# *The 2015 Koda Capital Non-Profit Sector Review*

An exploration of the Australian non-profit sector. Designed as a tool to help non-profit leaders understand the landscape of the sector and compare and contrast their own organisation with industry trends.

*By Chris Wilson*
*Partner*
*Director, Philanthropy & Social Capital*

*With support from David Knowles,*
*Partner | Head of Philanthropy & Social Capital*

**May 2015**

KODA

# *The 2015 Koda Capital Non-Profit Sector Review*

This Review is designed to explore the non-profit sector as a whole and provide charity leaders with a reference point to compare and discuss their own organisations.

The Review draws on a number of sources including the recently released Australian Bureau of Statistics (ABS) data found in the 2012-13 Australian National Accounts – Non-Profit Institutions Satellite Account. The ABS data looks at Non-Profit Institutions (NPIs), defined by the ABS as 'legal or social entities, formed for the purpose of producing goods or services, and whose status does not permit them to be a source of income, profit or financial gain for the individuals or organisations that establish, control or finance them.' As at June 2013, there were 56,894 NPI organisations in Australia registered with the ATO.

An issue the non-profit sector faces is a lack of data and analysis. At Koda Capital we are committed to doing our part to address this issue and help inform the sector. The Review draws upon the latest available statistics and the experience of Koda's Philanthropy & Social Capital team.

This Review is divided into separate sections; each section contains both key take outs (for a snapshot) and deeper analysis (for comprehensive insights). The Review can be read in its entirety for a complete overview of the non-profit sector or the following sections can be explored individually:


Executive Summary ........ 2
The Australian Non-Profit Sector Highlights ........ 4
The State of Play – A time of great flux ........ 5
The Non-Profit Sector – A growing contribution to Australian society ........ 6
The Non-Profit Sector Balance Sheet – Property dominates and cash is perceived as king ........ 11
Non-Profit Income – Reliance on government increases ........ 14
Non-Profit Expenditure – A labour-intensive business ........ 21
Australian Giving – Growing and benefiting from structured giving ........ 28
Looking Forward – A digital age where traditions are challenged ........ 31
Conclusion ........ 32

# *Executive Summary*

The non-profit sector is a significant contributor to Australian life in a community, cultural and economic sense.

As this Review shows, the sector is large, diverse and growing.  Recent significant growth has been achieved without a proportionate rise in income or workers, suggesting the sector may have begun to operate on a more efficient basis.

The scale and significance of the non-profit sector shows it must be considered important in helping to shape the Australia we want.

Measuring the sector's impact on Australian society is both challenging and essential. Measurement is key to increasing the sector's capacity to address social issues, which is the end goal.   Yet, the non-profit sector cannot - and should not be expected to - address social issues on its own.

The opportunity is to unlock the sector's potential by getting the other key players in society to work alongside it.  For too long social issues have been assigned to governments, corporations, non-profits and philanthropic organisations individually and tackled by them in isolation.  There is plenty of evidence this approach has not worked.

Now is the time for the principal players in Australian society to realise they share responsibility for creating the Australia we want to live in and can best create it by working collaboratively on the challenges and opportunities of our time.

***Specific observations from the Review***

**The sector is significant in terms of its economic and social contribution to Australian society.**  This is a sector that employs 1.08 million Australians and is predicted to contribute more than $60 billion to Gross Domestic Product this year.  It is time for federal and state governments to view the sector as a strategic asset worthy of investment.

**There is a growing belief that (where possible) non-profits need to put an economic value on their work, particularly because funders from the government and philanthropic sectors increasingly reward evidence of success.** The true contribution of the non-profit sector cannot yet be measured - as the saying goes, not everything that counts can be counted.  That said, many things that count can be counted and measuring impact is a critical challenge the sector must accept.

**Non-profits should be diversifying their income streams and taking steps to reduce their overall dependence on external funding.**  Government has long been a major funder of the non-profit sector in Australia.  This Review highlights a growing reliance on government funding – one that is at odds with the reality of spending pressures at state and federal level.  As Australian governments look to balance the books, many non-profits face uncertain times as funding is cut, or transferred to programs based more closely on an 'outcomes based' or 'pay-for-success' model.

**Non-profits should be looking to take advantage of Australia's highly trained, highly educated workforce and Australia's volunteer culture to build strong networks of skilled volunteers who are prepared to lend their talents as well as their time.** The Review reveals the non-profit sector to be a significant and flexible employer in Australia.  Employees are expensive though - more so than in many other developed countries – and in fact labour costs represent almost half of all the average non-profit's costs. Although the Review highlights how the sector is not as reliant on volunteering as some may believe, it does show Australia is a world leader when it comes to this particular activity. Skilled volunteering represents an opportunity to improve outcomes in a cost-effective manner.

**If charities want to attract significant philanthropic support, they should be helping wealthy Australians to structure their philanthropy and showing them how much they can get from giving.** Whilst it is important for charities to show donors the impact of their giving, at this upper level they also need to emphasise how personally rewarding it can be for the donor and their family. The overall growth in giving has been modest after two difficult 'GFC years', but there are two reasons to be cheerful. As this Review shows, the significance of Private Ancillary Funds (PAFs) is beginning to come through in the numbers. Firstly, over 1,270 wealthy Australians have established a PAF since their introduction in 2001 and PAFs have already distributed over $1.4 billion to Australian charities. Secondly, our press is now reporting a steady stream of big gifts and there is much hope in the philanthropy sector that this will encourage more and more wealthy Australians to give and give publicly.

**Australian non-profits need to build, protect and commercialise intellectual property like never before. They need to think about the commercial and social value of their products and services in a global as well as local context.** With an eye to the future, this Review draws attention to the growing impact of the digital revolution in the non-profit sector. Whether you look at availability of information via the Australian Charities and Not-for-Profits Commission's new portal or the proliferation of mobile apps revolutionising service delivery in health and education, it is clear technology is a major catalyst for change in the sector. As technology reduces the tyranny of distance, information becomes more valuable to non-profits, and we expect organisations in the sector to focus more and more on the value of their own intellectual property.

In preparing this Review, Koda was conscious that readers may interpret data differently or may have come across different data that is equally relevant to the topic. Our purpose was to share information with the sector. We would consequently be delighted to hear from people with different views or alternative sources of information. Our contact details are included for that reason.

Chris Wilson
Director of Philanthropy & Social Capital, Partner

Chris.Wilson@kodacapital.com | 0428 866 607

David Knowles
Head of Philanthropy & Social Capital, Partner

David.Knowles@kodacapital.com | 0429 726 277

# *The Australian Non-Profit Sector Highlights*

The size, impact and influence of the non-profit sector in Australia should not be underestimated:

- In 2012-13, according to the latest ABS numbers, NPIs reported a net-worth of $123.95 billion
- There were 60,460 Tax Concession Charities (TCC) and 28,100 Deductible Gift Recipients (DGR) as of 2014
- Non-profits contributed $57.7 billion (3.8%) to Gross Domestic Product (GDP): an increase of $23 billion from 2006-07, which saw a contribution of $34.7 billion
- The increased contribution to the economy has not been matched by a proportionate rise in income or workers
- NPIs in 2012-13 brought in over $107 billion of income from a variety of sources
- Labour costs are the greatest expenditure for non-profit organisations, equating to 48% of all costs
- The non-profit sector employs 1,081,900 people. That equates to 9.27% of the 11,668,300 people employed in Australia at the time
- Government funding grew from 33.5% of income for the sector in 2006-07 to 38% in 2012-13. Income from government is the biggest income source for NPIs
- Giving continues to grow, though from a relatively low base. Its speed of growth does not match the need for additional capital that the sector requires to thrive
- Distributions from Private and Public Ancillary Funds totalled over $550 million in 2012-13
- In 2006-07 (the last time figures were released) the ABS estimated that the contribution of volunteering alone equated to $14.6 billion dollars
- Non-profits have increased their cash positions, with the sector holding over $32 billion in Cash and Deposits
- Property, Plant & Equipment dominates the asset base of charities, representing 66% of total assets

This impact is significant, yet the true value the non-profit sector adds to our society and economy is difficult to precisely measure given the nature of the work conducted. We believe it is larger than the numbers we have just cited would suggest.

# *The State of Play – A time of great flux*

The sector has entered a period of significant change, uncertainty and in some cases hardship. It is important that when we examine statistics associated with the sector we understand the environment in which these numbers have been acquired. Since 2006-07, when the ABS last released the data on the sector, we have seen:

- The Global Financial Crisis, which resulted in heightened needs, reduced funding and less income from investments
- The Australian Charities and Not-For-Profits Commission (ACNC) was instated only to find months later its future was in limbo. Today the ACNC looks here to stay for the foreseeable future. The Federal Government's plan to abolish the ACNC has been declared a low priority
- Non-profits have grappled with how their work might benefit from the emergence of social enterprise and the availability of a new form of capital generated through the impact investment market. Transitioning their organisations to benefit from these fields has challenged traditional thinking and required new skill-sets
- Measurement of impact has been a focus for charities and funders alike. For many leading non-profits it has become an important organisational decision-making tool for allocating scarce resources. However, determining true impact is often hard and expensive
- Corporates have moved away from chequebook philanthropy and towards engaged collaborations and concepts such as Shared Value. For non-profits this change has often resulted in an extra strain on resources as corporates demand more from partnerships
- The ability to engage governments has become increasingly difficult in an environment of constant political upheaval and a desire to deliver surplus budgets. We have also seen governments turning their gaze to 'pay for outcomes' and 'user pays' models, drastically changing the way non-profits are funded
- The digital revolution is afoot and a new generation of supporters want to be engaged in a new manner. Non-profits are scrambling to respond and invest appropriately in this field
- The vast majority of income available to the sector continues to be tied to certain activities. Limited funding is available for organisational capacity building, in many cases stifling an organisation's ability to scale and grow
- Collaboration, mergers & acquisitions are being explored by many non-profit groups
- There has been a heightened focus on governance and management capabilities from funders and other stakeholders. Charities are expected to operate like businesses, though more often than not remain funded as they have traditionally been, with a focus on income rather than capitalisation

In a period of great change and upheaval the sector has continued to grow. The fight for sustainability amongst Australian non-profits is as strong as ever and traditional thinking is being questioned in boardrooms across the country. Understanding the environment and market within which non-profit organisations operate is essential in such discussions and this Review is a tool that we hope non-profit leaders and their teams can draw upon.

# *The Non-Profit Sector – A growing contribution to Australian society*

NPIs contributed 3.8% to GDP or $57.7 billion in 2012-13. This compares to the United States where the sector contributed 5.4%[i] to GDP or Canada with a contribution of 8.10%[ii].

Whilst GDP is often cited, Gross Value Added (GVA) is another, arguably more appropriate, measure. GDP is the value of all the goods and services produced. GVA takes into account the market value of goods and services produced minus the cost of goods and services used in their production.

