



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

ECONOMICS REFERENCES COMMITTEE

Finance for the not-for-profit sector

FRIDAY, 9 SEPTEMBER 2011

MELBOURNE

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SENATE
ECONOMICS REFERENCES COMMITTEE
Friday, 9 September 2011

Senators in attendance: Senators Mark Bishop, Eggleston and Stephens

Terms of reference for the inquiry:

To inquire into and report on:

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;
- (b) the role and current activity of financial intermediary organisations and how these can be strengthened;
- (c) strengthening diversity in social business models;
- (d) the development of appropriate wholesale and retail financial products and services;
- (e) government actions that would support the potential for social economy organisations involved in the delivery of government services to access capital markets;
- (f) incentives to support investment in the sector;
- (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;
- (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;
- (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
- (j) any other related matters.

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Evidence was taken via teleconference—

Committee met at 08:59

CHAIR (Senator Eggleston): I declare open this second hearing of the Senate Economics References Committee's inquiry into mechanisms and options for the development of a capital market for social economy organisations. On 9 February 2011 the Senate referred this inquiry to the committee for report by 31 October 2011. To date the committee has received 27 submissions, which are available on the website. These are public proceedings, although the committee may determine or agree to a request to have evidence heard in camera. I would ask that everybody ensure that they have their mobile phones switched off. I would ask photographers and cameramen to follow the instructions of the committee secretariat and ensure that senators' and witnesses' laptops and personal papers are not filmed. I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege, but that privilege does not extend to persons outside of Australia. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee, and such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee. If a witness objects to answering questions, the witness should state the ground upon which the objection is taken, and the committee will determine whether it will insist on an answer having regard to the ground claimed. If the committee determines to insist on an answer a witness may request that the answer be given in camera. Such a request may, of course, also be made at any other time. A witness called to answer a question for the first time should state their full name, the capacity in which they appear, and the witness should speak clearly and into the microphone to assist Hansard to record the proceedings. I welcome Mr Glen Saunders.

Mr Saunders: Yes. I will be brief. Firstly, we are very grateful to be given the opportunity to address the committee and, secondly, just to note that we are a cornerstone investor in one of the initiatives mentioned in the background papers, which is SEFA, or Social Enterprise Finance Australia. We are very interested in seeing the development of a capital market for social enterprises in Australia.

CHAIR: I have a couple of questions and I will then go to Senator Bishop. Can you tell us about the state of your business? What is happening in your business and what is your market penetration in Australia?

Mr Saunders: There are two parts to Triodos. The first part is Triodos Bank, which is a European bank founded in 1980, active throughout a number of countries in western Europe. The second is Triodos Ventures, which is a parallel entity as part of the bank but which is legally a separate entity that carries out a range of activities such as investment, microfinance, venture capital, funds management and that sort of thing. We have both a bank and the Triodos Ventures entity as well. We have grown very significantly from being a small enterprise back in the early eighties to now being a medium sized bank in the European context. We have always been entirely focused on investment in socially and environmentally positive projects. We are not a general bank, from that point of view, but we do provide a full range of banking services.

Our penetration in Australia is little more than the investment in SEFA at this point. We have a number of investments around the world, in social banking ventures, whether they are actually banks or wishing to become banks—sometimes they are and sometimes they are not—where we take a significant minority stake and also seek to help, through our experience and expertise, the development of the initiative. We have taken up what I think at the moment is essentially a 25 per cent stake in SEFA. Prior to that, we have been talking to other people in Australia for the last three or four years to see whether we could be helpful in developing social finance in the Australian context. We are very small at the moment, but we are hoping that will grow.

CHAIR: You mentioned microfinance. Do you plan to introduce microfinance options in Australia?

Mr Saunders: No. We are probably one of the largest investors in microfinance globally, but we tend to work in developing countries. We are more interested in social and environmental finance in countries such as Australia, which are developed economies. We believe that the genuine possibility for microfinance in Australia is actually limited. We are not saying that it should not be pursued. We would be interested to see whether there were opportunities for that, but it is quite a different thing from microfinance in a country like Bangladesh, which is where we are more active in the microfinance world.

CHAIR: There is a group called Many Rivers Microfinance, which is now involved in microfinance in Australia, and I was just interested in where you stood. Your submission states that you will not lend to any organisation that puts profit before people and planet. My question is: have you had to turn away customers in Australia because of this?

Mr Saunders: I think it is the other way around. I think we have put people before profit.

CHAIR: In effect, that is what the quote said.

Mr Saunders: I do not think that we put profit before people. We are not directly active in Australia as a banking entity. Our role in Australia, if we have one, is to help the development of a social finance initiative, which may in time become a social bank. We have done this in other places such as in the US and elsewhere. We think that we should contribute, in the Australian context, to the development of a well founded Australian banking initiative. We are not trying to be a bank from Europe within the Australia context, we are trying to be an investor.

CHAIR: What specific areas? Are you lending money and involved with some Australian organisations?

Mr Saunders: That is what I am trying to say. We are investing in SEFA, which itself will be the direct investor in Australian organisations. We do a similar thing in New Zealand, the US and other places. What we try to do is invest in an organisation that can in itself become a social bank within that context. We take the view that as essentially a European based entity it makes no sense over such distances. We are trying to promote the development of similar initiatives within, in this case Australia, but in other countries as well.

CHAIR: How do you measure the return on your investment?

Mr Saunders: There are three ways. Firstly, where we are lending directly in the European context we look just in the normal financial sense—the interest rate, the return on equity and that sort of thing. We expect in that context—and that is the way we try to encourage others to go—a reasonable financial return. And not the highest financial return, but a commercial financial return. We do not think social finance, which is the whole of our business in effect, is about low financial return. It is more about access to credit and investment.

Secondly, where we invest in entities like SEFA, Prometheus Finance in New Zealand or New Resource Bank in the US, we expect there is a reasonable financial return for the risk we are taking, but we have taken the stance that we will be a patient investor. We look for a return over something like 10 to 15 years. That should be, to set a benchmark, something like a 10 per cent return over that period. It is very low at the beginning, and as the organisation builds up its resources and so on it becomes correspondingly higher. That is what I would call a soft return from our point of view. We do not try to force the initiatives into that level of return, but that is what we think they should be trying to achieve.

Thirdly, where we may get directly involved in an Australian context—and this is not something we are looking at at the moment, because we want to work through SEFA—is that we would look for an equivalent commercial return, but again with this social finance approach. We have found that it is very advantageous to be, what I would call, a patient investor. So, not expecting high returns too soon, to allow initiatives to develop properly and so on. We think that is probably very important in the Australian context where the social economy is still in an early stage of development.

CHAIR: Do you think that the Australian regulatory regime, current/existing legislation, is sufficient to protect both the lender and borrower?

Mr Saunders: Not looking at an entity which may be raising savings or investment from the public, just looking at the lending/borrower side of things?

CHAIR: Yes.

Mr Saunders: I think Australia is one of the most rigorous banking and lending regimes in the world, which has probably stood it in good stead. We carried out some due diligence on being a primary lender and a borrower before we got involved in Australia, and we think that is quite reasonable. We do not think there is much that needs to change there, and we do not think there is any fundamental impediment to the development of social economy lending from that point of view in the Australian context. Most of the things that we are used to in the European context we can find equivalents in the Australian context.

CHAIR: I was going to ask you about international comparisons. You mentioned Europe, but what about North America, Canada, the United States and other EU countries? What differences are there? Are there any other procedures in place in other countries that we could learn from and perhaps adopt in Australia?

Mr Saunders: From the point of view of being an entity which itself has funds available to lend, I do not think so. From the point of view of being an entity that seeks to mobilise social investment within Australia, I think the bar might be too high at the moment. If you look at what I will call a banking entity in the Australian context, which means an entity which on the one side raises finance—raises funds from institutional investors, individuals and so on; it could be a bank, credit union and so on—I think the bar is very high in Australia, which may be an impediment for that type of investment. In Europe, for example, the hurdle that you have to clear to become a bank is lower than in Australia. There may be other fiscal considerations why that would not change in

Australia, but it represents a very high hurdle where people may be in a relatively secure position to put their money in such things. It is very complex in Australia from that point of view. There is a great deal of legislation, hurdles to cross and so on, before you can begin to do that. That would be one thing. We believe that you have to look at social investment not just from the point of view of lending into or investing into social enterprises, but also from the point of view of mobilising savings, investment and that sort of thing from people who want their money to work in this way, which has been our main development in the US and Europe as well. Once this market gets underway, the actual capital needs are quite substantial, much more than government and philanthropic organisations could contribute to alone. The whole development of this overseas has been because there has been a mobilisation on the one side of people providing funds in a secure environment with transparency about where their funds will be used and, on the other side, into credible projects that will actually repay or provide a return as agreed and so on. There may be things that are overly restrictive in Australia from that point of view. That would be one observation.

The other thing is that there may be areas—and we have seen this overseas—where government is interested to expedite certain areas of lending. For example, a while back in the Netherlands they were very keen to expedite investment into sustainability projects. They set up the so-called green tax regime. That meant that people investing in investment schemes that were promoting that had tax breaks on that basis, and that meant that a lot of financial organisations became very motivated to provide those sorts of projects. It hugely increased the amount of funds available to such organisations. That was time limited, but it got lots of financial organisations motivated to research and learn how to do it. We benefited from that as well. We think that sort of thing can be very helpful in stimulating a market without interfering with it too much, and if it is time limited then that works well. We think there might be opportunities for that in Australia both in the environmental sustainability side but also in the social investment side.

CHAIR: That is a very interesting series of comments. We have very strict rules about banks in Australia and banking institutions, which has meant that our banks are very strong. I can see that perhaps there is a case for a bit of latitude in terms of the points you have just made. Senator Bishop.

Senator MARK BISHOP: Thank you for participating in the inquiry. I am a little unclear as to the central purpose of your bank. Is it to be a service provider, in due course a retail outfit, or is it more as an advocate for social change or through political causes?

Mr Saunders: Firstly, in the European context we are a retail bank and an institutional investor. We are a full service bank and we cross many different types of investments. We are not an advocate for social change in the sense of being a political advocate or that sort of thing. Our approach, from the beginning, which we have kept throughout, has been that all of our investments are into socially and environmentally positive projects. We use the people who provide funding to us—individuals, institutional investors, organisations and that sort of thing. That is where we get our money from. We do not get money from the government. They are people or organisations that are interested in that. That is our business model, from that point of view. That may have the consequence that it creates social change in certain areas, but we are not a political organisation whatsoever.

Senator MARK BISHOP: So, you are more a facilitator through the provision of finance and the like?

Mr Saunders: That is right. We are a fully regulated bank under the DNB, the Netherlands Central Bank, and we operate ourselves entirely within all the rigors of that regime, which given our orientation are probably slightly stronger than they would be otherwise.

Senator MARK BISHOP: You are a full service bank or retail bank in the Netherlands and other parts of Europe. Is it part of your eventual aim, once you are established and running in this country, to become a full service retail bank?

Mr Saunders: Probably not, because we are not trying to become a fully global bank. What we would like to see is the development of such a bank in the Australian context. We would be interested in being an investor in such a bank, providing both finance and expertise in what we have found has worked in other continents. We are not looking to open an office of Triodos Bank in Australia.

Senator MARK BISHOP: Where would you attempt to raise capital to either lend or make available to those who wish to engage in worthwhile social purposes?

Mr Saunders: In Australia. We have already had some experience of that through SEFA, which has been able to raise a certain amount of funding to match the government funding that was provided. There are basically two reasons. Probably for the next couple of years it will be through philanthropic and similar funds, some from high net worth individuals, where they have a strong social and environmental interest in how their funds are invested, and expect a normal return on those, but they have some additional requirements over how money would be used.

That is the first thing at the moment. The next step is where the entity develops into something where it can actually raise funds from the general public on a secure and equivalent basis. It could be banks in the Australian context or it might be investors in unit trusts and that type of thing, where they can expect a commercial return, but they can also expect, what I would call, a social return. Within the Australian context, because of the rigors of the Australian regulatory regime, that will take a bit longer to develop. In the European context it went the other way around. It firstly came from individuals and then developed into institutions and other organisations, but in the Australian context it will firstly come from organisations and high net worth individuals who are experienced investors, and then it will go, if it is successful, over to the main public who are interested in this area.

Senator MARK BISHOP: I suspect with the rigors of the Australian banking system in this country that in the next few years—in terms of capital reserves and the like, which is really what we are talking about—it will get stronger or stricter rather than more liberal, that being the attitude of both government and opposition parties in this country.

Mr Saunders: I will clarify. We are not complaining or suggesting you should change that.

Senator MARK BISHOP: I see.

Mr Saunders: We actually think you have come through the global financial crisis very well, precisely because you have such a strong regime. We support that.

Senator MARK BISHOP: You were talking about high net worth individuals and philanthropic organisations with a social conscience—that sort of market. That is a growing market in this country, because there has been a lot of wealth generated in more recent years, but it is still very much a limited market, if I can put it that way. It is certainly not on the scale that you would be comfortable with in Europe or North America.

Mr Saunders: That is true, but you can look at the development of this whole area elsewhere and in Europe. We can develop a parallel in Australia. This started in the eighties. The development of credible and robust projects in which to invest—

Senator MARK BISHOP: We are having trouble understanding you, because you are breaking up. Can you go back and start answering the question again.

Mr Saunders: What I am saying is that we are interested in two markets. One is highly disciplined—the high net worth individuals, the philanthropic institutions, and then maybe a little bit longer term target individuals. You want the amount of funds available to develop in parallel with the project that can take up those funds. If you get an imbalance on either side, that really creates problems. So, you do not want a huge surge of funds to be available because then there is pressure to invest in substandard projects. That is not very good. Not do you want suddenly to see a huge surge in projects looking for funds where funds are not available. What happened historically in Europe and North America—in the Australian context it should develop with not too quickly and not with a sudden surge of funds, because you have to find credible projects in which to invest.

Senator MARK BISHOP: I think we got about every second word of that. We will have a look at the transcript in due course. I have one final query. You raised the issue of raising capital from high net worth individuals and the like who want to invest and receive presumably a commercial return but also have a social perspective or a social view. As you know, returns generally relate to the degree of risk involved in a particular project. In seeking to have a social return in addition to a commercial return or part of the commercial return, is not the investor then getting two bites of the cherry and should there not be some sort of reduction in the commercial return for the offset involved in the social good?

Mr Saunders: Where it is what I would call debt to debt, or people providing funds for an interest rate rather than an equity return and where the funds will then be used for a loan where they are getting also an interest rate and so on, that should track normal commercial banking terms. The danger, which has happened elsewhere and has taken a while to get over, is that you create a sort of ghetto of low interest returns. If a project cannot manage a reasonable commercial interest rate, the project is probably not strong enough anyway to be invested in. That is what I would say. The question then is: if they can provide a normal commercial interest rate then why would they not just go straight to the bank? I think the answer is that it should be less about the interest rate and more about the understanding of the investor in the nature of the activities in which they are investing. The proposition the project is putting to the investor should be fundable by a bank. All of the work with Triodos is. Anybody who borrows from us or gets investment from us could have got it from a commercial bank without any social interest. They come to us because of the service we provide, the understanding we have about what they are doing and that sort of thing. That is how we win our business, not because we are a low interest bank from that point of view. That is where you are debt to debt.

When you are going from a more honest equity basis—because we also have venture capital funds and that sort of thing—it is not so much what the ultimate return will be but what the patience of the investor is in investing in projects. Typically with venture capital people are looking to come out within five to seven years. We are a long-term investor. We would look at 15 to 20 years. Where it is appropriate to have equity for social and environmental initiatives, 15 to 20 years is generally the appropriate timescale. If you overcook it with a five to seven year coming out, you tend to destroy the project. I have simplified it a bit, but there are two categories there.

Senator MARK BISHOP: On that point, as you undoubtedly are aware, capital markets are deepening in this country as a result of government policy in compulsory savings via superannuation. A lot of the superannuation funds are now significant providers of capital to a whole range of purposes, which I am sure you are familiar with. Has your organisation, either through the bank itself or through some sort of peak industry body, established consultative relationships with the major industry fund representatives in this country?

Mr Saunders: No, but we are in discussion with some of the superannuation funds, who are looking at alternative asset classes. That is a very complex question. They are looking at diversification in their portfolios and what would be acceptable within that. There is no simple definition of what is a commercial market return. It depends on the diversification effects as well. Some of the superannuation funds are looking to develop forms of social investment, because they feel that they also have from their ultimate beneficiaries a requirement to show that they are making progress in that. It is a very complex situation at the moment. There is not much that has been developed yet, but in the next few years there may be two, three or four per cent of some of their portfolios that will go into this area.

Senator MARK BISHOP: If they have two to four per cent of their portfolios in the next few years invested in this area, then you are talking about tens, if not hundreds, of billions of dollars.

Mr Saunders: I agree. There will probably be the early adopters. There will probably be a few of them that will go into it. Once it is established there will be more that will follow in.

Senator MARK BISHOP: I have one final question, if the chair will indulge me. Your submission and a number of others from like organisations made some points on social return on investment—SROI analysis and the like. Most of us are reasonably familiar with standard investment principles and return on analysis, and understand the quantitative work involved in that over time. Can you put on the record how advanced, if at all, these developments in the social return on investment are? This always intrigues me. It is a bit like beauty is in the eye of the beholder. How do you allocate a fund or monetise value in a wind farm or a solar generation project apart from commercial returns?

Mr Saunders: I will state where we are, which is within the social investment field. We are slightly controversial in this. We think social return on investment is a bit like an elephant, which is easy to recognise and hard to define. We have historically avoided measuring things we think are inherently non-measurable, but we have a very rigorous process for assessing whether there is social and environmental return. But it is a qualitative assessment internally. If people then say to us, ‘How do we know you are really doing it?’, we have a very rigorous transparency policy whereby you can find out every investment that Triodos makes. That is on our website and so on. That is how we have dealt with it. However, because we have become so large, I think it has become untenable. We are looking for limited forms of measurement. We invest in a huge range of projects. How do you measure social return on an ecological and affordable housing project alongside a renewable energy project? We think it is inherently impossible to do that. What we are trying to do at the moment, with an intensive project internally, is to develop simple measures that give reassurance that we are really doing what we say we are doing. We think that there is a lot of academic interest in this area, but we are sceptical that you can turn qualitative matters into quantitative measures on a credible basis.

Senator MARK BISHOP: That is an interesting comment. It is one thing to have rigorous internal processes that justify investment in a particular project and the final analysis if investors in your bank, and high net worth individuals, are satisfied that the social outcomes are worth while; it is their money and that is the end of the story. I was looking to see whether it could be broadened out into a more objective framework.

Mr Saunders: We think there can be objective frameworks within specific sectors of investment. You can look at the efficiency of social housing projects in terms of per dollar invested and what the affordability portion provided of houses delivered is. You cannot compare across a huge range of different social and environmental projects. We think that is probably meaningless.

Senator MARK BISHOP: That is a useful comment. Thank you.

CHAIR: Senator Stephens.

Senator STEPHENS: I would like to go back to what is of particular interest to us, and that is the Social Enterprise Finance Australia Fund. I understand Triodos is the founding investor in that fund. Are you able to tell us the extent to which you have invested in this wonderful new initiative that we have here in Australia?

Mr Saunders: I can follow up with an email. I think we have put in \$1.3 million to \$1.5 million.

Senator STEPHENS: I understand that Triodos had a fund like this in the UK that was undersubscribed?

Mr Saunders: You would have to give me more information. What I can say is that the consequence of the global financial crisis has been that we have seen a huge amount of funds coming to us from the mainstream bank. Recently, as a bank, we had a share issue to increase our capital, because the bank was growing and we closed it after 15 days, because we were oversubscribed. There may be a particular fund that we launched in the UK which I do not know about that did not work or something like that, but that is not unusual. That happens from time to time and I cannot comment on that.

Senator STEPHENS: In terms of your investment in SEFA, how long is your commitment to that fund?

Mr Saunders: Indefinitely.

Senator STEPHENS: Your participation was a very strong feature of the bid, and there were highly competitive bids for this fund that the government has committed—\$10 million to SEFA and a matched \$10 million from the investing partners. Can you comment on how you might see that fund growing, how that \$20 million can be leveraged more to strengthen a social capital market here in Australia?

Mr Saunders: Yes. I will just say what our orientation is. If SEFA grows and raises more capital, which is the intention—and I will comment on that in a moment—we would seek to be somewhere between a 10 and 25 per cent investor as it grows. We want SEFA to have its own identity, to be an Australian initiative, and ourselves to be a cornerstone investor who can also provide expertise and maybe some advice based on experience elsewhere, from that point of view, and even also provide secondees to work within that fund from Europe and so on. We are trying to see that develop, but we want it to be an Australian initiative. We are very clear about that. We do not think we can set up something from 12,000 miles away. We want it to be a locally based initiative. We are always nervous that people will say, ‘That is a Triodos initiative and therefore we don’t have to do stuff.’ That is the first thing I would like to make really clear.

Secondly, our experience is that if you are only a lender on the fundraising side of the initiative—this is the mobilisation of savings and investment from a very broad range of institutional, philanthropic, private individuals and so on—then the organisation is always hampered in terms of what it can do. We always look at these things from both sides of the balance sheet, where the entrusted funds come from and how they are invested. From that point of view, our hope is that SEFA can develop in such a way that within four to five years it could actually get to a banking licence and become a bank. Our experience is that when you become a bank you open the doors to a lot more people and you expedite the whole development of social finance. We have been quite explicit about that from the beginning, and we will work quite hard in Australia to help that to come about, but we want always to be in a supporting role, not a leading role.

Senator STEPHENS: That is really very helpful. You talked about the complexity of the regulatory environment here in Australia for financial institutions. Do you have any comment or recommendations to make about the way in which social capital markets could be enhanced in Australia? Are there particular barriers that you see, from your international perspective, that make it difficult to invest in this area?

Mr Saunders: I will make two comments. The first is that there is a general expectation that if you are a small initiative then you are higher risk. There is of course an overarching thing that if you are too big to fail then whatever the regulatory authorities do they will make sure you do not fail. Also, within the credit agencies like Standard & Poor’s and so on, small organisations get an adverse credit rating simply because they are small. We think that there should be greater objectivity. If you look at where the problems arose from the global financial crisis, it was not the very small organisations that were the problem. There should be greater rigor around how those valuations are undertaken, because they are very influential in terms of what can happen. We would ask for a level playing field. Size does matter, but it does not matter as much as is sometimes supposed in the way things work. We think that would be a significant difference.

If the Australian government is interested in promoting this area, we would suggest two things. Firstly, that you do not get directly involved, and so you do not start providing lots of funds other than possibly seed funds, because if you provide funds you will provide them in a way that will distort the market. The point is to develop a social investment market. So, somebody coming in without the same capital constraints that everybody else has tends to distort the development of that and holds it back in the end. We have seen that elsewhere, particularly in the UK, and we do not think that is helpful for the long-term development.

If you do want to expedite certain areas we think you should do that through, for example, tax breaks, if that is possible for certain types of investment, which are available to everybody. That could be some of the big banks, the credit unions or that sort of thing, but it is a fair market where everybody competes. We are very much in favour of competition as long as it is on a fair and equal basis.

Our experience has been that where governments get directly involved, other than in some limited seed funding—which I think you have done—it becomes dysfunctional very quickly.

Senator STEPHENS: Do you want to make any comments about the Big Society Bank?

Mr Saunders: That is an excellent example of what I was just saying. I wish it would not happen. It is basically a government imitative. There is a well developed market, with quite a number of different social lending initiatives in the UK. You get the Big Society Bank, which becomes dominated by political interests—things people want to develop and so on—and so everybody starts to chase those pounds, in that case, and it distorts the market.

Our preference would be that the government use its influence and funding to remove barriers rather than to try to do it itself, which is what the Big Society Bank is really doing. Triodos in the UK, as these things go, has to be involved with that, but we would rather it was not happening.

Senator STEPHENS: So, a cautionary tale, you think?

Mr Saunders: Absolutely. That is where there is a fairly active social investment market. Our view throughout is that this really needs to develop. You are looking not so much at a certain area of financing but the development of a new type of market which is much larger than anything government or any other sector can do by itself. It is a market where there are people who want their money to work in this way and there are also projects that develop over time that need those funds. The banking part of it is really bringing the two of those together.

CHAIR: I am afraid we have run out of time. Sometimes it was a little hard to hear you. It is not your fault; it is the system. We will review the *Hansard* and possibly submit written questions to you on notice for written answers, just to clarify some points. Thank you for appearing this morning.

BAIRD, Mr Murray Philip, Director, Australian Charity Law Association

[9.52 am]

CHAIR: We welcome you here. You have provided us with a copy of your statement. Would you like to briefly overview it for us for the *Hansard* record?

Mr Baird: Yes. They are simply my notes of what I had planned to address to the committee. Do you wish me to read through the notes?

CHAIR: You can just give a quick overview. We can read through them as you are talking.

Mr Baird: Firstly, thank you for the opportunity to meet with the committee. I represent the Australian Charity Law Association in my capacity as a director and I also bring apologies from ACLA's President, Anne Robinson. Her duties as deputy chair of the Not-For-Profit Sector Reform Council keep her in Sydney today and it is certainly a very busy time in the not-for-profit sector.

I briefly set out the basis on which the Australian Charity Law Association has been developed. We address current legal issues affecting charitable entities in Australia and we assist the charitable sector as a whole. Our board comprises leading practitioners and academics in the not-for-profit sector.

My own personal experience comes from 30 years as a private practitioner with Moores Legal, advising the sector. I have been chairman of Ansvar Insurance, which is a specialist insurer to the sector, and I currently chair the National Housing Company, which is endeavouring to raise capital to provide 5,000 affordable homes utilising the NRAS incentives.

The sector has welcomed the climate of reform, especially reflecting the national compact, the new understanding of partnership between government and non-government organisations. This conversation recognises the value to a civil society of a well resourced not-for-profit sector and it extends, of course, to the problem of finance for the sector. When the Henry report was published, the Prime Minister and Treasurer quickly moved to assure the sector that reforms would do no harm to the sector, but the reality seems to be different. The sector perceives that ambitious or entrepreneurial activities are often regarded as a threat to revenue and inhibited by slow, inconsistent and unsympathetic treatment in policy and practice. There are a number of practical barriers to NFPs generating income to build a balance sheet.

I would like to refer you to the Word 'Investments' Case as a case in point. This was the case where a charity raised funds by running a funeral business. Justice Alsop, in the Federal Court, said that it is a bit like the lamington drive at the local school; it is not what you do, but it is the purpose of what you do. Yet when that decision came out it was largely neglected in the rulings of the tax office for two years until the budget announcement this year that it would be reversed. This will certainly inhibit the ability of charities not only to raise funding but also to accumulate it for future growth and future working capital. The legislation, by announcement, without sector consultation has led to uncertainty, expense and sometimes paralysis in the sector. It is not calculated to encourage innovation or investment.

I will turn to the unrelated commercial activities tax, known around the world generally as the unrelated business income tax, UBIT, announced in the 2011 budget. This intends to tax the surpluses retained by NFPs for working capital. It is really antithetical to building access to capital. There is no demonstrated mischief that it prevents. The forward estimates in the budget indicate that it will raise no revenue, and indeed that is the experience overseas. It has simply put another layer of compliance and structuring requirements over the sector. Implicit in it is that curious distinction between passive investment and active investment. Should an organisation become too entrepreneurial or take active business risk it will be penalised for that activity. The sector is encouraged to be passive in its fundraising. It is also encouraged to be small so as not to exceed the scope of the activity thresholds. We anticipate that there will be constant demarcation questions as to what is related and what is unrelated, adding to the compliance and planning expenses of the sector.

I will mention briefly the NRAS, the National Rental Affordability Scheme. The response of the Australian Taxation Office when charities and public benevolent institutions intended to get involved in this was to effectively say that their tax concessions would be under threat because the beneficiaries of housing under the scheme would not be poor enough to deserve charity. Parliament applied a temporary legislative fix for the opening rounds, but those organisations not eligible at that stage and eligible in the subsequent rounds are now in contest with the Australian Taxation Office over eligibility for tax concessions because of their involvement in the NRAS scheme. Our plea is for an enabling of the sector, rather than treating the sector with suspicion or as a drain on civil society. Similarly in the area of ancillary funds. These funds exist for the purpose of funding other NFPs, but increased regulation and increased limitations on accumulation are hampering their growth and effectiveness. Trustees sometimes elect just to wind down their ancillary funds because of the increased burdens of compliance,

limitations on accumulations and the requirement that the trustee be a constitutional corporation, which is going to create real problems for most of the funds in the religious sector, particularly where church wardens and church bodies corporate are the trustees. On the question of structuring, we submit that the structures available for the not-for-profit sector and particularly the company limited by guarantee are generally well suited to carry out the not-for-profit purpose. We say that the problems lie not so much in the structuring of the organisations but in the availability of viable fundraising instruments. The very nature of the NFP entity is that it cannot by definition access equity finance. It is prohibited from providing return for equity contribution. Equity risk and reward is inimitable to the concept of NFP. The NFP needs to make do with debt funding or accumulated reserves from its NFP business activities. Its ability to do the former is restricted by the absence of lower priority equity contributions and generally thin balance sheets. Its ability to do the latter is restricted by the looming UBIT. Its directors do not give guarantees. Its future income streams are uncertain and often limited by short-term government funding arrangements and, accordingly, it cannot get ratings. So, that exacerbates the difficulty of offering security to lenders, particularly larger lenders and market lenders.

You have seen the submissions of the Benevolent Society and Lifehouse at RPA concerning the early experience of social bonds in Australia. Converting initial interest into funding commitments is challenging; the spirit is willing, but the flesh is weak. The GoodStart Model had a number of unique features that meant that the market commensurate bonds were effectively mezzanine debt over a layer of government assistance and philanthropic giving. Government intervention by guarantee of principal and returns, franking credits, incentives to involve ancillary funds to invest in social bonds could help prime the pump, and certainly government guarantees to reassure markets are not unprecedented.

In short, we plead for a mindset of enabling the sector, but openness to creative approaches to delivering social outcomes and a realisation of the aspirations of a national compact in the treatment of not-for-profit entities. Finally, there is room for a greater alignment between government policy, Treasury proposals and ATO practice. Tax law is a blunt instrument for implementing the government's policy intent. Our submission would be to leave it to the ACNC to develop and manage an appropriate and constructive compliance regime.

CHAIR: You implied that the government was a bit suspicious of your sector or not very supportive of it. Do you think that that might be a little bit self-induced? Is there enough transparency in your sector? I noticed that there was an article in the *Sydney Morning Herald* on 27 August about the McGrath Foundation headed 'Good intentions but where is the money trail?' The article in effect states that often charities are not open enough about where the money they receive is spent. Do you think there is a case for more transparency? This specifically referred to the McGrath Foundation. It stated:

It spent barely a tenth of the funds it raised from the public and corporate donors in 2009-10 on the good work it promised. Instead its accounts show it banked the donations for future operations and has accumulated \$10 million in its piggybank.

