify the key areas that will yield significant improvements to productivity and outcomes in Australia.

At the workshops a set of seven potential action areas were tested which represent seven inter-related strategies and emerging priorities for the future of the social purpose market. These potential action areas are set out in Figure 3.

Figure 3: Key actions



In summary, action is required across each of the following areas in order to achieve improved productivity, and improved outcomes:

- **Data and measurement** Improve access to data and measurement techniques to identify policy issues, design evidence-based interventions, forecast future trends, monitor policy implementation and evaluate impact.
- **Prevention and early intervention** Adopt a greater focus on policies aimed at prevention and early intervention to maximise the impact of investments made in the social purpose market. Prevention and early intervention policies and programs are based on the concept that intervening to stop a problem from occurring or acting early to prevent a problem from getting worse offers more cost-effective social and economic outcomes than treatment or action once a problem is embedded.
- **Workforce reform** Develop a future-oriented workforce. Key aims include improving the delivery of services and achieving productivity gains. This includes implementing the right settings to attract and retain a skilled and motivated workforce, and increasing innovation and flexibility in the workforce, within legislative and industrial frameworks.
- **Digital/Technology** Accelerate the adoption of new technologies. Technologies, such as mobile technology and social media, are changing the way that all sectors interact with the community. For example, big data is providing insights into what communities and consumers want. Greater use of existing technologies in the social purpose market could improve service delivery, productivity and outcomes for the community.
- **System and market design** Apply design, systems and market-based thinking to public policy to generate the right incentives and opportunities for productivity and innovation.
- **Place-based reform** Adopt place-based approaches. Disadvantage in Australia is concentrated within communities. A place-based approach enables the identification of geographic areas of disadvantage in Australia and the design of holistic reforms to address this disadvantage.
- **Innovation** Identify the next wave of disruptive thinking that will impact the social purpose market. This includes exploring non-traditional roles of different service providers. The emergence of social enterprises and social businesses has demonstrated that there are alternative, non-traditional mechanisms for the provision of social purpose-oriented services, and different ways of mobilising investment.

These themes will raise different challenges and opportunities for each of the key players in the social purpose market – the Commonwealth, state/territory and local governments, as well as the NFP and the for-profit sector. Significant challenges and opportunities also exist for the general public who consume and contribute to the social purpose market programs.

This report demonstrates the inter-linked nature, scale of investment and the changing nature of investment and achievement of outcomes. As a result, it represents a call to action for new thinking, collaborative problem-solving and a mature evidence informed debate to chart the new wave of reform.





# 1 About our approach

## 1.1 Project aim and approach

This project had several key aims:

- to fill a gap in the current evidence-base by developing a clear definition of the social purpose market
- as part of the development of this definition, to identify the scope of the social purpose market showing market composition and expenditure flows
- to develop new knowledge by quantifying the payments and services that comprise the social purpose market, calculating an aggregate estimate of total level of investment.

The findings are intended to represent conservative estimates of activity – as measured by expenditure on, and consumption of, social purpose goods and services – within the market.

As part of our approach to this project we:

- reviewed and synthesised the national and international evidence-base to distil key themes and findings related to:
  - demographic and population changes
  - other external factors that impact the social purpose market
  - conceptualising a social purpose market.
- explored the potential scope of the social purpose market informed by a starting hypothesis that the scope of the social purposes should include those services with the primary purpose of improving the health and wellbeing of individuals and the community
- analysed the existing methodologies for scoping similar markets, eg social enterprises
- undertook a desktop audit of existing data sources to identify the scope and coverage of data availability for organisations (including government, NFP and for-profit organisations)
- identified funding flows from a range of organisations
- explored, tested and confirmed findings with key representatives at the national, state and territory levels
- produced an overall synthesis, analysis and interpretation of findings.

## 1.2 Why developing a better understanding of the social purpose market is important

Productivity is a measure of output (eg GDP) relative to inputs (eg hours worked or capital employed).<sup>6</sup> Since the early 2000's, Australia's productivity performance has been deteriorating. In response, a range of measures has been proposed to address these challenges, including:

- increasing workforce participation of older workers and women
- increasing the productivity of high cost services such as health care services.

In this context, developing a better understanding of the social purpose market is increasingly important as not-for-profit (NFP), for-profit organisations and philanthropy play a growing role alongside government in delivering services, and are therefore required to develop more effective and targeted strategies for support.

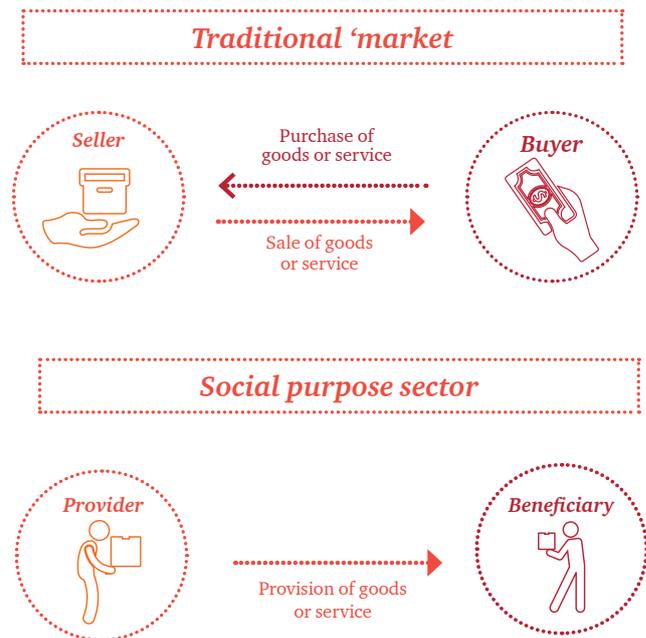
While the lack of a widely accepted definition contributes to the difficulties of obtaining and generating statistical and other data about the social purpose market, the opportunity exists to develop a baseline from which the impact of future support can be evaluated.

## 1.3 Why a 'market' analysis?

Activities with a social purpose are commonly grouped into 'sectors' rather than 'markets'. A market is traditionally seen as a context in which the trading of goods and services in exchange for an agreed value (of money or other tradeable item) occurs between sellers and buyers, while the social purpose sector is conceptualised as involving providers (governments, NFPs) and beneficiaries.

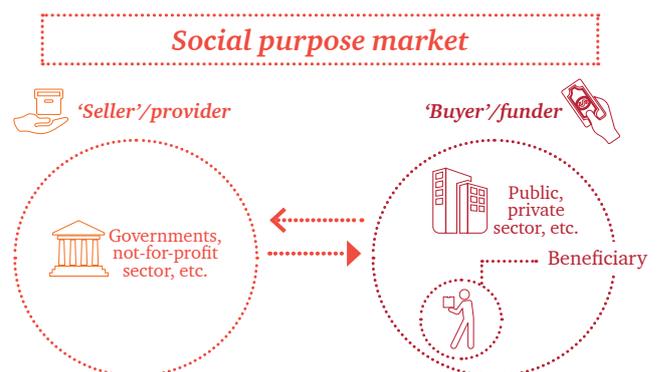
Moreover, activities with social purpose are often viewed as specifically responding to 'market failure', which occurs whenever the production or allocation of goods or services by a traditional competitive market is suboptimal.<sup>7</sup> This suboptimal activity therefore requires an alternative, *non-market*, type of response or intervention. This is summarised in Figure 4.

Figure 4: Traditional market and sector perspectives



The social purpose sector does in fact involve the flow of 'agreed value' from a buyer (or funder) to provider, albeit indirectly, in the form of the taxes agreed between governments and the public or businesses, the donations that the public, businesses or philanthropists are willing to make to NFPs, and fees-for-services to social purpose in Australia. The difference is that the funder (in most cases) cannot choose exactly what he or she is exchanging the funding for. The beneficiaries of social purpose goods and services are then a subset of the funder group. This is summarised in Figure 5.

Figure 5: Concept diagram: Social Purpose Market



6 Productivity can be measured in a number of ways. For example, labour productivity is measured using a ratio of volume of output produced to the volume of labour employed. Source: PwC, 'Productivity Scorecard', 2013, [www.pwc.com.au/consulting/publications/productivity-scorecard-series.htm](http://www.pwc.com.au/consulting/publications/productivity-scorecard-series.htm). Accessed 09 February 2016.

7 J. Phills, and L. Denend, 'Social entrepreneurs: correcting market failures', Case SI72A, Stanford Graduate School of Business, 2005, [www.gsb.stanford.edu/faculty-research/case-studies/social-entrepreneurs-correcting-market-failures](http://www.gsb.stanford.edu/faculty-research/case-studies/social-entrepreneurs-correcting-market-failures). Accessed 09 February 2016.

This framing of a social purpose ‘market’ is relevant for this analysis which looks at both the value of the goods and services provided through the market to beneficiaries, and importantly, also the value and sources of the funding for those goods and services.

It is also significant conceptually, as it permits more ‘market’-driven questions to be posed that will be central to future debate and discussion, such as:

- whether there is an optimal allocation of resources within the market
- can the market become more productive – and what levers are in place to do this.

## 1.4 Limitations

While this paper provides useful information to inform debate and discussion about the size and structure of the service systems that form the social purpose market in Australia, there are several limitations to this work. These include:

- this analysis was based entirely on administrative and published data – no primary data collection was undertaken
- the level of disaggregation possible has been constrained by available data
- to date there has largely been an absence of data on the role and activities of Australia’s charitable and philanthropic sector. With the establishment of the Australian Charities and Not-for-profits Commission (ACNC), this situation will over time improve. The annual *Australian Charities* reports (begun in 2013) are an important contribution to improving the knowledge base, providing a detailed analysis of overall funding, expenditure and areas of activity
- there remain several gaps where comprehensive data is unavailable.

Despite these limitations, the findings presented in this report can contribute to:

- developing a clearer view of the critical importance of delivering productivity gains for the sector
- stimulating debate about the key changes required to secure long term productivity improvements and sustainable improvements to key headline indicators (ie health, education, welfare)
- identifying potential gains that could be made if key changes, reforms and policy choices are made.

## 1.5 Structure of report

This report is structured as follows:

- Section 1 provides an overview of the project aim and approach, including why a market-based analysis is useful in the context of social purpose investment and activity
- Section 2 provides a brief exploration of some of the key pressures and external influences on the social purpose market
- Section 3 provides the rationale for how the scope of the social purpose market has been defined, including key industries, key players and level of resourcing
- Section 4 provides the key findings at an aggregate level, as well as disaggregated analysis and diagrams for education, health and social security and welfare sub-sectors of the market
- Section 5 briefly outlines some key areas for further exploration that have emerged from the analysis in this report.



## 2 Understanding the key context

This report is focused on defining both the size and composition of the Australian social purpose market that exists to improve the health and wellbeing of Australia's population.

Governments at all levels have had to adjust to a rapidly changing environment – characterised by a series of demographic and population changes and other major influences that present significant challenges for the social purpose market and Australia's long term productivity. In this context it is important to understand past investment and performance as well as current and emerging issues.

### 2.1 Understanding past investment and performance

#### Government expenditure in context

According to Year Book Australia, Australian Government expenditure on health, education and welfare in 1969-70 was \$27bn (7 per cent of GDP).<sup>8</sup> In 2013-14, this figure represented \$273bn (17 per cent of GDP) of the Federal Budget.<sup>9</sup> In 1969-70, \$2,178 (converted to 2013-14\$) was expended on social purposes per capita compared to \$11,542 in 2013-14, representing a 5.3-fold increase.<sup>10</sup>

With reference to the allocation of the Federal budget, the composition and mix of expenditure has changed over time. By way of illustration, in 1969-70, the Commonwealth government spent 1 per cent of GDP on Health.<sup>11</sup> In 2013-14, Commonwealth expenditure on health represented 7 per cent of GDP.<sup>12</sup> This reflects large scale policy changes as would be expected over a forty-five year period, including the introduction of Medicare. In addition, this reflects the ageing of the population, increased life expectancy, and increased costs of health technology.