Non-profit organisations represented $54.8 billion or 3.9% of total GVA (excludes the contributions of volunteers, the data for which is not yet available). In 2006-07 the sector contributed 3.2% to GVA. The growth of the sector has been impressive, especially when you factor in that the 68% increase (in dollar terms) in GVA has been achieved with only a 41% increase in income and only 22% more employees. Non-profits are contributing more with less and efficiencies may have been found. Koda Capital is also seeing that many organisations are fully stretched, raising questions about whether further efficiencies can be achieved and if this level of productivity can be maintained.

| | 2006-07 | 2012-13 | % Change |
|---|---|---|---|
| Gross Value Added | $32.555 billion | $54.796 billion | 68% |
| NPI Income | $75.987 billion | $107.480 billion | 41% |
| NPI Employees | 889,900 | 1,081,900 | 22% |

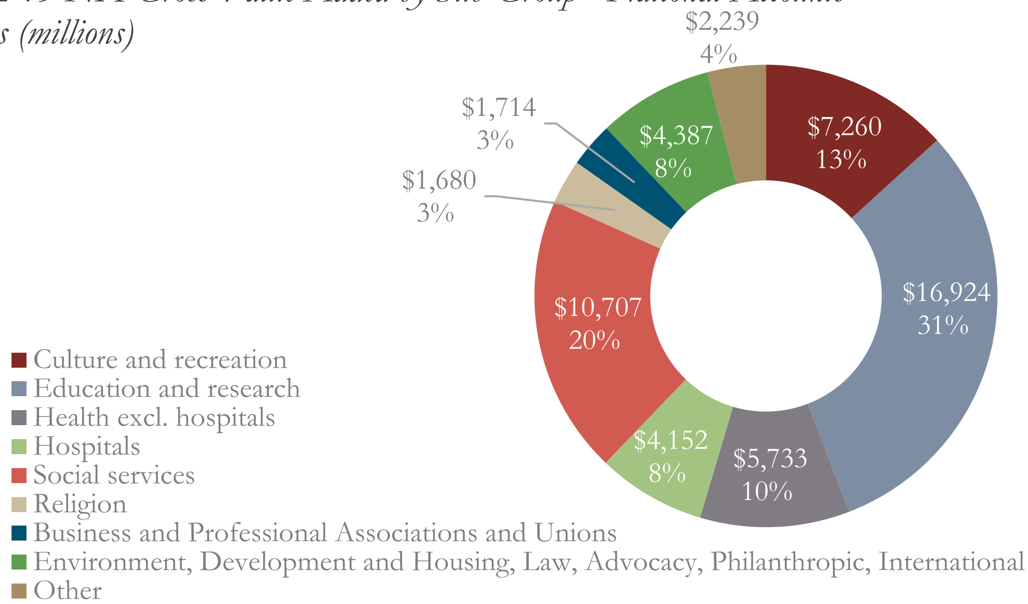
Source: ABS, Koda Capital

The largest contributors to GVA were the ‘Education & Research’ and the ‘Social Services’ sector, contributing 30.9% ($16.92 billion) and 19.5% ($10.71 billion) respectively. In terms of the number of NPIs, ‘Education & Research’ equated to 11% of NPIs and ‘Social Services’ at 13%. In these sectors there are fewer organisations producing more, indicating a smaller number of larger organisations. ‘Culture & Recreation’, ‘Religion’ and the sub-group known as ‘Environment, Development and Housing, Law, Advocacy, Philanthropic, International’ represented 20%, 20% and 21% of NPIs yet only contributed 13.2%, 3.1% and 8% respectively to GVA, indicating that in these fields there are more organisations on average contributing less.

***Key Takeouts:***

- *The growth in the non-profit sector’s contribution to the economy has not been matched by an equivalent growth in income or employees*
- *‘Education & Research’ along with ‘Social Services’ and ‘Health Excl. Hospitals’ were the biggest contributors to GVA*
- *Australia is a world leader when it comes to volunteering, with more than 36% of the population over 18 volunteering*
- *Competition in the sector is heating up*

*2012-13 NPI Gross Value Added by Sub-Group - National Accounts Basis (millions)*

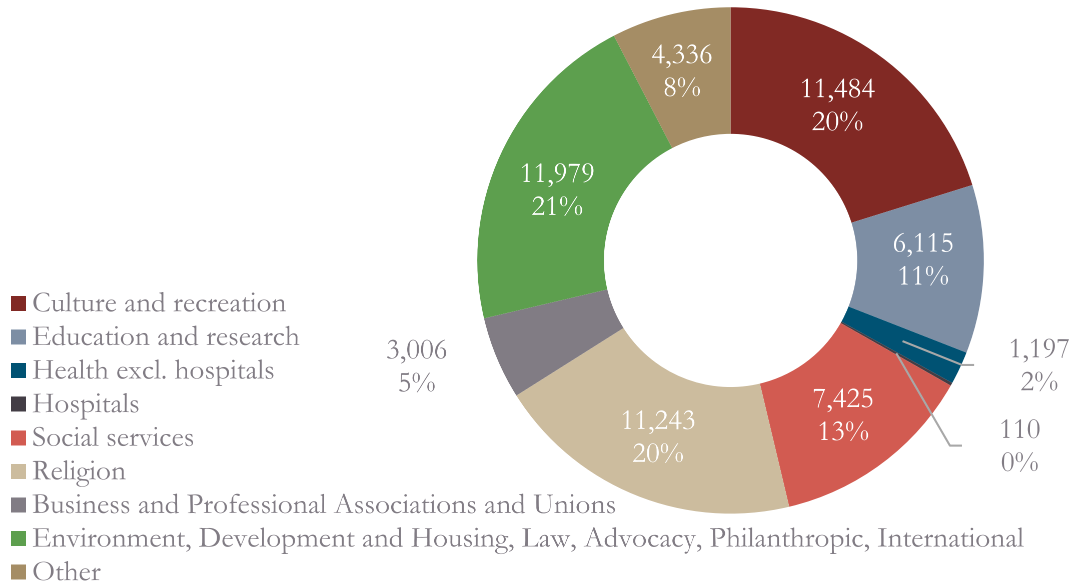



Source: ABS, Koda Capital

***Defining Market NPIs & Non-Market NPIs***

Of the total number of NPIs there are 21,277 'Market' NPIs and 35,617 'Non-Market' NPIs. 'Market' NPIs at a minimum cover their cost of production through sales income (e.g. membership fees, sponsorship, sales of goods) whilst 'Non-Market' NPIs don't rely on covering costs with sales, often relying on gifts or donations. In future years Koda Capital suspects that the percentage weighting to 'Market' NPIs will increase as organisations look to build out more sustainable business models.

*Number of NPIs (30 June 2013) - Total 56,894 NPIs*




Source: ABS, Koda Capital

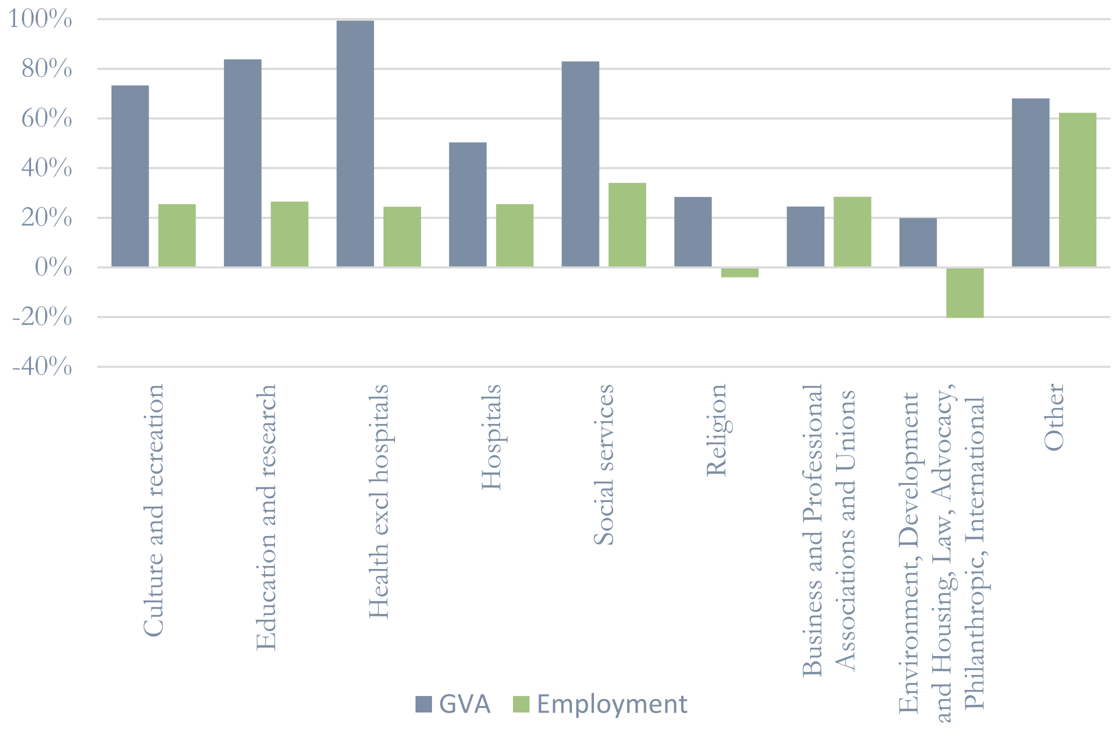
The table below highlights the increase in GVA between 2006-07 and 2012-13 across the sub-groups, with ‘Health excl. Hospitals’ seeing a 99.4% increase and ‘Education & Research’ posting an 83.8% change.

| NPI GROSS VALUE ADDED PERCENTAGE CHANGE FROM 2006–07 TO 2012–13 | |
|---|---|
| Culture and recreation | 73.3% |
| Education and research | 83.8% |
| Health excl. hospitals | 99.4% |
| Hospitals | 50.4% |
| Social services | 83.0% |
| Religion | 28.4% |
| Business and Professional Associations and Unions | 24.5% |
| Environment, Development and Housing, Law, Advocacy, Philanthropic, International | 19.9% |
| Other | 68.1% |

Source: ABS, Koda Capital

When you compare the increase in employees to the increase in GVA across the sub-groups you note that the increase in GVA has often been achieved without an equivalent increase in employees. Take for example ‘Health excl. Hospitals’, an area that has increased its GVA nearly 100% with only a 24% increase in workforce. Not all sub-groups have recorded similar results. ‘Business & Professional Associations & Unions’ recorded one of the highest levels of growth in terms of employees, up 28%, but their GVA increase was only 24.5%, the second lowest amount of all the sub-groups.

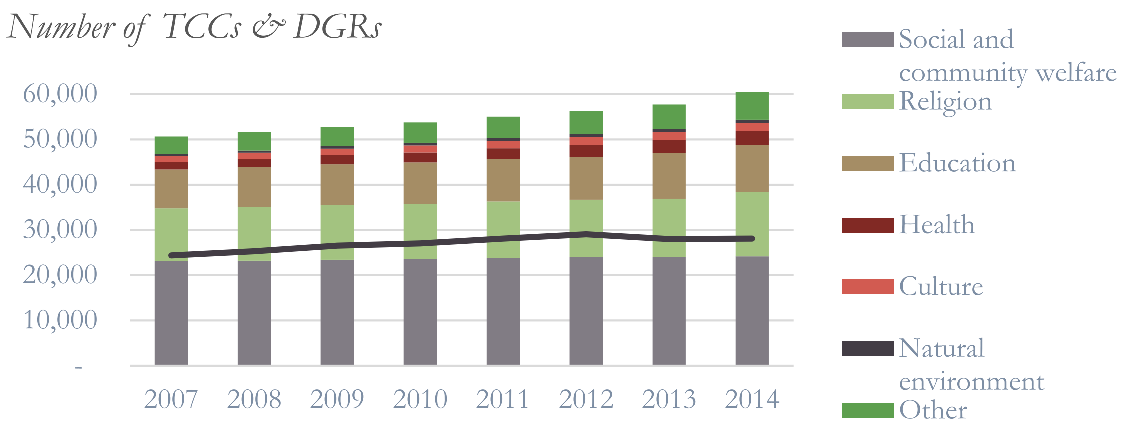
*NPI Gross Value Added & Employment Percentage Change From 2006–07 to 2012–13*




Source: ABS, Koda Capital

***Number of Non-Profit Organisations and Charities***

Previously, we looked at the number of NPIs in the industry. However, to look at charities alone, the ATO annually releases information on the number of TCCs which enables us to look at the charity breakdown by sub-group over-time. ATO data shows that the sector continues to grow; in 2007 there were 50,629 TCCs, growing 19% to 60,460 in 2014. Over the period the number of 'Health' organisations grew 95%, 'Natural Environment' grew 71.4% and 'Culture' grew 35.1%. 'Social & Community Welfare' only saw growth of 4.3%.



