



AUSTRALIAN CATHOLIC BISHOPS CONFERENCE

General Secretariat

14 September 2011

The Secretary
Senate Economics References Committee
Parliament House
Canberra ACT 2600

Dear Senators,

Inquiry into Finance for the Not for Profit Sector

Thank you for the invitation to appear at the Committee hearing in Sydney on Friday 23 September 2011. In response to your request for a written opening statement, I offer the following observations:

1. The Australian Catholic Bishops Conference (ACBC) is the permanent institution of the Australian Catholic Bishops, which deals with the Catholic Church's national representations and initiatives.

The Catholic Church in Australia (the Church) comprises many thousands of individual not for profit (NFP) entities, which provide services to the Catholic and wider community in these areas: religious worship and pastoral care (parishes, churches, shrines, chapels and chaplaincy services); health (public and private hospitals, clinics and medical research centres); aged care (residential and non-residential services); overseas aid and development; social welfare and community services; including child-care; and education (pre-school, primary, secondary and tertiary).

As a significant participant in the not for profit sector the Church welcomes the Government's interest in issues relating to the financing of organisations and activities within that sector.

2. These observations are limited to those terms of reference which are directly relevant to the Church's experience. The Church generally has not formulated any particular policy position on the matters under consideration and these observations are essentially personal and draw on my own experience as the Financial Administrator of the Archdiocese of Sydney (12 years) and General Secretary of the ACBC (9 years).

3. The Committee is inquiring into “the types of finance and credit options available to the not for profit sector”. The Issues Paper notes this comment from the Productivity Commission Report (January 2010):

The PC report noted that many not for profit organisations have difficulty accessing the capital they require. It identified some of the key impediments to more funding as the lack of collateral to guarantee loans, the lack of a reliable revenue stream to service debt, the large transactions costs relative to the capital required and the lack of a suitable organisational structure to allow the organisation to raise equity capital.

The Church has, through the generosity of its members, been fortunate in being able to overcome these obstacles through the activity of Catholic Development Funds (CDFs).

It may be helpful to the Committee to understand the background and operation of CDFs.

4. From the negative experience of lack of banking credit in the 1950s Catholic Dioceses established funds to provide capital for church works. Parishioners lent funds to the Church. Lay and Church depositors received an interest payment on their loan and the capital raised was combined with other Church funds to finance land acquisition and construction of schools, churches and other buildings required to carry out the Church’s service to the community. Over the years the CDFs have become an important source of capital and any surpluses that they generate are used to finance recurrent expenditure.
5. CDFs have an exemption from the *Banking Act* and certain fundraising provisions of the *Corporations Act* subject to certain conditions relating to their operations and their promotion material.¹ Currently, the *Banking Act* exemption, granted by the Australian Prudential Regulation Authority, is under review. It has operated successfully so far as the CDFs are concerned and there does not appear to be any basis for the exemption not to continue. Any additional expense related to additional compliance burdens reduces the means available to continue funding of Church works.
6. The Committee is inquiring into “government actions that would support the potential for social economy organisations involved in the delivery of government services to access capital markets”. Government regulation should facilitate, rather than hamper, the capacity of structures such as the CDFs to provide capital funding.
7. The PC made reference to lack of collateral to guarantee loans. Often the type of building the Church is constructing does not meet the usual commercial criteria for security for a loan. There is a limited market for a mortgagee sale of a parish church. Because CDFs have the support of

¹ For more detail of these exemptions see Lucas, Slack and d’Apice, *Church Administration Handbook*, St Pauls Publications, Homebush, 2009 p 229ff and appendix E.

Church members and other Church depositors, formal security is not usually required. The basis for lending is not the worth of the asset but the cash flow that can support repayments.

8. At times, for some activities that are in receipt of government recurrent funding, the forecast cash flow from government grants supports the borrowing. In the field of education and health this is more secure than in the area of social welfare, where government contracts are much shorter in duration and more susceptible to modification or loss through competitive tender processes. Greater security of government grants would support capital investment in the social welfare sector. One must also note that in some instances the conditions of government grants exclude capital expenses.
9. The Committee is inquiring into “making better use of the sector's own financial capacity—including practices relating to purchasing of products and services and use of reserve capital”. The Church is aware of the simple commercial reality that the aggregation of purchasing can lead to better pricing. The NFP sector is large, diverse, complex and fragmented. Many smaller entities do not have the opportunity to maximise this advantage.

The Church has established the Catholic Resources Trust as a charitable trust to take advantage of opportunities to aggregate purchasing, and to provide advice and support to Catholic Church entities in their commercial dealings. Particularly in the area of telecommunications it has offered this service to other Churches and in the area of aged care it has expanded its services to other charitable aged care providers. Through a special purpose vehicle it has aggregated school digital networking in a national arrangement with Telstra.

10. Another impediment to more efficient use of capital is a common community misunderstanding about the “wealth” of churches and charities.² This can lead to an expectation that Church assets “really belong” to the local civil community and hence should not be available to be sold by the Church and the funds relocated to other areas or activities of greater need.

Where not for profit entities have a significant capital base from which they can supplement their recurrent expenditure they run the risk that they will be targeted as “wealthy” and not deserving of support, or that they ought to be expending this capital base on “good works”.

² Lucas, B., ‘The Wealthy Church - Some Myths’ *Australasian Catholic Record*, Vol.LXIX No.2, April, 1992, p 139.

11. Another issue that faces some sections of the not for profit sector, including the Church, is the ability to release funds from fixed assets. In many instances, often because of historical factors, fixed assets become redundant or no longer suitable to meet modern needs. One of the major impediments to disposing of that property, or significantly remodelling or developing the asset, is its heritage significance. The Church accepts without question that the nation's heritage should be preserved. However, there have been many instances where the heritage significance is marginal, and resistance to sale or development is based on local political considerations and unfounded community resistance.

One local government authority in New South Wales listed every church owned property in the area as having heritage significance simply on the basis of its "social significance" as a church asset. The costs of dealing with such an impediment, as well as the agitation it causes in local communities, significantly hampers proper use of such assets for other worthwhile and innovative social enterprises.

12. The current review by Treasury of Public Ancillary Funds, requiring annual distributions, and the proposed Unrelated Business Income Tax requiring distribution of the entire surplus are other potential impediments to proper management of a secure capital base to expand and fund future recurrent expenditure.

Fr Brian Lucas
General Secretary