



## **Senate Economics Reference Committee's Inquiry into Finance for the Not-for-Profit Sector**

National Disability Services (NDS) welcomes the opportunity to provide a submission to the. The issue of facilitating access to affordable capital is important for NDS members who are all not-for-profit providers of disability support services.

Sustainability of the not-for-profit sector requires attention to be paid not only to access of capital, but also to the regulatory environment and the adequacy of government funding for service delivery.

### **Access to capital**

The Productivity Commission's report on the *Contribution of the Not for Profit Sector to Australia* highlights impediments faced by the not-for-profit sector in accessing capital. Access to capital in the disability sector can be difficult, particularly for small organisations. Not-for-profit disability service providers' limited assets and limited ability to meet repayment obligations can make it difficult to: raise capital in order to maintain existing assets; expand services in response to the high unmet demand for their services; undertake social innovation or effectively compete with for profit providers.<sup>1</sup>

The difficulty is particularly acute for providers who rely heavily on capital such as services that provide specialist accommodation services for people with significant disability and Australian Disability Enterprises - businesses that provide work opportunities for people with disability. For specialist disability accommodation service providers, the high cost of land in some Australian capital cities and some regional centres, adds to the difficulty. While Australian Disability Enterprises (ADEs) have the benefit of a separate income stream in addition to government funding, (i.e. any profits from their business activities) their growth, which is often dependent on capital investment, is limited by access to capital.<sup>2</sup>

NDS welcomes the recent (albeit modest) initiatives implemented by the Australian Government to support capital development through the Supported Accommodation Innovation Fund and Australian Disability Enterprises Capital Fund. These Funds are intended to increase capital investment in disability accommodation and supported employment, particularly in regional, rural and remote areas. In addition, the Social Enterprise Development and Investment Fund (SEDIF) provides a positive model for

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<sup>1</sup> Lyons, M., North-Samardzic, A. & Young, A. (2007) Capital Access of Nonprofit Organisations. Agenda 14 (2) 99-110.

<sup>2</sup> Lyons, M., North-Samardzic, A. & Young, A. (2007) p. 105

the future. The Fund includes the provision of loans combined with access to business advice, training, mentoring and support to help the sector build their capacity to manage debt and become financially sustainable over time.

While these initiatives are applauded, NDS is concerned that that Governments will become increasingly constrained in their ability to finance capital development in the not-for-profit sector. NDS supports the Inquiry's intention of exploring a long-term approach to support the sector.

## Capital Market Products

Social Impact Bonds (SIBs) are one approach to stimulating investment in the not-for-profit sector. The use of SIBs holds promise of benefits such as: attracting capital for: sector viability; growth: spreading proven innovative practices; increasing attention on evidence-based practice and outcomes; decreasing future government expenditure; and utilising funding from investors wishing to contribute to a better society.

Work undertaken in the United Kingdom provides a basis for further investigation into the potential use of SIBs within Australia. The 2011/12 New South Wales Government Budget initiative of trialling SIBs (referred to in the Budget as 'Social Benefit Bonds') also should be closely monitored so this work can be built upon nationally.

Suggestions for the possible use of SIBs have included: disability, justice, homelessness, mental health, vulnerable families and school retention. However, social impact bonds are not for all situations. They are best used where the target group is able to be clearly identified, where evidence indicates the anticipated outcomes are likely to occur so the investment will be perceived as attractive, where the desired outcomes are measureable and able to be achieved within a reasonable timeframe and the returns outweigh the transaction costs.

- **Measurement of contribution and outcomes**

The measurement of outcomes and social impact of disability services is a fundamental challenge in using social impact bonds to attract investment in this sector. The measurement of outcomes in disability services is notoriously difficult. It is critical that any outcomes identified for measuring disability service provider performance are robust (valid, reliable, sensitive) and practical (affordable, efficient and applicable to the population receiving services). Disability service providers should not be held accountable for results that they are not able to influence or results that are significantly influenced by other factors.

### Recommended minimum criteria for tools to measure outcomes

<b>Robust</b>	<b>Reliable</b>	<ul style="list-style-type: none"> <li>• Ability to produce the same result on a retest.</li> <li>• Ability of different assessors using the same tool to obtain the same result.</li> </ul>
	<b>Valid</b>	<ul style="list-style-type: none"> <li>• Ability to measure what the tool is intended to measure.</li> </ul>
	<b>Sensitive</b>	<ul style="list-style-type: none"> <li>• The extent that the outcome measure is able to be influenced by disability services and reflect changes that may occur as a result of the service.</li> </ul>
<b>Practical</b>	<b>Affordable and Efficient</b>	<ul style="list-style-type: none"> <li>• Simple to administer and score. Feasible to use given:               <ul style="list-style-type: none"> <li>○ cost;</li> <li>○ time to administer;</li> <li>○ training; and</li> <li>○ Time to analyse results.</li> </ul> </li> </ul>
	<b>Applicable</b>	<ul style="list-style-type: none"> <li>• Suitable for use by the intended user group.</li> <li>• Enables comparison and benchmarking of results.</li> </ul>

To date, the disability sector has been poorly supported by investment in disability research and data collection on outcomes. Under the National Disability Agreement, the Australian, State and Territory Governments have begun to address these deficiencies by contributing a total of \$10 million over the five years of the Agreement for disability research, data and evaluation. Continued government investment into research and pilot projects to demonstrate the outcomes and social return of disability service delivery is needed.