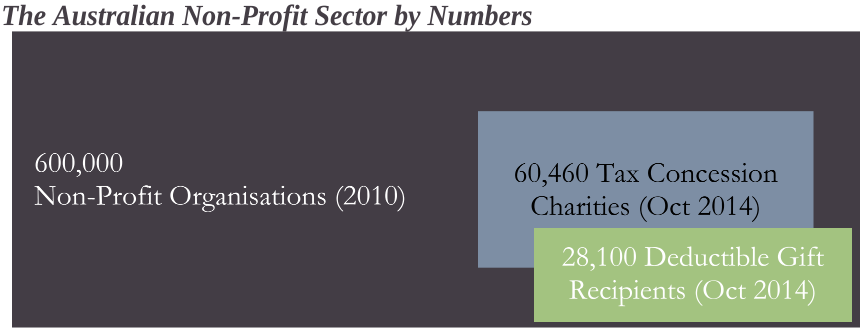
Source: ATO, Koda Capital

In 2014, there were 388 Australians for every TCC and 836 Australians for every DGR. In June 2007, there were 411 and 854 Australians for every TCC and DGR respectively. So whilst there have been many who have called for a decrease in the number of charities, it will be pleasing for them to know that the situation has improved slightly.

In Canada there are an estimated 170,000 non-profits and charities[(ii)] and in the United States according to the Internal Revenue Service (IRS) there are 1.44 million non-profits and charities[(i)]. That equates to one non-profit group for every 206 Canadians and 220 Americans respectively.

Looking at NPIs or TCCs does not provide the entire picture. In 2010, the Productivity Commission reported that there were an estimated 600,000 non-profits in Australia, the majority of which were not economically significant. That is one non-profit for every 39 Australians. This indicates that there is a long tail of small non-profits across the country.  In March 2015, 1,380 charities had their registrations revoked by the ACNC for not submitting their 2013 and 2014 Annual Information Statements. In April 2015, the ACNC sent out a further 6,000 letters containing a 'Notice of Intention to Revoke Charity Status'. In April 2015, there were 58,223 charities registered with the ACNC; it appears this number may reduce somewhat in the near term despite new charities registering.

***The Australian Non-Profit Sector by Numbers***



Source: Productivity Commission, ATO

### *Competition*

'Competition', a term more often associated with for-profits, is fast becoming part of the non-profit leaders' vernacular. Non-profits are competing amongst themselves for scarce philanthropic dollars, government funding/contracts and for beneficiary dollars (e.g. National Disability Insurance Scheme). The way charities are being funded is changing with the introduction of models such as 'user pays', 'pay for results' and so on. This often creates an opportunity for for-profit institutions to move in and compete (e.g. employment sector). As a result, Koda Capital is increasingly seeing non-profits compete against for-profits. We are also seeing a greater willingness on behalf of governments to give contracts for social programs to for-profit entities, where historically such work would have been allocated to the non-profit sector.

In a world of intensified competition, non-profits need to understand their competitive advantages, their unique selling propositions, the cut-through of their brand and their ability to capitalise on it. Brand and brand awareness is at the forefront of thinking in the for-profit world. Koda Capital believes that in the coming decade more non-profit organisations will begin investing in their brands.

### *Volunteering*

In November 2010 the ABS conducted its General Social Survey. It showed that 6.1 million Australians over the age of 18 volunteered, representing 36% of the adult population. In 2006-07 the ABS estimated that volunteering contributed $14.6 billion to the economy, totalling 713 million hours of voluntary work. As a comparison, in the United States 25.4% of adults volunteered in 2013[i].

### *Social Spending Domestically & Abroad*

To get a feel for what social spending looks like in Australia compared to other nations, we can look at two Organisation for Economic Co-operation and Development (OECD) indicators: Official Development Assistance (ODA) and Social Spending as a percentage of GDP. ODA is defined by the OECD 'as government aid designed to promote the economic development and welfare of developing countries'. 'Social Spending' is defined by the OECD as 'social expenditure comprised of cash benefits, direct in-kind provision of goods and service, and tax breaks with social purpose. Benefits may target low-income households, the elderly, disabled, sick, unemployed, or young persons.'

According to the OECD, the Australian Government spends 18.98% of GDP on 'Social Spending', less than the United States, United Kingdom and New Zealand and more than Canada. When we look at ODA as a percentage of Gross National Income (GNI), we find that Australia spends 0.27% - less than half the ratio of the United Kingdom, though 0.08% more than the United States. A well-known United Nations target is to take national ODA levels to 0.7% of GNI.

| | Australia | United States | United Kingdom | Canada | New Zealand |
|---|---|---|---|---|---|
| Official Development Assistance (USD) as a Percentage of Gross National Income (GNI) - 2014 | 0.27% | 0.19% | 0.71% | 0.24% | 0.27% |
| 2014 Official Development Assistance (USD - billion) | $4.2 | $32.73 | $19.39 | $4.2 | $0.5 |
| OECD Estimated Social Spending (% of GDP) (2014) (2013 New Zealand) | 18.98% | 19.23% | 21.74% | 16.96% | 20.75% |

Source: OECD

# *The Non-Profit Sector Balance Sheet – Property dominates and cash is perceived as king*

The ‘Net Worth’ of the non-profit sector has increased significantly from 2006-07, up $22.2 billion (21.8%) to $123.9 billion in 2012-13. ‘Total Assets’ have grown by $37.9 billion or 27.5% and ‘Total Liabilities’ have increased $15.7 billion or 43.2%.

| | Total NPIs 2006-07 (billion) | Total NPI 2012-13 (billion) | Difference (billion) |
|---|---|---|---|
| Total Assets | $138.064 | $175.983 | $37.919 |
| **Non–financial assets** | **$103.449** | **$130.387** | **$26.938** |
| Property, plant and equipment | $89.451 | $116.856 | $27.405 |
| Inventories | $1.062 | $1.217 | $0.155 |
| Other assets | $12.936 | $12.314 | -$0.622 |
| **Financial assets** | **$34.614** | **$45.596** | **$10.982** |
| Cash and deposits | $20.117 | $32.494 | $12.377 |
| Investments held with fund managers | $14.498 | $13.102 | -$1.396 |
| Liabilities | $36.332 | $52.036 | $15.704 |
| Provision for employee entitlements | $4.198 | $6.833 | $2.635 |
| Other liabilities | $32.133 | $45.203 | $13.070 |
| Net worth | $101.732 | $123.946 | $22.214 |

While the sector has grown over the period between 2006-07 and 2012-13, the general breakdown of its assets and liabilities has remained relatively stable. ‘Property, Plant & Equipment’ continues to dominate. Whilst ‘Financial Assets’ have remained relatively stable, there has been a noticeable move away from ‘Investments Held with Fund Managers’ to ‘Cash & Deposits’.

***Key Takeouts:***

– *The average NPI has a Net Worth of $2.2 million and assets totalling over $3 million*

– *The Net Worth of the non-profit sector is up 21.8% between 2006-07 & 2012-13*

– *Non-profit organisations have bolstered their cash positions by 62% and reduced their investments held with fund managers*

– *Property, Plant and Equipment dominates the asset base of NPIs, representing 66% of total assets*

– *NPIs hold $32.5 billion in Cash and Deposits - a position that must be reviewed in a low interest rate environment*

| | Total NPIs 2006-07 | Total NPIs 2012-13 |
|---|---|---|
| Total Assets | % of Assets | % of Assets |
| **Non–financial assets** | **75%** | **74%** |
| Property, plant and equipment | 65% | 66% |
| Inventories | 1% | 1% |
| Other assets | 9% | 7% |
| **Financial assets** | **25%** | **26%** |
| Cash and deposits | 15% | 19% |
| Investments held with fund managers | 10% | 7% |
| Liabilities | % of Liabilities | % of Liabilities |
| Provision for employee entitlements | 12% | 13% |
| Other liabilities | 88% | 87% |

Source: ABS, Koda Capital

Set out below is a breakdown of the non-profit sector's balance sheet on a per NPI basis. This highlights the characteristics of an average NPI's balance sheet. Here we find that an average NPI has an estimated 'Net Worth' of $2.2 million, 'Total Assets' of $3.1 million and 'Liabilities' totalling $0.91 million.

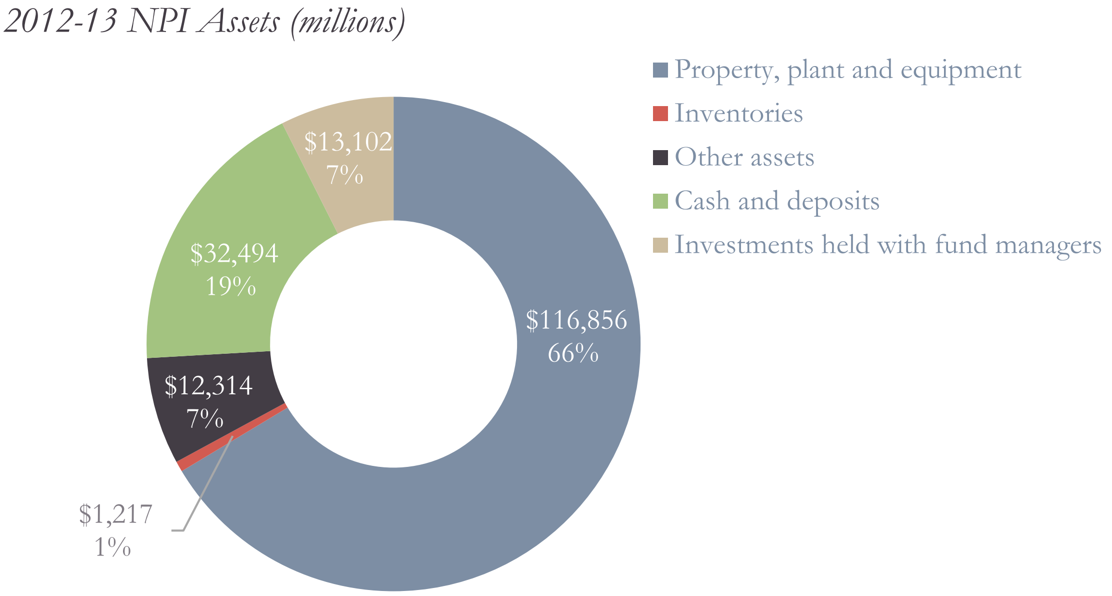
Non-profit leaders may wish to compare their balance sheet with the one below. This is not to say that the sector has it right; it is merely a starting point to assess your own organisation's position with the sector more broadly.

| NPI BALANCE SHEET–as at 30 JUNE 2013 | | Per NPI |
|---|---|---|
| Total Assets | $ | 3,093,173 |
| **Non–financial assets** | | |
| Property, plant and equipment | $ | 2,053,925 |
| Inventories | $ | 21,391 |
| Other assets | $ | 216,438 |
| **Financial assets** | | |
| Cash and deposits | $ | 571,132 |
| Investments held with fund managers | $ | 230,288 |
| | | |
| **Liabilities** | | |
| Provision for employee entitlements | $ | 120,101 |
| Other liabilities | $ | 794,513 |
| Net worth | $ | 2,178,543 |

Source: ABS, Koda Capital

### *Property, Plant & Equipment*

Property dominates the assets held by NPIs. The big positive is that non-profits have benefited from their large property holdings due to the continued increase in property prices. When these assets are put towards mission related activities they can greatly reduce a non-profit's overheads over time. However, property isn't without its pitfalls. Disputes, maintenance issues, costs and refurbishments can be draining on resources. If the assets aren't being used for mission-related activity and rather represent an investment on behalf of the organisation, then over-exposure to a single asset class comes with risk.

