COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

ECONOMICS REFERENCES COMMITTEE

Finance for the not-for-profit sector

FRIDAY, 23 SEPTEMBER 2011

SYDNEY

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SENATE
ECONOMICS REFERENCES COMMITTEE
Friday, 23 September 2011

Senators in attendance: Senators Bushby, Stephens and Williams.

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.

WITNESSES

MACREADY, Mr Timothy Malcolm, Chief Investment Officer, Christian Super

MAREKERA, Mr Simba, Research Analyst, Christian Super

MURPHY, Mr Peter Jeffery, Chief Executive Officer, Christian Super

STRONG, Mrs Rosalind, Chair, Sydney Community Foundation

Committee met at 09:00

CHAIR (Senator Bushby): I declare open this third hearing of the Senate Economics References Committee 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 29 submissions, which are available on its website.

These are public proceedings, although the committee may determine, or agree to a request, to have evidence heard in camera. I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. 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 a question, 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 which is 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.

I remind members of the committee that the Senate has resolved that departmental officers shall not be asked to give opinions on matters of policy and shall be given reasonable opportunity to refer questions to superior officers or to a minister. This resolution prohibits only asking for opinions on matters of policy and does not preclude questions asking for explanations of policies or factual questions about when and how policies were adopted.

I welcome representatives from Christian Super and Sydney Community Foundation and invite you to make an opening statement.

Mr Murphy: Christian Super is a not-for-profit industry fund with all profits going to its members. At Christian Super we have a mandate from our members to make investments that uphold high ethical, environmental, social and governance standards. We have applied our resources to ensure that we deliver such investments. We take this mandate seriously, as is shown by us being a founding signatory of the United Nations Principles for Responsible Investment. Our members and fund believe in these investments.

As part of the limited universe of socially responsible investors in Australia who have in-house expertise to understand both the financial and social impact of investments in the not-for-profit sector, we feel that we can add to this discussion of financing the not-for-profit sector. Our investment in the set of programs through Foresters Community Finance is an example of the kind of investment we as a fund are able to make. Insights from such an investment would be informative to this discussion. Furthermore, it would be useful for the committee to know why we have invested and why we have not invested in this sector directly. Understanding what works and does not work is important for both government and not-for-profits themselves and is a key factor in attracting meaningful private investment.

There are two key messages I would like to leave the committee with today. The first is that the not-for-profit sector has the potential to produce a good outcome for both the government and investors. It is important to take the time to ensure that the financing is done right. The second key message is that government has a crucial role in guiding this sector from infancy to adulthood. This will make sure that there are investible structures that provide a good risk-adjusted return.

As part of a fund, we are keen to ensure that a robust capital market for the not-for-profit sector exists as it presents an opportunity to expand the universe of potential investments and complement our current investment portfolio. From the perspective of an investor, it is vital that the way in which investments in the not-for-profit sector are structured tick all the boxes to ensure that we achieve a risk-adjusted return for our members in accordance with our fiduciary duty.

In our experience, there are three aspects that are crucial to providing comfort to private investors—firstly, a shared risk and reward model. Currently, direct investments into the not-for-profit sector can expose a fund to risks that cannot be justified by the returns, and making such an investment would not be prudent for our fund members. However, sharing the risk with government, as we did with the SEDIF program, improves the risk-adjusted return and allows us to make meaningful investments that make a real difference in the community. In our view, the shared risk and reward model is a key component of any investable structure that seeks to improve both the financial and the social return of the investment.

Secondly, there is the issue of diversified exposure through intermediaries. Although we are looking for investments in the not-for-profit sector, investing in one or two not-for-profits directly will introduce an over-concentration of risk in our portfolio. In our view, investments through community development financial institutions, or social investment fund managers, allow us to get diversified exposure to the sector, mitigating the risk and further improving the risk-adjusted returns. These investable structures, such as the SEDIF program, have worked for us, and we see no reason why other investors would not be comfortable with such a structure. As the SEDIF sector matures we expect the present domination by a few players will be diluted as new entrants are attracted by the good social and financial outcomes of the sector.

Thirdly, there is sector stabilisation. As this would be a new asset class for most investors, ensuring some level of stability in the sector will go a long way in getting private investors comfortable enough to participate. In our view, the government is in the best position to take on the task of stabilising the sector. We have seen the government use its balance sheet to great effect, with minimal real cost, in the guarantee provided to approved deposit-taking institutions. The deposit guarantee increased the competitiveness of smaller ADIs, ensuring a better outcome for consumers by providing downside-risk protection. A similar use of the government balance sheet in the not-for-profit sector through investing, rather than just spending money in the sector and taking on the riskier parts of the investment, will increase the competitiveness of the sector and ensure an acceptable risk-adjusted return for investors. Again, drawing from our experience in the SEDIF program, the government's commitment to be a long-term subordinated co-investor significantly improved the risk profile of the investment and made it investable for Christian Super.

In conclusion, we would strongly encourage a clear commitment from the government in order to see the not-for-profit sector capital market in Australia through its infancy. The government's role is crucial in promoting investable structures and ensuring a risk-adjusted return of investments in the sector for fiduciaries. The innovation that would result from cooperation between the government, CDFIs and private investors has the ability to create capital markets for not-for-profits that deliver excellent social outcomes for the community.

CHAIR: Thank you, Mr Murphy. Would either Mr Macready or Mr Marekera like to make an opening statement?

Mr Macready: No, thank you.

Mr Marekera: No.

Senator STEPHENS: Thank you very much for your submissions. We were very interested to see that Christian Super was a founding partner of one of the SEDIF teams, and were intrigued as to how a super fund could meet its fiduciary duties of sole purpose for their investors and yet be able to participate in this. Perhaps you could explain to us the rationale and the imprimatur that your investors have given, and also how much you have under management in your funds.

Mr Murphy: I will answer the last question first: we have about $560 million in funds under management, depending on what the markets did last night! We have about a little under 20,000 members. Your earlier question alludes to how we can invest as a super fund into this sector. It all comes down to providing adequate risk-adjusted returns. We looked at the Foresters program, probably 12 to 18 months prior to investing in it, and we actually could not invest in it at that point because we did not believe the risk-adjusted return was significant. But with the work done by the Australian government in being a subordinated co-investor changed the risk structure of that very significantly, and made the risk-adjusted return fine for us to invest in it. As a result it is actually a good investment for us. Tim, you did a lot of the analysis on it.

Mr Macready: The not-for-profit sector has a number of attractive characteristics when looked at from a diversification perspective. We have a lot of assets exposed to global market conditions, which are linked to the global economy, the Australian economy and investor sentiment around the world. The not-for-profit sector in Australia is countercyclical to a lot of those in that when the economy is performing poorly the not-for-profit sector is more needed and its role is more significant. What we are looking for as investors are opportunities to invest in ways that are uncorrelated so that we have diversified returns. The not-for-profit sector has some excellent characteristics in providing exposure to assets that will continue to perform well even when our equities and our global investments are performing poorly. That makes the sector attractive, but the returns still have to be there. As Peter said, it was not until we were able to partner with the SEDIF program that we felt that there was enough security to back the underlying returns that we were seeking.

Senator STEPHENS: I do not want to be argumentative about that, but thinking about how you think of the not-for-profit sector, you can think beyond small social welfare organisations. We have had some discussions in previous hearings about NRAS, the National Rental Affordability Scheme, and the participation of not-for-profit organisations in that scheme and the challenges that it presents for them. We have had a preliminary discussion about aged care. We all know that there is an ageing population and there are predictions that the aged care provision will almost double by 2020. There is social and affordable housing and there is aged care and aged facilities. Do they not give you enough certainty in the marketplace to participate?

Mr Murphy: Tim looked into the National Rental Affordability Scheme. I will let him talk to that. I will talk to aged care, if that is okay.

Mr Macready: We have looked at NRAS five or six times and we have looked at five or six different structures. There are two main problems for us with NRAS. The structure of the National Rental Affordability Scheme provides a lot of the return to investors in the form of a tax rebate. As an investor who is taxed at 15 per cent, we feel that we are not competitive against investors who are getting a much more significant benefit. Retail investors get a 30 per cent or a 40 per cent benefit from that tax rebate. We have looked at a number of structures to seek to split the income and the tax rebate.

Senator WILLIAMS: Could you explain that in a little bit more detail. You pay 15 per cent tax on the super that people lodge with you. Can you give us a little bit more detail on that 30 per cent or 40 per cent?

Mr Macready: Sure. If you are paying tax at the company tax rate—so you are a company investing in these sorts of things—you are looking at 30 per cent. If you are a high net worth individual, then you are looking at 40 per cent upwards as your marginal tax rate. Therefore, the tax rebate is worth a lot more to you as a company or as a private individual than it is to us as a superannuation fund. All the structures that we have looked at so far have been unable to capture the full value of the tax rebate for us as a superannuation fund. We are continuing to explore structures. Last week, Simba met with someone to discuss another structure that looks slightly more promising. We are hopeful. We like the concept of the sector as a whole. It has the potential to provide good risk adjusted returns for us as a fiduciary investor. But it has taken a lot of work. It takes us a lot of time to look at these models and analyse them and find out whether we are getting a benefit from them as investors. There have been a number of iterations. We are hopeful that we will get an outcome but it has been a long process for us.

Senator STEPHENS: Would you be able to provide the committee with the six or seven models that you have looked at that you cannot make work?

Mr Macready: Yes, we would be happy to provide that.

Senator STEPHENS: That would be helpful. Thank you.

Mr Macready: I will let Peter talk about aged care.

Mr Murphy: You have hit on a really good point there. When you look at the not-for-profit sector you are assuming that it is a homogeneous sector. It is not. If you look at the risk profiles within the affordable housing scheme it is new and innovative—very green-field—and then you look at aged care and you find that they are very different. Education is another sector that is potentially investible but does not have investible structures providing a good risk-adjusted return.

The reasons we have not gone into aged care at this point is that we have not seen something that has provided a good risk adjusted return. We have had a couple of models put to us. The problem with aged care is that you get a lot of concentration risk. You may just have to go at it with one provider, which is a difficulty. The other aspect of it is that within aged care you have to look at what they are providing. Are they providing high-care service, low-care service, retirement villages? Getting that mix right and understanding those markets differently—some of them are cash-flow driven enterprises and others of them have the return based on capital appreciation of land. That makes it very difficult to assess that sector. So you end up getting a lot of concentration risk in your portfolio; that is a bit of a difficulty.

Mr Macready: That has been true of both the NRAS and the aged care that we have looked at in the past. You end up with a very significant investment in one or two suburbs. That gives us a lot of risk exposure to consumer sentiment for that particular suburb and whether that suburb has planning risk associated with it or things like that.

Mr Murphy: The same goes for the education sector. We have been approached about schools. It is very, very difficult to invest in one school. You need to be able to spread and diversify your risk across a number of suburbs and states to get the right risk adjusted return.

Senator STEPHENS: So for you the way to manage that is to use an intermediary like Foresters. You have invested $6 million into the SEDIF community finance program through Foresters.

Mr Murphy: That is correct; yes.

Senator STEPHENS: So we now have two SEDIF funds—two SEDIF alliances, I suppose. Beyond those two providers you would not consider investing with other intermediaries who did not have the government funding as part of the mix?

Mr Macready: We would. We seriously looked at Foresters and a proposal that they put to us, as Peter mentioned, in 2009-10. We got quite close to investing. Ultimately our major concern was around the long-term viability of them as an organisation. Many of these types of organisations run on the smell of an oily rag. That is good for them but as investors we need to be confident, when we are giving someone money for five or 10 years, that they are going to be around in five or 10 years to continue to manage that money well. We just did not have that complete confidence that we needed in order to put our members' money in that, when we looked at Foresters in 2009-10.

The SEDIF program did two things. One was that it provided a change to the risk adjusted return for us. The other thing that it did was to improve Foresters's balance sheet and financial position to the point that we were confident that they were long-term viable—that they were going to be around in 10 years time when our members need the money. So there were two big aspects to it, one of which was guaranteeing their long-term stability as an organisation.

Senator STEPHENS: In your submission you also go to the issue of the challenges of not-for-profits being investment ready. Do you work with not-for-profit organisations directly to help build any capability in that way, even through your member organisations?

Mr Murphy: We have over 2,500 employer organisations so it is difficult to do that. In terms of making sure that those organisations are investment ready, it is actually not our role to do that. We are a super fund. That is where the role of SEDIF is really important in making sure and giving investors like us comfort that the underlying not-for-profits or CSOs are investment ready.

Mr Macready: Over the time I have been with Christian Super, which is since 2005, we have looked at three direct investments. One was a children's hospital, another was a school and the other was a church community development. We put significant resources into analysing all three and there were significant gaps in all three. It meant that we could not allocate. As we have said, as a fiduciary we could not allocate our members' money to those investments.

Senator STEPHENS: Even a hospital?

Mr Macready: The hospital was easily the closest but, ultimately, we just had some uncertainty around their long-term projections on revenue and they needed to guarantee that they could pay off the loans for development. I should say it was a small private children's clinic, not a government sponsored one.

Senator STEPHENS: Have you looked at the issue of child care? Did you consider anything after the collapse of ABC Learning?

Mr Macready: The thought crossed my mind. We did not spend a lot of time on it, and obviously GoodStart and others took a great opportunity there. We just probably do not have the scale that was needed to look at something like that. The first stage of the church community development I mentioned was a child-care expansion. It was not until much later that they actually proposed building the church, and so we did get a lot of comfort around some of their models. This was a Queensland based development and, at the time, the legislation was changing in terms of carer-to-child ratios, and we were quite nervous about both the funding model and the potential for regulatory change there to drive increased expenses.

Senator STEPHENS: Just getting back to the crux of the issue: lots of submissions asked us to look at how we can facilitate superannuation funds investing in this very nascent market. Can you very succinctly tell us where you think the sole purpose test lies in terms of your fiduciary duty and the capacity you might see that super funds have to invest in this?

Mr Macready: Our sole purpose is to provide superannuation benefits, retirement benefits, to our members. We, as all super funds do, have to do that in a way that is consistent with our values. We have been very clear in nailing our colours to the mast there and saying to our members, 'We will reflect your values in the way we invest and we will not take a penalty in terms of risk adjusted returns for doing so.' It is a fairly clear position of the fund.

Senator STEPHENS: That is a challenge.

Mr Macready: Over the time I have been at Christian Super, there have been a number of times when we have had people ring up say, 'But you're a Christian fund, can't you invest at subcommercial rates?' We have members—both people who want the money and people who have given us their money—saying, 'I'd be willing to accept a lower return if you could do excellent things with it,' and we have to say, 'No. Our purpose is to provide you with the best retirement benefits.'

CHAIR: So it rests on the fiduciary duty to discover that? You have the flexibility to look at allowing your members to take a social return in addition to the economic return.

Mr Macready: Yes, that is right. We do not feel that there is a strong enough argument to be made that we could do that. We did have some discussions with APRA along those lines a few years ago, and they ultimately said, 'If you disclose everything to the members you're probably fine.' But we felt that it was not in our mandate as a superannuation fund within the regulatory framework. That being said, I think reflecting the values of our members gives us opportunities to look at things that other funds would not. As a small fund, one of my jobs as the CIO is to make sure that we have access to opportunities—and we do have access to opportunities that other funds do not. We have $15 million invested or committed to micro finance, and in one of those two vehicles we are 20 per cent of that fund's total investment. If a larger fund came in and tried to allocate $50 million or $100 million, they would just swamp the space and it would not work.

Some of the reasons that we are able to look at these things a bit earlier than other funds is that when we are talking about a significant investment it is $6 million to $10 million as opposed to $50 million or $100 million. For us those two things mean that we can look at this sector earlier. It is my personal belief that as the sector grows and as other funds see that it is generating not only good social outcomes but more importantly good financial outcomes for their members, you will start to see exactly what has happened in the ESG space, exactly what happened in clean tech and in renewable energy—you will start to see mainstream funds moving into what was a small industry perceived as people who wanted to do good things for the environment or society. Our hope is that there is a reward for us as people who have put significant resources into analysing many of these sorts of things—many of which have not worked and we have not invested in them because we realised they were not going to. As the sector matures and grows we will be there to continue to serve our members.

Mr Murphy: The point I would also add is that, because of our fiduciary duty, we have waited to get into these sectors in relation to micro-finance and community development funds. We have wanted to get into that way before we actually got into it. That is why we were on the lookout for it. We could not get into them until there was something that was appropriately structured. In terms of discharging our fiduciary duty there is a risk adjusted return. We look at the risk, we look at the return and we can say, 'Yes, this actually works for us as a fund'. Whilst we are an ethical investor, one of our values is that we want to make money for our members; we are a super fund. We think we can actually discharge that quite well.

Mr Macready: You asked for a succinct answer. We exist solely to provide retirement benefits for our members, and we exist to make those benefits the biggest that we can. There are values reasons why we are interested in this sector, and we are willing to devote resources to looking at it earlier than the other funds, but we believe it is a viable sector for the larger industry.

Senator STEPHENS: I am conscious that we have Mrs Strong here and that we need to hear from the Sydney Community Foundation. As a final question, can I ask you to look at the evidence from Melbourne from Compass Mutual—they provided a document which has been tabled as a submission—in terms of whether you have any response to that model that they proposed. That would be helpful.

CHAIR: Mrs Strong, I note that you came in a little bit after my opening statement. I had invited Mr Murphy to make an opening statement. Is there anything you would like to say as an opening comment?

Mrs Strong: Thank you, Senator. First of all my apologies for buses in Sydney and my lateness. I am pleased to have the opportunity to make some brief comments. The Sydney Community Foundation is a small organisation that has aspirations to be a large organisation. The whole movement of community foundations around Australia looked to the patterns that have emerged in North America where very large amounts of money are managed through this proper arm's-length community based rigorous process of allocating for needs. Community foundations allow people of all levels of wealth to contribute jointly to philanthropic investment.

In relation to the terms of reference of your committee we wanted to address, firstly, the term of reference which refers to whether there is a way of making better use of the corpus of philanthropic funds and trusts funds—term of reference (h). We find the current framework of barriers that exists, not allowing PAFs, private ancillary funds, to invest in public ancillary funds, is inimical to bringing communities together to work on things together. The difficulty we have in this moment of great growth in philanthropy is where that growth has mostly been through private ancillary foundations. We applaud that but we cannot access those funds in the current tax structures. That is deliberately not allowed to happen. They cannot give money to us. They cannot join us in giving money to others. That reduces their capacity to work with grassroots as we do.

It reduces their capacity to access our research base at that grassroots level in terms of need, and it actively prevents them from joining things like, for example, one of our subfunds, the Sydney Women's Fund, where we have interested a large number of women in Sydney in this fund, many of them high-net-worth women and many whose families have PAFs, and they cannot contribute to the Sydney Women's Fund through their PAF. We think this is extremely unfortunate and cannot be to the purpose of the government in encouraging that particular structure.

We note that in America this barrier does not exist and it is possible for private foundations to contribute to public foundations, and community foundations in particular. Our colleagues in North America are astounded that it is not possible to access that set of funding here. They have provided us with examples of how the issue that I understand is at the heart of the tax office problem is addressed—that is to say, tracking that the funds are eventually going to a charitable purpose and that that happens in a timely way. Obviously this has been addressed in North America, and I would appreciate it if it were possible for it to be addressed now. In the current review of the public ancillary funds guidelines, it is not possible for us to make this comment again, but we have, and we made the comment on previous guidelines on the private ancillary funds. So, in respect of that term of reference, that is a major concern for us.

In the point I made there I wanted to emphasise the fact that we are working at a very grassroots level because we are at this stage still quite small scale. We are working with very small-scale organisations, and our ear to the ground in respect of them shows that there is a large amount of community effort happening at the sub-urban level—not the big childcare issues et cetera but a really worthy effort around a range of social welfare issues where it could be possible for community foundations, in the pooling of funds, to make a big impact.

The second point I wanted to make was about what has been discussed to my right. We would find it very helpful if it were possible to access a large pool of funds to help us have some more scale for that pooling of funding. I take the example of the Brooklyn Community Foundation, which has existed for exactly the same period of time as we have, exists in a community of about the same size as ours and, because it began with a large pool of funds that came from a private bank, has been able to do things that we at this stage only dream of. Those funds obviously have to be managed in a way that is appropriate, and I understand from several of the submissions that we have read that a number of others have made the point—the Benevolent Society particularly—about government maybe either guaranteeing such funds if they were given on a long-term loan or talking about the sorts of tax rebates that have been discussed on my right. I think our main problem is scale and take-off. Our take-off has been at a time when the main government incentive for private philanthropy has been through these private ancillary funds which we cannot access. So those are the two points we would like to make.

CHAIR: Thank you, Mrs Strong.

Senator STEPHENS: Last week in Melbourne Catherine Brown gave evidence. She made a comment about:

… untapped potential to work with community foundations around Australia to help them leverage additional philanthropic funding and to enable them to manage local charitable trusts established under wills that are currently being managed by local accountants and solicitors.

Have you got any thoughts about that?

Mrs Strong: I have not had an opportunity to talk to her about that. I saw the comment. I think there is all sorts of opportunity if one looks at the range of things that community foundations in the more established contexts like North America and indeed the UK are doing. It is a matter of people having confidence. Again I hear the comment on my right—'Will we be there in five years time?' I think the point is that we plan to be there in 100 years time, as community foundations do, so people who currently invest their trust in a solicitor to undertake that would, in other settings, be investing their trust in community foundations. I think there would be great opportunity there, but it is not something we have investigated.

Senator STEPHENS: Finally, other than the DGR issue and the tax challenge that you have, there is quite a lot of interest in community foundations in Australia but it seems to me that there has been a perverse disincentive for communities to establish foundations except under the Foundation for Rural and Regional Renewal. Are there other things that you think could be done to support community foundations in Australia?

Mrs Strong: I think it would be good if they were talked about more. Because we are such a small set of people at this moment, I think that if the level of publicity that is happening around private foundations were directed to public foundations, like community foundations, it would be advantageous. For example, this whole

PAF-PuAF thing came up again in relation to the Brisbane flood appeal. When people could not give to that, they were startled. They had never heard about the problem until they were told they could not do it. I think discourse has been going on helpfully at a government level for the last eight to 10 years but it is just that community foundations have not been mentioned as an option as widely as they could have been. Certainly in our discussions with financial advisors and planners here in Sydney, which is one of the major areas where we are working, people do not know about community foundations and when they do they think it is a good idea, but you cannot keep having individual, one-off conversations and make a real difference in a short period of time. In Sydney if some of those 650 individuals or families who set up a PAF had done it as a fund within a community foundation that would have given the momentum which is clearly operating here.

I am a great believer in community foundations—that is why we are involved with them—but I think they are a bit invisible and they have not been highlighted in any government publicity, are not highlighted in advice that is given by investment advisers either and are not particularly highlighted by our good friends in Social Ventures Australia or other such people who are all working, as we are, to try to increase philanthropic giving in this city.

Senator WILLIAMS: Mr Murphy, I want to take you back to the aged-care sector. It is a huge and growing sector. As you would be well aware, a growing percentage of the population are falling in the age group that needs aged care. I come from regional New South Wales. Have you ever looked at investment in regional areas as far as aged care goes?

Mr Murphy: Not as a fund, no. It would be difficult I would think for us to do that just because of the concentration risk that would be there now. If there were a good risk adjusted return then sure we would look at it, but it would certainly have to jump over the hurdles of the concentration risks associated with being one provider in one region. That is where the CDFIs really do make it a far more investable proposition for us. If there are a number of aged-care providers spread over a number of regions then that makes it a far better investable proposition for us.

Senator WILLIAMS: I know a lot are basically amalgamating for economies of scale. We have seen a small one in a country town all of a sudden join forces with another country town. They are getting bigger because their costs are going up far more than their income each year. I am concerned where it is all going to end. Obviously someone is going to have to put in more money. In your case if you were to invest in those you would have an obligation to your members to see that there is a return as well.

Mr Murphy: Yes. Just because they amalgamate and come under one body does not actually make it necessarily an investable proposition for us because then there is one governance structure that we are actually looking at within that aged-care provider. If there were a number of aged-care providers in a CDFI structure then it would be a far better investable proposition for us because then we would not have that concentration risk on a provider basis. If a provider loses their funding through some form of sanction or something like that then the cash flow dries up and it is very difficult.

Senator WILLIAMS: The ones I speak to say that when it comes to actually caring and providing beds for the elderly they lose money every day of the week, but when it comes to home care and other packages—EACH and CACP—they actually make money and that sort of balances up where they are not getting some return. Many of them are just battling to keep their heads above water.

Mr Murphy: That is right and that is probably why you see a number of aged-care providers having the full suite, being high care, low care and retirement villages where it is not just a cash flow driven business. They getting revaluation on land which has traditionally been quite good for them. If you look at the forward projections for revaluation of land it might not be as aggressive as it has been for the past two decades but still you would expect some improvement. A number of these aged-care providers are also buying land and putting up aged-care facilities in outlying suburbs that will appreciate in value.

Senator WILLIAMS: Not only high care but also units where people can live and where they are secure and close to services and attention if required.

Mr Murphy: And certainly where they can age in place as well—where they have a retirement village and can get a CAPS package. That makes it a really good outcome not only for the individual but also for the aged care provider.

CHAIR: In the context of the aged care sector, you say that you will not take a penalty for risk-adjusted returns. Ultimately that has to be your main focus. Sectors such as the aged care sector do struggle and are unlikely to be able to give you a particularly healthy return on your investment, because they are inherently financial challenged in most cases. Obviously you would look at each one as you went through it, but as sectors they do tend to be challenged financially and are not likely to have surplus funds to be able to pay back on returns.

I guess the way you would approach it would be that, because you are still looking for the return, you look at some investments that you would not touch because they do meet your criteria in terms of the ethics and being socially responsible, and then you would look at the rest and try and maximise your returns on that. Is that how you would do it, or do you specifically go targeting things that you believe to be suitable?

Mr Murphy: I will let Mr Macready talk about the thematic approach.

Mr Macready: A lot of our investments are adjusted versions of standard investments. For example, we have equities investments which screen out as your standard ethical investment would screen out companies.

CHAIR: That is what I was asking—you say, 'we won't invest in that area, and that leaves the rest here for us to work in.'

Mr Macready: That is right. Lots of funds are increasing their allocation to alternative assets for diversification purposes, and this is where we see that we have both expertise and a mandate from our members to look for things that are new and to create opportunities. We were looking at microfinance for three or four years before we found something that was suitable for us. On some occasions we have been instrumental in dialogue with fund managers or organisations that do these sorts of things to create products that we think will both make money and fit with the values of our members. We take different approaches depending on the maturity of the sector that we are looking at and the existing infrastructure there in terms of professionals with investment expertise in that sector.

Microfinance is a good example, because most of what has happened there has come from charitable donations into not-for-profit and then into for-profit. So there has been an evolution in that sector to the point where we as investors are now able to take part and contribute, but it had to journey on that path before it was ready for our investment.

Mr Murphy: I will give you a little bit more of an idea of the colour of our alternate exposures. We have invested in renewable energy, sustainable agriculture, microfinance and community development funds. All of those are providing us with the return that we need to discharge our fiduciary duty, and all of them have social good.

CHAIR: I guess that comes to the crux of this inquiry. What we are trying to look at is how to foster greater investment in not-for-profit areas. One of the things that I had some difficulty getting my head around is, if a super fund which will not take a penalty for risk-adjusted returns is investing in not-for-profits, that puts an obligation on the not-for-profits to be able to generate a surplus which gives you that return because otherwise you are not going to go into it in the first place, and all that clouds the not-for-profit status of it.