There have also been a series of reforms to the financial and institutional arrangements between the Commonwealth and state/territory governments. This includes the establishment of the Council of Australian Governments, the introduction of the Goods and Services Tax in 2000, and increasing involvement of the Commonwealth government in delivery of services, such as school education.

This report estimates the combined spending on the social purpose market in 2015 to be worth approximately \$510bn per annum – just under one third of GDP (32 per cent).

Data show that health and education outcomes have varied over time, despite continued policy focus and significant expenditure committed by successive governments.

#### Indicators of social outcome

Australia's social purpose market has seen both positive progress in outcomes and changes, as well as some areas for improvement.

In 2014, Australia was rated the richest country in the world for the second year running.<sup>13</sup> Australia also ranks very highly on quality of life indices (second, according to the Economist Intelligence Unit<sup>14</sup>). In addition, Australia is regarded as having a robust economy that emerged from the global recession largely unscathed, enormous natural resources, and by most comparisons, very strong health and welfare safety-nets and systems. Some of the positive changes that have been observed since 1970 include a reduction in infant mortality rate, reduced prevalence of smoking, higher retention rates from Year 7 to Year 12, and a higher life expectancy.

Figure 6 summarises a selection of data for key indicators and demonstrates how performance has varied over time.

8 J. O. O'Neill, 'Official year book of the Commonwealth of Australia', No. 57, Commonwealth of Australia, Canberra, Australia, 1971, [www.ausstats.abs.gov.au/ausstats/free.nsf/0/7C2D2B72598CC79DCA257AF600171041/\\$File/13010\\_1971\\_bk57.pdf](http://www.ausstats.abs.gov.au/ausstats/free.nsf/0/7C2D2B72598CC79DCA257AF600171041/$File/13010_1971_bk57.pdf). Accessed 09 February 2016.

9 Australian Institute of Health and Welfare, 'Health expenditure Australia 2013-14', Cat. No. HWE 63, Commonwealth of Australia, Canberra, Australia, 2015, [www.aihw.gov.au/publication-detail/?id=60129552713](http://www.aihw.gov.au/publication-detail/?id=60129552713). Accessed 09 February 2016.

10 PricewaterhouseCoopers Australia (PwC) analysis.

11 J. O. O'Neill, 'Official year book of the Commonwealth of Australia', No. 57, Commonwealth of Australia, Canberra, Australia, 1971, [www.ausstats.abs.gov.au/ausstats/free.nsf/0/7C2D2B72598CC79DCA257AF600171041/\\$File/13010\\_1971\\_bk57.pdf](http://www.ausstats.abs.gov.au/ausstats/free.nsf/0/7C2D2B72598CC79DCA257AF600171041/$File/13010_1971_bk57.pdf). Accessed 09 February 2016.

12 Australian Institute of Health and Welfare, 'Health expenditure Australia 2013-14', Cat. No. HWE 63, Commonwealth of Australia, Canberra, Australia, 2015, [www.aihw.gov.au/publication-detail/?id=60129552713](http://www.aihw.gov.au/publication-detail/?id=60129552713). Accessed 09 February 2016.

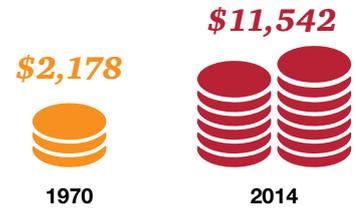
Figure 6: Snapshot of performance on key indicators

### Population



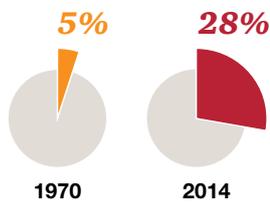
### Social purpose market expenditure

(per capita, 2013-14\$)



### Obesity

(for those aged over 15)

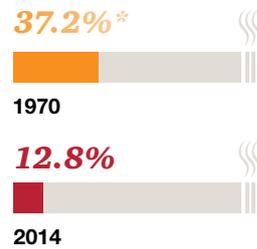


### Infant mortality

(per 1,000 live births)

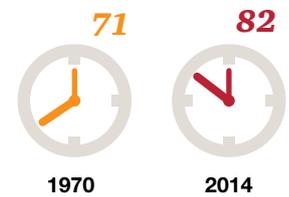


### Smoking rate



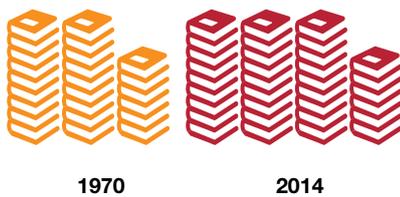
### Life expectancy

(years)



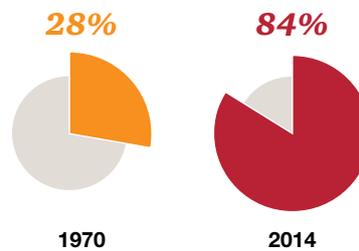
### School enrolments

2,712,000 3,694,101



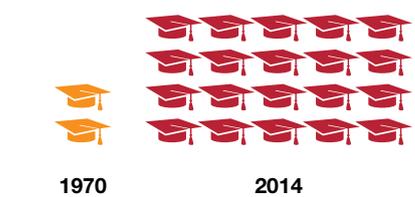
### Retention rate

from Year 7 to Year 12



### Total higher education students

109,662 985,000



13 G. Jericho, 'Australia is rich and on top of the world: is it time to pop the champers?', The Guardian, 14 October 2013, [www.theguardian.com/business/grogonomics/2013/oct/14/australia-wealth-top-world](http://www.theguardian.com/business/grogonomics/2013/oct/14/australia-wealth-top-world). Accessed 09 February 2016.

14 The Economist, 'Birth right', The Economist, 01 January 2013, [www.economist.com/blogs/graphicdetail/2013/01/daily-chart](http://www.economist.com/blogs/graphicdetail/2013/01/daily-chart). Accessed 09 February 2016.

However, there are many areas in which the data suggest Australia has not successfully addressed social disadvantage, for example:

- Place-based disadvantage: despite increases in funding directed towards Australia's most disadvantaged communities, their positions on rankings of disadvantage remained stable over a decade.<sup>15</sup>
- Despite national priority given to Indigenous disadvantage through the Closing the Gap initiative, social equity for Indigenous Australians is still far from achieved. There is more than a decade difference in life expectancy for Indigenous Australians, and the disparity in employment outcomes is worsening.<sup>16</sup>
- Youth unemployment rates are at their highest level in over twenty years. Almost one in three young people (aged 15-24) in the labour market are unemployed or under-employed, the highest rate since statistics were first available in 1978.<sup>17,18</sup>
- In June 2011, 590,000 (14 per cent) Australian children (0-14 years) lived in jobless families. The proportion of children living in jobless households is higher in Australia than in all but three of 27 EU member states.<sup>19</sup>
- Around one in six Australians is excluded from the mainstream financial system.<sup>20</sup>
- Finally, 11.8 per cent of Australians live under the poverty line; this has increased since 2000-01 from 10.2 per cent.<sup>21</sup>

Australia's position on the international inequity list is rising. The accepted measure of inequality is the Gini coefficient, which measures the size of the gap between a country's rich and poor. Australia's Gini coefficient was the same as the OECD average in 1995 but has since risen significantly above the OECD average as of 2010.

## 2.2 Understanding current and emerging issues

The current context for this market includes:

- projections for slower growth, ageing population and significantly increasing budget pressures in the next four decades
- the Australian Government and most state/territory governments now operating with budget deficits
- a relationship between the Australian Government and the social sector that is undergoing change.

### Demographic projections

The 2015 Intergenerational Report (IGR) projects Australia's population, demographic and economic performance to the year 2055. Key highlights include:

- Australia's population will grow from 23.9 million to 39.7 million
- A greater proportion of Australians will be aged 65 and over, with fewer people "of working age" (15-64); the number of working age Australians per older Australian will reduce from 7.3:1 (1975) to 4.5:1 (today) to 2.7:1 (2055)
- Despite projected increases in workforce participation for women and for older Australians, the overall participation rate is expected to fall from 64.6 per cent to 62.4 per cent of the over-15 population.

The report notes that Australia's rate of growth in labour force productivity slowed during the 2000s from an average of 2.2 per cent per annum (pa) during the 1990s to around 1.5 per cent pa, and projects productivity growth at 1.5 per cent pa over the next four decades.

15 T. Vinson, 'Markedly socially disadvantaged localities in Australia: their nature and possible remediation', Commonwealth of Australia, Canberra, Australia, 2009, [www.voced.edu.au/content/ngv%3A26589](http://www.voced.edu.au/content/ngv%3A26589). Accessed 09 February 2016.

16 Department of the Prime Minister and Cabinet, 'Closing the gap: Prime Minister's report 2015', Commonwealth of Australia, Canberra, 2015, [www.dpmc.gov.au/pmc-indigenous-affairs/publication/closing-gap-prime-ministers-report-2015](http://www.dpmc.gov.au/pmc-indigenous-affairs/publication/closing-gap-prime-ministers-report-2015). Accessed 09 February 2016.

17 Australian Bureau of Statistics, 'Labour Force Survey. Table 17: Labour force status by Sex – Persons aged 15 to 24 years – Trend data'. Commonwealth of Australia, Canberra, Australia, Cat no. 6202.0, [www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6202.0Dec%202015?OpenDocument](http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6202.0Dec%202015?OpenDocument). Accessed 09 February 2016.

18 Australian Bureau of Statistics, 'Labour Force Survey. Table 22: Labour underutilisation by Age and Sex – Trend data'. Commonwealth of Australia, Canberra, Australia, Cat no. 6202.0, [www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6202.0Dec%202015?OpenDocument](http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6202.0Dec%202015?OpenDocument). Accessed 09 February 2016.

19 Australian Social Inclusion Board, 'Social inclusion in Australia: how Australia is faring', Commonwealth of Australia, Canberra, Australia, 2012, [http://ppcg.org.au/dev/wp-content/uploads/2011/08/HAIF\\_report\\_final.pdf](http://ppcg.org.au/dev/wp-content/uploads/2011/08/HAIF_report_final.pdf). Accessed 09 February 2016.

20 The Centre for Social Impact, 'Measuring financial exclusion in Australia', National Australia Bank, 2013, [www.financialliteracy.gov.au/media/465159/nab\\_csi\\_measuring\\_financial\\_exclusion\\_in\\_australia\\_2013.pdf](http://www.financialliteracy.gov.au/media/465159/nab_csi_measuring_financial_exclusion_in_australia_2013.pdf). Accessed 09 February 2016.

21 B. Phillips, R. Miranti, Y. Vidyattama, and R. Cassells, 'Poverty, social exclusion and disadvantage in Australia', National Centre for Social and Economic Modelling (NATSEM), University of Canberra, 2013, [www.natsem.canberra.edu.au/storage/Poverty-Social-Exclusion-and-Disadvantage.pdf](http://www.natsem.canberra.edu.au/storage/Poverty-Social-Exclusion-and-Disadvantage.pdf). Accessed 09 February 2016.