That is a bit slanted in terms of the reporting. It stated further:

Another charity, the Shane Warne Foundation, does not produce any accounts. Each year it holds a glitzy poker tournament at Melbourne's Crown Casino as its main charity fundraiser attended by many high-profile people. The takings from the event, its costs and the proportion that finds its way to the charities that cricketering great Shane Warne supports remains a secret.

Is that part of the problem? Are you not open enough about what your activities are?

Mr Baird: There seems to be a pattern of being associated with the Australian cricket team. Certainly, the sector ought to be accountable to the public for its activities. There are exceptions. It is inappropriate reporting if things are being hidden. However, sometimes the criticism is to do with how much you spend on fundraising and how much gets through immediately. There needs to be the opportunity to accumulate some fundraising to build capacity for the future. Good governance will articulate that, tell the public what its accounts are and why they are in that state, sometimes because of plans for the future.

CHAIR: I understand that, but I wonder whether the lack of transparency is a contributing factor to what you say is the tax department's attitude to your group or your sector. Perhaps there is a case for greater transparency. Could you comment on the Mt Buffalo & Community Enterprises submission, which in reference to ASIC, states, 'The ASIC regime does not appear to contemplate or recognise any rightful place in the Corporations Act environment for organisations which are motivated by social goals', and they specifically refer to regulation 170, which they say is overrestrictive in terms of the two-year limitation it applies to forward looking financial information, which they say 'does not support accurate, informative disclosure'? They also go on to state that regulation 170 is unfair in that it effectively discriminates against small retail investors while pretending to defend their rights. Do you wish to make any comment on that?

Mr Baird: I am not familiar with the details of that submission, but it is true to say that, where voluntary organisations are endeavouring to get something started, the extent of regulation can be difficult. There are some

exceptions for the charitable sector in fundraising and in prospectus provisions. It is submitted that they are healthy and ought to be retained and encouraged, but I do not think I can take the matter much further than that.

CHAIR: Do you want to make any comments about the relationship of your sector with ASIC? Is ASIC friendly towards you? Are they helpful and cooperative or do you feel they are not?

Mr Baird: The structures that are administered by ASIC work well, and ASIC administers them well.

CHAIR: In its submission Social Traders argues that investment in social enterprise and other forms of social innovation is constrained by the lack of an effective legal structure and associated tax incentives for investors. Would you care to comment on that general issue?

Mr Baird: Yes. Our submission is that it is not so much the structures as the instruments and products that are available for raising funds that need to be innovative. Our submission is that the company limited by guarantee is a very flexible instrument and a very public reporting entity that allows for most things to be done.

CHAIR: Senator Stephens.

Senator STEPHENS: Thank you for your submission. I would like to pick up on something that we have just touched on, the issue of the structure of not-for-profit organisations and whether you have some views, particularly around the Productivity Commission's report, which suggested two options for increasing access to equity capital for not-for-profits. The first one was increasing the use of cooperative structures for not-for-profits, and the second was the issue of legislating to establish a new incorporated entity to allow equity capital to be invested into organisations that provide community benefits. Do you have a view on that? Cooperatives are very strong in Victoria, but less active in other parts of Australia.

Mr Baird: Cooperatives do not appear to have the ability to attract substantial capital. They are very appropriate for members to bring their contribution and work very effectively. One reason that perhaps they are not as popular is that the alternative structures, such as the company limited by guarantee, or the association, which proved to be more suited to most organisations, and cooperatives have been very heavily regulated, which makes them less attractive as well. As to whether cooperatives are appropriate for raising larger sums of capital, there does not seem to be a great experience of using them for that purpose. The opportunity to have a hybrid model of entity would be an appropriate way forward. It would allow investors to get a reward on their investment whilst retaining the concept of membership and admission in a not-for-profit sense as well.

Our submission is that you do not necessarily need that structure as long as you have instruments and products that provide an appropriate return for the risk of investment and in that way separate out the not-for-profit nature of the entity from the profit nature of the instruments that it uses to raise funds.

Senator STEPHENS: That is where the Productivity Commission changed its view, between the draft report and the final report, around the need for a community interest company-type entity. It is helpful to understand that you do not think we need it either. In the last paragraph of your submission you make the point that tax law is a blunt instrument for implementing the government's policy intent. Without putting words in your mouth, are you suggesting that the government would be better to bite the bullet on a modern charities act first and leaving aside the Treasury's agenda that is currently out for discussion until the charities commission is established and creates the regime?

Mr Baird: Absolutely. A dedicated charities commission that understands the sector, that has the trust of the sector and consults widely, having the benefit of the international perspectives of others who have worked with charities commissions around the world, is an appropriate way to address the reform agenda. Until it is in place it seems that there are a number of initiatives that will not have the benefit of its consideration and its consultation. Our view is that those matters should be held back until the commission is in place.

Senator STEPHENS: The commission is due to be up and operating from 1 July next year.

Mr Baird: Yes.

Senator STEPHENS: Do you think a modern charities act needs to be in place at the same time? I would imagine that could delay the process.

Mr Baird: I do not think it is essential that a modern charities act be in place prior to the commission coming into effect. In fact, it may well be that the activities and the wisdom of the commission could well contribute to a more robust charities act than if it is rushed through prior to the commission. Use the experiences of the commission to inform the charities act.

Senator STEPHENS: I would anticipate that we will soon see the exposure draft of the legislation to create the charities commission.

Mr Baird: Yes.

Senator STEPHENS: Is that where we should be seeking to ensure that framing the regulator actually does away with some of these perverse issues that you have raised in your submission?

Mr Baird: Yes, I think that is the case. If the regulator has the power to make recommendations, they will be the best placed to understand the sector and the appropriate regulation of the sector.

Senator STEPHENS: I am looking at your personal involvement in the National Housing Company. Could you elaborate a little more on the issues around the NRAS taxation situation and how it is impacting the company?

Mr Baird: The challenge for housing associations generally is that they enjoy tax concessions, because they have a social program. Often they enjoy public benevolent institution concessions. However, should they show initiative in projects such as NRAS, they are criticised for going outside the area where the tax office considers them to be benevolent. So, should they help people who are not abjectly poor, that is said to be no longer a benevolent activity and then they have to argue to justify their concessions. It means that they are always looking over their shoulder in doing anything that is entrepreneurial lest they lose their concessions. I think that is an unhealthy way to be working. There is a technical interpretation of matters that means that they constantly have to get rulings on whether they can do the next thing they wish to do. That takes time, it slows down the activity and it adds expense.

Senator STEPHENS: Can you explain to us where the challenges are in the work that you are doing to raise capital to provide 5,000 affordable homes?

Mr Baird: The funding instrument that we intend to use is social bonds, but the challenge of starting from scratch with no layer of philanthropic or government assistance at that level—albeit there is the NRAS incentive that will help with cash flow in the long term—is to provide appropriate comfort and security to lenders who we intend to issue bonds to, but the first layer of those bonds has the difficulty of providing appropriate security and comfort, and making them attractive enough for investors to entrust those funds to us.

Senator STEPHENS: Would that not be the case for any developer?

Mr Baird: No, because the developer would have a layer of equity, of people prepared to risk for reward, at that layer. It is easy to give comfort and perhaps guarantees to those who take the layers of debt.

Senator STEPHENS: Thank you.

Senator MARK BISHOP: I was a bit intrigued by your written comments on the NRAS scheme. My memory—and I stand to be corrected on this—was that the NRAS scheme was designed to raise additional funding for social housing essentially through the private sector. That was the genesis of the thought. I recall being extensively lobbied on this issue in Western Australia by a range of firms who had legal, taxation and superannuation issues deriving from bad policy decisions made by the relevant government departments. I do not really understand the linkage between that original policy intent of government and your criticism here in terms of the role of charitable or public benevolent institutions.

Mr Baird: The intention of NRAS was to create affordable housing and to effectively give a subsidy for the annual return of rental so that it stacked up as an investment.

Senator MARK BISHOP: Correct.

Mr Baird: The social housing sector said, 'We want to provide affordable housing. We would like to access this subsidy, but we must provide the rental accommodation at 75 per cent of its market value to access the subsidy.' In trying to get it to contribute in that way the response of the tax office was, 'No. People who come into this sort of affordable housing aren't poor enough to warrant your intervention and, therefore, we will take away your tax concessions if you move into that sector.'

Senator MARK BISHOP: The original aim was a very targeted market of essentially lower middle class income earners to get them into affordable housing in particular areas—nurses, tradesmen, teachers, technicians and that sort of thing—with whatever shortcomings they might have in their material income are not generally regarded as poor people. That is the first point. If the government's intent was to leverage into the private market to raise funding for affordable housing for a defined targeted market, which essentially by its own definition defines a lot of people that traditional community housing and the like might cater to, I do not understand how or why your criticism exists in this form.

Mr Baird: The housing associations were saying, 'We have experience and we will be good at marshalling resources and creating affordable housing. We've done it for social housing, particularly for disadvantaged people, and we believe that we can deliver it here.'

Senator MARK BISHOP: I understand all of that and I do not think I particularly quarrel with that, but that was not the purpose of the government's policy objective in this field of debate. It was to raise money, additional funds, from the private sector and the like as an add-on in this area.

Mr Baird: It was to get the market to contribute more to that sector.

Senator MARK BISHOP: Yes. Not to rearrange funding from existing markets into areas from which they are not traditionally involved.

Mr Baird: The outcome was effectively to say to the housing associations, 'You ought not get involved here to encourage affordable housing, in accordance with the government policy, but we want more affordable housing.'

Senator MARK BISHOP: In that area?

Mr Baird: Yes, 'Lest you lose your concessions.'

Senator MARK BISHOP: Let us accept the legitimacy of your complaint. What has been the response of Treasury and Housing to your complaint?

Mr Baird: The initial response came through the tax office to say, 'Be careful about getting involved, because you will lose your tax concessions', but parliament put a patch in to say, 'No. This is an acceptable activity to get involved in and we will not take away your concessions.' It was addressed at that stage.

Senator MARK BISHOP: Do you have ongoing—

Mr Baird: The new rounds are coming up. The patch was only for rounds one and two.

Senator MARK BISHOP: You are refighting the same battle?

Mr Baird: We are refighting the same battle. There is also another battle in terms of the directness of providing the accommodation. If someone does the developments as a housing association and gets another housing association to provide the day-to-day management, the tax office will then say, 'You're not providing the accommodation. Therefore, we will not allow you to access the GST concessions involved.' There are a couple of battles on a couple of fronts.

Senator MARK BISHOP: Is this a particularly Victorian issue?

Mr Baird: No, it is national.

Senator MARK BISHOP: The reason I ask is that a range of issues on this NRAS funding and the like have been raised with me in other states, but not this issue of the desire of charities/housing associations to become more heavily involved. Is it a Victorian issue as opposed to a national issue?

Mr Baird: No. I believe it is a national issue, although housing associations are structured differently in each state because it is state legislation.

Senator MARK BISHOP: They are very much a Victorian feature. The history of mutuals is not so prominent in the outlying states.

Mr Baird: That may well be the case.

Senator MARK BISHOP: Not raised at all in the outlying states. I am trying to get an idea of the scale of this, because a range of other matters has been raised with funding in terms of current and future rounds, but this is the first time that the issues of charities has been brought to my attention. Thank you.

CHAIR: I would like to ask you some other questions about your submission regarding the Unrelated Commercial Activities Tax or Unrelated Business Income Tax announced in the 2011 budget. You said that there will be disadvantages, that it is antithetical to building access to capital and that there is no demonstrated mischief that it prevents. What kind of policy objective do you think the government was seeking to achieve by introducing this measure? What do you think is the rationale for it from a government point of view?

Mr Baird: One of the stated objectives is the level playing field; that should a profit and not-for-profit organisation conduct an activity they ought to be taxed in the same way, but that has been consistently debunked in all the significant inquiries. It is hard to see why that would continue to be a justification. It seems that there is no mischief. It seems to simply come out of an unhappiness with the outcome of the High Court's view in *Word Investments*. It is a purpose test. What is the purpose of raising the money? The purpose is to apply it to charity, whereas there appears to be some understanding in Treasury that it is an activity test, where the activity itself ought to be suspect regardless of its purpose. That gets you into all sorts of demarcation questions about what activities is an op shop, with a purpose of providing clothing to people who are disadvantaged? Or is it there to raise funding to do that further down the track. Either way it is a charitable purpose, it is submitted. I do not understand the justification. It is just a curve ball that arrives on budget night.

CHAIR: Yes. It is acting against the purpose of the charity in effect by restricting its accumulation of funds.

Mr Baird: Yes. It prevents—

CHAIR: That seems to be hard to see as being a policy in the public good, if you like, in terms of the objectives of charities.

Mr Baird: That is our submission.

CHAIR: Do you have any specific examples to add weight to your point of view that you would like to put on the record?

Mr Baird: Perhaps Word Investments Case would be a good example. A charity wishes to raise funds. It looks for an appropriate way to do so. It appears that under the budget statements lamington drives and sausage sizzles will be all right, but please do not become too entrepreneurial and look for another form of business to raise your funds. We will cut you off somewhere on that continuum between small and substantial or safe and entrepreneurial. There would be a number of charities who raise their funds through commercial activities of that nature and scope.

CHAIR: Yes, I understand that. Your central point really is that the purpose should be the overriding consideration in the application of this tax regime. If the purpose is charitable, then the organisation should be allowed to accumulate the funds for its intended purpose?

Mr Baird: That is certainly what the High Court said in the Word Investments case and it is submitted that has always been the situation.

CHAIR: Thank you for appearing this morning.

THOMPSON, Mr David Francis AM, Director, National Roundtable of Nonprofit Organisations

BROOKES, Mr David, Managing Director, Social Traders Ltd

WARD-CHRISTIE, Ms Libby, Investment and Growth Manager, Social Traders Ltd

[10:30]

CHAIR: We welcome you here this morning and invite you to make an opening statement.

Mr Brookes: Thank you for the opportunity to talk to our submission to the inquiry. I will make some brief comments and then I am happy to answer any questions.

Social Traders is an organisation that was set up approximately three years ago as a specialist social enterprise development organisation. We are based here in Victoria. The majority of our social enterprise development work has been here in Victoria, although that work is now extending outside Victoria. Three months ago we received some government funding to undertake development support work for social enterprises around Australia to support social enterprises that were funded as part of the Community Jobs Fund and Innovation Fund over 2008-09.

Social Traders works with start-up enterprises—those individuals or groups that are looking to establish a social enterprise—and we also work with existing enterprises. Our key focus is around helping them to build their economic and financial viability.

Our submission raises a number of issues. Since our submission was made you would obviously be aware that the federal government has made a further announcement in relation to the social enterprise development and investment funds and has appointed two fund managers where additional investment funds and finance will be available for social enterprises in Australia. Social Traders welcomes that initiative of the federal government as access to finance has been a key constraint to social enterprise development in Australia. However, our view would be that the development and growth of the sector is still constrained, to some extent, in relation to access to capital. Those funds are obviously in the process of being established. The key issue is the extent to which that capital is available for start-up enterprises and also the ability of those enterprises to be able to handle debt. Our understanding, at this very early stage, is that those funds will be debt finance instruments and vehicles. We are particularly interested and concerned that there are also mechanisms for social enterprises to be able to access finance at that very early stage where they may not have great capability to repay debt.

The other issue for social enterprise, apart from the financial aspect and access to finance, is the need to provide development support capacity to those social enterprises that are being established. That is a role that Social Traders has been playing over the last three years. We believe that it is very important for successful social enterprise development to have that wraparound development support in addition to the financial investment.

Our submission refers to an initiative and some of the work that we have been doing here in Victoria, in terms of development and investment for start-ups. We launched an initiative here in Victoria last year supporting a number of social enterprises. That initiative is providing financial investment, but also development support for those start-ups with business planning and mentoring. That is the sort of support that I think we need to see more of in Australia.

The other issue that our submission relates to is the development of diverse models that achieve social impact through business, which is contingent on there being customers for the goods and services being produced. We believe that governments have a major role to play at all levels to mitigate some of the perceived revenue risks of providing capital for social enterprise and can play a really important role in terms of procurement as a purchaser of both standard goods and services from the community and the social enterprise sector.

The other issue that I would raise briefly in our submission is the lack of an effective legal structure and associated tax incentives for investors. Many social enterprises, despite achieving sustainable and long-term social impacts, having a legal structure that does not allow the distribution of profits or surpluses for personal gain, are not eligible for DGR status. That is an issue that potentially needs to be considered by government.

I will leave it at that. I am joined today by a colleague of mine from Social Traders, Ms Libby Ward-Christie. Both Ms Ward-Christie and I would be very happy to take any questions from the committee.

CHAIR: Mr Thompson, do you wish to make any comments?

Mr Thompson: If I may.

CHAIR: Please do so.

Mr Thompson: I am here in my capacity as immediate past chair and board member of the National Roundtable of Nonprofit Organisations, but I have a number of other incidental but relevant involvements in this.

I am a director of a company called Community Sector Enterprises, a joint venture between Bendigo Bank and another company which I chair called Community 21, which operates the enterprise called Community Sector Banking that delivers banking and other financial services to the not-for-profit sector in Australia and has been operating for nearly 10 years.

Like Mr Baird, I am a member of the Australian Charity Law Association. I have been a member of the ATO's Charities Consultative Committee for 11 years. I am a member of a board of another organisation, which has a rather elongated name but has significant involvement in some of this at a global level. It is an organisation called the Intercontinental Network for the Promotion of the Social Solidarity Economy, which has an acronym in French, which is RIPESS. I sent the secretariat some information about work that some of the people in those organisations are involved in, conducting a major conference in Montreal next month. One of the things I would observe is that we seem to have a fairly strong preoccupation with what is happening in the UK. I think we can learn a lot from what is happening in a lot of other countries as well, and not least Canada and the US, and some other countries, such as India, for example, where the not-for-profit sector is very substantial and significant. In other countries where significant parts of the social economy are much more structured around cooperatives and much more citizen engagement rather than the other end of the spectrum where we are talking about the sort of superstar social entrepreneur end of the spectrum. It is a big spectrum.

Coming back to the roundtable, in 2006 we published a study—I would be happy to provide this to the committee; we did not make it a formal submission to this inquiry—conducted by the late Dr Mark Lyons of the University of Technology in Sydney and financed by the Westpac Foundation on the sector's access to capital, which at that juncture indicated a very mixed picture. One of the major contributions that our late friend and colleague Dr Lyons made to that discussion was the need to consider not just the not-for-profit sector entertaining any idea that it is indeed an homogenous sector, but rather to look at the finance, capital and financial services needs of different sectors of the sector.

I should have pointed out that I am also a member of the advisory council to the new Social Investment Finance Australia—one of the two social enterprise development investment funds that the government is supporting—and I made that very same point to my colleagues in that context as well. As an illustration, Mr Baird talked about community housing organisations. There is a significant involvement of not-for-profit organisations in community housing. Community sector banking is a big lender to some of those organisations. Their needs, the way they operate and the way they need to access capital, will be very different from other parts of the sector that operate in different ways.

Since Dr Lyons conducted his study there has been some significant, positive and good work done by organisations such as Foresters Community Finance and the other organisation with which I am associated, Community Sector Banking. That organisation has made a submission and will be appearing before the committee. One of the fundamental concepts was about trying to get the sector to make better use of the capital that it has already. One of the very significant sorts of milestones for the not-for-profit sector in Australia was the publication of the Productivity Commission's report, which surprised a lot of people, including people like me that have been involved in the sector at national level for more than 30 years, was not how economically significant the sector is but how rapidly it has grown, and particularly over the last 10 years or so. A very useful starting point we thought 10 years ago was to do what we could to get the sector to better make use of what it already had. We have observed, as have other commentators, that the sector has access to significant amounts of cash, that it tends to be adverse to pursuing debt financing, and needs assistance to leverage the available capital it has to be able to do more and do better.

I am on the board of a charity, which I will choose not to name for what I am about to say, which has some very senior people in the financial services industry in Australia on its board and which received just over \$1 million to conduct a social enterprise under the government's Community Jobs Fund. That was duly done and successfully conducted, and at 30 June this year when government support ceased the idea that we should pursue debt financing as a means of continuing that was considered completely out of the question.

I think there are questions about the extent to which the citizens that are engaged on the boards of companies limited by guarantee or the management committees of incorporated associations are prepared, and we should expect them to be prepared, to make guarantees and to otherwise expose themselves by pursuing that line of financing.

On the other hand, in my day job as Chief Executive of Jobs Australia, the national peak organisation for non-profits that carry out employment services—and we have about 280 members, ranging from big organisations like Mission Australia down to relatively small ones—many of them have been continuously operating with substantial government funding which started back in 1976 under the former Community Support Scheme. If you

tracked their financial history and understood the way in which they operated, you would say they would be a fairly good financial bet and a good candidate for attracting a credit rating that would give them access to that finance.

I will get to the nub of the point I want to make. One of the things that I have not seen really well addressed in some of the submissions that I have read to this inquiry and that I observe in the debate that happens generally is that one of the things that needs to happen to get existing instruments and markets to work more effectively is for the non-profit sector to better understand them and how they work, and so increasing the financial literacy of the not-for-profit sector. And, on the other hand, getting the financial services sector and the people operating in the relevant markets to better understand the needs, circumstances and language of organisations operating in the not-for-profit sector. The government is doing some useful things in terms of funding the two social enterprise development investment funds, and in another context in funding the community development finance institutions, which Community Sector Banking has another one of. But I think organisations like Community Sector Banking, Social Ventures Australia, Foresters Community Finance Limited and other intermediaries like that, perhaps Social Traders and others, have a very useful role in introducing these two worlds that have not really collided a lot in the past, helping them better understand each other and how they might work. One of the things that the numbers that the Productivity Commission published gave a wake-up cry was, 'This is actually really economically significant and we need to look at it.'

I started to say before that one of the things we said when we established Community Sector Banking was that in the event that all we do is get the major banks to sit up and take notice about the not-for-profit sector and to start to tailor products and services to their particular needs, we could regard that as success. Most, if not all, of the major banks are investing significant resources in better facing and meeting the needs of not-for-profit organisations. If I might just finish with a couple of other points—and I have probably spoken enough as it is—I just would like to endorse the comments made by my colleague Murray Baird about the government's proposed Unrelated Business Income Tax. The roundtable has made a submission to Treasury on that. We are disappointed that Treasury has not published or made public those submissions. In a number of debates at the ATO's Charities Consultative Committee with senior Treasury officials we have made the point that a wiser and better approach would be for the government, and indeed Treasury, to actually reveal the nature of the mischief that they foresee arising out of the High Court's decision in *Word Investments*. It is claimed that there is a mischief or collective mischiefs that are going to put billions of dollars of holes in the revenue. As I and a number of my colleagues at the charities committee said to Treasury officials, having heard that, 'Tell us what it is and we'll help you work out the best possible solution.' If one has a look, the UBIT, Unrelated Business Income Tax, has a history, part of which had its genesis in a company called Millers Macaroni, which was owned by New York University Law School. If you go to the Internal Revenue Service site in the US and look at what you need to do in terms of making returns and in coming to a conclusion about whether something you are doing is an unrelated business or not, it has turned into an industry of its own. We worry about that for two reasons. Firstly, it is likely to entail a plague of red tape involving cost and complexity, which we would like to avoid. Secondly, because it will serve to constrain the sector as it seeks to be more entrepreneurial, less dependent on government and so on. As Mr Baird observed, we are already seeing that in terms of organisations saying, 'We'd better not do that. We might get caught with these new arrangements.'

The other thing is that there is a lot of excitement and enthusiasm about the prospects of social impact bonds. We have not seen one of them play out in its entirety yet. They have interesting possibilities. I note the New South Wales government has announced that it is proceeding with the trials. I think before we go too much further with that we should see how those trials play out, and the others in the UK and so on.

CHAIR: Thank you for those additional remarks. I am particularly interested in your international comparisons. Is there any particular international regime that we could point to as a good template that Australia could follow? You mentioned Canada and the US as being better than ours.

Mr Thompson: Not necessarily better, but in some ways more developed. In others it is perhaps less. I guess we could go further and look at some of the European experience as well, as in France, Germany and Italy. I do not think there is any particular regime that is necessarily the one we should go to. Rather we should resist the temptation to always be looking to the UK and rather to be looking to other places. As I said, I sent the committee secretariat some examples from Canada just as an illustration.

CHAIR: Thank you for doing that. We could also get details of the United States, Italy, France and German regimes.

Mr Thompson: I would be more than happy to help you to do that.

CHAIR: Thank you very much. Senator Stephens.

Senator STEPHENS: Thank you all for your submissions. You bring a different skills set and experience to the inquiry, which I am interested in pursuing. I will start with Mr Brookes. You make the point in your submission that there are potential funds available in corporate and private philanthropy to invest in social, environmental and cultural impact, but at this point in Australia there is insufficient experience of social investment other than existing practices of corporate social responsibility and grant making.

My question comes to the point of your role in this landscape. We have had previous evidence that the role of intermediary organisations is very significant in growing the social capital market in Australia and, therefore, if the government wants to grow this market then it needs to fund intermediaries. I would like your perspective on that and whether or not there are intermediaries in the private space and in the quasi public space.

Mr Brookes: It is an important point and something that we feel quite strongly about. When we talk about social enterprise, we are talking about a business that has clear social and community benefit. The experience here and internationally shows that a lot of the social entrepreneurs, the founders of enterprises, whether they are individuals or within community organisations, do not necessarily have that business expertise so they can identify the opportunity to address a social issue in a community, but they will not have that business skill. Like any typical small or medium sized business, access to finance is important, but more often than not we believe that investment needs to be supported by business planning support to help them identify whether there is a market for their goods or service that they are planning to produce.

The role of intermediaries comes in that area. For example, in Social Traders's role we help enterprises at an early stage to identify whether their idea has market and business potential. We help them go through that feasibility process to identify their market and develop their business plans. Ms Ward-Christie might have some other comments to make in that regard.

If you look at the UK, there are a number of intermediaries that have been established and played that sort of role. That is the role that organisations like Social Traders are playing. In a way it is a bit of a unique role here in Victoria and Australia. There are other organisations, like SVA, that have also been very effective in working with the broader not-for-profit sector and do some work around social enterprise. But a lot of that work that SVA is involved in is further down the pipeline at a later stage in the business cycle, where they are supporting enterprises to scale rather than at that early stage. A lot of the work that we do at Social Traders is working at that start-up stage or, to some extent, working with existing enterprises that are struggling to build that sustainability. We obviously have a vested interest but we firmly believe that there is a strong need and role for intermediary organisations like ours. Whilst we are a small organisation, we bring specialist skills with the staff that we have from business and community backgrounds to be able to work with social enterprise in a very hands-on way.

Senator STEPHENS: You have been established since 2008, so you are still a reasonably young organisation.

Mr Brookes: Yes.

Senator STEPHENS: Have you had clients that are looking to leverage some significant capital investment? How do you pursue that?

Ms Ward-Christie: Yes, we have. Last year was the first year that we ran the pilot of our development and investment initiative that we call The Crunch, and through that we selected, from 80 applications, nine to work very closely with over a six month period and we put them through a rigorous feasibility and business planning process that supported them with mentors and gave them the tools to think through both gaining the greatest social impact from their social enterprise idea, but also building a viable business around that.

At the end of that process, they effectively pitch for investment. That investment—getting back to the point around traditional models of capital, especially for early stage ventures—is usually philanthropic and based in that traditional grant making. This is quite different in the sense that what we actually get them to do is test and build the viability of that proposal and ask for financing investment, that is what they require in terms of start-up and then the working capital that is required until they get to break-even point to make sure they are cash positive. We, the Social Traders board, made investment offers out of our small investment fund to five of the nine that pitched for investment, and our offers totalled just over \$700,000, but for a couple of those that pitched to us, our fund was not big enough to offer them the full amount of start-up and working capital that they required. We have now been working to try and broker that additional capital for them as well with other organisations, knowing that the announcement of the SEDIF funds was coming, but it had not come at that point. That was welcome news within this context. Some organisations were looking for several hundred thousand dollars to start up what will be very significant social enterprise initiatives that will yield quite significant social impact for the community. We have been working with a few to this point.

Senator STEPHENS: Mr Thompson, considering some of your other hats, one of the issues that has been raised with us in another hearing is about this issue of the level playing field and, for example, how small business incentives do not translate into small business not-for-profit models and how people who are engaged in programs such as the School for Social Entrepreneurs or other like programs are not eligible for NEIS and NEIS support. Do you have any comments around that, given that your experience in the job network and actually trying to place people in non-traditional employment, often self-employment?

Mr Thompson: There is an incentive for unemployed people that the government will pay them income support and provide through the New Enterprise Initiative Scheme, but generally I think there is a need to look at whether some of the incentives that are available for small business on the other side of the fence could be made available, or similar incentives made available, to people operating in the social economy not-for-profits base.

Most of the debate of late has been about the need to pursue competitive neutrality. There was a provision in the Treasury discussion paper that proposes that organisations with government service delivery contracts would, after some period, not be allowed to use those or continue to access their tax concessions, such as GST concessions and FBT exceptions. As the round table and others said in their submissions to Treasury on that point, the fact that there are private sector players operating in this space does not mean the activity of itself is not benevolent in nature.

Working with very disadvantaged unemployed people is arguably benevolent. Working with people in poverty to secure housing or to feed them is arguably benevolent. We have got this emerging engagement of the private sector in delivery of services on a playing field which we actually invented. So the not-for-profit sector was delivering services in many cases to people who arouse public pity and compassion well before governments ever did it and so we claim ownership of the playing field. The fact that there are private sector players doing something in that space does not mean the not-for-profits doing it are not being truly benevolent. The issue is what they do with the resources they generate from doing that. It does not go into the pockets of shareholders.

We could argue that that is a new and novel development, the contracting out-of-government services, and a lot of the debate about that in the UK is about which bits of public service delivery the non-profit sector can get its hands on. I am reminded by a publication of the UK Serco Institute that one of the earliest examples of contracting out of government services were the prison hulks and the First and Second Fleets, which involved private sector contractors delivering public services.

Senator STEPHENS: On that point, are your clients able to actually participate in NEIS? Is this a bit of an anomaly?

Mr Brookes: It is.

Ms Ward-Christie: Conversations I have had with people who provide NEIS training anecdotally would suggest that when people come to them with an idea that is more on the scale of social enterprise or at that end of the continuum, they are positively discouraged from pursuing that because, first and foremost, it is about their own circumstance. They are discouraged away from putting forward a business model that may not mean that the individual themselves, the entrepreneur if you like, maximises or optimises their personal profit making.

Senator STEPHENS: That is interesting.

CHAIR: I am not sure that Senator Bishop has questions?

Senator MARK BISHOP: No, I do not.

Senator STEPHENS: There was one other point that was made in regards to debt financing in the sector. Some of the other submissions and other evidence we have received has been that either the objects or the structure of the not-for-profit prevents buyers, by the structural nature, and organisations from entering into debt financing. The point Mr Thompson made about personal guarantees and the roles, responsibilities and fiduciary duties of directors of not-for-profits actually turns people off that personal liability issue. Is there any model that we could look at that actually improved the environment in that regard?

