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Professor Allan Fels AO
Chair
Stronger Community Organisations Project Steering Committee
Department for Victorian Communities
GPO Box 2392
Melbourne Victoria 3001

Dear Professor Fels

I am pleased to present Philanthropy Australia's submission to the Stronger Community Organisations project.

This submission has been prepared in consultation with Philanthropy Australia members and is related to their experience in supporting not for profit organisations. The submission is reflective of member views, but does not specifically represent the stated position of any individual members.

Philanthropy Australia applauds the aims of this inquiry and looks forward to your response to this and other submissions. Our organisation and members will welcome any future opportunities to work constructively with the Committee and relevant Ministers.

Yours sincerely

Gina Anderson
Chief Executive Officer

Submission to the Stronger Community Organisations Project

20 July 2007

Background

Philanthropy Australia is the national peak body for philanthropy and is a non-profit membership organisation. Our members are major philanthropic donors being either trusts, foundations, corporations, families and individuals who want to make a difference through their own philanthropic giving and to encourage others to become philanthropists. Our mission is to represent, grow and inspire an effective and robust philanthropic sector for the community.

In this paper we have briefly outlined the major trends we believe will impact on the Not For Profit (NFP) sector over the next decade, and some recommendations for strengthening the sector and building the capacity of NFP organisations.

Potential Partnerships between the Victorian Government and the Philanthropic Sector

There is an opportunity following the SCOP Inquiry to build the understanding between the Victorian Government and the philanthropic sector. On one hand the philanthropic sector has traditionally been wary of government, while on the other government has misunderstood philanthropy's role, inappropriately referring individuals and organisations seeking funds to the philanthropic sector.

The SCOP Inquiry has provided a welcome opportunity for highlighting the importance of philanthropy through consultation and the invitation to put forward a submission.

As key roles of Philanthropy Australia are both to represent the sector and to improve its effectiveness, we would be happy to provide an interface between the government and philanthropic sector going forward.

Trends and Influences

New Donors

The philanthropic sector in Australia, like the NFP Sector as a whole, is going through a very dynamic phase. Until the abolition of death duties, most trusts and foundations were established by bequests. Thereafter the majority of private foundations have been established during the life of the benefactors. In addition the large growth in wealth in Australia as a result of some 15 years of prosperity, together with the anticipated inter-generational transfer of wealth, is prompting a growth in overall giving. A number of new players have also come to prominence, including the Prescribed Private Fund (PPF), a rapidly growing prescribed form of private foundation, which has attracted a new class of living donor. Many of the donors who have established PPFs are businesspeople who have been giving informally for many years.

New vehicles and structures such as donor advised funds, community trusts and a variety of investment products (both social and philanthropic) are emerging to meet the needs of a

new class of donors who are not in a position to establish a foundation at this stage, but who are nevertheless making substantial donations to charity – often in the tens of thousands every year. These donors - well informed, sophisticated and confident - are driving the professionalisation of the sector, because they are unlikely to remain hands-off and assume that good intentions will lead to good outcomes. They demand a greater focus on the impact, value and effectiveness of philanthropy, and in some cases will wish to apply their own business skills to assist the organisation or project to which they are donating.

The new specialist players, coupled with a growing and far greater involvement by the finance sector, are contributing to the rapid restructuring of the NFP sector.

Scrutiny and Transparency

The media is playing an increasingly important role both in highlighting the act and importance of giving, and in increasing calls for accountability and transparency of the NFP sector. This has an effect on public opinion, and may lead to the potential erosion of the confidence traditionally held by the public in charitable organisations, which is a critical factor influencing their ability to raise funds.