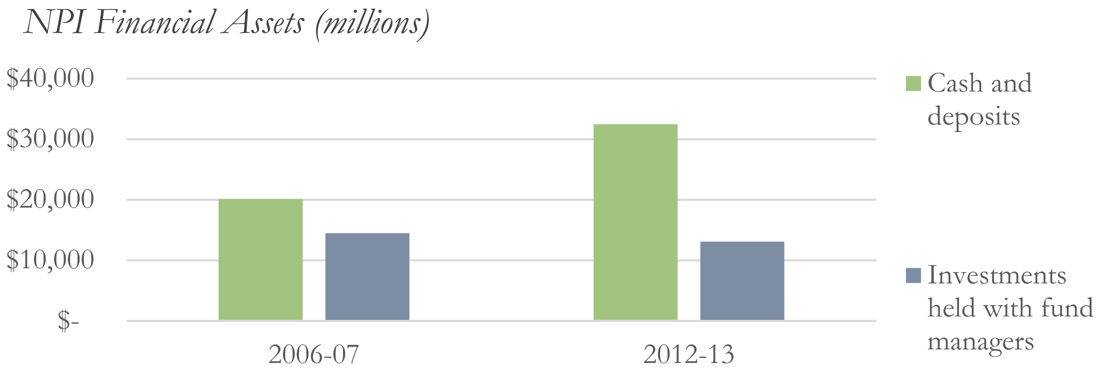



Source: ABS, Koda Capital

In recent times Koda Capital has seen many organisations question their property positions. Some non-profits are beginning to utilise these assets more efficiently by deriving alternative income streams through redevelopments, rents or running mission-aligned social enterprises. Other charities are selling their non-mission related holdings to establish an endowment that is invested across multiple asset classes, reducing their risk yet maintaining a reliable income stream and capital growth over time, to fund mission related activity. Non-profit leaders with large property assets should be asking if these assets are being utilised in the most efficient way. They need to work out why the organisation should hold onto property assets. Are they mission assets or investment assets? Are they equipped to be property managers? How much organisational resource and board oversight do these assets require?

***Financial Assets***

Income from ‘Financial Assets’ was down between 2006-07 and 2012-13. Non-profit leaders have drastically increased the cash positions of their organisations, up from $20.1 billion to $32.5 billion - a 62% increase. Over the same period money held with fund managers has decreased by 10%.  Aside from market appreciation of invested assets, Koda Capital believes that a re-balancing to fund managers is likely to have occurred between 2013 and 2015 due to the declining interest rate environment.




Source: ABS, Koda Capital

# Non-Profit Income – *Reliance on government increases*

Income generated by the sector rose to $107.48 billion in 2012-13 - up from $75.99 billion in 2006-07. NPIs received 38% of their income from government sources in 2012-13 - up from 33.5% in 2006-07.

Thirty five percent of income comes from ‘Income from Services’, 6% from ‘Sale of Goods’, 2% from ‘Rent, Leasing & Hiring’ and 2% from ‘Investment’ & ‘Royalties’. These forms of income are invaluable to the non-profit sector as they are self-generated. Koda Capital expects such income generation to become a focus for non-profit leaders in years to come as they look at the sustainability of their business models. Non-profits in recent times have been hurt as funders have pulled program funding in the wake of the Global Financial Crisis. The funding available increasingly comes with stringent ties that prevent charities from deciding where resources are best spent, often leaving organisational infrastructure (key for mission success) underfunded. Koda Capital predicts an increase in income generation in these particular areas, as non-profits build social enterprises, establish endowments and place a value on their intellectual property.

***Key Takeouts:***

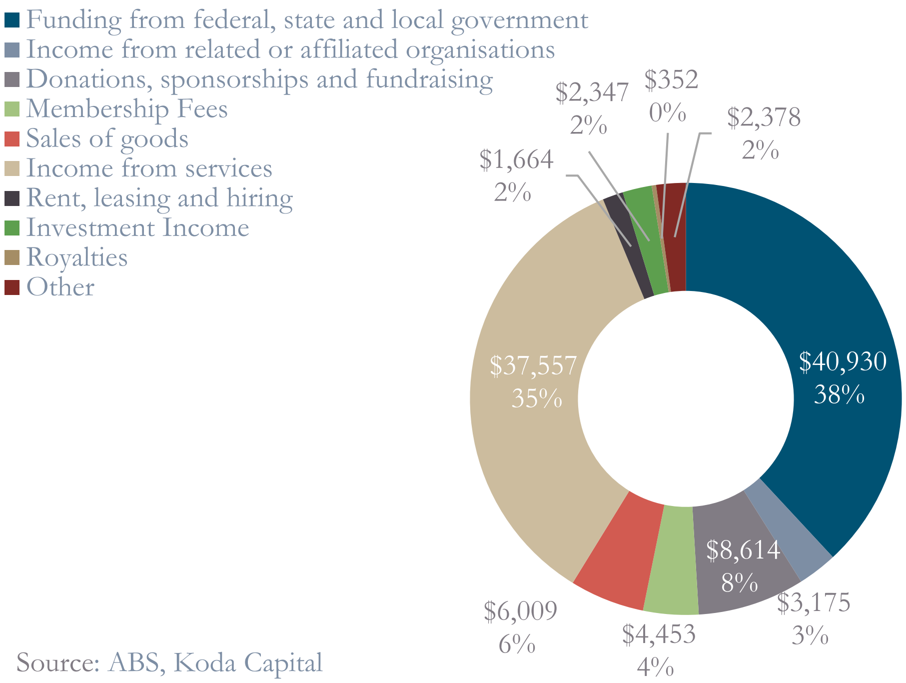
– *Reliance on government funding has increased between 2006-07 and 2012-13, representing 38% of income for the sector in 2012-13*

– *Non-profits that are heavily reliant on income from government need to adjust their business models in the face of government funding pressures*

– *On average in 2012-13 a DGR could expect $81,590 in tax-deductible gifts*

– *Between 2001-02 and 2013-14, franking credits have provided a cumulative total of over $5.2 billion dollars to the sector*

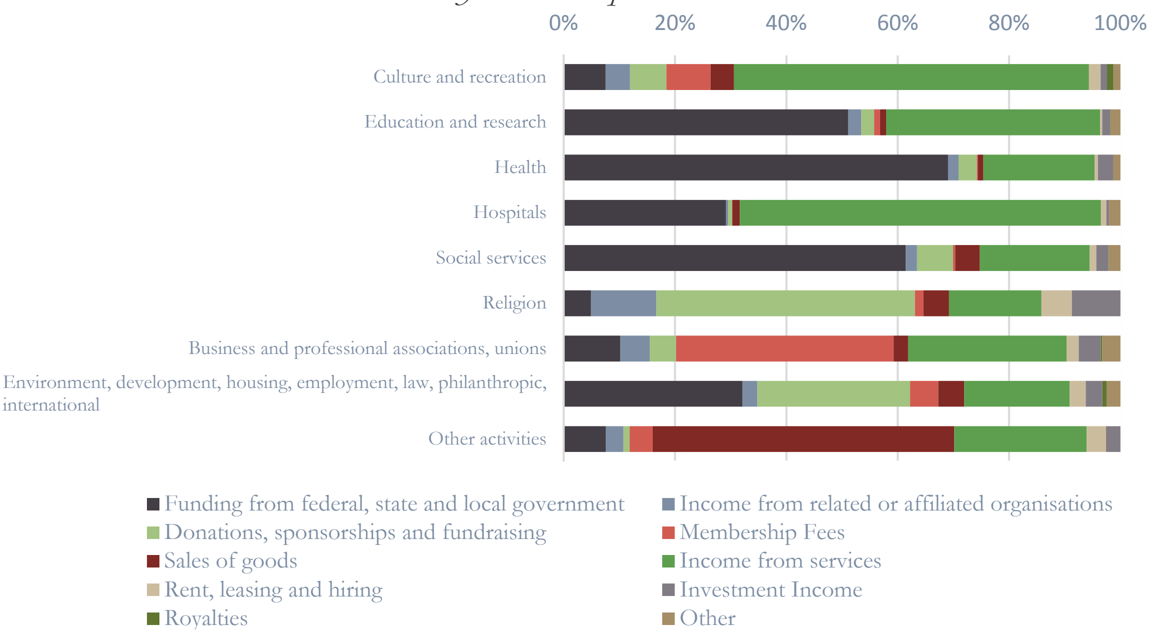
*2012-13 NPI Income (millions)*




Source: ABS, Koda Capital

‘Hospitals’ generate the majority of their income from ‘Income from Services’ totaling 64.9% of income generated, as does ‘Culture & Recreation’ at 63.7%. ‘Religion’ stands out due to its heavy reliance on ‘Donations, Sponsorship and Bequests’, which equates to 42.1% of their income, along with its strong reliance on ‘Investment Income’ at 7.9% of total income. ‘Business & Professional Associations, Unions’ income was predictably generated primarily through ‘Membership Fees’ equating to 39.1% of total income. The next closest was ‘Culture & Recreation’ at 7.9%.

*2012-13 NPI Income Breakdown by Sub-Group*



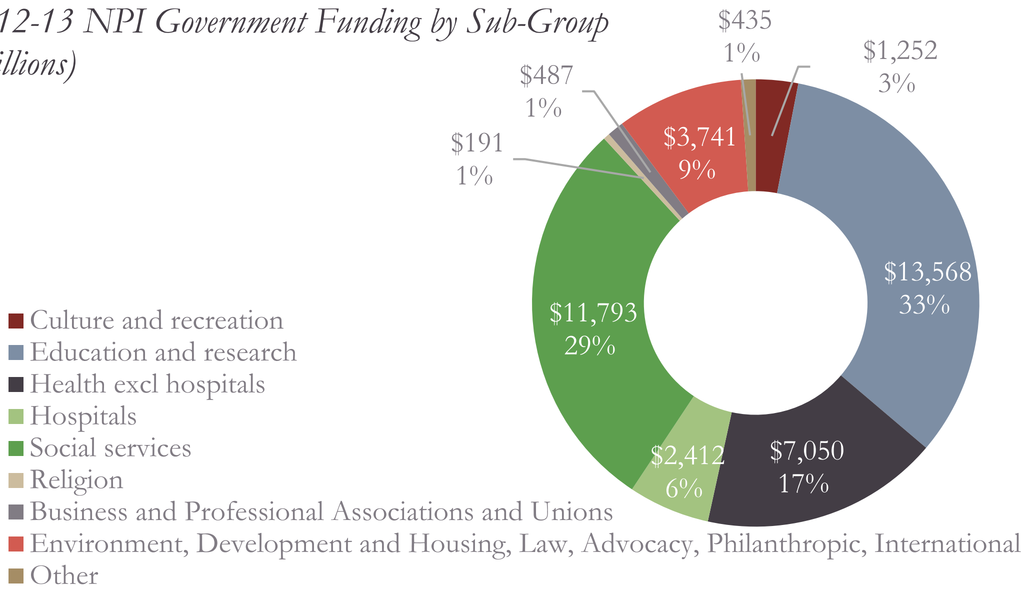

Source: ABS, Koda Capital

***Government Funding***

Income from government sources (Federal, State & Local) was the number one source of income for NPIs, totalling $40.9 billion. Many organisations have talked about diversifying income away from government sources, yet the reliance on government has grown. There is a general understanding amongst sector leaders that this is not sustainable, especially with an ageing population and governments under budgetary pressure.

Sub-groups that rely heavily on government funding include ‘Education & Research’, ‘Health’ and ‘Social Services’ at 51.1%, 69% and 61.4% respectively.

*2012-13 NPI Government Funding by Sub-Group (millions)*



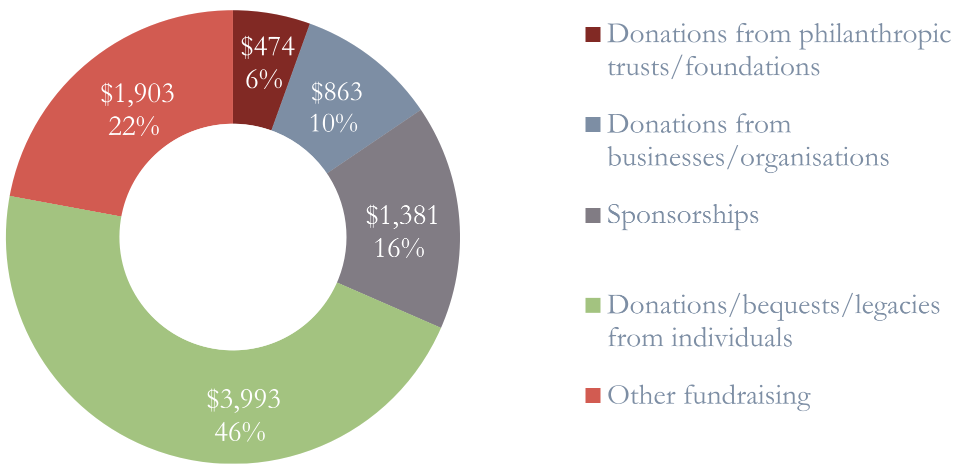

Source: ABS, Koda Capital

Is the sector at the peak of its reliance on government funding? This increasing reliance comes at a time when the sector is realising that it is unsustainable. Some governments are working with non-profit groups to assist them in diversifying their income streams away from government sources. Changing business models and developing new revenue streams takes time, so it may take time for adjustments to be reflected in the data.