Mr Murphy: It depends on the structure, because a lot of not-for-profits still borrow money—they have to borrow money to leverage up to run their business. If that borrowing—and this is certainly the case with the SEDIF program—is de-risked in some way through the government's co-investing on a subordinated basis, it reduces their borrowing costs. So we are not looking necessarily to make money out of their cash surpluses but rather to invest money in that sector directly through CDFIs, who are providing a capital market mechanism for them. Many not-for-profits borrow. The problem is when not-for-profits borrow too much or, alternatively, what happens is that the banking sector does not necessarily understand the peculiar nature of the not-for-profit sector; they look at it as a homogeneous sector. They are not necessarily aged care specialists or education specialists or community finance specialists. So they are not looking at it in the right way. That is where a strong and vibrant CDFI sector that moves from infancy to maturity is going to be really helpful for the not-for-profit sector and also for us.

Mr Macready: Yes, and I think we would freely acknowledge that there are sectors that we should not be part of. There are sectors where the gap between what, as investors, we desire and the social outcomes that are important for the community are just too great, and at times we actually run a danger of becoming too profit focused. If we go into those sectors, we will force those sectors to change in character, and ultimately that is bad for them and bad for the community. Where we do see the value is where we can get involved in sectors in a way that improves the ability of not-for-profits to deliver those services, whether that is because we have capital that they need or because we can enter in such a way, as we have done with the SEDIF program, that those not-for-profits can access money at what is probably a lower rate than they would from a commercial bank because they are dealing with an organisation that understands them and their risks and is willing to work with them for as long as it takes to help them to maximise their ability, from both a governance and a financial perspective, to efficiently deliver the outcomes that they are trying to deliver.

Mr Murphy: The good example really is in the microfinance sector. The funds that we invest in in the microfinance sector—or one fund in particular—invest in a whole lot of microfinance institutions, so they are actually acting in that CDFI space for us to be able to ultimately, down the track, get the good.

CHAIR: I am sure we could ask more questions, but we are over time now.

Senator STEPHENS: It would be interesting to know where you are investing in the microfinance sector—which organisations you are providing funding through.

Mr Macready: There are two.

Mr Murphy: We could provide some more information to you.

Senator STEPHENS: Secondly, Mrs Strong, if you had some information on the advice that you mentioned from your American counterparts about the ATO conundrum and their way through, that would be helpful for us as well.

Mrs Strong: I would be very delighted to provide it.

CHAIR: Thank you very much for assisting us this morning.

CALLAGHAN, Mr Benny, Chief Executive Officer, School for Social Entrepreneurs Australia

GILL, Mr Ian, Chief Executive Officer, Ecotrust Australia

[09:48]

CHAIR: Welcome, Mr Callaghan and Mr Gill. I would like you to make a short opening statement. Maybe, Mr Callaghan, you could start.

Mr Callaghan: Sure. Thank you for the opportunity. I represent the School for Social Entrepreneurs. I will give you a little bit of background as to who we are legally, the program we deliver and the people we serve. Interestingly, we are not actually an independent entity, although we trade as such; we are incubated by Social Ventures Australia. I will come back to the reason for that and the challenges that that presents for us in this sector.

We were formed in December 2008 by Steve Lawrence, Social Ventures Australia and the School for Social Entrepreneurs in the UK after a piece of feasibility work conducted in 2007 that looked at the needs of the non-profit sector, especially around early-stage innovation and people who want to set up new ventures or new ideas. There was a major gap within the sector, basically around the supports provided to people who wanted to set up these ideas and how they went about it. Also, there was a strong interest that emerged out of that feasibility work from philanthropy around how they wanted to engage in the early stage venture creation and new innovation but were unable to. That spurred at the time a global hunt for best-practice models, and a model was identified in the UK called the School for Social Entrepreneurs, running a nine-month program essentially for people who want to set up ideas. We do not serve long-term entrepreneurs or people who have been there, done that. Our target market is explicitly people who have never done it before, people who are on the ground. They are experts not in entrepreneurship but in their field of passion or the challenges that communities face. So they are health workers, community development workers, environmentalists or artists. The majority of people who we serve have direct personal experience of the problem that they are trying to address. If they are seeking to work with women who have experienced domestic violence, they have direct personal experience of that problem. If they are working with young people in out-of-home care, they have had that direct personal experience. They have enormous passion, big ideas—often innovative ideas far outside what existing non-profit organisations are seeking to implement—yet they have a massive gap in knowing how to take that idea to reality.

We take an educational approach, which basically means we do not invest in our students or their ventures; it is purely about their learning. We are explicitly the School for Social Entrepreneurs and not the school for social enterprise. So we are very much building the capabilities, the skills, confidence and the networks of the people themselves so that they have the capacity to take their idea to reality. They work on their ventures and we are one step removed from that, in a sense. That, of course, presents challenges for us in getting DGR status according to the current regulations.

It is an action learning program that we deliver. It is not accredited. We are not associated with any other school or university. The reason for that is that this is the type of learning that is highly appropriate for people who want to set up new ideas, new ventures. Action learning is basically learning by doing, people learning from people. They come into the program and work on a real-life idea, unpacking the problems and seeking solutions from each other to move those ideas forward. We utilise as our teachers social entrepreneurs and CEOs from existing non-profits who come in to share the challenges and successes of how they have gone about their work, warts and all. They share what has worked, what has not worked, what they would never do again and how they got through the dark night of the soul.

I would like to share with you three challenges that we face as an organisation or that our social entrepreneurs face. The first, which I am sure you are very familiar with, is around deductible gift recipient status for intermediary organisations. We are unable to attain that according to the current regulations, which is why we are currently incubated by Social Ventures Australia, which creates challenges and risks for them, as we are a growing organisation. We were launched at around $600,000 in the first year and we have a revenue base this year of $1.5 million. As we grow, that creates risk. While it certainly comes under the object of that company, it is not something that they want to house long term. Also, culturally we are a very different organisation doing different stuff.

We seek DGR status so we can set up and scale our program nationally. We are currently operating in Sydney and Melbourne. We have put through 64 students and by the end of next year we will have graduated 200 social entrepreneurs across those two states. There is strong interest from across the country. We are currently working with communities in Geraldton, Alice Springs, Perth, Adelaide and Brisbane. We are also in regional communities like Albury-Wodonga and Bathurst to see how we can set our program up there, but we are unable to move forward with that goal until we achieve that independence as a company.

The second challenge is around DGR status for early-stage entrepreneurs and innovators. It is a difficult thing to achieve, especially when some of them do not necessarily fit within the PBI constraints, but also because in order to attain DGR status you need to be operating as an established entity and oftentimes in the early stages they are operating as sole traders or under the auspices of other organisations or they are really grassroots community programs. We are talking about 'mumpreneurs', mum-to-mum businesses, grandparents or young people trying to do things at a very local level. DGR status is very important because enterprise repreneurship is inherently risky. Government funding will not be appropriate for a lot of the students that we support and philanthropy is the most logical way for them to obtain funding. It is beyond logic, though. Philanthropy is telling us all the time that they are interested in funding early ideas but they are unable to because the people that we support do not have DGR status. That is particularly around community foundations. They are the group that are particularly interested in funding early stage ideas. Also, other funds such as SEDIF are not appropriate for very small entities. In order to participate in programs like SEDIF, you would need to have a far stronger cash flow base and risk history to be able to convince those entities to take on such a small initiative.

The third issue is around the personal sustainability of early stage entrepreneurs. This is a group of people who are taking big financial risks with their lives—leaving jobs, leaving security and relying on the support of family and friends—in order set up this these projects, which are very important to them and very important to the communities that they serve. I would like to point to two initiatives that the government has currently, which could be interesting in this space in terms of serving social entrepreneurs and attracting investment into these projects. One is the NEIS program, which has been highly effective for a number of years. The NEIS program, the National Enterprise Incentive Scheme, as you would be familiar with, allows people to bring forward their ideas to set up commercial businesses by providing them with a small allowance on a weekly basis for a year while they complete a certificate IV in small business. This provides them with the skills to set up that business.

While the NEIS program has been highly effective for commercial business, it has not been effective for social entrepreneurs. Indeed, we have had people go through that program and then come to us because they have not found the appropriate support in that program. We have also had people look at the two programs and choose our program, despite not being able to get the financial support through it. They choose ours because we have expertise in social enterprise and social business, whereas the NEIS program does not, and setting up businesses, organisations or projects in a social space is inherently more complex in some ways.

The other initiative which I would like to point to—it is a bit left field, actually—is around how we enable DGR status or philanthropy to be engaged in early-stage or small initiatives. There are about four bodies across the country which enable this to happen. The Foundation for Rural and Regional Renewable enables funding to occur through that foundation to regional and rural projects and organisations. The Australian Sports Foundation was set up to enable Little Athletics clubs and local sports clubs to fundraise. They basically fundraise through the Australian Sports Foundation; they have a subaccount there. All of the risk is held by the foundation and is separate to government. In this way, those Little Athletics clubs do not need to apply through the tax office for their own independent status. Artsupport Australia conducts a similar service for artists. Also, the National Heritage Trust provides a similar body of subaccounts for churches and heritage organisations.

We have a very quickly growing field around early-stage innovation and social entrepreneurship. Such a body or access to an ability to create a subaccount where they do not necessarily need to apply through the tax office to get DGR status themselves would be an interesting concept to explore to enable that to happen, while removing the risk from government. It is an inherently risky space, I guess. Thank you.

CHAIR: Thank you, Mr Callaghan. Mr Gill.

Mr Gill: Good morning. Thank you for having me here and for hearing what I have to say. I am recently arrived in Australia from Canada, where I have been working for 30 years. A couple of years ago, I was a runner-up for the Canadian Social Entrepreneur of the Year, so I know a little bit of what Mr Callaghan is talking about. I am the CEO of Ecotrust Australia, which is a fairly new group, although Ecotrust has been functioning in Portland, Oregon, and in Vancouver, British Columbia, for about 20 years; and 17 years ago, I was the founding Executive Director of Ecotrust in Canada, after a career in newspaper and broadcast journalism. I came back to Australia a year ago. Professor Patrick Dodson is the chair of our board in Australia. I am merely here at the invitation of several Australian groups who were interested in the Ecotrust model and how we work with remote rural communities and specifically with indigenous communities to promote their asset development using social finance tools. I can speak to you at your will on a couple of fronts: one is what Ecotrust is interested in doing and another is that, having worked in North America, I have specific experience in running a CDFI using new market tax credits. This is another instrument that has been used in the United States to leverage further investment in social enterprise. I have also run a non-profit organisation that has run into lots of hazards with government and private investors in terms of being able to raise money and leverage money using program related investments and other instruments, either encouraged or discouraged by government policy. I am happy to circle back to that.

Just quickly on what Ecotrust's intent is here: our focus is on Northern Australia, the Kimberley, the Top End and the Cape. We work in what we call 'knowledge systems', which is helping rural communities and particularly Indigenous communities develop planning tools to participate in the planning for future acts on their country. Our experience in North America, especially with indigenous communities, was that they were the last people to participate in any planning on their country and were just captives of the plans of governments and developers, who would come into their country and seek to develop it. So we spent a lot of time helping communities map their future.

We also help communities think about how to develop and participate in pools of capital that enable them to invest in enterprises on their own country. Our head of social finances is Kylie Charlton. I think you will hear from her on Monday in Canberra; she will be speaking on her own behalf there. I was lucky to recruit Kylie to help us. We are already working as an adviser to communities and organisations who are seeking social finance remedies. We see our role as structuring new financial instruments, as acting as a relationship broker between investors and Indigenous communities and across development of supply which is generating investor interest and demand and also demand which is developing the absorptive capacity of organisations that have a social purpose.

We have a social finance advisory committee that is chaired by Bob Welsh, who is the recently retired CEO of VicSuper. We also have David Hutchison, the CEO of Social Finance in the UK; Louise Savell from Social Finance; Ron Grzywinski, who is the former founder and chair of ShoreBank in Chicago—which is probably the longest established CDFI institute in America; and Mark Mills, who is an Australian based partner of Generation Investment Management.

Just to conclude my opening remarks: when I was recruited to come to Australia, I think there was an expectation that we might, for instance, start a CDFI and do development lending, as we did in Northern Australia, with Indigenous people. My concern about repeating what we had done in North America was that there were issues around legislation and, beneficial legislation or not, around the ability to raise substantive amounts of capital and the ability to scale. Instead of that, we have tended to go more towards an inquiry around the utility of social impact bonds, which I think you have already heard quite a bit about. We are purposing what we call an 'Indigenous impact bond', which is our take on how you might actually use the mechanism of a social impact bond to attack intractable problems in the Indigenous space.

We have done independent research. Unlike the *Strategic review of Indigenous expenditure* report, which was released a month or so ago and which said there was about $3½ billion spent every year in Australia on Indigenous issues, our research shows that it is actually about $4.2 billion. So it is substantially more than the government's own measurement. We have found that in the areas where there is the most gain in terms of some of the indicators the government has set out as its expectation for what those expenses would provide, there is actually the least amount of investment in, for instance, keeping Indigenous people on country and doing productive things where they live. So we do believe that an Indigenous impact bond is potentially a way of helping the market rather than the government lead to asset development and to the productive release of capital in Indigenous communities. We particularly think as well that a lot of capital is already captive in royalty funds and other trust funds that have been set up with, I would say, very good intentions, but they were set up in a way that that money just never gets down to the ground with real people in real time and with real businesses and in real developments. So we do see the impact bond idea as actually changing the flow and the responsibilities of private capital and philanthropy and other social benefit investors and creating a different role for government that is less about delivery and more about supporting outcomes.

I am happy to leave it at that. Our name, Ecotrust, implies that we are an eco group. We certainly are interested in the triple bottom line and good ecological outcomes in the work we do. But we do feel that an Indigenous impact bond can address not just caring-for-country initiatives and important national outcomes in terms of biodiversity and protecting lands and waters but we think it can also address social outcomes in terms of health, education, asset development and recidivism, which is the pilot that is being conducted in the UK. There is a number of issues in Indigenous communities that we believe a social impact bond can have a great effect on. Sir Ronald Cohen, who was here in December—we were one of the co-sponsors of his visit to Sydney and other capitals—listened very carefully to our presentation about the problems in Indigenous Australia and he believes that an organisation like Ecotrust can potentially promote a bond product not by becoming a service provider across a whole bunch of sectors that we know nothing about, but by being the organiser of what he calls social impact partners, who can actually deliver beneficial outcomes to communities on the ground. Our role would be as an aggregator of capital as a sort of convenor of investors and as an organiser of the social impact partners on the ground.

Senator STEPHENS: Thank you both for your presentations, both different and very interesting. Your background is certainly interesting, Mr Gill. You have done this piece of research, which you have published. There is a reference in an article to that. It would be helpful if we had that. In terms of where you see the notion of the social impact bond and the point that you have raised about monies that are in mining trusts or Indigenous land trust accounts being used to leverage investment for social impact, what current structures exist that could facilitate some of that, or are there any current structures that exist that could facilitate that different kind of investing?

Mr Gill: I would confess to having been home only for a year and therefore I am still absorbing most offers, being a start-up and a new company. When I left here 30 years ago I must confess that I had not paid a lot of attention to investments in anything, other than my own ticket to Europe at the time.

Senator STEPHENS: That sounds about right, for most people of a certain age!

Mr Gill: There have been some recent advances in the whole field of community benefit accounts or community benefit structures. A Canadian report was produced a couple of years ago that I think has been used in Australia as at least a guideline for how Indigenous communities can actually structure community benefit agreements much more advantageously. I still think they lack the intermediary institutions that are able to actually narrow the space between the good intentions of a trust fund and the actual delivery of community development finance on the ground. I will restrict my comments to community finance. There are other things that the trust funds are often set up to do, but I have yet to see in Australia a trust fund or a royalty fund where the conditions and structure of that fund are written in such a way that you could actually see capital from that fund flow to people on the ground.

There is a risk aversion in the establishment of any one of these funds, which is completely understandable from the point of view of the fiduciary obligations of the managers of the fund. Their obligations and their fiduciary benchmarks, if you will, are still established through very conventional means. The prudency test that they have to meet is perfectly appropriate, if you will pardon the expression, in a place like this, in a city like this, in a financial structure that we are familiar with. That bears almost no relationship to what the risk profile of money on the ground would look like in remote, rural and especially Indigenous communities. So there is a complete mismatch there. It is not because of a lack of good intention; I just think that the structures do not meet on the ground.

Senator STEPHENS: Can we go back to your submission. You raised three critical points. The first one was the issue of DGR intermediaries. I guess from the Treasury's point of view, they are concerned that what DGR status confers translates to revenue lost to government—that is, revenue foregone by government. That is a critical issue for you because it prevents investment by philanthropic funds.

Mr Callaghan: Yes, that is right. We know that there are a bunch of philanthropic organisations that are very interested in supporting our work. They are not able to do that, in the long run, if we do not have deductible gift recipient status. I am not an accountant. I do not know the legal aspect of tax but I have had a number of conversations with people in the Treasury office. I have had some really interesting and confusing guidance around why this occurs. I do not see that it is foregone revenue for the government, in the sense that the money we are seeking is simply money that PAFs are obliged to give anyway. So it is money that has already been put into a foundation or a trust. That is not foregone revenue in a taxable sense, from what I understand.

The guidance that I have been given from Treasury which baffles me even more is: 'Don't worry about DGR status; just keep coming to the government and asking for money. We have heaps of money to give to programs.' So on the one hand they are saying that they have trouble with their revenue line, but on the other hand they want to give out more money. It just does not make any sense.

As an organisation working with new entities coming into the non-profit space we want to model best practice. For our students more than half of their revenue is generated through trade. We have our own sustainability goals, where we are seeking to generate more revenue over time through trade, as well. We want to be able to model to them good practice as an organisation; we do not want to set up this thing where we are continually coming back to government, year after year. I just do not think that is the future of the non-profit sector. Certainly in the field that we are playing in it is a fascinating conundrum.

Senator STEPHENS: So, firstly, you are seeking DGR status for yourself as your own organisation in order to facilitate the investment by philanthropic funds to support your innovation.

Mr Callaghan: That is right; yes.

Senator STEPHENS: Secondly, you made the point about your participants being able to receive DGR status. Why should they? They are actually setting up their own enterprises.

Mr Callaghan: That is right. They are not all setting up enterprises that will be trading. It is a very diverse mix of people from age 20 to 65, with enormously diverse backgrounds in terms of non-school completers through to people with post-schooling education. In terms of what they are setting up, at one end of the spectrum there are grass-roots community projects that will have a heavy reliance on volunteerism and philanthropic support that will not ever trade sustainably, through to others that are trading enterprises. The trend is that the majority of our students are wanting to move towards the trading sustainability end of the spectrum.

To be clear, it is not necessarily that I believe that they need DGR status. They need the ability to unlock support from philanthropy. We are hearing that from them and we are hearing that from philanthropy. They see the need—and they are seeing that these people are highly connected to people on the ground, they have highly appropriate solutions—and they want to be able to invest, on a very small scale, in these projects but they are not able to do so. The potential left-field solution that I presented around the Australian Sports Foundation or the ilk does not actually give them DGR status; it is simply a vehicle that enables philanthropy to engage with these new-stage enterprises. Does that answer your question?

Senator STEPHENS: Yes, it does. Earlier today we heard evidence from Ms Strong from the Sydney Community Foundation. Thinking through your left-field proposition, if community foundations were able to receive donations from PAFs, they could then create a sub-fund in a community foundation that would support enterprises.

Mr Callaghan: I guess there is potential for that.

Senator STEPHENS: I am just trying to think of existing mechanisms and how they could be used. Thank you.

Senator WILLIAMS: Mr Gill, I was very interested in your opening statement. There is no better teacher than experience. We have many isolated people in Aboriginal communities throughout Australia. I was with the member for Grey a couple of weeks ago. He drives 750 kilometres to visit a community—and 750 kilometres back, of course. Do you have any idea what we can do with those communities? Frankly, they are living in these regions and they no longer hunt in their traditional ways because social security provides money and education, not that their attendance at school is very high. You talk about the social and environmental reasons for investment here. What about the economic reasons? Can you give me any idea of what can be done? Or do we just let these people drift along in life in the way they currently are?

Mr Gill: That is a big question, Senator Williams—thank you for it. I do not believe for a moment that social impact bonds or an Indigenous impact bond or CDFIs, for that matter, or a whole bunch of these intermediary organisations or structures represent any kind of panacea for the depth of problems that we see in Indigenous Australia and, frankly, that we continue to see in indigenous Canada. I was in Canada just two weeks ago with some Indigenous Australian leaders showing them a bit of the work that Ecotrust has been doing there. It is slow, hard, generational work for sure.

I would say in the left-field department, if I may, that I have observed a couple of things in Canada that I think are germane to Australia. To some degree, we have to dramatically rethink our expectations of what the expectations of Indigenous communities are for their future prosperity. Not all people want to move to growth towns where they are theoretically more easily serviced by government agencies. A lot of people want to remain on country. They do not necessarily want to go back 40,000 years; they do not necessarily want to run forward 200 years.

Senator WILLIAMS: To the city, yes.

Mr Gill: That is right. So there is a very careful balance there, but what I would say is that most of the interventions, and I use that word advisedly, that I have seen where well-intended, and sometimes not, governments or industry or other intermediaries try and fix things for Indigenous people do not work. I think a fundamental question is: are the government and the citizens of Australia prepared to take a long view around having the confidence in Indigenous people to actually come up with solutions for themselves and then support those solutions? That might be done through finance or a number of things. It would also mean taking a 25-year view and maybe a 50-year view of what it is going to take to enable these communities to recover their balance, rather than look for—not wanting to be impolite—the kinds of outcomes or measures that are measured over a political cycle.

We have been very frustrated in Canada. For instance, we had a CDFI running there that was provided loan-loss reserves by the federal government, which was really the first time the government did something constructive for us. They said, 'You're running a good portfolio, we'll give you a loan loss reserve so you can go to investors and say "80 per cent of any one deal you are doing will be guaranteed by this up to 15 per cent of your total portfolio."' It was a very useful mechanism. It ran for three years. The government changed and a new minister came in and swiped that away not because of performance issues but because of a political change in the wind. It is impossible to set up long-term economic structural change in communities if you are still subject to the vagaries of political change.

Political change is a fact of life, so we need to be creative about setting up financing mechanisms that are hopefully supported by all parties but, more to the point, that are in themselves durable enough to override a change in affection from governments and that is a hard thing to do. In terms of the very remote communities it is a fiction, I think, if we expect that those communities are ever going to produce anything like the economic returns or results that you would see generated by—

Senator WILLIAMS: The country will not allow it.

Mr Gill: It just will not. It is just not possible. The only option they are confronted with at the moment is in many cases to surrender their rights of title or their stewardship over their country to an industrial player who will come in and make an economic conversion that we all understand and that helps to keep this country running. This is where to some degree even the CDFIs and those things are going to run into considerable problems because—

Senator WILLIAMS: You cannot start an economic region in the middle of the never-never. There is a four or five inch annual rainfall—

Mr Gill: And yet we do get into this idea that we cannot continue to subsidise activity like that or the other words that are used quite a lot in the political discourse is that we cannot continue to enable simple welfare. I completely agree with that. We need a complete rethink as to what we think enterprise development looks like in communities where the enterprises are very different to anything we would see normally, where the development paradigm is completely different to anything we would see normally and where the costs are going to be much higher per unit of production whatever unit you choose to measure than you would normally see in our economy.

We need to stop deluding ourselves that by providing help, as we consider it to be, in the current structures we are not in some way subsidising these communities anyway. We are subsidising them massively. We do not call it that but until we actually can take the very large left-field, if you will, almost psychological leap as a country that there is a class of people here—and it is not just Indigenous people—who are never going to conform to our expectations of what being a participant in the Australian economy is really like. I say get over it. Pouring more money into the existing structures is not going to produce those people or produce different outcomes for those people.

You have $4½ billion a year spent on Indigenous development issues. The COAG indicators that have been established as the important thing are not actually indicators that all Indigenous people think are important. Some of them want to stay on country ideally doing something productive. Not all of them want to be on welfare. The people I speak to do not want to be on welfare at all but they are not provided with any intelligent alternative.

This is not a left or right thing in this case. This is not Patrick Dodson versus Noel Pearson on opposite sides of the country with Marcia Langton in the middle. There is actually a serious structural problem in this country. We talk about a two-speed economy, I think there is a three-speed economy and as long as we do what we are doing in the Indigenous space we are consigning a whole class of people to not participating in their own economy because we want them to participate in ours.

Senator WILLIAMS: But in North Queensland the wild rivers legislation has basically locked the country up to a national park owned by the Aboriginals. What hope have they got when we do that? The reason I raise this is that when I first joined the Senate three years I was amazed, in a men's health inquiry, to find the average lifespan of a male at Wilcannia near Broken Hill in western New South Wales was 33 years. I do not know what part of the world you would find a comparable figure, perhaps Ethiopia or somewhere where people are starving where it might be less than that but to me an average male life of 33 years is about as low as it could get anywhere in the world. Thankfully, we are getting some good results there. I think, if you have learnt something from overseas in your life, that can also contribute to politics. You are right—you cannot do this in a three-year plan. You need both sides of politics to set out a plan with the communities about where they want to be in 20 years time, not just where they want to be come the next election.

Mr Callaghan: I recently spent some time out in Papunya in Central Australia looking at entrepreneurship and innovation amongst Aboriginal communities, and there is some really exciting stuff going on there in the microeconomies that exist within Indigenous communities. I know Papunya is not as remote as the community you are referring to, but I echo everything that has been said. There is a very strong interest in not being reliant on welfare or not even receiving government funding for setting up businesses and projects in these communities. They want to be enterprising and they want to do things in new ways. It is largely driven by women in the communities. They have a deep connection to the challenges and the problems that they are facing with their children, with all sorts of health and school attendance issues.

There is a very interesting project that has been set up by one of our students. Her name is Laura Egan. She has set up a project called Enterprise Learning Projects which works with microenterprise in remote Indigenous communities. The big need that has surfaced in this work—and it is similar to what we are doing, actually—is building the capacity of people to participate in enterprise at a very small scale. It is going in and working with people, asking, 'What are your passions? What are your ideas?' They are looking around at the community assets and setting up healthy takeaway businesses. They are working with the local community and working with the children but also selling to local mining companies when they come in. So they have a trading revenue there. They are setting up soap businesses. Arts is a massive industry at a small community level. They are also setting up online purchasing vehicles for selling art.

So I think this whole microenterprise sphere, at a smaller scale than the social enterprise sphere, is very interesting. We are seeing the same needs at that level as we are seeing on a more macro level. We cannot just put money into this; we need to build the capabilities of the people to participate in the economy. Otherwise it is just us going in and setting up social enterprises. That is great in the sense that it creates intermediate labour market jobs so people can enter the open workforce, but it is still just providing people with a job rather than saying, 'What is it that you want to create?' and allowing them to become not an employee but an employer. It is a wholly different experience of who they are in their community. They have community leadership roles and they are actually participating in structural governance.

Senator WILLIAMS: In Wilcannia we have water in the river now and alluvial plains will grow good food. We are looking at vegetable gardens and my dream is to see 20 or 30 acres of fruit trees and all sorts of vegetables. The trucks are going through to Adelaide and through to Sydney. This is an exercise of growing fresh fruit and vegetables in the local community. You know the problems—money, alcohol, bad diet, no exercise, drugs. It all leads to a life span of 33 years. And here is the potential for a huge supply of food that the country certainly needs and it is a win-win situation. I hope that dream comes to fruition. I think Senator Arbib is working on it.

CHAIR: We are running a bit over time and most of the issues that I wanted to ask you about, Mr Callaghan, were explored by Senator Stephens. Mr Gill, you talked about your experience overseas where I think you were involved with CDFIs. You said that you did not look to do that here because of the way the regulatory framework is. You also talked about the Indigenous impact bond. What changes are required at a regulatory level to better equip CDFIs, and is there anything that we need to look at to better facilitate a market like Indigenous impact bonds developing?

Mr Gill: We are bringing Ronald Grzywinski to Australia next month. Ecotrust, along with the Centre for Social Impact, is conducting an analysis of the FaHCSIA CDFI pilot. I am involved in that and was actually involved on the panel of the SEDIF that was recently concluded. Ron is coming out here, and I would love to find a way that he could meet with you if you are still in session—or he could meet with you separately—because he was at the ground floor of the Community Reinvestment Act, which was the 1970s change to the banking regulations which set the whole CDFI movement in the United States underway and grew ShoreBank—until it got sideswiped by the GFC last year. He has forgotten more than I could tell you, frankly, about what would be useful in the Australian context to help promote the CDFI sector.