## Government Fiscal Constraints

The Australian Government deficit for 2015-16 is forecast to be \$37bn, or 2.3 per cent of GDP.<sup>22</sup>

State and territory governments face similar pressures.

Looking forward, the 2015 IGR projects that – based on the assumptions outlined earlier, and based on “currently legislated” policy settings – Australia faces 40 years of budget deficits, rising to around 6 per cent of GDP by 2055. Under this scenario, our cumulative debt will rise to 60 per cent of GDP.

While this scenario is unlikely, there is little doubt that the ageing population will place additional pressures on Government expenditure, adding to the fiscal pressures of slower growth and reducing workforce participation. Treasury has previously estimated that services for the ageing – health care, aged care and pensions – will rise from 25 per cent of government spending in 2010 to 50 per cent by 2050.<sup>23</sup>

In addition, the current global economic environment facing Australia also holds significant risks and uncertainties, increasing fiscal pressures on governments.

The clear implication is that the social purpose sector will come under significant funding pressure.

## Government and the Social Sector

According to the annual PwC-CSI Community Index survey, CEOs believe change in government policy and direction is a key constraint to improving outcomes. CEOs believe that the NFP sector is becoming less effective at achieving social outcomes; fewer than half of CEOs believe the social purpose system (referred to as the social purpose market in this report) will be more effective at delivering social outcomes in ten years' time.<sup>24</sup>

There has been a history of start-stop government policies (often associated with change in government) impacting the social sector.

In addition to direct social sector policy, key reforms include the implementation of the National Disability Insurance Scheme (NDIS), the Closing the Gap in Indigenous Disadvantage agenda, and changes to social services funding processes.

## Community and consumer expectations

Alongside these fiscal and policy challenges a range of community expectations have also emerged. For instance, ‘the “baby boomer generation” has high consumer expectations from services created by rapid changes in medical and information technology over the last 30 years resulting in people being able to be kept alive in circumstances that would have previously not been possible’.

While a key area of focus is healthcare, there are also trends towards higher expectations for discretionary spending (ie tourism and later life education).

On the other hand, generational shifts also present opportunities including an increase in volunteering and supplementation of formal labour market participation.

## 2.3 Implications

Informed by a combined understanding of past investment and performance as well as a scan of current and emerging issues, a key question is whether Australia is positioned to extract maximum value from this investment into the future: how can we achieve the best possible health, social and productivity outcomes?

Understanding current expenditure and the composition of the Social Purpose Market is fundamental to establishing a sound starting point. It is in this context that this project has been undertaken.

22 Australian Treasury, 'Budget 2015-16: mid-year economic and fiscal outlook', Commonwealth of Australia, 2015, [www.budget.gov.au/2015-16/content/myefo/html/01\\_part\\_1-01.htm](http://www.budget.gov.au/2015-16/content/myefo/html/01_part_1-01.htm). Accessed 09 February 2016.

23 Commonwealth of Australia, 'Intergenerational report 2010 – Australia to 2050: future challenges', Commonwealth of Australia, Canberra, Australia, 2010, <http://archive.treasury.gov.au/igr/igr2010>. Accessed 09 February 2016.

24 PricewaterhouseCoopers Australia, 'PwC-CSI Community Index 2014', PricewaterhouseCoopers Australia, Wave 3, 2014, [www.pwc.com.au/about-us/corporate-responsibility/publications/community-index/assets/pwc-csi-community-index-oct14.pdf](http://www.pwc.com.au/about-us/corporate-responsibility/publications/community-index/assets/pwc-csi-community-index-oct14.pdf). Accessed 09 February 2016.



### 3 *Scope definition in detail*

The social purpose market is a broad and complex sector, involving significant diversity and dimensions in its makeup. This includes a range of different industry activity areas; sectors; players; resources; and inputs.

Our scoping of the social purpose market comprised a pragmatic approach informed by data availability and focused on the key characteristics in defining the market including:

- **What** – what industry activities and outputs are undertaken? (eg health, social services, education/skills, welfare payments)
- **Who** – what type of organisations are involved, and how do they interact? (eg Government, NFP, for-profit organisations, philanthropy, households/consumers)
- **How** – what are the key resources or inputs that fund or support these activities? (eg taxes, transfer payments, fees-for-services, donations, fund-raising)

Figure 7 sets out the step-by-step process used to define the scope for analysis of the social purpose market that was informed by a number of starting hypotheses.



Figure 7: Key steps for scoping the social purpose market



### Step 1 What

*Identify the in scope industry activity areas and outputs*

Our starting hypothesis was that these could include: social services, health, education and skills and welfare payments



### Step 2 Who

*Identify the key players*

Our starting hypothesis was that these could include: governments (Commonwealth, state and local), for-profit, not-for-profit, philanthropy households and consumers



### Step 3 How

*Identify the key resources or inputs*

Our starting hypothesis was that these could include: taxes, transfer payments, fees-for-services, donations and fundraising

Considering each of these dimensions of the market, and also how they interact with each other, enables a more comprehensive picture of the market than by assessing only one dimension in isolation.

## Social Purpose Market definition

For the purposes of this report we have used the term *social purpose market* to encompass the scope of interactions between funders, service providers and consumers of social-purpose services, acknowledging that the range of interactions varies widely.

Our scope encompasses government, not-for-profit and for-profit sectors and health, education, social services & welfare and development & housing industries, acknowledging that these are not comprehensive and that our estimates of the total value of the social purpose market is an underestimate accordingly.

## Step 1 Identifying industry activity areas in scope

The first step involved identifying and classifying what activities or industries to include as part of the social purpose market. This was influenced by starting hypotheses of what comprises the social purpose market itself and the objectives of the system, as well as the need to arrive at a consistent and mutually exclusive classification of industries and activities, and the availability of data.

The core criteria for inclusion in the social purpose market scope incorporated activities or industries:

- whose objectives/purposes are:
  - directly ‘people focused’ – a common objective of increasing quality of life and wellbeing of people and the community
  - domestic (ie focused on Australian rather than international populations)
- which are areas that have traditionally presented major areas of expenditure of the domestic budget of Australia. By applying these criteria to commonly used catalogues of Australian industry (International Classification of Non-Profit Organisations (ICNPO) and Australian Bureau of Statistics’ (ABS) Government Purpose Classification 2006), four groups were considered in scope (shown in Table 1).

The final titles allocated to these groups, and therefore the definition of industries/activities that constitute the social purpose market were:

- education
- health
- social security and welfare
- housing and community amenities.

These groups were chosen for this study as they have financial data which is publicly available and consistently reported, and are also likely to be large in terms of the value of services delivered.

It was then necessary to identify which sub-industries of the selected groups should be included. These more granular industry classifications are mostly drawn from ROGS 2016 (see Table 2). Again, consideration of what to include or exclude was based on:

- achieving mutually exclusive classifications
- ensuring data availability to an appropriate level.

However, it should be noted that the sub-sector areas included below are government classifications that may not be fully applicable to other sectors. The challenges related to use of different data sources are discussed in more detail later in this section.

**Table 1: Industry assessment for the scope of the social purpose market**

Included
<ul style="list-style-type: none"><li>• Education and research (Group 2)</li><li>• Health (Group 3)</li><li>• Social/community services (Group 4)</li><li>• Housing (Group 6)</li></ul>
Excluded
<ul style="list-style-type: none"><li>• Culture and recreation (Group 1)</li><li>• Environment (Group 5)</li><li>• Law, advocacy and politics (Group 7)</li><li>• Philanthropic intermediaries and volunteerism promotion (Group 8) – due to likely limited data availability.</li><li>• Religion (Group 10)</li><li>• Business and professional Associations, Unions (Group 11)</li><li>• Not elsewhere classified (Group 12)</li></ul>

**Table 2: Classification of industry and sub-sector areas for purposes of analysis**

<b>Industry</b>	<b>Sub-sector area</b>
<b>1. Education (sub industries: ROGS 2016 classification)</b>	<ul style="list-style-type: none"> <li>a. Early childhood education and care (ECEC). Child Care Benefit/Child Care Rebate (CCB/CCR) assistance moved from '3d. Assistance to families with children'</li> <li>b. Primary and secondary schools</li> <li>c. Tertiary – Universities</li> <li>d. Tertiary – Technical schools and further education</li> <li>e. Pre-school and education not definable by level</li> <li>f. Transportation of students</li> </ul>
<b>2. Health (sub industries: ROGS 2016 classification)</b>	<ul style="list-style-type: none"> <li>a. Public hospitals</li> <li>b. Private hospitals</li> <li>c. Medical services</li> <li>d. Dental</li> <li>e. Other health practitioners</li> <li>f. Medications</li> <li>g. Patient transport services</li> <li>h. Community health and other recurrent health services</li> <li>i. Public health</li> <li>j. Aids and appliances</li> <li>k. Administration</li> <li>l. Research</li> </ul>
<b>3. Social security and welfare (sub industries: ROGS 2016 classification)</b>	<ul style="list-style-type: none"> <li>a. Assistance to the aged</li> <li>b. Assistance to veterans and dependants</li> <li>c. Assistance to people with disabilities</li> <li>d. Assistance to families with children (ECEC related support moved to '1a. Early childhood education and care')</li> <li>e. Assistance to the unemployed and sick</li> <li>f. Other welfare programs</li> <li>g. Assistance for Indigenous Australians</li> <li>h. General administration</li> </ul>
<b>4. Housing and community amenities (sub industries: ABS Government Purpose Classification 2006)</b>	<ul style="list-style-type: none"> <li>a. Housing and community development</li> <li>b. Water supply</li> <li>c. Sanitation and protection of the environment</li> <li>d. Other community amenities</li> </ul>

**Sources:** The high level classifications (education, health etc.) are drawn from the ABS' Government Purpose Classification 2006 while more granular industry classifications that have been used for the purpose of analysis are mostly drawn from ROGS 2016.

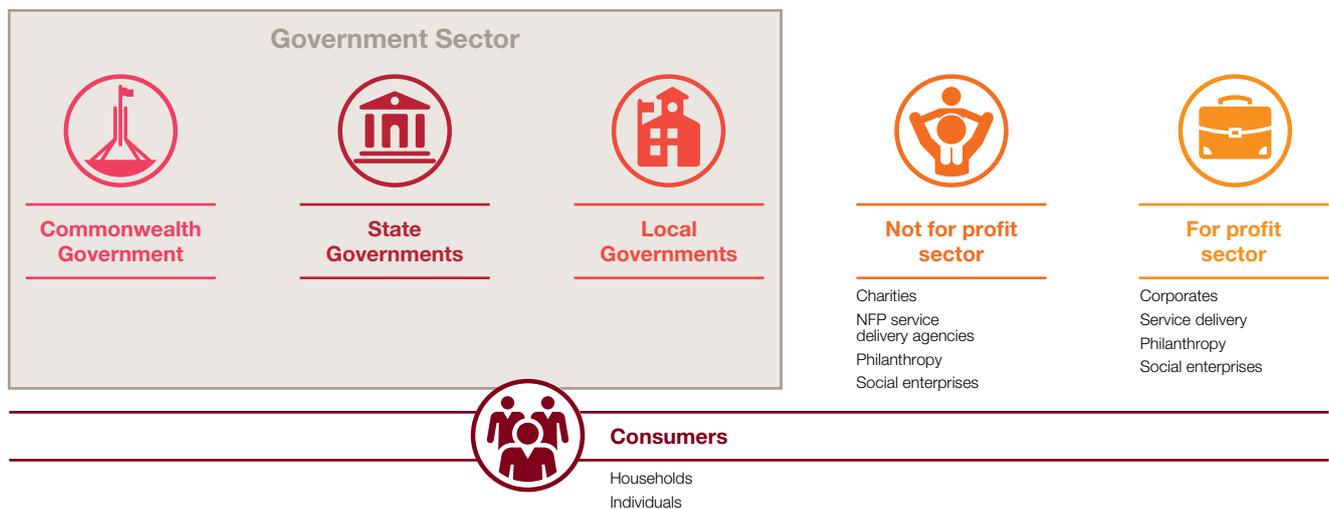


## Step 2 Understanding the market sectors and key players

The second step in understanding the social purpose market was to identify the key players involved, and decide which to include or exclude from the defined scope.