***Fundraising, Sponsorship & Bequests***

In 2012-13, 'Fundraising, Sponsorship & Bequest' income totaled $8.6 billion, representing 8% of total income. Surprisingly, there was a 5% drop in income from 'Donations, Bequests & Legacies from Individuals' between 2006-07 when it totalled $4.2 billion and 2012-13 when it totaled $4 billion.

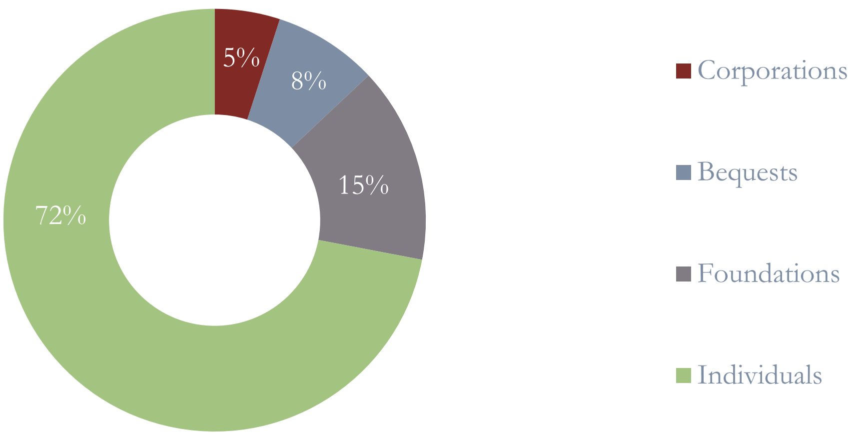
*2012-13 NPI Fundraising, Sponsorship & Bequest Income (millions)*




Source: ABS, Koda Capital

In the United States, 72% of donations come from 'Individuals' and 15% from 'Foundations'. According to Giving USA, in 2013 giving was up 4.4% or 3% when adjusted for inflation[iii]. Giving to religious organisations was down 1.6%. This continues a downward trend for religious giving in the United States, though religion still receives the most gift income, accounting for 31% of the total $335.17 billion donated.

*2013 United States Giving by Source - total USD $335billion*

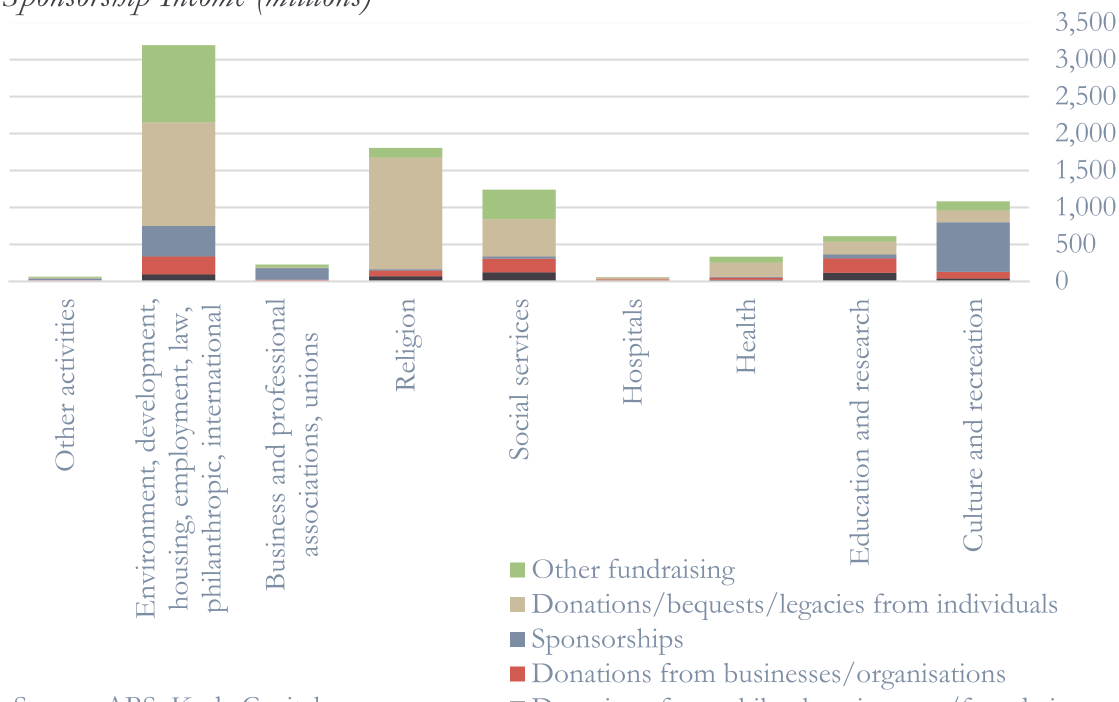



Source: ABS, Koda Capital

At Koda Capital we work with many groups to provide guidance on fundraising activities. Often we are met with what we view as unrealistic expectations. There is limited philanthropic and sponsorship funding available to Australian non-profits. On average an NPI can expect to raise $70,183 from 'Donations/Bequests/Legacies from Individuals', $24,273 from 'Sponsorship', $8,331 from 'Donations from Philanthropic Trusts/Foundations' and $15,169 from 'Donations from Businesses/Organisations'. Looking at the 28,100 DGRs as at October 2014, on average each of them could expect $81,590 worth of the total $2.3 billion 2012-13 tax-deductible gifts made in Australia. This highlights how competitive the fundraising market is and doesn't bode well for charities that are looking to replace lost government grants with philanthropic dollars.

In dollar terms, 'Social Services' received the most income from 'Donations from Philanthropic Trusts/Foundations' at $122 million with 'Education & Research' following closely at $114 million. The most 'Sponsorship' dollars went to 'Cultural & Recreation' at $672 million. The 'Religion' and 'Environment, Development, Housing, Employment, Law, Philanthropic & International' sub-groups collected $1.51 billion and $1.405 billion respectively from 'Donations/Bequests/Legacies from Individuals', the most of all the sub-groups.

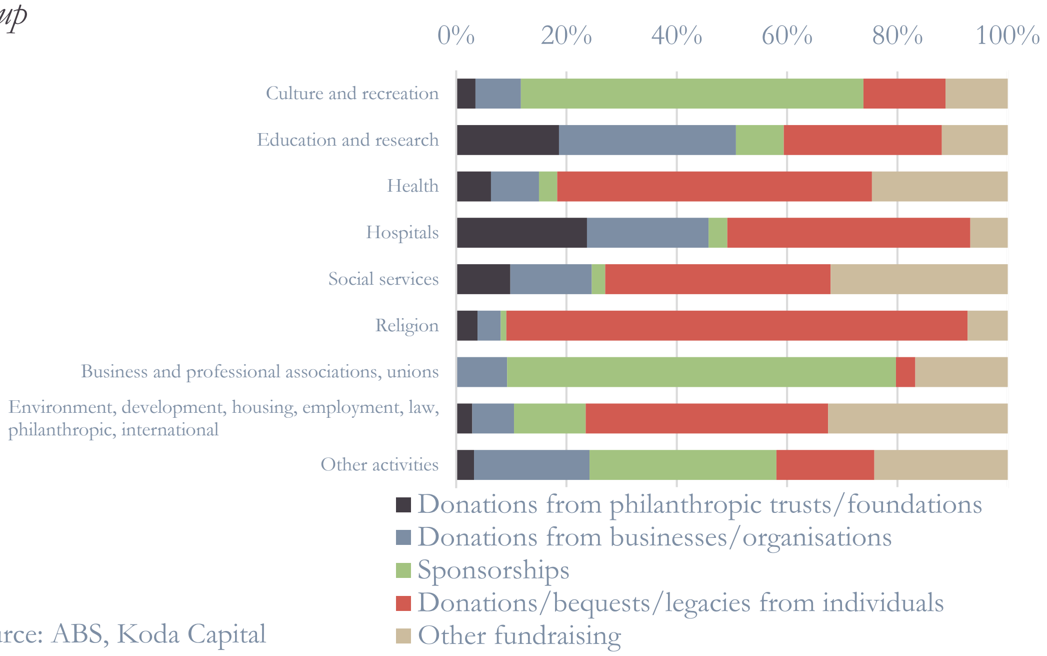
*2012-13 Sub-Group Income Breakdown from Fundraising & Sponsorship Income (millions)*




Source: ABS, Koda Capital

Looking at the sub-groups more closely we see that 'Business & Professional Associations, Unions' along with 'Culture & Recreation' predominantly benefit from 'Sponsorship' dollars representing 70.5% and 62.1% of their total 'Fundraising, Sponsorship & Bequest' dollars respectively. 'Religion' attracts 83.7% of its 'Fundraising, Sponsorship & Bequest' dollars from 'Donations/Bequests/Legacies from Individuals'. 'Religion' maintains this support despite for the most part not being able to offer tax-deductions for donations. 'Health' is also heavily weighted to individual gifts at 57.1% of its income in this segment. The biggest weighting to 'Donations from Philanthropic Trusts/Foundations' belonged to 'Hospitals' at 23.7%, closely followed by 'Education & Research' at 18.7%.

*2012-13 NPI Fundraising, Sponsorship & Bequest Income by Sub-Group*

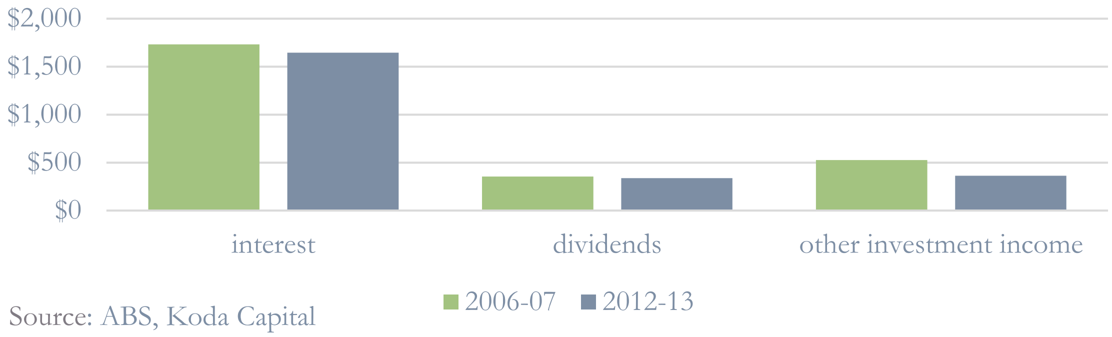



Source: ABS, Koda Capital

***Investment Income***

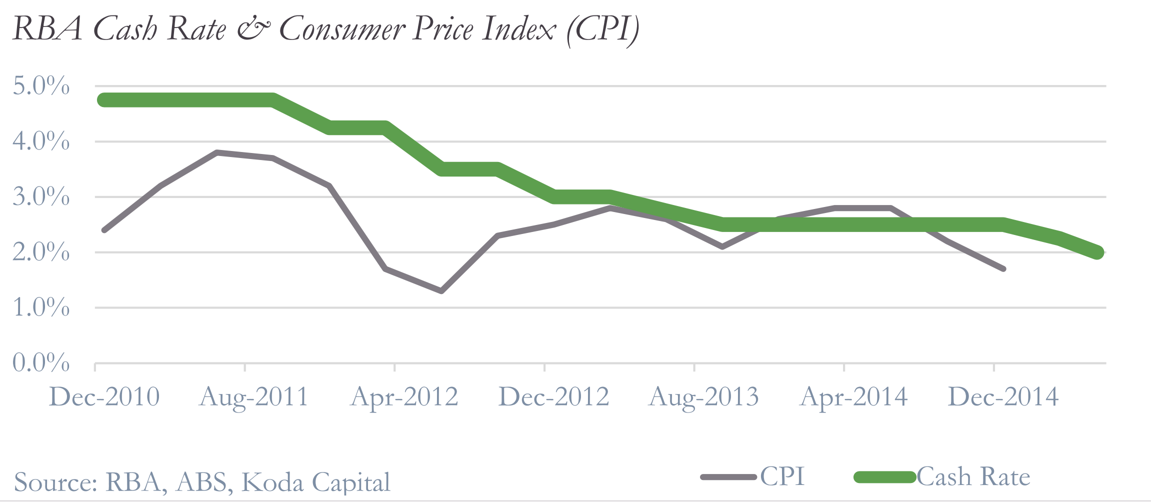
Whilst overall 'Financial Assets' have increased, NPIs have a lower allocation to 'Fund Managers' and a higher allocation to 'Cash and Deposits'. With low interest rates this has meant that despite the larger allocation to 'Cash & Deposit' and 'Financial Assets' overall the income being generated has actually reduced by 10.2%.