But certainly, from a non-profit organisation's point of view, what we found was that in Canada, as opposed to the US, there was no Community Reinvestment Act and so there was no beneficial legislation that enabled us to scale and leverage our capital. We did very well in raising several million dollars from some beneficial philanthropic organisations who saw merit in what we were doing. We were the first organisation in Canada, really, to start using program-related investments. Even though there was no tax benefit to the investor from that, we convinced a few people to do it anyway for the social benefit of that. So there are a number of ways in which government in particular, through regulation or through incentives, could create the ability for very serious capital pools to be created for CDFIs.

The other thing is that, in my experience with community development financial institutions, they almost universally do not pay their way on a year-to-year basis, purely through the market value of the transactions that they do. Frankly I am always a bit suspicious of a CDFI that is either making a profit or paying its own way, because the whole point of a CDFI from my point of view is to go into non-market-ready or higher risk areas and do the loans that conventional financial institutions will not do. If they are making money at doing that, they have probably become too conservative in their loan book, and I have seen that happen time and time again. My rule of thumb is that, if a CDFI is generating about 70 per cent of its required revenue a year though its loan book and needs to find 30 per cent in subsidies from somewhere else, that is a good thing; I do not think that should be treated as a bad thing. But that does require a bit of a cultural change to some degree.

CHAIR: Does it also require government top-up?

Mr Gill: Possibly government top-up. The unpopular thing about the Community Reinvestment Act is that it was an act, so it actually legislated that banks would have to make community investment funds available. There could be a community reinvestment initiative where banks, who are certainly profitable, would voluntarily put aside a portion of their profits in some sort of structure that actually provides that ongoing subsidy to the operation of CDFIs, because there are two things: where does the capital come from and how do you pay for the operations going forward? Paying for those operations is a problem, especially the further out you get, the more remote you are and the further the distance is between your loans and servicing those loans. Usually the further that is the higher the risk goes. So that spread becomes the kind of spread that a bank does not want to talk about, but it is something that needs to be paid for in some way.

On the Indigenous impact bond front, we are currently in conversation with Lotterywest, the group out in Western Australia that is interested in potentially funding a pilot there, and we have other conversations going on with other governments and other agencies about the potential to run pilots in the Indigenous space. For me the critical ingredients are: is there interest in the Indigenous community themselves? They do not want something imposed on them. Our feedback is that there is desperate interest on the part of Indigenous leadership that we have talked to in something new like this. So that first hurdle has been crossed.

The second hurdle has been: can we find investors in pilots or the design and structuring of a new asset class? The news on that is moderate. We are not succeeding terribly much in finding risk money for the R&D on that, although Lotterywest and others may help us there. The true test is, in the end, going to become: can we find the social impact partners, as we are calling them, who could deliver the outcomes on the ground? We believe we can. We already know of many that we would happily take investors to. In the end, is there going to be the political will? The government's role in the end in a bond is to basically say, 'If you achieve your outcomes, which are our outcomes as government, we will pay for those outcomes. We will be bonded to pay for the productive outcomes that you have set out and that you are taking the risk on.' The real sticking point becomes in the end: does the government have the appetite to underwrite such a bond. To some degree, again not to be impolite, does the bureaucracy, which at the moment is currently in the grip of this $4 billion box, have the will to pull back a bit and let Indigenous people and their social impact partners actually take a lead in delivering outcomes for themselves. If that magic can somehow be created, then I think there is the possibility well beyond just replicating CDFIs or doing something like somebody else has done somewhere else in the world. I think there is a leadership moment for Australia here, which is not easy to achieve but can be achieved, and is actually desperately needed given Senator Williams's depiction of what is going on in this country in these remote Indigenous communities. The need is there. Do we have the wherewithal to step up is really my question.

CHAIR: Thank you very much, Mr Gill and Mr Callaghan.

CUBIS, Mr Brent, Chief Finance Officer and Company Secretary, The Chris O'Brien Lifehouse at RPA

HAWKINS, Mr Stephen, Executive, Social Initiatives, The Benevolent Society

[10:39]

CHAIR: I welcome Mr Cubis from The Chris O'Brien Lifehouse at RPA and Mr Hawkins from The Benevolent Society. If either of you would like to make an opening statement, please feel free.

Mr Cubis: Thank you, senators, we are conscious of time. Stephen and I have a little presentation, submission, to start with. We thank you for inviting us today to present to the committee in what we feel is a very important development to assist to fund Australia's social infrastructure for future generations. We have reviewed many of the submissions to the committee and believe there is some excellent background on different ways to help finance the not-for-profit sector. Our focus today will be very much on the practical side and our direct experience in launching and selling what we believe are Australia's first social bond offerings to the retail investor market.

Just to put in context the details of the submission—and I take it that you have seen that already—Lifehouse at RPA is a self-sustaining, charitable organisation. We are going to bring together all the elements of cancer treatment, education, research and care in the one place. Stage 1, including the shell of the top two floors of the Lifehouse development, cost approximately $215 million, including $160 million from the Commonwealth. It incorporates the operations of the existing Sydney Cancer Centre. We are expecting to open that in 2013. Stage 2 of the project, which is another $15 million, will see the completion of the last two floors and the fit-out, and that will be open in 2015.

Why do we need to raise the debt? By way of background, I have worked most of my life in the large corporate world and you are always focusing on how you can save money in the likes of PBL, Westfield and so forth. We really applied the commercial eye towards this development. We saw an opportunity to bring forward by a few years the construction of the second stage, the two in-patient floors and 114 beds, and realise savings of between $15 million and $20 million. This would also ensure we deliver both the Commonwealth health reform strategy and Chris O'Brien's vision for a fully integrated cancer centre three years sooner. Plus there will be less interruption to the rest of the hospital by bringing forward construction when the lower floors are being built. The other community benefit is clearly that those 114 beds in RPA devoted to cancer patients could be freed up for other needs. So we felt it was a win-win.

Why did we pursue this funding option? Our initial discussions with the banks were not successful as we were not able to borrow any funds from the banks because we could not offer any security over the building. Our building is actually on a state government lease; therefore, we could not offer that building as security nor could we expect the directors to act as guarantors. They are already acting for free on the board and we could not expect them to put their houses up as well. This is typical of many not-for-profit entities. They do not grow because of their lack of access to capital. The good news was that I could use all the due diligence material we used for the bonds and take that to ANZ, who actually came to the party in the end and filled in the gap that we could not raise from the bonds. ANZ have been a very good community bank in this project. They have lent us around $20 million as well that will enable us to bring forward the second stage.

The Lifehouse offering of the bond was very simple. We are paying approximately six per cent interest per annum for the initial term of six years. There was no capital guarantee. It gave investors the option to donate back the interest. This worked for about three or four of the PAFs in particular who invested in the bonds. The interest in capital will be paid from the operating surpluses that are generated by the hospital after opening. We raised about $3 million. We thought that was quite successful, given it was the first one in Australia.

The initial market response was very positive. We did some soft marketing. We knocked on the doors of a lot of potential investors. That gave us enough confidence to prepare this information memorandum, which is available on the submission. A lot of work went into this. It was probably three months work. Typically, in the commercial world that would have cost you a lot more money than we spent. We spent only about 20 per cent or so of what you would normally expect to spend with commercial rates.

We spoke to over 300 people. I have never been involved in anything where we have had such a positive response. The phone was not slammed down on us and doors were not closed. Everyone wanted to listen to us because they thought it was a great concept. However, when it came to making the actual investment, many of these investors either were restricted by their investment guidelines or did not understand how investing could be combined with a philanthropic cause. In summary, we felt that most investors preferred to maximise their investment income and then make their donations separately.

For a social bond product to be more successful there must be a recognised investment category that financial planners can recommend to their clients in a similar manner to what they do today with equities, fixed interest or property. Stephen Hawkins is going to outline some of the methods we believe that can help facilitate going forward. In summary, we feel there is genuine goodwill in the Australian community to support social bonds. We just need a little bit of help to get the market started.

Mr Hawkins: The Benevolent Society also welcomes the opportunity to present to the committee about the importance of social bonds as a new source of finance for the not-for-profit sector. The benefit of a vibrant social bond market is that it would reduce the burden on government of financing social infrastructure, and I think we all know what we are talking about there—aged-care facilities, affordable housing, hospitals et cetera. The Benevolent Society is Australia's oldest charity. It was established in 1813. We operate primarily in New South Wales and Queensland and work broadly in five key areas: children and families, ageing, community development, mental health and social leadership. The Benevolent Society is an investor in social bonds, and we were part of the syndicate that was formed for the GoodStart acquisition of the former ABC learning centres. In addition, as LifeHouse have done, we have over the last year also marketed to investors a social bond product very similar to the one Brent has described. We are using it to finance our investment in our Apartments for Life project.

Based on our experience, our conclusion is that, for the social bond market to develop into a meaningful financing alternative, some government assistance is needed. In our submission we advocate a partnership approach with government to help create a vibrant social bond market. We believe strongly that this is a viable way to ensure that Australia continues to develop necessary social infrastructure. A functioning social bond market will relieve the public purse of bearing the full capital burden of social infrastructure projects. We believe there is an opportunity for government to partner with the not-for-profit sector and private investors to fund this social infrastructure. As you would have seen in our submission, there are several ways that this can be done. A couple that we commented on were the potential for a government guarantee of not-for-profit entities to borrow more cheaply or an adjustment to the tax system to provide additional incentives for the private sector to invest in social infrastructure.

Arguably the economic commitment under both these can be made the same; however, as he says, both Brent and I have had some experience in the commercial sector, and we can understand how, when asking the government to guarantee not-for-profit sector entity borrowings, there might be some push back there around moral hazard and monitoring issues. Accordingly, we have not pursued this idea in our submission, although we recognise that such a scheme could achieve the benefits we are discussing. Our submission, as you would have seen, illustrates the use of the tax system to promote social bonds. You would have seen in the specifics that we chose a concept of franking credits rather than another form of tax benefit. The reason for this is that they have been designed to be the most neutral adjustment under the current Australian tax system. For example, franking credits are of use to most Australian taxpayers—a private ancillary fund can claim a rebate even though it is not a tax paying entity. This would be in contrast to, for example, tax-free income such as the old infrastructure bonds, where, unfortunately, when you create something that is tax-free, the major beneficiaries are the people on the highest marginal tax rate. I do not know how many remember, but I was in the finance industry at the time, and are all aware of some of the activity that went around making sure that those bonds ended up in the right hands from an economically rational point of view if not necessarily from the point of view of what Treasury would have preferred.

Our submission estimates that the cost to the revenue of building up to an additional $4 billion of social infrastructure under our idea would be about $122 million per annum over five years. This is a significant pay-off to government; however, the cost of this investment by government should be more than offset by the reduction in the cost of services created by appropriate social infrastructure. I use our Apartments for Life project to illustrate his point. Our Apartments for Life project will cost about $100 million to build. If were to fund this wholly by frank social bonds, which probably would not happen, using the numbers in our submission the all-up cost to the government would be around $9 million—that is, $100 million with a three per cent differential for three years.

We had an analysis undertaken by a ACIL Tasman of the savings that the Apartments for Life project would create, and ACIL Tasman estimated that the cost savings in this regard would be up to $30 million. These are the savings created by people not having to go into nursing homes and instead being able to age in place longer. Nursing homes with higher residential care are expensive, and importantly older Australians—as we all know—do not want to go into institutional nursing homes. Based on the Humanitas model in the Netherlands, Apartments for Life seeks to prove up a new way of caring for older Australians. The key objectives are: improving the ability to age in their home, providing a large component of affordable housing in creating an open and exclusive community. Importantly, to have the greatest impact on reducing the need for high-level aged care, Apartments for Life and other such facilities must be available to people across a wide range of assets bases—an affordability component is critical. Our financing model for Apartments for Life includes in excess of $10 million of affordability discounts, including social housing and affordability housing initiatives. It is not going to surprise you that this puts a fair amount of stress on the financial model. The idea behind our social bond was to see if we could offer investors a combination of social and economic return to reduce this economic gap and allow us to build this. Unfortunately, our experience was very similar to Lifehouse's; we had a lot of interest but fundamentally investors found it hard to price the social return.

Secondly, we found a number of trustees of super funds and private ancillary funds trapped by a requirement to maximise economic returns. They had no choice. If we could not offer market return they could not invest. We believe strongly that social infrastructure projects like Apartments for Life can reduce service costs for government and improve the lives of ordinary Australians. However, to get them built we need some help. If government can partner with us in the way our submission suggests we are confident that private investors will participate, ultimately lowering the burden on government to provide this type of infrastructure.

CHAIR: Thank you, Mr Hawkins.

Senator STEPHENS: Thank you very much for both your submissions, which were very interesting and have galvanised others to start thinking, quite specifically, about this kind of a mechanism. I just want to tease it out a little, if I may, to understand what you are proposing. I am just looking at your submission, Mr Cubis, and the suggestions you have. You have the model here on page 3 and 4 of your submission. I want to talk this through. I understand exactly what you are trying to create. I understand the challenge that we have but in your proposal here you say that the most logical investors are self-managed super funds. I suppose I am looking at it from the perspective of protecting the government's revenue base. You are seeking tax preference treatment as an incentive but both PAFs and self-managed super funds already receive preferential taxation treatment. So the challenge for us would be to justify adding a new tax-preferred investment category to an already tax-preferred structure. Do you have a comment to make?

Mr Cubis: As Steve pointed out, if you offered a neutral tax rate it would not improve the return for the self-managed super funds and the PAFs. You would get back to the problem we had with the infrastructure bonds 10 or 12 years ago. When we were talking to a lot of the self-managed super funds and the PAFs, offering six per cent return was not enough for them. Most of the trustees of those super funds and PAFs, quite rightly, are there to maximise the returns. They can distribute back to charities, in the case of PAFS, or in the case of super funds they have to try to maximise their returns.

By offering this rebate with the franking credit it lifts it from six per cent to about nine per cent, which was a level where a lot of the investors who had said no said they would entertain investing in the bonds. So it really was just a mechanism to lift the return to a level which corporate bonds would offer and be more competitive against the commercial sector. We cannot really afford to pay nine per cent, otherwise we would just go out and do that straight away. This is a way to try and lift the return and make sure that the trustees of the PAFs and the super funds can meet their role—their fiduciary duty to maximise returns for those funds.

Mr Hawkins: I would like to add that we need to not double count here. The reality is that if I have a private ancillary fund and I invest in a security that pays nine per cent, that just is. There is no change to the revenue according to which nine per cent security I invest in. The point I think we are trying to make is that building social infrastructure, of itself, tends to be something that is sub-economic for the entities that do it—because of the component of affordability that we put into, or because we invest in a particular hospital structure or building a community hall or whatever.

You can look at the government contribution to this as, yes, a cost to the revenue. However, the Benevolent Society operates 100 different government contracts. I can tell you that the physical space we operate out of affects both the efficiency and the quality of the services we deliver. So what we are really trying to say to you is that if you give us a bit of help here you are going to get payback at the other side. We have struggled to say to the centre of the system, being the Treasury, 'Yes, there's something we want from you.' Where we have struggled to make the connection is, if we go to the actual paying departments, we are actually saying, 'We can save you a lot of money by doing this. We can get you the same services cheaper and probably better.' So there is a challenge to the system where we all know the right thing to do is invest more; what we are looking for is a mechanism that allows us to help you invest rather than you having to do it all. That is why we are really looking for a partnership here.

Senator STEPHENS: Just thinking about that, if we were to go down this path, how would you see the regulatory oversight operating?

Mr Hawkins: With the initiatives that are taking place in terms of a new not-for-profit commissioner and things like that you really are already a long way on the way to talking about a structure and about what is a charity in this country. We respect that you will want to put some controls around these sorts of incentives—who gets this money and for what things? Here we are suggesting building social infrastructure and we are talking about not-for-profits building it. I would think you could identify relatively quickly what the government priorities are around social infrastructure and identify what you perceive as a charity capable of delivering those.

I personally think that borrowing money to deliver this stuff is not for everybody. I would be concerned if companies with a few dollars in the tin are borrowing millions of dollars, with no real hope of ever repaying it just because there is a tax incentive there. The advantage of providing a partnership and assisting us with the amount we are going to pay is that we still have to go to the market and find investors. Investors will give Lifehouse and the Benevolent Society money. Unfortunately, it is a reality of the world that, whether you are in small business or a small charity, if you have no assets people probably will not lend you money. To be honest, that is probably a good thing.

There are many other ways in which the government deals with smaller, geographically focused, passionate charities in getting things done. The Communities for Children program and things like that are excellent examples of how bigger organisations can work with smaller organisations to deliver geographical outcomes. I do not think this is for everybody and I do not think we should be ashamed that it is not for everybody. We are talking about something that will help build significant social infrastructure in this country. You need only look at the nursing home market to see how desperate that is. This capital need is coming, maybe not today but in a few years time reality will strike on some of these issues.

Senator STEPHENS: The Lifehouse submission states that $4.1 billion will become available for social infrastructure, with a large multiplier impact and the opportunity cost to government in offering franking credit on interest, which you estimate at about $122 million per annum for five years. Is your proposition that this would be a mechanism to grow the nascent social capital market and could it be time limited?

Mr Cubis: No. Hopefully, it would be the start of a growing market for the social infrastructure market and, in 20 years time, we can look back and it will be just like what equities are and private equity is today, which did not exist 20 years ago. This will just be the catalyst to get it going. If we found that it was oversubscribed and became too successful, you could pull back and just have series 2 and adjust the franking and so forth. The assumptions are outlined there, but we have just assumed half of self-managed super funds are paying tax and that is the opportunity revenue the government would be forgoing.

Most of the people who are in self-managed super funds who put money into our bonds are actually retired, anyway. So you would not be losing any income for retirees because they are not paying in 15 per cent tax at the moment.

Mr Hawkins: I think Brent makes a very good point. We are talking about what the initial commitment is and what the potential is to get this market started. I honestly think this could easily become a reality. Everything I know about capital markets is that if you can get enough size in them, intermediaries will come to them and efficiencies will occur. The incentive that you provide to get people to start a market could be very different from the incentives you need to keep a market going. We believe that, were this class of assets to become a reality, you would very quickly start getting all sorts of intermediaries, academics or whatever asking: what is the social value of this particular bond and how do I measure that?

It would encourage the people we are trying to get to to see philanthropy as an investment rather than just saying, 'We get some income by investing in shares and donate it.' I think what we are saying is: here is a starting idea but we would strongly hope that as efficiencies occur the government contribution to this could be reduced. I do not think that is a problem.

Senator STEPHENS: This question is totally off the top of my head. You were disappointed with the take-up by PAFs and, given that PAFs already experience a preferential tax treatment for the purposes of philanthropic investment, is there any merit in considering changing the PAF guidelines to require PAFs to invest a proportion in this kind of activity?

Mr Cubis: Minister Shorten has already announced some changes to the PAFs and I think they are getting their heads around that, so I do not think we need to change the guidelines anymore. They have already had two changes in the last couple of years. I think the main thing we found hard was finding out who they were. There are about 800 to 900 PAFs in Australia, as I understand it, with $1.5 billion. They are the perfect audience, we thought, because they were set up originally for charitable reasons and they had to distribute four or five per cent a year, depending on when they were established. But actually finding and getting in front of the PAFs and talking to them about it was hard. A lot of the PAFs that did invest were not supporting cancer. They felt that it was such a good idea and the income that we are paying is going back to them and they are using it to support research and disadvantaged children. In one case cancer was the reason the PAF was set up. So there are some PAFs that get it, but it is an education process. It takes time.

Mr Hawkins: I would like to make two comments. Firstly, I think using a stick in a situation where we do not have a developed market is a pretty dangerous economic precedent. It would be like saying, 'You need to go and invest in all these social bonds.' It would be great for me and Brent because we have what are probably the only two products out there. If you do it really quickly, everybody will have to invest in our bonds, or the price of the GoodStart bonds in the secondary market will go to $200.

We should give people a chance. If you can give people a carrot and see how they go, the stick can always be there if people do not fall into line. That is my view. But I think the corpus that exists in the private ancillary funds could have a great outcome. If we can get it right, it is a great message to send to philanthropists: 'You can keep your corpus, you can do good with your corpus and you can give your money away.' So I would not be advocating the stick approach just yet. If you gave them a chance to do the right thing and they did not do it, I could see why you would start heading towards regulation, but I think regulating at this stage does not make sense.

One thing that we have been made aware of in the UK with the charities commission is that, where a trustee—and it could be from an ancillary fund or a super fund—wants to do the right thing, wants to do something that clearly has a social good, there is proposed legislation saying that in that circumstance the trustee's obligations are not always to maximise income. That would be a really interesting thing for you to consider as a piece of regulation. You probably need to think about what doing the right thing is, whether it is building the nation's social infrastructure.

Say I have a private ancillary fund. It is actually quite difficult for me to say to my trustees, 'I want you to do this because it has an economic and social return.' They would say, 'What is the social return? Give me a percentage.' And that is quite difficult at the moment because we have an unformed market. So we need something that says to trustees: 'If you are doing the right thing, you can take six per cent from Lifehouse. You don't have to take 9.3 per cent because that is what some adviser told you was the number you need for that credit.'

Mr Cubis: On that point, there is legislation which allows the PAFs to claim the difference between commercial rates and what we are offering, but it is not well known. Very few of the PAFs were aware of it. We only found out about it towards the end of the piece, and it helps in marketing this. It would help if the tax office were able to issue clear guidelines so that the accountants or whoever is preparing the returns for the PAFs did not have to second-guess what the commercial rate is. It would be very simple and I think it would facilitate PAFs investing because they could claim that difference, which is what Stephen was talking about.

CHAIR: You focused primarily on the government guarantee, which, for reasons you highlighted, probably is not workable, and you thought the franking scheme would be the most desirable way to do it. You talk about the fiscal benefits of government investing somehow in this, in that it may actually pay off with a greater return than what is put in. One of the other alternatives that we have been looking at and that you would be fully aware of is social impact bonds, where the government undertakes, if certain outcomes are delivered, to top up the return on a bond. Is that something that you have looked at and, if so, do you think the franking credit is superior or is it something that you did not think was particularly realisable?

Mr Hawkins: That is a great question. We have been quite heavily involved in the social impact bond debate and we are obviously very supportive. We undertake over 100 government contracts and I think it would be fair to say that none of them are written in the output way, the performance objective way, that a social impact bond implies.

What we have found when talking to people about the precedents—to academics and about offshore experience—is that it is quite constrained at the moment as to what is potentially a viable, measurable social impact bond. Obviously we are all watching the New South Wales pilots very closely. We have had discussions about aged care and we were told, 'Working out whether you guys are right or wrong in aged care would take far too long for our project.'

We do believe that investors will come. I am definitely in the camp, from all the people I have spoken to. I believe that philanthropists in Australia think it is a great idea. I think most people who have come from a business background, in hearing that they can invest in something and they will get their money—if it pays off—will get that. We think it is a great idea. What worries us is that there is a significant need for social infrastructure right now. With all due respect to everybody involved, because it is really hard, it is about our ability to get a substantial, measurable social impact bond market that you guys are going to support and where people will say, 'Yes, we are willing to enter that contract because it is set up in a way that we know we are going to get the benefits.' It is explaining that to investors, who have never seen this before. When I invest in BHP I can get 14 different research pieces on whether that stock is a good idea. I will not be able to get one piece of research as to whether The Benevolent Society is doing a good job in foster care at the moment. We think we do. We think we could design programs that potentially could lead to this. I think it is a fantastic idea. What worries me is how long it will be to get a sustainable market.

CHAIR: It is more a medium- to long-term option rather than a short-term option.

Mr Hawkins: And we are just talking about social bonds. I think people like to make massive distinctions here. I think we are really talking about one market. I do believe one is a more advanced version of what we are saying. If we cannot do this, I do worry about our ability to get a sustainable thing in something that is more complex. Peterborough is £7 million, I think. It is not a big transaction. Brent is talking about a $200 million hospital.

Mr Cubis: It was hard enough explaining how the social bonds work for a very simple product. I cannot see how investors would get their heads around social impact bonds easily.

CHAIR: But with a social bond you are effectively asking people to accept a social return as part of their overall return; whereas with a social impact bond, theoretically, if everybody performs, they still get a full commercial return. They are not effectively taking a hair cut for the social benefit; they can get a full investment return. In that sense, it could be easier to sell, provided they have confidence in the—

Mr Cubis: In the person who is delivering the operation.

CHAIR: Yes. I understand there are some problems in getting it up and actually proving it and running it. Once we get to that point it could be quite saleable as a commercial investment.

Mr Hawkins: I agree. Once it is structured right, I think it will be great. I just worry how long it is going to take to get a sizeable market. But it is a great idea.

CHAIR: I understand your hesitation.

Senator STEPHENS: Mr Hawkins, is it possible for us to have the ACIL report?

Mr Hawkins: Absolutely.

CHAIR: Thank you very much, Mr Hawkins and Mr Cubis.

HERBERT, Rev. Harry James, Executive Director, Uniting Care NSW/ACT

JOSEPH, Father Brian Joseph, General Secretary, Australian Catholic Bishops Conference

MEIN, Mr James Stephen, Acting Executive Director, Uniting Resources, UnitingCare Australia

MINNETT, Mr Ian Charles, Chief Financial Officer, Australian Eastern Territory, Salvation Army

NICHOLLS, Mr Michael Charles, Business Manager, General Synod, Anglican Church of Australia

RUTHENBERG, Mr Trevor, Executive Officer, Lutheran Church

VENZ, Ms Deborah Clare, Business Manager, Lutheran Church

[11:10]

CHAIR: Welcome to the inquiry. I note that there are many of you. I will invite you to make an opening statement but in view of the time, try to keep those fairly concise and then we will get into some questions.

Mr Nicholls: I am the business manager for the General Synod of the Anglican Church. The General Synod is the principal governing body of the national church and is constituted under the constitution of the Anglican Church of Australia. It meets in full session approximately every three years.

As you probably know, we are a community of Christians scattered across Australia, with an ambition to serve Christ faithfully in the circumstances of our daily lives. The church is organised into 23 dioceses grouped into five provinces or regions, and as well as dioceses and parishes—approximately 2,200—there are many different organisations, in areas such as health, mission, social welfare and communications, which are part of the Anglican church.

Our welfare organisations include Anglicare, Samaritans and Anglican retirement villages. There are around 145 Anglican schools in Australia providing more than 105,000 children with education. Anglicare Australia is a national church network that provides services to children, young people, families, refugees and migrants, Indigenous Australians, older people, the homeless and unemployed Australians. The 43 Anglicare member agencies provide services to over 512,000 people located in 2,029 locations. In 2008-09 the annual expenditure totalled $624 million.

Addressing the matters of interest identified by the committee relating to churches, the matters are clear and specific but to some extent the answers are multidimensional and qualified. In the Anglican Church's case, the sovereign or decision-making economic unit is, generally speaking, the diocese. As such, the answer to the questions posed are different from diocese to diocese—and indeed, from parish to parish.

There are, however, some identifiable directions or themes that can be discovered, and I will draw on these in answering the questions that you have posed. Being conscious of time I will move as quickly as I can. 'Have any churches used their buildings as equity to raise capital?' was your first question. The clear answer to that is: yes.

Senator STEPHENS: I am sorry to interrupt you, but we have the benefit of everyone here being able to bounce that question around that table. That would probably be a better way to go, if that is all right. If we could move on to all the introductory statements we can then have a free-flowing conversation.

Mr Nicholls: That is fine.

CHAIR: Did you have anything else to add as an introductory statement?

Mr Nicholls: No, I am happy.

CHAIR: Mr Mein, is it?