The social purpose market comprises a large number of diverse organisations from different sectors across the economy which interact with one-another, but broadly comprises the organisations set out in Figure 8.

**Figure 8: Key Players in the Social Purpose Market**





### *Step 3 Identifying key resources and inputs*

After identifying the key players/sectors and industry/activity areas to focus on, the next step involved collecting available data to develop a snapshot picture of the social purpose market to understand the use of funds, inputs and resources employed in the delivery of activity, as well as how these flow across the market.

### *Step 4 Quantifying funding flows*

The activities of the social purpose market are made possible through employing a range of different inputs and resources. These vary between sectors and between industries as to which are more important or widespread, as well as how they flow between the different players in the market.

These include both financial and non-financial inputs employed in delivering activities. The relative importance of these again varies across both sector and industry.

Taxes that governments collect are not hypothecated or allocated to a particular purpose—with the exception of taxes such as levies (fire services, Medicare and the National Disability Insurance Scheme). Taxes collected form part of the overall operating funding available to governments.

### *Data availability*

In conjunction with determining the scope of the social purpose market, further assessment of the availability of data for inputs was required in order to determine the overall scope.

There are a number of ways in which to classify the players in the various sectors, which cross over one another. However, it was important to choose a method of classification that enabled both a comprehensive understanding to be developed, whilst ensuring mutual exclusivity of sectors.

The approach adopted was based on an institutional sector classification in accordance with the ABS's Standard Institutional Sector Classification of Australia (SISCA). This formed a base from which to build a more detailed sector classification tailored to the market, while still providing the benefits of adopting an established classification (and associated benefits such as data availability and consistency).

A challenge still remained, however, given the range of different data sources that exist for these different sectors. The complication in analysing the market as a whole arises from attempting to merge these different data sources in a consistent, comprehensive and mutually exclusive way.

Funding flows within the market were quantified using the following publicly available data (see Appendix B for full references):

- ABS 5512.0 – Government Finance Statistics, Australia, 2013-14
- ABS 5256.0 – Australian National Accounts: Non-Profit Institutions Satellite Account, 2012-13
- ABS 5220.0 – Australian National Accounts: State Accounts, 2012-13
- Australian Charities and Not-for-profits Commission, 2014 reporting year
- the Federal Budget 2015-16
- the Productivity Commission's Report on Government Services 2016.

For consistency, and to avoid double counting, the Report on Government Services 2016 was used as the primary quantitative data source where possible. Where gaps exist, funding data have been obtained from National Accounts and from the Australian Charities and Not-for-profits Commission.



## 4 What we found

### Key points

- the social purpose market is estimated to be worth more than half a trillion dollars (approximately \$510 billion per annum)
- expenditure on the social purpose market represents just under one third of GDP (32 per cent)
- services delivered (and percentage share of the total market) include:
  - education – \$113bn (or 22 per cent)
  - health – \$169bn (or 33 per cent)
  - social security and welfare – \$171bn (or 34 per cent)
  - housing and community amenity – \$33bn (or 6 per cent)
- the Australian Government remains a key contributor within the social purpose market by providing \$282bn (or 55 per cent) of the payments and services
- a significant amount of Australian Government support is provided through state/territory governments who receive transfer payments of \$39bn from the Australian Government
- State/territory governments contribute an estimated \$121bn (or 24 per cent) of payments and services – the majority of this supports the provision of education (\$56bn) and health (\$42bn)
- consumers contributed \$97bn (or 19 per cent) to the market in the form of payments to both public and private service providers
- government grants to the NFP sector, which includes charities, totalled \$44bn (or 9 per cent)
- the NFP sector of the social purpose market delivered \$78bn (or 15 per cent) of services to consumers
- the prominence of the private sector (both NFP and for-profit sectors) varies across services. The private sector is heavily involved in the provision of health services:
  - private health insurance – supported the delivery of \$13bn worth of services
  - hospitals – \$12bn
  - dental services – \$9bn.

## 4.1 The social purpose market: dimension and scale

For the purpose of this analysis, *contributions* are defined as the value of goods and services funded/paid for by a particular sector, which may differ from the value of goods and services *delivered*. There are likely two primary reasons for this: the lack of available, granular data regarding service delivery, particularly for the NFP and for-profit sectors; and the fact that contributions would include not only expenditure contributing to service delivery, but also to operating/administrative costs and other overheads.

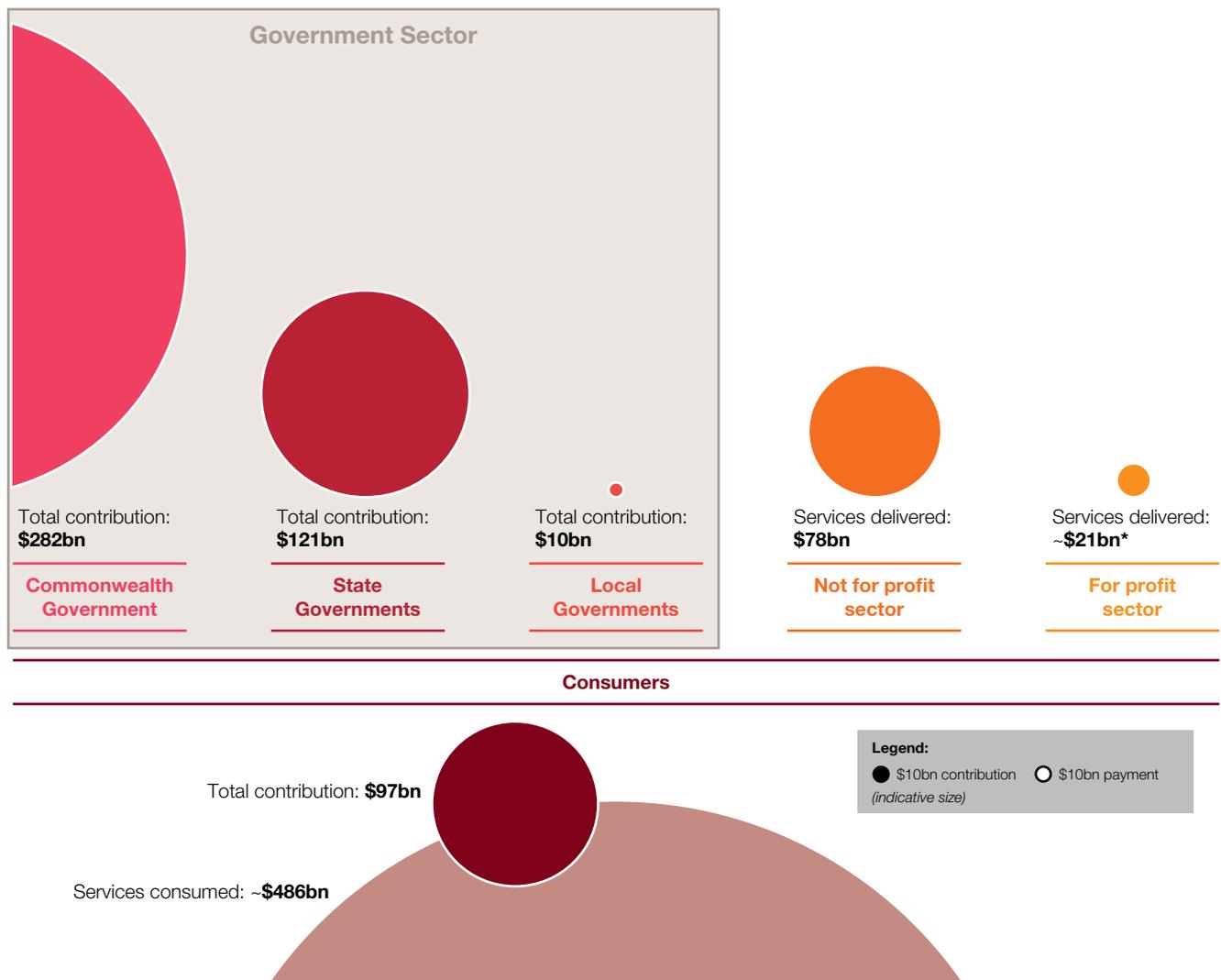
Figure 9 summarises contributions and value of goods and services delivered by each of the key market participants within the social purpose market:

- the social purpose market is estimated to be worth more than half a trillion dollars (approximately \$510bn) per annum, as measured by the total value of goods and services consumed by households

- contributions from all levels of government totalled approximately \$413bn (or 81 per cent), which includes payments to the not-for-profit and for-profit sectors, and payments made directly to consumers:
  - the Australian Government contributed \$282bn (or 55 per cent), which includes transfer payments made to other governments
  - state/territory governments contributed \$121bn (or 24 per cent) while local governments contributed \$10bn directly to services and payments to consumers – these contributions include transfers from the Australian Government
- consumers contributed \$97bn (or 19 per cent)
- NFP and for-profit organisations are estimated to have delivered ~\$78bn and upwards of \$21bn, respectively.

The estimated value of services delivered by the for-profit sector is likely to be understated due to the lack of data for this sector, as noted in the previous section.

Figure 9: Estimate of total contribution: key players in the social purpose market



\*estimate is understated due to the lack of data for for-profit organisations

## 4.2 Social purpose market: key funding flows

The complexity of the social purpose market is highlighted by the market diagrams which draw out the various value flows within the market, including:

- *payments for services* from consumers to service providers, which include both government and private sector providers
- *services delivered* by government and private sector providers to consumers
- *direct transfers* in the form of payments from governments to consumers, which include income support and subsidies to be used on the purchase of social purpose services
- *grants/payments* from governments to the private sector for the provision of goods and services to consumers, noting that payments from governments to the private for-profit sector could not be determined in this analysis due to the lack of data
- funding transfers between levels of government (Commonwealth, states/territories, and local).

A high level diagram of the social purpose market is provided in Figure 10: Overall social purpose market. More detailed market diagrams for the education, health and social security and welfare components of the social purpose market follow.