*NPI Investment Income (millions)*




Source: ABS, Koda Capital

The illustration below demonstrates that as NPIs have been bolstering their cash positions, the interest returns have diminished. As at December 2014, the Consumer Price Index (CPI) was 1.7% for the year and the Cash Rate at the same time was 2.5%, giving a real return of 0.8%. However, costs for CPI sub-groups 'Education' and 'Health' were up 5.2% and 4.4% respectively, according to the ABS data. The RBA Cash Rate as at May 2015 sits at a record low 2%. Leaders of non-profit organisations should consider their cash positions. Are these positions an investment? Do they represent short term working capital? Are they for organisational growth and capacity building? Answering these basic questions will help determine the appropriateness of these cash positions. Having assets put aside for extended periods in low interest bearing investments is a considerable organisational risk, as the purchasing power for mission-related activities can be diminished by inflation over time.




Over the period between 2006-07 and 2012-13 money held with Fund Managers has decreased. Whilst this decision may have been seen as prudent during and immediately post the Global Financial Crisis, the table below demonstrates the returns of other asset classes. Australian Fixed Interest has returned 7.96% per annum over the last five years and Australian Equities including Franking Credits has returned 17.64% per annum over the last 3 years. United States Equities has returned 8.01% per annum over the last 10 years. It's important that non-profits understand their risk-profiles, cash-flows and time-horizons and have prudent investment governance frameworks to ensure that appropriate portfolios are tailored to the unique circumstances of their organisation.

Asset Class Returns as at 31st March 2015

| Index Name | 1 MTH | 3MTH | 1 Year | 3 Years p.a | 5 Years p.a | 10 Years p.a |
|---|---|---|---|---|---|---|
| Australian Equities - S&P/ASX 200 Franking Credit Adjusted Annual Total Return Index (Tax-Exempt) | -0.06% | 10.33% | 15.83% | 17.64% | NA | NA |
| Australian Fixed Interest - S&P/ASX Australian Fixed Interest Index | 0.82% | 2.87% | 12.04% | 7.44% | 7.96% | NA |
| United States Equities - Total Returns S&P 500 (Total Return) | 0.95% | 0.95% | 12.73% | 16.11% | 14.47% | 8.01% |

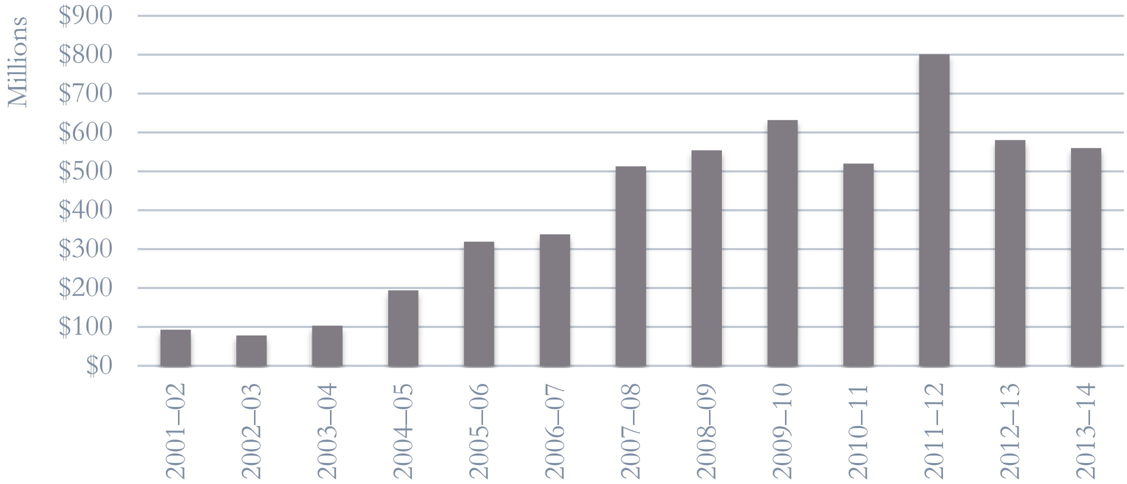
Source: Standard & Poor's

***Franking Credits***

Franking or Imputation Credits are attached to dividends on Australian shares for the tax paid by companies. As tax-exempt entities, non-profits are able to claim these credits back as refunds, thus grossing up the income received.

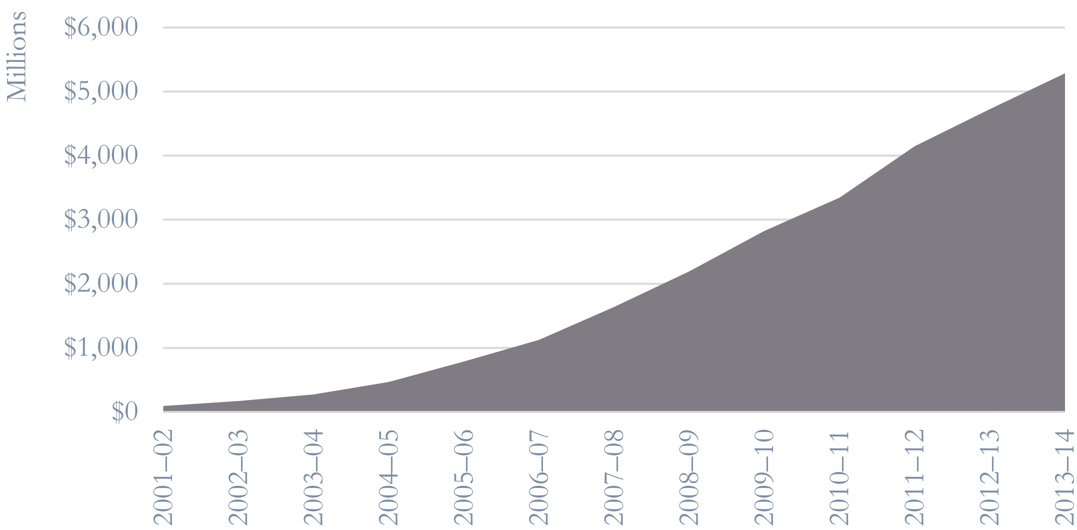
The refund of franking credits has become an important income stream for charities looking to enhance the yield from their investment in Australian companies. The charts below highlight the importance of this income stream to the sector. Since 2001-02, franking credits have provided a cumulative total of over $5.2 billion dollars to the sector. The 2009 Australia's Future Tax System Review, Chaired by Dr Ken Henry, raised the question of relevance of dividend imputation now that Australia is part of the global economy. From time to time this question has resurfaced and is being debated again at the time of writing.

*Annual Refund of Franking Credits to Charities*




Source: ATO, Koda Capital

*Cumulative Refund of Franking Credits to Charities*




Source: ATO, Koda Capital

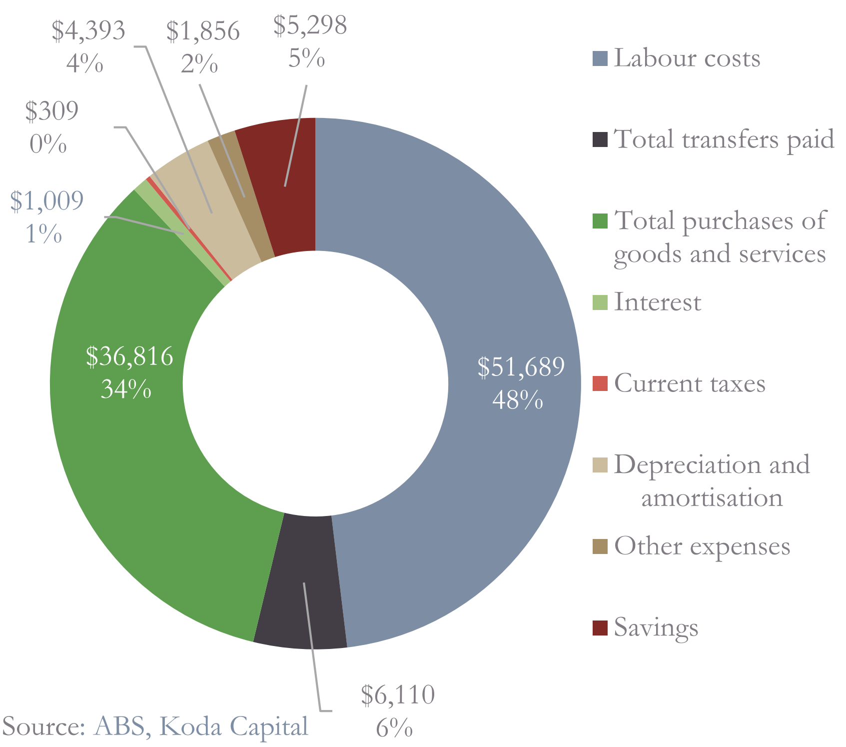
***Endowments***

More non-profits are looking to place surplus assets, along with untied and unplanned income (e.g. bequests) into endowments. Endowments provide a steady and reliable income stream and enhance balance sheet strength, allowing organisations to operate with confidence. It is disappointing to note that some organisations are still being punished for this balance sheet strength by funders, including government and philanthropic bodies. Funders often believe that surplus assets mean a non-profit does not require further funding. In the corporate world, post the Global Financial Crisis, corporations looked to enhance their balance sheet position by holding surplus capital and this approach is now looked upon favourably by investors as prudent financial management. Charities that have the ability and discipline to accumulate capital should arguably be seen as well managed, financially sound organisations that are well placed to deliver on their mission.

# *Non-Profit Expenditure – A labour intensive business*

The greatest cost to the non-profit sector is labour, totalling $51.69 billion or 48% of total costs in 2012-13. The second biggest expenditure item is the 'Purchase of Goods & Services' at $36.82 billion.

*NPI Use of Income 2012-13 (millions)*




Source: ABS, Koda Capital

The chart below shows that between 2006-07 and 2012-13 'Labour Costs' rose from 43.2% of total use of income to 48.1%. 'Savings' dropped from 7.6% to 4.9% over the same period.