Mr Mein: My name is Mein: Mein by name and mean by nature! That is the best was to tell it, otherwise it is chow mein! I am the acting executive director of the Uniting Resources in the Synod of New South Wales and the ACT. That looks after all finance, banking, property, insurance, computing, human resources and workers compensation. I come with a fair amount of experience with the national church, but the Uniting Church is really a federated church when you look at the distribution of its assets. That is important to my explanation.

We operate through six synods. They have a very much state based orientation, although they are not exactly along state lines. The synods actually have the assets and they drive the income flows and the activities of the Uniting Church. We, like the Anglican Church, are a very diverse church. We are into schools, aged care, community services, and congregations, obviously, as well as many other activities, including university residential colleges. We do aggregate a lot of our resources but within each synod so that each synod has its own structure. It is very hard to nationalise the Uniting Church because of that unique synod oversight. We pool funds very significantly to try and get the best off them and for all our activities, which are extremely diverse. I will not give you statistics, because I have not got all the national statistics, but certainly we are very significant in all the activities we are doing.

Rev. Herbert: I am the Executive Director of Uniting Care in New South Wales and the ACT, which is the welfare chaplaincy and social justice arm of the synod of which Mr Mein just spoke. We have a turnover of $600 million a year, so we are one of Australia's large charitable organisations. We have staff of about 7,500. I have been in my job for 26 years, so I have accumulated a little bit of knowledge along the way. I will not go into the question; I will just say: 'Can you borrow money? Yes, but you've got to be able to pay it back.' At the moment we could not pay it back. We do not get a return on our activities which would allow us to pay back loans. You have to earn five or six per cent to be able to do it, and we do not do that—mainly because the government does not fund us in aged care to the proper level. You would be well aware of all of those issues.

The other issue for us, of course, is the structure of the church that Mr Mein outlined. We are an unincorporated association, which is very strange given our size. So, if we borrow money, the whole church has to guarantee it. We have to be very cautious about what we do, because I do not want to go along to the church and say, 'Oh, by the way, we just lost $300 million of the money we borrowed and you're up for it.' The legal structure of our organisation does create impediments for some of those things.

Mr Minnett: I am the Chief Financial Officer of the Salvation Army Australia Eastern territory. We cover the areas of New South Wales, Queensland and the ACT. It is a well-known organisation in the Australian not-for-profit space. We have a turnover of about $400 million in our territory. We have a number of employees and officers, totalling about 5,500, doing a range of different church based and social programs in that area.

I want to thank the inquiry for the opportunity to come here and be part of it today. We are interested, obviously, in arranging and securing capital for different projects that come along. So we are very interested in what this is all about. I guess, at the moment, we are being impacted by issues—and we are working through them—that are being raised through proposals in the tax area, particularly the unrelated business income tax and how that is going to affect us. That is difficult at the moment without some definitions around some parts of it. Probably the most important thing I want to touch on is the concern about the need to distribute income seemingly immediately. We would certainly be keen to have some flexibility to allow this to be built up over a period of time, preferably longer than what it seems like it is, and certainly not just in the financial year but at least a period after that—hopefully, a limited number of years—so that we can build up capital towards the projects that we need to be involved in. Thank you for the opportunity.

CHAIR: Thank you, Mr Herbert. Ms Venz.

Ms Venz: . I am the NCCA Lutheran Church of Australia business manager—just by way of introduction. But the introductory comments will come from the Executive Officer, Trevor Ruthenberg.

Mr Ruthenberg: I am the Executive Officer of the Lutheran Church. In effect, it means that everything not theological is in my area of responsibility—so the organisation of the church. We are the small church sitting around this table today. At this current time, we have only about 50,000 members practising, some 500 congregations. However, our education and aged care facilities allow us to punch way above our weight. We are the fifth largest provider of age care in the not-for-profit sector. We have some 110 campuses educating around 50,000 students a day. We also have substantial activity in the Aboriginal welfare sectors, especially in Central Australia and up through Northern Queensland.

I am taking a slightly different tack to my brothers here. There are several areas that I think that this Senate committee needs to look at. I would be very interested for you to convene a day for us to talk about some of these issues, because they are very complex. Because of the nature of who we are and how we operate, our structures are not necessarily top down and therefore how we distribute money, gain money or gain access is not always easily defined. There are several areas that you need to take particular note of. The first is policy affecting the religious charitable development funds. APRA is currently reviewing that. We have a central treasury called the Lutheran Layperson's League, which is a very simple model. In effect what happens is that members of the church put money into the LLL using retail accounts. Those funds are used as matching deposits against capital infrastructure building projects within the church. Most of that has significant social impact. If you look at age care facilities, schools or halls, they have a significant impact. Under the current review, if they remove that retail capacity we are going to be in real serious trouble.

Another area or issue that impacts on us and hurts us greatly—it wastes resources, frankly—is the diverse nature of legislation across Australia. We are 22 million people and yet we have six or seven different ways of doing the same darn thing. I have a professional standards unit in place. I have eight people in that. Fair dinkum, if I did not have all this different legislation I could probably move two of those resources into other areas that have a much greater impact socially. And that would be closer to our desire to serve the community.

The third area that I would love you to talk about a little bit—and I have heard it discussed in previous presentations—is, where the social impact is real, an expanding of the deductible gift recipient capacity. I will give you a couple of simple examples. In youth and family, for instance, while we deal with this through our congregations and it definitely has a religious impact, it also has a significant social impact. We find it difficult not being able to access funds that are otherwise going to some of our other areas of service because those areas do have the capacity to receive deductible gifts. In Aboriginal assistance programs, we find that there is a lot of government money. But there is nothing available when trying to match the need to the money. We find ourselves spending a lot of resources funding that activity when, with a little bit of tweaking, we could do that far more efficiently and put those resources into other areas of social impact.

Father Lucas: I am the General Secretary of the Australian Catholic Bishops Conference, which is the permanent institution of the Australian bishops for the purpose of dealing with national representations and initiatives. The conference has no asset base. The way that the church is structured is very decentralised. Church law has the concept of a juridical person, so organisations within the church—such as parishes, of which we have some 1,700; dioceses, of which have 28 geographical dioceses and five personal dioceses; religious orders; and other lay organisations, of which we have some hundreds—will have a juridical personality so their assets are their own. That is then mirrored in the civil law system through a series of property trusts, corporations and other trust and corporate structures.

We have been very fortunate in the history of the Catholic Church in recent times to have been able to draw on the great generosity of our people, who have been able to fund capital works for the church—schools and the like—through our Catholic development funds. There has been a reference to that model already. The church has a number of schools. It educates about 20 per cent of the Australian population. We have a number of organisations involved in health care, ranging from the large acute teaching hospitals through to private hospitals. We have a large number of organisations involved in providing age care. The security of financing for schools and health care is reasonably secure. Aged care is tragically underfunded in terms of recurrent costs. But the area that is very problematic so far as being able to secure capital on the basis of future cash flow is the social welfare area. When a government contract is only for a year, two years, three years at the most, you cannot have the business plan and forward planning that would enable you to be able to ensure that capital raising can be met through the recurrent expenditure.

On the issue that has been raised by other representatives here of the unrelated business income tax, which is just an impossible to understand discussion paper, we can go into that in more detail if necessary. I would also make reference to the item already raised of the APRA review of church and charitable development funds. Our funds have operated very successfully for a large number of years. There is some suggestion that, because other organisations will wish to set up similar models and have applied to APRA for the necessary exemptions, APRA and Treasury wish now to review the whole process. That review is underway. Our concern would be that any regulation is a cost and is not necessary. I would suggest that you may wish to investigate that matter further through this committee with a view to a recommendation that the current regime of exemptions, properly defined, continues.

CHAIR: Thank you very much. I will hand over to Senator Stephens to start questions.

Senator STEPHENS: Let us tackle that last issue, the CDFs, first. Father Lucas, you have made some comments in your submission, but it would be helpful for the committee to understand the genesis of those funds and how they are used by the churches more specifically. Could we start with you and then others might like to throw in comments.

Father Lucas: The genesis of the funds was the credit crisis of the 1950s where a parish in Melbourne approached the local bank for a loan for school purposes and was refused the loan. The parish priest called a meeting, as it was done in those days, of the men of the parish to solve this problem. The men of the parish then went home and told their respective spouses, as was done in those days, to go to the local bank and withdraw their savings, which they did, and they lent those savings to the parish. That was the genesis of the development of the church being, as it were, a self-funder.

Parishioners will make a deposit, generally on slightly less than commercial terms—and that will vary from place to place: perhaps 50 basis points or a percent below what they might get in a more commercial setting. That enables the church to use those funds to construct a school or other capital facility. Those parishioners then have the money on deposit, generally at call, sometimes on a term-deposit basis. But the capital that was able to be acquired in that way is combined with other provisions and investment opportunities that the church has. They have become very successful and are very important vehicle for providing capital.

We have some 23 of them across the different dioceses in Australia. They vary slightly in their structures and models and the different rates of borrowings and lendings. The general philosophy would be that the margin is slightly less than the bank margin. Generally the parishioners do not have charges and fees that they might get in a banking structure. It is attractive for them because they feel they are assisting the work of the church, so they will forgo a slight commercial return for that purpose. And those that are borrowing are able to borrow at a significantly better rate than they would get in the commercial market. There are certain complexities, particularly to deal with large and complex capital projects, but our funds are exceptionally well managed. Every one of them will have a board comprising leading people out of the financial and banking world in that local community.

Senator STEPHENS: What happened to those funds in the global financial crisis? Was there an impact?

Father Lucas: I remember the day of some panic about all of this. We had a telephone link-up between the key managers of the main funds to see if the parishioners would make a run on the funds to get their money out, and there was nothing that happened outside the normal course of business.

Mr Ruthenberg: In fact, in the Lutheran Church we found that our deposits increased, not decreased.

Senator STEPHENS: A safer bet?

Mr Ruthenberg: Essentially, because we are far more conservative in our investment strategies, so we are looking more at a cash return rather than at a commercial return and we maintain a high state of liquidity, so we found it actually increased significantly. Because our rate of interest is given back at 4.75 per cent—it has been that way since the 1920s; we lend the money out at five per cent—in fact we were giving a much higher rate of return to our own parishioners than was being given externally.

Mr Mein: From the point of view of the Uniting Church it was a different story. We call them self-help funds. Parishioners help their congregation generally in that setting. We have an underwriting risk within the Uniting Church because they are pooling together across the whole synod such that if a depositor withdraws them the church has to find the funds to pay that depositor. So we have diversified our activities across the whole spectrum of what we do as a church to enable the different cash streams to meet that crisis. But we found that a big question at the time was the government's guarantee to banks. People were asking, 'Does that extend to our development funds,' which obviously it did not. It took a fair bit of legwork and talking to get them to keep their funds with us, because they were worried about their security.

Mr Minnett: The Salvation Army has not promoted this scheme in any significant way. We do have a small amount of money that is residual from some years ago. There is a little scheme there that could be revitalised with but has not been a focus of ours. Most of our income and the pooling of the money in the local churches is done centrally and we are able to invest that, but we are not actively promoting a loan scheme.

Mr Mein: If I could add one other thing, I think as middle Australia grows and there is less wealth around we are actually seeing signs that there is going to be less general philanthropy of any size or nature because many people are relying on their retirement assets to maintain their standard of living, which I think is probably a higher level than, say, my parents were used to. I do not think it is going to be a growth area.

Rev. Herbert: I think Uniting Care would have a slightly different view of this. We are the largest depositor in the synod funds. We are compulsorily required to deposit into that fund by the synod policy. We have requested the synod to relax that and to give us an exemption to a degree and that has been refused. So I think if you had my board here they would be saying, 'Look, there are a few issues there about these funds.' We are not 100 per cent happy with the arrangements because we are sort of trapped into them. Sometimes we feel that our property proposals might get determined on how much money we going to draw out of the funds. In the Uniting Church we have an honest engagement over these issues where the Uniting Care board and the board of Uniting Resources, which Mr Mein represents, do not always have exactly the same perspective.

Mr Ruthenberg: It would have to be an internal function, though, as opposed to the ability of these types of funds to function, because that is not my experience at all.

Mr Mein: From what I understand, we have rather a unique structure with our treasury operations compared to most of the other denominations.

Senator STEPHENS: And the Anglican Church?

Mr Nicholls: The Anglicans have 16 DDFs throughout their dioceses. I think we are taking the view that any APRA review is an opportunity for us to ensure best practice in what we are doing. Hopefully, the review will leave a commercially viable and community or diocese viable entity in place where such a thing is justified.

Senator STEPHENS: Did your funds take a bit of a hit during the GFC?

Mr Nicholls: You asked earlier about the impact of the GFC. I think that that probably is a driver for the review by APRA. I think that is sensible and I do not think that is something we should be concerned about. The answer is that the whole financial services sector was affected and we are a part of the financial services sector, so, yes, there was some impact, though none of it drastic. I think the GFC and the APRA review are seen as impetus to ensure we are doing exactly the right thing across the various dioceses.

Senator STEPHENS: Let us get back to the real issue about building a social capital market to deal with social infrastructure. One of the unique positions of the churches I would imagine is the vexed issue of maintaining heritage, the national estate, which is critical for all of us anyway. Do you have a view about how a social capital market could be used? We will be asking environmental organisations later to talk about their perspective. In terms of our heritage, do you have any views about the challenge of raising funds to maintain heritage assets?

Mr Mein: I have had a long history in this area with the Religious Property Advisory Panel of the Heritage Office, as has Father Lucas, who has probably had longer. One of our biggest problems is that banks like to be able to put a mortgage on a title deed. From our point of view we cannot find the properties to give them the security because the resale market for a heritage church is negligible value for a bank. They want properties that are devoid of that relationship. In the Uniting Church we set up a unit to try to optimise rezoning unwanted churches, those not occupied by congregations, to try to get the developers' profit because they make more profit out of rezoning but it became a very difficult task because national estate is at the top of the heritage tree but we also have very significant problems with state heritage and local government heritage, particularly as local government can also thwart development and certainly the adaptation of a heritage building. So you have to look at non-congregational properties to give them any sense of security.

Prior to the GFC we were able to generally say we would pledge all Uniting Church properties to support a loan from the bank, and we have done that but we are now finding a hesitancy even lending to any developers of property because of the uncertain real estate market, whether it is commercial, residential, retail or whatever. I have to say it is an acute problem for us to be able to convert a large sector of our assets into an attractive asset to back any form of investment product.

Senator STEPHENS: The Catholic Church had a fairly contentious issue with St Patrick's at Manly, didn't it?

Father Lucas: Yes, that was a contentious issue. It is perhaps a good case study of this particular problem. I think we firstly have to deal with the philosophy of heritage preservation. An ordinary Australian owns an ordinary home and can buy and sell that property at will. Certain properties the community says have a particular value that limits either their redevelopment, their sale, their modification or—and this would be the situation at Manly that I will come back to—even the curtilage in which they sit. If the community puts a value on that, the question arises as to the community's responsibility for the value that it has put on it. It is fairly glib to say that the owner of the property bears all of the responsibility and is limited in what the owner can do because the community has put that restriction on.

That is not to say that we ought not preserve our national heritage. That is not in issue at all. It is simply a case of how we share the respective responsibilities for doing that. It is not just the maintenance. One of the most critical things, particularly in rural areas, where churches by nature are generally old and hence have some local heritage significance, is the extraordinary cost of insurance. You will be compelled if there is some damage to the church to restore it not with a Colorbond roof but with a slate roof, and that comes at a significant cost and hence the insurance is significant. So, I think that is the first philosophical issue: the community needs to think through in a more systematic way in which we share the responsibilities for these buildings that the community says ought to be preserved. That can be done through grants, and there are modest grant programs. The churches, while they have been the beneficiaries of often significant grants for the major cathedral restorations and the like, probably bear a somewhat disproportionate burden—remembering that the burden falls on the local church community, not some hidden funds somewhere in head office.

I think the example of St Patrick's estate at Manly was a good case study of this tension, where there was a building that without question was of major national heritage significance. The archdiocese at the time saw the need to relocate the functions from that building to another part of Sydney—a very valuable library was more at risk in a waterfront area than in better, more modern facilities in a more centrally located part of Sydney. There was quite significant surplus curtilage on that site that was zoned for residential development. The local community, through the council and through, at the time, an independent local member of the state parliament, raised significant objection to any development there.

By way of example, it was claimed there was a threat to the bandicoot population of North Head. The church's site was about 10 per cent of North Head; the part being developed was about 10 per cent of that, so we are talking one per cent of the 120 bandicoots that had been identified on North Head. So the argument was put in '1.2: Bandicoots at risk'. I am not being glib about that. Obviously, there are issues, but those issues were thoroughly investigated by respected scientists. It made zilch difference to the local community politic. What in a sense saved the day was the decision of the archdiocese to make a portion of that site available at a peppercorn rate to Bear Cottage, which was the children's hospice from the Westmead Children's Hospital. The local community objected to that development. This was one of those occasions where the morning breakfast radio commentators in Sydney were of some use. They came in behind the children's hospital, as one would expect, which led the Premier to intervene. Notwithstanding that, the council persevered in quite a significant objection that led to a number of very lengthy court cases in the Land and Environment Court. If you read some of the material involved in that, you would have thought that the world would come to an end, because the mindset of the people locally was that this property had been given to the church as a grant and, if the church did not want to use it for that purpose, it should simply give it back to the community for a local park. That was the mentality, without any consideration of what needed to be done to generate the revenue stream, not only for the building itself, which of course needed significant ongoing maintenance and restoration and insurance, but for other things that the church can do in service to the community—because 'community' in the minds of the locals is their community, not the community that might have needs for schools in south-west Sydney.

Senator STEPHENS: While we are talking about church property, Senator Williams and I, travelling around country New South Wales, come across court houses that have been handed back to communities, art galleries, old railway stations—all seem to be part of the heritage of the country, but with no capacity for small community organisations to actually raise any money to maintain them, yet alone restore them. We had a witness last week talking about trying to create the legal structure that enabled them to borrow money to restore a very significant community building in Victoria, and the huge challenges that there were within the regulatory environment that would create a structure that would allow them to borrow and would allow for philanthropic funds to come in behind them. So, while I understand that each of you has a different structure in your parishes and your churches, and the notion of maintaining your buildings, do your development funds allow you to invest in restoration and redevelopment of your capital assets?

Mr Mein: From the Uniting Church point of view, we cover the whole of New South Wales and the ACT. What we are finding, which has to be recognised, through rural consolidation accelerated by the drought, is that there are more and more, very early established small country towns. Therefore, they are at a higher risk of being heritage listed, which do not have the communities to support them, anyway. That has been a problem for us. We do not have funds in the central development fund for heritage. We rely more on people wanting tax deductibility—which is usually the local congregation working through the National Trust, which is the vehicle for tax deductibility—to get the donation dollars. Certainly, the state government is well stretched. It does not give a great allocation to upgrading properties, even for major ones such as St Stephens over the road. We hardly get a look in. It is a community problem, exacerbated by changing population drifts that make it harder for maintenance of heritage.

Mr Ruthenberg: To coin a phrase, administration is not sexy. If I am looking for philanthropic funds for some Aboriginal work or for youth and family work, or for the Queensland floods, for example—we distributed over $1 million in aid that came in within a four-week period through our congregations there—people can see a real need and can assimilate or associate with that. But if I throw up a $6 million need, which would be an extreme drain on our church resources, to stabilise our heritage building that our seminary is in, I am lucky if I can get half a million dollars to just stabilise the circumstance. That extends to all those small congregations that are heritage listed. We are already seeing boards on windows and fences around buildings and congregations moving into other community centres, because they simply cannot afford to maintain some of those buildings. We are now just starting to see the tip of the iceberg.

Mr Nicholls: From the Anglican perspective, we are looking for our DDFs to obey economic signals and respond to those signals. Obviously, with respect to heritage buildings it is difficult to get an economic signal from them that justifies investing in spending. Perhaps one of the issues that Father Lucas raised about insurance could be elevated to consideration alongside that of flood insurance as being an exorbitant cost that perhaps we could look at managing at a federal level or talking about a structure that would bring down that cost.

Mr Mein: Another aspect of which you have to be conscious is that it is better to have a total fire of a heritage property—

Senator STEPHENS: I know.

Mr Mein: than a partial one, because you have to restore a partial one to its original strength. We have had a few of those. It has got to the stage where it was better for us to sell it to a developer, who could try to change its use. The classic would be down in Woollahra, in Jersey Road, where that has been done. It is a major problem. Even when there was a market for the sale of air rights in the City of Sydney it took a while for the council to actually decree that the proceeds were to be put into funds to maintain the heritage. But there is no market in selling air rights, either. I think we have exhausted all opportunities other than encouraging people to die generously.

Rev. Herbert: From a welfare organisation point of view, we do have quite a number of significant heritage properties but we use them. We have found a use for them as either a hospital or office buildings or whatever. Or we have sold them to other people who can use them. In Pennant Hills Road we sold them to an independent baptist school because it suited their needs. For us, maintaining heritage has not been a problem because we have either made use of them or found other people who could make use of them and sold them to them.

Mr Mein: The Salvation Army would find itself in the same boat. We are using those assets and we struggle to maintain them. A balance sheet with property on it sounds as though they are valuable things, but we have to remember that buildings need to be maintained. I often think of a building as a liability because you have to keep finding ways of maintaining it.

Senator STEPHENS: If we go from the churches and the church structures to the actual welfare or social justice arms of your organisations, Reverend Herbert, you mentioned that you have about $600 million in service turnover. We have had some evidence to the inquiry about a proposition to enable highly reputable organisations who receive significant government funds on a regular basis—quality providers—some kind of mechanism that would enable them to leverage off their future funding to raise money for capital development. Has your organisation ever contemplated anything like that?

Rev. Herbert: I think that goes to the issue that was raised by someone else. Government funding is only on a one-year basis, because even though governments can say, 'We're going to fund you for three years,' there could be some difficulty for the government and at the next budget they may change all of that. I do not want to be rude but the fact that the Commonwealth government, this year, gave the welfare sector 1.7 per cent inflation indexation tells you everything. Even the New South Wales government gave us 2.6 per cent. Neither figure is sufficient. You can see the crimping and cramping of flexibility for organisations when they get 1.7 per cent for inflation. It is a joke, really.

We had a big scheme, at one stage, to borrow quite a lot of money but it fell down at that point. The people we were dealing with said, 'You've got no guarantee of revenue in the future because a government can pull that away in one budget,' whereas the people who built the Sydney Harbour Tunnel, for example, have all the legal contracts and guarantees. No government can disturb that. They can go and borrow. They have inflation figures fitted in and all of that. The corporate sector, the children of darkness, are much better than us, the children of light. They know how to strike a deal; we are gullible. So we are not in that position. And that would be true across all of the welfare sector, because our motivation is to serve people. We are not out to make money; we want to do good things in the world.

Father Lucas: That is the case even if there is a long-term project. I can give you an example. We had one organisation that was well funded by the federal government. I think the funding began in the 1970s. Two years ago—by this stage the funding was a recurrent annual grant of around $1 million—there was a change of government policy and this was all going to be reviewed. The review came out and the grant was put out to tender across the community generally and the maximum was be $500,000 in any one year. So simply at the decision of someone somewhere—and there had never been any indication of inadequacy in the delivery of that particular service; there was some change of fashion, change of mindset and a desire to save money—a program that was long-running was put at risk. That, in effect, means that the service is not delivered or the money has to come from somewhere else.

We do not need to go out to the market because our development funds can deal with any requirements but a funder has to make the prudential decision: if you are going to lend money over a five-year, 10-year or 15-year payback horizon, will the cash flow support that? If you are at the mercy of some change of government fashion then prudentially that is impossible. So, much of the welfare sector, as Harry Herbert has said, is at the mercy of tender processes, short-term contracts and consistent changes of approach in that sector according to the whims of government policy.

Mr Ruthenberg: When you get on the ground and you start delivering a service, irrespective of whether it is in town or in a remote Aboriginal community, it takes time to develop reputation and trust and connections. To be looking over your shoulder consistently to determine whether you are going to have funding next year is incredibly debilitating, especially when you are looking for quality staff and the people who care. Typically, the people who work for us do not ask for a commercial wage; in fact, our structures would not allow that. But what they are looking for is some assurance that at the end of this three-year contract there is actually going to be something there, especially come the two-year mark, when you know that you are going back out to try and do it. So establishing those trust relationships practically on the ground, boy, I tell you, becomes tough.

CHAIR: Would the creation of a more active and deep social capital market, whereby the government used some of the money that it might currently directly provide to you to help support that type of market, provide you with an alternative way of getting that certainty that you are looking for?

Mr Ruthenberg: That is one way of funding it. I think there needs to be a different way to measure it, and the measure should not be just whether you are effectively spending the money or not. That has to be a measure; I am not suggesting it should not be. But we should also start looking at the effectiveness of programs. Is the program delivering? If it is not delivering, why isn't it delivering? We should start looking at that as a measure to determine probability of funding, as opposed to just looking at: this is the bucket of money.

CHAIR: I could not agree more.

Mr Ruthenberg: If you get on the ground and you start actually becoming effective, there is nothing gut-wrenching to the folks who are receiving that than to all of a sudden have that removed from them.

Father Lucas: Senator, I would not think that it is the depth of the capital market that is the issue.

CHAIR: The social capital market, I am talking about.

Father Lucas: For that sort of program. It is the fact that no-one, no matter how much money is in the pot to lend, will lend unless it can be paid back. And it cannot be paid back out of an asset, because in many instances either there is no asset, by the nature of the program, or the asset is not one that could ever be disposed of on a mortgagee sale anyway. So the only comfort given to any lender is the security of the future cash flow according to a business plan, over whatever duration that is secure. And if that funding is tied to government programs there is at the moment a great deal of insecurity. It could be that the business plan can have a secure source of funding elsewhere, and that could be demonstrated. At least within the Catholic Church structure there would be adequate capital to meet those sorts of instances. But, fundamentally, it turns on the security of the cash flow over a demonstrated period of time.

Mr Nicholls: So our message back would be: where the income stream is coming from a government contract we are looking for that to be the highest quality income stream we can get, with the greatest certainty in terms of the revenue flow and increases over time, to be able to raise capital off the back of it.

Senator WILLIAMS: One of my key interests is aged care. Is there a mountain of red tape to go through when managing aged-care facilities with regard to government questioning, filing and filling in of forms? Is there a lot of red tape in that industry?

Mr Ruthenberg: 196 pieces of legislation.

Senator WILLIAMS: The point I am getting at is this. These are facilities that is so important to look after our elderly. My mother, who is approaching 93 years of age, is in McLean retirement village at Inverell with Alzheimer's. I know from everywhere I go that those sorts of facilities are doing it tough financially. I am thinking: where can money be saved in that industry? That is why I question red tape. Are you swimming in it?

Father Lucas: I could take that on notice and have Catholic Health Australia give some precise information about that, if that is of help to the committee. Certainly the report that I get back from that organisation is that they are drowning in regulation. But I will put this caveat on it: this is also a very vulnerable section of the community and you need to have proper and balanced regulation.

Senator WILLIAMS: Yes.

Father Lucas: So we would not suggest in this area—

Senator WILLIAMS: To cleanskin it.

Father Lucas: No, not in the slightest. I think the main problem—and this may be alleviated with some of the recently announced reforms in the aged-care area coming out of the Productivity Commission study on the matter—is the adequacy of the funding that is provided and the different models of funding related to the different levels of care. But the Productivity Commission has got a lot of detail about those problems and I think the submission that Catholic Health Australia made in that process may be of interest to the committee.

Rev. Herbert: Senator, I would say to you what I say to my staff. Yes, there is a lot of red tape. It is never going to go away. The fact is government are not going to hand out huge amounts of money without requiring a pretty high level of accountability and, as Brian Lucas said, with it involves clients who are particularly vulnerable. I think one of the other problems of the red tape is where you very strongly restrict what we can charge. That is not really red tape, but government restricts what they give us as operators of aged care and they also restrict what we can take off the consumers. That is where the Productivity Commission has made some recommendations. That sort of red tape we could free up a bit more because, sooner or later, aged care cannot survive, as the Productivity Commission points out, unless the government puts a lot more money in or the consumers put a lot more money in. The fact is the consumers who have the money are going in the future to have to put more money in. They are going to have to do it. Governments need to put their money in to support the people who cannot support themselves, the financially disadvantaged group. People who have got assets, when they get older—they will not like it and you have got a big job to convince them—sooner or later will have to get the message that they are going to have to pay for their aged care, or a bigger proportion of it.