#### • **Innovation**

NDS recommends that the Inquiry give special consideration to supporting the not-for-profit sector to attract finance to support innovation and service development – these being key features of not-for-profit sector activity.

SIBs are not suited for innovation given innovation is often associated with higher risk. SIBs are considered to be of more value in scaling up innovations that have been found to be effective.<sup>3</sup>

NDS recommends governments continue to play a central role in funding innovation to ensure this important function and that the strength of the not-for-profit sector is appropriately financially supported. NDS strongly supports the suggestion made by the Productivity Commission in its report *Disability Care and Support 2011* that a government innovation fund be established as part of the National Disability Insurance Scheme to enable disability providers to develop and/or trial innovative approaches to disability. Conditions for accessing this fund could include robust evaluation of the innovation and a willingness to publish the results.

#### • **Variety of financial products**

While SIBs are one possible approach to attracting finance for the not-for-profit sector, they do not appear to be well suited to all of the work or needs of the disability sector (given the difficulties in measuring outcomes and their limited application to funding innovation). The development of the capital market for the not-for-profit

<sup>3</sup> Mulgan, G., Reeder, N., Ylott, M. & Boshier, L. (March 2011) Social Impact Investment: The Challenge and Opportunities of Social Impact Bonds. The Young Foundation.

sector needs to include a number of different products that are suited for different segments of sector and different needs within the sector. Ideally, there would be a comprehensive examination of national and international options for developing capital markets to identify a range of options suited to the various needs and segments of the not-for-profit sector.

## Promotion and support

As not-for-profit organisations can lack expertise in approaching lenders for loans, any initiative to encourage socially motivated investment in the not for-profit sector needs to incorporate promotional strategies.<sup>4</sup>

In addition, there is a need for the not-for-profit sector to be supported through education to raise its knowledge and confidence about accessing capital and increase its skill in asset management. Strategies could include: business advice, formal training, and mentoring and support.

NDS also supports a government role in developing the Australian capital market for the sector. Government ongoing commitment and investment are required to:

- stimulate interest of the investment sector;
- promote the development of suitable products;
- support the development of a specialist financial intermediary to assist the not-for-profit sector to access developing markets;
- coordinate awareness campaigns;
- offer incentives (including tax incentives);
- lead by example in offering investments opportunities and possibly acting as guarantor for certain loans, particularly during the early stages of market development.

This approach can produce benefits for all.

## The Regulatory Environment

Any initiatives to increase the not-for-profit sector's access to capital should not unnecessarily add to the burden of red tape and regulation that already exists in the not-for-profit sector. The Productivity Commission has highlighted the difficulties already facing the not-for-profit sector in effectively and efficiently delivering services on behalf of Government with over prescriptive requirements, relatively short-term contracts and excessive red tape.<sup>5</sup>

Options to increase capital in the not-for-profit sector need to be carefully designed to ensure accountability is achieved while ensuring transaction costs and overheads are reasonable. Government and provider costs in attracting investors, developing and managing contracts, reporting, measuring outcomes and determining return to investors must not be so burdensome that they outweigh the value of the investment.

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<sup>4</sup> Lyons, M., North-Samardzic, A. & Young, A. (2007) Capital Access of Nonprofit Organisations. Agenda 14 (2) 99-110.

<sup>5</sup> The Productivity Commission Report (2010) *Contribution of the Not for Profit Sector*.

## Adequate funding for services

Activity to improve the not-for-profit sector's access to capital must be accompanied by reform to ensure funding for services delivered by the sector on behalf of government reflects the actual cost of service delivery.<sup>6</sup>

As not-for-profit disability service organisations tend to rely heavily on government funding, when funding does not cover the full costs of delivering services, the sector's ability to generate sufficient surplus to build or, in some circumstances, maintain their capital is limited. For example, for disability services assisting people with disability to find employment in the open market, non-indexation over many years of service and outcome fees has eroded the financial viability of providers and provides little or no scope for internally funded financing for investment and innovation in improved or expanded service delivery.

It is critical that as progress is made in implementing the National Disability Insurance Scheme (NDIS), the funding allocated for delivery of services reflects the actual costs of service delivery rather than a contribution to costs.

Such reform can reduce the need for not-for-profit organisations to use their reserve funding for service delivery and enable funds to be invested in expansion and service development. This will have the flow-on effect of decreasing the need for the not-for-profit sector to seek funds through a capital market.

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### **About National Disability Services**

National Disability Services is the peak industry body for non-government disability services. Its purpose is to promote and advance services for people with disability. Its Australia-wide membership includes around 700 non-government organisations, which support people with all forms of disability. Its members collectively provide the full range of disability services—from accommodation support, respite and therapy to community access and employment. NDS provides information and networking opportunities to its members and policy advice to State, Territory and Federal governments.

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<sup>6</sup> The Productivity Commission Report (2010) *Contribution of the Not for Profit Sector*.