***Key Takeouts:***

*– Whilst Australia is often recognised as a great volunteering nation, our non-profit sector is also a great employer*

*– Australian NPIs face some of the highest labour costs in the world*

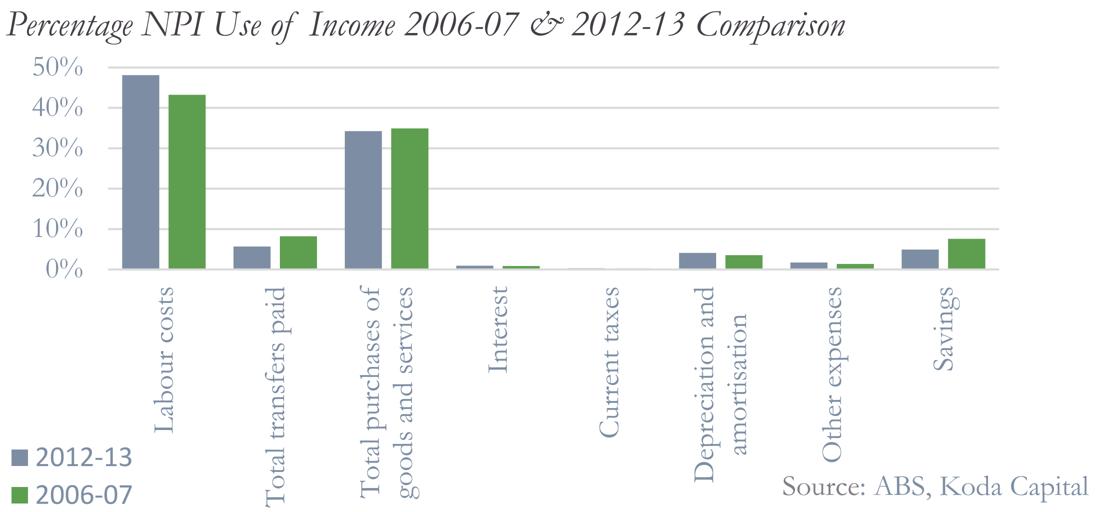
*– Employee growth in the sector is predominantly coming from casual and part-time positions*

*– Savings have been drastically reduced across the non-profit sector*

*– There is minimal investment in brand*

*– Social Services is the most labour intensive sub-group*

*– On average NPIs employ 19 people*

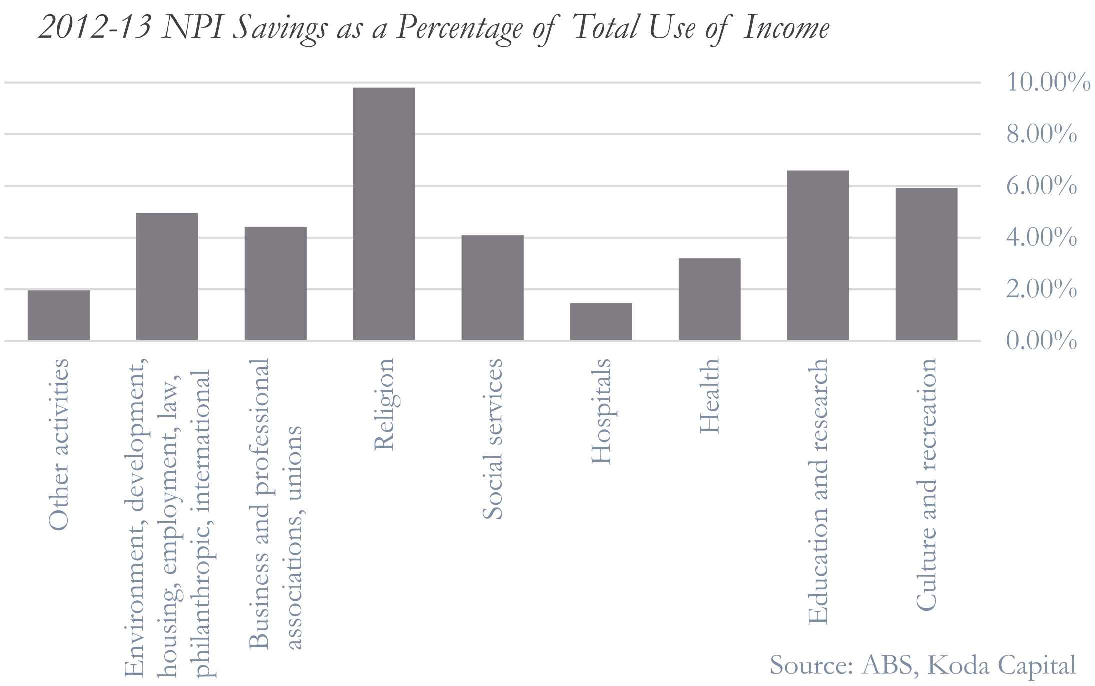



### *Brand Awareness*

'Advertising, Marketing and Promotion' represented only 1.19% of use of income for NPIs in 2012-13. The sub-group that spent the most on this area was 'Business and Professional Associations, Unions' which spent 3.07% followed by 'Culture and Recreation' at 2.72%. 'Hospitals' spent the lowest amount at 0.11%. In a more competitive environment, Koda Capital expects these numbers to grow.

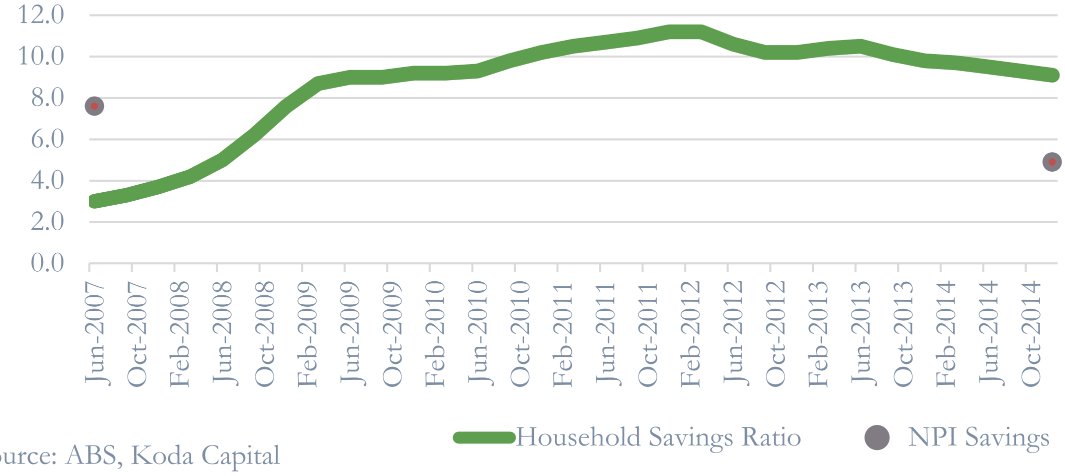
### *Savings*

Interestingly, in 2012-13 'Savings' equated to 4.9% ($5.30 billion) of use of income, having dropped from 7.6% ($5.77 billion) in 2006-07. This doesn't come as a surprise, with many organisations struggling to avoid deficits. 'Religion' is the biggest sub-group saver, allocating 9.81% of income to 'Savings'. The next big savers were 'Education & Research' at 6.6% and 'Culture & Recreation' at 5.93%.



For Australian households in general, savings levels have been elevated in recent years. The 'Household Savings Ratio' represents the ratio of household net saving to household net disposable income. The chart below shows the high level of savings in the community. Greater saving in the community is likely to create challenges for fundraisers, as individuals are less willing to spend disposable income. Increased saving in the community is often generated through a lack of confidence in the economy, jobs and incomes. It is likely this same lack in confidence has driven non-profit leaders to hold significant amounts of cash on their balance sheets. A recent decline in household savings may indicate that confidence is improving.

*Household Savings Ratio - Percentage of Household Disposable Income & NPI Savings*

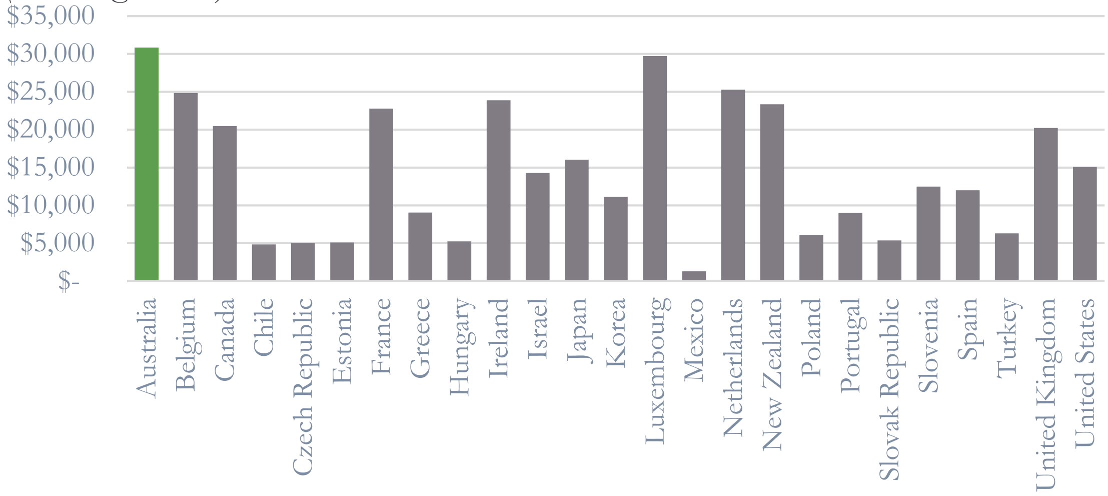



Source: ABS, Koda Capital

***Labour Costs***

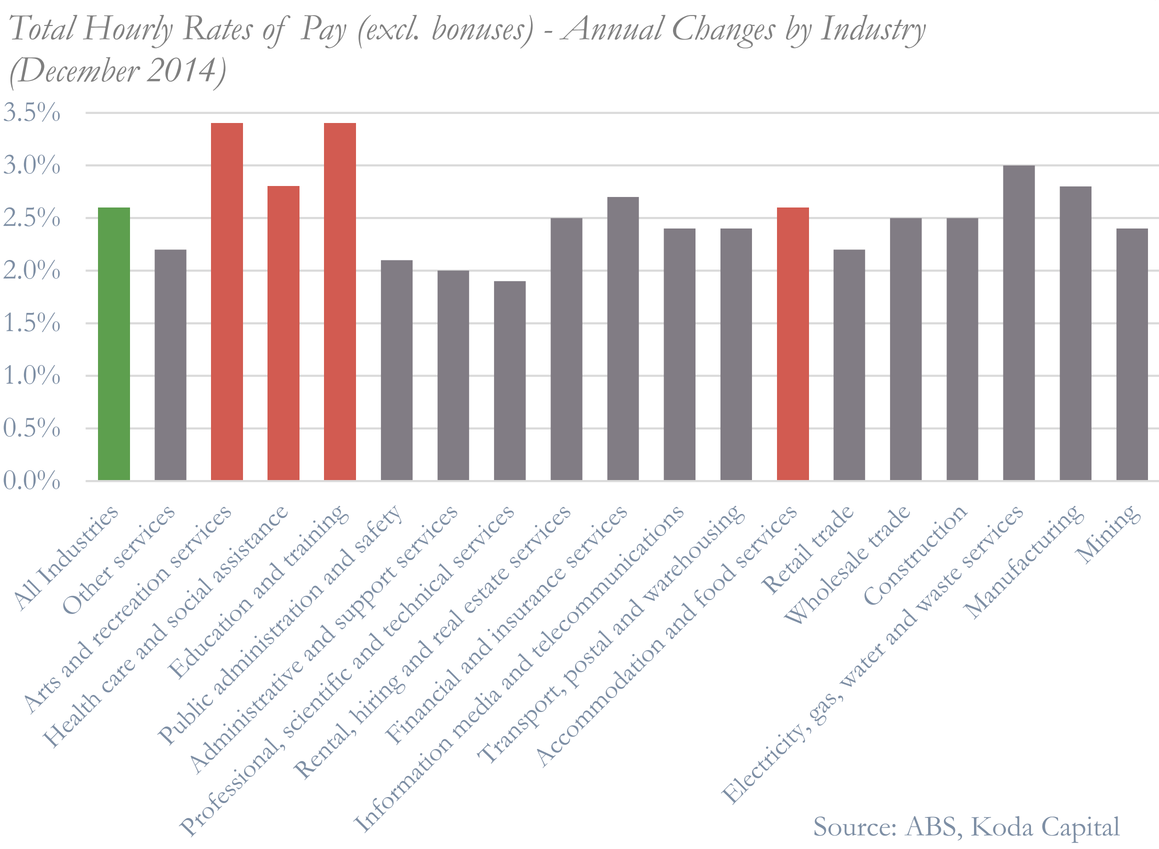
Australia maintains the highest real minimum wages in the developed world. OECD data shows that the real minimum wage in 2013 in Australia was USD$30,839 compared to the United States at USD$15,080, New Zealand at USD$23,347, Canada at USD$20,481 and the United Kingdom at USD$20,226. This makes Australia an expensive country in which to run labour intensive non-profit organisations.