Ms Ward-Christie: We have personal experience with Social Traders in making our first investment offers to the enterprises that came through our Crunch initiative and successfully pitched for investment from our small fund. Initially our investment agreement with them would be that we would pursue personal guarantees from directors, not for instances in which the business failed, but for instances of fraud or misconduct that may have occurred, and that was when we would implement control against that risk. We had to abort that element of the agreement because even that, in instances of fraud and misconduct, was unpalatable to the directors on the boards of the organisations that we were making investment offers to.

The road that we have gone down now is unsecured for the debt component of the offers that we make, because ours are usually a hybrid of debt and—we do not like to use the word ‘grant’—non-repayable contributions and non-repayable investments. Ours are unsecured in all ways basically; because of that they are non-recourse. We have not come up with a solution apart from the other aspect of it, which is actually working with the boards of organisations through the aversion and risk aversion to debt that exists and that we have seen to be a quite significant barrier to any investments that we would like to make.

Senator STEPHENS: Have you got a comment?

Mr Thompson: think it is a very big issue. If any structure limited the ability of a creditor to recover their funds then we are not going to get the credit. I am trying to recall some time ago the round table convened a seminar with David Gonski, who was talking about the experience of him and his wife on the board of a theatre company in Sydney which had some very significant debt. If you like I will speak to him. He recalled a different kind of entity structure which was used many, many years ago by mining companies and others that in some other way limited the liability of the directors. I will need to go back to him.

Senator STEPHENS: You might be able to pursue Mr Gonski in the Sydney inquiry. Thank you; that is helpful.

CHAIR: So we have just about reached our time limit. Thank you for appearing, it has been very interesting.

McKERN, Mr Cameron Clyde , Executive Director, Mt Buffalo Community Enterprise

McKENZIE-McHARG, Mr Mark, Executive Director, Mt Buffalo Community Enterprise

MACLEOD, Mr Andrew, CEO, Committee for Melbourne and Chairman, United Nations Principles for Social Investment

MAY, Mr Martin, Director and Treasurer, Hepburn Community Wind Park Co-operative Limited

PFAHLERT, Mr Matthew John, Board Member, Mt Buffalo Community Enterprise

[11:12]

CHAIR: There are three groups here, do you wish to make opening statements? Would you like to begin Mr MacLeod?

Mr MacLeod: My name is Andrew MacLeod, I am here in two capacities. I am the CEO of the Committee for Melbourne, a not-for-profit based here in bringing the private sector together to enhance Melbourne economically, socially and environmentally. I am also here as Chair of the new United Nations Global Compact Secretariat for the Principles for Social Investment, which is a new global secretariat being established here to encourage social investment and shared value amongst the UN Global Compact 10,000 company signatories around the world. I want to acknowledge also within the audience at the moment is Dr Shaun Cannon, who is the CEO of the Principles for Social Investment.

We are making just a couple of very short statements. One is around the notion of deductible gift recipient status under Australian law, which is currently restricted mainly to organisations undertaking activities which are within the geographic territory of Australia. Given the ongoing globalisation of the world economy and given our ability and desire to attract global institutions to Australia, such as the UN Principles for Social Investment, that geographic limitation to activities taking place in Australia is somewhat anachronistic and old style and needs to urgently be looked at if we are going to encourage Australia to be a global centre for social investment and social responsibility activities.

Secondly, we are very optimistic about the future as we see a growing professionalisation and growing strength of corporate social responsibility and social investment programs worldwide, and in fact Australia is the home of many of the globe's leading companies. The core funding of the United Nations development program by example is \$1 billion a year, although there is more than that for non-core funding. The combined corporate social responsibility spending of the members of the Committee for Melbourne alone is \$1.5 million, which gives you the ridiculous statement that the private sector just coming out of Melbourne is involved in more social responsibility than the core funding of the United Nations development program. The combined corporate social responsibility spend of the private sector worldwide is estimated to be \$59 billion a year and growing. That is four times the budget of the entire United Nations system.

That goes back to my original statement that if we really want Australia to be a centre of social innovation then we really need to look at this geographic differentiation on the deductible gift recipient status. For example, BHP Billiton currently has a philanthropic fund worth about \$60 million at the moment, which they had to place in London. They would have preferred to have placed it in Australia, but the geographic limitation on DGR status prevented them. Given that we are seeing a growing strength and involvement of the corporate social responsibility sections of companies worldwide—and Australian resource companies are the leaders in that globally—we are very optimistic about the unusual and innovative partnerships that can be created worldwide in helping bring the world out of poverty, particularly building off the lessons that a number of Australian companies have made in dealing with the Indigenous communities of Australia. You can see much more innovative partnerships developing between BHP Billiton and Oxfam, for example, in looking at proper and genuine community engagement regarding shared value programs.

BHP Billiton runs an antimalaria program in Mozal, Mozambique that has reduced adult malaria infection from 82 per cent of the population to eight per cent. It is a wonderful and effective program. The improved community health though has also led to a dropped absenteeism in the workforce, from 22 per cent to two per cent, thereby making their assets more productive by an amount higher than the cost of the program. In many ways you can show a definitive return to the community and to shareholders from that program. If a medium sized company wished to start a similar program, but did not have the upfront funds to be able to prove the concept, we should be able to encourage partnerships between the not-for-profit and philanthropic sector on one hand and the corporate sector on the other where the philanthropists and the not-for-profit sector can help a company prove the concept of a program that a company can then run over a longer period of time. Our current tax laws do not encourage

those sorts of innovative partnerships over the longer period of time, so we would urge that they would be reviewed as well.

That would bring us further down the track—and somewhat more controversially—to the option of if a company has set its corporate social responsibility section up as a separate and independent foundation, why should there not be tax deductibility into that fund? If I think that a corporate sector can lower malaria more effectively than the public sector, why should I not be able to donate as an individual into that fund if I believe it has a greater impact?

Our number one submission to you today will be that we need to review the geographic limitation on the deductible gift recipient status aspects of Australian law at the moment. We would like Australia to strengthen its role as a global leader in this space, but it can only be done if we allow deductible gift recipient status for donations and activities that may not necessarily be in Australia.

CHAIR: Thank you very much.

Senator STEPHENS: We can hold onto that thought for one second. Are you suggesting money that is raised in Australia should be eligible for a tax deduction, even though the money is spent overseas?

Mr MacLeod: Absolutely.

Senator STEPHENS: So not money raised in other places being spent in Australia?

Mr MacLeod: Yes.

Senator STEPHENS: Thank you.

CHAIR: You seem to be referring to UN programs, like the one for malaria, which are internationalised rather than, say, a program to support underprivileged people in Baltimore?

Mr MacLeod: Intellectually it should apply to both. You cannot start to draw a line and say, ‘Well we will help the poor and underprivileged people in Africa but we are not going to help the poor and underprivileged people in Baltimore.’ We sit here in Melbourne and celebrate the fact that we are now the world’s most liveable city, which is wonderful. Ten years ago Detroit was the sixth and look where it is now. So I do not think it is fair to draw a differentiation based on geography. We are a globalised economy; we want to continue to be a globalised economy; we wish to be a leader in all areas that we can, be it in philanthropy, business or not-for-profit, and our tax laws do not allow us to assert some sort of global leadership.

CHAIR: Mr McKenzie-McHarg, would you like to make a submission?

Mr McKenzie-McHarg: Thank you. I am an executive director of Mt Buffalo Community Enterprise Pty Limited and I have with me Cameron McKern, who is another executive director and company secretary, and Matt Pfahlert who is a director of the company. We are a company that was founded around a very specific social ideal, and that is to develop a structure within which we could take over control of the old Mt Buffalo Chalet and the old former ski fields in Mt Buffalo National Park, which are heritage assets of this state and are currently in a derelict or at-risk condition, and we have been doing this for over four years. It is a place that has had commercial stress with commercial leaseholders there for close to 30 years at various levels.

Our company was formed purely with that goal, not with the goal of private wealth creation for ourselves. We all come from the alpine valleys and we think a lot of other people in Victoria and in the alpine valleys share that aspiration that we should do something positive about Mt Buffalo Chalet. Without telling you the story of our company, what we are here to talk to you about is—and our project proposal is still in an uncertain state—our submission to you, which goes to the issue of where the for-profit sector intersects with the not-for-profit sector. We feel that if there is to be a healthy social enterprise or community enterprise sector in this country, then there needs to be a better recognition of the idea that making profit is not necessarily evil.

Profit, if viewed differently, can be the price of raising private capital. In our experience, with our company for instance, our constitution says that 51 per cent of any future profits will go to a foundation called the Mt Buffalo Community Foundation and 49 per cent will go to private shareholders. So we find ourselves in an odd situation. We are not technically not-for-profit and have never pretended to be, and if we deal with government we find ourselves being dealt with in a way that does not reflect the idea that we can possibly be a socially motivated organisation, which I would say all evidence suggests that we are.

The two issues are the intersection of the not-for-profit sector and the for-profit sector, and the way the Australian public policy framework deals with that, which we think is insufficient. For example, we are not going to be eligible for any sort of government grants and yet, because we are not-for-profit, we have to work out backdoor ways to get around all of that, which does not make sense in our view.

The second issue is that our goal was to work through a mainstream framework, being the Corporations Act framework, to try and take an investment proposition to a retail market, which basically says, 'We know there is no pot of gold in the Mt Buffalo Chalet, but we think it has got value.' It has got social value, and we think that there are a lot of other people in Victoria who would be prepared to invest in that notion. Unfortunately, we find ourselves in a situation whereby people from ASIC sit across the table and say, 'There is no way you can issue any sort of a disclosure document that has got forecasts of more than 18 months', and we are sitting here saying, 'We are talking about a 50-year leasehold, something that will take at least 6 years to get going.'

We are in a situation where if we comply with what we understand to be the ASIC rulings through regulatory guide No. 170, then we will find ourselves in a position where we feel we are effectively misleading potential investors, as opposed to informing them. We are between a rock and a hard place. In essence, that is our submission to you.

CHAIR: Mr May?

Mr May: My name is Martin May. I am a treasurer and director of Hepburn Community Wind Park, which is based at Daylesford. We are a bit of a blend between the profit and not-for-profit sectors. The organisation started out with a desire to do something about climate change on a regional basis and I do not think there was a particular profit motivation at that time, but we are now clearly an enterprise which is aimed at producing a profit, and therefore a dividend, for our shareholders, or our members—as we are a cooperative—of which we have close to 2,000.

This is a practical example of a business which has gone from scratch to being operational. We started operating in June this year. It is a \$13½ million investment from close to 2,000 members and it was built with the intention of producing enough renewable power to cover the township of Daylesford and most of the surrounding area, which is what it has been able to achieve.

We have gone through the whole list of processes and we have raised equity from various members across the country; we have had government grants from the Victorian government; and we have debt, which is provided by Bendigo Bank. We are a full-scale commercial enterprise. As I said before, we do have a profit motivation because we do not believe that people who invest in socially motivated goals should have to pay a penalty; they should not have to receive an investment return any lower than they would if they were investing in any other operation. The reasoning behind that is that we believe for it to be sustainable—not just in the environmental sense, but in the commercial sense—it has to produce revenue to pay for people to use consultants, to pay dividends to members, et cetera.

My submission is fundamentally about the headwinds that we have confronted as we went through the process. There are two components to our capital structure, which is the equity—that was obviously one which is simply a process of finding willing investors—and we also have been through the process of producing the equivalent of a public disclosure document, which you use to invite people to invest in your enterprise. We have also gone through the exercise of raising debt to support our capital structure as well.

The business is now running and has been generating power since 22 June. We are very proud of it. We have had a lot of inquiries from elsewhere throughout the country from people and other communities wanting to do a very similar thing to what we have done, and we are looking to build on that and make this a scalable model because, fundamentally, it supports regional development and local communities. It can do so all over the country.

CHAIR: Thank you very much. I will ask a general question; this comes back to the points that were made by Mr Murray Baird earlier from the Australian Charity Law Association about the purpose of these organisations in terms of their tax treatment. So, if your purpose is charitable and for the public good then you should receive a different regime from the tax department; is that what you would all agree with?

Mr May: Shall I go first?

CHAIR: Yes.

Mr May: We do not get any particular preferential tax treatment at all as a cooperative. There are no advantages that we are aware of. I do not know that we fall into the category of being charitable because, as I said, we have an objective of being profitable because we believe it is necessary to be sustainable in the economic sense. So, we do not receive any economic or particular tax benefits and, as much as it would be wonderful to, personally I do not believe it is necessary for an enterprise like ours.

CHAIR: All right.

Mr MacLeod: The question, if I may, hides something which is a tad more complicated. In the pure sense, should a charitable organisation get preferential tax treatment? In my view, unambiguously yes, but we are crossing into new and innovative territory where the line between charitable and non-charitable is a lot more blurred. Let me take you back to that BHP antimalaria example. If you think about it as a paradigm, on one end you have corporate philanthropy—pure charitable instinct—and on the other end of this paradigm you have the core business of a mining company. When BHP started the antimalaria campaign there was no doubt at all that it was a pure philanthropic, charitable component of the business's corporate social responsibility program, and that is what you could call corporate social responsibility 1.0: let us create a foundation and let us throw some money at something which is a good idea. But when they came down to analyse the program, not only did they see the impact on the community, but measuring that downstream impact on the absenteeism in the workforce they now consider the antimalaria program a core part of their business activity like any other staff enhancement program—through education, through health, through occupational health and safety or so on.

So, when you start to ask should a charitable function get tax deductibility—yes, not a doubt. What is a charitable function? We are getting into this confusing area. Some on the left wing may be tempted to say that BHP is only doing the antimalaria program because of profit now, to which my first instinct is to say, 'I don't care, it is still reducing adult malaria from 82 per cent of the population to 8 per cent', but actually I do care. When you actually downstream analyse and look for those opportunities of shared value, you guarantee the long-term sustainability of the project over the long term. BHP will not pull out of that antimalaria program now they see the impact on their business model. Australian companies are the leaders in this. So, it is a much more difficult question to ask, if I can: what actually is charitable and what is not? And then how do we handle those activities that are in the grey zone? What do we do about BHP's antimalaria program? There is a business case to do it; there is a charitable case to do it; and both of those objectives are good.

CHAIR: I understand that point, but I suppose if BHP, like Bill Gates, was funding the UN antimalaria program, that would be charitable; if they are funding a program at mine sites in tropical areas around the world so their workforce is protected from malaria, I suppose that might be seen as a business expense.

Mr MacLeod: Let me throw a much more difficult dilemma to you, if I may. I have spent most of my last 15 years in the aid and development world. I do not come out of the private sector. I worked for the international committee for the Red Cross in Bosnia, Yugoslavia, Rwanda and Tajikistan and I worked for the UN in Sri Lanka, East Timor, Pakistan, Afghanistan and Iran, so the comments I am going to make come out of 15 years of working on the front line of the aid and development world in the not-for-profit sector. In my personal view, the effectiveness and efficiency of the public sector's involvement as they strengthen is much better than the impact of the public sector. Examples of BHP's antimalaria campaign are far more effective than anything I ever saw through UNICEF, the United Nations Development Program or others.

So, I would agree that you could characterise and say, 'Well, if giving to the UN to implement something, it is charitable; if doing it for the core business, it is not.' I can agree with that characterisation, but I get in a little bit of a quandary when I see the business results are more effective when looking at the impact on the community than the public sector mechanism is, and indeed the government's own reviews are seeing this. When you read the aid effectiveness review, the call for a greater partnership between the public and the private sector is exactly that. This is where, with all due respect, senators, you guys have got to do a lot more thinking in how do we handle this grey zone, because the answer for that is not at all clear, but if we were purely measuring it on the impact on the people—what is improving the quality of lives of the people—then we do need to foster and encourage those areas of shared value where there is a genuine acceptance of the legitimisation of both motivations: improvement of the business case and charitable. They are both good and they are both legitimate, but they are treated very differently in the tax system.

CHAIR: That is the issue, I suppose. Yes, please go ahead.

Mr McKenzie-McHarg: I feel that your question goes to the core of the issue. Mt Buffalo Community Enterprise Pty Ltd would not regard itself as a charity and yet we feel that there is the issue; it is that public policy suggests to us that you are either a charity or you are not a charity and, if you are not a charity, you must be a private wealth creator. We see ourselves as socially motivated, but we are not a charity. We are okay about the idea of paying tax, but we just do not think that the policy framework deals with that sufficiently.

Mr MacLeod: If I can add to that again with my other hat on; I will take the United Nations Principles for Social Investment hat off and I will put the Committee for Melbourne hat on. The Committee for Melbourne has been around 26 years and we do coordinate and coalesce the energy, enthusiasm and goodwill of the private sector to impact on Melbourne socially, environmentally and economically. We do not have deductible gift recipient status, but what is the purpose? Our purpose is to enhance Melbourne, but driven from the private sector.

You will not have the Committee for Melbourne lobbying you about a change in tax law to impact on someone's business, but I will lobby you about better infrastructure planning and financing for the major urban cities of Australia. What is the purpose of what the Committee for Melbourne is doing? It is the greater good of the community, but because it is driven by the private sector, we are not looked upon as charitable. Are we good? I hope so. Are we charitable? I would agree with my colleagues, probably not.

Senator STEPHENS: It is quite an interesting dynamic discussion that has taken us from our previous witnesses, who are all working in the space of not-for-profits, to where you are, which is in this new kind of hybrid form. My questions are to all of you with your various circumstances. I do not know if you have had a chance to read each other's submissions. Let us take Mr May's submission. You make some interesting observations around the notion that you have a significant capital cost, \$13.5 million. That is very significant. You have real investors and then you have long-term investors. You bring to this debate quite technical financial regulatory commentary, which is really helpful for us actually.

Mr May: I am glad, because I was starting to feel like it was a little bit too specific.

Senator STEPHENS: No. I understand where you are talking about foreign exchange risk management and off-take agreements and those kinds of things—quite relevant to your sector of the broader sector—but the issue of things like the special purpose investment vehicle, Mr May, you talk about a community renewable fund and another one of you talks about a community enterprise fund and the challenges that you have had in looking to establish your foundation. What I read in both of your submissions is that you do not believe that the current framework actually meets your needs. We have had a big discussion about whether or not a company limited by guarantee actually is the appropriate mechanism. The Productivity Commission took a long, hard look at the community investment company model from the UK, but what I hear from your submissions is that whether it is a structure or whether it is an asset class; is that more what you are looking for?

Mr May: I am talking specifically about an asset class. I am fundamentally saying that with the special purpose vehicle community fund, which is a bit of a cumbersome sort of description, the idea is to channel institutional and retail investors who want to pursue something which has an objective that is not entirely profit driven. So, at the same time, as I said, our objective is to deliver a healthy investment return to them, but we are not all about profit. We are fundamentally about coalescing our community, delivering renewable power and providing hope and opportunity for people in regional Australia, because it gives them a chance to energise—all puns intended—their community. It is possibly very similar to what is happening at Mt Buffalo, but just that we have a tangible revenue stream, which is the sale of electricity.

Senator STEPHENS: That is very significant.

Mr McKenzie-McHarg: Which we do, too. I think the issue is we are a company limited by guarantee. I wish I had two bob for everyone who says, 'Oh, just form a company limited.' Fundamentally, we need to raise capital and we think we need to do that through the issue of shares. The trouble is that, despite the fact that the origins of corporations go back to the sort of the artisans guilds of hundreds of years ago, whereby the shared goal in that environment was not necessarily for profit—it was about mutual interest—it seems as soon as you get into the Corporations Act environment the underlying assumption is that your goal or your objective has to be financial gain—private wealth creation. It is not for us, and the idea that we could go to a retail investment market with a proposition that says, 'This is not a pot of gold, this investment, but guess what, it is a good project.' That just does not seem to fit in the Corporations Act environment. We have not come to you with a solution—we are aware of the community interest companies—but we think it should, and it should create capital for private capital raising within it, because if you do not, by definition you are saying such companies have to then be totally reliant on handouts from the public purse. So, on the one hand we have government saying, 'Why is everyone lining up at Spring Street wanting more money for this and that?', and on the other hand we have got a regulatory environment which prevents us from sourcing private equity. That is the issue which we do not necessarily have a solution for.

Mr Pfahlert: We also believe that there is a growing percentage of people in our community—and particularly in our regional communities—who do not want to give a donation to a good cause, but actually want to make an investment in the things that are actually going to make their community stronger. At the moment, that whole percentage of people does not have the vehicle for these projects to engage with.

Mr May: Can I just make a comment about ASIC and raising capital, which I have had a little bit to do with over time? You referred before to sitting across the table from ASIC and them telling you what you can and cannot do. ASIC has many objectives and one of them is to protect the average man—the common man—from rapacious promoters of schemes, for want of a better term. Whereas we are all approaching this almost from a benevolent sense in as much as we assume and understand and are comfortable with each other that we are doing

it for the common good, whereas there is a group of people out there—and we read about them in the paper fairly frequently—who are not doing it for the common good; they are doing it for their own personal gain and they do not really care what the cost is to their investors. So, we have got a sort of collision of protecting individuals' interests from rapacious promoters to crossing over with us who are all—I am a volunteer director at Hepburn Wind—volunteers. There is a huge amount of human capital and blood, sweat and tears and so on that have gone into an enterprise like this, so we are clearly not trying to do it for personal wealth; in fact, it seems to have quite the opposite effect. I hope that is not being recorded.

It is sort of a collision of cultures in many respects because we are doing it because we are trying to make a difference. For us, we are building regional, renewable power generation. Other people are doing it because they want to make a squillion; that is not our objective. So, it would be really interesting to see if we could come to some sort of solution—I do not know what it is—where you could remove that conflict between the two objectives. I do not know how to do it.

Mr MacLeod: Can I add on to that? My mother used to always tell me the first step to solving a problem is identifying really what the problem is, and I think you mentioned earlier that we are in this grey zone. It is a new grey zone and I do see at a global level we have what I term a three-way convergence point. That is a growing dissatisfaction with the public sector delivery mechanisms for aid and development—the aid effectiveness review outlines them better than I could; there is a growing professionalisation of corporate social responsibility and community engagement programs from corporations; and thirdly, and more critically, a growing demand from Generation Y to have a social outcome as part of their work. The cities, the companies and the countries that understand that convergence point the best will have a global leadership position for half a century; of that, I believe. So, it is identifying what we do in this grey zone, not just in terms of difficulties but opportunities that come out of this. How do we tap into the energy, enthusiasm and resources of our people and are the tax system and tax structures enhancing or detracting from that new innovative way of thinking and the new innovative partnerships that are being built?

I would add, though, as well as looking at some of the examples that come out of the UK, I would urge the senators to gain advice from someone more specialised in this than I about the system in France of the Enterprise Humanitaire. The Enterprise Humanitaire is somewhere halfway between a private sector company and a not-for-profit charity. The Enterprise Humanitaire is the structure that was used to create Medecins Sans Frontieres—Doctors Without Borders, if you like. Gain someone with some specialist expertise to see whether that is something that does or does not provide some sort of option for Australia. I think your question of, 'Let's burrow into this grey zone', is helping us refine the problem statement so, as my colleague Mr Martin May has said, we can then start to really look at other ideas for solutions, but leadership on a national basis.

Senator STEPHENS: So, taking that point up, I am intrigued because I can see that Mt Buffalo is quite a specialised project and I understand that you are driven by protecting a huge heritage asset in your community and actually building a capacity for regional development and regional connection, so that is really important. I think about how many other regional communities would have heritage listed buildings that they may want to do something similar with and want to protect the national estate and are trying to find a mechanism to do it. So, you are creating this enterprise and then you have got 51 per cent will be in a community foundation. Can you tell me why you did not go down the community foundation path first?

Mr McKenzie-McHarg: What do you mean? Why we just do not do the community foundation?

Senator STEPHENS: Yes. Was there an existing mechanism in a foundation, say for example, the Foundation for Rural and Regional Renewal, that you could actually—

Mr McKenzie-McHarg: We have spoken to them.

Senator STEPHENS: Yes.

Mr McKenzie-McHarg: Let us just take the proposition that says we do it all as a foundation, a company limited by guarantee and it is a foundation and we could touch base. The problem with that is that we are then in the territory of being totally not-for-profit and where does the money come from? We have got no way of raising capital so we could try to borrow it, but there is 30 years proof that this is a property that there are specific problems with; it is 100 years old and it is in a bushfire zone, so it puts us back into the territory of being a not-for-profit that comes begging on the steps of Spring Street to raise \$50 million to do something special. There is nothing different about that. What we wanted to do is to investigate the hybrid model which, because it is not without commercial value, says, 'We will raise some private capital to build a business, a profit making enterprise, that the community has ownership of, but then we will split the profits 51:49.' So, we can have a bit of both worlds if you know what I mean, but you have to have 49 per cent, you have to have some profit going back

to private equity holders otherwise it is the old story; if you pass the hat up and down the main street and ask for donations, people throw in \$20, but if you want to raise \$1,000 from people and they are going to move it from a private superannuation fund, for example, they are going to have to sell some BHP shares and buy some Mt Buffalo Community Enterprise shares.

Senator MARK BISHOP: But how is this 51:49 such an issue? Why is it just not characterised as a dividend distribution policy?

Mr Pfahlert: That is not an issue. The issue is that—

Senator MARK BISHOP: You are attempting to erect a structure around the desire to distribute some of the earnings to the investors and some back into the organisation for social purpose. Looking at it another way it is just a policy decision of the management committee or the board to distribute the earnings in a particular way; in this case, you identify 51:49. Why do you argue it is more than that? That is how I would characterise it.

Mr McKenzie-McHarg: It is. The foundation will own 51 per cent of the equity.

Mr Pfahlert: The issue is in the first place to raise the between \$6 million and \$8 million required to commence the hotel business; there will be the chalet. We cannot go out to the mums and dads investors that we would hope would be part of a community ownership model and give them a prospectus or a disclosure document that says here is our 10-year forecast. At the moment ASIC says, through the 170 ruling, that we can only give them 18-months worth of financials, which means that is the building phase of our operation, so that under ASIC's laws as they currently stand we cannot go out to those mums and dads with the full picture of what our plan is. So, it is going to be very, very difficult for us to attract that private capital in the first place to have that money to invest into the chalet business, partner with government for the rest of the capital to reinvigorate the chalet, so that we can take on a 50-year lease that means that the government has the chalet off its hands and has a very, very sound model that is sustainable over the long-term.

Mr May: Could I just raise a point? I think we have hit on something fairly significant here. What we are actually talking about is the structure of the various enterprises and it is interesting to hear the discussion from Mt Buffalo about where you fit in structurally and what sort of enterprise you look like. We are a cooperative and we chose to be a cooperative because it sat well with the community who put it together. A cooperative, essentially, is something where each shareholder has one vote—you do not get a vote per number of shares—so it is very democratic in that respect. With the benefit of hindsight it presents its own peculiar difficulties. So, it would perhaps be quite interesting if there was some body—not just an individual, but a body—who could advise people who are contemplating doing this on what the appropriate corporate structure was for their objectives, for their particular enterprise. There might be that there is a better structure—I know I am not an expert—for what Mt Buffalo is trying to do, and it might be there is a better structure than the cooperative for what we are trying to do. People get together; they coalesce out of a common interest and sit around. We have all got various levels of expertise and there is lots of expertise out there, but you are not necessarily going to get somebody who is across these issues broadly enough to be able to say, 'Well, look, you really should be going for a fully incorporated company', or, 'You should be a cooperative', or whatever the alternatives are.

So, it would perhaps be useful if there was some reference point where people, when they are contemplating this, could, you know, like a start-up pack, say, 'What is the right structure for what we are trying to do?'

Senator STEPHENS: Of course, there is in Victoria; it is called PILCH. If you have not actively engaged with PILCH, they are fantastic in that regard and have a portal where you can go in and look and it gives you that kind of advice and then you can actually connect with them.

Mr McKenzie-McHarg: Can I just say, we have had that discussion? We have engaged lawyers and what they have said is, 'The Corporations Act is not the environment for you.' At a fundamental level that is the premise that we challenge. I think the idea that the Corporations Act environment—in other words, the assumption that corporations in this country's goals can only be for private wealth creation—is flawed. That is the fundamental thing. So, we have been advised that, 'This is not the environment for you', and we are going, 'Why shouldn't it be?'

Mr MacLeod: And then what is?

Senator STEPHENS: What is, is the question, isn't it?

Mr MacLeod: If I can add onto that by way of example again that the Committee for Melbourne is an incorporated association under Victorian law. The Principles for Social Investment is a company limited by guarantee under federal law. The Principles for Social Investment gains its mandate from a direct memorandum of understanding signed between the United Nations Global Compact and the Committee for Melbourne for the establishment of the Principles for Social Investment and has gained \$1 million of core funding out of the

Victorian government. Incidentally, the federal government is not assisting, which is strange when we have a UN global structure being set up here in Australia, yet the federal government is not assisting, but that is a separate issue for the moment. When trying to raise funds for the Principles for Social Investment to build upon the \$1 million worth of core funding we have been given from the Victorian government, when we go to any charitable fund or foundation, they can only give to us if we have deductible gift recipient status, which we cannot get because we are doing operations outside of the geographic boundaries of Australia because we are a global secretariat.

So, we do not sit in any comfortable environment either and this the great challenge and I think Mr McKenzie-McHarg—is that how I pronounce your name correctly—

Mr McKenzie-McHarg: It is close enough.

Mr MacLeod: has hit it spot on. Let us remove the cynicism that exists in the general public about the private sector for a moment. When Dick Smith did his population debate *Q&A* in March last year—and I have got my own problems with that—Tony Shepherd, the chairman of Transfield Services, stood up in the audience and said, ‘Well, doesn’t the community realise what business puts back into the community?’, and the audience booed him. That is one of the problems we have. Sure, there are some carpetbaggers and snake oil salesmen out there, but every corporation I know is run by a person and most people I know want to leave the planet better off than they found it. Particularly as that influence of Generation Y is getting stronger and stronger in our corporates, the motivation of corporates is not just profit at any cost, it is profit plus impact on the community around us, particularly those going into the developing world recognising that they would like to remain in an economy 50, 60 and 70 years and if they are going to be in an economy that long you might as well strengthen the economy, which also has good impacts on the people around them.

So, it comes back to the issue of, yes, what structure do these organisations sit in? What regulatory regime is best sitting under them and is our regulatory regime leading the way in the global change that is happening in the fundamental nature of a corporation changing as we understand the impact around us?

Senator STEPHENS: I am going to let that question hang.

Mr MacLeod: No, Senator. We will wait passively for the response from your side of the table.

Senator STEPHENS: Passively.

Mr McKenzie-McHarg: I will take that as a comment.

Senator STEPHENS: There are three significant submissions for us to consider. I want to make sure that you do understand that you come with a very different perspective that is really important for us to consider. The million dollar question is—I am Irish and my mother used to say, ‘If I was going there I wouldn’t be starting here’—the notion that if we were to fix the environment for you in all of your mixed circumstances, what would be the key thing that you would be looking for us to recommend?

