



Submission to the

Senate Economics References Committee

Inquiry into Finance for Social Organisations

June 2011

Introduction

This brief submission provides a summary of discussions and consultations CCA has had with not-for-profit organisations, a number of key finance sector organisations, government officials and investors in the not-for-profit sector. The submission should be read as a collation of views rather than a formal CCA policy position statement.

CCA commends the Senate Economics References Committee for initiating this very important inquiry, and would be happy to expand on any of the issues raised in this brief submission.

The Community Council for Australia

The Community Council for Australia is an independent, non-political member-based organisation dedicated to building flourishing communities primarily by enhancing the extraordinary work and effort undertaken within the not-for profit sector in Australia. CCA seeks to change the way governments, communities and the not-for-profit sector relate to one another. This includes establishing a regulatory environment that works for community organisations and not against them.

The mission of (CCA) is to lead by being an effective voice on common and shared issues affecting the contribution, performance and viability of not-for-profit organisations in Australia through:

- providing thought and action leadership
- influencing and shaping sector policy agendas
- informing, educating, and assisting organisations in the sector to deal with change and build sustainable futures
- working in partnership with the government, the business sector, and the broader Australian community.

This Inquiry

CCA believe this Senate Inquiry into financing the not-for-profit sector addresses a fundamental and important issue for the future of social organisations in Australia. As the Productivity Commission and others have repeatedly demonstrated, the not-for-profit sector (NFP sector) is a significant economic force in Australia employing almost a million people. It is also the heart and soul of our community life.

It is questionable that the NFP sector can continue to maintain compound growth of 7% a year as it has done for over a decade. Even given this growth there remains an ongoing need for capital renewal. Overseas trends suggest that while ongoing government engagement and support of the sector remains critical, new forms of financing the not-for-profit sector are being developed primarily out of necessity. There is no clear future direction in terms of accessing and using finance in the Australian not-for-profit sector. An inquiry that seeks to identify the issues and provide some guidance about immediate and medium term priorities can only benefit the NFP sector and the broader community.

Overview

The questions being asked in this inquiry go to the heart of many complex issues facing the not-for-profit sector in Australia. In simple terms, providing a broader range of options and products to finance the not-for-profit sector can only enhance ongoing reform and improvements for the whole sector.

It is important to acknowledge, however, that the access to finance issue is one of several critical issues the not-for-profit sector (NFP sector) is currently struggling to address. Even if it were possible to instantly provide a broader range of financing products and increase investment and engagement in the NFP sector, there are a number of critical issues relating to workforce, evaluation and measurement, accreditation, regulation, contracting and compliance, relationship with government and community, governance and technology that all remain central to the future of the not-for-profit sector. Many of these areas are also the subject of review and reform creating a challenging environment for the sector.

From a CCA perspective, one way of briefly responding to the questions asked by this inquiry is to consider them from four different perspectives. Even within sectors there are divergent views about the issue of financing, but understanding the way different stakeholders interact on this issue is fundamental to moving forward. This submission briefly outlines the separate but interconnected roles and perspectives of: the not-for-profit sector; governments; the community; and the finance sector in relation to this area.

Again it is important to note that within this brief submission there is limited capacity to fully explore issues for all sectors. It is hoped this discussion will serve as a starting point for further consideration of how best to move forward.

The not-for-profit sector

In any discussion of the not-for-profit sector it must be acknowledged that there is a fundamental principal that drives most activities and approaches – to better respond to the needs of the communities they serve. This is the great strength of the sector, but can also lead to limitations in prioritising and addressing longer term organisational needs.

The consequence of this approach is that many not-for-profit organisations seek to expend most of their resources in the year they receive them on the work they do. If they generate a surplus, the immediate response is most likely to be about either spending it to improve service provision or holding the money as liquid assets in reserve for future program enhancement or to provide substitute funding for existing services. Only a small percentage of the 600,000 not-for-profit organisations in Australia are in a position to make investments or to leverage their assets, and those that are tend to be reluctant to engage in this form of activity. There are some exceptional organisations within the NFP sector that have taken a lead in some areas of financing, but they really are exceptional.

Most not-for-profit organisations are actively seeking more funding to improve their services both in terms of capital and programs. But for as long as the immediate priority is the programs and services they provide to their communities, the idea of developing innovative approaches to financing and capital renewal seems a long way from where their primary focus is.

This reluctance to prioritise long term organisational sustainability is compounded by cultural and other barriers, including the fact that many not-for-profit Boards and senior executives believe that fulfilling their civic responsibility means adopting a conservative approach to financial risk management.

As a consequence, and with a notable few exceptions, the not-for-profit sector remains largely outside of discussions about new ways of financing the sector or gearing existing assets. This is despite the fact that there are significant assets being held by the 10% of not-for-profit organisations that engage in economic activity, and considerable potential to both leverage investment and attract new sources of financing and funding.

What this brief discussion highlights is that any move to significantly increase uptake of new financing options will require extensive education and brokerage activity back into the not-for-profit sector.