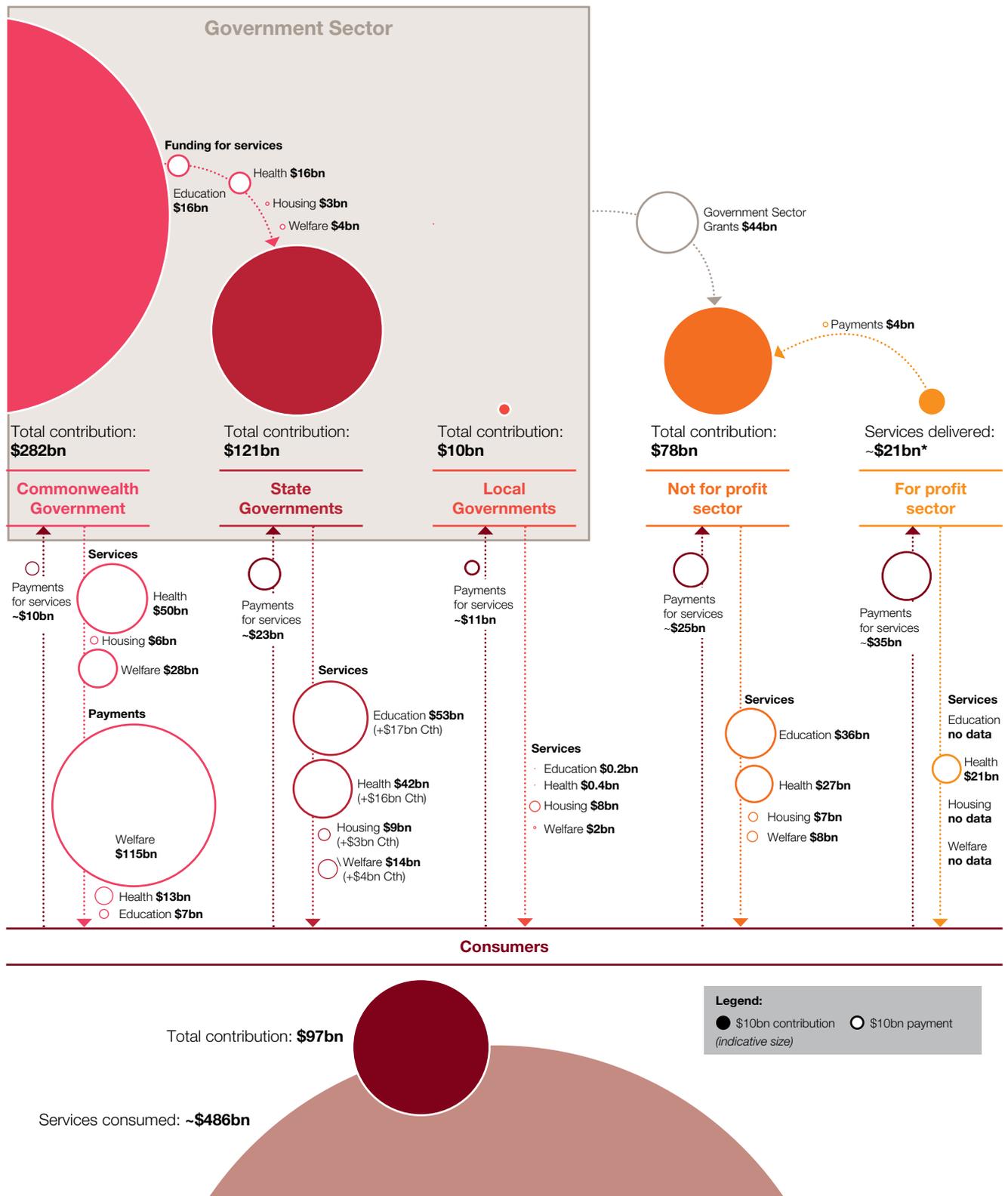
It should be noted that the estimates of the value of services provided across each of the four industries may not sum to the total. This is due to the use of multiple data sources where there may be minor differences in the way services are defined and classified and also differences in the year of collection. Contributions from all levels of government are also likely to include payments made to the private for-profit sector for the provision of services.

## Overall market

Figure 10 provides a high level overview of value flows within the social purpose market where:

- services delivered include:
  - education – \$113bn
  - health – \$169bn
  - social security and welfare – \$171bn
  - housing and community amenity – \$33bn
- the Australian and state/territory governments are the two largest primary contributors to the market providing \$282bn and \$121bn in payments and services, respectively
- the Australian Government provided approximately \$115bn in income support (family tax benefit and welfare payments) which represents the largest single value flow in the social purpose market
- the Australian Government contributes approximately \$39bn in the form of transfer payments to state/territory governments that deliver services to consumers. The majority of this funding is allocated for education and health services
- the NFP sector receives \$44bn in funding from all levels of government and \$25bn in payments for services from consumers
- the NFP sector delivered approximately \$78bn in services:
  - education – \$36bn
  - health – \$27bn
  - social security and welfare – \$7bn
  - housing and community amenity – \$8bn.

Figure 10: Overall social purpose market

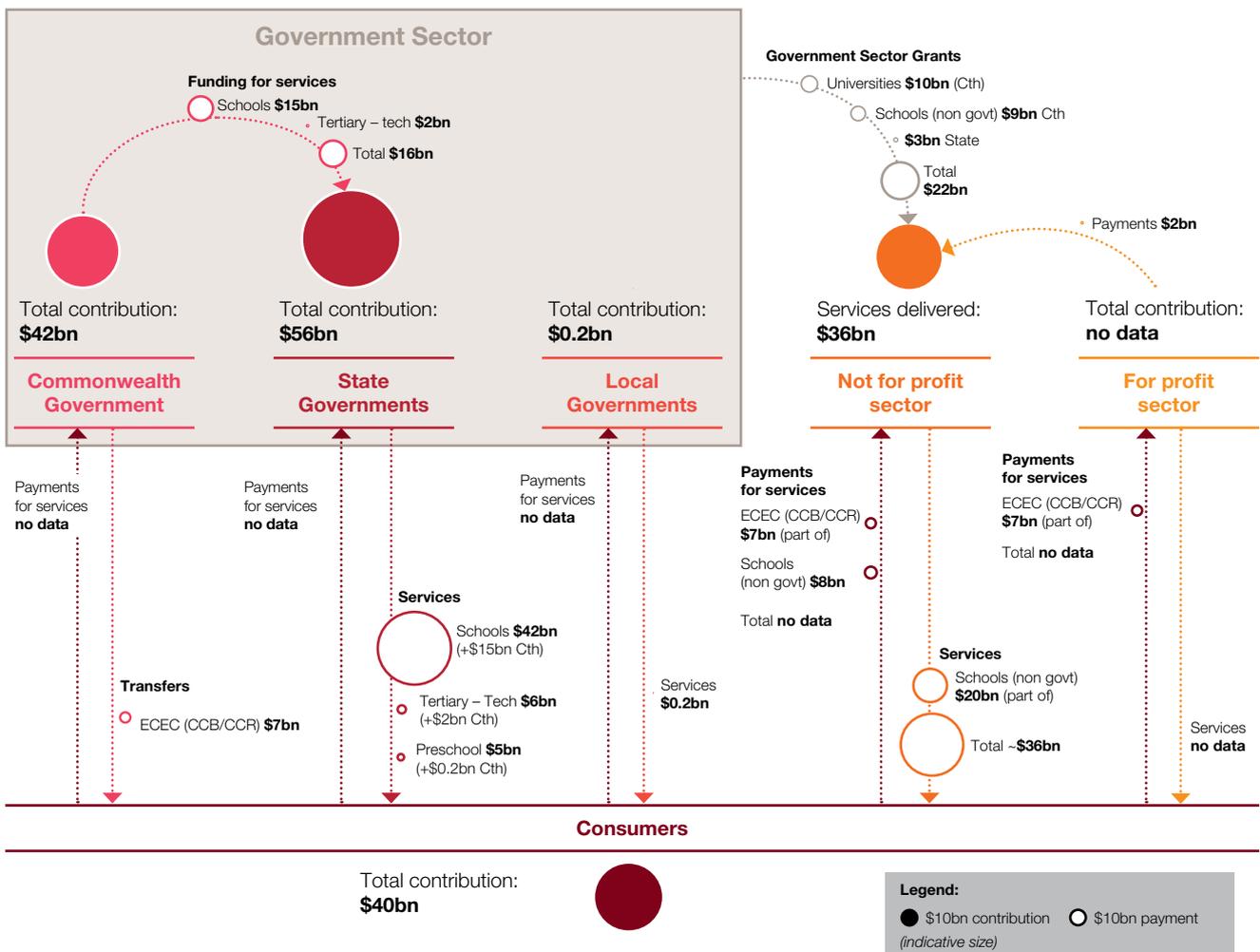


## Education

Figure 11 provides a high level overview of value flows within the education component of the social purpose market where:

- education services delivered totalled ~\$113bn, including:
  - schools – \$69bn in total funding of which \$15bn is funded by the Australian Government via state/territory governments and \$42bn is from state/territory governments. Non-government schools received a further \$12bn from governments (\$9bn from the Australian Government, \$3bn from states) supplemented by \$8bn from consumers
  - universities – \$10bn from the Australian Government
  - tertiary level technical schools – \$8bn of which \$2bn is funded by the Australian Government via state/territory governments and \$6bn is funded by state/territory governments
- early childhood education and care (including pre-school) – \$12bn of which \$7bn is provided by the Australian Government and \$5bn from state/territory governments.
- state/territory governments make the largest contribution to the education component of the social purpose market by providing \$56bn in funding the majority of which supports the provision of schools
- the NFP sector plays a significant role in the provision of education services providing ~\$36bn in services
- government relies on the NFP sector to deliver schools (non-government) and university services to consumers – the Australian Government provides \$10bn in grants to universities and \$9bn to non-government schools while state/territory governments provide \$3bn to non-government schools
- ECEC includes funding support is provided by the Australian Government in the form of subsidies which are used by consumers to purchase ECEC services from the NFP and for-profit sectors.

Figure 11: Education market



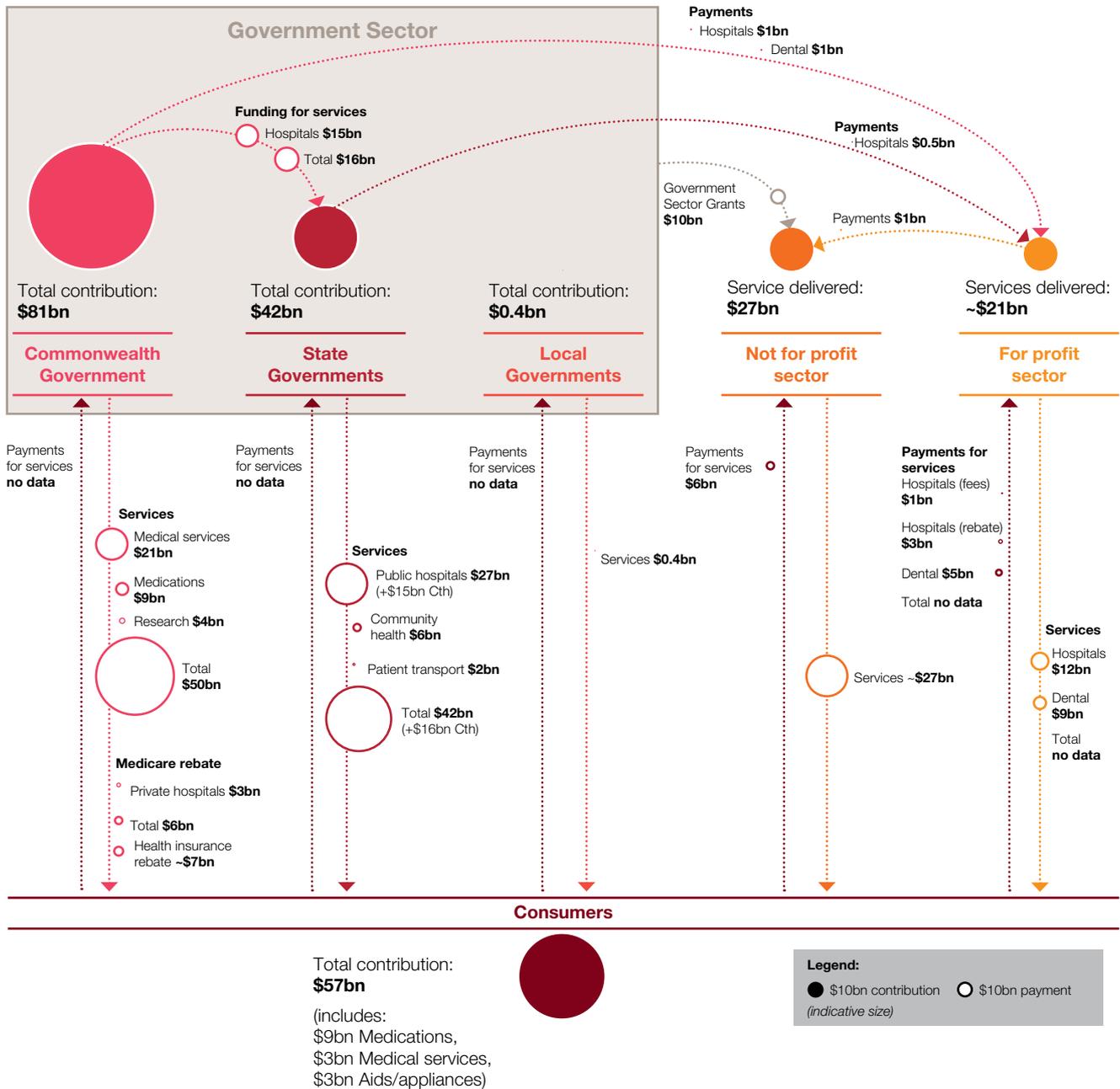
## Health

Figure 12 provides a high level overview of value flows within the health component of the social purpose market where:

- services delivered totalled \$169bn including:
  - public hospitals – \$42bn of which \$15bn is funded by the Australian Government via the state/territory governments and \$27bn is provided by the state/territory governments directly to consumers in the form of hospital services
  - private hospitals – \$12bn in services delivered
  - medical services – \$21bn from the Australian Government
  - community health – \$6bn from state/territory governments
- private hospital services, which totalled \$12bn, involve a series of value transfers including:
  - \$1bn of direct funding from the Australian Government
  - \$0.5bn of direct funding from the state/territory governments
  - \$3bn in Medicare rebates paid by the Australian Government to consumers who then use this funding to purchase private hospital services
  - \$7bn in fees from private health insurers on behalf of their members.
- the Australian Government and state and territory governments make the largest primary contribution to the health component of the social purpose market with \$81bn and \$42bn of services funded respectively
- the Australian Government contributes \$16bn of funding to the market via state/territory governments rather than directly to consumers
- consumers make a significant contribution to the health market in the form of payments for services, including \$9bn for medications and \$5bn for dental care
- support for medications is provided by the Australian Government directly to consumers and is worth \$9bn
- the NFP sector received \$10bn in grants from governments and \$6bn in payments from consumers
- private health insurers received \$21bn in insurance premiums from consumers (including \$7bn in rebates from the Australian Government) and delivered \$21bn in services via for-profit service providers, including \$12bn in hospitals and \$9bn in dental services.



Figure 12: Health market



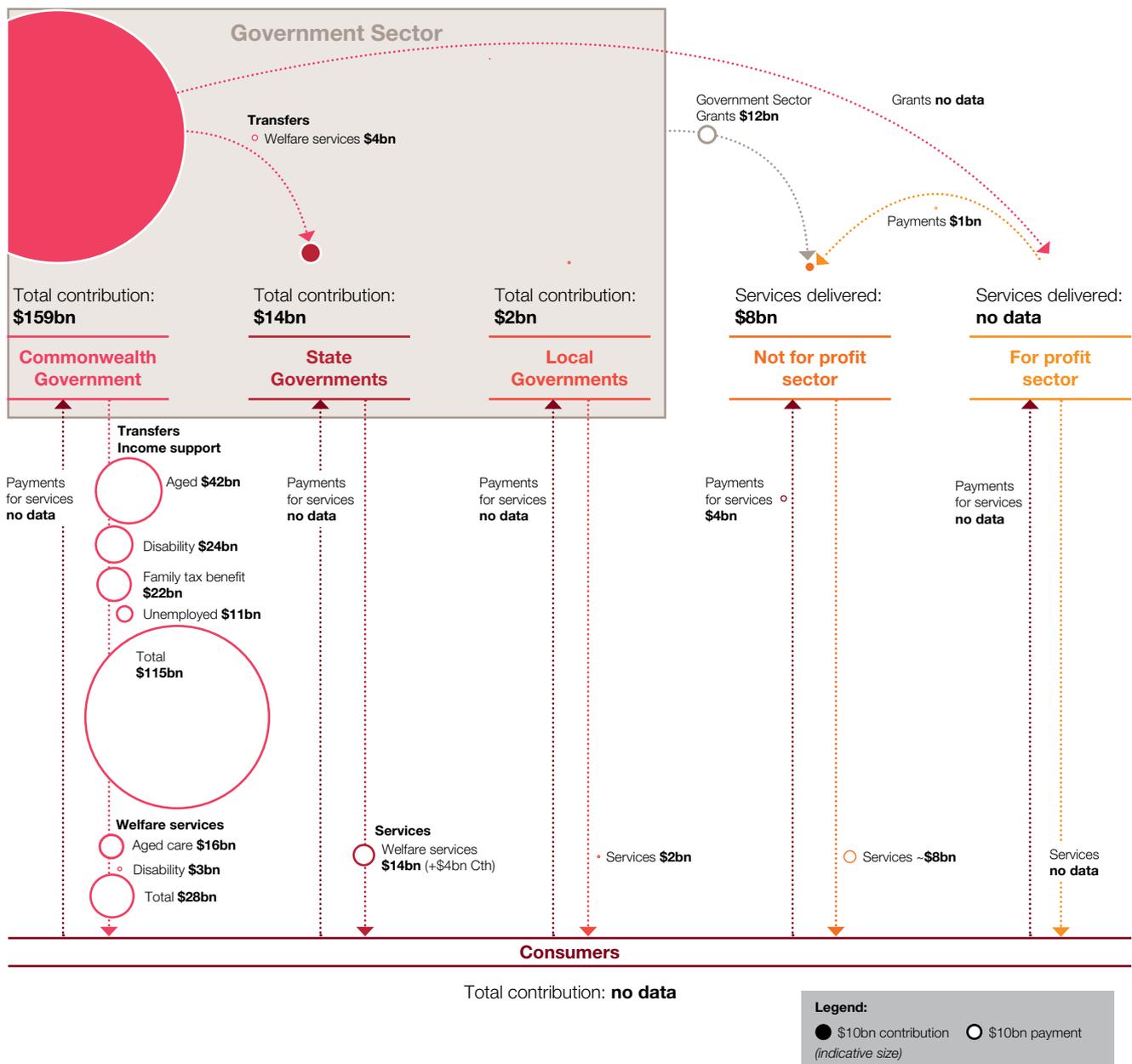
## Social security and welfare

Figure 13 provides a high level overview of value flows within the social services and welfare component of the social purpose market where:

- services delivered totalled \$171bn including:
  - income support provided directly to consumers, which is almost exclusively provided by the Australian Government – \$115bn in total of which \$42bn is provided as aged pensions, \$24bn for disability pensions, \$22bn family tax benefit provided as tax breaks to consumers, and \$11bn in unemployment support

- welfare services provided to consumers – \$28bn from the Australian Government, \$18bn from the state/territory government and \$8bn from the NFP sector
- governments provide \$12bn in funding to the NFP sector for the delivery of services to consumers
- the NFP sector generates \$4bn in fees-for-services from consumers
- the social security and welfare services component of the social purpose market is more reliant on transfer funding payments and funding from governments directly to consumers compared to the health and education sectors where government is more likely to act as a service provider.

Figure 13: Social security and welfare



## 5 Implications and next steps

Our snapshot of the social purpose market includes payments and services, market composition and an aggregate estimate of the total level of investment and extent of social purpose activity.

The complexity of completing this snapshot underlines the need for better systemic collation of system and program data to inform policy and practice decisions. Despite these data limitations, there are still several important implications from the analysis.

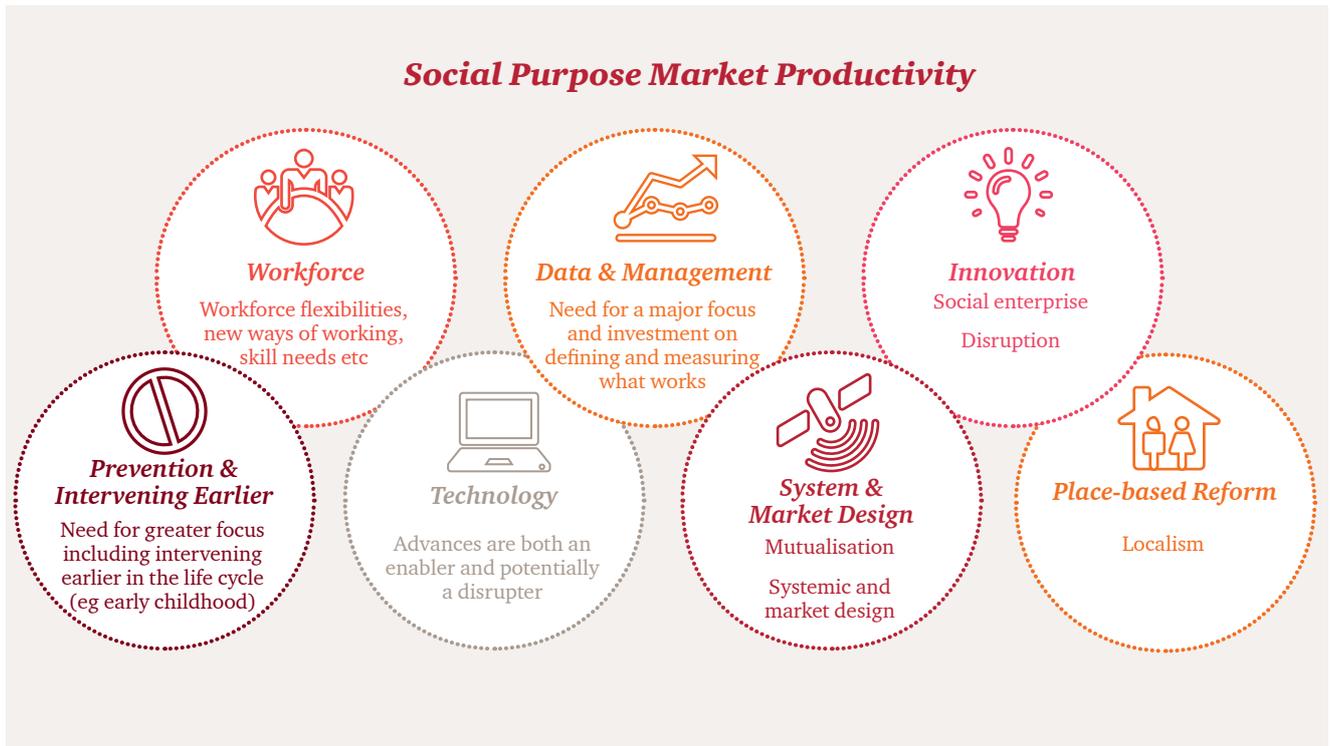
With CSI, PwC hosted two workshops in July and August 2015 with key organisations to begin exploring findings on the social purpose market, and key implications and future opportunities. The purpose of the workshops was to explore the key areas that will yield significant improvements to productivity and outcomes in Australia.

At these workshops a set of seven potential action areas were tested which represent seven inter-related strategies and emerging priorities for the future of the social purpose market. The seven actions areas (outlined in Figure 14) are:

- Data and measurement
- Prevention and intervening earlier
- Workforce
- Technology
- System and market design
- Place-based reform
- Innovation.