Mr MacLeod: For me—

Senator STEPHENS: For you, it is the DGR.

Mr MacLeod: The number one factor is removing the geographic limitation of deductible gift recipient status.

Mr May: I am far more specific, because I am thinking in a very narrow basis about our particular enterprise, which is producing power. If there is one thing I would like to see it would be a dilution of the monopoly power that the distributors have here in Victoria—not necessarily the same nationally, but here in Victoria in particular—whereby they really can elect to receive your output or not. We produce enough power for our community but it is an insignificant amount of power in comparison to what is produced within the grid. So, it is more of an irritant to the distributor than it is an asset and it would be very, very useful if that was removed and they were obliged to take our power on reasonable terms rather than as it is now.

Senator STEPHENS: While you say you are an irritant in the sector, that really more broadly comes to the issue of social procurement more broadly in the sector. This is an issue that has been raised with us quite a lot, and competitive neutrality and what happens when there is market failure and all these kinds of things, so it has kind of been raised in lots of different contexts with us.

Mr May: Good. It is quite clearly a big issue for us and the whole enterprise can fail or succeed based on access to the grid, and it is not guaranteed and it would be ideal if it could be guaranteed.

Senator STEPHENS: You make a point in your submission, though, about the role of guarantees. Would you like to expand on that?

Mr May: Yes. The way the capital is developed within the business associated with the expenditure that goes with developing the project is quite often misaligned and you find that, as willing as the community is, the amount of money that they have raised at a particular time is not enough to push the project ahead. Every counterparty we deal with wants to de-risk—they do not want to take any risk—and they see us as being a one-off enterprise made up of a bunch of volunteers with unproven financial capability. So, they step back, try and de-risk and they look for some sort of support all the way through. If we were to have some form of guarantee that would allow us to prove our financial capability, it would be very, very useful; so a government guaranteed loan or something like that.

Senator STEPHENS: So, we have had the issues of credit ratings—small organisations not being able to have favourable credit ratings—so that kind of comes into this same issue, does it not?

Mr May: It does; it is one and the same thing. The other thing that goes with it, of course, is that there is a hidden cost of finance, which is your bankers want you to be able to establish that you can actually service your loan even though we have a very low debt to equity ratio; it is about 23 per cent. In order to do that they wanted another party to stand behind us and guarantee it—this is where the off-take agreement comes in—and that party is typically a large listed enterprise such as one of the large gentailers. So, we have to go to them to write a long-term contract to sell our power, and of course we are competitors and they will only ever quote us a price which is lower than their marginal cost, otherwise they would do it themselves.

So, we are inherently disadvantaged by that process, hence the suggestion of a feed-in tariff. So, if we could have guaranteed access and we could have a price which was not necessarily guaranteed, but we could have a more controlled price that we could prove certainty of our income stream, we would be in a much different position.

Senator STEPHENS: So, taking that issue of social procurement, let us translate it into this environment here. To get your establishment capital sorted, you are talking about \$8 million? You are looking at \$8 million to get the hotel up and going? How long would it be before you consider in your business plan that you would have returns—not necessarily get to profitability but would actually be generating income?

Mr McKenzie-McHarg: I suppose in the first instance the first card that has got to fall into place here is the state government making a commitment to the project. The \$8 million is not the total investment; it is in the public domain. But the total scale of the project we have proposed is in the order of \$50 million. I have not got it off the top of my head; it is several years before you get—so our business model is built—

Mr MacLeod: It is before year six.

Mr McKenzie-McHarg: It is before year six, but the business model is built on getting a net return to investment which is roughly akin to—in other words, your money does not go backwards—sort of cash investment rates. That is what our business model is built on. So, no pot of gold; you would probably be better off investing it elsewhere if your sole goal was to maximise private wealth creation, but that is not what we are trying to sell.

Senator STEPHENS: No, I understand what you are trying to sell.

Mr McKenzie-McHarg: In answer to your question about the one thing; a legitimate path through the Corporations Act environment for socially motivated organisations through which they could raise capital for social projects, without having to deal with the corporate regulator and feel like we are fly-by-nighters; that is all we want.

Senator STEPHENS: Coming back to you, Mr May, one of your other recommendations is about developing a small-scale listing mechanism for ASIC.

Mr May: Yes.

Senator STEPHENS: That is an interesting concept to me.

Mr May: Yes, it is. It was a bit of a moment of inspiration, I must admit, but it does have its foundations. Listing is a very expensive process and listing, of course, can get you access to capital. If there was a social stock exchange, for want of a better term, it would be quite interesting. It would have to be cast around similar sort of motivations, in as much as it was not populated by people who were looking to make huge amounts of money out of it, it was low cost, it was low cost listing rules and it would give everybody a level playing field when it came to assessing projects. So, we could have the situation where Mt Buffalo comes to the market and they look to raise some funds and they do not have to go via a large broker who has got massive overheads to cover and big bonuses to pay; there is a different mechanism for it. So, it is basically a collection of people with ideas looking for money

and people with money looking for people with ideas, but it has to be low cost and fairly simple. It gives you liquidity; it gives you access to capital. That is what the stock exchange is doing.

Senator MARK BISHOP: As I hear your argument, you are putting the proposition that you want to be able to go into the capital markets to raise capital, that you want to be able to do that on the basis of a guaranteed income stream which guarantees your ability to repay the debt, and that income stream is guaranteed by the power supplier being mandated to purchase power from the producer element of your organisation. For us to make such a recommendation would then require the power supplier to either change his business model or, alternatively, to wear a cost of purchasing the power from your organisation because he chooses currently not to do it on efficiency grounds. Why do we want to impose this obligation? Why do we want to recommend to the government of Victoria, or whoever it is, to impose this obligation, which in turn has a social cost on the power purchaser, whoever it is?

Mr May: Actually, I am not asking you to do that. I should have explained it a little bit more clearly. It is a combination. There is a series of challenges which I have described in the submission and having to have a PPA, as it is called, or an off-take agreement to secure finance is one of them. That can be overcome in many ways. I identified that as a problem; the way that you potentially solve that is with a feed-in tariff. If I have a guaranteed purchase price for my output—and it might be guaranteed by the government—then that gets me around the arrangement with the—

Senator MARK BISHOP: Yes, but the guaranteed purchase price, in fact, is your income stream which provides the guarantee to raise the capital. What I am asking is why would this committee want to recommend to the power supplier that it be required to wear that obligation when it might be able to receive power in a competitive market from a whole range of other sources?

Mr May: It is a perfectly legitimate question and we are not trying to get around the market nature of the electricity markets. I am saying in essence that we are not asking the electricity companies to do it. I have identified that is the source of the problem—the mechanism and the way it is currently arranged—and it has actually ironically led to a lack of creation of generation capacity, but that is a different story. But what I am saying is we can get around that with a feed-in tariff. If we had a feed-in tariff which is paid by the government like we have had other examples of—there is a good example in Canada where I think the province of Ottawa has a feed-in tariff—that will support an income stream.

Senator MARK BISHOP: There is a very large discussion going on in a range of circles about the utility or dis-utility of feed-in tariffs.

Mr May: I am sure there is, and in reality there are a series of things which can be pulled out and used. I am not suggesting we combine them all. I have just identified various issues and various solutions to those particular issues and it might be one or it might be a combination of them. I am not saying that we need all of these factors; I am just saying these are various factors and they impact on your ability to secure debt.

Senator MARK BISHOP: Thank you, Mr May. Mr Macleod, you were making that argument about BHP and its corporate social responsibility fund and Mozambique and the amelioration of malaria; it could apply in a range of diseases. That fund established by BHP is not truly independent in the sense that, say, Mr Gates and other wealthy individuals have established standalone, totally independent, run separately, funds for distribution, is it?

Mr MacLeod: Correct.

Senator MARK BISHOP: Effectively, it is a department of the company.

Mr MacLeod: I do not believe it is. I do not work for BHP and I did not give the legal advice on this. I believe it is a separate legal structure based out of London under British law which does not have the DGR limitation equivalent that we do geographically, which allows them to use that fund to do philanthropic works worldwide. I do believe it is a separate legal structure, but I stand to be corrected on that, not being part of BHP.

Senator MARK BISHOP: When you use the phrase ‘separate legal structure’, do you mean inherent in that that it is totally independent and arms-length from company management or it is just a legal vehicle for achievement of particular company purpose?

Mr MacLeod: I do not know the structure well enough to be able to answer that. I am sure BHP would be able to provide you with that answer. I operate on the assumption that it is like most corporate foundations that, be it the Deloitte Foundation or any other corporate that we see here, that it is a separate and distinct legal structure with a separate and distinct governing board, but the personalities on the governing board are very similar to the personalities in senior management. That is my assumption, but I want to really underline, I do not know.

Senator MARK BISHOP: No. I just want to make two points. I have no criticism at all of BHP and like funds and I suspect you are correct in your description. That being the case, it is effectively part of the company, no matter how worthwhile the particular purpose of the fund. That goes to the heart of the issue you are raising.

Mr MacLeod: The reason I am hesitant is I have a legal qualification and so I am really hesitant to say, from a purely legal perspective, I have set up a separate legal institution and then to call it department. In practice and reality, you are right, Senator; in legal differentiation, you are not. There are so many aspects of tax law which have an implication on that, so my hesitation is only there is the legal half of my brain and there is a practical half of my brain and they are fighting on that one.

Senator MARK BISHOP: Can you cut to the heart of this deductible gift recovery status issue, because I do not quite get what you are driving at there?

Mr MacLeod: To apply for deductible gift recipient status under Australian tax law you must have a charitable purpose and so on, and it must be for an activity taking place within the geographic boundary of Australia. You can apply for an exemption but that requires, firstly, an application to the ATO that gets refused; you then need to be sponsored by a federal MP to have your organisation listed in federal legislation, put in the House of parliament and then approved. We are actually going through that process now and we are getting assistance from Greg Hunt on one side and Janelle Saffin on the other, to make sure that this is not a party political thing by any stretch of the imagination, but it is an onerous task. If it was not for the Victorian government, Australia would not have this new international secretariat here and, principally, we do want to get the main course of its ongoing funding out of the private sector and philanthropy, not from government, but to do so we need the deductible gift recipient status because many philanthropic foundations are only allowed to give to organisations that have deductible gift recipient status, but we cannot get it at the moment because the principal activity of the Principles for Social Investment is outside of Australia.

Senator MARK BISHOP: I have been given the hurry up by the chair, quite rightly.

Mr MacLeod: Do not worry, Senator; usually people give me that.

Senator MARK BISHOP: So, this request of us to give consideration to this issue; is it becoming more and more relevant, or more and more pertinent, because of the huge growth in the number of companies operating out of Australia—that is, engaging in international activity—and secondly, the particular and large growth of mining companies and the like?

Mr MacLeod: Three reasons; it is an impact of the overall globalisation that started sometime around about 5000 BC when the Lapinski Vir was created and is just continuing to evolve; partly it is because of the expansion of particularly resource based companies and many of them have an ambiguous nationality anyway.

Senator MARK BISHOP: They do.

Mr MacLeod: Rio, BHP and a number of others have an ambiguous nationality. In the same way that you are seeing an expansion of the purely for-profit sector, you are seeing an expansion of the not-for-profit sector as well, and this now crossover area that we are talking about, so it is just a natural ramification of globalisation. What I fear—putting a nationalist Australian hat on, if I may—is we have a short window of opportunity in history, without overplaying it. Because of our economic cycle being in front of North America and Europe at the moment—and touch wood, let that continue for a little while—with out 5.3 per cent unemployment versus 10 per cent, that that influence of Generation Y is much stronger in Australia right now as the best graduates are hiring and firing their employer, not the other way around. That dynamic does not exist in North America and Europe at the moment. So, there is a window of opportunity for Australia to grasp that three-way convergence point—growing dissatisfaction of public sector, growing strength of the private sector and the demand of Generation Y—but we are being restricted by that geographic boundary on the deductible gift recipient status. So, the direct answer to your question is it is part of the overall globalisation. We are wonderfully placed to maximise that in Australia.

Senator MARK BISHOP: Got that. Thank you, Mr MacLeod. Thank you, Chair.

CHAIR: I think that that will conclude and we now have a half-hour break to a quarter to one when we resume.

Proceedings suspended from 12:13 to 13:12

BURKETT, Dr Ingrid, Managing Director, Knode

CHAIR: We welcome Dr Ingrid Burkett and ask you to make an opening statement if you would like to.

Dr Burkett: Thank you very much for the invitation to appear here today and to be a part of what I think is a really important inquiry. I would like to begin by saying that I am assuming that the invitation to speak relates to the papers that I have authored in this space, which I wrote with my former colleague at Foresters Community Finance. While I am more than happy to speak about the findings of these papers you will know that I am no longer working with Foresters and therefore my comments here today are my personal opinions; I do not speak on behalf of, or with the authority of, Foresters.

There are basically three big picture points that I would like to raise today which I think go to the heart of this as a truly cross-sector issue, because there is a role for each sector to play if we are to develop our social capital market. The first is about regulation. I see from the readings of the transcripts that this has been brought up a number of times. While I think there are great possibilities in exploring regulatory change and opening possibilities for innovation through such change, I do not see the current regulation as an insurmountable barrier that is inhibiting the growth of the not-for-profit capital market or other forms of impact investment. For me this has been a real shift because 10 years ago I was on the board of Foresters when it operated a superannuation fund and I truly believed that regulatory change was the only way that such an innovative fund could operate. But now I know a lot more about the need for social innovations to be grounded in real structures that people recognise and trust.

This is particularly the case for those innovations involving sectors such as finance or procurement, where regulations are ultimately designed to protect people or public interests. In Australia I think we can be extremely innovative within the current regulatory structures and we should not, as is sometimes the case, use regulation as an excuse for not acting. That does not mean that I do not have regulatory dreams, though, for this space and they have probably increased since the last session. I guess my biggest regulatory dream is to incentivise or obligate structural, commercial interest in a social capital market. The word 'structural' here I think is really important. I think in Australia we are extremely lucky to have a handful of financial institutions who are deeply committed to making a contribution to the social capital market, and that is something that we should commend and celebrate; however we are also in a situation where this commitment is subject to commercial shifts so that when the commercial environment shifts or the CEO changes, for example, then those commitments can alter. This does not always happen and one or two have built up long-term brand and financial commitments that would make it hard to pull out, but the danger is always there.

That is why I would be in favour in the longer term of structural incentives or obligations such as we see, for example, in the US through the Community Reinvestment Act and the new market tax credit program that enable the commercial sector, alongside government and not-for-profits, to take their place permanently and structurally in addressing issues such as building our social capital market.

The second point goes to the not-for-profit sector in its role and the need for work within the not-for-profit sector if we are to realise this development of a social capital market. As a couple of other people have commented, there is not a strong, coordinated demand for capital in the not-for-profit sector other than, of course, grant based capital, though there is a steady demand, as evidenced by those speakers who are actually offering product in this space. A demand for capital grows out of the realisation that growing revenue is not the be all and end all of running a successful organisation; that the balance sheet, which gives us a better picture of sustainability, is equally important. I think we really need to build a culture of sustainability in the not-for-profit sector, to say that it is good and right to build up equity and to grow assets and that this can lead to deeper impacts and should lead to deeper impacts.

Unfortunately, there is still a hand-to-mouth culture in many places and a fear of actually owning assets and building up equity in an organisation that that will turn funders away. I think, in fact, the opposite is true; we should reward organisations who demonstrate their long-term commitment to achieving impact by building organisational capacity to respond innovatively. We are not talking here about building fat-cat organisations, but building strong, interdependent organisations who are able to link impact and financial sustainability. I would really like to see a bit more activism from within the not-for-profit sector around sustainability rather than just increasing grant revenue. So, I would also just like to say that I know you have talked about investment readiness, and I think this is a really critical point, but it is almost as though there is a step before that about investment awareness and understanding within not-for-profits and the sector as a whole about the need for moving away from funding as an all-consuming source of revenue and to include possibilities such as debt and equity.

Finally, my third point is in all the discussions of a social capital market I think it is crucial to remember that impact costs; that there are all sorts of ways that investment can be structured, that we can offset the cost to the investor and so on, but somewhere along the line someone has to pay and we need to find ways to pay for this impact and not think that it can just be absorbed somehow. Financing not-for-profit organisations is not cost neutral, otherwise we would have lots of financial institutions and investors lining up to do it. The fact that we do not indicates that there are elements of market failure at work and so we need to offset the cost somehow. I believe there is plenty of scope for innovation in the way this is done but costs still do need to land somewhere. Around the world it is becoming clear that this sort of investment will not grow to scale unless there is a market comparable return for private investors, so it is unlikely that we will find the impact costs in the investor market or in the commercial world.

It is also unlikely that we will find ways to cover these costs only philanthropically, because as good as it would be, there is not any evidence from elsewhere that this a real option. So unfortunately, that leaves government, and yes, I am totally aware that another draw on revenue is not what you want to hear and I am aware of the irony of arguing for this, given my last point about revenue obsession in the not-for-profit world, but at least in the seeding stage, I am not sure that we have got many other options but to turn to government and seek either direct or indirect ways to raise the gap between what it costs and what investors are prepared to pay. So, thank you again for the opportunity to share some thoughts and I would like to engage in dialogue.

CHAIR: ‘Engage in dialogue’; that is different to answering questions.

Dr Burkett: Yes, it is.

CHAIR: So, whoever would like to go first. Senator Bishop.

Senator MARK BISHOP: Thank you for your comments. I came in a little bit late. Did I hear you say that you were of the view now that the current regulatory environment in Australia is not a significant impediment to not-for-profits raising capital?

Dr Burkett: Yes.

Senator MARK BISHOP: I just wanted to make sure that was clear. As well as not-for-profits raising capital, often we hear the discussion that a lot of for-profit organisations want to raise capital for social purpose. In particular, I refer to the NRAS scheme and variants on that. When that scheme was brought in under Mr Rudd when he was Prime Minister, as the policy was developed there were all sorts of implementation problems and there was a fair amount of problems with the taxation structures and the superannuation funds getting adequate guarantees or risks. Is there an argument, when government wants to have a particular social policy achievement, particularly in the context of NRAS targeted at a particular market and wants to raise capital in a particular area, that there needs to be some sort of unit established very early on or perhaps on a permanent basis that anticipates and overcomes these de facto regulatory hurdles that we have in the raising of capital? It has just been a thought that has been floating around in my head after I was extensively lobbied by a range of property developers in Western Australia who wanted to build thousands and thousands of social housing units but were impeded every step of the way by either Finance or Treasury or Taxation, ASIC and then the superannuation regulator. It struck me then that is a major problem to achievement of government social purpose. Do you have any views on that?

Dr Burkett: Yes. I think there is a need for someone to have some oversight about all the tweaks and things that do need to happen. I am not saying that there is not a need to look at the regulatory environment and to make tweaks, but I do think that it is sometimes put up as a hurdle that is too high and I do not believe that is true. I think there have been lots of examples now where my understanding is that NRAS has resolved some of those issues.

Senator MARK BISHOP: Some of them.

Dr Burkett: There are still lots of—

Senator MARK BISHOP: It took the best part of—I think, if the truth be known—almost three years from when the government announced its policy call to go down the path of 50,000 or 100,000 or whatever the number was of social housing units before the regulatory regime could be established. That just strikes me as an intolerable wait time in terms of achieving purpose.

Dr Burkett: Yes. I think that is not probably an unusual situation. I think this is a nascent market for that sort of impact investment and I would call NRAS an impact investment product.

Senator MARK BISHOP: So, in that case, is the solution to have some sort of permanent institution that moves to establish whole-of-shop regulations, or carry on with the current ad hoc response, or to have a unit within Finance or Taxation that achieves government purpose?

Dr Burkett: I think there does need to be somewhere that has oversight, even if that is within the current regulatory bodies, that looks for what will be the barriers; otherwise, as you say, we are going to have, as this area develops—and I believe that it will develop, that it is developing before our eyes—lots of examples where when products develop they will all have to go and find where each one of those issues is.

Senator MARK BISHOP: If we are going down that path, is the approach to do it best conceptually or industry wide, or is the approach best to do it via separate regulation for niche markets within a particular industry? So, for example, the demands of legitimate property developer investors in the social housing market may well be a very, very different submarket to building highways or bridges or roads; both have a social purpose and a social need. We can go down the path of industry wide regulation or niche approach as on an as-needs basis.

Dr Burkett: I think that is a tricky question because the whole area of impact investment and not-for-profit social market is huge. We are talking about impact investment in health, in housing and in a whole variety of sectors, so they will have some similar overlaps of issue but they will come up against some issues that are particular to their sector.

Senator MARK BISHOP: Yes.

Dr Burkett: I am not sure that I have got an answer to that except to say that I think it is going to be an issue and, if we do not have someone with some oversight sitting somewhere along the way, then that is going to create barriers and we are all going to have that lead-up time.

Senator MARK BISHOP: Yes. I would have thought the investment returns sought by large capital providers, superannuation funds, into social housing where there is a guaranteed income stream from a set rent, that arguably their requirements might be different from funding of aged care, hospitals, drug rehabilitation or whatever it is.

Dr Burkett: Yes, although I think if we look at superannuation funds, in the Australian market that is probably where the biggest chunk of capital is for impact investment and there could be possibilities of investment of superannuation funds in those different sectors just as there is currently in NRAS?

Senator MARK BISHOP: If the return is adequate and guaranteed.

Dr Burkett: Absolutely.

Senator MARK BISHOP: How do you define this phrase ‘impact investment’? What do you mean by it?

Dr Burkett: It is the international terminology that is coming to the fore. Rather than social investment, at the moment we are talking about impact investment, which is investment that seeks a financial return plus creates or generates a positive social return. So, it is different to socially responsible investment, which screens out negative impacts. This actually seeks to generate a positive social impact alongside getting a financial return.

Senator MARK BISHOP: The government defines, for example, a particular social purpose; in NRAS it was the example of housing for lower income people. So, having defined it, social purpose is the achievement, and the regulatory regime needs to be established to accommodate that purpose and you call that ‘impact investment’?

Dr Burkett: Yes.

Senator MARK BISHOP: And you think, but have not yet concluded, that that is best done on a niche basis?

Dr Burkett: I would have to say for me the jury is out on that, because I do not think we have enough evidence of schemes or products like NRAS. In Australia we need to make a differential between that we have a growing range of products in the impact investment fund, but what we have more of is examples of deals. So, I would call GoodStart, for example, a deal. It is a really important deal that opens the way for a whole lot of other innovative thinking about how we could use investment but it is not a product; it is a different sort of thing. We are at a stage now where we have not got quite enough products to make those sorts of calls.

Senator MARK BISHOP: In this discussion we have had some evidence from a group of people last time we met in Canberra who are now seeking to provide large amounts of capital for social funding, for want of a better description. But they had senior experience in an investment bank like Macquarie and the like. Let us assume that there is a group of those people who have the skills to provide the service, and there clearly is. In this type of frame that we are talking, do they bring a different perspective—and an arguably worthwhile perspective—to the discussion, and should be involved early on as opposed to leaving it to policy officers out of Canberra, for want of a better description?

Dr Burkett: Yes. I think there is always a tension and, as someone who comes from both those worlds, I really like the description before lunch about the grey area; I feel like I am grey. I think we need to balance out the involvement of people who deeply understand social impact and people who deeply understand financial

return. If we are going to create impact investment products or we are going to build the social capital markets, then we need to build bridges across those worlds, but to me it always has to lead back to the social impact. There is not any point in this sort of a discussion of trying to generate the sort of financial returns we see in the private equity space if we are not going to come back to: 'Why are we doing this? How are we actually creating a social impact on the ground?'

Senator MARK BISHOP: Is government the primary determinant of that social impact?

Dr Burkett: No. I actually believe it has to be a cross-sector conversation. I do not think we can have a conversation that is only focused on government, but what I do know from looking at this around the world—

Senator MARK BISHOP: No, sorry. I do not mean government providing the service; I mean government making the decision. For example, in the NRAS discussion government made a policy call on the provision of low income housing of X number of units across the Commonwealth; that was a call they made.

Dr Burkett: Yes. I think that is a very legitimate role for government to catalyse those sorts of initiatives and we are seeing similar sort of catalysing through the Social Enterprise Development and Investment Fund and similar sorts of catalysing through the community development financial institutions' work that has happened, and around the world governments have played that catalytic role.

Senator MARK BISHOP: Thank you, Dr Burkett. Thank you, Chair.

CHAIR: Senator Stephens.

Senator STEPHENS: Yours is quite provocative evidence for us to think about, but I wanted to pick up on Senator Bishop's point about the oversight issue. If you think that the regulatory environment is not the barrier that we have heard from other people, where along the spectrum do you think that the charities regulator—of course, being an independent regulator—should fit? It is not going to be within ASIC, so it is going to be independent, but should it be more focused on that kind of, not gatekeeper, but compliance and oversight, or should it have more of an enabling role?

Dr Burkett: I would favour more of an enabling role because I think what is really needed is the capacity to innovate in this space. To me, that is what the conversation before lunch really triggered, that these were all innovators, they all did innovative things within the current regulatory framework. I do not yet see the evidence from other places around the world that if we had things like a community interest company, for example, the experience that they shared with us would be significantly different; there would be other things that need to be tweaked. So, if that regulator had an enabling role to make things happen within the context that we exist in, I think that would be a very positive thing.

Senator STEPHENS: I am not too sure if you were here when Social Traders were here, but we actually had a conversation about the role of intermediaries. The evidence that we had from our Canberra hearing was that to grow a social capital market in Australia we actually need to invest in intermediary services and that that should be the responsibility of government. If government wants to grow a social capital market and create these new sources of finance then it has to do more than enable, it actually has to invest in the intermediary services. Would you have a comment on that?

Dr Burkett: Yes. I think intermediary services are absolutely fundamental to the growth of this sort of new social capital market or impact investment. Where I think there is a glitch is if we create a raft of intermediaries who are not social enterprises in their own right, who act like the traditional not-for-profit organisation and are totally grant funded, and then advise their constituents, if you like, not to do as they do. So, I think that is a real tension because the work of intermediaries is quite difficult to finance and we need innovation in that space.

Senator STEPHENS: So, one of the kind of tools that the government uses in that space is a brokerage model; would you see that that might be a useful way? I guess that is kind of what the SEDIF funding represents—a brokerage approach—but in terms of brokering advice, do you think that that is something that we should be mindful of?

Dr Burkett: Yes. I think there is brokerage of a whole lot of different things that are needed. The SEDIF example is one example. I do not like to position Australia as constantly looking overseas, but I do not know, maybe being in this geographical position, we do tend to. If we look at the sort of knowledge brokerage that happened through governments, but also through not-for-profits, I think it has to be a partnership process. If we look at that knowledge in the UK and the US, there is huge innovation knowledge that has been built up in this space.

Senator STEPHENS: That is one of the five key recommendations of the Productivity Commission, to go to actually investing in knowledge in the sector. Could you see an opportunity for the collaborations through, say, a

CRC on the social economy or something like that? Would that be a way of actually harnessing the still pretty thin investment that is here in Australia?

Dr Burkett: Yes.

Senator STEPHENS: And actually create the brokerage mechanisms?

Dr Burkett: Yes. I think that is the sort of space that we have got to work with. My only concern with CRCs, having had a little, tiny bit of experience with CRCs, is to make sure that they do relate to industry in a way that is inclusive of what can happen at an industry level. I think sometimes they can tend to still—even though they are supposed to build that partnership between industry and academia—drift into the academic world, whereas a lot of these questions are actually industry questions and they need to be based in, and come from, industry.

Senator STEPHENS: Thank you for that, because I think that is a very important point. I will take you back to your response to Senator Bishop as well. You said that you thought that NRAS was a product and GoodStart was a deal and that we do not have too many examples. Are there other examples that you can think of that may not be as significant as the GoodStart consortium but demonstrate the good principles that you are trying to articulate?

Dr Burkett: Do you mean in terms of the difference between a product and a deal?

Senator STEPHENS: Or those hybrid mechanisms that are currently in play—people doing things differently and being innovative in the way they are tackling things.

Dr Burkett: Yes. I think the Hepburn Wind example and the examples before lunch are all examples. The sorts of things that are happening around social impact bonds, for example, I think are another example of really innovative things that are happening. So, I think there are lots of those sorts of almost like little sparks that are happening all over the country that could coalesce under a banner such as impact investment or a social capital market.

Senator STEPHENS: In your research work you make the point that social enterprises have different capital needs at different stages in their organisational development and that grant, debt and equity capital can all be useful at various stages. We have got \$20 million now in the two funds being matched by \$20 million of private investment. How far do you think that that \$40 million will go in addressing some of this need?

Dr Burkett: In relation to social enterprises I think it is significant. Again, going back to this as an emerging market, the challenge will be to match the demand and supply. Now we have worked on the supply side and there is \$40 million effectively in the market, the big challenge is going to be: is the demand up to the mark in terms of accessing that \$40 million.

Senator STEPHENS: Yes.

Dr Burkett: So, there is going to be a challenge there for the fund managers and the intermediaries who are in the sector to create the pipelines to access that supply.

Senator STEPHENS: It is actually quite interesting, isn't it? For so long the sector has been saying that we do not have the money and now it is asking how long will it take to actually see that money flowing through to enterprises? Going back to your very original statement about the importance of a good balance sheet for an organisation, you might like to draw on your experience at Foresters but also more generally your work. How important is the issue of guarantees for the sector in terms of being able to raise capital?

Dr Burkett: I think it is one part of the answer. I think that will help to reduce the risk for investors; that will help to make it possible for some of these organisations to engage in this sort of space, but we also need then other sorts of factors like what are the incentives for investors, because we can reduce the risk but I think we still have a question about the returns in this sector.

Senator STEPHENS: That is right. Your second point was about not just building the cultural sustainability but also rewarding and incentivising investment for impact. Can you think of existing mechanisms that could be used more effectively to reward or incentivise that investment?

Dr Burkett: Not from an investment perspective—I think that is a challenge—but from a funding perspective I think we can build more incentives into the way that funding is structured to begin that conversation within the not-for-profit sector. I have only got anecdotal evidence about the level of fear that organisations have if they show that they are doing well financially that they will be somehow penalised because funders will think that they do not need funding. My experience is that funders do not see that at all. In fact, they see, 'Okay, this is a sustainable organisation that can translate that sustainability into increased impact', but for some reason there is a fear in the sector about that. If we can find ways within the funding structure to indicate that it is an advantage to

organisations to build a level of sustainability, I think that would be a positive first step. Then the next step is to take it into the investment space.

Senator STEPHENS: We heard from Mr Baird of the Australian Charity Law Association this morning and in his submission he makes the point about proposed changes to unrelated commercial activities, tax or the unrelated business income tax proposals, which go to the issue of taxing surpluses retained by not-for-profits for working capital. His point is that that is absolutely contradictory to building a sustainable balance sheet. Do you have a comment or an observation there? Do you see it as a threat that is being articulated already?