Mr Minnett: It is really important that we protect the bond income that is available. Any threats to that would be a serious problem for us going forward. There is a lot of red tape that we deal with. I do not think anybody dismisses that. We support the need to be transparent and working hard to look after our aged community. Look at the future where the tidal wave of retiring and aged people is coming from. There does need to be significant investment in this area. If it cannot come from government, we need to be encouraged and supported in raising capital for the future. The tidal wave is coming.

CHAIR: Thank you very much for you assistance this morning, and slightly into this afternoon. I am sure we could have sat around for the day and kept on going, and probably should. It is difficult to find a day to do that.

CAMERON, Mr Sandy, Manager, Policy, Research, Think Tank and Evaluation, Cape York Institute for Policy and Leadership

GOSS, Ms Sarah, Consultant, Cape York Institute for Policy and Leadership

POWER, Mr Duncan John, Chief Executive Officer, Social Enterprise Finance Australia

[12:02]

CHAIR: Welcome. Would you care to make an opening statement, Mr Power?

Mr Power: Yes. Just a little bit of background about SEFA, Social Enterprise Finance Australia: we are an organisation that is six weeks old, so we are in our nappies. We received $10 million of DEEWR government funding and matched that with $10 million from the private sector, foundations and social investors, to set up a loan fund for social enterprises in Australia. My own background is that I worked for some years with a social bank in Europe and helped set up Charity Bank in the UK.

In terms of what we are trying to achieve, it is quite simply sustainability. We put the application in to government for the tender because we saw a gap between the pure philanthropic grant money coming to not-for-profits in Australia and commercial finance. In between there are a lot of grey areas. So we had to put our foot down and say, 'This is where we are going to start.' Our starting position is loans at the lower end of the commercial rate, but not disadvantaging a project that might be in Port Hedland or Broome rather than in Sydney, so that interest rates would be comparable to what they would be if they were in Governor Macquarie Tower in Sydney. That is our aim. We do not aim to subsidise. We need to have some form of security in most cases, because we need to get the money back and show that this approach works within the Australian market.

We believe that the banks have been quite conservative in Australia in lending policies to not-for-profits. In part, and the previous speaker from the Uniting Church put it well, if there are short-term government contracts or there is a reliance on donation income from supporters, the banks are readily and rightly cautious. On the other hand, we believe, and based on experience from Europe and America, there is very much a potential for a lending market. In fact something that we have only just begun to also look at is a social venture capital market for organisations that are not for profit or perhaps for profit with a primary social aim or community aim within Australia.

CHAIR: Thank you.

Mr Cameron: I will speak on behalf of the Cape York Institute. I am the manager of the think tank at the Cape York Institute and my colleague Sarah is a consultant who we have retained in relation to this submission. First of all, thank you for having us here. You might know that Cape York Institute was started by Noel Pearson in 2004 and it works on Indigenous policy and leadership initiatives in Cape York.

At the outset, I would say that our submission does not fall squarely within the terms of reference of this review in the sense that access to finance is not the greatest barrier to the operation of not-for-profits in Cape York; rather it is the way in which government funding is currently structured. The existing structures have contributed to a situation in which there is a focus on the short term over the long term, as we have heard just now and also in the previous; session on projects rather than people and capability development; on service delivery rather than innovation; and on outputs rather than outcomes.—Many of these themes we heard in the last session.

Our hope is that the principles that you are considering in this inquiry might be applied by government when it is making decisions about what, why and how to fund initiatives in Cape York. That is really the purpose of our submission. Three examples: first and most tellingly is the focus on outcomes rather than outputs. What was particularly interesting to me in reading about the structure of the UK social impact bond was the clear tie between the reward to the investor and actual tangible social outcomes. That is not something that exists in many of the funding arrangements which we have to deal with on a regular basis. In fact Noel Pearson is on the record quite recently for talking about the nature of incentives to job service providers in remote Indigenous communities—the extent to which training is incentivised, and a churn of people is incentivised rather than placing and keeping people in long-term employment. A similar comment could be made in relation to Indigenous health initiatives where, again, it is the number of healthcare checks you have rather than the level of, say, blood pressure in the community or the instance of diabetes. They should really be the guiding principles.

The second key point is: if we do focus on outcomes, what we hope is that this will result in promoting evidence based action; allocating resources to where they can achieve the greatest impact; and, most importantly from our point of view, resourcing innovation. By innovation, I am talking about a culture of innovation in which ideas are not only generated but tested rigorously, then assessed and then applied by government.

We work with some of the most disadvantaged Australians in some of the most challenging environments in the country. There has obviously been considerable government expenditure in the last 10 years. This was revealed by the 2010 strategic review, which was recently released under FOI and showed that $3.5 billion is being spent annually and has been for the last 10 years with little or no effect. In our view this means that there is a role for government in creating a culture of innovation, as I have said, where ideas must be explored, tested and selected on merit. What we have recommended in our submission is that 20 per cent of the annual spend on service delivery be allocated to innovation and promoting a culture of innovation. As I have said, we work in a high-risk environment but also one which is causing considerable government expense. If we can actually get an outcome, the savings to government would obviously potentially be enormous. If you look at us as operating in a high-risk, potentially high-yield environment, we should be aligning our R&D spend with companies that operate in similar environments—so big-farmer, big-technology companies, which allocate 20 per cent of their budgets to R&D. We think that is an aspiration that government should also have.

The second most important recommendation we make is—and it is a comment that has just been made here and was made in the previous session—there be long-term contracts of up to five years. That will allow us to provide continuity and security and allow us to prevent turnover of people and staff and to develop organisational knowledge. Only when that is in place we can actually create a culture of innovation.

The final point before I close is we are very interested in the social return on investment framework, which is referred to in the paper. The push towards standardisation which may occur as a result of this inquiry could be applied to Cape York not-for-profits more generally. If you did have that standardised element you will reduce transaction costs and create a framework in which not-for-profits can talk meaningfully not only to each other but to government and you will create capabilities within the not-for-profits which will stay there and be more effective. I think the reduction in transaction costs is potentially a huge gain. As I said at the outset, none of this is necessarily about finance per se but these are all issues that you are looking at now. We would like to emphasise that government should be applying them to funding more generally and not just to finance.

Senator STEPHENS: It is interesting that they are all the same challenges we heard through the Productivity Commission inquiry and before that when this committee was investigating the regulatory impacts of government on the not-for-profit sector. There is nothing new in terms of challenges, but I am interested in the opportunities. Mr Power, you are a very new organisation, as you say—six weeks old. I am wondering if you could tell the committee how you are shaping up, how your incubator fund will work, who you are considering will be eligible to apply and how it is starting to take shape. I think that would be helpful for us.

Mr Power: The first thing to say is that within those six weeks we have had something like 70 inquiries. They came from one media release. There is a lot of interest from not-for-profits and social enterprises and over half of them are out in regional Australia, which is a good sign. It is also a sign of where there is a need for funding. The inquiries we have followed up are all good business ideas, and ideas are what they are. The first challenge is to make a social business idea into something that can work from a viability point of view. On the one hand there is a need for some mentoring, for education and to have people on their teams who can do business plans. A number we have spoken to so far are yet to have a business plan. When I have asked if they could write one they have said they do not have the consultants or the funding to do it. On the one hand that says that perhaps there is a lack of funding but much more relevantly it says that the CEOs of these initiatives by and large do not have the ability to write their own business plans. There are obviously some issues out there.

Senator STEPHENS: Any business going to a bank looking for money would be expected to have a business plan. Why do you think a social enterprise would think that they would be any different?

Mr Power: I think that they do believe they should have a business plan but because of lack of ability, lack of time or lack of resources they do not have one, yet they are coming with these ideas. Perhaps there is a misinterpretation of the kind of funder that we are. That is something that we need to work on over the next period of time. It does tell a story: just how often in that very short period that has come up.

In some situations, and I will give two examples, they are probably a loanable proposition. One comes from Port Augusta. What they want to do is basically take over the old railway station. The railway station is largely gutted. There is one South Australian government department that is still in there. The challenge is that it is an old and probably heritage listed building. It is a very beautiful building. In order to renovate it, $1 million has to be spent to make it earthquake safe. In addition, there is a lot of money to be spent so it can take in the sort of tenants that would make up what has been asked for, a social enterprise. What it would do is be a business incubator to small entrepreneurs and social entrepreneurs around Port Augusta. It would also house an Aboriginal and Indigenous art gallery for a lot of the mobs in northern South Australia. Yet, if we have got to spend $4 million or $5 million on renovating it, it has got to have a very commercial aspect to it. So part of the plan that is starting to form now is that there will be some South Australian government rented out space in it as well. There is a shortage of property in South Australia. So getting together a government, social business incubators and an Indigenous art gallery, we might be able to make a deal that has, say, $1 million of loan, a few million dollars of government grant and also some working capital once it becomes operational. That is one example of a deal where probably there is a loanable element there that we can help with. There is not a freehold property, so the banks most probably would not be interested, but in the kind of loan fund we are setting up we probably could based on the cash flow security, particularly from the government contract for rental space.

Another project comes from Broome in Western Australia. In this particular situation there is a small social business run within quite an isolated Aboriginal community. Within this community they have already established a shop. They need to grow that shop. There is a three-year financial track record and they need to buy some new tanks and get some further working capital for purchases of tradeable goods. That is the sort of area we can start to help in. Those two are indicative of perhaps 50 to 60 of the inquiries we have had so far.

Ms Goss: Can I go back to the question of the business plan. I have had the experience of working with several organisations up on Cape York. One of the more mature organisations that has a significant government contract for service delivery was still struggling to develop a business plan. They were still struggling to articulate their value proposition and put that into a format that is understandable by the corporate world or even understandable by the government department that they receive their funding from. When they took their business plan to them they were told, 'No, that is not what we are looking for; go away and rethink it.' I think there are two challenges. One is the capabilities within the sector and also the time and resources that people have to be able to spend on this sort of thing. There is also the difference in expectations and the difference in requirements from each different funding body or financial institution that you talk to. So there are barriers on both sides and that is going to be a learning process to get to the point where people are able to develop the sorts of materials required to actually access funding and finance.

Mr Power: I think that sums it up very well.

Senator STEPHENS: In the first instance of that organisation in Port Augusta, it is a typical country town challenge of saying, 'We'll do something with that building that is empty. What can we do?' A well-meaning community organisation pulls together the council and people to see what they can do to breathe some life back into their community. We see that everywhere. But is that the kind of client that you are looking to target?

Mr Power: It is one of the sectors that we want to target. We are particularly interested in space where there is disadvantage. That might be in a town such as Port Augusta. It might be, in the case of the latter example, in Indigenous communities. It might also be in the disability sector where there is a higher unemployment rate. Six of those 70 inquiries came from the disability sector to set up viable social enterprises where there were sheltered workshops in the past or a lack of government funding. Competitiveness and donor funding has meant those types of disability businesses must now be viable. Another space that interests us is the environment space—how to improve the environment within a community and involve the community.

Senator STEPHENS: Is that a choice that you have made or is that a requirement of the funding?

Mr Power: That is a choice we have made. We are six weeks old, so we may find that there are greater needs. We want to use our funds towards viable projects in the areas of greatest need. It is based on our application and a successful application to government rather than on any government requirement within the contract.

Senator STEPHENS: In terms of your business modelling, your own business plan, your aspiration is to grow your initial $20 million quite significantly. Can you expand a little bit on that and how you think that might happen?

Mr Power: In the context of things, $20 million is a very small amount of money. On the other hand, it has to be used wisely and it will take time. But within the research and within the feasibility that we did as part of tendering to government, we certainly see the need for $50 million and, in the longer term, $100 million available for this type of activity in the space that we are in.

Senator STEPHENS: So the government has now put $20 million into this space?

Mr Power: $10 million of government funding and $10 million to match that.

Senator STEPHENS: There are two funds—$20 million of federal government funding and a matching $20 million from the sector and private investors?

Mr Power: Yes.

Senator STEPHENS: We heard some evidence in Melbourne that the sector's view was that that was a significant investment and one group are expressing a little bit of concern about the take-up of that amount of money. Given that you have had 70 inquiries, how many of those do you think could translate into viable investment loans?

Mr Power: Of the 70 so far, my gut feeling is a dozen. That is without having detailed business plans for all of the dozen. If one goes to similar initiatives in Europe, you will see there are cases where the take-up has been very good and cases where it has not been very good. It will take time in the Australian marketplace because boards are cautious about taking on debt. They are worried about their houses. In some cases, there is a lack of capacity within management teams to take on extra responsibilities of debt. Education and capacity building is needed as part of what we are doing. If we just came in as a loan fund and said, 'Hey, we're here; will you take it up?' in all probability we would have a low take up rate. Our approach is slightly different it is an approach such that we work with social businesses, social enterprises, in order to get them to move towards what we consider to be first base—first base being where they could take on a loan as part of a plan for long-term viability.

Senator STEPHENS: So where is the funding going to come from for that part—the funding additional to the loans; the seeding fund?

Mr Power: We have put aside part of our budget for an education program. More importantly, we will work and partner with the sector and with organisations such as social traders and a number of others.

Senator STEPHENS: In your submission, I noticed that you said that you are working with the Institute of Strategic Management to develop a certificate IV for social entrepreneurs. Can you tell us a bit about that?

Mr Power: What we see is that there are a number of managers out there who are not business professionals. Working together with other organisations, such as the institute, we are looking to create certificate IV courses with the national institute and others in which there are units that look on the management challenges of taking on debt.

Senator STEPHENS: Okay. We had the School for Social Entrepreneurs here earlier this morning talking about the differences with their nine-month program. Participants are not eligible for any kind of Commonwealth support. But NEIS, the New Enterprise Incentive Scheme, provides the training program for a certificate IV in small business and an allowance for 12 months to sustain the small business and get it up and going. You are talking about existing enterprises scaling up, so it is different from social entrepreneurs starting out. It is scaling up the enterprise. In terms of developing that certificate IV, what else might be in it that that would not necessarily be in some of the other professional development programs that are being run in the not-for-profit space around financial management, governance or board training—those kinds of things.

Mr Power: As part of getting over the line, part of our research involves looking at what is there already. Then we make sure that we work with those organisations—not just with the organisation that we put in our application—and add to what is there. Our focus on the certificate IV is because we think that there should be something on not only debt but also social forms of equity. It is funding beyond grant funding that we want to bring in as part of the educational process. We are at a very early stage in terms of getting that educational piece right. In our business plan, we have that in place in March of next year.

Senator STEPHENS: Okay. What was raised with us last week in Melbourne and will probably be raised again this afternoon is the extent to which native title or mining agreements tie up the investment funds in Indigenous communities. Indigenous organisations are not able to leverage off royalties or those kinds of things to create their own capital investment. I would be interested in your perspective and what the experience is in Cape York. We had a comment from Senator Williams about the wild rivers and the impost of a government coming in and putting a blanket preservation order over everything. How does that interact with native title and the compensatory arrangements that have been put in place? How can the community access the money and do something with it?

Mr Cameron: One of the issues that we have is that with both wild rivers and mining royalties other people within the organisation are currently talking to government. Although I could make a general comment I would rather leave it to them. In relation to native title itself there is no doubt that the absence of access to a secure transferable title is a huge problem for any business that is trying to get started. If you cannot own your land and you cannot say to the person who comes along that you can then sell it on to them then there are serious issues. We are still consulting with the four communities that we work with to work out schemes in which 40-year leases or 99-year leases might be used with the council and other arrangements. There is one person in our organisation who has been working on this exclusively for three years. This is a massive problem. In relation to royalties and wild rivers I know that others are discussing that.

Senator STEPHENS: In terms of the federal government's intervention into Indigenous communities we have had a conversation this morning about remote Indigenous communities and what can be done to help to create some kind of a sustainable community per se. Does the government taking over the title as in Alice Springs or in some of the remote communities have a specific impact on a relationship with a mining company coming in and how the arrangements might play out then?

Ms Goss: From my understanding it does impact on it. There have been people that have been able to manage and engage with the government to work through some of those things but it is a big challenge. It does limit the viability of social businesses and social enterprises across the Cape. It also has huge transaction costs associated with it so the investment to actually get things up and running is so substantial that people just are not able to do it. Some of the ideas and the viable businesses that are being tossed around on the Cape are not huge organisational things, they are never going to build huge revenues and they do not justify the transaction costs.

Senator STEPHENS: Could you give us a hypothetical example to make that statement real for us?

Ms Goss: On the side that is working there is a group in the Northern Territory that I cited in the paper and there is another group in Western Australia which is a really interesting example that was able to work with the mining companies to lobby government to access the rights to the land to be able to mine the land. There were some really tricky hurdles that they had to overcome. There is now a processing plant to deal with the timber that has come off the land because that raised questions of who owned the timber and how it was going to be used. Eventually the community invested in a production to take the timber that had been logged, process it and turn it into furniture I understand. The revenue from that has been reinvested into the community. There are examples. I think they are limited. Once those broader issues have been dealt with, I think you will see a lot more businesses and profit-generating activities coming to the fore.

Mr Cameron: Leaving the issue of land aside for a moment we are also looking at how royalty streams can be used in relation to education, training, employment and mobility packages generally. One of the initiatives that we are working on at the moment has been called, for want of a better term, the opportunity pathway. It creates a concept of mining royalties being used for individual development accounts. The money from royalties would then be used and there would be an arrangement between the employer, the royalty stream and the job find representative on the ground to use that stream for training, education or whatever mobility is required to work out a way to get people out of communities and into jobs wherever they may be.

Senator STEPHENS: I will follow up that other issue that you did not feel able to talk about. That is fine; I can do that in another place. We had Triodos Bank providing some evidence to us in Melbourne. Can you tell us a little bit more about Triodos? Given that one of your existing partners already has a financial services licence in Australia, what drew Triodos into your structure?

Mr Power: A little bit of history: I used to work with Triodos. Triodos are part of an international banking community that is called the Global Alliance for Banking on Values. Part of that community of socially minded banks is that there would be growth within their group. There was and still are no members in Australia within that. Triodos have taken it on to research whether there are possibilities for some sort of investment into Australia. It was through that initiative of theirs that we were able to pick up on that.

Senator STEPHENS: Okay, that explains it. It was quite interesting that Triodos would come into play when an Australian based bank had not, other than community sector banking. Are you able to give us a bit of information about the financial products that SEFA will offer social enterprises?

Mr Power: Loans will be available for start-up and ongoing social businesses. With start-up business we have put $1 million of the $20 million aside. We call that our incubator fund. With that we will take slightly more risk than we will with the rest of the portfolio. In saying that, we want to be very thorough and bank-like and have an empathetic but objective understanding with all our applicants and clients on the loans that we do take on. In terms of the background, we want to be fairly flexible. There is a lot of debate as to what is a social enterprise. We want to be flexible enough to support not-for-profits with trading activities and for-profits who are very focused on social objectives or bringing back into the community the surplus profits. For example, we have had one application—we have not really had a look at it because it is only an inquiry as of today—for a meat-processing plant owned by the Indigenous communities up near Katherine. Those sorts of things would fit. They are a for-profit activity bringing it back to their community.

Senator STEPHENS: Thank you. That has been very interesting.

CHAIR: I might ask a couple of quick questions. Mr Cameron, you noted in your opening statements that with the social impact bonds you are quite attracted to the concept of the tie between the reward and the performance. I take if from your comments that attracting the capital is not the problem. There is money that is being devoted towards what you are working for. The actual use of social impact bonds to raise money for you is not necessarily something that is high on your list of priorities. There are lessons in there, as I understand it, on how you might approach measuring and developing a degree of surety about your ongoing funding through that tie between reward and performance. Is that right?

Mr Cameron: Exactly. Essentially the point I was trying to make there about the focus on the return not flowing through to the investor until the outcome is realised is that that is a direct link which perhaps does not exist as clearly in the government funding agreements where we operate. There might be more of an emphasis on outputs and other measures. That was why I mentioned both the health and employment examples. You have a risk that you are focussing on outputs rather than outcomes. I am not saying that we need social impact bonds in this space. It is simply that it is a useful guiding principle that should be applied.

CHAIR: So the principles that underlie that would work well in your space.

Mr Cameron: Yes.

Ms Goss: Our sister organisation actually has done some investigations into using social impact bonds to fund some of their business development activities. We were advised not to use them at this stage as they really were not appropriate yet because we do not have the scale nor the direct measurable outcomes that would make those sorts of structures appropriate within the sector that we are looking at.

CHAIR: I think it is certainly a medium- to longer-term option even though there are some initial offerings in Australia that have been looked at within New South Wales. Have you thought about the idea of franking credits that was discussed this morning? I do not know whether you heard that or not but as a more immediate way of providing an attractive return to investors is to provide a franking credit which would provide them with an effective rebate against their tax.

Mr Power: That certainly is a possibility, and I think those franking credits are a very interesting concept. If you are an investor and you are investing in what is really a social return then it is an added incentive to get a financial return. If there were a similar way for not-for-profits to get the advantage of the franking credit subsidy then the same could be done with the kind of social investment into social enterprises. For example, in the UK—not with the franking credits—if you make a social investment at a below-market rate return, you can claim that on your tax return. Something similar to that would be very interesting here. People love to be able to claim something back on their tax return in Australia, and that would be an added incentive. I have heard that from several high-net worth companies that we have approached for funding for match funding and they have said, 'Can we get a benefit on our tax return?' I think it is something that is very much worth considering.

CHAIR: That in itself is a challenge, I think, in terms of getting people to invest for social reasons. We have heard from a number of witnesses that investors like to invest commercially and then make a donation—keep them separate. I think it is partly because they like to see that deductibility or the direct benefit they get from the donation; whereas if it gets in with their commercial decisions, it gets clouded. Something that needs to be overcome in order to develop a capital market is that you need to combine the two somehow.

Mr Power: Good point.

CHAIR: I think we are going to have to call it to an end at this point, but thank you very much for your assistance this afternoon. It has been gratefully appreciated and very useful. I know that you have come a long way to assist us, so we appreciate that as well. Thank you.

Proceedings suspended from 12:43 to 13:20

BOTSMAN, Mr Peter Carl, Voluntary Secretary, Indigenous Stock Exchange

CALMA, Dr Thomas Edwin, Director, Australian Indigenous Leadership Centre; Patron, Poche Centres for Indigenous Health Network

HUNTER, Mr Nolan, Chief Executive Officer, Kimberley Land Council

CHAIR: Good afternoon, and welcome to Mr Botsman and Dr Calma. Thank you for coming along this afternoon to assist us with the inquiry. I will invite you to make a short opening statement if you so choose. Maybe, Dr Calma, you could start.

Dr Calma: Thank you for the opportunity to speak. I was invited to come and present on behalf, I believe, of the Australian Indigenous Leadership Centre; but I will also be presenting a view from the Poche Centre for Indigenous Health, which is a philanthropic interest. When I looked at the terms of reference, there are probably a couple of them that I can speak with some authority on, particularly terms of reference '(c) strengthening diversity in social business models'—although, as a very loose arrangement there; and '(h) making better use of the corpus of philanthropic foundations …' Those are the terms of reference that I feel that I can contribute a little too. But that is it from me.

CHAIR: Thank you, Dr Calma. Mr Botsman?

Mr Botsman: Thank you very much for the opportunity to appear. The ISX, which I represent as the voluntary national secretary, lives on oxygen: we have no budget, no salaries, no administrative overheads, no meetings. Our asset is our website. But, over the course of a year, I estimate that we create several million dollars in cash, social, cultural and human value for Indigenous individuals and businesses. I do not want to be too boastful, but I think we have the best return on investment of any public or private company in the country. Our achievements include the Ngarda Civil and Minings Yarrie Academy for Aboriginal mining employees, Goolarri Media's million-dollar-plus Knowledge Centre, a growing fleet of private vehicles for Aboriginal individuals in remote and regional communities, to name but a few. And in two weeks' time we are taking a delegation of Aboriginal leaders to see what we reckon to be the world's best school for minority students wanting to gain high-wage, high-value-adding manufacturing jobs

A lot of people are paid a lot of money to theorise about social return on investment and social entrepreneurship—we just do it. Of course, there are strains. I am now coming up to my eighth year working full time, pro bono, for the ISX, and I will probably have to work for an organisation other than the ISX for a few months this year to pay my overheads for the first time this year—thanks to the global financial crisis, the state of super funds and other things! However, over the course of a year many dozens of people work for us pro bono. But it is hard: year after year we see millions of dollars pass us by, particularly from the Commonwealth government. We have one recommendation, and only one to your committee, and that is for government to create strings-free venture capital investments in the businesses and individuals that are listed on our trading floor.

For example, let me mention one of the major businesses we are supporting at present. Rripangu Yidaki brings international visitors to Arnhem Land every year. Such visitors come to learn from the man of high degree, Djalu Gurruwiwi. I asked a vice-chancellor which professor did he have that could attract 20 students per annum paying a $7,000 to $10,000 airfare, and $10,000 for a week's high-level instruction, and he said he could not name one professor.

Each year Djalu attracts this investment, and he has been feted around the world. I believe he could do much more with the right support. I am visiting Yale University next month to seek an invitation for Djalu to perform there. Yet, Rripangu Yidaki cannot access one dollar of royalty payments from Rio Tinto Alcan in Gove. He cannot access any of the royalty payments presided over by Minister Macklin. He has received not a cent of innovation funding and has received only funding to write a business plan, which went nowhere. This is a classic situation. The major funding we secured for Rripangu Yidaki to buy their own vehicle came from working with the private sector firm Gilbert and Tobin. Djalu performed a sacred ceremony to make the Citibank building here in Park Street safe and secure, especially for Aboriginal people who do not like to work on floors higher than, say, 20 to 50 feet above the ground. They now go up to the 26th and 36th floors without any problems.

We specialise in finding ways to help people and organisations like Djalu that government seem never to support and which the private sector need help to recognise. One day we would like to create and sell Indigenous investment bonds, but we are just too busy working on the immediate investments that are needed right now. We also believe that we do not necessarily need a specialised bond to make things work. The major project for at least 10 years in Indigenous Australia, we believe, is to simply materialise and help mainstream society and all its institutions, including the Commonwealth government, recognise that there are wonderful Indigenous entrepreneurs in every single community all around Australia.

Senator STEPHENS: Thank you. Dr Calma, can you tell us a little bit about the Cooperative Research Centre for Remote Economic Participation, how that is operating, its perceived outcomes and where it is on the commercialisation spectrum in terms of CRC's objectives?

Dr Calma: I must say that I was not prepared for that one. I was told I was coming as a representative of the Australian Indigenous Leadership Centre, but that is okay. The CRC was a body that was resurrected when government did not fund the Desert Knowledge CRC. It is an organisation that represents rural and remote Australians. That is basically everybody other than those living in capital cities around the nation. It has an operating company called Ninti-One, which holds the funding and enters into commercial contracts with other organisations.

From recollection we have, roughly, 50 partners and they include universities, corporate entities and government departments. They contribute both cash and in kind to the organisation. We basically do a fair amount of research and applied research in looking at the development of economic enterprise in rural and remote Australia.

Our biggest project at the moment is camel management and that has significant funding from the federal government to control feral camels. That was progressing very well except that the floods have dispersed the stock, so it now becomes economically not viable. We have a period to allow them to re-herd, which will make it more economically viable, and government has agreed to that. There is a fair amount of modelling looking at tourism ventures and at pastoral activities. It is repositioning. It is only just over 12 months old and our membership and staff are realigning themselves to the new way we are doing business outside of just the desert area. From the level of interest that has been expressed, there are plenty of opportunities out there to start to look at projects. Again, looking at it from the academic and research perspective, it is about being able to get the grants to be able to undertake that research or to be able to generate money through whatever enterprise activity we can undertake. The key issue that we face and that we are very strong on is the very strong presence of Aboriginal and Torres Strait Islander people, but particularly Aboriginal people, on our board. We also are strong on having full engagement with Aboriginal people wherever we work. We have developed a set of ethics for good practice. That was developed with the community and principally by the community. They guide the work that we do and our members subscribe to that set of ethics.