These calls for greater accountability and transparency can in part be attributed to the lack of consistency in accounting categories and terms across Australia's NFP sector. Unlike some OECD countries, Australia does not provide a set of accounting standards specifically for NFP organisations. While the sector relies heavily on income from government grants and tenders and philanthropic grants, and is increasingly being used by government for the outsourcing of service delivery, analysis by the Centre of Philanthropy and NFP Studies at Queensland University of Technology discovered major inconsistencies in the application and acquittal documentation across government departments. The study examined grant documentation from 24 government departments and discovered 129 different revenue line items and 836 different expense line items, with difference occurring both in descriptions and in the accounting treatment for the same kind of expenses. In some cases, there were major inconsistencies between different funding programs within the same department. Although no comprehensive study has been produced into the different financial and accounting terms used by philanthropic foundations, we know that they too do not use common application forms or standard definitions.

This lack of accepted standards substantially increases the compliance costs for NFPs, particularly the large number which receive funding from more than one source. As accounting systems are designed to record financial information in one format, unnecessary time and financial outlay must be spent on manually recalculating expenses according to the requirements of each funder.

The current situation does not ensure adequate transparency or assist in effectively benchmarking the performance of NFP organisations. This is an issue, particularly in the light of increasing calls for the sector to become more efficient and accountable. A lack of clear measures leaves the sector without a means for driving economic savings and efficiency.

The absence of agreed standards and consistent reporting obligations also means that NFP organisations can define their costs in different ways, which may not accurately reflect their activities. It also actively hampers the useful collection and aggregation of financial data for the NFP sector, and makes accurate comparisons between organisations impossible; there is no way to assess the financial efficiency of an individual organisation, and there are no benchmarks of efficiency for the sector.

Capacity Building for NFP Sector

In our current environment of full employment the ability to attract employees depends on offering competitive wages; however the government's approach to funding NFP Organisations is hindering this objective. Currently wages are increasing in real terms by about the CPI +2% per annum, while Victorian government funding is increasing by the CPI or CPI less some deemed productivity improvements. This is limiting the ability of NFP organisations to attract and retain staff. As funding in real terms frequently goes back by 1-2% per annum, good staff often leave to enhance their careers, resulting in a gradual erosion of the strength of the knowledge bank of community organisations over time.

At the same time, there is an enormous need for more comprehensive training and development of the staff of NFP Organisations. To retain staff in a tight labour market, For-Profit Organisations, which typically pay higher salaries, make huge investments in the training and development of their people. If the NFP Organisations are to attract and retain their staff they must find mechanisms to fund training and development.

Philanthropy is increasingly giving more to capacity building programs in the sector through scholarships, payment of seminar fees and specific capacity building grants. However given the enormous demand coupled with increasing expectations of NFP Organisations, philanthropy is not able to provide support on the scale to make the impact that is needed.

Diversity and Consolidation

Critical to vitality of the NFP sector is the passion of social entrepreneurs. Social innovation, new ideas and different approaches lead to the formation of new innovative organisations. Without the scrutiny of the ballot box or shareholders, philanthropy can encourage social entrepreneurs to try new things. This is an important aspect of philanthropy and provides a dynamic and innovative tension in the sector.

However calls for the consolidation and merger of community organisations are also strong. While it is impossible to accurately measure the sector's efficiency due to the lack of data, we know that a very large number of NFP organisations exist (700,000 in Australia, 360,000 of which are incorporated) and that there is heavy duplication in many areas (BRW points out that there are 20 children's charities serving a relatively small number of children with cancer, and argues that there is "a strong case for some of them to get together and at least merge their back offices, if not the charities themselves"). The Giving Australia report in 2005 found that duplication and wastage amongst charitable organisations was a strong concern for potential donors. However, the myriad of different legal structures for NFP organisations and the lack of tools, financial assistance and resources for mergers makes it a daunting prospect for most organisations.

While the Government's approach to funding has put pressure on NFP Organisations, in general, organisational capacity has been squeezed rather than motivated towards more effective consolidation.

In the For Profit sector it is typically Boards motivated by price signals that drive consolidation. In the NFP sector the Boards of Directors are the custodians of the mission of each organisation. However, options to consolidate organisations are often not on their radar. In future, the combination of better data, based on consistent accounting standards, and better training for NFP Directors would assist in the consideration of mergers and out sourcing as part of strategic review processes in NFP organisations.