Dr Burkett: Yes. If that is the case then I think that is a very real threat and goes to the heart of what do we expect from not-for-profit organisations? Because there are obviously funding constraints and there is a black hole of need, so if we make it impossible for organisations to build up their net worth then we are putting them in a double bind—a no-win situation. As we have seen in the last ACOSS community sector survey, if we look at the reality of small- to medium-sized organisations, in the last two years of that survey we can see that particularly small- to medium-sized organisations have run at a deficit of around \$14,000. If they did not have the capacity to build up reserves that would threaten those organisations over time, and I think that is deeply concerning.

Senator STEPHENS: Just one last question for me, Chair; it goes to the issue of the ancillary funds. We also heard evidence this morning that trustees are electing to wind up ancillary funds rather than being burdened by the additional requirements of compliance, limitations on accumulations and the requirement that the trustee be a constitutional corporation despite real doubts as to whether charitable organisations are such and the existence of many funds where church wardens and other body corporates are trustees. In terms of your previous work, your experience and the notion of how ancillary funds are used, have you seen any reason to impose this new regulatory framework on them?

Dr Burkett: No. I think it is contrary to what we should be looking for in terms of enabling investment into building organisations, not just funding what we are all on about in the end—impact. In order to do that sustainably over the next 100 years we are going to have to find ways to build the organisations who deliver that impact. What we need to do is open up doors to do that, not close them down.

Senator STEPHENS: Thank you, Chair.

CHAIR: Thank you for appearing, Dr Burkett. That was very interesting and useful evidence, so thank you very much.

Dr Burkett: It was a pleasure.

BOWMAN, Ms Susan Catherine, Social Firms Australia

BROWN, Ms Catherine Janet, Director/Principal Consultant, Catherine Brown & Associates Pty Ltd

[13:48]

CHAIR: Welcome to this hearing. Would you each like to make an opening statement?

Ms Bowman: Thank you. My background is in corporate finance. I have worked in the financial services sector for 18 years and joined SoFA in 2007. Social Firms Australia is a not-for-profit organisation. We create employment for people with a disability and mental illness through the development of social firms. A social firm is one type of social enterprise where the majority of income is generated through the trading activity and between 25 and 50 per cent of people have a disability or mental illness. So, it is a blended or integrated workforce through a commercial model. Social firms are primarily small- to medium-sized enterprises. They typically are set up as divisions of not-for-profits; they can be separately incorporated but they are not to be because of duplication of overhead.

Our interest in responding to this inquiry is really how best to frame a policy support provision for the social firm development in the Australian economy. At the moment we see a number of inhibitors to that. The first is access to capital; the second is a general lack of commercial expertise within the sector around entrepreneurship and managing businesses; the third is how best to support or improve the policy framework to enable people with a mental illness and disability into work; and, fourthly, we would like to see the opening up of social procurement.

The SEDIF initiative is one that we strongly support and have had a lot to do with in responding to inquiries to that. We have not seen the guidelines to SEDIF as yet, but we understand it will not have a grant component, which in our view is a limitation. The sector needs hybrid, flexible and adaptive funding responses to the opportunities presented. An example in point is we deal a lot with start-up businesses, so we are providing business planning and feasibility work for not-for-profits to start up small businesses. They are dealing in competitive markets; they have uncertain revenue; they typically do not have an asset base to secure; they have management requirements to support people with complex needs; and they are typically low-margin businesses. To burden them with a debt commitment may not be the best approach to financing them.

The second area is the skilling. We would look at having SEDIF coupling with skills transfer and mentoring to the sector and we would look for the sector to actually use its current surpluses to build financial capacity. The difficulty is attracting skilled people to the sector and having competitive remuneration, which is a challenge.

The third area we are interested in is the employment support, tax and diversity legislation. In our view the current disability employment support framework needs to be more tailored, flexible and elongated so it is not bunched into the 13/26 week payments, particularly for people with a mental illness where their illness is episodic—it is unpredictable—and quite often it is enduring, so the payments really need to flow and be structured to the needs. In terms of the German policy framework around social firm development, that legislation is longstanding and includes a quota system. Why we like it is it has a compulsion for all employers—not just the social firm sector—to mandate the employment of five per cent of people with a disability and if they do not do that they are penalised and they pay into a fund. Those funds then go towards social firm seed funding and also to help with wage subsidies and other supports do that, so it is a way that the corporate sector can then contribute to what we think is the best way, which is a social firm model. The German economy supports 600 social firms employing 15,000 people. Twenty per cent of those have a mental illness and 30 per cent have other disabilities.

Finally, we are really interested in an all-of-government approach to social procurement. The difficulty right now is that corporate and social procurement is really very large contracts, so we need to see an unbundling of million dollar contracts so that small business in particular can respond to those opportunities and at the same time there needs to be an associated capacity building to the sector to be able to respond to tenders. Thank you.

Ms Brown: I am a lawyer and a consultant. I started in general commercial law and then I moved to the not-for-profit sector about 22 years ago probably, and actually worked at the MS society, Wesley Mission, and then I was CEO of the Brain Foundation Victoria. I have been consulting for about 12 years, mainly in philanthropy and organisational development within not-for-profits and governance, and not in relation to developing boards of not-for-profits. I was on the SEDIF advisory committee, so I found that very interesting—the cross-section between commercial and charitable.

In terms of my submission, we had a few questions in the previous session that I probably could respond to so I am happy just to answer questions later, but a couple of the points really were that already philanthropy is doing some interesting funding in terms of, for example, bridging finance when not-for-profits want to purchase land,

and I think there is potential for trusts and foundations to be more courageous in some of those funding offers, I guess, rather than just grants. I suppose something I have really noticed—and it has probably been referred to by the others as well—is the grey space between charitable activity and commercial activity, particularly around things like microenterprise or starting social enterprises that start with the public benefit, charitable aspect and then they become successful and they really turn into a private enterprise and it becomes more of a private benefit. So you move out of the charitable eligibility for grants and you are dealing in the commercial world. I think the SEDIF initiative was partly to try and address some of those areas but it is certainly quite a step from being funded by philanthropy, for example, to then having to go off into the commercial world and get a loan. I have seen many projects that are stumbling along at that point.

In terms of the financial intermediary organisations, I suppose I look at it a bit from the not-for-profit sector, but I see there is a lot of capacity within not-for-profits, particularly their boards and finance directors and so on, to perhaps put more effort into how they present themselves when they are not just going for philanthropic funding but going for more commercial loans. Some of them have that ability; they just perhaps need to become a little bit more professional in the way they do that.

I think in terms of the business models there was a comment about strengthening diversity. I think there is a lot of diversity. I think actually it is more about clarity and it is just people understanding the different structures that are being used for social businesses. We have had a few here; they can be a division, a subsidiary company model. To me it is quite clear that there are three or four that people are using, so I am not sure that it is a matter of having even more; it is probably just really understanding what is available and maximising the use of those. At Wesley Mission we had a number of businesses and at the MS Society we also had a number of businesses and as in-house lawyer in those places I had to provide advice to those businesses, so I have some practical experience, particularly of the proprietary limited model and also the division model. In terms of making better use of the sector's own capacity, I have had experience of national purchasing frameworks. For the MS Society we would actually get all the different states together and do insurance and motor vehicles and things. I am sure a lot of not-for-profits do that, but that certainly could be encouraged and peak bodies can take every chance they can to come up with better purchasing arrangements. What else? In relation to the corpus of philanthropic foundations, I think Australia is probably a bit behind places like some of the foundations in the US that do a lot of mission related investment with their funds, but there is certainly potential to do more of that in Australia as well.

They were the key points. There were a few points before just about the public ancillary fund. I have done a lot of work with community foundations all around Australia and we did some work in the past with the Prime Minister's community business partnership in about 2004, looking at the tax structure for community foundations and that perhaps they would be better to be on a register and not have the complex corporate trustee and three or four different trusts that they use at the moment. The requirements for the public ancillary fund, in terms of distribution of it, being drafted at the moment I think are not fair for rural and regional community foundations that are trying to build up a corpus over quite a long time. I think perhaps there is a big diversity in public ancillary funds when you actually look at what they are and perhaps that just needs to be thought about a bit more. It probably came from the private ancillary funds having guidelines and then now will be public, but in fact it is more complex. They are a few thoughts.

CHAIR: Senator Stephens.

Senator STEPHENS: Thank you. You spoke about the lack of clarity around social business models, how organisations are using them and perhaps a lack of understanding. How do you think we could go about getting greater clarity? Who should have responsibility for that? You missed the conversation this morning about the grey area, which was each of the people sitting at the table represented a different business model and each was struggling; they were not charitable. They had a community benefit purpose but they were not charitable under the definition and they were not private. There was an altruistic endeavour in each of them but they were each a different structure and they were each struggling. How do we actually educate the sector around the options and what is the best option?

Ms Brown: I think a lot goes to the professional or business acumen of the board of the not-for-profits, so the board should be setting the strategy and I think they really need to be bringing all their commercial expertise—and most not-for-profits have some business and professional people on the boards—to how they approach their own structure. They need to be thinking, 'Should we be a division within our not-for-profit or should we be setting up a separate Pty Ltd company and so on, or do we not want to be charitable at all and we will just accept that we are going to be commercial and we will just make some donations back for social purposes?' That knowledge is there; it is probably just a matter of having it presented clearly. Who should actually do it? That

might be something the charities commission could actually have some sort of information on. Certainly ASIC would explain how the different structures work.

Ms Bowman: I think the driver has to be a really strong social purpose and, for the for-profits, how you extract profit is a defining feature of how you can then operate as a for-profit. If you are structured as a not-for-profit, it does not really matter what the underlying structure is because any surpluses—and surpluses are good—go back into your social purpose. I struggle with the social business concept where it has a very strong social purpose but as long as you have got that profit extraction capability, it can be bastardised over time or evolve.

Ms Brown: That is the grey area; I would agree with you. People just need to be clear, ‘Okay, we are going to operate a commercial operation; we are going to have a social purpose; and we are going to have some financial returns’, and be clear to themselves about what they are doing. That is fine, but they need to understand that that is not a not-for-profit entity.

Ms Bowman: A lot of the division comes, too, around if you have traditionally operated an enterprise, that it is primarily grant funded and it does not necessarily sell a product, then there is confusion around what is it to operate a business and what is the expertise required around that, irrespective of the structure. So, there needs to be at the forefront a really strong commercial discipline driving the enterprise and then the social purpose sitting very closely behind that, and there is a tension because one is always competing against the other.

Ms Brown: Yes, but if you start with a not-for-profit lens, you would start with the social purpose and then you would say, ‘Okay, now we will bring in the business expertise and work out what is the best way.’ At the MS Society, that is what the board did there and decided that the Pty Ltd model would be good.

Ms Bowman: But then when you run an enterprise you have to flip that.

Ms Brown: Sure; obviously.

Senator STEPHENS: Ms Brown, you were talking about the opportunity for procurement. Keeping aside social procurement, because I will come to that in a second, but just the notion of the sector itself using procurement to leverage best value and you quoted MS as being one organisation that does that.

Ms Brown: Yes, it is a while ago that we did that but I am sure that a lot of organisations could or should do that.

Senator STEPHENS: Is there an existing service for not-for-profits to do that at the moment? I know, for example, there is an organisation that supports lots of church organisations to bulk buy and get the discounts—everything from telcos to cars and everything else. But more generally, for smaller, unaligned, community based, not-for-profit organisations; is there a purchasing portal or umbrella organisation that does any of that work?

Ms Bowman: Social Traders has just developed an online sort of directory which is listing not-for-profits that provide services, but I think it is still in development; I am not sure how live it is, but it is a portal with a view to making it easier. The ADE sector has an online directory that lists all their services.

Senator STEPHENS: Yes. At point four on page four of your submission you make this point about access to contracts and social procurement. I am quite interested in this third dot point here that you have about ‘including a community social benefit criterion in the call for an assessment of competitive tenders’ and wondered if you could point the committee to any work where that is being explored.

Ms Bowman: I think it actually does exist in some local government procurement contracts. The trouble with it is that you can actually put it in a contract, but then your lead contractor who then subcontracts the community purpose down to a not-to-profit is not actually monitored. So, the head contractor will say, ‘Yes, we have engaged a community provider’, but then the actual monitoring of the employment outcomes and the continuing performance under that contract is not actually monitored. So, you cannot actually measure the social impact, but it is a mechanism that is used; it is not used widely, but we could introduce that on a sort of broader scale to local government procurement in particular, or state or federal. The bigger issue from our sector is that we are small businesses and anything more than a quarter of a million dollar contract you cannot service, so they need to be unbundled so that there is more tailored opportunities given to smaller organisations.

Senator STEPHENS: This morning I asked Social Traders about the participants in their program operating as micro-businesses, and small businesses are not able to access NEIS or associated government support that a comparable small business in the ordinary space would be able to access. Is that an issue for Social Firms Australia?

Ms Bowman: It is, because the cut-in for these contracts is typically a million dollars, so even if we could get them and we did meet the tender requirements, we cannot deliver against them because of the size of the contracts.

Senator STEPHENS: NEIS is the New Enterprise Incentive Scheme, which is a government funded program that falls to support the development of small businesses. People referred into that program undertake a kind of business planning program and mentoring and then are eligible for unemployment benefits for a certain period of time to underpin their income while they get their enterprise established. So, you do not have that?

Ms Bowman: I do not think that is available to not-for-profits. You need to be a commercial operator.

Senator STEPHENS: So, the one big thing that would change the world for you is what?

Ms Bowman: I think if we can open up and tailor social procurement at all levels of government, I think that would be a huge utility. Talking about the size of the SEDIF, we are 10 years away from where the market is in the UK; the Futurebuilders England Fund, which is a government procurement tailored fund, is \$400 million. It is huge, and that is coupled with mentoring, business support and all of that, so I think that is really where we should be heading.

Senator STEPHENS: We hope.

Ms Bowman: Also, penalising the corporate sector like the Germans do, saying, ‘Co-contribute and co-fund this. If you are not going to create the employment because it is too hard or you are worried about liability, or whatever, then at least pay for it and contribute to the development of a sector that does.’

Senator STEPHENS: There was one thing Dr Burkett said, which I wondered, Ms Brown, if you had any comment to make and that was about the UK fund; the community enterprise fund. Is that what it was? You mentioned a UK fund.

Ms Brown: I probably cannot add to it.

Senator STEPHENS: No? It does not matter. I will read the *Hansard* and I will ask the question of you later. Thank you. No, Chair, I have no other questions, thank you.

CHAIR: I would just like to ask Social Firms Australia a question. One of your recommendations is for a modest but ongoing subsidy tailored to offset these additional operational costs that could be made available not just to the social enterprise sector but to all employers who commit to a certain number of employees with a disability or disadvantage. Apparently this is a program which operates in Germany. Would you like to make any comment on that?

Ms Bowman: Yes, there are two separate points there. Our current disability employment support framework I think is really the mechanism to either increase the subsidy there or create a new subsidy which is open to all employers that employ people with a disability. The German model is the penalty model where, if you do not employ, you need to pay a fee, so they are sort of separate but related in terms of a policy framework that works; one is a sort of stick and one is a carrot, I guess.

CHAIR: That is interesting. How successful is the German model? Is it actually being implemented?

Ms Bowman: There are 600 social firms; they employ 15,000 people. That is on average about 25 individuals per firm, so I think by all accounts it is pretty successful.

CHAIR: And that replaces, I suppose, disability social services and pensions, does it?

Ms Bowman: I do not know the answer to that—whether it sits alongside or whether there is government support as well as—but it is certainly a co-contribution to the social firm sector in particular, which is the blended, integrated workforce.

CHAIR: One of the things we have heard is that a significant barrier to investment in the sector is the not-for-profits and social enterprises often do not have the strong business and financial expertise to really get their business models working. What would you feel could be done to assist in that respect?

Ms Bowman: That is interesting. That is really the greatest risk to the viability of these enterprises, because a lot of our work is around feasibility, business planning, getting these organisations to see an opportunity and act on it, but if they do not employ the right manager with the right skills it falls over. So, it really is incumbent on the not-for-profit to spend a lot of time, pay perhaps over the market where the not-for-profit sector is to get the right person in and incentivise them to manage this as they would their own business.

CHAIR: Do you have any comments on that, Ms Brown?

Ms Brown: No. I agree you need very strong business skills to run a business well. Some not-for-profits have a lot of those business skills and then some of the other emerging ones would need to recruit for those roles, so yes. I think that that salary issue is true.

Ms Bowman: There is a different skill set between finance and accounting and business management and entrepreneurship, and that is really where the not-for-profit sector struggles. Clearly, they have audited books and

they have got an accountant and they know what they are doing, but it is that how to run a business and be continually moving in a competitive market environment, staying ahead of the game, seeing where your products and your markets are.

CHAIR: That is an interesting comment, really. Do you have any comments, Senator Stephens?

Ms Bowman: Just on the SEDIF and the funds, my concern is that we shift wholesale to the large end of town—the wind farms, the GoodStart—whereas Social Firms Australia is embedded in small business which I think in Australia represents about 50 per cent of all employment, so it is a significant sector in itself but it is difficult. It takes three years for an organisation to break even when you start a business. So, it needs all the support it can get and if we focus on the big end of town then this area actually misses out.

Ms Brown: I am not an official spokesperson for SEDIF. I was on the advisory committee but I think it is anticipated to be a very wide range of projects funded and there is a capacity building component to quite a few of those funds.

Ms Bowman: But if it is return driven then start-ups are not really going to generate a return for a long time.

Senator STEPHENS: Ms Brown, I think it was your submission that made the point about the bridging finance provided by the RE Ross trust funds.

Ms Brown: Yes.

Senator STEPHENS: Do you see the notion of bridging finance used very much now as a mechanism?

Ms Brown: No, I do not see it used a lot but I think it is one of the types of mechanisms that philanthropy could use more, for sometimes it is a timing issue; you need to be able to pay a deposit quickly and then they can spend some more time fundraising for longer term funding. So, I think it is a very positive tool.

Senator STEPHENS: How does that fit with the objects and mechanisms of philanthropic trusts, generally speaking? Are they able to provide bridging funds?

Ms Brown: If they are for charitable purposes and the trust deed is worded in a way that allows that, yes. It just depends on the actual constitution or trust deed; as long as it is within the legal definition of charitable purposes. Because it is a charitable purpose; for example, purchasing Ned's Corner Station was for environmental purposes and Trust for Nature is on the register of environmental organisations and so on.

Senator STEPHENS: Without going into all the detail of the bridging finance, is that principal only or was there interest involved in that being repaid?

Ms Brown: I think that is a good question. I do not know 100 per cent. I do not want to say the wrong thing; it was a while ago.

Senator STEPHENS: No, that is fine. It is interesting because yours is one of the few submissions that have actually talked about bridging finance and given an example. It is something we can pursue.

Ms Brown: We could find out, yes.

Senator STEPHENS: Thank you. Thank you, Chair.

CHAIR: Thank you. Thank you for appearing.

COX, Mr Nicholas, Chief Operations Officer, YMCA Australia

ORGAN, Mr Colin, Group Manager, Finance, YMCA Australia

THORN, Mr Christopher, council member, Philanthropy Australia

LEWIS, Mr Simon, Head of Strategic Partnerships, Communications & Community, The Trust Company

WARD, Mr David, Treasurer, Philanthropy Australia

[14:19]

CHAIR: We welcome you all here. Would you each in turn like to make an opening statement?

Mr Cox: An opening statement from us?

CHAIR: If you wish to, an overview sort of thing.

Mr Cox: Sure. I thought I would start off with a very brief opening statement about the YMCA. We are a large, community based, not-for-profit organisation. We are in approximately 600 communities across Australia and we are made up of 30 independent associations, each of which are registered TCC members—or tax concession charities—and about half of those enjoy the benefits of being a PBI as well, with DGR status. The majority of our facilities and services are delivered in partnership with a number of commercial, not-for-profit and government organisations. I suppose a large growth area for us is around social enterprises, so I suppose there is a fair bit that has impact on our business and we are really keen to present some of our thoughts and ideas. At this point I will throw to our subject matter expert, which is Colin Organ, who is our group manager of finance.

Mr Organ: Today, I guess what we want to do is put a proposal to you; we have titled that proposal ‘Australian Charity Bonds’. It is a concept we have come up with over a period of time from facing the challenges of trying to raise capital for social enterprises. The key points about the proposal are that we have been looking to create effectively a charity bond which would be income tax exempt. That would require some legislative changes to our income tax legislation. The mechanism on which this could be based would be that you would need to be a tax concession charity to be able to be eligible to issue this type of bond.

Essentially, what we are trying to do is to bring together philanthropists and charities. The great challenge of raising funds is that in the current commercial environment banks will have their set rules on how to issue capital. Under a tax concession charity model it is prohibited to seek equity investment and maintain a tax concession charity model. Essentially, what we are trying to do is to bring together philanthropists who potentially have significant amounts of money to work with charities to solve social challenges. In terms of how this could work, it could potentially relieve government of some of the pressure around government grants, so there is a significant component. I think one of the presentations you have had included some quotes from the ABS which showed that about 55 per cent of the income of the social sector was coming from grants, so there is a significant reliance on government for grants. This creates an opportunity to raise capital that does not create a reliance on government for raising taxes and funding grants.

The yields on these income tax effective bonds would effectively be improved through the ability to have an income tax exempt status. For instance, in the example we have given in our paper, a four per cent coupon on a bond to a taxable, tax assessed individual who pays the highest rate of tax would be able to earn a yield of 7.5 per cent. So, it does not penalise the philanthropist or the investor for investing in this type of bond, but it gives the opportunity for the charity to raise funds at a cost-effective level in terms of raising capital.

In terms of other aspects of how it can work, it would still be based on just the current ATO definition of ‘charitable’ and ‘tax concession charity’. There is no need to create new government mechanisms or administrative functions. There is a well established market in the United States for tax exempt type products such as higher education bonds or municipal bonds and there are also secondary markets for them. There are other mechanisms such as ratings agencies and also the ability to utilise registry offices and registry companies to manage these bonds, so the charities are able to use most of the funds that come through these mechanisms and through the bonds to maximise social outcomes. That was an overview of the proposal that we would like to submit.

CHAIR: We will come back to you, I am sure, in questioning. Now, Philanthropy Australia.

Mr Ward: Thank you for the opportunity to present. Philanthropy Australia is the peak body for charitable trusts and foundations in Australia, with some 400 members. The size of the philanthropic sector, though, is actually very difficult to ascertain and, depending on one’s definition, we estimate there are some 5,000 foundations in Australia, controlling \$7 billion to \$10 billion worth of fund and disbursing between \$600 million and \$1 billion dollars a year to the community sector. My colleague Christopher Thorn and I are both on the

council of Philanthropy Australia, but each of us is involved in a number of other community organisations, both as grant makers and grant recipients, and we are quite happy to disclose those details if the committee so wishes.

The focus of my comments today is around section (h) of your terms of reference, which is making better use of the corpus of foundations and trusts. We are not advocating any special treatment for foundations and trusts as we believe the encouragement of social investment needs to be across the board and equal across the board, but we do see some specific opportunities where some foundations may be early adopters of social investment and that may generate some much needed momentum in the sector.

Trustees of foundations have a fiduciary responsibility to: comply with the law, the trust deed and any legislative guidelines; to act with loyalty and proper purpose; and to act prudently with diligence, care and skill. This is well understood and provides constraints within which trustees must work. I think it is fair to say that when there is any area of doubt, trustees tend to err on the side of caution rather than innovation. But for foundations, they all have a purpose that is for the benefit of the community or the benefit of a subset of the community. So, for foundations there is no sole purpose constraint to social investing in the way there is for superannuation trusts, which I know the committee looked at in its Canberra hearings. But I should be clear that there are many foundations which will be unable to consider specific social investments simply because of the restrictions in their deeds about use of capital, or restrictive defined purposes of those trusts. However, there are many foundations that are not so restricted where trustees, in the right circumstances, could seek social returns as well as financial returns on their investment portfolio.

The two most likely segments in our view—and these were touched on by the previous speaker—are private ancillary funds, of which there are about 950 now, and are the fastest growing component of philanthropy, and also public ancillary funds, of which there are about 1,600. New guidelines for public ancillary funds come into effect from 1 January next year. PAFs have a purpose of—and I use the word PAFs to be private ancillary funds in this context—providing money, property or benefits to eligible entities. But we see a number of issues that should be resolved before we get more momentum in this space. I deliberately say ‘resolved’ rather than legislated, because we believe that the framework is actually in place and no further structural change is needed. PAFs are required to distribute five per cent of their previous 30 June corpus each 12 months. There are costs to cover and inflation to offset to preserve the value of the fund. Many PAF trustees believe they cannot afford to have a significant amount of fund tied up in low yielding assets however socially beneficial those investments may be. But if any discount to the market returns on social investments can be treated as benefit for the purpose of the five per cent minimum distribution, the calculation is changed significantly. Such treatment of benefit is actually envisaged in the 2009 PAF guidelines with the example 2 under guideline 19.3 stating:

If a private ancillary fund leases office space to a deductible gift recipient at a discount to the market price the fund is providing a benefit, the value of which is equal to the amount of the discount.

However, we are only aware that this concept has been applied beyond rent once with limited success. We see two reasons why this inactivity and poor response has occurred. The first is that PAF trustees generally are unaware of this provision. Our suggested answer to that is that there should be active promotion about the social investment amongst the PAF trustees through seminars, conferences, media and so on, and certainly Philanthropy Australia is willing and able to assist in this process; we simply do not have the funds to do so.

The second is relative to commercial rent establishing a benchmark for the market price of a social bond is much more complex. Our suggested response to this is that between the Office for the Not-for-Profit Sector, PM&C, Treasury, which we know is supportive of this concept, and the Commissioner of Taxation along with some of Philanthropy Australia’s members who have expertise in this area, we draw up and publish a set of market prices for different classes of social investment—secured debt, bonds and subordinated debt, to name three.

Philanthropy Australia suggests that an early establishment of some market benchmarks would be beneficial and these rates can always be adjusted in following issues if they turn out to be not exactly right, but the benchmark rate needs to be publicly available prior to the issue launch and needs to apply for the whole term of the issue, hence I believe that the commissioner needs to be involved in the setting of those market rates.

The second issue is that PAFs must have an investment strategy and to give consideration to issues such as diversification, liquidity and risk, and they must adhere to that strategy. So, there is a need for any PAF considering social investment to write into their investment strategy an asset class around social investment. The answer to that is we know that such wording exists today amongst some PAFs and it is just a question of getting some of those templates available to a wider number of PAF trustees—again, seminars and communication is the answer.

In closing, I want to make one final comment that it is important to stress when we are talking about discounts to market price, for both private ancillary funds and under the new rules for public ancillary funds, this discount only applies where the bonds are issued by eligible entities. In all cases that is DGR Item 1, organisations, and in most cases those organisations also have TCC status. But given there is some 20,000 of those, there is certainly plenty of opportunity in the market. In conclusion, in terms of getting some traction in social investment space, Philanthropy Australia sees public ancillary funds and private ancillary funds as potentially the early adopters to provide some momentum. We would be happy to answer questions after the last introduction.

CHAIR: Thank you very much. Mr Lewis.

Mr Lewis: Thank you for the opportunity to appear at this inquiry. By overview, I am head of Strategic Partnerships, Communications and Community at The Trust Company, and I come with the good regards of John Atkin, who is familiar with some of your representatives here.

The Trust Company, by overview, is a corporate trustee with 126 years background in Australia and we have recently acquired a business in New Zealand. With respect to our involvement in the not-for-profit space, we oversee approximately 800 charitable trusts in our portfolio. The funds under management in that portfolio are approximately \$1 billion. Each year we are distributing approximately \$40 million into the not-for-profit sector. This draws attention to obviously our role in terms of finance into the not-for-profit sector as we are a significant contributor to that.

I am currently working with the executive team on a strategy with The Trust Company to review our own approach to investment in the not-for-profit sector, and I have a few remarks I would like to make with respect to that new approach. We are trying to focus more on capacity building. In the past, trustee companies have typically run traditional funding rounds where we have received a plethora of applications in the several hundreds, and grants have typically been small and on an annual project basis. We see the benefit of focusing in on certain program areas with respect to our discretionary portfolio, matching that up to the philanthropic philosophy, if you like, of big discretionary trusts, and focusing in on those with longer term strategic partnerships. Not only will that allow us as a trustee to be more efficient, I suppose, in discharging our fiduciary role; it allows us to enter into more partnership relationships over the longer term, and we believe in investing at the capacity level into the executive strategy, if you like, where we have confidence in that organisation's direction and its governance and we believe in its track record, which is empowering that organisation to then use that funding to build its capacity and make longer term commitments in its own sector is going to be more efficient overall.

Ultimately, we want to be seeking to be accountable for greater social impact across a portfolio. If we look at the communication coming back to The Trust Company, we are going to be working with a university to help us monitor that. So, that is one important development. The other is the program areas we want to focus in on are, as I said, specifically tailored to our portfolio, but we have started to explore options in terms of seeding with respect to a consortium approach some non-grant areas. We have obviously participated in the recent SEDIF application. We were not successful, and obviously that was an initiative of government to try to seed a capital investment account for investing into the social sector.

With respect to that tender, I think we ran aground in terms of structuring it as a charitable trust structure, which we thought as a consortium was the best approach. But the impression was that the tender was very much run on a traditional structured investment line and so we were slightly on a different track. However, we applaud the initiative and we accept that this is also relatively new territory. It is new territory for us as well and as such we do not have a submission per se in terms of specific initiatives such as my other colleagues here, but we are now very interested in other proposals that we have received in terms of finance for the not-for-profit sector that we have been approached as a trustee. We are starting to see some really interesting innovations, such as peer-to-peer social platforms that can match out social grants. So, coming to the question of what is a suitable benchmark for a social bond, for example, let a peer-to-peer in that platform allow that to be determined, because everybody is going to have a slightly different interest rate at which they are prepared to give up surplus cash, if you like. So, in a way there are some neat solutions we are starting to see in the market.

From a structural perspective, I think the government not only by having this inquiry and encouraging the thinking, can also—as it has already through the SEDIF—make some seed funding available. What we need here are some good demonstration projects, and we need to see the social sector come up with a compelling solution. I think there is a few out there in the wings that will start to become apparent to us. I think in terms of a government, commercial and not-for-profit partnership it will probably be sitting somewhere in the middle.

In closing, as a trustee, given the financial leverage we have, and seeing ourselves, rather like yourselves, wanting to make sure that we are fully accountable to our own investment in the not-for-profit sector, being a finance provider, we are also looking at these new avenues around creating a much more recyclable, if you like,

social capital market, because we believe this is obviously going to be a long trend that is going to grow significantly in time. That is our observation. Thank you.

CHAIR: Thank you very much. Senator Bishop.

Senator MARK BISHOP: I have just a few questions about your proposal in relation to the Australian charity bonds. Have you or your organisation, or anyone, done any scoping work on the potential size of the market you propose?

Mr Organ: No, there has been no research on scoping or size. I guess the aim was to start the idea and commence the thinking around the process. Certainly in the US you see very well established markets, for instance, for higher education bonds, but we certainly have not done any research in terms of the scope of the market.