Senator STEPHENS: It is quite interesting how this has emerged out of Desert Knowledge Australia not being funded again. I am quite interested in how your approach might be different and how you reflect the concerns that Mr Botsman just raised about the inherent innovation and opportunity that exists in Indigenous communities that we do not see and whether or not we can do something more about that.

Dr Calma: I would have to agree with Mr Botsman. There are plenty of opportunities out there. One of the major problems that we experience in Aboriginal and Torres Strait Islander affairs is the continual change of policies and programs. People on the ground have a lot of difficulty understanding and keeping up with the way that government and bureaucrats are changing, finessing or redirecting programs. That causes a significant problem. Those sorts of issues were highlighted very clearly in the most recent department of finance review of Indigenous expenditure, Dr Neil Johnson's review. That redirected people's thinking toward pulling together a closing-the-gap approach, which is really a people centred approach where we work with the community to come up with the ideas and the solutions. Government is starting to take a bit of notice of that report—the bureaucrats are, at least. We have yet to see it fully put in place. That has probably been the biggest limitation for Aboriginal and Torres Strait Islander people.

If you look at CDEP as an example, over the years there have been some very significant social enterprises created under the banner of CDEP. But changes have been made. As Aboriginal and Torres Strait Islander Social Justice Commissioner I monitored that very regularly. Reports went to parliament each year that highlighted the level of change that was taking place and the problems that that caused for Aboriginal and Torres Strait Islander people. I would urge politicians to look at those reports. Mick Gooda is now the Aboriginal and Torres Strait Islander Social Justice Commissioner. Under legislation, the social justice commissioner is required to report to the parliament each year about how Aboriginal and Torres Strait Islander people enjoy human rights and how government policies and programs impact on our enjoyment of human rights. They are very instructive reports but they are often missed.

In saying that, we can look at the advances that we have made through the closing the gap campaign and the government's response, which is now a bipartisan approach that every mainland state and territory government has signed up to. Closing the Indigenous health gap is the only agreement with bipartisan support at both the federal level and the state and territory level. Tasmania is the only state that has not signed up to the statement of intent.

Mr Botsman: I want to raise a point that directly addresses what you asked. This is a completely apolitical issue. It is called the government filing cabinet. One of the easiest things for an Indigenous business to get is funding to do—and I heard this talked about in an early session—a business plan. What happens to that business plan if it is not successful? It goes into a government filing cabinet and no-one can ever see it. And you know what? The person who has written that business report often has to go through an extremely difficult cross-cultural experience to put their dreams into something for government bureaucrat. They do the work; they do the business plan; it goes into a filing cabinet and no-one ever sees as again. That person goes away completely demoralised and depressed.

On the ISX website, we put every single business plan that anybody wants to do up there for everyone to see and it is immediately given feedback. It either fails or it succeeds, but it stays there. So someone can change it; someone can see it; someone can say, 'This is something we did.' It is just a completely different approach. If government could see the incredible negative effect of that government filing cabinet and the privacy laws and the way that works we would revive the spirits of hundreds of Indigenous entrepreneurs all over the country.

CHAIR: Mr Hunter, please feel free to respond as appropriate to questions as they are asked.

Mr Hunter: Yes, thank you. I am on the phone here away from my own office.

Senator STEPHENS: My question to the two witnesses here goes to the point that Mr Botsman made about not being able to access royalty moneys which are rightly being paid to Indigenous people. I am interested in comments about what can be done to improve that situation to provide access for capital investment by the communities for their community infrastructure.

Dr Calma: We have to look at every state and the different arrangements that exist across the states and territories in relation to royalties. In the Northern Territory they are under the Aboriginal Land Rights Act. That is a federal act. There is provision that a percentage of mining royalties goes to the traditional owners directly. A percentage goes into the Aboriginal Benefit Account and the majority goes to all land councils to be divided up for their operational funding. I am not sure exactly which component of the royalties Peter is referring to—

Mr Botsman: Both.

Dr Calma: Both components, yes. If an operation is happening on your land you will get royalties directly, but if you are not you could access them through the Aboriginal Benefit Account. In fact, the Aboriginal Benefit account is run by an Aboriginal board but the secretariat is provided by the federal government. There has been a provision for a number of years now—it existed prior to the current government—where the minister has the authority to direct where funding goes. We have seen that exercised on quite a number of occasions. Whilst it is reported to be sanctioned by the committee, it still goes into other activities. My concern, and I have raised this through the Social Justice Report, has been that when we look at enterprises by non-Indigenous people—mining activities or whatever others are generating royalties—the government does not determine or direct them on how to utilise their royalties. When it comes to Aboriginal people, the government, both past and current, are suggesting that moneys get directed towards a whole range of activities from houses to schools, hospitals et cetera.

Aboriginal people are one of the few population groups in Australia who will on quite a number of occasions produce art and craft and sell that to be able to buy things like dialysis machines. We do not expect that to happen in other population groups. I have a concern about the way that we have a different method of treating Aboriginal royalties than we do for the royalties paid to anybody, whether it is a coal seam gas operation where, as I understand it, people are able to derive an income from having an operation on their property but they are not directed on how they should spend that money or told that any of that money that they earn through royalties or sale of the product has to go towards any community event. We need to be conscious of that. I will leave it at that.

Mr Hunter: Just picking up on your point, Tom: the other thing to bear in mind is that when you actually look at that percentage of income or revenue derived from Aboriginal agreements, there aren't too many major agreements. The size of those agreements are actually quite small. We have been fortunate here with the project that we have had with the James Price Point gas project. It is probably one of the largest agreements that has been struck between the traditional owners but, generally speaking, I think if there is an expectation from government that Aboriginal people will provide support for other portfolio responsibilities that needs to be kept in the backs of people's minds about what it is reflective of in terms of the actual percentage of income generated or derived through Aboriginal agreements rising out of mining agreements.

I am not sure of the process here in terms of whether I should probably say some things or is there somebody else that is waiting to talk.

Senator STEPHENS: Mr Botsman was just going to add some comments as well. If you can let him do that and then we can keep going.

Mr Hunter: I apologise; I have come in a bit late.

Mr Botsman: I just want to commend Nolan's work with the KLC. The package that has been negotiated for James Price Point is certainly best practice in terms of a royalty agreement—

Mr Hunter: Thank you.

Mr Botsman: ahead of everything. If you think of the Pilbara, Aboriginal people went forwards, not backwards, from royalties from the 1970s onwards. I think what Mr Hunter has done is certainly a great step in the right direction, but I want to comment on the Northern Territory briefly because it pertains to my example of Djalu Gurruwiwi.

The problem we have got there is twofold with both the Aboriginals Benefit Account and the way in which the payments go out into the community. There are two issues: one is that the royalty payments that go as a result of people's lands are dictated by the traditional structures and authorities of the land, and it has to be that way whatever that may be. That is a very different sort of reward and rights system to something that is about rewarding success and entrepreneurs. Aboriginal leaders are understanding putting these two worlds together and they are doing great things. Galarrwuy Yunupingu's timber business, for example, at Ski Beach and on his cattle property up there is brilliant. It is a step in the right direction but it does not immediately affect all the other clan groups who have similar entrepreneurial ideas and who have no right to any of the royalties that come from Rio Tinto Alcan so that is a problem.

Talking about the government administration of the Aboriginals BenefitsAccount, we have a similar situation. It is not about rewarding entrepreneurs and it is not about rewarding success; it is about a different kind of bureaucratic process and we have to find a way—and this is what the ISX has been trying to do for many years now—to reward success. Our principle is that, when someone lists on the ISX, we believe that at that stage a very small sum—say, $5,000—should be given to the person, the entity or the organisation to develop the idea, develop the business plan. If the business plan is promising, and you come back and show that you are passionate and that you can demonstrate it will work, then maybe another $10,000 to $15,000 could be given to that entity or individual to develop it a little bit further. In other words, there are a series of constructive steppingstones that reward success. This just does not happen in the way things are funded. Those are the key points. I think the Aboriginal Benefits Account, which only applies to the Northern Territory and which many other states wish they had, could be vastly improved—it is under Commonwealth jurisdiction—by setting up that secretariat to reward success, even if it was a small proportion, to reward entrepreneurs who are trying to do something in their communities.

Dr Calma: Another way to look at it is to look at what happened in New South Wales with the New South Wales Aboriginal Land Council where a percentage of land taxes was annexed and given to the land council to develop a corpus of funding. It was about $700 million over, I think, 15 years, and they did not use that for their operational costs. If we consider that every bit of resource comes off 'once Aboriginal' land, it is a very small recompense. A corpus of funding addresses some of the needs of Peter and others. In fact, in the development of the National Congress of Australia's First Peoples, the proposal refers to a $100 million investment by the Commonwealth over 10 years, which would be matched by corporate and philanthropic funding to make that body totally self-sufficient in coming years. Whilst $100 million might sound a lot, $10 million a year over 10 years is not much. It is almost insignificant when we are talking of billions of dollars worth of natural resources being sold each year and royalties coming into the states.

Senator STEPHENS: Mr Hunter, we have just heard you have negotiated a best practice royalty agreement. Do you want to tell us a bit about it?

Mr Hunter: I note there have been some big agreements around, but this one is to the value of $1.5 billion. Just on royalties, we do not have a structure like the Northern Territory with the ABTA, previously the benefits trust fund. But there are other things that we have done in this process. Tom mentioned previously that the land council have done something there. We have also recently set up a new foundation here, an economic arm that can generate income that goes to a charitable foundation. I will talk a bit more about that. It is called KRED, the Kimberley Regional Economic Development Enterprises. It operates as a business, but it then channels money into a charitable foundation for Kimberley Aboriginal people.

Getting back to the James Price Point gas project, all the traditional owner groups throughout the whole Kimberley on that coastline started a process. There was a leadership team for the Kimberley along that coastline. Fourteen, maybe more, groups were represented. They started a process. It was not just initially starting off a negotiation with the group. They finally ended up with a location decision. That meant there was wide-scale support and a whole push, because the other people within the Kimberleys also supported the process. As a result of that, they would look at one hub site and try to ensure that there was not a multitude of developments all along the coast. That was part of the negotiation agreement with the state government and industry. But in any case what happened through that process was that there was an agreement that a regional benefits fund would be set up out of the total package for Kimberley Aboriginal people. This is separate to a royalty type payment. This is something that the traditional owners have undertaken to do themselves in relation to setting up opportunities to support the rest of the Kimberley mob. With any development like the gas project there is a ripple effect in terms of impact. There was consideration put into it. When you look at the fact that fly-in, fly-outs will come into the closest town, which is Broome, people start to go throughout the whole Kimberley and there is a demand on services, such as hospitals, schools, food, transportation and so on, suddenly there is a large impact. We measured that in terms of the project not just focusing on the immediate area but understanding that there was this whole ripple effect and this impact. That levered up the argument for setting up something to support the rest of the Kimberley traditional owners. In the end the traditional owners for the last site that was determined had undertaken to support the rest of the Kimberley mob because they started the process with their support.

That was a good story I think in terms of how things can work separate to setting up a benefits trust fund from royalties. We do not actually have that here in the west, but those are two examples. When you look at Western Australia KRED I think accounts for one of the highest future acts in Australia—us, the Pilbara and a bit lower down—in terms of the number of mining exploration tenements, actual mining agreements or activities that happen after that. The potential is greater here. But what does that raise in terms of why there is this foundation or basis to have an argument or discussion around support? The gas project in the Kimberley is only about 60 kilometres out of Broome. We are concerned that we could not see any commitment from either the state or the Commonwealth about how we would manage the impacts of this project, given the ripple effect and given the fact that a project of that size that close to town will have some serious impacts. We talked about social impacts, environmental impacts and economic impacts—there are a whole range of things that we have talked about.

We started a process. I went across to Canberra and started some discussion with as many ministers and senior bureaucrats as I could. I talked about the fact that the Commonwealth is going to get some $65 billion out of this project over the 30 years or whatever it is. We Aboriginal people represent about 50 per cent of the population in the Kimberleys. We are concerned that there is no commitment in terms of the impact. The royalties from this project that go to the Commonwealth are to be in order of $65 billion and there ought to be some kind of attempt made at supporting people in the Kimberley.

We talked to the Treasurer, Wayne Swan. There had been some previous discussion with Ken Henry and others about setting up a trust fund where a percentage of the royalties from the Commonwealth would go to the Kimberley given that we were going to be wearing all of the impacts. It is very hard to push that and very hard to get any level of response, not that we expected there would be an immediate response. There were also the issues about the rules around revenue, particularly from the national use of revenue and all that. That is a big hill to climb for us. We think we have some valid reasons to continue to insist on having some level of support. To date we do not have that. We have not seen that articulated by either the state or the Commonwealth. That is our immediate concern, but that is all right; that is an ongoing process.

I will talk more about the KRED enterprise development stuff. This is where the opportunity exists in terms of looking at what commercial type activities we can do joint ventures on on behalf of the traditional owners that we represent. We represent about 95 per cent of all Kimberley Aboriginal people. This KRED foundation took many years to get to the point where we finally established it. Wayne Bergmann, who was the previous CEO of the KLC, moved into being the CEO of KRED. There is some consistency in terms of the vision that we have had from the Kimberley mob. This initiative started as a result of KLC's vision and it took many years, many discussion and putting the modelling up. The idea is that it is not just making money or doing business for business's sake; there is a purpose. That leads back to trust.

We do not mind looking at proposals to match dollar for dollar. We are still in the teething stages but the idea is that we want to look at this whole issue of economic development in the Kimberley. We know we cannot just rely on mining as an avenue for striking up good agreements. Many people do not have the opportunity to have a major agreement in their backyard and we recognise that we are still short of the mark in terms of the position of disadvantage of Kimberley Aboriginal people. That is not to say that we do not acknowledge that there is a whole area of disadvantage for Aboriginal people everywhere. We just want to do something about it. We want to try to see what opportunities exist. That is what we are looking at at the moment.

Also, at the moment we are trying to work on another position for modelling and support. We have had input into things like carbon farming, for example, and other business opportunities. We have got a range of modelling. We are trying to structure it so we are addressing opportunities for employment and training and fitting that together with the whole economic development proposal. The idea is to get any kind of advantage we can from setting up trusts or structures that deliver some of these things.

There is still an issue about our social disadvantage. The KLC commissioned a research report through the Australian National University a couple of years ago. It looked at empirical data going back the last 20 years or so. It gave a score between one and four, four being the worst case scenario, and surveyed a number of remote communities and a handful of towns. The towns rated a three. All of the communities rated a four. The real finding of that report was that in fact in the last 20 years things have gone backwards and we are in dire straits in terms of our socioeconomic circumstances. Despite the millions of dollars that go towards projects costs, there is still a lot to be done.

CHAIR: Thank you for that. Senator Williams.

Senator WILLIAMS: Thank you, gentlemen. Mr Botsman, in your opening statement you said the company you work for, ISX, has the best return of all. Were you referring to social or financial or a mixture of both?

Mr Botsman: All. It gives me a good opportunity to make a point that I really want to make to you: please do not fund people to find the entrepreneurs, teach the entrepreneurs and write the business plans for the entrepreneurs. In other words: do not create a bureaucracy; fund people directly. The ISX was founded in 2004 by a group of Aboriginal leaders from all over the country. Their absolute imperative was: we just want 100 per cent of every single government dollar to go to an Aboriginal person for them to muck up or make something of. Please do not fund a bureaucracy to oversee it. So that is what we have done. We have been totally committed, for the last eight years to make sure that 100 per cent of every single dollar that comes our way goes directly to an Aboriginal person or an Aboriginal business. That is why I say we have such great return on investment.

I just think that the mistake is made over and over again, with the best of intentions. What we have proved is that you can set up a really lean infrastructure—no buildings, no offices, no staff, no meetings and no bureaucracy—and create a situation where you can directly invest into a person who needs something.

The other point I want to make is that 'not for profit' is the name of this inquiry. Aboriginal organisations are often aggressively commercial but not for profit in our sense. What happens is that they will make a profit but it will be distributed around a clan system or a family network, and it will work in the way in which a philanthropic trust might work in our world. So your inquiry is not only central for what we would call charitable or philanthropic organisations but absolutely central to what Nolan was talking about there—the rigorously competitive commercial ventures that Aboriginal people run in the future. We have to set up a situation where we are investing in the entrepreneurs—where we are investing in success. Every Aboriginal person I talk to, from the ISX onwards, says, 'If we don't get work take our money and give it to somebody else. Be aggressive about it.' Let's set up a system where we can do that. Everyone wins from that.

Senator WILLIAMS: I agree with you, but also remember that when governments hand out taxpayer money they have to have some form of accountability. I suppose that, in itself, brings up some sort of bureaucracy.

Mr Botsman: Does it really, Senator? I do not think it does. I think people clearly fail or clearly succeed.

Senator WILLIAMS: The point I make is that if the government hands out $200 million they do not just write out a blank cheque, hand it over and say, 'Do what you like.'

Mr Botsman: But that process that I was talking about before, starting up with small finds, has worked for start-ups in Denmark and the United States. In other words, you quarantine the money where it is increasingly risky. As it becomes less risky and success follows you can invest a greater sum of money with absolute responsibility in terms of taxpayer dollars.

Senator WILLIAMS: If we get this project going in Wilcannia perhaps I would like to talk to you about that because I am sure you can help us with it, and with some expertise and advise.

Mr Botsman: Absolutely.

CHAIR: Thank you very much Mr Hunter, Dr Calma and Mr Botsman for assisting us this afternoon. That has been very useful.

COLEMAN, Mr Leigh, Chief Executive Officer, Many Rivers Microfinance

GREIG, Mr Alan Howard, President, Australian Employee Ownership Association Inc.

KIRILLOVA, Ms Elena, Chairman, Australian Employee Buyout Centre

MORRISON, Ms Melina, Director, Social Business Australia, and Committee Member, National UN International Year of Cooperatives Steering Committee

NEWLAN, Mr Daniel, Committee Member, National UN International Year of Cooperatives Steering Committee

[14:04]

CHAIR: Good afternoon and welcome. Thank you for coming along to assist us this afternoon. We have about 40 minutes and there are five of you. I invite you all to make an opening statement. If you could keep it fairly concise so that we have time for questions as well that would be much appreciated.

Mr Coleman: A small area in this whole finance for non-for-profits is microfinance so Many Rivers Microfinance grew out of Opportunity International, which is a large global organisation. We started up in Australia using a lot of their learnings and principles and ran a number of pilots. More recently, we set up a new organisation that does nothing but microfinance, mainly targeting Indigenous communities and people. We have been going for 3½ years. We have a national goal to be working in over 20 locations with 50 field officers. It is very much a not-for-profit, private sector approach. We did not try to partner with government to get this up and running. We used some philanthropic money to start off with and we have been able to attract quite a significant number of corporate relationships, particularly in the mining and resources sector. We target the most marginalised people in communities and we mainly work in regional and remote areas.

We formed a relationship with Mission Australia and Westpac, so we actually do not have any infrastructure needs for finance and capital because Mission Australia gives us all their back office and we use all their infrastructure and Westpac gives us pretty well full access to their balance sheet and their MIS business loan platform. So we do not own anything. Our goal is to have 50 field officers, mainly targeting Aboriginal people across Australia, and then to slowly work out into other sectors from there, like recently arrived immigrants. There are a number of other sectors—long-term unemployed and various others. But we are focusing on Aboriginal communities for about the first five years and we are 3½ years into that.

We currently have a repayment rate of about 90.2 per cent. Globally in microfinance, Opportunity International has a 98.2 per cent repayment rate. They put out about $1 billion a year, in round figures, and have something in the vicinity of 10,000 staff. Obviously we cannot be commercially viable targeting Aboriginal people, so we need some assistance and we are certainly open to looking at how that could come from government and the private sector. We are very good at pulling in private sector support. We are working with FaHCSIA on a pilot at the moment. We are one of five organisations and we are hoping something is going to come out of that to help us, but we certainly bring a lot of leverage with us. I guess the thing that is different about us is that, as the civil sector or the not-for-profit sector, we do not need to build a whole lot of infrastructure to create services out there. We are very much about wealth creation, about building the private sector, about building the market up where there is a high degree of welfare dependency. That is our sweet spot and that is mainly what we do.

Transaction costs are our biggest need. How do we pay for our field officers? The business model we put to the private sector is that there are benefits that accrue if we build the private sector and build the grassroots economy in areas where there is a lot of welfare, and that those benefits will accrue to government, the private sector and industry. That is the way we get investment for what we are doing. It is a long-term approach, so we look at the next 10, 20 or 30 years and what the benefits are going to be and then sell the costs in advance. The private sector buy it, but we have a lot of trouble talking to government about it because we are talking about a one, two or three generation approach. My five minutes is probably up, so I am very happy to answer questions later on.

Ms Kirillova: Thank you for the opportunity to be here today. I represent the Australian Employee Buyout Centre. It is a not-for-profit organisation that was set up very recently—just a year ago—by the Australian Employee Ownership Association with funding from the Jobs That We Own program that the Rudd government initiated. The program is now complete, as you will know. What we have been doing is assisting small and medium sized enterprises, principally in Western Sydney, particularly in the manufacturing sector. The idea is that they can improve their productivity and survive longer through the introduction of wide employee share ownership. We have been able to provide funding for such SMEs to introduce employee share ownership schemes as a financial solution or for business succession reasons. We have conducted tenders for the advisers who have facilitated the transactions.

In a recent case study, which has just been completed by us for a company called C-Mac Industries, an ageing owner with a marginal financial business and no serious prospects of selling on any trade basis or transferring the business to her children, introduced an employee share ownership plan which was offered to all the employees. Twenty-nine out of 31 decided to participate, and we paid for all the advisers that were necessary for this which of course included financial due diligence by independent accountants; a valuation of the business; and marketing advice to improve their prospects and customer base. There has been an immediate shift in the employee attitudes towards the business and the productivity has increased apparently—I was speaking to the adviser yesterday—18 per cent in three months. It has brought them the job security, which they for some years have been worrying about. They are participating in what is happening in the business. There is transparency and of course there is ownership and, over time, the idea is that they will wholly own the business based entirely upon the company transferring part of the profits as the productivity increases.

So because—and this is very much the case in our experience throughout greater Sydney and elsewhere—there is normally not an option to go to the bank. The traditional model, which was used in the UK and the US particularly, is where an employee share ownership trust is created and then a bank will lend to that trust often with some sort of guarantee or support from the company. That money is then used to buy the shares from the owners.

We found in our circumstances here that this is just not an option because they have all borrowed as much as they can. The owners generally have mortgaged their houses and the property of the plant already. At least unofficially a number of the big 4 of the retail bankers have said that in the future that if the business does become more viable they will be quite comfortable at looking to lending to the ESOP trust because it is already there, it is functioning, it has got a board of the employees and there is transparency.

The other thing that we have seen—and that has cost a lot of fees to the accounting firms as well—is that a lot of these businesses, because they are relatively small, their financial records are in a desperate state, so it is quite hard for them to engage with the banks. This process has required them to put their financial records in a better shape so that has been another benefit.

There is of course an increasing number of ageing owners in SMEs in this country and for many of these SMEs closures is really the only option once they want to retire. That of course means loss of jobs and, importantly as well, loss of skills. A number of the companies that come to us are concerned about losing their employees. There is a limit to how much they can pay them. Bright young employees see that they are not sure whether there is a future for the business. Manufacturing in Australia is not in a very healthy shape, and this is one way—employee share ownership—they can actually keep them and show them that there is a future and they have job security. Just on this point, a headline in the *Sydney Morning Herald* stated:

The "exit generation" needs help.

There were a couple of lines. I thought: 'Did I write that; that's great.' That is exactly what we want to hear. This issue is expensive. In order to do it properly and ensure that employees do not get duped—because the records are in a desperate state, the owner tells them it is brilliant and, when they buy in, it all just fails—you need independent financial due diligence to be undertaken. They need some sort of valuation. They need the legal structure to be set up properly. They need advice on what a trust is. They need to be given some sort of briefing on a director's duties, because they will become directors of a company. That all costs money.

With respect to C-Mac and others we have been able to pay for that. But there is no more money. So going forward, a number are interested in going ahead, very similar to the C-Mac case, but they are struggling. It is about $50,000 that they could be spending on something else. So there is a lot of delay. We would ask you to consider today whether, if possible, you would feel able to recommend that some sort of funding, even if it is on a matched basis, could be continued to be provided for this sort of thing in the future.

Mr Greig: Thank you for the invitation to present to you. I was going to lead in with these four organisations, because we are all interrelated, only to declare that I am not only president of the Australia Employee Ownership Association but also a director of the Australian Employee Buyout Centre. I am a director of Social Business Australia and I am also on the International Year of Cooperatives Steering Committee. I am also author of submission No. 18, under the name Social Enterprise Technologies, which is my trading name. I am wearing a number of hats here.

I will open with an overview of the role that employee ownership can play in social enterprise and then relate some issues to my submission, which is about community investment. That raises issues across the spectrum here. Firstly, we see that what you are inquiring into, a capital market, is a long-term issue. It is about generating debt and equity finance that is invested in the long term. That is the business perspective of a capital market. We do not see a capital market being about grant making or fundraising. We are on about social businesses which do business for social benefit and they use profits for social purpose. We are not strictly seen as 'not for profits' but neither are we seen as 'for profits'.

The role that employee ownership is playing in the social enterprise development field is actually quite broad. Elena has discussed it a little in relation to job saving. But there is also the community investment perspective, which is about the retail investor. How do you generate finance from everybody in the community? It is an enormous source of funds and, generally, it is undertapped. Most of the submissions to this inquiry that I have been reading talk about institutional arrangements for finance. They do not actually look at how you can generate mechanisms or business models which will encourage communities to invest in themselves.

I want to come back to what is a social enterprise. We have been involved in a number of organisations that have been talking about defining social enterprise. We actually relate very strongly to Social Enterprise London's definition, which has been around for at least a decade. It makes specific provision for what we are talking about, which is community ownership. It also talks about employee ownership being one of the major types of social enterprise.

I would like to table that social enterprise definition, because I think you need to refer to it. Compared to what is happening overseas, I think Australia is a little bit behind in some of these developments.

Employee ownership plays a big role in social enterprise development. There are specific examples we can talk about—for example, the big society developments in the UK where the government is encouraging the devolution of social services to employee mutuals. That is raising a very large amount of interest in other parts of the world. If that program goes ahead, then you are talking about one million public servants being involved in owning and operating social services by 2015. We can do that kind of thing here through the existing mechanisms that we have, through ESOP trusts. Many of those that have started in the UK are already ESOP trusts.

An example is Sunderland Home Care Associates, in the UK, which is a wholly employee owned company via an employee benefits trust, or an ESOP, as we call it in Australia. It was social enterprise of the year in the UK in 2006. Employee ownership was strategic to the way it developed. It now employs 300 low-paid workers and is doing very well. It does generate profits, but it uses those profits to train workers and to increase its aged care standards, basically.

The third example—the best example—is the Mondragon cooperative consortium. You have probably heard of that. It is based in Spain. It started as a job creation project with about 12 people in 1956. It now employs about 80,000 worker-owners in about 100 enterprises; it is one of the largest industrial conglomerates in Europe. It still abides by its original social objectives, which were to create employment for people in the Basque region of Spain. So employee ownership does have a very sound and useful role in social enterprise development.

Of course, owning shares and pursuing social purpose do not seem to go together in public policy discourse in this country. It is assumed that people would sooner donate to a good cause than invest in one. Community investment is the practice of communities investing capital in business ventures serving a social purpose. It is not a new phenomenon; there are many examples in Australia. The more recent ones you will be familiar with—Hepburn Wind, Belconnen health and things like that—are start-ups but doing well; they have used this community investment principle.

