

**FIA SUBMISSION:
SENATE ECONOMICS COMMITTEE INQUIRY
FINANCE FOR THE NOT FOR PROFIT SECTOR**

July 2011

Fundraising Institute Australia (FIA)

Established in 1968, FIA's purpose is to make the world a better place by advancing professional fundraising through promotion of standards, professional development pathways and measurable credentials so that our members achieve best practice.

The FIA has developed the Principles & Standards of Fundraising Practice as the professional fundraiser's guide to ethical, accountable and transparent fundraising. The Principles & Standards are vital to how the fundraising profession is viewed by donors, government, the community and fundraisers.

In order to achieve its mission, the FIA conducts the following activities:

- Promote and enhance education, training and professional development of fundraisers.
- Provide a resource of fundraising information.
- Advocate for fundraising practice to government, industry and the community.
- Support and promote certification of fundraisers.
- Develop standards and codes of practice.
- Promote and enhance fundraising as a profession.
- Promote and encourage research into fundraising and philanthropic giving.

The inquiry

The FIA welcomes the inquiry as an opportunity to examine ways of ethically and sustainably financing the vital work of the NFP sector which, according to the *Productivity Commissions Research Report: Contribution of the NFP Sector* (published in 2010):

- Contributes \$43 billion to Australia's GDP.
- Contributed 8 per cent of employment in 2006-2007.
- Has grown strongly with average annual growth of 7.7 per cent from 1999-2000 to 2006-2007.
- Contributes a wage equivalent of \$15 billion from its 4.6 million volunteers.

The FIA believes the inquiry provides an opportunity to re-visit the Productivity Commission report which found there were several important ways in which

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Australian governments could assist the charity sector towards better use of their finances.

As per the Productivity Commission report, the key points are:

- “Substantial reform of the ways in which governments engage with and contract NFPs is urgently needed. Australian governments should choose the most appropriate model of engagement, ensure consideration of all costs associated with use of the lead agency model, align the length of contracts with the period required to achieve agreed outcomes, review and streamline their contracting processes and ensure staff involved with NFPs have the required relationship management skills.”
- “Some current approaches adopted by governments to the management of the different risks involved in the delivery of services on their behalf are not cost-effective. An explicit risk management framework should be prepared by government agencies in collaboration with service providers as part of their contracting process.”

Uncertain income – a critical issue

A continuing dilemma for the charity sector is the uncertainty of their income stream which is largely reliant on donations and government funding.

This factor, coupled with the driving force for charities – that is, to better meet the needs of the communities they serve, inevitably places limits on planning for the long term.

If by any chance there is any excess, it is either spent almost immediately to improve service provision, held short-term for urgent contingencies or re-directed to other urgent services.

Moreover, an uncertain income means there is naturally a strong resistance to taking any financial risks by both management and boards.

Better business planning by charities can only come about when a critical level of income is assured.

Social enterprise models

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Australian regulation does not differentiate between social enterprises and charities, and does not address the differences in their operations.

The FIA recommends the consideration of a model of regulation that recognises this difference, similar (but not identical) to the UK model, which regulates social enterprises as Community Interest Companies (CIC) by the Regulator of Community Interest Companies.

However, the FIA notes the UK system of Community Interest Companies would not exactly fit a Commonwealth model, for several reasons. These are:

- The UK model is based on the needs of a particular community and therefore the CIC can be highly localised. There is no need in Australia for such a model, as the state/territory system for incorporated associations meets the needs for registration of small, local NFPs.
- The emphasis on attracting investment is also not appropriate to Australian NFPs, as this would conflict with current state/territory fundraising and charity legislation.

The FIA supports the recommendation in the Productivity Commission's submission to this inquiry of "exploring options to allow philanthropic foundations and trusts to invest in social enterprises, which is currently not allowed under the current rules for deductible gift recipients..."

"These foundations and trusts would have an interest in supporting activities that have community objectives that they support, but would also have the incentive and skills to monitor the investment. They may also provide additional expertise, or assist in linking business philanthropists with an NFP they invest in. Government support is indirect, but still considerable, as the funds invested were exempted from taxation in the accumulation phase for the foundation or trust."

Government outsourcing

Over recent years governments have increasingly outsourced programs and services, and therefore financial risk, to the charity sector.

Outsourcing to the sector brings with it a high level of contractual service control and management required by government. This subsequent compliance burden is seen by some as a mechanism to manage risk.

The FIA believes Australian governments should focus on developing relationships with charities rather than depending on restrictive contracts. By taking this more flexible approach, governments would enable charities to be more innovative regarding all aspects of their finance acquisition and

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management. This would help charities to better meet their own goals and those of governments.

Public involvement and the finance sector

The Australian public is actively engaged with charities through receiving services, volunteering, and donating through structured and unstructured programs.

However, there is little awareness of, or demand for, new financial investment options that may support charities.

In conclusion

There is a great deal of potential for charities to improve their financial security, and therefore their forward planning, by expanding access to viable and sustainable financing options.

To enable this to occur, the FIA calls on the Australian Government to:

- Lead by example in addressing its own practices and culture that restricts new financing approaches for the charity sector.
- Actively support the finance sector in developing appropriate brokerage for investment in the charity sector.
- Actively support and also conduct public awareness campaigns regarding financing opportunities in the charity sector.
- Actively enable the charity sector to embrace new financing opportunities without increasing the financial risk to that sector.

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