Senator MARK BISHOP: In a totally different market, we pay for our higher education in different ways, called loans. It is a different method of return. So, no scoping work. You made some introductory comments about grants. It is my experience that, even if the Australian charity bond concept got up one way or another, and there is a number of people who chose to invest in that, the demand for grant applications is exponential and would never, ever contract; just a different set of people would apply. You do not need to comment on that.

Mr Organ: I totally agree. There will always be pressure on government for grants. I guess we are just trying to identify some other avenues of raising capital that would solve social issues.

Senator MARK BISHOP: That is fine. Let us go down that path a little. There is always, in a tax-free bond, an opportunity cost. The opportunity cost is borne by the Commonwealth here. It means of course it has less revenue to spend in the grants area inter alia. Do you have any idea of the opportunity cost involved in creating this new asset class?

Mr Organ: Again, there is no scoping study. The concept in developing the capital for these charitable bonds is that it can solve some social issues where philanthropists and charity work together to solve the issue and hopefully takes pressure off government to solve those social issues to relieve the pressure on government grants.

Senator MARK BISHOP: I understand the argument.

Mr Organ: It is really an offset.

Senator MARK BISHOP: I understand the argument. I am just bringing the perspective of a government senator who is involved sometimes in budgetary discussions to the table. In that context, a bond that returned a tax-free income of 7.5 per cent per annum in the current environment is a very attractive proposition.

Mr Organ: Yes, I think we have an underdeveloped bond market in Australia. Certainly in the US and other maybe European markets there is a much more developed bond market. Australians, for want of a better thing, tend to put term deposits in major banks as their main cash or fixed interest option. There is an opportunity there to develop the bond market in Australia, which is fairly limited. There are wholesale bonds and there are some ASX listed securities at the moment that have bond-like features, but it is a very undeveloped market compared with other well developed economies.

Senator MARK BISHOP: Of course, in the United States, which I know about extensively—not so much Europe—bond issuers do go bust and people do lose. They rarely lose, if ever in this country in terms of the six or seven per cent they received from term deposits in banks and institutions perhaps like yours, do they?

Mr Organ: It is still debt. All charities would have their governance responsibilities, and their governance responsibilities around solvency. Nothing changes there. It still needs to be sustainable levels of debt. That is critical and we have seen that through Europe through sovereign debt and through the GFC.

Senator MARK BISHOP: I wanted to talk about this impact investment. Who was the representative from The Trust Company? Do you have a definition of ‘impact investment’?

Mr Lewis: I think one of the challenges in this sector is definitions overall. So, no, is my answer to you.

Senator MARK BISHOP: Can you give me a conceptual overview of where it is aimed at, then?

Mr Lewis: I think conceptually social impacts at the highest level would be—sorry, not wanting to do this on the hoof—trying to move the dial in terms of the not-for-profit sector, affecting the welfare and wellbeing of those that fall in the gaps, if you like, in terms of making sure that the impact can be certainly accounted for as best as possible. I know that is also a notoriously difficult area and one that is coming into its own in terms of how to do that. We are very conceptual about impact ourselves and, in fact, the strategy that we are developing at the moment, we are going to be getting engaging with us, with this new program, a university that has a centre for social impact. So, we want to be learning in terms of what impact means and how to account for it. To answer

your question, it is conceptual and we want to understand it better. With respect to impact, I think you need to obviously focus in on what program areas you are trying to impact, because they will each have a slightly different determination of what 'impact' means. We are certainly on the learning curve with respect to that issue.

Senator MARK BISHOP: We have heard from a range of witnesses on this argument or discussion around impact investment. They argue it should be for all investors, including parties such as superannuation funds, trusts and foundations, individual investors, managed funds, pension funds, insurance funds and common funds. That is fine. Is there a role for the for-profit sector in impact investment? I particularly refer, by way of example, to the NRAS scheme, which tried to tap into the private sector and property developers for significant investment into social housing as defined. It was not aimed originally at the not-for-profit sector or the like, so do you have any problems with impact investment vehicles being extended to private sector?

Mr Lewis: My response is, no, I do not have a problem with that. I think you always have to be aware of any predatory investment, if you like, taking advantage of maybe softer governance or regulation within the not-for-profit sector. I think there would be a concern that some might be seeking advantage or wanting to expand their influence in that space, but I think in principle what you want to do is attract as much capital that is not wanting to achieve the market rate of return, if you like, and move into more the social investment space. From a corporate social responsibility point of view, I think that should be applauded and I think that is likely going to be a trend we will see.

Senator MARK BISHOP: There are all sorts of worthy social purposes—low income housing, funding of private hospitals, aged care accommodation, drug rehabilitation and road networks. The list is virtually endless and all can be argued to have a defined social purpose. In terms of impact investment and impact investors, do you see the need for the creation of a distinct asset class or would you prefer to go down the path of niche regulation for each subsector of the industry that comes within the concept of impact investment? Does anyone have any thoughts on that?

Mr Thorn: This came out in the last conversation. One of the tantalising things people chase is one simple solution across the sector, and I think whether it be in terms of asset class, particular financing solutions or particular products, there is not going to be one solution across-the-board. When I think of impact investment, it is really any investment that is creating social impact. Whether that is more at the financial end, where more of the return is financial with some social impact, or more at the impact end, which is more social impact and less financial, you will have a spectrum. So, part of the challenge is creating the vehicle, or the instrument, that is actually going to respond or attract the finance to where you are trying to make a difference. Part of the challenge around the structure that you are using is that the reason we are moving from philanthropy and government funding into commercial markets is trying to access capital that is not available. Going to your point earlier, there are unlimited grant recipients. What we are trying to do is open up sources of capital that are not otherwise available.

Therefore, the solution that is being put here is a great idea for a particular group of investors, but it is not going to be available to every investor. So, what we need to do is work out what is an appropriate both governance model and then an appropriate return for that particular investment class or investor. Really, the point we were trying to make in our submission is that one of the challenges for government is if you try to come up with one solution for this broad investment area you have unintended consequences. So, where trusts and foundations have been set up to invest funds to deliver an income stream, and where they have regulation around distribution requirements, are they are asked to invest in, say, a product that has a lower gross yield, that therefore means that their ability to distribute at the same rate is diminished, that product may be less attractive to the market that it has been pitched at because of the regulation that sits around that, whereas for some not-for-profits that can use the franking credits a franked return might be more appropriate than a lower return.

Likewise, for a commercial investor there may be reasons why actually paying tax and getting a higher return is more attractive than getting a lower return with no tax. There will be other investors that for getting a lower return with no tax is more appropriate. So, really it comes back to saying what are trying to raise the money for, who are we trying to raise it from and therefore what is the best framework to have that discussion? Our view is that, rather than trying to find one set of regulations or structures that sits across the top, there is now with the Office for the Not-for-Profit Sector, the ability to actually have a body that has the visibility and understanding of that and, if you like, set areas of benchmark where someone with TCC status comes along to create a new instrument. The office could actually determine what class or sector of investment that is to ensure the greatest, or the widest, body of investors could invest in that product.

Senator MARK BISHOP: Does the Office for the Not-for-Profit Sector have the expertise at this stage to establish the appropriate taxation regime, the appropriate regulatory regime, the appropriate regime that makes it attractive to both profit and not-for-profit superannuation, and the appropriate regime for for-profit organisations?

Mr Thorn: No, it does not, but I think the point is—and it is open to discussion, obviously—in terms of a whole-of-government approach it is potentially the body that could coordinate that response across government. We are arguing that if you have an instrument coming forward that needs to be, if you like, regulated, or an appropriate benchmark targeted, it would come to the appropriate government to coordinate that classification, if you like, of where that investment should sit.

Senator MARK BISHOP: You mentioned the Office for the Not-for-Profit Sector, and that has necessary implications of regulating that sector, but we—and by ‘we’, I mean government and others—are also interested in tapping into the for-profit sector and the wider commercial market for capital raising for impact investment for social purpose. The ethics of the Macquarie Bank officers, for example, and other investment banks, are qualitatively different—not necessarily superior or inferior to those of the not-for-profit sector. I just raise that as a preliminary point as a bit of a limitation. If you do not have peak for-profit organisations involved, you might be missing out at the beginning.

Mr Thorn: Again, my response to that, in the context of the previous discussion, was that in terms of social purpose, if you are using a for-profit structure to achieve some social purpose as well as commercial return; if you are a for-profit you should be governed by the for-profit regulatory environment. If you are a not-for-profit, you are governed by the not-for-profit regulatory environment. If you are somewhere in the middle, by definition it is a hybrid. I do not think you have to create a hybrid regulator, but you have to create an arm of government that understands the objectives that are trying to be achieved and be able to work within that framework. By definition, what we are talking about here is a hybrid.

Senator MARK BISHOP: Yes. Thank you, gentlemen.

Senator STEPHENS: Thank you, Chair. Thank you for your submission. Mr Ward, you spoke about PAFs entering into uncommercial transactions with DGRs and then claiming the difference as a charitable DGR contribution. You said that one of the things we need to do is to actually educate PAFs that that capacity is available. My first question to you is: can a PAF that has already been established and registered its constitution and its objects change its objects to include that additional clause?

Mr Ward: Trustees of PAFs can change their objects, but that particular object requires the commissioner’s approval to change. But in most cases PAFs are established with the broad clause to provide money, property and benefit to the community. That is the standard clause out of the model deed that most PAFs before PAFs and PAFs are now being established. So, the word ‘benefit’ is already in most PAF founding documents.

Senator STEPHENS: So, really, the question is about educating the trustees of the PAF that they are able to take advantage of this arrangement?

Mr Ward: Simply the combination of educating but also making sure that the market benchmark for the social bond is established before they invest so they know exactly the full return they are going to get. As I understand it, on the recent issue earlier this year, between 150 and maybe 200 of the 900 PAFs were probably aware that the issue was out there, but the level of specific interest and then transaction got down to much smaller numbers. So, it is a case of getting it out but also making sure that the full return, which includes that discount to the market, is known at the time of investing rather than being left uncertain to have a discussion with the commissioner when you file your PAF return at the end of the financial year.

Senator STEPHENS: Thank you for clarifying that. The second issue I wanted to raise with you is the whole issue of DGR status and where that fits in the philanthropic environment. We had some evidence this morning from an organisation that cannot receive philanthropic donations because the work they are doing is engaged in on a global scale and so it is not in Australia. Their argument was that they are an international citizen and in a globally acknowledged project that is around the UN compact they should be able to attract philanthropic monies. Firstly, do you have a view on that? Secondly, how big an issue is it for philanthropic funds that they can only give to DGR registered organisations and what limitations does that put on philanthropists?

Mr Ward: On the first question, there are something like 175 DGR organisations, or deductible gift recipients.

Senator STEPHENS: Perhaps you could just explain a little bit more for Senator Bishop about what that means and why it is important, just for the record.

Mr Ward: A deductible gift recipient is a classification by the ATO that allows any person who is giving a donation of \$2 or more to get a tax deduction. As to the issues with private ancillary funds and public ancillary

funds, because they are themselves DGRs, when founders set them up and put money in they get a tax deduction on that money going into the foundation. The rules mean that those foundations can then only fund organisations that, if you gave a deduction directly to that organisation, you would have also got a tax deduction. So, a PAF cannot fund an organisation that an individual could not give to and get a tax deduction, to make sure there is a consistency and an integrity in terms of consolidated revenue. That is the logic of why setting up a PAF there are constraints on who you can give to. With a private charitable trust there is no tax deduction for the money going in. Therefore, that trust can distribute to a much wider range of solely charitable purposes, simply because they are not constrained by that requirement to meet the DGR rules.

Just coming back, firstly, to the global issue, there are about 175 or so organisations that are DGRs that operate overseas—say, Oxfam and World Vision. That list goes to 175. There are a lot of organisations—PAFs, public ancillary funds—the public can donate to that operate overseas. It is certainly a smaller list than those that can operate in Australia, but there is a mechanism whereby Australian and tax deductible gifts can find their way to global international events.

Secondly, in relation to DGRs, to my mind the logic of private ancillary funds only being able to distribute to organisations which, if you gave to directly you would get a tax deduction, makes sense, because essentially what it says is that the foundation is simply a holding vehicle for money that is going from an individual's pocket to the community; it is just pausing on the way through this intermediary vehicle. The logic of the system does make sense. The logic of how you become a DGR, though, as you were pointing out, is really very complicated and there are, I think, seven different DGRs. There are restrictions on which—particularly for foundations—you can make grants to, and so it does get a little more complicated again.

We would take the view that part of the role of the ACNC hopefully will be to sort out this distinction between DGRs, charitable status and eventually come up with a much more coherent package. For instance, less than half the tax concession charities—so charities that the ATO have said, 'You do not have to pay income tax'—are DGRs. Sometimes there is no logic.

Mr Thorn: You would also be remiss not to add that that complexity has unintended consequences. So, an organisation like Philanthropy Australia, which is representing DGR grant makers, we actually cannot receive funds from any of our members, because we cannot get DGR status. That was obviously not necessarily the intent.

Senator STEPHENS: A challenge, of course. So, you in and of yourself are a member organisation but you do not fit the criteria?

Mr Thorn: That is correct.

Senator STEPHENS: Okay.

Mr Thorn: The 17 criterion—one of the 17.

Senator STEPHENS: I want to tease that out a bit more, because I know that Senator Bishop is quite interested in this. You said there are all these different ways of getting DGR. Are there some types of organisations where it is easier to get DGR, say, environmental organisations or art and cultural organisations, as opposed to community service or social welfare organisations? Do some organisations seem to be able to get it more easily than others?

Mr Ward: The process, as I understand it, is you have to fit entirely within one of the pigeon holes that exist of the 17, or whatever the number is, of DGRs. As long as you fit absolutely within that, the process is straightforward. The issue is often that organisations do not fit completely within one box; they maybe within two boxes. In a lot of cases, that does not allow them to become a DGR, because all of their activity does not fit within one criteria, even though both of the criteria might be acceptable. That is part of the complicated mechanism that we have and one would hope eventually would be reviewed rather than added to.

Senator STEPHENS: We all have high hopes for the charities commission. Returning to the notion of the public trust funds, I did not appreciate there was \$40 million a year. That is quite a lot of money going into the sector.

Mr Lewis: Yes, across-the-board.

Senator STEPHENS: That is pretty amazing. Can you explain to us a little bit about the sorts of tools or assessment strategies that you have developed within the trust around determining financial investment in a not-for-profit organisation?

Mr Lewis: I will use the word 'grants' instead of 'financial investment', if I may. That would be the traditional word and the word that has been used up to now. Obviously I alluded in my comments earlier that we

are trying to get this shift away from this grant making to investment, and so this is clearly the direction we want to be taking. Given I have been in this area for six months, I am looking at this with an objective view, if you like, but do see that with relation to our assessment of investments that have been made in the past it is pretty rudimentary acquittal forms basically that would come back from the investees, if you like, and they get filed together, but there has not been a deliberate attempt to assess social impact of the portfolio as a whole. The difficulty there is, I suppose, as a trustee we have many different stakeholders. We are a listed company and we have a suite of 15 or 16 service lines, of which philanthropy is one. We need to be mindful of what are appropriate resources to be putting in philanthropy, given our responsibilities here and our responsibilities to our other stakeholders.

The reason, as I described earlier, for focusing and being much more strategic about how we make these grants—moving to investment—is that the four or five people in our team can be focused on really getting to understand, with these partners, the work that they are doing, the investments they are making, and getting a much more two-way collaboration, and indeed working with this university to start determining our own definition of ‘social impact’. I suppose coming back to the questions earlier, every sector is going to have a view on social impacts and a way of measuring it. By virtue of choosing two program areas, we want to be determining that view, but we want to be doing it in partnership with an independent expert, if you like.

As a trustee, in the past we have had a very broad philanthropic footprint. You can imagine, through 800 charitable trusts, of which three quarters do prescribe investment to particular areas, you create a very large matrix and spread. We are going to start with our discretionary investments and work out an investment strategy with respect to those two program areas I mentioned, and with the university develop a social impact assessment model. But by virtue of going longer and deeper with partners—and we will have fewer of them—we believe it is much more manageable.

We are in new territory in a sense, and to answer your question, yes, the acquittal forms are going to look quite different. In fact, it is going to be a collaborative process. While we get acquittal forms from different organisations we need as a trustee to wrap that all up and say, ‘Okay. In our portfolio what has our social impact been and how do we thread that narrative through?’ Hopefully at the next inquiry I will have an update for you.

Senator STEPHENS: Thank you. That is useful. We heard from Mr Organ, and the YMCA has put up the proposition of charities bonds. Hypothetically, would trusts consider investing in those types of bonds or would trusts be able to invest in the kinds of bonds being proposed?

Mr Lewis: With respect to our philanthropic portfolio of public funds—and as mentioned by Mr Ward earlier, the sort of DGR type 2 and type 1 is of most interest to us—in the main we distribute to DGR 1s predominantly. To the extent that the charity bonds would not necessarily fall under that guise—and obviously we appreciate there are changes ahead—that probably would not be appropriate. However, from our own corporate account, and in the sense that from our own corporate social responsibility if you want to make an investment we could—and this comes back to this overlap between corporate investment and philanthropic investment, if you like—by virtue of the couple of examples I mentioned we have been playing with a few areas and a few ideas. We tried to answer that with respect to the consortium approach we made for the SEDIF application. We actually structured it as a charitable structure in order to get over the DGR 1 issue, and seeing that as an opportunity for us to make an investment into the sector that would actually generate its own return rather than that being seen as a grant. Hence picking up the language of this session—moving from grant into investment. However, the charitable structure did not get over the line with respect to the panel that were reviewing the various options. We are looking at ways of keeping that option alive, if you like, to see whether we can get other not necessarily government leverage but other leverage—our other partners—into that to make it work, because that is I suppose a neat solution that deals with our requirement to invest into DGR 1 as well as making a sort of investment vehicle that will provide the likes of charitable bonds.

Senator STEPHENS: Senator Bishop, do you understand the difference between DGR 1 and 2? Okay.

Mr Ward: Could I add to that answer as well?

Senator STEPHENS: Yes.

Mr Ward: As my colleague Mr Thorn said earlier on, there is a need for a range of products. Social bonds is an interesting case. Because most charitable trusts are tax exempt themselves, a tax exempt social bond at a lower rate is not something that is, say, as attractive as a social bond with synthetic franking credits attached to it in a way that I think Lifehouse and The Benevolent Society presented our ideas in their submission. From a trust perspective, a social bond with franking credits would be more attractive than a social bond that is income tax exempt.

Senator STEPHENS: I think we are going to have them appear in Sydney. We will be able to explore that whole issue with them further. Thank you. I have no other questions except to ask whether there is anything else that you wanted to put on the record—any of you—around this issue.

Mr Thorn: Can I just add to that last point? Again, from an investment perspective, it is not just about the income; it is about the risk taken in the capital that is being invested. Again, one of the issues for the trusts and foundations, which we are talking to today, is that their ability to take a risk, whether it be implied or real, is potentially less than a larger institutional investor. Again, the nature of the bond is not just about the tax status and the social motivation but also about the ability of an investor to make that investment. Again, if we come back to the reason—we are thinking about all of this, trying to tap into commercial pools of capital. It is then a question of working out whether they can take more or less risk and what the tax status of that is. It is important to keep that separate, because a lot of trusts and foundations have been created through people donating capital, receiving a tax deduction to create an income stream. If that capital—and it is only a fairly small proportionate pool in the global investment market—is then put at risk through taking investment risks or investing in bonds that are new, innovative or different, you potentially have other impacts on the ability of that pool of capital to fund. I think that overall risk needs to be taken into consideration without in any way diminishing the intent of organisations trying to raise capital.

Senator STEPHENS: Thank you, Mr Thorn. That is a good point.

Mr Cox: I have something else to add to your question earlier around whether it is easier for some organisations to obtain the DGR status than others. Perhaps I can give a case study. We have a YMCA in Katherine that was providing direct relief of young offenders through diversionary programs. The ATO deemed that it was not providing direct relief of poverty, sickness or destitution, according to the status, and was not able to obtain the DGR status, yet the YMCA up the road, which was the Darwin YMCA, was quite able to provide evidence that the service that it was delivering was in fact benevolent and therefore was entitled to the DGR status. Perhaps just using that as a case study, internally as part of a YMCA family one was deemed to be benevolent and therefore was able to access the DGR status; another YMCA was not, even though the objects and the intent behind what they were doing was very much the same. I offer that as a bit of a case study whereby there is confusion even internally within our own organisation let alone in various markets or various organisations across the spectrum.

Senator STEPHENS: That is a good point. Thank you.

CHAIR: That concludes this session. I thank you all for appearing. It has been very helpful evidence. We will now have a 15-minute break.

Proceedings suspended from 15:15 to 15:31

ROSSHANDLER, Mr Ashley Warren, Founder and Chief Executive Officer, Karma Currency Foundation

WALES, Ms Nonie, Managing Director for People and Culture, Matrix On Board

NETTELBECK, Ms Nerida, Managing Director , Matrix on Board

POPE, Ms Juanita, Senior Lawyer, PilchConnect, Public Interest Law Clearing House (Vic) Inc.

MACDONALD, Mr Nathan, Senior Lawyer, PilchConnect, Public Interest Law Clearing House (Vic) Inc.

MORIARTY, Mr Denis, Our Community

CHAIR: I welcome you all and invite you to make an opening statement in turn.

Mr Moriarty: Our Community started about 11 years ago with one of the first rounds of social investment in Australia from social investors. Our mission was to provide capacity building for the not-for-profit sector. We do this through our website, a training company, newsletters and our technology reforms. We have 55,000 community groups that are members of Our Community.

Mr MacDonald: Thank you for the opportunity to comment at this inquiry. I am joined by my colleague Juanita Pope, who is also a lawyer at PilchConnect. Unfortunately, the manager of our service, Sue Woodward, is unavailable today as she is in Sydney at the Not-for-Profit Sector Reform Council, but she does send her apologies. PilchConnect is a sector based legal support service for not-for-profit community organisations. We are housed within the Public Interest Law Clearing House, or PILCH, here in Victoria, a not-for-profit incorporated association with a 16-year history of addressing unmet legal need. That is both for community organisations and for individuals. Our service, PilchConnect, was launched in 2008. Senator Stephens, you might remember that; you were involved in that launch. Since that time we have delivered extensive pro bono legal assistance and governance support to not-for-profit organisations.

Our service delivery model consists of five core aspects. Those are, firstly, the internet web portal that we host. We have a number of fact sheets and guides on legal issues facing the not-for-profit sector. We also run a telephone advice service where we provide in-house legal assistance to community organisations. We have a pro bono legal referral program, where we leverage the pro bono resources of the legal community in providing assistance to community organisations. We provide training to community organisations both in metropolitan and regional Victoria, and we undertake extensive law reform and policy work based on the case work and inquiry trends that we receive.

Our priority at PilchConnect is assisting not-for-profit organisations that provide welfare and support services to individuals experiencing marginalisation and disadvantage, and in particular those organisations that are unable to afford or otherwise access legal assistance. We assist in a wide range of issues from start-up incorporation advice to assistance with accessing tax concessions, such as DGR, insurance matters, property leasing, employee and volunteer matters, right through to winding up and merger advice for organisations.

In essence, by providing that in-house legal assistance for community groups we aim to help the helpers. Of relevance to this inquiry, after reading through some of the submissions, in the past 18 months PilchConnect has received a growing number of inquiries from social enterprises in particular—those types of innovative models that do not fit neatly within the ‘not-for-profit’ definition. I think it is fair to say that the pro bono legal community is still coming to terms with how to assist those sorts of requests.. I would be happy to elaborate on that if the committee would like to explore that further. I would now invite my colleague Ms Pope to discuss our submissions further.

Ms Pope: Thank you. The organisations represented in this session of the round table are all intermediaries of one kind or another, and ours is specifically an intermediary organisation that provides legal help to not-for-profit organisations, and particularly to not-for-profit organisations that are supporting marginalised and disadvantaged people. In this, though, the work that we do is crucial to improving the economic potential and the financial sustainability of community organisations we assist, and from this perspective we would like to offer the following reflections on the work that we do and based on the experiences of the organisations we assist.

The first point, I think, is that the legal and regulatory regime for the not-for-profit sector is very complex. It can operate as a barrier to effective participation by not-for-profit organisations, particularly those that are small or starting up, and this includes in relation to finance options. Not-for-profit organisations are grappling with the regulatory regime that has been acknowledged as more complex than for business and is often characterised by inconsistencies and duplication. Many of the not-for-profit organisations we work with rely heavily on volunteers. They have limited resources and little capacity to access legal help. We help them on issues that are relevant to this inquiry, particularly in relation to incorporations and legal structures, tax status and contractual matters. But

because they are purpose driven organisations, many of the not-for-profit organisations that we work with just want to get on with doing what they do, whether that is providing emergency accommodation or helping kids with disabilities to go on camps, rather than, in our experience, exploring the opportunities of longer term strategic investment or finance options.

Many groups we assist are more concerned with government funding agreements or accessing tax concessions in order to increase the availability of philanthropic support rather than finance of the kind that was addressed in the issues paper for this inquiry. We have relatively limited experience—although we do have some—of advising on those matters. It is our experience that those not-for-profit organisations are often struggling to understand and address the range of legal issues and regulatory obligations in the spaces that are necessary even to access the opportunities that we are here today to talk about. We would submit that barriers to accessing legal assistance have a direct connection with the availability of finance to not-for-profits. For example, a charitable group that receives good legal advice in its incorporation stage will be better placed to access tax concessions, such as DGR, that are often needed for finance.

Secondly, we would argue that intermediary organisations are critical. The Productivity Commission's 2010 report highlights this and, in particular, notes the benefits of sector based legal and compliance support services in promoting effective, sustainable organisations that can maximise social outcomes. We see our service as an effective model for supporting not-for-profits with their legal and legally related issues, and the advice that we can provide and the assistance that we give to build capacity to not-for-profit groups can help them to access finance opportunities or even, indeed, assess the situation that they are in and contemplate their options.

Our submission is that a network of intermediary services is critical, and our services work with each other in order to support not-for-profits. Our services are often contingent on the supports of other intermediaries. These are the issues that we see arising from the inquiry and we would be happy to elaborate on the points in the discussion.

CHAIR: Thank you very much. Matrix on Board.

Ms Wales: We would like to thank you for the opportunity to meet with you this afternoon. Thank you for the invitation. Matrix on Board provides financial management services to nonprofits. We also provide management support, business planning, strategic planning and governance support to nonprofits, and we also do training and development of board members and staff of nonprofits. We were established in 1997. So, we have done that for 14 years. We have 65 staff across Australia. Our staff are located in Sydney, Melbourne, Alice Springs, Darwin, Broome and Cairns. We have quite a breadth of service delivery, and we have worked with many nonprofits. We have worked with over 400 nonprofits, of which around a third are Indigenous organisations.

We have also provided training to over 1,500 board members and staff in understanding financial reports. We have a one-day program that we developed some years back, and it is extremely popular; there is a very high demand for it. The essence of that is that we make profit and loss statements and balance sheets accessible to people who have financial responsibility in non-profits.

In order to prepare for this hearing, Ms Nettelbeck and I have looked at our clients and we have sought to identify what we see are some of the internal capability challenges that might prevent nonprofits from accessing finance. Two examples come to mind. A medium-sized nonprofit, with a turnover of \$3 million, and has 25 in a metropolitan area. The board are very high level, predominantly from the corporate background, and the CEO is very dynamic. He is confident, he is across the business and he is clear about his fundraising imperatives. The organisation has a finance mix. It has fee-for-service, philanthropic funding and donations, and it is receiving strong support from an intermediary organisation that specialises in supporting social enterprise.

Matrix reviewed the accounts and we identified that the organisation had failed to pay its superannuation and tax liability for 12 months. When the liabilities were correctly accounted for, the organisation was close to insolvent. No-one had picked it up. We found the CEO was responsible for the BAS and for bank reconciliations and he had no accounting knowledge. There were almost no financial controls and checks in the practices of the organisation.

In contrast, a small Indigenous organisation in a regional area—a turnover of \$1 million, with 10 staff and they receive government grants on a recurrent basis. The CEO is an Indigenous man from the community. He is not formally educated. The board are local Indigenous and non-Indigenous people. The CEO self-confessed as he has limited training in financials and so he is quite nervous about his capability to run the finances and, as he would say, 'get on top of the finances'. The board, too, are very aware of their responsibility, a bit anxious about it when we talked with them, because they wanted to be good custodians of the money. Matrix reviewed their accounts. The organisation is in a strong financial position. They have strong reserves. Their balance sheet is accurate. The

CEO, in fact, has a very good grasp of the financial position of the organisation and the board make good use of an accountant, but they do not outsource their responsibilities. I am going to hand over to Ms Nettelbeck to talk further about the insights that we have gained from these clients.

Ms Nettelbeck: Thank you, Ms Wales. Another thing that we found that is relevant to the inquiry is that nonprofit financial and management systems are set up around the source of their funding. Governments at all levels have purchased services by provided block funding that must be entirely spent and acquitted during the accounting period, and that is normally one year. These nonprofits are motivated by their social outcome, the change in the clients that they see and the social purpose that they are trying to achieve. The money is seen as a means to an end and is pursued only as it contributes to achieving the social outcome.

Social enterprises, on the other hand, are often established as a business with a social purpose, that is, there is a large proportion of revenue which is derived from the sale of goods or services and there are volume costs associated with each sale that provides margins to cover their overheads. The staff in these nonprofits are hungry for each sale and motivated to win new business. They struggle with the tension between the business motivation to earn money and make profit and the business mission, which is the social purpose. So, one of the biggest challenges, therefore, for nonprofits taking up riskier and more complex financial arrangements is the existing skill and culture of the board and the staff.

The small to medium nonprofits are only now just starting to hit their straps with understanding their financial statements around block funded things. All of the training that we have done and all of the people that we meet, they are only really just coming to grips now with a profit and loss and a balance sheet and how to make sure an organisation stays financially viable. There are lots of people we see and train who are just ordinary mums and dads who find themselves sitting on a board and having to make these big financial decisions.

In our client group we see a clear correlation between those organisations with high proportions of self-generated income and inefficiency in their financial management systems. This results in difficulties in managing cash flow and producing accurate and timely reports for the board to review and make decisions from. Social enterprise start-ups struggle to build a culture of risk management. They do not have time to put in good internal controls or financial controls; they usually rely on an individual who is a key driver of the business, and this is really an inherently risky practice for a nonprofit organisation. We will obviously talk more about some of those issues, but we are focused on the internal capabilities of the nonprofits to be able to access more complex financial arrangements.

CHAIR: Thank you very much. Karma Currency Foundation.