Community investment is being overlooked in the social enterprise debate in our view, and I think that needs to be addressed by the inquiry. The element that is missing is the role that the retail investor in social investment can make, especially through member-financed and community-owned social purpose businesses. The thrust of the *Community investment* report which was attached to my submission is that community engagement drives effective investment into not-for-profits and social enterprises. If you are well engaged with the community, you will in fact see a less dependent community developing and investing in enterprises for themselves. They are not seeking short-term donations or other things that will not solve social problems; they are looking to be more independent and more focused on self-help. Engaged communities invest in themselves and are much more likely to engage in self-help initiatives to solve social problems. It is what governments everywhere want more of, and it is one way of ensuring that this occurs.

The key lesson for the Senate inquiry, therefore, is to ensure that a broad view is taken of the social enterprise sector and to ensure that nothing is adopted that will actually crowd out the retail investor. There is a lot of talk about institutional investors; they tend to be very dominant in this space and they tend to look down on cooperatives and community enterprises where retail investors are involved. So there is a need for much more positive promotion of community investment and the mechanisms and business models that are used to ensure that people can invest in their communities—these kinds of models are cooperatives and employee ownerships.

You should be looking to encourage this kind of community investment rather than the simple donation of funds to good causes. The Senate inquiry needs to embrace finance mechanisms along these lines, which is what we are trying to encourage, so I would just like to place that on the table.

CHAIR: Thank you, Mr Greig.

Ms Morrison: Thank you very much to the senators and the committee for giving us the opportunity to speak to our submission and elaborate on some of the points we made. I am here as a director of Social Business Australia, but I am also director of the secretariat that was set up to convene the UN International Year of Cooperatives in 2012 at a national level. Our submission came from the steering committee that represents a broad sector—a broad family of social businesses—in 2012 with the objective of increasing the knowledge and understanding of the social and economic contribution of cooperative and mutual entities.

In terms of social purpose, it is worth noting that the UN declared an International Year of Cooperatives because of their clear and important role in contributing to social and economic development globally. In particular, cooperatives are seen as the business model that can deliver global Millennium Development Goals and, in particular, poverty alleviation, so they are very much connected to social enterprise outcomes.

We do believe that any discussion about finance for organisations formed to meet social purposes must include enterprises that trade with a social purpose but also have a broad stakeholder ownership model, such as cooperatives, credit unions, employee-owned businesses and mutuals. These are the organisations that, as Mr Greig alluded to, are not not-for-profit organisations. They are also not for-profit organisations. They form part of an emerging but definitely not new fourth sector of businesses.

We also would contend that these forms of businesses—which are capitalised by their members, who are also their owners—have a distinct market advantage in delivering social ventures. Community investors are engaged investors and systemically stronger supporters of the enterprise than a third party investor or an arm's length investor might be and therefore can acheive more sustainable market outcomes than perhaps other forms of social venture might do. Also, as self-help models, they are market driven as opposed to being a top down solution to a problem that may or may not deliver a long-term sustainable market for that social enterprise.

In relation to investment and finance, it is our concern that there be adequate capitalisation of these forms of business. They should be social enterprises in whole that are aiming to be long-term, viable, sustainable and generating the majority of their income from trading. Where there is a shortfall in finance, the ability to finance that shortfall or gap between what can be raised from the community retailer investors and what can be accessed from normal finance sources to adequately capitalise that social enterprise—for example, in its start up phase—support could be provided by some forms of government intervention. Patient, low collateral capital can be encouraged into the sector, we believe, by, for example, providing long-term revolving loan funds such as the UK's Cooperatives and Community Finance fund, which is one of the most successful revolving loan funds and lenders to small scale social enterprise in the UK over the past 30 years. That was attached to our original submission.

Also, the UK's initiative to move towards a social investment wholesale bank, such as through the big society bank agenda, is a good idea, we believe. Cooperatives and mutuals would be well placed to access capital from such a fund.

We feel that it is important to say to the committee that shared ownership models are not looking for a large handout of government funding. They are not looking for a large injection or 100 per cent of start up capital. Rather, they seek support for investment instruments that could be utilised in the market to make up that shortfall between the amount raised through their community investors and their cash flow needs. An example could be the equity that has recently been unlocked from the superannuation sector through the investment of Christian Super in Foresters Community Finance social enterprise development fund under the SEDIF initiative.

The committee has heard quite a bit about the role of social enterprise intermediaries as being essential to the growth and development in the market for social enterprise. We would concur with that, although we do not believe that there is sufficient intermediary assistance at the moment or sufficient attention given to those self-help models of social enterprise that I have described. The government could assist intermediaries that are not yet present in the field to provide commensurate support for self-help models, which might include such things as community buy outs, community owned renewable energy plants, community owned health care and other kinds of social cooperative ventures.

We would also like to take the opportunity to pick up on a theme that has emerged in some statements to the inquiry that cooperatives do not have the ability to attract substantial capital. I have tabled the 2011 top 100 list of cooperative mutual businesses. You will see from that list that there are many businesses that are capital intensive. They are established businesses that have grown over time. There is a perception that cooperatives are small and perhaps old fashioned. However, if you look at just the top three businesses in that list you will see that not only are they largest holders of major assets but that their turnovers are above a billion dollars per annum. So we are talking about large scale businesses as well as smaller social cooperatives. Also we would say that the provision of a vehicle like cooperative capital units in the New South Wales cooperative legislation, which in 2012 will commute to being national cooperatives law, is again evidence that there is an ability to raise capital for cooperatives in the same way as listed companies are able to raise capital from institutional and private investors.

In addition to those larger businesses that are listed in the top 100 list—and, again, these examples have been alluded to this morning—there are recent examples of cooperative start-ups that have attracted substantial capital from their community ownership plans. Hepburn Wind is an example. It raised almost all of its nearly $13 million from its community retail investment plan. West Belconnen Health Cooperative, which serves 5½ thousand community members and has opened the doors on a second practice, required only $500,000 of state and Commonwealth funding to match the other one-third that it raised from its community business partners.

There are other finance instruments that could exist or be developed to finance co-ops and mutuals in that gap between their community shareholding and their cash flow such as community preference shares. My colleague Mr Newlan will elaborate briefly on what some of those financial avenues could be. We would like to conclude by agreeing with the Productivity Commission's report that an option for increasing access to equity capital for not-for-profits would be to increase the use of cooperative structures in social ventures.

Mr Newlan: I will be fairly brief because I have come in at the last minute as a replacement for Trent Bartlett, the chair of the committee. I thank the chair, senators and the committee for hearing us. I will talk briefly from two perspectives: the perspective of those being financed and the perspective of those doing the financing. I will not go into extremely detailed comments but will just keep it fairly high level.

I think it is important in the inquiry that we look at those who have financing in their structure and the variety of different perspectives that they come from. We are financing organisations here that have completely different briefs. They operate in a variety of different business sectors and are meeting a variety of different needs. With that, I think it is important that a lot of planning comes with any financing of these organisations, because it is not strictly about directing funding—I think this point was picked up earlier—to a certain area and saying, 'Take that money and go out and do some good. Come back to us and tell us how well you did at a later point.' Defining the problem and the need and who we are supporting is important.

When we are talking about cooperatives and various different structures, there are entities with a charitable purpose and a welfare element to what they are doing. But, when we talk about social business and so forth, we are not necessarily talking strictly about charitable purpose. They could be coming from a variety of different perspectives. You have community organisations, even clubs and so forth, that do a lot of community work and have briefs to reinvigorate the functionality of communities and so forth. We are talking about small businesses that operate in a variety of different areas. We are talking about regional businesses that might be larger but operate in a very specific region. We are talking about special purpose entities. When we talk finance, we are talking about a variety of different levels of finance. There is retail finance, wholesale finance and micro-finance to support community organisations or people from a lower socioeconomic background or not. There are labour and housing and social businesses that, again, might be there just to transition people back into employment but also might be there to skill certain sectors that may require it.

So we are coming from a lot of different areas and when we talk about the context that we represent we are not necessarily talking strictly charitable in that sense. When we are thinking about how we improve finance to these sorts of organisations, it has to be supported by government policy in the specific areas that we are representing, and sometimes that might warrant some element of decentralisation. I am not talking strictly across the board, but there might be some element of decentralisation because these things take partnerships and so forth. We are talking about entities coming from a wholesale perspective such as mutual banking organisations, for example, that might be there to finance other organisations that in turn look after people from a retail perspective. They have to be operating in an environment where the regulatory environment supports that. There might be mutual banking organisations that are there to support people from a direct retail perspective, quite literally offering micro finance products to individual people. Again, that comes with a different regulatory environment and different requirements on those organisations that again require some fairly specific focus. Again, we are talking about a variety of entities that are doing the financing. So you have large banks, mutual banking organisations and community finance organisations. They have different legal forms and so forth. There are a lot of complexities for a lot of these. So I think that is a fairly important context in which to take this.

In relation to the structure—and I am talking from our committee's perspective and the international perspective—we are all about mutual and cooperative form. We are not saying that mutual and cooperative form is the be all and end all and the only solution to the problem, but the mutual form can certainly operate very effectively from a financing perspective. It also has funding challenges. And don't get me wrong: that is a challenge not just from a not-for-profit funding committee organisation sense but even from a retail sense. The very entities that they can fund can also adopt a mutual and cooperative structure. So they are out there with a social purpose and doing the sort of stuff that we are talking about.

So a little bit of a sense of focus on these structures is, I think, quite important. I do not think that is there. I do not think there is a significant enough focus on the particular mutual cooperative form that we are talking about within policy. It is there but it drops off or falls between the cracks. There is a little bit of a perception of: 'Mutuals and cooperatives are all those nice guys over there that do that kind of nice thing that we kind of get but don't fully get all the time.' When I talk about that, I do not talk about a strict legal form. I am not talking about proprietary limited versus limited or unlisted versus listed, because mutuals and cooperatives carry with them a very distinct set of principles. You can actually operate under those principles at any time, if you wish.

I think it is important that there is a little bit more focus going forward on these structures and what role they can play from both a financing perspective and a community perspective. Obviously, there are some examples that we can talk about during questions, if you want to, on how that is achieved.

CHAIR: Thank you. We have a little bit of time left for a few questions.

Senator STEPHENS: I suppose the crux of our inquiry is: what role do you see the government playing in promoting capital raising for the sector? This is fundamentally what this inquiry is all about. Anyone at the table may have an opinion there. What should the role of government be in this space and what type of government involvement brings credibility to the sector in terms of investment opportunities?

Ms Morrison: The starting point is to recognise this broader definitional basis of social enterprises so that we bring social business forms of cooperatives, mutuals, the employee owned businesses and credit unions into the delivery platform for social ventures. Part of the recognition and perception that they form part of the family of social enterprises will allow them to be recognised legislatively as well as being a recourse for governments to work in partnership with these enterprise models to perhaps devolve some services, which is the decentralisation agenda. Also, in terms of a funding base, intermediary support that will allow those other models to be options that are presented to communities or to social entrepreneurs wanting to find a model that fits their particular social enterprise endeavour. At the moment they are not widely recognised as providing a solution to a problem that might have grown out of a grassroots need.

Mr Newlan: I would probably just say support the growth of community development financial institutions. We saw a really good start with the pilot project that was announced earlier in the year. Obviously that takes measurement and a bit of monitoring to see how it goes. Except there will be some failures. That is just going to happen. Perhaps keep in mind that we may need to develop some mechanisms to get some of these guys. I am not talking about CDFIs exclusively, but any financing organisation, or those being financed. There may be times when we need to get these guys out of trouble for the greater good of the sector. But certainly I would say support the growth of CDFIs. I would like to see more funding put towards that project.

The SEDI funding is a good idea. I think that the funding that was delivered to organisations like Foresters Community Finance will do a lot of good because they will have a very structured approach to how they fund these particular organisations, not just in access to finance but they are operating at a retail and wholesale level and they are also delivering the expertise and partnering with these organisations to deliver those services. Seeing further funding in that sense would be an excellent idea.

Also, there is regulatory support. Some of these organisations—smaller ADIs—that would like to fund have limits on what they can possibly do. Some of those limits are prudential. I am not saying that the prudential regulators are acting out of turn when they may exercise caution in certain areas—the caution is often warranted—but having a more open and frank discussion with different levels of government on how we get over these barriers is a good idea.

Also look at wholesale options. In the UK there is a social investment wholesale bank. It has altered since its origin, but the origins are good. They act as a wholesale source for mutual banking organisations, community organisation and so forth, delivered through wholesale-retail partners. That is an excellent idea that could potentially be picked up here in Australia, provided there is a sustainable source of funding going into that wholesale vehicle. That gives it a nice arm's length separation from the full-profit, investor-backed thing. I think there is a role for that, but I think there is also a role for keeping some separation there so that we do not have too much of a profit motive operating in a sector that should not really have it.

Mr Coleman: The area that I am involved in—microfinance—wherever we work overseas there is always plenty of money out there in the marketplace and we have been able to access it on a very large scale because we came up with a business model that relates directly to the client. So, here in Australia, if we go out to people who are in the marginalised and excluded areas and cannot access finance for business ventures, which is what microfinance is really all about, we have to take a longer term approach. We cannot just run a business model directly with that client, imagine Aboriginal people, but other people who are marginalised out there. We have to look at a longer term approach and where the benefits will accrue over a longer period of time. Traditionally, the finance sector does not tend to look that way and government doesn't either.

So we have a private finance sector and a government sector that do not look at what it would be like in 5, 10, 20 or 30 years. Overseas we have a lot of examples where we have been in a community for 30 years. That is because we have been able to access the capital market that is in that country and just go out and buy money in the marketplace and put it in people's hands and generate enough wealth to cover all the costs. We can do that here over a longer period of time. That is where we need help. The money is there in the private sector but we cannot really get access to it. We have been able to with the bank we are working with, but not on a much larger scale. And you cannot sit down with any government departments where they really understand that kind of approach. So all the KPIs and the windows and hurdles you have to jump through with nearly every department, and the funding window in government does not lend itself to that kind of thinking. That is where we need help. There is a business model out there and we have to put those two things together, and they can be put together.

Ms Kirillova: I think that what Mr Coleman is saying is sort of like what I said. It is almost like a legal aid type idea where there needs to be some money available to be able to access the very professional financial services which we have in this country to be able to put these things together, because they are very good but expensive, and, when you have great ideas, sometimes that hurdle means that they do not happen.

I will give a brief and rather depressing example. We were approached a few months ago by some people from CEC Group, a listed North Queensland civil construction company which had had a proud history but then in recent generations had veered away from the boring construction of roads and into the rather more exciting property development area. The impacts of the ups and downs of that plus the various national disasters up there meant that it was in desperate financial difficulty; however, the traditional business of civil construction was in reasonable shape. In particular, they had at least three very well-developed tender opportunities for the reconstruction of roads, as you can imagine. To make it more depressing, they were the last remaining local civil construction company in that part of North Queensland. We worked for them, and so did a number of advisers up in Cairns, to put together enough structure to be able to convince the bank to give them a bit more time and not put them under. We needed about $250,000 maximum to pay the various advisers, because everyone would have had to work through the night. Two hundred and sixty employees were prepared—they had public meetings, private meetings; there is a huge file on this—to put whatever money they had into this so that they could keep their jobs. We had the money allocated to us under the funding but could not use it because it was not in Greater Sydney but in North Queensland.

If that had worked, that company would have been listed and you would have had a community company going onto the capital markets and probably doing well—they did have this book of jobs—as well as saving local skills. Importantly, a part of the business was building remote Aboriginal housing—a very clever and special type of housing which no one else does up there, apparently. All of that is gone because of an issue of timing and also the restrictions that we all have when we are dealing with government funding. They are unavoidable, and of course we appreciate that, but they would have been a listed company. Some of them are still trying to put it together, but it is rather difficult. Now it is a start-up, they have the lost jobs and they have had to go to southern contractors and also European ones because the work needs to be done and they are not there anymore.

CHAIR: We have to wrap it up at that point. Thank you for your assistance. It has been very useful.

HALL, Mr James (Toby), Chief Executive Officer, Mission Australia

PEEL, Mr Gregory John, Chief Executive Officer and Managing Director, Community Sector Banking

QUARMBY, Mr Peter Charles, Executive Director, Community Sector Banking

WHITE, Mrs Julie, Division Director, Global Head Macquarie Group Foundation, Macquarie Group

[14:50]

CHAIR: As there are four of you I would ask you to keep your opening statements to a minimum if you can, an introduction maybe and where you are coming from, and then we will try to explore the issues through questions as we can.

Ms White: I have tabled a copy of the opening statement so you do have that in front of you. Very briefly, to give you a bit of background to set the scene, the Macquarie Group Foundation is the philanthropic arm of the Australian based international financial services provider Macquarie Group. I am sure you are all aware of Macquarie. What is most important to us and which we try to do every day is to make sure that our staff are keenly involved and supporting community organisations wherever they live and work. We do that in a number of ways but one of the most important ways that we can do that is through matching their financial donations and since our inception 26 years ago now we have contributed over $145 million to not-for-profit organisations and in our last financial year we contributed $27.8 million to some 1,300 community organisations.

However for us the priority is to have our staff use their skills and expertise to develop the sector and to work with not-for-profit organisations that they feel passionate about and want to contribute to. We also have a very strong focus on capacity building and innovation within the not-for-profit sector and that really goes to the nub of what we are here about today. I would like to congratulate the Senate committee for actually taking the time to have some incredibly interesting and long conversations with a very wide and disparate group of people around this.

We see obviously from our perspective that there will never be enough grant money and there will never be enough government money to meet the social needs of this country or indeed of the world and so new mechanisms for raising capital, for increasing what we call social investment and social financing of the sector is something that we are very supportive of. We see it as a role for us in terms of being an enabler rather than, necessarily from our foundation perspective, a provider of any sort of capital market tools where we can work to deliver and support organisations. The role of intermediaries we see as very important and you will have heard today around the SEFA bid to SEDIF which was successful with the Macquarie staff involvement there as personal investors but also in contributing their skills and expertise. It is something that we are very keen to see government involved with, to see the corporate sector involved with and to hopefully provide an opportunity for the not-for-profit sector to become more educated as well. I can talk later about some of the work we have been doing overseas as well particularly in Canada if you wanted to.

Mr Peel: I might ask Mr Quarmby to give a quick update on what CSB is and then there are a couple of observations perhaps, if I can call them that, that we have learnt over the last 10 years that will be of interest I think.

Mr Quarmby: Thank you and we welcome the opportunity to speak here today. Community Sector Banking is a very organic response from the not-for-profit sector to look at addressing some of the needs of the sector for capital. Some 11 years ago 20 non-profit organisations came together with the idea of creating their own banking service that would bring together the understanding and the intelligence of the non-profit sector and the requirements that they have for capital. In that process we formed a company called Community 21 which is a commercial unlisted public company, which is owned by these 20 non-profits, and they joint ventured with Bendigo Bank to create community sector banking. We are now banking for and have a relationship with some 5,000 non-profits across the country and we have developed a range of products and services that are specific to this sector. We have now ventured into the area of piloting the Community Development Financial Institution in partnership with FaHCSIA and with a number of non-profits across the country.

We believe that the non-profit sector has a role to play in its own destiny, in managing its own capital. It has a huge amount of capital running through it and by aggregating its demand we can create greater efficiencies. But we also understand that there needs to be a partnership relationship between the sector, the private sector and government. In a sense, part of the reason for setting up community sector banking was not so much about setting up a bank but changing the way in which the non-profit sector saw itself and saw capital. I believe that this sort of initiative changes the relationship between the sector and government from what potentially can be a master-servant relationship to one of a partnership.

So community sector banking has been working with the non-profit sector, with the private sector and with government to find new streams of capital that will enable the non-profit sector to deliver greater levels of services with greater productivity and to build its own capacity. I will hand over to Greg now to talk about some of the work we are doing with both government and a number of other organisations.

Mr Peel: We operate under a franchise of Bendigo Bank, which means that Bendigo takes the credit risk in what we do. We have probably provided about $150 million worth of various loans to not-for-profits over the last nine or 10 years. The demand for capital in the sector, however, is clearly beyond the appetite for risk in institutional risk. Therefore, it is a requirement that the sector has a blended solution of capital or different streams of capital if it is going to maximise its social impact. Clearly, then, one of the things for us was about building credit policy and capabilities not only at Bendigo but actually infusing that in terms of how the other institutions were looking at the sector as a whole.

Nine years ago, when we started, I would say that there was very limited understanding of what the sector was, let alone how to manage credit risk in a not-for-profit organisation and what that would look like. It was also therefore about a framework for many institutions for this as a new asset class. The demand for capital is quite intense in institutions across the board. So for them to allocate capital into a new asset class when the demand is so high in the retail banking business and the small-business banking business you have to mobilise the demand for the institutions not only to invest in the outcome but invest in the learning and knowledge required to manage and mitigate risk in this particular issue. So there is a gap between the demand for and the supply of capital.

In a way, part of the NRAS experience, for example, was designed to mobilise the institutional investor markets into this. While we have had certain retail investors in this market, it is clear that we are still seeing that the institutions have not jumped on board because of this new asset class. How is it going to trade and what is it going to look like? That is a critical element of getting those institutions across the board. There are elements of the structures we adopt in the not-for-profit sector that actually could inhibit elements of the receipt of different types of capital. Clearly, a not-for-profit organisation cannot raise equity in the normal course of business and it needs to build structures and strategies that allow it to access the equity markets.

As I mentioned, the framework for us is seen as a blended use of capital. How do we utilise philanthropic funds in a way that can be seen as philanthropic venture capital and that can be treated to manage risk and yield to mobilise co-contributions from the investor market by building structures that normalise the investor return on one end, because the philanthropic investor or social capital market has different types of return-risk requirements to the institutional investor market?

There are some issues about the robustness of the sector to handle or take capital. So there is a requirement, I think, in terms of the education process of the sector, to be a vehicle or a funnel to receive that capital.

Some of the other elements that are emerging clearly are the social impact bond markets, which we are seeing in the UK in particular, and, more recently, here. But we need to be a little bit careful of those social impact bond markets so that they do not just become a performance based contracting tool—a contracting tool that says, 'If you perform we are going to increase the return in terms of the sector.' They should be used as a vehicle to mobilise capital or encourage investment in the particular market and normalise the returns of the market.

Clearly, the US, Canada, UK and European models in community development finance institutions suggest that the CDFI market, as an intermediary, can be a structure which blends these capital solutions to come up with a structure that can deliver the capital to the sector to maximise its social impact and its receipt of capital.

I would also like to say that there are some specifics related to Indigenous social and cultural economic elements. There is, in some of these areas, clear market failure. Even if I wanted, for example, to provide home loans in Far North Queensland, I could not provide that facility. I could not get a valuation. I could not get a lease structure that allowed me to leverage that appropriately. So even if I had the income streams of the potential participant or purchaser the structures would not allow me to provide those loans and access to capital.

Where would we like the government to go? The development of CDFI markets and incentivising the investment in private and institutional investors. We have just come back from a trip to Big Society Capital. I think that style of structure is an excellent way, if we use that capital rightly, to mobilise the markets again—not just as a pure investor in social enterprise but as a leverage tool to maximise co-contributions for the market—and that would be a really important part of this.

The development of funding structures is important, because it is not just about saying, 'Well, here's a social investment fund,' or 'Here's a social infrastructure fund that is going to be provided,' because that fund is still considered as a new asset class. So we still have to create an investment product that, in our terms, normalises the investment. In terms of an adaptation we could ask: how do we utilise government funding and philanthropic funding to normalise a capital guaranteed bond, for example, or a community investment bond? That would be something of significance, I think.

Mr Hall: Thank you for inviting me to speak today. I work with Mission Australia. Probably unlike many people in the sector I have actually borrowed quite a lot of money in the last two years to invest in social activity. We have borrowed about $100 million to invest in GoodStart Childcare, which owns all the ABC Learning centres; about $25 million for property development acquisitions; and we are looking at investment in social impact bonds at the moment, as well. In the pipeline we are looking at about $150 million of investment in housing product over the next two years.

Our view at Mission Australia is that it is great tinkering and playing around the edges with small investments in social enterprise but the reality is that that is not the big game. The big game in this is creating a model where the institutions invest in social infrastructure. The fact is that there has been no institutional investment in the housing product which the government put together, at all, yet we have super funds sitting on billions of dollars of funding. None has made any allocation to social infrastructure, apart, I understand, from Christian Super fund and very small investments from some of the other super funds. That highlights the issue that there is no lack of capital in Australia for social infrastructure. The reality is that there is a lack of desire to invest, and therefore we have to give people a reason to want to invest. I think that will only come with an effective model which creates tax efficiency for the investor. So we have to look at that.

The second issue, which is unique to Australia, is that the Australian institutional markets tend to like short-term lending, whereas in the UK and the US they are very open to longer term lending. By its nature, most social infrastructure investment is long-term housing, aged-care developments or hospitals. Universities actually need 20 to 30 year funding. There is no access to that sort of market in Australia because the institutions currently do not have a reason to invest. However, super funds absolutely have the funds and need long-term investments. So we need to create a way to encourage super funds particularly but also rich individuals to invest capital in this sector. That is going to need some form of government intervention. I think the best way to do that is through adjustments to the tax system to make it tax efficient to invest. I am happy to take questions.

Senator STEPHENS: Going to Macquarie, I was interested in the fact that you have had some experience with the Canadian task force looking at a similar kind of challenge. Can you elaborate a little more on that, please?

Mrs White: We have been involved, first of all, in the Canadian Task Force on Social Finance, which was pulled together by MaRS. The Chairman of Macquarie Capital, Stanley Hartt, was the only corporate representative on that task force. What was apparent there was that someone of Stanley's seniority—he is quite an elderly gentleman and has been an investment banker and a politician all his life—is able to bring great insight. The new ways of looking at capital markets that he brought was very insightful for that Canadian task force. Picking up a little bit on what Toby talked about, it is about looking at the big picture rather than tinkering around at the edges.

What has now happened in Canada is that there has been a ministerial committee formed out of that task force. It is headed by the Canadian minister for human development and human capital and the deputy minister for finance. That says to us, as Stanley said and as I think this committee itself is doing, that you need first of all to make people feel comfortable about these conversations about how else we can unlock capital for not-for-profits. How do we make people feel comfortable with the varying mechanisms that are available, and then how do corporate, government and not-for-profit work together to make that happen? That is where we are at in Canada.

Senator STEPHENS: Mr Hall, I am sure you have seen the Lifehouse RPA submission, which goes to a model of franking credits for investment. Is that what you have in mind?

Mr Hall: I essentially see that the investment tool is based on having the capital and taking into account the risk. I want a return on the capital. The fact is that at the moment in this sector the risk equation is wrong for investment, and therefore you have to bridge that by creating some form of tax credit. I think a franking credit could do it. Personally, I would be putting together long-term products which only provide franking credits if the investment is for a long-term period. The benefit probably has to bridge something like three per cent in terms of interest, from my perspective, given the investments we have been looking at. That tends to be the gap in the market. Certainly a significant discount on the normal tax on income on bonds would be the way to go. Whether you do it through franking credits or with discounted tax or no tax on that type of investment is open. I am not a tax expert, but I am happy to have that sort of investment model put forward.

Senator STEPHENS: This morning we heard from Mr Cubis about the proposition of social bonds and using the franking credits. He made the point—and the representative of the Benevolent Society said the same thing—

that there was an initial interest when they went out to the market but then they were quite surprised by the lack of engagement by PAFs. They put that down to two things: one was the way in which the PAFs had been structured that might not have allowed them to invest in that area and the other was the lack of understanding of the capacity to claim the differential between the commercial return and the return that they were going to offer through the taxation system. Do any of you have a comment about that? With the rapid growth of PAFs, is there something that the government is able to do to promote the flexibility or the potential of investment by PAFs?