Sector Profile

Australia's NFP sector is very large, contributing about 3.5% to GDP and employing almost a million people, but there is little organised effort to understand and support the sector as an equal third partner with business and government. NFP organisations must deal with a labyrinth of different departments, structural choices and regulations with no central source of information to help them negotiate a pathway through it. The Victorian Government has a minister responsible for small business, but no portfolio for NFP organisations, despite the sector's expanding role in delivery of government services. This means that a sector which a large percentage of the population relies upon, either for vital services or as a workforce, is not equipped with the tools and assistance to operate most effectively.

Enhancing Social Policy and Strengthening Community Organisations

Philanthropic foundations are in "the knowledge business"; their granting work generates enormous quantities of information about the fields in which they work, the players in the field and the strategies that might be used to approach an issue.

The philanthropic sector also sees what falls through the gaps in terms of social and economic policy.

The Victorian Government could receive great benefits from sharing the learning of the philanthropic sector, through scaling up projects which have been seeded by philanthropic foundations. This would be a great advantage to government, which could take advantage of foundations' risk taking and learning to prioritise funding to those organisations, processes and strategies which foundations have proven will work.

A related issue for NFP entities is the institutional knowledge management at a government level. Personnel changes in government departments can require NFP entities to expend a considerable portion of their limited time resources on re-educating Victorian government ministers and bureaucrats about the roles, constraints and importance of the NFP sector.

Short-Term Funding

Many community organisations are unable to fulfil their potential for positive social change because of the short-term nature of most government funding. NFP groups, which are mission-driven, are dealing with concerns which are very large in scope - people, behaviours, environmental and social issues. These are not necessarily changes which will show within one year, or three years - they are issues of attitudinal change, or behavioural change, which may take a decade or longer to come to completion. NFP organisations face frequent stress through the sudden defunding of successful projects which are beginning to bear fruit.

Recommendations

There is no doubt that the NFP sector plays a vital role in supporting a rich, vibrant and thriving society. There is also a clear need for the sector to be supported and guided by clear information, plain language and an informed government and public. There have been numerous calls over the years for a set of standards, from diverse voices across the media, charities, professional bodies and grantmakers. It seems that there is clear agreement that a system should be adopted which takes into account the unique characteristics of NFP organisations and which allows detailed costs and expenses to be applied uniformly across the sector.

Philanthropy Australia recommends:

- 1. That Victorian Government and Philanthropy Australia work together to identify exemplar projects for the government and the philanthropic sector to work on together.**
- 2. That the Victorian Government take steps to support the improvement of administration and governance of the NFP sector.**

Suggestions include:

- a. The philanthropic sector would find the development of better measures of the balance between waste and good governance of great benefit. Recognising that administration and compliance costs are legitimate costs in the governance and sustainability of all organisations, anything the Inquiry can do to better classify expenditures and transparency would enhance the philanthropic contribution.
- b. Provide financial support for the education of Directors of NFP Organisations including topics on the strategic issues of outsourcing and mergers.

- 3. That the Victorian Government implement the Standard Chart of Accounts and data dictionary for NFP reporting.**

The Standard Chart of Accounts was developed by Professor Myles McGregor-Lowndes, Centre for Philanthropy and NFP Studies at Queensland University of Technology, in association with the Queensland Treasury. It has been adopted by the Queensland State Government across departments and agencies and is soon to be adopted by the New South Wales Government. It aims to streamline financial accounting procedures, and reduce the costs of compliance to community sector organisations. Applied uniformly, it would ensure that reporting data collected is comparable and enable effective benchmarking of organisational performance throughout the sector which would be useful, to both government and community sector organisations.

- 4 That the Victorian Government encourage the Australian Accounting Standards Board to develop appropriate accounting standards for the NFP sector, and provide support for the sector to adopt these standards.**

The Australian Accounting Standards Board (AASB) has adopted International Accounting Standards, with one series of sector-neutral standards applicable to both for-profit and NFP entities. However, NFP organisations have very different characteristics to profit-making entities, including different objectives, stakeholders, budgetary

considerations and operating environments. The same standards that are applied to businesses are not entirely suitable for NFP entities.