Mr Rosshandler: For the record, it is Mr Ashley Rosshandler—if we could state that on the record. I believe we have a gynaecologist, too, as one of the senators. I can now vouch for that. The Karma Currency Foundation was set up in 2007 as a DGR type 2 foundation, which is in layman's terms a giving foundation set up to raise and distribute funds to DGR type 1 charities. We were set up in 2007. We went to the NAB bank with an idea, which was a charity gift voucher. As a founder of the organisation, I went to a friend's engagement party with my wife and I thought, on the way there, 'What should we have got these guys?' They have the photo frames, jugs, vases and everything else. Maybe a goat from Oxfam or a tree from JNF or a charitable gift would probably align with them. But then it is always a bit sticky. If you give someone a goat, they could say, 'Oh, I am not into goats, I am into chickens, whales, breast cancer or heart research.' There are so many wonderful things out there.

So, that was the seed of an idea for a charity gift voucher. You make a donation for a voucher, you send that to family, friends, colleagues, stakeholders, and they are then empowered to give \$20, \$50 or \$100—the value of the voucher. They go on to a website and they are empowered to distribute that donation to the charities and projects of their choice. In a way it is the democratisation of giving.

The NAB bank were excited enough to give us \$40,000 to help us build the website. and now four years later we have raised and distributed over \$1.3 million. We now do a number of different things to help our 200 charity partners. We are the largest charitable gift registry in the southern hemisphere now—over 1,000 projects on the site—and we help them through charity gift vouchers, charity gift registries, fundraising pages and workplace giving platforms. Just different ways that we engage people and corporates and connect them to charities and projects to make a difference.

The name of it is Karma Currency and ironically, I guess, a lot of today and your travels around the country in a sense come back to Karma Currency. Our thinking is you have a hundred bucks in your pocket and tonight you can put that on the Hawks to beat the Cats and maybe win a few bucks, maybe lose it all, or you could take that \$100 and give it to Africa and try and help there or the Guide Dogs or the thousands of wonderful causes out there that can have great social impact. Thank you for inviting me here and for contributing.

CHAIR: I am quite interested in Matrix on Board and the fact that you service some Indigenous communities and you have an office in Broome. Tell me about what you do in the Kimberley. What sorts of organisations are you assisting?

Ms Nettelbeck: In the Kimberley we provide a service for FaHCSIA funded services that provide money management services for the Aboriginal communities across the Kimberley. Our work there is to do training and development of the financial literacy educators in those organisations and deliver financial literacy education to Aboriginal people on the ground. Part of that is through a program called MoneyMob Talkabout, which is a financial literacy education program that is fun and engaging for kids in schools. It is drama based and it is mobile, with games trying to teach people about money. That is right from Broome all the way across to Kununurra.

CHAIR: Who do you do that in association with; the Kimberley Land Council, KLC, or the Kimberley Development Commission?

Ms Nettelbeck: Different organisations. Kimberley Employment Services is one. It is services that are contracted by FaHCSIA to deliver money management services. Winun Ngari and Jungarni-Jutiya, which is a drug and alcohol service, also delivers the money management service. We also do our management support and financial services. We provide bookkeeping and accounting services for Waringarri in Kununurra and also for Winun Ngari in Derby as well.

Ms Wales: We have worked a lot with Aboriginal arts centres across the Kimberley. I have been working for about eight years with Warlayirti artists in Balgo. The services that we have provided have ranged from working with the committee to help them understand their finances, which is a long-term process of enabling traditional Aboriginal people to understand profit and loss and the flow of money in an organisation that they are members of and then become board members of. Also, with Warlayirti we have done coaching of the CEOs so that that assists with staff retention. They are extremely isolated in those remote communities. We take a multipronged approach to supporting the organisation—both the board and the staff—in their financial management as well as their strategic management of the organisation. We have worked with Halls Creek with the arts centre there and in Kununurra. It is quite a range of clients we have worked with, and different organisations.

Ms Nettelbeck: Broome CIRCLE is another organisation that comes to mind.

CHAIR: How do you get involved with these organisations? Do you approach them or do they approach you or does someone recommend you to them?

Ms Nettelbeck: It is all fee-for-service and word-of-mouth. They will ask us to put in a proposal for the work that they have to do. We put that proposal to them and they accept it or negotiate a different kind of work contract. We are just operators of private enterprise.

CHAIR: What about in the Pilbara? Are you active in the Pilbara?

Ms Nettelbeck: No, we are not at the moment. Geraldton is one of the organisations that we service, but we work from Broome to service Geraldton. We have to fly down to Perth to come back up to Geraldton.

CHAIR: It is a very long way down to Geraldton from Broome.

Ms Nettelbeck: That is right. It is. So, we are looking at the Pilbara for the financial literacy mobile education unit, scoping that out. We have set up a lot of online services. We are trying to service people remotely from the regional centres that we have set up. For the Waringarri organisation; we do their accounting for them and it is done in the cloud basically, using a platform called Zero. It is online; we can see it and they can see it at the same time.

CHAIR: There is a microfinance organisation moving into the Kimberley now—Many Rivers. Are you aware of that and do you see that as a good development?

Ms Nettelbeck: I am aware of Many Rivers and we have talked to them about providing some education and training to some of their staff around financial literacy education for Aboriginal people. I feel anxious about it, personally. I think it is good to try new things and different things. I am waiting to see how it works. I think it is a great step forward to try something different. I am worried about the size of the actual market for Aboriginal people to be running businesses when the markets are so small and localised.

CHAIR: That is a fair comment, I think. There are a number of arts centres around the Kimberley and most of them do have a manager. You said you are going to Balgo, Halls Creek and Fitzroy, but there is one out at Derby on the Gibb River Road. There is the Warmun centre—are you there? No. And in Kununurra. They are quite big business, in fact, some of them, probably among the more successful Indigenous businesses. Apart from you, who would provide financial advice to those organisations?

Ms Nettelbeck: The other people providing advice are accountants from different parts of the country. Some people started off their accounting service, say, in Broome and then they have moved down to Perth. There are a few local individuals who are providing the lower level bookkeeping services. There is not really any one big provider that provides all the services. It is very relational based. If you were there on the ground and you have a good relationship with the organisation, then you are going to provide the services to them and then they will tell someone else and you will get referrals. That is the way it works.

Senator MARK BISHOP: Have you got involved in the various land based groups up there who are going to be receiving significant revenue streams from allowing access to mining development on traditional lands and the like? There is increasingly large-scale development north of the Pilbara but into Pilbara and parts around Broome and the like. There are large revenue streams forecast over the next 30 years for allowing access to various projects. Does your organisation tap into giving advice to the recipients of those funds? Is that part of your work?

Ms Nettelbeck: No. We do not provide financial advice; we are an outsource solution for financial management. We would use accountants ourselves to provide advice in financing and raising revenue.

Senator MARK BISHOP: I did not mean in terms of investment purposes, I meant in terms of receipts, proper accountability, transparency—those sorts of things.

Ms Nettelbeck: Proper accountability, yes.

Ms Wales: We certainly could. At the moment we do not have those organisations as clients, because they have not purchased our services, but we certainly could and we have certainly got solutions that would assist them work with their members who are the recipients of that money and help them manage that money as an organisation on behalf of their members. So, those internal capabilities around managing the finance is what our services do. But as Ms Nettelbeck says, we would not provide financial advice; it is more about training people to understand their finances.

Senator MARK BISHOP: That is what I am talking about. The sorts of services you provide are in need up there and in increasing need with the large revenue flows that are going to be coming from allowing access to minerals, oil and gas and the like.

Ms Nettelbeck: We do work with two organisations in the Arnhem Land area—the Homelands organisations up there—that receive large amounts of funding from the government and some royalty funding, but not lots. I can see that that is going to happen in different levels and scales over the Kimberley.

Senator MARK BISHOP: I am talking hundreds of millions of dollars and billions of dollars going to TOs on behalf of clan groups anywhere on dozens of sites now north of the Pilbara right up to the Northern Territory, as a market opportunity.

Ms Nettelbeck: Yes.

Senator STEPHENS: Ms Pope, in your opening remarks you talked about the regulatory environment being more complex than for business. In terms of the organisations that Matrix on Board supports—and perhaps Our Community as well—one of the recommendations of the Productivity Commission was that organisations that are currently registered in the Office of the Registrar of Indigenous Corporations should be transferred to the charities regulator. Do you have a thought about the pros and cons of that recommendation? Do we still need to have an Office of the Registrar of Indigenous Corporations—a registrar and that process? The evidence that came to the Productivity Commission was that there were even greater levels of complexity around reporting to ORIC for organisations than ASIC, for example. In terms of peeling away the red tape and creating a more level playing field, I suppose, I am interested in whether or not you think that is an important issue at the moment.

Mr Moriarty: I would be happy to talk on that as a personal view. I think smaller government is better rather than extra government. The clearer structures that there are for community organisations to go to and seek assistance the better it is. It does not matter what the level of information is if in the new regulator or in the new area there was due recognition that there are some unique features around Indigenous accountability and Indigenous services, and as long as they could cope with that or expand on it and provide those services. It would be more logical to have one organisation looking after the whole area.

Senator STEPHENS: So, a halfway option might be that ORIC actually moves into the regulatory space?

Mr Moriarty: My sense would be yes. There are so many different government organisations, and community groups often do not know who they report to, particularly if they are reliant upon volunteer labour or part-time public officers. I think the clearer the reporting regime the better it is for them and the greater accountability there is.

Ms Nettelbeck: I think that the Indigenous registrar is trying to make sure that the special requirements for the Indigenous communities are maintained in terms of the allocation of funding streams that come through royalties and so on, and supported. But one of the things it creates is a separate lot of information and regulation that people like us who are supporting those organisations need to get our head around. That creates a level of complexity, where I think if there was a way to just have one regulator and one system it makes it easier for everyone to understand and simplifies it. The simpler you can make things the better, but I do think that we need to be careful that we do not throw the baby out with the bathwater.

Ms Wales: One of the things about ORIC that I know from working with Indigenous organisations—and Warlayirti comes to mind—is that they understand some of the complexities of governance for an Aboriginal organisation. I know that ORIC provides training and has really built up an enormous expertise in understanding the overlay of culture on an organisational entity and structure that has accountabilities that are outside that culture, but it is actually run by people of a very particular culture, language group and so on. I just know ORIC has such a strong expertise around that; to lose that would be throwing the baby out with the bathwater, but to simplify the accountabilities and the sets of information would be fantastic. Because trying to explain that and help people understand their governance responsibilities—as Ms Nettelbeck says, it is hard enough for us to get our heads across it, let alone then start trying to translate it across a cultural concept.

Ms Nettelbeck: I think PILCH is Victorian based and so does not really have its head across it. I have rung Ms Pope in the past for help and she has said, ‘I am not really sure’, because it is not their area of law. It is quite complex and it creates challenges for the whole sector that perhaps could be removed.

Senator STEPHENS: Mr Moriarty, you say you have about 50,000 members?

Mr Moriarty: Fifty-five thousand.

Senator STEPHENS: How many of those would be Aboriginal corporations, associations or organisations; wholly owned and managed?

Mr Moriarty: There would probably be a couple of thousand throughout the country that are Indigenous. We break the sector up into 21 segments, ranging from arts and culture to youth, children and family, women, Indigenous and multicultural. Health and wellbeing is obviously the largest, but Indigenous would be about 2,000 different groups.

Senator STEPHENS: How do you slice it this way, where an Indigenous organisation may well be doing something around women’s health and domestic violence and early parenting? How do you slice it that way? Have you got some identifiers on your database that cross the categories?

Mr Moriarty: We always ask them what is their main area where they spend their principal area of funding. That could be around mental health or it could be around women. Once they have identified that first area, they have a chance to break it up into four other segments, but predominantly it is easier to search a database around one particular key area.

Senator STEPHENS: Does your organisation actually target training opportunities to Indigenous organisations as well?

Mr Moriarty: We do. We partnered with Westpac, which I probably should have mentioned before. We originally went to Westpac, given that there is a hundred billion dollars of cash of the not-for-profit sector circulating in the economy each year, and said that every one of these groups needs a bank account and ‘rather than you just doing the traditional corporate responsibility thing of picking up one or two headline community groups and maybe giving grants out to about 200, you would be more inclined actually to provide financial literacy resources to every one of the 600,000 community groups and also provide better banking to every one of those 600,000.’

To be honest, we wasted about three years with Westpac. There was an extraordinary woman that had come back in from managing the agribusiness within Westpac. She saw the opportunity and probably over the last 18 months there has been the greatest reform in banking, I think, for community groups that Westpac has done. They have established a new not-for-profit section within the bank, just the same as they target SMEs, or small to medium enterprises. There is now a division there. They have trained bankers around actually working with different community groups. They have produced about 120,000 free guides to distribute to community groups around three areas: one for community treasurers, one for how community groups invest their funds, and the third one is about how board members of not-for-profits—who, as Matrix on Board said, often have no financial experience—can read a balance sheet and know how to manage a set of organisation accounts.

They have been pioneers in this space of providing better banking services to community groups. They have also provided about half a million dollars of free training to community groups. There is still an enormously long way to go, but I think they have probably made a very good start on it.

Senator STEPHENS: Karma Currency—how many of the charities or philanthropic partners or investors would be working in the Indigenous space?

Mr Rosshandler: We have an Indigenous area on our site, and probably eight to ten charities. We have 200 charities on board, so maybe about 10 per cent.

Senator STEPHENS: I thought you said you had 1,000 charities on board.

Mr Rosshandler: No, we have 200 charities and 1,000 charitable projects.

Senator STEPHENS: I see.

Mr Rosshandler: A charitable project might be the Cancer Council saying for \$200 that is half an hour of cancer research or \$500 is half a day, and they would break it up into gifts and projects.

Senator STEPHENS: We have not had much of an opportunity to explore the issue of capacity building and support for Indigenous organisations beyond philanthropy. It is interesting to look at that here now. Given that the focus of the inquiry is around social capital markets and leveraging funding, does anyone have a comment to make around the particular challenges of converting philanthropic gifts to investment, investing for impact or any comments you want to make around equity raising for projects and how that plays out in your own experiences? As intermediaries, you are in a very different space to many of the other organisations that we have spoken to.

Mr Moriarty: I have a personal one. I sit on Carol and Alan Schwartz's family foundation, which is a PAF, and I think there is an issue with PAFs that could be liberating some extra money back into the sector. Under the normal PAFs arrangement you distribute five per cent as a minimum of five per cent of your corpus. We sit around the table and debate enormously rigorously about how that five per cent is going to be spent; which not-for-profits will actually be the recipients of those funds. The other 95 per cent, which is invested, we personally have a strong opinion about how we use that. Carol and Alan had invested in GoodStart as one of the projects or whatever. Generally, most of the PAFs are just investing it in the short- to medium-term share market. We would argue that the 95 per cent that is representing billions of dollars in Australian funds should be more directed to actually focus around social purpose rather than just investing in Carlton United, Mayne Nickless or any of those funds. People have got a tax deduction out of that; the other 95 per cent should be focused around using that more effectively for social good.

Senator STEPHENS: That is a constructive suggestion. Thank you very much.

Mr Rosshandler: We are a public ancillary fund. It is interesting that I think the change now has been to ensure at least five per cent distributions per annum, whereas we distribute 95 per cent per annum. That is our model; to have funds flow through us and not to go on the stock market, because who knows what can happen with the stock market. We believe there should be greater leniency in DGR type 2 foundations, possibly under some circumstances being able to give to other DGR type 2 foundations. We, as a DGR type 2, have had real difficulties getting any sort of funding from anywhere.

We have gone to the government initially when we launched the charity gift vouchers saying, 'Isn't this terrific? Instead of this Christmas a gift that can end up in landfill, here is a charity gift voucher that can end up educating kids, finding cures, clearing landmines, and protecting rainforests', and the Minister for the Environment at the time said, 'That's wonderful. It is fantastic. How many charities are you giving to?' 'Hundreds.' 'Are any of those non-environmental charities?' 'Yes, they are.' 'Oh, too broad; we can't help there.' Then from there we have tried other times to get different funding from different bodies or even a link on the website from FaHCSIA saying:

We are out there in the market doing a wonderful workplace giving platform. We have taken an organisation like Origin Energy, who was donating \$43,000 three years ago, to now donating \$280,000 per year with an engaging platform. Would you mind when people are searching on the web, since FaHCSIA have a few links to some workplace giving providers, putting us up there?

They came back after a year, back and forth, saying, 'Well, we can't support you because we don't support you. We can't give you a link on the site because we have never given you any funding.' Some sorts of strange things there. I guess if there were opportunities to look at working with other foundations and donating through them, not to them, and having a bit more leniency around that, I think there would actually be greater engagement, greater opportunities and greater social outcomes.

Senator STEPHENS: Does anyone else want to comment on that suggestion?

Mr MacDonald: I would pick up on a point raised in the last session, just going back to the potential barriers that you flagged on the DGR aspect. From an organisation that receives a lot of requests for legal assistance, that seems to be a dominant source of questions from organisations, ‘How do we get DGR?’ That usually stems from organisations being either denied funding or financing as that is usually a criterion for either philanthropic or community financing. The categories and conditions placed on those funding or financing models are not necessarily a problem. DGR categories can occasionally be outdated and the discussion that was occurring in the last session was a good example of that, particularly in the public benevolent institution category, where it emphasises direct relief and seems to disregard those organisations that are working on preventive models.

Senator STEPHENS: The top of the cliff instead of the bottom.

Mr MacDonald: That is right, and as you say the commission has been tasked with looking at this—fingers crossed.

CHAIR: Could I ask you about equity capital? The Productivity Commission report suggests that two options for increasing access to equity capital would be increasing the use of cooperative structures and legislating to establish a new incorporated entity to allow equity capital to be invested into organisations that provide community benefit. Ms Pope, would you like to comment on those two proposals?

Ms Pope: Yes, I can comment briefly. Our experience with cooperatives is relatively limited. They are a form of legal structure that we do not see a lot of in Victoria at PilchConnect. With regard to coops, I noted the Productivity Commission’s comments on that, but we do not have very much experience of cooperatives coming to us for legal assistance in terms of accessing finance. On the issue of legal structures, in previous submissions to government and to the Productivity Commission we have made comments about the benefits of a legal structure at the federal level. I am certainly happy to give you a copy of those submissions.

CHAIR: Or table it. We would be quite happy to get a copy of that, yes.

Ms Pope: Yes.

Senator STEPHENS: Mr Moriarty, can I just ask you a question. You indicated that you are on the board of a PAF. One of the submissions this morning from Australian Charity Law Association raised the issue of proposed changes to guidelines around ancillary funds and suggested that trustees are actually electing to wind up their ancillary funds rather than be burdened with additional requirements of compliance, limitations on accumulations and the requirement that the trustee be a constitutional corporation, despite real doubts as to whether charitable corporations are such, and the existence of many funds where church wardens and other body corporates are trustees. Is this an issue that is live in the philanthropic space that you are aware of?

Mr Moriarty: Not that I am aware of, no. I think it might be in a specific area, but I have not heard about that, no.

Senator STEPHENS: PILCH representatives, is that an issue for you?

Mr MacDonald: No.

Senator STEPHENS: It is part of a discussion paper that the tax office has out at the moment. No? Okay. That is fine. The other issue that was raised is in relation to Unrelated Business Income Tax changes, which intends to tax surpluses retained by NFPs for working capital purposes. Would the Matrix on Board people have a view as to what the impacts of that might be.

Ms Nettelbeck: That would require non-profits, who normally do not do income tax returns, to do an income tax return, potentially?

Senator STEPHENS: No, I did not read it that way. I read it as being that tax surpluses retained by not-for-profits—

Ms Nettelbeck: Tax surpluses?

Senator STEPHENS: Sorry; surpluses retained by not-for-profits for working capital purposes would now be taxed.

Ms Nettelbeck: That is right. So, if they are going to be taxed they would have to do an income tax return to tax them?

Senator STEPHENS: Yes, you are right.

Ms Nettelbeck: Yes. I am thinking that that would be like, ‘Oh, my God!’ That is adding a whole level of administration over nonprofits that does not exist at the moment—another level.

Ms Wales: If you think of the example I gave of the organisation that looked like it was across everything and had lots of flair and it was definitely taking risks around its finance mix and it was being supported by an

intermediary, where it was getting unstuck was its tax liabilities and its superannuation contribution guarantee. If you added into that the mix on some tax on working capital, which could then be further disincentive for people to actually get working capital, it is another level of exposure to risk. That is what strikes me.

Ms Nettelbeck: I am also a little taken aback by the suggestion, because for a nonprofit to get working capital in the first place it takes so much effort. For the most part, your funding is given to you to spend. If you do not spend it, you have to give it back. To get working capital you have to go out and earn it from doing fee-for-service work or selling something that you own. It is not a big part of what they do, it is usually a smaller part of what they do.

Ms Wales: I am just imagining if that were the case. As it is when we work with boards or executive officers and we encourage them to think about how they can build up their reserves, and so we would say, 'How might you build up your reserves?' More than 50 per cent of the time they say, 'But we are not allowed to.' You say, 'Yes, you can. You're a separate entity. You are your own entity.' 'No, but the government says we are not allowed to.' That is the level of knowledge and understanding for those board members and those CEOs. Good governance in their organisation is to make sure that they have no savings, because if they have savings they believe that it will get either taken off them or they will have to give it back through a funding acquittal process. So, then the thought that they might get taxed on top of that—there is no way we can convince them to save money, because then they will go, 'Oh, no, we could get taxed on that so better to just give it all back.' That is the level of competency.

Ms Nettelbeck: An example is the fringe benefits tax where the cap is. Most nonprofits do not go over that cap. They do not go anywhere near it, so they do not have to do the fringe benefits tax return. They are really quite averse to doing any more paperwork and putting in any more forms or having any more complexity.

Senator STEPHENS: To be fair to Treasury, this is related to unrelated business income tax. It is not their daily bread and butter.

Ms Wales: But I can imagine a piece of information like that ripping through the nonprofit sector in a sector that is already very heightened to risk management around its finances. The Chinese whispers would be, 'Before we know it, any balance sheet equity is going to get taxed.' I can just imagine I would be standing in training sessions trying to explain that, 'No, you are not going to get taxed on your equity.' But that is how quickly that could get lost in the—

Ms Nettelbeck: I think also it demonstrates how risk averse nonprofits are. So, when you think of going into financing arrangements it is all so—

Ms Wales: Yes; deer in the headlights really.

Mr Rosshandler: Maybe as an idea; the relatedness of the entity, I think, is something they are proposing on whether even to consider taxation or not, but possibly the size of that related entity, too, could play a factor in it. For example, Sanitarium and people are going 'Well, should that be taxed or not?' versus a tiny organisation with a social enterprise sitting next door selling second-hand clothes to try and raise some funds back. I kind of see both sides of the fence a little bit.

Senator STEPHENS: The discussion paper is worth having a look at, because the example that it gives in the explanatory memorandum of this exposure draft is in an art gallery, if there is a T-shirt on sale that is a product of an artist that is being exhibited in the gallery, that is business related. If there is a T-shirt on sale that is of someone who is not exhibiting in the gallery, that is not related. That is a very interesting example that kind of freaks you out a little bit.

Ms Nettelbeck: Mainly because you then have to think about how you are going to separate the two T-shirts and record each T-shirt and make sure you have got all that right.

Senator STEPHENS: Yes, that is right.

Ms Nettelbeck: So that when the tax office does come to audit you have got everything dotted and ticked and crossed and all that. That is another level of complexity. If you can keep them separate, as totally separate entities and have separate accounting systems, it makes it easier. Nonprofits have more regulation around their finances because each grant or each piece of money they get they have to account for separately. So, to try and then divvy that up even again really is quite complex.

Senator STEPHENS: That takes me, Chair, to the issue of the standard chart of accounts.

Ms Nettelbeck: Yes.

Senator STEPHENS: That is an agreed project of COAG and is rolling out. Firstly, are you seeing the impact of the standard chart of accounts?

Ms Nettelbeck: I wish I was seeing it more from government departments, as in I wish more of them were taking it up sooner, but still in some parts of the country nonprofit organisations are told they have to acquit and they have to give these lines which are different to the standard chart of accounts.

Senator STEPHENS: Still?

Ms Nettelbeck: Still. So, we go out there and say, ‘Actually, why don’t you tell them about the COAG agreement’, and send it back up the line. I think a lot has changed and a lot has moved and a lot of nonprofits have taken it up. I think it is probably going to take another four or five years for it go through the whole system, but it is one of the most significant changes that we have been able to make—or that everyone has made—to help reduce red tape, and it has been well received and it works well when everyone does it.

Senator STEPHENS: Mr Moriarty, is that one of the training focuses of your organisation—the kind of implementation of a government policy like that that is around the standard chart of accounts?

Mr Moriarty: It is. We have just launched about eight months ago a grant making tool that we are selling back to government. So, instead of government setting up its own systems there is a standardised grant making tool. That is now operating in about 60 government agencies around Australia. I think, again, following on from what Ms Nettelbeck says, the standard chart of accounts is probably the best thing that has happened in such a long time in the not-for-profit sector. Governments, state and federal, are still incredibly slow in doing it. When they are putting up their grant applications they are still asking community groups to put it into an old format rather than following the new standard. I think if I was going to bash anyone up I would be bashing the government agencies up far more than they should be doing, because it is just way too slow. We promote it through the actual bit of software that we have got that is trying to now say this is the only way that you can actually do it, but it is almost quite amazing how people overcome the systems.

Senator STEPHENS: Thank you.

CHAIR: Thank you very much. That was very interesting and useful.

Senator STEPHENS: If you have any other thoughts about any of our discussion today that you would like to forward as an additional submission, we would welcome that. Thank you.

NASH, Mr Stephen, Chief Executive Officer, Home Ground Services, Grocon

RESIDE, Mr Chris, Chief Executive Officer, Abbeyfield Australia Ltd

TYNDALE, Mr Andrew, Director, Grace Mutual

WALDREN, Mr David John, General Manager, Carlton Brewery Redevelopment

[16:30]

CHAIR: We welcome you all here today and I think we are about to resume again. We usually get people to do opening statements, but I think we might start off with Grace Mutual as your opening statement might be your presentation. Is that an agreed format?

Senator STEPHENS: That is okay.

Mr Tyndale: Thank you very much, Chair and senators. I appreciate the opportunity to speak here. The presentation that is before you we will flick through quite quickly. We will try to do less than a minute a slide so we will keep going here. The agenda is very simple. I just want to introduce Grace Mutual. There are two specific proposals that I would like to put before the committee, then use the example of NRAS, the National Rental Affordability Scheme, about the good and the bad parts of it, the missed opportunity that I believe the government left behind and the commercial opportunity that this allowed for us, and then make some comments by way of extrapolation into the aged care sector.

Just very briefly, my background is 26 years in investment banking. We bring decades of commercial and business background to the exercise. Grace Mutual is a not-for-profit and our passion is to bring capital to the not-for-profit sector. We do that by creating investment products which are attractive to commercial wholesale investors in order to attract them and bring them into the not-for-profit sector. Ideally, capital to change the world is where we are headed. Government is great and their component is very necessary to trigger investment. Philanthropy is wonderful, volunteering is fantastic, but if you want to move the dial you have to access the one and a half trillion dollars worth of super fund investment in Australia—you have to—so that is what we are about.

If we turn to the slide that is entitled ‘Primary Proposal 1’, we strongly recommend that in the development of all of government incentives and all of government interventions, that the finance—or the capital—portion is split and separated from the service provision and even the infrastructure component. Our observation is that almost every tender that has a component of services in it starts with the services and therefore the service providers are asked to make a tender which includes finance and infrastructure and services. They are asked to go and speak to state governments about recurrent funding; they are asked to do this. These organisations do not have financial capability—they certainly do not have best practice financial capability—and they cannot, by any means, access the scale that you need across one of these incentives to get real traction.

A major super fund will not look at an investment of less than \$50 million and they then cannot in many cases be more than five or 10 per cent of the fund, so in some cases you have to have a minimum fund of \$500 million before you can attract any attention from them—get on their radar—at all. Asking an individual service provider to bid for NRAS or SAIF or any of these guys, coming from their own project and the services they provide, they have no skills at \$500 million and no opportunity to put that together. Consortiums within the not-for-profit sector are a disaster and there is just no way to access wholesale institutional capital when the tenders are all pitched starting with the services and expanding backwards.

So, our strong recommendation and our proposal is that you split the finance capital component in the tender process and ideally I believe that you should do that in advance so that you identify the ideal optimal capital solution for that particular initiative and then every tenderer on the services and the infrastructure gets to bid into that. So, there are kind of two-stage tenders, I would propose.

There is a great reason and a great desire to have multiple service providers, from diversity, local government, community buy-in, expertise, local resident needs, everything from cultural to local geographic desirability. You want to propagate the sector, you have got probity issues and not handing it all to one person; I absolutely understand that. The problem is that all of the factors that lead to local benefits for service providers are completely the opposite when it comes to finance. Finance is about scale, it is about central standardisation, it is about central expertise, and it is about access and speaking the language of institutional investors, and that does not happen when you start with localised services.

If we could then move to the Primary Proposal 2, which is related, our observation is that even the best of the government incentive programs often miss the mark. They are often beautifully wrapped and delivered and in many cases really thought through, but some of the key sectors have not been consulted or not been considered in

developing them. I will give you the example of NRAS because it is the one that I am closest to. It appears to us that it was largely driven by replicating—

Senator MARK BISHOP: Why or how are you or your firm close to NRAS?

Mr Tyndale: May I take the question on notice? I will explain that in just a moment.

Senator MARK BISHOP: Okay.

Mr Tyndale: Thank you. With NRAS the majority of consultation, as I understand it, was around community housing providers, who have a very specific history of being on the state stakeholder list exclusively and they are also trying to replicate the program from overseas, both in the United States and in England. That is great, but there are several problems with the NRAS program. One is it is a tax based program and if you are trying to attract superannuation funds, they have no use for tax based programs. So, the fact they pay 15 per cent tax—many of them are tax free—just means that there is no incentive. One of the key objectives of the NRAS program was to introduce and attract wholesale institutional funding; you are just not going to do that with a tax based program, so that was a design flaw.

The second is that indexation, which is very generous—fantastic. The problem is it is non-standard indexation. If anybody had asked a bank, they cannot hedge rental CPI. They can hedge CPI but they cannot bear the interest rate risk—the basis risk—between CPI and rental CPI. Even though rental CPI was intended to be generous because of rent foregone on the discount, you cannot get bank finance against the rental incentive because they cannot hedge the rental CPI; it is a non-standard indexation. So, they are a couple of design flaws when you are trying to get either bank finance or superannuation fund finance.

Then finally, it is an income support program, so on the basis of the promise of future income community housing providers are required to get capital today to make the construction to become eligible in order to receive the incentive. That is great except nobody really stopped to think about how are we going to come up with probably \$16 billion worth of capital in that sector. It is just not feasible; it is not possible. The not-for-profits currently represent something like two-thirds of the approved eligible organisations under the NRAS program, and they are the community housing providers, the Mission Australias of the world, Salvation Armys and so on. They do not have access to \$16 billion worth of capital to deliver the program—that is the way it is designed—in order to achieve the incentive. So, there are some structural flaws in the design. Every one of them is running around trying to turn that incentive into capital today in order to build the houses.