Figure 14: Key actions



## 5.1 Emerging priorities: examples of early movers

Each of the seven key actions is described in more detail below. We have also provided examples of policy areas where new approaches are already being explored or adopted in order to maximise investment and benefits to the community.

### Data and measurement

<p><b>What do we mean?</b></p>	<p>The use of data and measurement techniques can assist in identifying a policy issue, designing an evidence-based intervention, forecasting future trends, monitoring policy implementation and evaluating impact.</p>
<p><b>Why is it important?</b></p>	<p>While there has been an increasing focus on data collection in recent years in the education and health sectors in Australia, all sectors would benefit from the collection of more granular data and measurement of program outcomes.</p> <p>This is critical to ensuring returns on investments made in the social purpose market, and that policy interventions are designed to have the greatest impact in addressing complex social policy issues.</p>
<p><b>A practical example</b></p>	<p><b>Overcoming Indigenous disadvantage (Productivity Commission)</b></p> <p><b>The problem</b> The absence of a longitudinal, nationally agreed framework to measure outcomes across key health and educational indicators for Indigenous Australians.</p> <p><b>The response</b> The Productivity Commission’s Overcoming Indigenous Disadvantage report measures the wellbeing of Australia’s Indigenous peoples.<sup>25</sup></p> <p>The report provides regular updates on outcomes across a range of strategic areas such as early childhood development, education and training, healthy lives, economic participation, home environment, and safe and supportive communities.</p> <p>The updates represent a scorecard as to what progress is being made in Australia to reduce the inequity in opportunities and outcomes that exist between Indigenous and non-Indigenous Australians.</p> <p>The regular measurement and reporting of progress ensures Indigenous disadvantage remains topical, and provides regular examination as to whether policies and programs are achieving positive outcomes for Indigenous Australians.</p>

<sup>25</sup> Productivity Commission, ‘Overcoming Indigenous disadvantage 2014’, Commonwealth of Australia, Canberra, Australia, 2014, [www.pc.gov.au/research/ongoing/overcoming-indigenous-disadvantage](http://www.pc.gov.au/research/ongoing/overcoming-indigenous-disadvantage). Accessed 09 February 2016.

## Prevention and early intervention

<b>What do we mean?</b>	Prevention and early intervention policies and programs are based on the concept that intervening to stop a problem from occurring or acting early to prevent a problem from getting worse offers more cost-effective social and economic outcomes, than treatment or action once a problem is embedded.
<b>Why is it important?</b>	<p>A greater focus on policies aimed at prevention and early intervention is critical in maximising the impact of investments made in the social purpose market. This is particularly the case for investments focused on children and youth (i.e. early childhood education).</p> <p>These types of investments can help in preventing downstream costs for governments and the economy that can stem from poor health, low skill and education levels and poverty.</p> <p>More work is needed to measure the impact of early intervention policies and programs, including the downstream costs that are avoided, in order to demonstrate the value of these types of interventions.</p>
<b>A practical example</b>	<p><b>Early Childhood</b></p> <p><b>The problem</b></p> <p>The importance of early childhood is now beyond dispute with research showing that birth to age 5 is a critical time in human development, as early life experiences set neurological and biological pathways that can have life-long impacts on health, learning and behaviour. The findings of this research are reinforced by the work of the Nobel Prize winning economist, Dr James Heckman, who demonstrated that early investment in childhood education produces the greatest returns to human capital.<sup>26</sup></p> <p>Despite this knowledge, and significant efforts over recent years, we know from the Australian Early Development Census, a population-based measure of how children in Australia have developed by the time they start their first year of full-time school, that over one in five Australian children (22 per cent) were developmentally vulnerable on one or more domain in 2012.<sup>27</sup></p> <p><b>The response</b></p> <p>Much work has been done in recent years to strengthen access, affordability and participation in early childhood services in Australia. Early childhood services play an essential role both in promoting positive child development outcomes, especially for vulnerable children, as well as supporting workforce participation.</p> <p>Significant changes and developments over the past decade include the establishment of a new set of nationally consistent quality arrangements and the expansion of access to kindergarten in the year before school. In addition the role, funding, functioning and arrangements for child care has recently been subject to extensive consideration by the Productivity Commission.</p> <p>However, despite the available evidence the importance of the period from before birth to age two in particular remains an area that is not fully understood. This is an intense period of brain development with environments and experiences to which children are exposed being of profound importance to their developmental trajectories. Service systems for children up to two years of age are patchy and nationally inconsistent. For vulnerable families in particular these services can be difficult or challenging to access.</p> <p>Continued, and sustained, effort is required to build the Australian evidence base and translate research into practice to ensure that all children have the opportunity to benefit from positive and enriching early childhood experiences. Within this a priority focus should be on ensuring that vulnerable children's needs are met.</p>

26 J. J. Heckman, S. H. Moon, R. Pinto, P. A. Savelyev, and A. Yavitz, 'The rate of return to the High/Scope Perry Preschool Program', *J Public Econ*, 94(1-2), 2010, p114-128, [www.ncbi.nlm.nih.gov/pubmed/21804653](http://www.ncbi.nlm.nih.gov/pubmed/21804653). Accessed 09 February 2016.

27 Department of Education and Training, 'Australian Early Development Census: 2012 summary report', Commonwealth of Australia, Canberra, Australia, 2013, [www.aedc.gov.au/resources/detail/aedc-2012-summary-report](http://www.aedc.gov.au/resources/detail/aedc-2012-summary-report). Accessed 09 February 2016.

## Workforce reform

<p><b>What do we mean?</b></p>	<p>Workforce reform is aimed at developing a future-oriented workforce. Key aims include improving the delivery of services and achieving productivity gains.</p> <p>This includes implementing the right settings to attract and retain a skilled and motivated workforce and increasing innovation and flexibility in the workforce, within legislative and industrial frameworks.</p>
<p><b>Why is it important?</b></p>	<p>Greater focus and investment is needed in equipping the health, education and welfare workforces with the skills and capabilities required to adapt as services change and new technologies are introduced.</p> <p>Workforce reform, including the introduction of more innovative ways of working, can enable more effective, efficient and accessible service delivery, and better alignment with customer needs and expectations.</p>
<p><b>A practical example</b></p>	<p><b>Education Workforce Reform</b></p> <p><b>The problem</b></p> <p>The skills knowledge and dispositions of the teaching professional are a key determinant of educational outcomes.</p> <p>While retention rates have improved dramatically, Australia’s educational performance, compared to international systems, is stagnating. The latest international snapshot (Education at a Glance) from the Organisation for Economic Cooperation and Development highlighted decline in some areas of achievement including falling rates in reading, maths and scientific literacy since 2000 against global benchmarks.<sup>28</sup> At the same time Australian spending on school education has increased over the past 20 years – and is comparable to many other countries as a proportion of GDP – this has not improved overall student performance.</p> <p><b>The response</b></p> <p>It is critical that the education sector:</p> <ul style="list-style-type: none"> <li>• support the development of science, technology, engineering and maths (STEM) knowledge and skills to equip Australia’s future workforce to compete in the global economy</li> <li>• has a highly skilled, specialised and agile workforce with diverse experience, capable of facilitating exceptional and holistic student outcomes</li> <li>• attracts the best candidates to unlock exceptional teaching and learning</li> <li>• has professional learning strategies that prioritise and value continuous development for the school workforce and are aligned with system priorities</li> </ul> <p>A critical component of securing the quality of the future schools workforce will be the attraction and retention of talented individuals who can fulfil all roles within schools. This stretches from the attraction of school leavers into undergraduate teaching degrees through to lateral hires entering the profession through non-traditional means. One part of this is the ability to better incorporate industry experience in emerging subject areas as an opportunity to further develop and complement the existing capabilities within schools to enhance the outcomes achieved by students</p> <p>Ensuring the elevation of the professional standing of the teaching profession is a critical component of this. In the Australian context teaching is not seen as an “aspirational” profession in the way that medicine, law and others are viewed in the community – or as teaching is seen in other jurisdictions, such as Finland.</p> <p>Australian state and territory governments are undertaking a range of efforts to support workforce development and build the schools workforce of the future.</p> <p>Greater focus and investment is needed in equipping the health, education and welfare workforces with the skills and capabilities required to adapt as services change and new technologies are introduced.</p>

## Digital/Technology

<p><b>What do we mean?</b></p>	<p>Technology, such as mobile technology and analytics, is changing the way that all sectors interact with the community. For example, big data is providing insights into what communities and consumers want.</p>
<p><b>Why is it important?</b></p>	<p>Greater use of existing technologies in the social purpose market could improve service delivery, productivity and outcomes for the community. This could be achieved through increased engagement between policy makers and the technology industry.</p> <p>New and emerging technologies should be monitored for their potential to disrupt the sector and achieve gains in addressing complex social policy problems.</p>
<p><b>A practical example</b></p>	<p><b>Artificial intelligence disrupting the health care sector</b></p> <p><b>The problem</b> Timely and accurate diagnosis of medical conditions is a critical step in providing effective health care to the Australian public.</p> <p><b>The response</b> Artificial intelligence enables computers to compile large volumes of information and perform some tasks with greater accuracy and efficiency than humans. For example, IBM has developed a computer called ‘Watson’ and is now using this technology to perform functions such as medical diagnoses, by using the technology to read large amounts of medical literature and correlate this with patient symptoms.<sup>29</sup></p> <p>A physician can describe symptoms and related factors to the system and Watson can then identify key pieces of information, mine the patient’s data to find relevant facts and combine this information with findings from tests. Watson then forms and tests hypotheses by examining a variety of data sources. The system can also explain to a human physician how the conclusion was reached.</p> <p>IBM has been working with hospitals and research organisations in the United States to advance Watson’s healthcare capabilities and transform how medicine is taught and practiced, and is investing in start-up organisations that are building apps and services that are powered by Watson.</p> <p>This technology is likely to have a significant impact on the healthcare sector going forward, in particular the healthcare workforce. It is likely to improve the accuracy of diagnoses, including by analysing and storing more data than human medical practitioners are able to, as well as staying abreast of all medical developments. It is also predicted that with the support of this technology to conduct quick diagnoses, the number of patients that doctors can assist will rise and there may be a need for fewer doctors per head of population.</p>

28 Organisation for Economic Co-operation and Development (OECD), ‘Education at a glance 2015: OECD indicators’, OECD Publishing, Paris, France, 2015, [www.oecd-ilibrary.org/education/education-at-a-glance-2015\\_eag-2015-en](http://www.oecd-ilibrary.org/education/education-at-a-glance-2015_eag-2015-en). Accessed 09 February 2016.

29 Committee for Economic Development of Australia, ‘Australia’s future workforce?’, Committee for Economic Development of Australia, 2015, [www.ceda.com.au/research-and-policy/policy-priorities/workforce](http://www.ceda.com.au/research-and-policy/policy-priorities/workforce). Accessed 09 February 2016.