Governments

Over the past few decades, governments have increasingly outsourced programs and services (and risk) to the not-for-profit sector, often accompanied by a level of contractual service control and management from the bureaucracy. In some cases, bureaucracies see the programs being run by not-for-profit organisations as belonging to them, not the community they are being provided for, or the not-for-profit organisation running the services. The consequent compliance burden is (mistakenly) seen as a way of managing risk and ensuring better performance. Dysfunctional contractual relationships are often compounded by the silo approach of government where one area of government funds one aspect of need, and a different government agency contracts services to meet an associated area of need, often for the same community group or target population.

Within this context, financing approaches such as social impact bonds, leveraged investment, place based social entrepreneurship, etc. are seen as increasing risk and therefore counter to traditional government funding approaches. From a policy perspective it makes sense that the policy goal should inform what is funded, not the interpretation of the policy goal through bureaucratic processes. In practice this is often not the case.

Where reform in funding approaches for the NFP sector has begun to be adopted by government, it has been driven largely from outside the bureaucracy. IN this area, as in others, there are some notable exceptions, but generally there is not a large appetite for new financing options within government bureaucracies.

We now know that the future of the NFP sector cannot be assured if we restrict the government role to simply being a purchaser of units of service. Buying tightly controlled contracted programs (or units of service) from the NFP sector has significant limitations in terms of ongoing sustainability of the organisations themselves.

It is not really clear at this stage how government can best facilitate the development of a range of financing options for the NFP sector, however, it is clear that the community benefits if there is a diversity of financing options available to support better responses to community needs.

While there are a number of promising options to be considered and trialled, there is also a need for a change in approach from within many government bureaucracies. Part of that change is cultural – real partnerships are about relationships not contracts. Real risk management is about knowing and supporting the capabilities of organisations, not increasing compliance requirements.

The role of government can be enhanced by taking a much stronger policy outcome approach that enables NFPs and their communities to develop and innovate around finances, funding and service provision to better need their own needs as well as the goals of government.

Government can also take a lead in piloting new ways of funding the NFP sector and underwriting some investment approaches.

Without the active engagement of government in stimulating and facilitating better uptake of innovative financing options, it is difficult to see how this area can be advanced.

The Community

There Australian community is actively engaged in the not-for-profit sector. Many work in the sector or receive services or volunteer. The community also support the sector financially through donations and through structured giving programs, trusts and foundations. However, beyond giving money or time directly to the NFP sector, most Australians are not aware of, and have no demand for, new financial investment options that may support the not-for-profit sector.

Again this is fundamentally an issue of awareness, knowledge, having appropriate products available and having appropriate ways of engaging, allocating, monitoring, and reporting on financial investment and other products. There is clearly untapped potential here to influence the extent and nature of giving if appropriate products can be developed.

Without appropriate brokerage and awareness campaigns, it is difficult to see how demand for more innovative NFP investment and financing options might become more accessible.

The Finance Sector

Given the issues outlined above, the role of the finance sector becomes fundamental. There is a financial knowledge brokerage role, a product development role and a facilitating (brokerage) role for the finance sector in partnership with government, the NFP sector and the community.

From a commercial perspective not-for-profit bonds, social investment, and other financing products offer a limited return, have limited demand from the community and limited capacity within the NFP sector to actively engage and use appropriately.

A small group of organisations within the finance sector have challenged this view and have been working to develop products and options for better attracting investment in the not-for-profit sector and better leveraging that investment into real outcomes.

This is an area where leadership is as much about commitment to improving our community as about making profits, although there is clearly scope both to make some profits and to build credibility and community support.

Perhaps even more than other areas, the development of an active and engaged group of finance specialists is an important pre-requisite to establishing more financing options for the NFP sector. To this end, it is important to listen to those from the finance sector who are currently active in this area. If governments, not-for-profits and the community can better support their role, it is much more likely more viable investment and financing options will be developed over time.

Conclusion

CCA does not have a neat set of answers to the important questions being asked through this inquiry. At the same time, through this very brief submission, CCA has tried to highlight the different issues faced by the key stakeholders in this area and provide suggestions about how some of the barriers can be addressed.

Government has a critical role to play in addressing its own practices and a culture that militates against new financing approaches for the NFP sector. Government must also play an important role in supporting both the finance sector and the NFP sector to better understand and embrace the emerging range of financing and credit opportunities. This is no easy task.

The challenge for groups like CCA is to work within the not-for-profit sector to increase understanding and awareness of the emerging possibilities. The NFP sector needs to think differently about assets and organisational sustainability.

Communities are best served by organisations with the flexibility to respond to needs in a timely and effective manner. This can only happen when NFPs have developed flexible sources of finance and program funding.

We need to put the future of the NFP sector into the in-trays of all NFP organisations, governments, the community and the finance sector.

There can be no doubt that emerging financing options are a critical component in forward planning and need to be fully exploited if Australia is to enhance not-for-profit sustainability and effectiveness.