Our strong feeling about the risk is that there are roughly 23,000 apartments or dwellings that are going to be completed and tenanted by July next year and we believe that the balance—the second half of the program—could be at risk if there is not extra capital or some other way available. Almost all the organisations we talk to are tapped out. They have borrowed everything they can get and they have raised all the money they can get. They have built everything they can and they are sitting on projects two, three and four and they do not know how to fund them yet. Our assessment is that the second half of that program is at risk.

I will turn to the NRAS example on the next page, which is page number six, I think. Just to recap, this is our view on NRAS. It is a generous incentive, it is a generous indexation and it is very flexible. It was not too prescriptive, which provides a lot of innovation and I think all of those are good factors. However, it is income and not capital, and capital is what this sector needs. Its indexation is non-standard, so bank finance against the incentive is not a possibility, and of course it is tax based, which means that you can knock out the attraction to anybody who is not at a very high marginal tax rate.

If we move to the next page, the next three slides were, in fact, taken from a presentation which we made to Treasury earlier this year about how to restructure the NRAS program. The response we got was, 'Great idea; too late. It has gone too far down the track and we can't change it.' Just to give you an illustration, there are essentially three inefficiencies in the program in the way it is designed. The first is that the government's cost of funds against the not-for-profits' cost of funds means there is leakage every time somebody tries to take a government incentive and turn it into capital under their cost of funds. Secondly, the non-standard indexation, although the intention was to be generous, means that only very few people can absorb that non-standard indexation with any degree of certainty. Thirdly, it also provides, I would argue, an unknown future liability for government and therefore an uncapped liability, and the fourth one is it is hugely administratively heavy.

We will come back to the administration component of it, but our alternative proposal was that the government should provide an interest free loan; it should be funded by government bond issues and there, in turn, the superannuation funds would have been buying bonds and funding it themselves; and that the loan process should have been outsourced to a series of approved professional lenders, and that loan process should have been paid for by the borrowers. That would have solved the cost to government, both on the leakage and also on the admin cost,

and it would have given the actual underlying organisations the capital that they need, rather than the promise of future income.

If we turn to the next page, this is just an illustration of how much could have been saved by government. We treat this as an opportunity lost. The cost savings are enormous. It is a fixed 10-year bond rate of, call it five per cent, for an interest free loan of \$135,000 compared to the cost of indexation. We are going to assume that the rental indexation continues at 4½ per cent per annum. That may be conservative but I think it is going to be significantly above CPI for some time to come. The savings that could have been got—or just turn it around the other way, the additional cost to government—is 16 or 17 per cent for an incentive that began this year in 2011, and it rises to 30 per cent savings that could have been available for those incentives that begin in the year 2014, because you have already had three or four years of indexation before you kick in. So, the opportunity cost is frustrating because that money could have gone into additional homes or it could have gone into all kinds of other different things.

The administration right now—it used to be FaHCSIA—is SEWPAC. The people have all changed, everybody has to start again, the ATO has bought in and out twice and the Treasurer has come across the top and changed the law. The amount of money that has gone into legal and tax advice and accounting advice in the industry—forget the government—is just outrageous; it is just enormous. So, all of that is just wastage; it could have been done so much simpler.

This next, and final, slide on the alternative proposal is entitled ‘Benefits to government’. It is self explanatory. We have talked about them, but the answer was, ‘It is too late to get there.’ There is a need for foresight and my major proposal today is not so much around NRAS, but the lessons from NRAS as we approach aged care, because it is a significantly bigger liability for us. Fortunately, there is a silver lining to the missed opportunity, and that is a commercial opportunity. This is in answer to your question, Senator. What we have done is designed an investment product based on the NRAS incentive program whereby we can attract institutional investors from the superannuation funds. It is a debt product, which is not ideal, but it allows organisations that have built these and are now receiving the incentive to recycle their capital and complete their development programs—recycle capital and develop again. That enables them to get around this idea of being landlocked with no future opportunity.

We have teamed with Perpetual and there is bank—the bank decides next Wednesday—and then the prospectus is issued. The funds should be up by the end of year, so November probably. The anticipated demand right now looks like between \$500 million and \$1 billion going back into NRAS and back into affordable housing. That releases \$1 billion worth of capital for redevelopment and continued development. If we look at the benefits of this approach to the NRAS program, the first is that we think that it helps reduce the risk on the second half of the NRAS apartments that have not been built yet. It also continues to build the asset base within not-for-profits. One of the major strategies for recycling capital is to sell the apartments that they built and retain the tenancy management and relationship with a fee and use the capital that way. As sure as anything, at the end of 10 years, the owners, who are all owners in the private sector, will put it back out of the affordability market, back into the market and make money. So, by holding on, the not-for-profits can gain sustainability by building their asset base and it increases the likelihood that the apartments in the hands of the not-for-profits will stay in the affordability sector after the end of the NRAS program.

Just as a note I will deal with the rough cost. If the government had issued bonds directly to investors, the cost to government would have been around CPI plus 1½ per cent—something like that. We are offering our investors CPI plus five per cent, funded by the government. That is the quantum of difference. So, I just wanted to draw those observations and learnings as we go into the aged care opportunity now. Aged care is in this kind of neat development phase, the same way affordable housing was four or five years ago, where all the legislation is up for grabs, we have had a Productivity Commission review and there are lots of good recommendations. The industry, for the first time in living memory, is now behind the proposed recommendations and we have this opportunity to be really clever about how we do it. Our strong recommendation, to repeat, is to have a tender that takes into account investor needs and sector needs as well as government needs, and develop a finance solution for the whole of the sector into which everybody is allowed to bid for services and infrastructure, so we split that process.

I was listening to Simon McKeon do a speech last week and he mentioned that in Melbourne if a baby girl had been born last week in one of Melbourne’s better hospitals, the life expectancy for that child is 103 years and eight months. The liability associated with aged care and the opportunity associated with aged care is enormous. The current need is \$20 to \$40 billion, but that is before we have this enormous life expectancy increase. Thank you for bearing with me through this.

CHAIR: Questions?

Senator MARK BISHOP: Thank you, Chair. Who is the minister responsible for aged care?

Senator STEPHENS: Minister Butler.

Senator MARK BISHOP: Mr Tyndale, just for your information, Minister Butler is doing a road show on the government's proposals on aged care in October, November and December; he is going to every state and all the regions. I know that because my office is involved in doing some of the planning for Western Australia. It would be very useful in terms of the utility of your proposition for that to be exposed to him and be exposed to a range of the aged care provider organisations and senior groups who are heavily involved in setting up those meetings and doing the explanation to thousands of people who might be interested.

Mr Tyndale: Thank you; I was not aware of that.

Senator MARK BISHOP: Minister Butler is from South Australia; if you had a look at either his government website or his own website it will probably have details of public meetings, and it would be, as I say, an opportunity for you to put your proposition up there for sale and testing. Free advice.

Now, could I just ask you a couple of questions? The original proposal on the NRAS scheme—correct me if I am wrong—was for the government to somehow or other unlock large amounts of capital for social housing and at least some of the serious intent was to get into the private sector, either through capital markets via the superannuation funds or other mechanisms. I think there was also a serious suggestion at one stage that some of the major property developers in the various states would have capacity to raise capital to fund the projects over time and so on.

That all got bogged down for a long time in terms of taxation issues and access issues to superannuation funds in terms of guarantees and risk. Do you mind putting on the record for us in that context, firstly, was the consultation with the relevant industry sectors adequate? Secondly, if not, who was missed in the consultation phase? And thirdly, could you address the shortcomings or deficiencies of the taxation issues and the access to superannuation funds issues, in terms of the for-profit sector, particularly property developers and the like, who might have access to capital via different routes for the project development? I would like to have that stuff out there if you can.

Mr Tyndale: Sure. The consultation process happened for a considerable number of years, and well before 2008 when the original policy was designed. I am not aware of the consultation process but what I am aware of now is the evidence of the people who were not consulted and we have not run into any of the institutional investors, any of the super funds, any of the corporates, or any of the foundation funds, who were consulted in any way. So, the observation is—

Senator MARK BISHOP: The government was proposing a product to sell to them and did not consult with them?

Mr Tyndale: The market seems to have been ignored, yes. The tax office aspect is one that is difficult for me to say what the motivation was about, but what the outcome is that an incentive which essentially offered a lot of stability and certainty suddenly became very uncertain, and that was for structure, outcomes and timing. That does not work for commercial property developers. They have an option for two months or three months or six months over a piece of land. Their bank finance, for which they paid enormous fees, now is on a time fuse ticking. They cannot wait indefinitely for a tax ruling or for an injunction or whatever it turns out to be in terms of certainty; they must have it in a timely manner. So, that threw out most of the initial people who had come through. There are lots of warm noises made around NRAS, but I do not know whether they forgot to check with the tax office or the tax office took a contrary view, but they came out and said, 'No, it doesn't work', and everybody said, 'Whoa, what is that?'

There is another feature we have not talked about today. I have been in this country working in the finance industry since 1984, having dealt with most of the relevant groups around the country, and I have never before run into the first comment being regulatory risk. I think the tax office shake-up of the structures, the change between SEWPAC and FaHCSIA, and the general publicity around a number of stimulus incentives that were criticised roundly has led institutional investors and overseas investors to, for the first time ever, put regulatory risk as number one in their viewpoint when they are looking at this. I have never seen that before, but it is very concerning.

Senator MARK BISHOP: You make comment somewhere in your document that you think part two or rounds three and four might be at risk; where is that? Here we are; it is not numbered: 'Risk: second half construction cannot be funded.' What do you mean by that?

Mr Tyndale: Let me give you an example of a community housing provider. Most of these people benefitted from the stock transfer as part of the stimulus package. This particular one I am thinking of had an asset base of

about \$50 million; they have been going a number of years. The state has been giving grants and ongoing support. They received in the stimulus \$200 million worth of social housing stock transfer funded by the Commonwealth, built by the state and transferred. They bid for that allocation on the basis of how much they would gear up against that and build affordable housing using NRAS. So, because it is social housing and the rents are low, the gearing you can get on the \$250 million is really low. They had to buy the piece of land and do the development for the first. They have three or four or five development plans. So, they pledged everything they had in their asset base and they pledged this development to raise enough bank finance to fund the development.

Senator MARK BISHOP: They bet the house.

Mr Tyndale: Not just bet the house, but it means that they have no capacity to borrow anything more right now. So, they pledged everything, they built the apartments and now they are saying the only option they can see is that they have to sell the apartments to self-managed super funds or private investors, retain a tenancy management arrangement with a fee and that will release the capital to go forward. The problem is that these guys I am thinking about are not particularly experienced developers and they never have been; this is all new for them. They have not picked the market; they assumed they could make \$50,000 per apartment on a development profit and they cannot sell them in the market. Plus there is going to be \$8 billion or \$9 billion worth of apartments built by June next year and that cannot be absorbed by the self-managed superannuation funds; not enough people are interested to gain that. There is lots of news about housing bubbles and things, so people are a little nervous where there is not a yield.

So, they are stuck with this development. They have got three or four others with a time fuse ticking, both on the options on the land and also their NRAS incentives are on a time fuse, so they must release capital to move on and build them, otherwise they are going to have to let the incentives go. So, they have no option right now to borrow and if the sales process does not work, and it is very, very slow for them, then they have no options to fund that next step.

CHAIR: We are going to have to move on to the other two witnesses because time is running out a bit, but we can come back. First of all, Abbeyfield. Would you like to make an opening statement, Mr Reside?

Mr Reside: Thank you for the invitation to speak. Abbeyfield would probably be one of the smallest, I expect, community housing providers that might be speaking to you, because we are quite small. That is the context from which I am coming: a small, community based housing provider with a national front. Abbeyfield Australia is a not-for-profit company with PBI deductible gift recipient status. Abbeyfield Australia essentially represents 26 incorporated community groups up and down the seaboard from Huonville in Tasmania all the way up to Babinda in Queensland and across to South Australia.

Each community based local organisation is providing community housing in their local community. Abbeyfield Australia provides support to each of those local community groups and Abbeyfield House—a quirky beast. In many ways Abbeyfield House is much the same as your residential house: run-of-the mill residents; they are either older residents who need some assistance to retain their independence or they are younger adults with mild or moderate intellectual disabilities who, again, need some support just to retain their independence. It is a purpose built house. We have 10 residents in a house. The residents will come and go as they please. It is not an institution. It is not a facility. It is honestly a house. If you picture your house or my messy house, which is reasonably messy today, it is just a house. There will be someone in the kitchen cooking—housekeeper—someone sitting in the lounge, residents watching TV and people come and go.

It is a fairly unique mix for the community housing sector because we provide not only the accommodation, but there is a live-in housekeeper onsite and the live-in housekeeper cooks incredibly nutritious meals. I have, in fact, put on weight in my three years with Abbeyfield, which is frightening but true, so it is excellent food. The housekeeper keeps an eye on the residents just to make sure everything is okay and that the residents are tracking along, and beyond that the residents come and go as they wish. It is not a care model. There is not a Div 1 nurse or a director of nursing; it is as far away from an institution or as far away from a facility as you want to get. It is just an ordinary house in an ordinary street. In fact, that is one of the Abbeyfield mantras; these things are just an ordinary house in an ordinary street.

So, that said, I just wanted to bring out a couple of points about where we have seeded finance. I have some notes which I can circulate if I could.

CHAIR: You can table them, yes.

Mr Reside: Thank you. While my learned colleague and I support the capital market wholly, there are instances where Abbeyfield Australia would argue that we do look for government finance in the community housing sector for particular niche sectors of the community. I am talking for financially disadvantaged residents,

residents with an intellectual or a physical disability, for cohorts of a community where the accommodation cannot be run at a financial return that is sufficient enough to generate dividend or cover interest. The nuance or gist of what I present is that in the range of services that are available to a community—and all the communities need a range of housing options—there is a niche where community-government support would be required.

I will present a little bit on the Abbeyfield model. It has a very low life-cycle cost to government. To house a resident in an Abbeyfield House costs about \$8,000 per resident per year. I kid you not; this is inexpensive accommodation, but it is not cheap. Our houses are lovely; they are really nice comfortable homes. It is crackerjack accommodation, but the cost to government is very, very low. Today, to build an Abbeyfield House will cost about \$2.6 million, and I know that because last month we received a grant of \$2.6 million from the New South Wales government to build an Abbeyfield House in Narrabri in far northern New South Wales, a little country town with a community of six or seven thousand people, servicing a much larger area. That Abbeyfield House will provide, again, crackerjack accommodation for 10 younger adults who happen to have a mild intellectual disability. We are also building in Goulburn an Abbeyfield House, again, funded by ADAC, the New South Wales government. Again, it is just a house and it will be occupied by 10 adults with mild or moderate intellectual disabilities and, once it is built, will be largely self-sufficient. It is admittedly quirky, but it is a very, very good outcomes based model.

One of the disadvantages of the Abbeyfield model is that, because it is affordable accommodation, the rent that our residents pay is based on 70 per cent of the pension or the disability support pension, plus federal rent assistance, so it is very affordable accommodation. That said, the house generates quite little income. An Abbeyfield House today will generate a surplus at the end of the financial year of about \$10,000 to \$20,000. So, after it has paid the housekeeper, bought all the food, paid all the electricity, paid all the rates, covered all the costs and provided great accommodation for 10 residents, seven days a week, 24 hours a day; having done all that, it might have saved \$10,000 or \$20,000 above where it started from. That is not much return on a capital investment of about \$2.5 or \$2.6 million.

That is why it is difficult—nigh impossible—to attract commercial debt or equity into an Abbeyfield House, because whilst it runs on the smell of an oily rags, because it is volunteer managed by local community groups, it is akin to the Goulburn Football Club where you will have an incorporated committee, with your president, your secretary, your treasurer, your resident liaison person and your house asset manager. Whilst it is managed by volunteers and charges affordable rents, it does not generate much cash surplus, so its life-cycle cost is very, very low but it does not generate enough money to raise capital.

In the Abbeyfield world, we refer to that as the capital hump. It is a combination of the fact that our housing provides affordable accommodation for niche sectors often who require accommodation but it does not generate enough cash income to service debt or equity. We could. It would be easy to tweak the model, bump up the rents, charge the residents much more and we would be able to cover debt and cover equity, but you stop being affordable. The 35-, the 37-, the 40-year old guy or woman with Down syndrome who would struggle to live anywhere will not have an Abbeyfield House. The 75-, 85-year old—and there are 90-year olds living quite happily in Abbeyfield Houses all around the country—would struggle to maintain their independence if they were not living in an affordable Abbeyfield House.

That is our dilemma and that is why, amongst a whole range of responses that the government has to finance in the community housing sector, Abbeyfield Australia would argue that within that whole broad range of solutions there is a niche where we would argue that the government needs to maintain some scheme to put government capital funds into the community housing sector. There is a niche aspect to the community housing sector where wonderful people who deserve housing just cannot afford it. This is a community based model where volunteers give their time freely to run fantastic housing, but it does need that assistance to overcome the upfront capital hump. Thank you.

CHAIR: Thank you very much. Now, Mr Nash, would you like to do your opening presentation.

Mr Nash: We are a medium-sized not-for-profit focused on ending homelessness in Melbourne and we do that through a range of different services and, more recently, getting into housing acquisition and ownership. It was suggested we come and speak today about a project that we have been involved in called the Elizabeth Street Common Ground Supportive Housing Project, which is the first of its kind in Australia in terms of scale and whole-of-community support and corporate philanthropy, in particular; that was seen to be of some interest to this committee.

Mr David Waldren from Grocon is here and Grocon agreed to be involved in this project which was focused on ending homelessness for 65 people who are most vulnerable in the homeless population, which meant that they were also fundamentally very expensive to the taxpayer. They would be disproportionately having contact with

high-cost emergency health, mental health, policing and justice services. We adopted a lot of the features of this model from the United States that had had 20 years of experience in ending homelessness through the provision of supportive housing and proving the cost savings to government as a result of ending homelessness for that group of people.

So, I think the element that may be of interest to you is the corporate philanthropic contribution from Grocon, or led by Grocon, in this model. Following the first speaker, we would certainly advocate that there are a lot of things that can be done to try and attract institutional and other investors into projects that do house a group of people who are left out of all other housing options and who, coincidentally, are then very expensive to the taxpayer as they endure the crisis of homelessness. I just really wanted to alert you to a model that has had some contribution in the order of over \$10 million from the corporate and philanthropic sectors. It is just one project in Melbourne that is being replicated in Brisbane and Sydney as a way of trying to attract corporate support. I think with incentives that Mr Waldren and others would know a lot more about, there is an abundance of corporate support out there for getting involved in projects that end homelessness in particular. I guess I would leave it there at this point.

CHAIR: Mr Waldren, do you want to make some remarks?

Mr Waldren: Stephen, thank you for that. Grocon is Australia's largest privately owned developer and construction company and I will speak from that perspective. I will speak to two issues in this setting. The first is the one that Stephen has talked about, which is the common ground model. Mr Daniel Grollo, who is our chief executive officer, some time ago put the company's hand up effectively to say we wish to assist in the sector and find a way—a team—to deliver that assistance. That took some considerable amount of time. Primarily, I would argue that the time it took to get there was simply a question of scale. That said, not just Grocon, but other of our colleagues in the sector would find a very small project to be \$50 million to \$100 million. In the sector we are coming to to try and assist, \$50 million to \$100 million is a very big project, and prior to perhaps the last stimulus package they were perhaps few and far between. So, there was a nexus there about how we could get involved.

The opportunity was identified for the common ground project in Elizabeth Street, which in round numbers was a \$50 million project. The problem with it being any smaller than that, and even at that scale, is that we cannot be efficient in that space. We are just too big to be efficient in that space, but we do have access to equity and we do have access to debt that we can bring to the table, so we were keen to see how we could assist. What we effectively said to the not-for-profit housing association was we understand that your funding model is one whereby the state government says to you, 'You come along with 25 per cent of the development project and we will fund 75 per cent, so we will leverage you into that development.' Our assistance went to the 25 per cent.

So, again in round numbers, a \$50 million project, the state government is in for 75 per cent of it, and whatever we could save in the project was to the benefit of the housing association. In the common ground model, rather than just supportive housing, maybe in retrospect that was not the greatest model, but it worked well in this instance. So, we have a situation where the housing association in this case is into the \$50 million project with not a dollar on the table—good outcome. The problem from an access to finance point of view was that that organisation needed to sign a building contract with us and, for us to be comfortable to sign that contract with them, they needed to have enough certainty that they could pay their 25 per cent if the savings did not materialise. That was tricky for them because it was a project of scale; we were dealing with a housing association—there are not that many of them—and their access to be able to give a funded guarantee behind that was limited. No risk with the 75 per cent from the state; it was about the housing association support.

We have now gone on to work on a project in Sydney and another one in Brisbane and, whilst each project is different, the issue of certainty of contracting entity is something that really did need to be thought through quite carefully and there were some issues there that needed to be sorted out. I would be happy to talk about that separately, but they do run to the not-for-profits' access to funds and guarantees.

The other comment that I will make, not specifically related to Home Ground Services, is actually from a perspective at the other end of the spectrum and referring to Mr Tyndale's presentation. As a developer and a developer of projects like the Carlton Brewery Project, which is a redevelopment of a former brewery site in Melbourne and which is a \$1.2 billion project which we have underway at the minute, we have a particular interest in the NRAS scheme for potential accommodation into that development as affordable housing solutions.

Senator MARK BISHOP: Is that redevelopment into a housing redevelopment?

Mr Waldren: It is a mixed-use development. It is currently effectively 1.6 hectares of opportunity—it is an empty site to all intents and purposes—and we have approval to develop 300,000 square metres of new built form

on that site, some of which will be residential and some of that residential could potentially be supported through NRAS or other mechanisms.

Senator MARK BISHOP: Okay.

Mr Waldren: We are open to that conversation. I thought I would share with you, though, our view from the developer's perspective is one where the debt and equity markets are starting to look at that, I would argue, reasonably closely, but the time frames are disjointed. The time frame it takes a developer like us to go through a procurement and approval for NRAS funding is significant and I will be absolutely clear with you and say we have not sought one NRAS funding position, notwithstanding we have developments up and down the eastern seaboard. We have not done that because our view is that the processing time frame is too onerous.

Senator MARK BISHOP: The approvals process?

Mr Waldren: Yes. Effectively, the amount of work that needs to be done to provide certainty as to the project's viability is significantly different if one is seeking NRAS funding to if one is going to a mum and dad investor to say, 'Would you like to buy this apartment?' It is quite a significant body of work and there is no certainty to it, notwithstanding it takes quite a long time. As Mr Tyndale has said, you cannot sit there with a great big asset doing absolutely nothing because the finance cost on that is just eating its head off. So, that has been something of a problem. The other side of the equation, though, is that the financial yields that are coming out of those projects now are getting to the point where they are, at a point, marketable to the bigger institutions as single line investments, but again they have to be of scale; \$50 million, as you have said, or larger, is a significant at-scale investment.

The question that is quite rightly being asked by those investors is, 'What happens in year 10 and one day?' The second question inevitably is, 'How certain are you of delivery on the date that is the last possible date for that facility before it is no longer able to access the NRAS that it might have had approved for it?' So, there is significant front-end risk and back-end risk. I just share that with you, not because it is a train crash, but it is really the sort of feedback we are getting from the industry that we are liaising with quite a lot now on debt and equity, because our development will start in the first quarter next year and take us through to 2014. So, two issues there, sorry.

CHAIR: Thank you very much.

Senator MARK BISHOP: Can I cut in?

CHAIR: Yes, of course.

Senator MARK BISHOP: This is probably a question for you, Mr Waldren, and also for Mr Tyndale. Mr Tyndale, I think you said—or it might have been the previous witness—the issue of taxation and attraction to institutional investors in the NRAS scheme was not an issue. Of course, it is an issue to those involved in the for-profit sector, isn't it? In terms of the future rounds for the NRAS, as to the criticisms you raise at this stage in terms of potential interest by institutional investors, what are the significant impediments that are there that need to be addressed so that the significant interest being shown by institutions can get over the line?

Mr Waldren: Would you like to do that first?

Senator MARK BISHOP: I am asking particularly from the perspective of property developers and property investors because they are the people who have been in and out of my office for the last six months in Perth. I am finally getting my head around this, and I am not a property developer.

Mr Tyndale: I think it is important to differentiate the investor classes. So, there are superannuation funds, some of which are taxable and some of which are not. Then there are corporates who are investors and there are some foundations who would be investors in things like this. The bulk of when people talk institutional investors, it is really around superannuation funds. So, there are several negative aspects for them. One is that they get paid annually in arrears and potentially up to 15 months in arrears from the time they put the money out the door. Secondly, it comes in the form of tax offset, so it is a rebate from the tax office. They have to think, 'Which fund did I draw which amount of money out of, and is that fund taxable or not taxable and when am I going to do my tax return so that the tax office will give me a cheque back?' And they are just not interested.

It is hard enough to get them across the line. When you talk affordable housing, they say, 'Oh, social housing, right. This is going to be a bunch of—' Our biggest battle is to get them to understand what affordable housing is and then it is so complex after that, they just cannot deal with it. They have to write big cheques, set and forget and walk away. Most of these big funds have a handful of people who make these decisions and they are looking at them every day and they just cannot take the time.

Senator MARK BISHOP: So, that imposition of process; is that the regulations imposed by the Commonwealth through the various authorities?

Mr Tyndale: Part of it is the design of the incentive and part of it is the tax office imposition of the structure.

Senator MARK BISHOP: Do you have anything to add to that, Mr Waldren?

Mr Waldren: Because I am not a financier I would put it in relatively simple terms from my perspective of it, which is to say it seems to me to be a model that works incredibly well for mum and dad investors because they can deal with that lag on payments—they can adjust their taxable payment. It does not work for primarily those reasons for institutions because of that really significant lag on the funding. The discount is discounted and gone for 15 months, and that is a really significant impost. It is too long and it is too uncertain, really, in its process.

Senator MARK BISHOP: From those impediments you have now identified going forward in future rounds for NRAS, are there lessons there also, Mr Waldren, in terms of the forthcoming debate in terms of the aged care funding issue? Is that part of your territory, the development of aged care?

Mr Waldren: Not presently. It is something that we have looked at in some detail and decided is not currently for us, primarily for much the same reason. The certainty as to funding mechanisms and to the process over time is something that makes it significantly more complex—and woe betide the Abbeyfields of the world and the amount of paperwork that they have to do—to a relatively straightforward process of property development and sale.

Senator MARK BISHOP: In that case then, the aged care issue is probably going to be more of interest to the mums and dads side as opposed to the institutional side?

Mr Tyndale: No, I believe that with aged care the opportunity is for the government to structure its support in a way which leverages institutional investment. So, it is right up front; it starts up by putting a little bit in to gain a lot and there are clever ways, we believe, to attract institutional investment into the development of aged care.

Senator MARK BISHOP: So, that then needs the relevant department to consult with your peak organisations early on, does it not?

Mr Tyndale: Right.

Mr Waldren: See it as a financial product first and a housing product second, and it will be looked at differently from a housing product looking for a financial solution.

Mr Tyndale: That is very good.

Mr Waldren: That would be how I would see it.

Senator MARK BISHOP: Thank you very much. Thank you, gentlemen. Thank you, Chair.

Senator STEPHENS: I know time is running away from us but I just wanted to give the other witnesses an opportunity to just reflect on the financing model used for the Melbourne project. Is that the same model that you have used for Sydney and Brisbane?

Mr Waldren: To all intents and purposes, yes.

Senator STEPHENS: So, that has been effective?

Mr Waldren: Yes, it is.

Senator STEPHENS: Are they similar size projects?

Mr Waldren: No. The Melbourne one is the largest of the three. I have not brought the numbers in my head, but Melbourne is the larger; Sydney and Brisbane, I sense would be very similar scales. It is a model that, in the case of the Melbourne project and the others, opens the opportunity for myriad private companies that subcontract in a building project either as consultants or fabricators or builders to provide assistance to the sector that is not necessarily financial. What we have found in each instance in each state is providing the opportunity to that sector to say, 'Instead of us asking for money to support a particular outcome, how about you support it via your expertise or your capacity?', and it is that that has really opened up a really significant tap to those projects.

Senator STEPHENS: That is quite an important lesson for us, I think. So, just in terms of Abbeyfield, being the little part of the pie, it is a good model. Chair, I have to put on the record that I am the patron of the Abbeyfield House in Goulburn so I have been working hard to help them raise some money. So, the \$2.6 million comes out of the Narrabri proposal and you actually got \$2.6 million from the New South Wales government?

Mr Reside: Yes.

Senator STEPHENS: Do you have other projects on the drawing board from community organisations wanting to take this model up?

Mr Reside: Yes. Right now there are two what we would call Abbeyfield branches wanting to develop Abbeyfield housing, one in inner-western Sydney based around Leichhardt where the Abbeyfield House might wind up being one or two floors of a multi-storey building but still a house, and the second community now is Castlemaine here in Victoria and in that instance it may well be a resident funded Abbeyfield House. We would receive at the Abbeyfield office an inquiry every six weeks from a community saying we would like that house. The problem is that it took Narrabri six and a half years to receive the funding, and lots of communities burn out.

Senator STEPHENS: So, you made the point that a model could be a resident funded model in the sense that parents concerned about the future care of their children might actually invest in the house themselves.

Mr Reside: We are doing some very early work at the moment at the Retirement Villages Act and because we operate in so many jurisdictions it is a state based act, but there are two issues there. Does the Retirement Villages Act apply to people who might be 35 and 45? Then there is also the notion of making the model financially sustainable.

Senator STEPHENS: Yes.

Mr Reside: But certainly, resident funding is certainly an option my board is looking at.

Senator STEPHENS: Thank you. That is very helpful. So, thinking about that, would you be looking for a fully funded model like, say, 10 residents, \$25,000 each?

Mr Reside: I would like to avoid that. I would like to have a house where people from a community can live in their Abbeyfield House regardless of their means. So, in the ideal world it would be a model which would allow a percentage of the residents to invest in the house under some sort of mechanism, pay a monthly fee to cover service charges and for those that cannot afford to invest, or whatever word, in the house, they would still basically live there but pay the same monthly service charge. Abbeyfield is an international organisation and we talk about the Durham model. Durham is an Abbeyfield House in Canada which was the very first Abbeyfield House that successfully developed a resident funded model. One of its strengths is that it generated lots of capital from six of the 13 residents, I think, and the other seven residents were able to move in and just pay the same monthly fee. So, there was no discrimination and no one-upmanship; it is just people living in a house.

Senator STEPHENS: What about the notion of the families actually investing in the property and then Abbeyfield being able to use that to leverage some loan capital?

Mr Reside: On the face of it I would be quite open to it. The thing about options for Abbeyfield is that we do long-term housing and so whatever financial model we develop it would need to cover all the debt and all the equity in the longer term. There is nothing worse than going to a house and saying, 'Sorry, folks, we are closing in six weeks' time.' But certainly, all those options would be on the table.

Senator STEPHENS: Thank you very much. Thank you, Chair, that is very useful.

CHAIR: We thank the witnesses for appearing and I close this session of this inquiry. Thank you, Hansard. Thank you, staff. Thank you, all.

Committee adjourned at 17:27