

**Senate Economics Reference  
Committee  
Public Hearing for the Not-for-  
Profit Sector**

**23<sup>rd</sup> September 2011**

**The Salvation Army  
Australia Eastern Territory  
Comments**

**Senate Economics Reference Committee  
Terms of Reference**

Mechanisms and options for the development of a robust capital market for social economy organisations in Australia, including:

(a) the types of finance and credit options available to not-for-profit organisations, social enterprises and social businesses, the needs of the sector and international approaches;

**The Salvation Army has rarely sought external financing of projects. Funding was applied for in relation to the plans to construct Aged Care properties in response to the Federal Government's 10 year plan 1998-2008. This was a fully documented bank loan facility. However, due to the Global Financial Crisis, The Salvation Army reviewed its plans and shelved all external borrowing plans.**

**The Salvation Army is aware of other options for funding of projects but has not availed of these.**

**Certain redevelopment has now taken place, but due to the timing and delays, this has allowed The Salvation Army to accumulate more bond income and building contribution charges to collect sufficient money to not require bank finance.**

(b) the role and current activity of financial intermediary organisations and how these can be strengthened;

**The Salvation Army has a 100+ year relationship with its banker and does not seek financial intermediary**

(c) strengthening diversity in social business models;

**N/A**

(d) the development of appropriate wholesale and retail financial products and services;

**The Salvation Army is quite comfortable with the access it has to vanilla bank borrowing facilities and isn't looking to see new wholesale / retail financial products and services developed**

(e) government actions that would support the potential for social economy organisations involved in the delivery of government services to access capital markets;

**Not considered necessary**

(f) incentives to support investment in the sector;

**N/A**

(g) 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 Salvation Army has the ability to apply reserve capital to projects that it is involved in and will not generally borrow externally. If it considers doing this, it will ensure all due diligence is conducted and sound business cases are prepared for board consideration.**

(h) making better use of the corpus of philanthropic foundations and trusts to make investments in Australia's social economy organisations, expand socially responsible investments and impact investments and any current barrier to their investment;

**The Salvation Army has good relationships with a number of foundations and donors. It has sought capital for its program and Education needs in the past and from time to time will consider a capital appeal for donations. The Salvation Army prefers not to enter relationships with other organisations for investment in projects. It prefers to remain unencumbered so that it is free to make its decisions regarding program direction. Having said that, The Salvation Army is most grateful to the Australian community of individuals and corporate donors for the support it receives.**

(i) policies, practices and strategies that affect the availability of capital markets for social economy organisations on social innovation, productivity, growth and workforce issues in these sectors; and

**The current proposals to tax unrelated business activities is raising concerns within the NFP Sector. Given that the new rules applied from 1 July 2011 and will also capture any new business activity after Federal Budget night May 2011, there is a need to get the exposure drafts out for discussion. The main issues of concern that impact this inquiry into how the NFP's can raise capital are:**

- **the definition of what is a "related" activity; and**
- **whether profits can be held back for any length of time in order to build up capital before being distributed to altruistic purposes to avoid being taxed.**

**Capital accumulation is required in order to invest in and replace assets and an appropriate period needs to be allowed so that this can happen. If the NFP sector is taxed on funds it holds back to accumulate capital that will be detrimental to the provision of services. This will either impact directly on those in need or fall back to government to find other ways to fund programs.**

(j) any other related matters.

**NA**

**Matters of interest to the committee relating to churches:**

- Have any churches used their buildings as equity to raise capital?

**As noted above, funding was applied for in relation to the plans to construct Salvation Army Aged Care properties in response to the Federal Government's 10 year plan 1998-2008. This was a fully documented bank loan facility. These loans were fully secured (on a non-recourse basis to directors / trustees) by The Salvation Army's aged care property assets. In the end, due to the Global Financial Crisis, the borrowings were not drawn.**

**If the opportunity arose again, The Salvation Army would consider mortgaging property to secure loans.**

- Do any of your members use Church Trusts or Church Property Trusts? What kind of limitations do these Trusts have for investing into social organisations/welfare arms of the church?

**The Salvation Army is incorporated as a Statutory Property Trust in each State of Australia. These Trusts are established by Acts of Parliament which document all powers (eg The Salvation Army (New South Wales) Property Trust Act 1929). These respective Property Trust acts provide all necessary powers to the Trustees to conduct the temporal affairs of The Salvation Army including borrowing money. The trustees are required to ensure the funds of the trusts are used to achieve the aims of the trust.**

- Have any of your members considered investing in Social Bonds or Social Impact Bonds (perhaps through the use of a Church Trust Fund for example)?

**The Salvation Army has an Investment Policy Statement which sets out the powers for investing. The primary goals include ensuring that the returns on invested funds are reliable and consistent in order to contribute towards funding the Territory's budgets on an annual basis.**

**Social Bonds or Social Impact Bonds have not been considered for funding Salvation Army projects to date. The Salvation Army understands that these are like grants with performance requirements that once achieved earn additional payments. This is a new concept and will be something investigated in the future.**

- Do any of your members have any social enterprise/social business models to share with the committee?

**No.**

- Do any of your members have innovative mechanisms/examples used for raising capital for social work/social organisations? (eg. not through traditional donations/grants)

**No**

- What difficulties have churches had in attracting the funds necessary to finance their social/charitable work?

**The most significant challenge for The Salvation Army was to determine how to raise the necessary funds to pay for the required upgrades to ageing Aged Care buildings. However, the bankers were more than happy lending the money on a secured basis.**

**For "affordable housing" The Salvation Army is concerned that the new proposed taxes of unrelated business activities unless funds are immediately distributed will potentially impact its ability to raise capital.**