Encouraging appropriate accounting standards would enable greater transparency and standardisation, and would assist auditors to assess the financial health of NFP organisations. Providing support for the sector to take up such standards, including plain language guides, briefings and an information service, would greatly facilitate the sector's transition to a more appropriate and efficient system.

5. That the Victorian Government consider prioritising best practice knowledge management techniques for continuing understanding of the NFP and philanthropic sectors.

Suggestions include:

- a. That the Government put a priority on sharing knowledge of the not-for-profit and philanthropic sectors between employees within departments – possibly by using a knowledge sharing mechanism such as a departmental wiki.

That the Victorian Government encourage a whole of government approach to sharing knowledge and learning and develop a shared view of best practice.

- b. That the Victorian Government, in conjunction with the above, take a leadership position by encouraging and supporting government departments to commit to long-term funding of projects that have already been proven successful. Projects with proven impact, which have been initially seeded with government or philanthropic funding, will have a far greater chance of making lasting change and providing long-term savings if sustained funding is available for them.
- c. That the Victorian Government increase its focus on briefing and handover of information and knowledge when there is changeover of personnel, ensuring that knowledge is retained at the organisational level.
- d. That the Victorian Government collaborate with NFP and philanthropic peak bodies to organise and promote an annual information briefing for government personnel in those departments which will have contact or dealings with NFP entities. The session could be organised to provide informative presentations, fact sheets and question-and-answer sessions.
- e. That the Victorian Government provide a central point for information for the NFP sector. This could be an Office of the Third Sector such as that which exists in the United Kingdom, designed to understand and support the diversity of the sector and to ensure government works in partnership with it. It could also be a website such as the Victorian Government's 'Business Victoria' at <http://www.business.vic.gov.au/>, but aimed at helping start, grow and run NFP entities. This would help lift the NFP sector's profile, as well as send a clear message that the Victorian Government recognises the importance and role of the sector and is willing to support it as an equal partner with business and government.

The provision of such services would facilitate the internal knowledge management of government departments and greatly cut down the time spent on re-education on an individual basis.

6. That the Victorian Government provide leadership support and skills development for the NFP sector.

Most NFPs are too small to provide career and professional development opportunities for talented staff, nor can they afford to make the financial investment in human services that would be needed to develop leadership skills, especially in an environment where the majority of donors view such expense as unnecessary administrative overhead. Leaders must therefore be recruited from outside the organisation, which is often financially constrained from recruiting effectively.

Government support could be extended through support and skills development programs for existing and emerging leaders, as well as through an education program to encourage donors and government departments to recognise the importance of such investment in leadership.

7. That the Victorian Government review its current funding approach with a view to increasing its funding to match its desire to build or at least maintain the viability of the NFP sector.

Conclusion

We believe that these seven recommendations would be of great benefit to NFP organisations, the government and the philanthropic sector. Adopting a standard chart of accounts would make significant progress towards streamlining accounting practices, giving guidance to NFP organisations in the development and transparency of their financial statements. This in turn would assist funders, both private and government. It would finally enable accurate measurement of the financial performance of NFPs, and all parties would benefit significantly from the simplification of the financial reporting process.

Providing a central information point for the sector – such as an Office for the NFP Sector – would clearly demonstrate that the government recognises the sector's increasing importance and is willing to assist it with practical tools to help it thrive.

Similarly, providing opportunities for State government personnel to learn from the NFP sector would allow government to take advantage of the sector's learnings and to be more assured and knowledgeable in its dealings with the sector. This would in turn greatly lessen the burden of re-education on the NFP sector, enabling a more immediate focus on mutual opportunities and collaboration.

Finally, the sector needs assistance to build the leadership of the sector. Skilled management is a vital determinant of an organisation's success. As the NFP sector comes under increasing scrutiny, and is used increasingly to deliver government programs, it will need strong training and development support to thrive and to effectively address society's needs.

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