Mrs White: I think one of the things with the growth of PAFs and the various changes to the legislation around PAFs is that it is a matter of education—of people not understanding what it is they can and cannot do within a PAF. It sounds silly, but I think it is as simple as that in some cases. They are really confused. They are focused on the fact that they need to distribute 10 per cent and that they must have an external trustee, but then they begin to get bogged down in what it is they can and cannot do. I think it comes down to having better awareness and better education.

A comment was made to me by some PAFs around looking at some of these social impact bonds where you are then also asked to make the investment a donation. You start out looking at it as a capital investment, but then suddenly it transforms into a donation, which is confusing for them. I think that is something that we need to be clear about as well. In my opinion, what we are talking about here is trying to provide mechanisms that are unlocking new capital—new funds. If you start mixing it up and saying, 'We'll call it a social investment but really we don't want to give you your money back, so it is really a donation,' you are confusing people.

Mr Peel: Although I think the PAF corpus is effectively looking to manage investment in ASX positive and negative screen funds et cetera, so the pathway or the products available for PAFs to make an outcomes based social investment are not necessarily as evident or clear. Even if there was a desire to say, 'This is what we're going to invest in,' what is the structure of that and how am I actually going to do it?

Senator STEPHENS: Is that what is missing in the equation—some kind of advisory or intermediary service for PAFs to connect with people who might be looking for social investment as well as growing an understanding of their potential?

Mr Hall: There are two issues. The first is that I think there is some naivete in our sector that believes that, if you go out and offer a five per cent bond rate because you are doing social good, very sophisticated investors are going to invest in it. The reality is that they are not, and we just have to face that. I have seen several fundraising attempts fail because of that. When we put together the GoodStart model, where we borrowed $25 million from private investors, some of which came from PAFs, we took the decision that we had to offer a discount on standard commercial venture capital but also a significant enough rate of return that would see the investor wanting to invest. So we offered a 12 per cent coupon rate on that debt. Some people would say, 'That is relatively high,' but for that type of investment it is actually low. We got investors mostly who came in and said, 'It's a bit of a risk, but we'll take the risk at that coupon rate.' If we had gone in at five per cent, we would not have got any money at all. That is one issue. The second issue—Julie is absolutely right—is the education issue, both on the side of the PAFs in terms of understanding exactly what our sector is talking about and, equally, where the sector is often quite naive around financial issues. Looking at social impact bonds we have taken the decision at Mission, and we are a big organisation to partner with a group that is completely commercial around social impact bonds, because I do not want to touch the financial side, I want financial experts doing that. I am going to contract to work with them but they are going to do the complex side of the financial thing as an intermediary. I absolutely think that if we want success in this we do need intermediaries who are experts in the financial markets and can work out how to invest, whether it is for PAFs or institutions. It is absolutely vital. Equally, we need education for the sector to just wake up and smell the roses. Because people are not going to invest in our sector at five per cent, apart from seeing it as a philanthropic donation.

Senator STEPHENS: Thank you. That is a very important message. In our conversation this morning with the Sydney Community Foundation Mrs Strong made the point that a public ancillary fund cannot put money into their subsidiary funds in the foundation. Ms White, does that work for your foundation? Can you put money with a PAF into a project?

Ms White: Yes. But we are a little bit different in that we are not a DGR ourselves.

Senator STEPHENS: You are not a DGR?

Ms White: No. We needed the flexibility of being able to—

Senator STEPHENS: Mrs Strong was going to provide us with some more information. That will be helpful. Going back to the issue of NRAS, we had quite significant evidence in Melbourne from Compass Mutual about the challenges in NRAS and the changes that were made along the way. They put an alternative proposal, which became an additional submission. It would be very helpful if you could have a look at that submission and see if you have any feedback on it. But the notion of unlocking superannuation funds seems to be an ambition for us all in terms of investment locally, if there is some way to actually manage the sole-purpose test. Any advice or comments you could make would be helpful.

Mr Hall: Can I make two suggestions. In terms of unlocking superannuation funds there needs to be some government interaction with the superannuation funds to look at how this can happen. It is complicated and I understand where they are coming from. However, I think it is something that is achievable. It is about having the right instrument. That takes a partnership with the superannuation funds to say, 'Can we work together to create the right instrument?' The reality from my experience after having talked to superannuation funds for three years is that we are no nearer to getting investment in housing from them, even with the wonderful stuff of NRAS. It is the same with the banks. Two of the major banks do not even touch NRAS.

The second major opportunity is actually quite interesting in that the government and APRA particularly are setting requirements for banks' balance sheets in terms of what they are and are not able to invest in. Certainly my feedback from CEOs of a couple of the major banks is that if APRA were able to create an asset class that had some form of security behind it and that was taken as part of their balance sheet calculations for regulatory requirements—and I am not an expert in this field—they believe that that would release significant capital from the major four banks into social infrastructure, again, as long as the instrument were a suitable model. I think there needs a round table with superannuation funds, the major banks, some of the non-profits and the guys from Bendigo to actually nut through what the product looks like, what tax requirement is needed and what risk model we are comfortable with. You are then in a position to look at legislation to enable that.

CHAIR: You have been speaking to the superannuation funds for three years and my experience of interacting with superannuation funds is that they are very reluctant to move away from the sole-purpose test and their obligations under that. I also suspect that APRA, who oversee their obligations in that respect, are probably also very likely to be reluctant to advise in favour of moving away from that in any shape or form. So I would be very interested in your thoughts on what sort of instrument you are suggesting might actually make that possible.

Mr Hall: There are a few things. I think the super funds are looking in a very narrow way at the 'sole purpose' test. Take the meatworkers' superannuation fund, which has looked at this in a creative environment, in Williamstown in Victoria. Their own staff cannot afford housing anywhere near their plants in Williamstown in Victoria, yet their staff are providing all the funds to the superannuation fund. I do not think it necessarily goes against the 'sole benefit' test to allow a model which would allow investment in affordable housing for their staff as an asset class for the long term, but the reality is that, if we want to get the change made, I think the government is going to have to work with super funds and create legislation which allows them to invest in social infrastructure. That is not going to happen, I think, at the will and volition of the superannuation trustees, because they have clearly indicated they are not going to change things. Therefore, the only way is to have government intervention. If we are serious about freeing up capital, the only places where you can do it are the super funds and the major banks. You can get small capital from a range of other players—from the co-ops and from the mutuals—but if we want serious, significant investment into this field it has to be an investment product that the super funds and the banks will go into. In the absence of that, we are really playing at the edges, I think. I know that sounds tough, but that is the reality. We have to find a way to free up significant capital, and the only way is, I think, by some form of legislative change which frees them up to do that sort of investment.

CHAIR: I do not want to get into this too much, but there are downsides in both of those areas. Quite clearly the superannuation guarantee was set up to provide retirement income. If you interfere with legislation, you are potentially undermining the benefits that the owners of those accounts will receive in their retirement in order to give them benefits now, particularly in the example you used, but to provide benefits for others in the shorter term. Similarly with the banks, I know they have gone through a horribly complicated negotiation process internationally to achieve the liquidity and capital requirements, and what you are suggesting there is probably going to interfere on the asset classes that they can hold to meet those requirements, which has international implications. I can see that they are two huge pockets of money which, if we could get it right, would provide enormous capacity for assisting, but I think they are probably the most problematic pools of money to be able to tap into.

Mr Hall: Yes.

CHAIR: There are probably other aspects that can help—at a smaller level, admittedly—in other ways.

Mr Quarmby: I think the whole notion of the 'sole purpose' test is somewhat of a shield for the superannuation funds. It is a sacred cow, but what it has not done is truly protect the members of super funds. We have seen huge volatility over the last 15 years where super funds were investing in highly speculative ventures, and when the market goes down we see people losing 10 or 15 per cent of the value of their superannuation funds, and it takes some years to come back. If we are able to manufacture a product that is a capital guaranteed product then I truly believe that that can satisfy the 'sole purpose' test.

CHAIR: I certainly think there is an opportunity for not-for-profits to be able—maybe with a tax-effective structure that is offered by government—to make it attractive and entirely consistent with the 'sole purpose' test for superannuation funds to invest in some of the products that you offer. But they have to be constructed properly to tick all the boxes, make APRA happy and so on. That opportunity exists, but legislative interference to require some of that to go in there is a much further step to take.

Mr Quarmby: Yes. I guess what we are saying is: do not change the 'sole purpose' test if we can find a way in which you can create an asset class with the assistance of government to actually bring the superannuation funds to the table and recognise this as a normalised product and something that is in fact in their interest.

CHAIR: I would much rather provide the carrot than the stick.

Mr Hall: Can I just comment on a couple of things. I understand where you are coming from on that. It is very interesting. At the same time we are saying that we have a range of social issues in Australia, which impact every supremely patient fund member, and none of those superannuation funds are responding to those. We are happy to legislate to require organisations to employ certain numbers of Indigenous people as part of their programs for government projects. What I am talking about is a significant change. I do not pretend it is easy. It is a question of saying to the super funds, 'We think there is a requirement for you to invest in this kind of infrastructure environment and, if you are not going to create the tool, then we would look at legislation which would require you to do that.' Realistically you are probably only talking about four to five per cent of superannuation funds being invested in that way. Add to that that the type of returns I am talking about would have outperformed every Australian super fund in the last 15 years, you would have to question why they would not look at investment.

I understand what you are saying. We looked at going into housing and we have aspirations to invest $2 billion in housing. That sounds absolutely ludicrous and when we looked at it we thought it was impossible. In under two years we are at $350 million worth of housing. These things are doable. I do not pretend it is easy at all. I realise it is a big deal and a big issue. If we are serious we have to create a way to free up the capital and, unless the super funds of their own volition start to do it, I think the only way we will get change is through good tax instruments and then a requirement that they invest in a certain proportion of their funds, or are free to put a certain proportion, into social infrastructure, which actually in the end benefits all of their members anyway.

CHAIR: Thank you. You said that over the last few years you have invested $145 million in various organisations. The money that you provided, is that provided in the form of grants?

Mrs White: Yes, that is correct.

CHAIR: Macquarie Bank, as a broader organisation, has vast experience in financial instruments and investment. Has any consideration been given by Macquarie to using innovative approaches of allocating those funds in order to help foster a capital market in this area?

Mrs White: We have not been looking at it in terms of the foundation's funds to be used. We have certainly been looking at it from the perspective of the brains and thought processes of some of our bankers to actually apply their thoughts to that. So, the answer is yes. We are working in a number of initiatives at the moment, both with current bankers and some very recently retired investment bankers who have gone specifically into this field. It is certainly something that we feel has a great deal of potential and opportunity in terms of developing further.

CHAIR: Having looked at those options, is there is need anything that you have identified from a government is perspective that presents as a roadblock to being able to do that or, where government could make changes to regulations which would help facilitate those types of measures you are looking at becoming a reality?

Mrs White: I probably cannot comment on that because I am not into the detail.

CHAIR: If you are able to get more information on that then let us know. That would be appreciated.

Mrs White: I could certainly find out; absolutely.

CHAIR: Thank you very much your assistance.

ADDIS, Ms Rosemary, Social Innovation Strategist, Department of Education, Employment and Workplace Relations

[15:28]

CHAIR: I welcome Ms Addis. Thank you for attending to help us today. Would you care to make an opening statement?

Ms Addis: Yes, thank you. Since I last appeared before this committee at the beginning of last month we launched the Social Enterprise Development and Investment Fund, and an update has been provided to the committee. I am obviously happy to take any questions. I thought it might be helpful to highlight some of our significant learnings from that process. We were able to demonstrate that government can have the capacity to signal its interest and provide, in this case, a relatively modest investment as a catalyst and this can be effective in stimulating interest and investment in the market. The availability of the first loss capital that was provided through the government grants did affect the risk return equation and attract other investors who would not have otherwise come in and contributed to achieving some of the results including interest and investment by Christian Super fund as the first super fund to move into this area and also Triodos making their first Australian investment after looking at this market for over a decade.

It was also a powerful catalyst for new collaborations that were brought together by the purpose of the initiative. We have had feedback from a number of parties, including unsuccessful applicants, that the focus of the tender was a catalyst for them doing work they would not otherwise necessarily have done and that having done that they will now look further into the area. Also, there is an appetite to leverage government investment and to see government acting differently and enabling other investment to come to the table to work in partnership and achieve collaborations that are more than the sum of their parts.

I have also had an opportunity since I was last here to speak with some policymakers and practitioners overseas, particularly in the US and Canada. I think we can note that SEDIF, the New South Wales announcement, NRAS and this inquiry add to the Australian landscape and are giving Australia credibility and an opportunity in the international arena to really participate as leaders in the area. While I know a number of people would say we were off to a slow start, the quality of the initiatives that have been done here place Australia really well in terms of engaging internationally.

There is still a lot to do to realise the opportunities for government, community and the markets. I thought it might be helpful to share some of the experience on what commentators internationally are learning and saying about the points. I have themed these as the three Is: intentionality, infrastructure and investment. Talking about each of them briefly in turn intentionality is I think important because it is about consciously considering, beyond how to influence the system, what direction the influence of different sectors and actors can take, including government. It is about consciously looking to build a market beyond incremental steps and individual initiatives to say that maybe we are at a point where we can actually take some leaps of faith and ask what would be necessary to do that.

Internationally the potential for philanthropy and for government and others to use their position to convene dialogue, to make even modest investments and direct resources that can change behaviour and get other people focused in a really purposeful way to achieve better outcomes is significant. The White House convened a summit on the impact economy in June that was attended by over 200 people and they intend to host another forum on social impact bonds later this year, I think the 21st. They are proposing to live stream it which means we will probably have to watch it in our pyjamas. What this is doing is enlivening the basis for others to act. The pool that the US federal government has allocated the hundred million dollars for the pay for success bonds is intended not to see some of those bonds happen but really to grease the wheels at other parts of the system particularly at state and, in the case of the US, city government level. Even in the international space in the US the Overseas Private Investment Corporation is working in partnership with corporates to make investments in the developing world. They now have $15 billion under management and last year they returned $350 million to the US Treasury in profits.

In relation to infrastructure, markets and systems obviously need infrastructure and this committee has heard quite a bit about that. What is interesting, I think, is that in the US and Canada and, to an extent, in the UK there are organisations, sometimes government but a lot of times outside of government, including the philanthropic sector, making investment in organisations dedicated to increasing the scale and effectiveness of the impact investing market. Some examples of that are the Global Impact Investing Network, seeded by Rockefeller Foundation, and others including B Lab group, who have developed the B Corporation structure that has been adopted in five states in the US with signature pending in another two. My understanding is that that has been adopted by unanimous or near unanimous vote in nearly every legislature that it has gone before. And there is MaRS in Canada, who sponsor the social finance task force there.

While all of these bodies, including the ones in the UK like Social Finance and Venturesome, are raising some of the awareness and practice, I think what is interesting about the US is that, having done some of the work in the Monitor report and other things looking at what would be necessary to build a market, they have then gone on to form organisations to actually build the infrastructure and tools in those areas—community and leadership—which enables a forum for dialogue and practice around social impact investment measurement and benchmarking with the development of IRIS, which provides a taxonomy and measurement system. Just launched this week at the Clinton Global Initiative was the Global Impact Investing Rating System, which works with IRIS to provide ratings for funds and investment opportunities. And there is some similar infrastructure that already exists in the US and elsewhere around CDFIs.

Also in development are navigation tools to make it easier for people looking for investments and those who are trying to find one another and connect in the marketplace, including ImpactBase, and organisational infrastructure like the B corporations themselves and intermediaries that are helping to connect people in relation to deals. And Third Eye investment principally covers investment in capacity in that infrastructure and, of course, in capital.

Some of the interesting work that is going on overseas includes initiatives to try to reach some of the influences and intermediaries in the market. The Cabot Foundation, for example, are funded by the Rockefeller Foundation to undertake work on their gatekeepers program. Effectively what they are trying to do is reach the financial and philanthropic advisers to enable them to be better educated about the options and issues around social impact investment. Similarly, the Schwab Foundation for Social Entrepreneurship has been doing recent work on what kind of education might be necessary for investors to better understand the risk profile of social investments and the patience that might be required in order to ensure that, in trying to make capital available, you are not stifling innovation by being too risk averse.

There are obviously a number of programs operating in some of the other countries, and I think the ones that came up most frequently, for your reference, are the CDFI programs in the US and, related to that, the new market tax credits and the Community Reinvestment Act and regime that has been in operation for some time now. Some that we do not hear of as much here which are also considered important there are the small business investment company and things like OPIC. I am informed by the people that seed co-investment in New York that for every dollar of first-loss capital there is $13 in loans made to the small and medium enterprises that they invest in. I am waiting to get a copy of the report on which that figure is based, but they have been doing a lot of work in this area for some years. They are my main points. I am happy to take questions.

CHAIR: Thank you very much. I see you are reading from a notebook and so probably from handwritten notes.

Ms Addis: Yes.

CHAIR: Is there any chance that your summary, particularly of the recent developments and what is happening overseas, could be put together in a supplementary note that you could forward to us?

Ms Addis: I would be very happy to do that. I provided some material to the secretariat during the week, but I am very happy to provide whatever is helpful.

CHAIR: Thank you.

Senator STEPHENS: That update was really quite fascinating. It must have been a great trip. We have met the players in the new CDIF funds now and I would be very interested in hearing a little about when you were shaping the successful contracts. Where and how has the issue of measuring the return or the impact been taken into account, and what are we expecting those funds to provide?

Ms Addis: In relation to measuring impact and a number of other aspects of the funds, we needed to strike a balance between ensuring that there is real social impact achieved and prescribing things in such a way that we could not allow the funds to operate in a market and develop in what is still an evolving landscape. What we have provided for is a couple of things. First of all, the objectives of the SEDIF program which were made public in the guidelines, which include market building and achieving social and financial impact, are entrenched in the arrangements—including, in a sense, the fact that, not dissimilar to the way that you expect directors to act in the best interests of the company, the funds have agreed to act in the best interests of achieving those objectives in a number of respects. We have also contracted for impact reporting. Rather than prescribe a particular form, we have agreed with the fund managers that that will be developed in consultation with us, taking into account the international developments and what is best practice, and that those reports will be published.

Senator STEPHENS: What is the time frame that they are expecting to operate in? With the $10 million into each of those funds from the government, how has that arrangement been structured?

Ms Addis: It is different in the case of the two funds in terms of the formal structure, but the intent is similar. In both cases, the government investment is providing the seed capital for the funds and is also available as a capital warranty. It basically provides some protection in relation to loss of capital for the other investors. To put it in the vernacular, the capital from the grant takes the first hit if there is a capital loss, but it does not guarantee returns. There is also some availability of the government capital, depending on what the different funds propose, to contribute to aspects of getting them operational, the capacity building and the education function, because we acknowledge that those things cost money and you have to be resourced to do it. In the Foresters fund, that is structured as a unit trust and the government grant has actually gone into a separate class of units which have actually been called 'capital warranty units'. The terms are very clear and transparent, and it provides that capital warranty, as we have mentioned. In the case of the SEFA fund, the structure there is different but equally the government funding is subordinated and in that sense still provides that first loss protection for other investors in terms of capital.

CHAIR: Ms Addis, I apologise; I am going to have to leave, because I have a plane to catch. Senator Williams will take over as acting chair for the remainder of the hearing. Thanks very much for your help.

Senator STEPHENS: Ms Addis, I do not know if you have had a chance to read any of the submissions that have come in, but the one that I am interested in your response to is from the Chris O'Brien Lifehouse at RPA; it is on their proposition for offering franking credits. I wondered if you had any comment to make—not that I am asking you any questions of policy here—in terms of thinking through how that might be seen in the landscape of what it is that you are trying to achieve through this policy.

Ms Addis: Obviously, in terms of detail of proposals around tax treatment, our Treasury colleagues would need to comment, but I do think that we can look at these things in terms of there being various ways to achieve the incentives for investment and to balance the risk-reward, and there are obviously various mechanisms the government has to play a role in that if it is seen as appropriate to provide incentives. In the market, I know that people are talking about what the right balance is between pricing and some of the issues that the people who were here previously were talking about. How do you ensure that the pricing is right in the first place? Then at what point might other structures need to come into play? Then there is also a question of, if government is to provide incentives, how it is going to provide them. Tax structures might be one way. But there might others. NRAS is obviously a good example. I know that there has been some discussion here about the way in which that played out. But you have also spoken to people like Andrew Tyndale and others who have ideas about how those types of things can be used in terms of structuring.

What I am saying is that there is a range of mechanisms. We would need to look at the whole context to determine what is appropriate to achieve what kind of investment. It would also depend on what you are trying to stimulate and where you were trying to leverage the investment from and for what purpose. What is the market that it is going into and how does that operate? Really, you are trying to influence people's behaviours in terms of their investment decisions. You are trying to help them in these early stages of the market and address what can be uncertainty about what the risk profile looks like for some of these investments. Some of that uncertainty comes from the fact that no-one had done it before.

Senator STEPHENS: What do you think would be a reasonable lead time? How long do you think it would take to bed the SEDIF down and see those funds starting to grow?

Ms Addis: There will be some things that start quite quickly. Other things will take a longer time to achieve and then a longer time to achieve. We are expecting that the Foresters Community Finance fund will have its doors open probably within a month and that the other fund will follow within about six weeks of that. We would expect to see them making their first loans not too far into the future from that point. My view on any new business is that it does not matter too much what sector you are in. My experience to date is that there is two- to three-year period involved in getting any new business up and running and on some kind of equilibrium. In terms of making too many judgments, it is going to take a while. This is a change process, too. It is a conversation with the sector; it is a conversation with investors. We will certainly be looking at this at regular intervals to see how it is tracking. The way that we have thought about it conceptually in setting this up is that there will be an establishment phase—getting doors open and getting things tracking in the first little while. Then there is whatever the remainder of the first three years is. Then, hopefully, there is a successful business as usual phase.

Senator STEPHENS: The two funds are structured very differently. I was quite taken by the fact that the New South Wales Aboriginal Land Council is in one. Was it a conscious decision to look to investing in Indigenous enterprise activity as part of one of the funds?

Ms Addis: On the part of the fund, yes, in terms of what they have brought together. In fact, that fund, which is the SEFA fund, intends to have three sub funds. They will not necessarily be structurally separate, but they will have a very small incubator fund and then a community fund, an Indigenous fund and an environment fund. So they are actively seeking to develop that as part of the business. From the government perspective, we try to attract the best proposals possible. So we put out what the objectives were and asked a range of questions of fund managers. We wanted them to tell us what their proposals were and how they would achieve those objectives. We got very different proposals.

Senator STEPHENS: That is interesting, isn't it? It goes to show that there is a huge diversity of need and opportunity and ideas. That is good. I have one other question. We have had a few submissions saying that because this is such early days--and you heard Mr Hall saying this—that there is a level of naivety and a lack of understanding in the sector and also in the philanthropic space about how to do this. Would there be a benefit in the committee recommending something like an investment task force, which has happened in Canada? That could engage industry and the sector in thinking strategically about this.

Ms Addis: Dialogue and leadership are incredibly important. There is no doubt that in the UK, as evidenced by the profile that Sir Ronald Cohen now has in this space, that the task force there has been hugely influential.

Senator STEPHENS: It was 10 years long!

Ms Addis: It was 10 years long and they produced five reports in that time. The Canadian task force is really interesting because it has been an initiative from outside of government. Some people, who I had the good fortune to meet with, did not want to wait and wanted to get something up and running. I think that has been able to focus some of the dialogue. In any kind of innovation it is helpful to have both shared spaces and credible people to coalesce people around the issues and conversations. It is also helpful to have people who are fluent and able to talk about the issues across sectors because the cultural issues are different. Whether they are in government, the community sector or the private sector in investment, the issues of everybody's landscapes are absolutely legitimate and real. If we are going to carve new paths, we have to work out how we do that well, how we work out what parts of the system are there for very good reason and really matter, and where the room for change is. I think people do look to high-profile leaders to also set an example and to help create the view that these things are possible as well as paint a picture in concrete terms, as some of those reports have done, of how people might actually go about making some of it real.

Senator STEPHENS: One last question on the broader issue of measuring impact: has your department or PM&C been doing any work on the issue of measuring the social return on investment or impact measurements? That would be helpful for us to understand.

Ms Addis: This is obviously an issue that comes up quite a bit. I cannot speak to what might have been done right across government. I expect we would find that there are pockets of work that have been done in a number of places. It is certainly an area of interest to us, including better understanding some of the taxonomy and standards that are developing internationally and making good decisions about the extent you engage with the systems people have already invested in and grow that as a common language so there are apples and apples and the extent you do it separately from that. There are pieces of work that have been looked at. It is something we would like to be doing more but, within our work at the moment, there is not a particular program or mandate to work on that. I cannot speak for PM&C.

Senator STEPHENS: We have our government agencies appearing on Monday, so we can ask them directly.

ACTING CHAIR: I have a couple of questions, Mr Addis. Imagine you were running the country for a week and you had limited time. What three decisions would you make to assist this industry get up and running towards where you want it to go? In other words, what do you consider to be the three most important things to do to assist this whole project?

Ms Addis: I would provide a focal point for that infrastructure work—a dedicated body working on the infrastructure, whether that is linking in with what is happening internationally or developing our own—so that there is somewhere people can have those conversations and one place where the work is being led. I would create some funding that could be drawn upon to provide the capital to enable a range of initiatives to happen. Assuming I have got limited time, I would probably convene a group of leaders from across the sectors on some key policy issues where action is needed and there is real potential for these approaches.

ACTING CHAIR: From private and public sector, obviously.

Ms Addis: Private, public and community.

ACTING CHAIR: Are the concerns of global financial crisis mark 2 going to help or hinder this industry? The not-for-profit sector provides so many valuable services and, of course, the demand will grow. There is a hell of a lot to do in the future compared to perhaps a lack of finance and a reduction in corporate profits. We have got demand on one side and perhaps a bit of concern on the other side. Do you think that is going to help or hinder in the future?

Ms Addis: I think if you sit in the US a return of three to five per cent looks pretty good.

ACTING CHAIR: Does it ever, when you look at zero to 0.25 official interest rates!

Ms Addis: Jokes aside, that is having an impact there. People are saying that if they are not going to get that, or they are only going to get that, on their commercial investments and they are certainly not going to get it on their money sitting in the bank—

ACTING CHAIR: Or run the risk of losing it on commercial investments.

Ms Addis: At least anecdotally, people are saying that is influencing people to make different choices.

ACTING CHAIR: So it is helping in that regard.

Ms Addis: It is helping in that respect. Also I understand that some major corporates like Citigroup and UBS have just put not insignificant chunks—and I am talking in the hundreds of millions—into the CDFI industry because they see that they need to be not only doing more but being seen to be doing more, so it is helping in that respect. It is likely to hinder in the sense that if people are more uncertain about the future then it can be harder to get them to do new things and also more overwhelming to look at the landscape where the need is growing and to make good decisions about where to target things.

ACTING CHAIR: I visit many of the remote areas around the state of New South Wales and see the problems in many of them, with high unemployment and people questioning what to do with their lives. I am talking about Aboriginal communities such as in Wilcannia. Do you see mining playing a bigger part and doing much more in communities in the future in many of these areas? I know mining companies contribute quite a bit to the communities they are involved in now. Do you think the bigger corporate mining world can play a bigger part in helping solve a lot of the problems, especially in Aboriginal communities?

Ms Addis: I think the mining industry internationally has actually led a lot of work not necessarily in social impact investment but certainly in looking at how to make good investments in communities. There would be ways in which some of that investment could be done differently. I think you spoke to Ian Gill this morning about some of the work that he is doing. The other thing in particular communities, and this has particular sensitivity with Indigenous communities, is about exits: you need to be thinking from the start about how you might set up some of the interaction between those companies and the communities in which they are working, because they will not always be there and some of the experience internationally has been very difficult.

ACTING CHAIR: Exactly—in 10, 20 or 30 years time they might just shut down, and then what is left behind? A very good point. As there are no further questions, thank you, Ms Addis, for your time.

Committee adjourned at 15:58