## System and market design

<b>What do we mean?</b>	<p>Systems thinking is a joined up and holistic approach to policy making which considers the interconnectedness of individual systems.</p> <p>Design thinking is a human and user-centred approach to designing policies and programs.</p> <p>Taking a market approach (discussed in section 1.3 of this report) looks at both the value of the goods and services provided through the market to beneficiaries, and importantly also the value and sources of the funding for those goods and services.</p>
<b>Why is it important?</b>	<p>The application of design, systems and market-based thinking to public policy can lead to opportunities for innovation and improvements.</p> <p>The focus of these disciplines is on considering the whole system and being able to identify the effects of a set of policies and programs on an individual.</p>
<b>A practical example</b>	<p><b><i>National Disability Insurance Scheme (NDIS) and disability sector reform</i></b></p> <p><b>The problem</b></p> <p>In 2011, the Productivity Commission found that the disability support system in Australia is fragmented, with funding and delivery arrangements differing across jurisdictions, resulting in inequity based on a person's geographic location.<sup>30</sup> The current system also has a significant level of unmet demand and people with disability lack control over the supports they are provided.</p> <p><b>The response</b></p> <p>The new National Disability Insurance Scheme (NDIS) that is currently being implemented will be significantly different to the existing disability support system. It is seen as a landmark social policy reform and represents a transition to a market based approach to service delivery.</p> <p>The NDIS aims to develop a market of diverse and sustainable suppliers of services, bringing diversity, competition and innovation to the system.</p> <p>The key change is a move from block funding from government to service providers, to an individual fee-for-service arrangement, where the money flows to the individual. Under the scheme, people with disability design their own care plans including the type and level of support they need and then purchase this support from providers.</p>



## Place-based reform

<b>What do we mean?</b>	We know that disadvantage in Australia is concentrated in a number of communities across Australia. A place-based approach enables the identification of geographic areas of disadvantage in Australia and the design of holistic reforms to address this disadvantage.
<b>Why is it important?</b>	A place-based focus can improve the effectiveness of service delivery in a particular geographic location, by ensuring alignment and linkages between programs and services and an approach that is tailored to the particular characteristics of the community. It can also harness community knowledge and goodwill to solve localised problems and produce better outcomes.
<b>A practical example</b>	<p><b><i>Cape York Welfare Reform trial</i></b></p> <p><b>The problem</b></p> <p>A primary focus of the welfare reform trial is improving the wellbeing and rights of children in Cape York communities.<sup>31</sup> The behaviours that the trial aims to address are: abuse and neglect of children; substance abuse; problem gambling; poor school attendance; and dysfunctional housing tenancy arrangements.</p> <p><b>The response</b></p> <p>In 2008, four Cape York communities signed up to the Cape York Welfare Reform trial, in partnership with the Cape York Institute for Policy and Leadership and the Federal and Queensland Governments. These communities are Aurukun, Coen, Hope Vale and Mossman Gorge.</p> <p>The trial focuses on achieving gains in social responsibility, education and employment outcomes and home ownership. The key change was the introduction of conditional welfare payments, which attached obligations to payments for welfare recipients in the four communities, and the establishment of the Families Responsibilities Commission (a state statutory authority established under Queensland law).<sup>32</sup></p> <p>The Families Responsibilities Commission (FRC) consists of respected members of each of the four communities, and was established to determine the consequences of a breach of an obligation. For example, where a child records three unexplained absences from school in a school year, this constitutes a breach and the parents of the child will be referred to the FRC.</p> <p>The FRC can issue a warning, refer individuals to support services (ie money management, parenting skills classes or drug and alcohol rehabilitation services) or redirect all or part of welfare payments to conditional income management.</p> <p>The Cape York Welfare Reform trial is an example of an approach to addressing complex social needs in a particular geographic area.</p>

30 Productivity Commission, 'Disability Care and Support', Commonwealth of Australia, Inquiry Report, 2011, [www.pc.gov.au/inquiries/completed/disability-support/report](http://www.pc.gov.au/inquiries/completed/disability-support/report). Accessed 09 February 2016.

## Innovation

<p><b>What do we mean?</b></p>	<p>Social enterprises are commercially viable businesses with a purpose of generating social impact. They derive most of their income from trade, not donations.</p> <p>Social enterprises are one example of emerging innovative approaches to complex social policy issues, and an example of new entrants in the social purpose sector.</p> <p>Similarly, social investment bonds and social impact investment provide an example of innovative approaches to funding and procuring social impact.</p>
<p><b>Why is it important?</b></p>	<p>The emergence of social enterprises and social businesses has demonstrated that there are alternative, non-traditional mechanisms for the provision of social purpose-oriented services, and different ways of mobilising investment.</p> <p>The key challenge is to identify the next wave of disruptive thinking that will impact the social purpose market, including exploring non-traditional roles of different service providers.</p>
<p><b>A practical example</b></p>	<p><b>Office of Social Impact Investment (New South Wales)</b></p> <p><b>The problem</b></p> <p>Traditional approaches are not solving some of the most pressing social challenges. As the economic and social costs of these challenges continue to rise, innovative approaches are needed that are able to deliver both outcomes and returns on investments.</p> <p><b>The response</b></p> <p>In 2011, the NSW government began a program to pilot the use of social benefit bonds to address out-of-home care. Two bonds were implemented – the Newpin bond and the Benevolent Society bond.<sup>33</sup></p> <p>The Newpin bond, delivered by UnitingCare Burnside, provides intensive support to improve parenting, reducing abuse and neglect, and preventing children from entering out-of-home care. The key performance indicator is the restoration rate of children who enter the program that are returned to their families. In the two years to 30 June 2015, Newpin successfully restored 66 children to their families and supported another 35 to prevent their children from entering out-of-home care. The cumulative restoration rate was 61.6 per cent over the two-year period compared to a baseline of 25 per cent.<sup>34</sup></p> <p>The Benevolent Society bond is to deliver the Resilient Families Service to up to 400 families and their children. The service works intensively with at-risk families to address crises around housing, debt, income, domestic violence, substance misuse, and family functioning and relationships. Evaluation of outcomes will be measured at the end of the 5 year bond.<sup>35</sup></p>

31 Cape York Institute, *From Hand Out to Hand Up: Cape York welfare reform project Aurukun, Coen, Hope Vale, Mossman Gorge: design recommendations*, Cape York Institute, 2007, <http://capeyorkpartnership.org.au/wp-content/uploads/2014/07/from-handout-to-hand-up-welfare-reform-report.pdf>. Accessed 09 February 2016.

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34 NSW Government Department of Premier and Cabinet, 'Social benefit bonds', NSW Government Department of Premier and Cabinet, [www.dpc.nsw.gov.au/programs\\_and\\_services/social\\_impact\\_investment/social\\_benefit\\_bonds](http://www.dpc.nsw.gov.au/programs_and_services/social_impact_investment/social_benefit_bonds). Accessed 09 February 2016.

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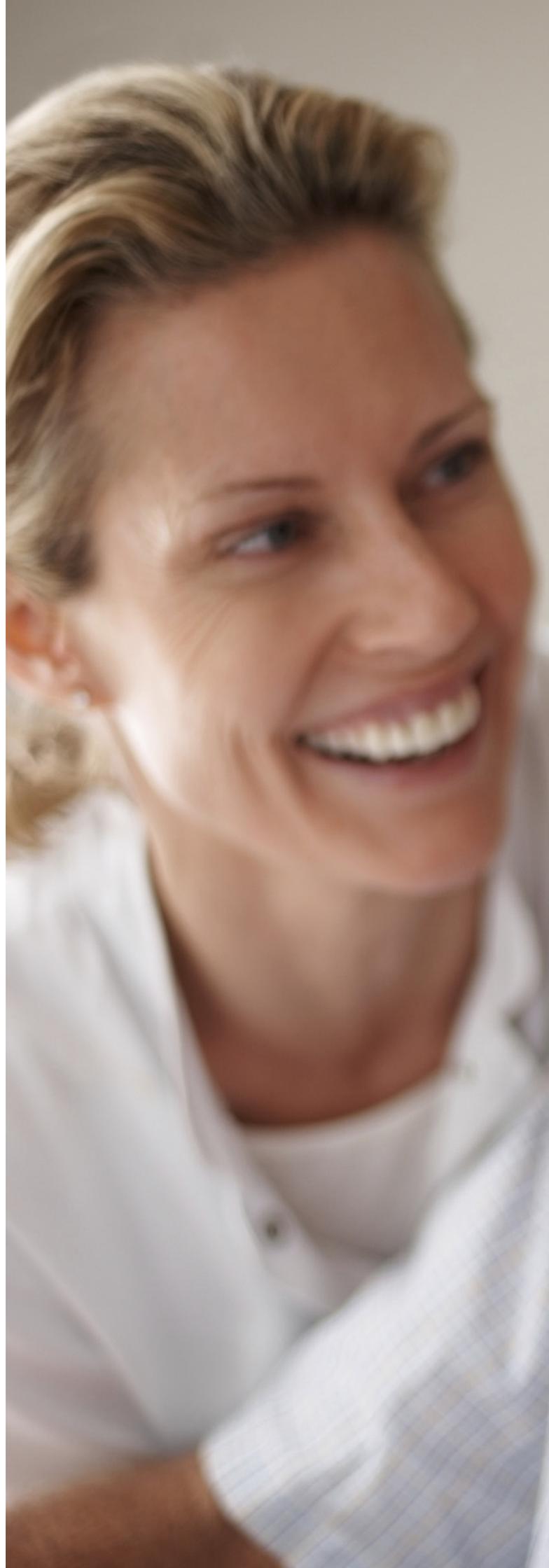
## 5.2 Conclusion

These key action areas raise different challenges and opportunities for each of the key players in the social purpose market – the Commonwealth, state/territory and local governments, as well as the NFP and the for-profit sector.

The examples presented in section 5.1 demonstrate the need for collaborative, cross-sectoral approaches to address complex social issues, and to disrupt and transform traditional service delivery models. For example, the NDIS has transitioned from a block-funded, public service delivery model to a market-based approach to increase competition and innovation.

As this report demonstrates, more than half a trillion dollars (roughly \$510bn) is expended annually on the social purpose market in Australia, representing almost a third of GDP. Furthermore, demand for social purpose services are projected to continue to increase.

This report identifies the inter-related nature, scale of investment and the changing nature of investment and potential impact of the social purpose market on supporting achievement of improved outcomes and productivity. As such, it represents a call to action for new thinking, collaborative problem-solving and a mature evidence-informed debate to chart the new wave of reform.





# Appendix A

## Methodology and technical notes

### Data limitations

As no primary data collection was undertaken for the quantitative analysis, the availability and consistency of publicly available data were limiting factors in ensuring a comprehensive analysis, with some data only available for particular sectors or industries. However, the following funding flows were identified:

- funding flows were identified at an aggregate level for the four social purpose market activity areas outlined above: education; health; social security and welfare; and housing and community amenities
- funding flows for the education, health and social security and welfare activity areas were identified at a more detailed level as more detailed funding flows data was available for these activities.

Some funding flows within the market have not been quantified in this analysis due to the lack of data. The majority of the data gaps are found in the quantum of payments from consumers to for-profit producers of social purpose goods and services.

Data relating to the government (all levels) and NFP expenditure on social purpose market goods and services appeared to be more readily available compared to the for-profit sector (see Table 3: Scope and coverage of data sources in relation to key social purpose market activity areas and key organisations). Funding flows data for the for-profit sector is an area where further analysis/primary data collection may be considered in future analyses.

**Table 3: Scope and coverage of data sources in relation to key social purpose market activity areas and key organisations**

Area	Government	Not-for-profit	For-profit
Education	✓✓✓	✓✓	✓✓
Health	✓✓✓	✓✓	✓✓
Social security and welfare	✓✓✓	✓	✓
Housing and community amenities	✓	✓	✓

The data from the various sources was consolidated into a spreadsheet summarising the flow of funding between the key sectors and across services. This was then translated into the flow diagrams which are presented in section 5.

# Appendix B

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# Appendix C

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