*Real Minumum Wages in USD 2013 Constant Prices at 2013 USD (Exchange Rates)*



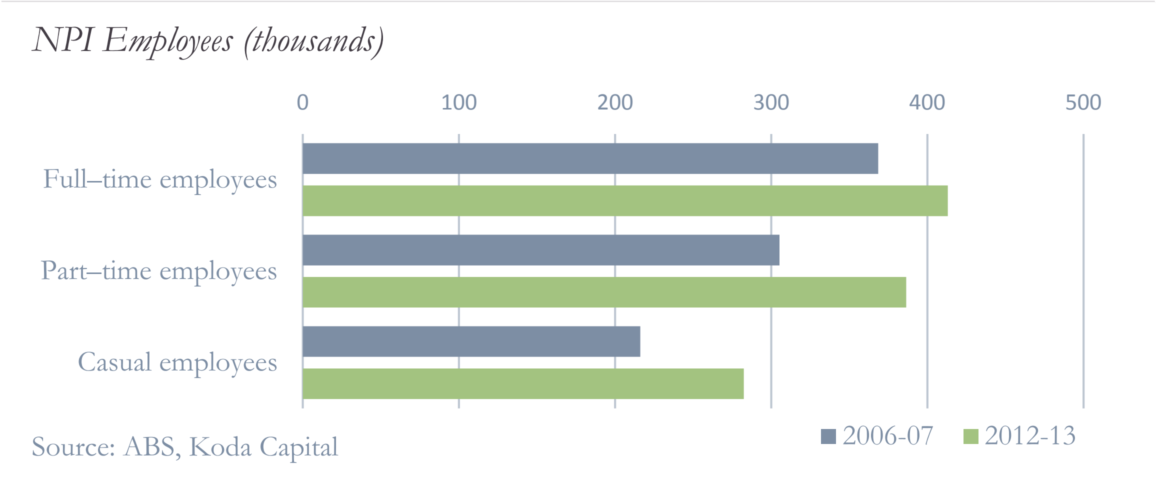

Source: OECD, Koda Capital

In 2014 growth in wages was felt in four traditional sectors with non-profit participants: in 'Arts & Recreational Services', 'Health Care & Social Assistance', 'Accommodation & Food Services' and 'Education and Training'. These four sub-groups all had annual changes equal to or above the 'All Industries' 2.6% rise. Both 'Arts & Recreation Services' and 'Education & Training' recorded the highest rise at 3.4%. The above-average wage increases indicate that, beyond 2013, rising labour costs will continue to be a significant burden.



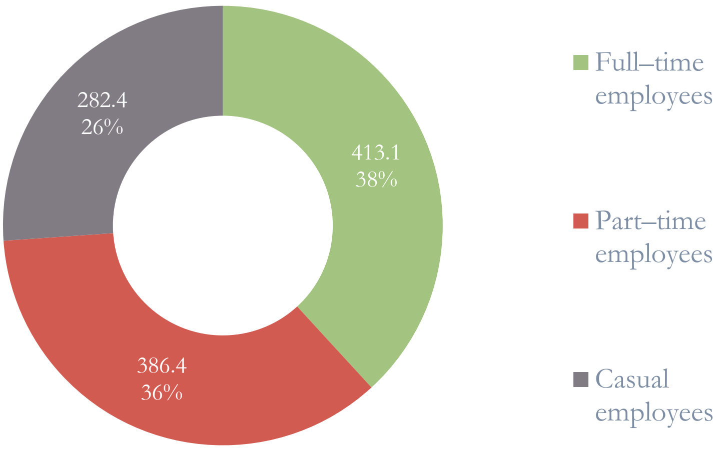

***Employment***

In 2006-07 the non-profit sector employed 889,900 people. In 2012-13 that had increased 22% to 1,081,900 people. This represents 9.27% of the workforce at the time. As a comparison, Canadian non-profit organisations employed over 2 million people or 11.1% of the economically active population(ii).



On average an NPI employs 19 people. The growth in employees has largely come from casual and part-time positions, growing 13% and 12% respectively between 2006-07 and 2012-13. There was also a gain in full-time positions of 6%. As charities look at their sustainability, it appears the sector is moving towards a more flexible workforce. The net result is only 38% of sector employees hold full-time positions, 36% are part-time and 26% are casual. In 2006-07, the breakdown was 41% full-time, 34% part-time and 24% casual.

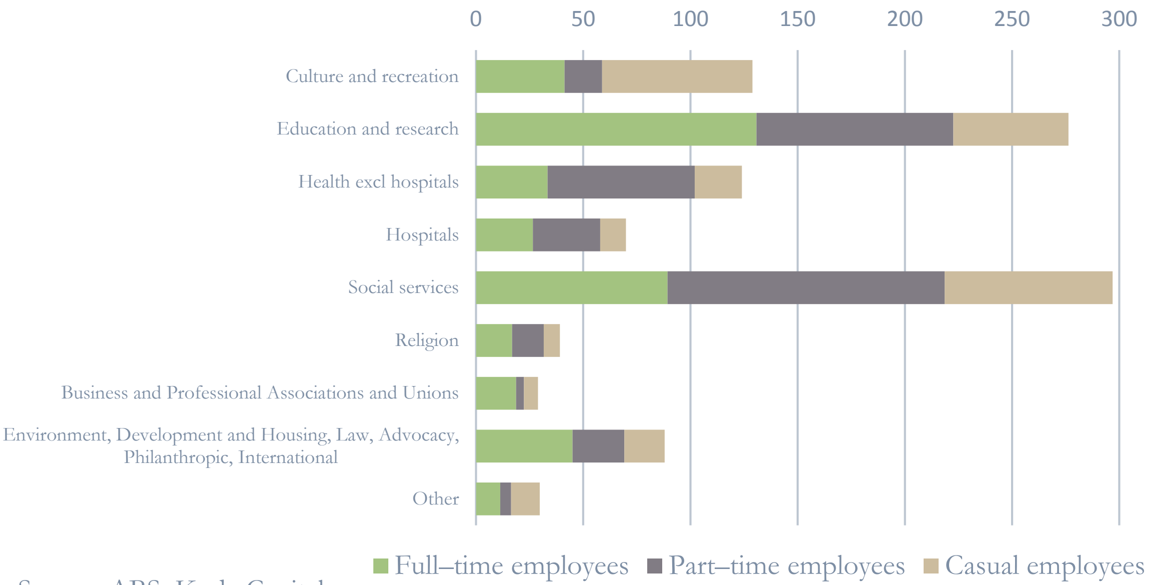
*NPI Employee Breakdown (thousands)*




Source: ABS, Koda Capital

The big employers are the 'Social Services' sector and 'Education & Research'. Combined they employed 53% (573,200 people) of employees in the non-profit sector in 2012-13, up from 49% (439,900 people) in 2006-07.

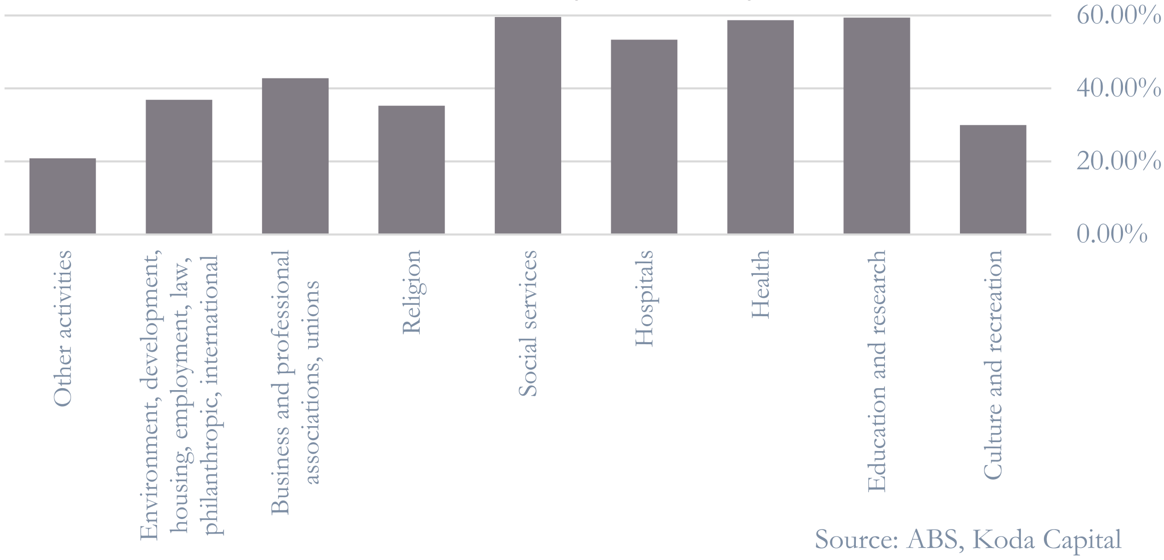
*2012-13 NPI Employment by Sub-Group (thousands)*




Source: ABS, Koda Capital

It is also not surprising that for these two sub-groups, labour costs are close to 60% of income use, the highest of all the sub-groups.

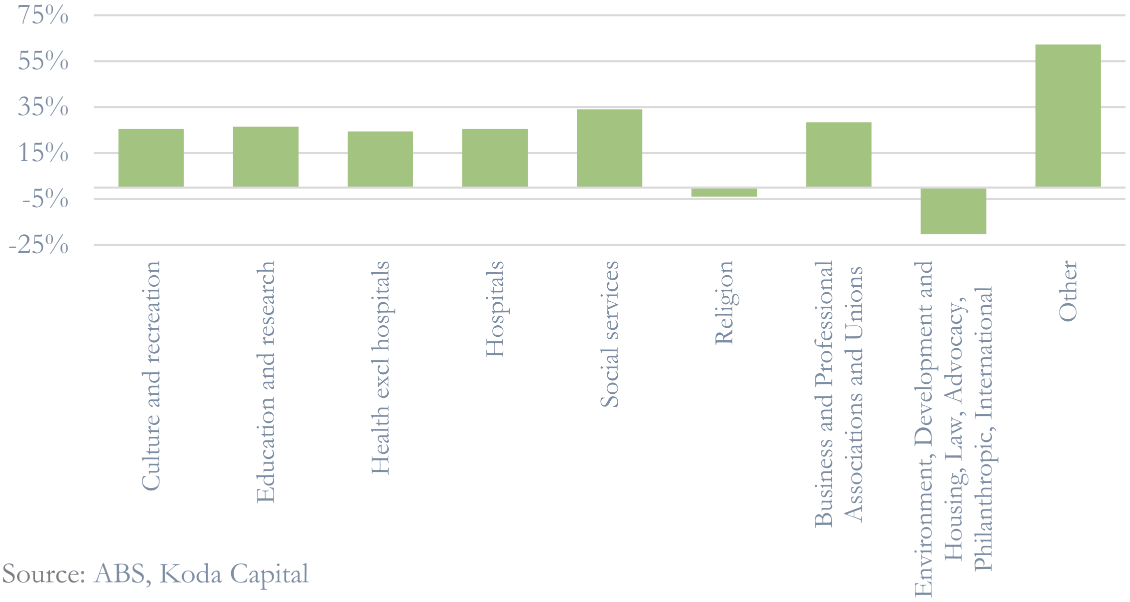
*2012-13 NPI Labour Costs as a Percentage of Total Use of Income*




Source: ABS, Koda Capital

'Religion' employment dropped 4% between 2006/07 and 2012-13, whilst 'Environment, Development and Housing, Law, Advocacy, Philanthropic, International' was also down a significant 20%. 'Social Services' employment jumped up 34%, adding an additional 75,400 employees.

*NPI Percentage Change in Total Number of Employees between 2006-07 & 2012-13*




Source: ABS, Koda Capital

*Attracting and Retaining Talent*

As non-profit leaders look at their sustainability, the fight for skilled employees heats up. Non-profits are fighting against not only other non-profit organisations, but increasingly for-profits, for talent. Non-profits have several levers to pull (lifestyle, fringe benefits, purpose, etc.). For-profit organisations are more capable of attracting talent with higher wages. As non-profits focus on new income streams, compete against for-profits or get themselves ‘investment ready’ for impact investment opportunities, they need talent with skill-sets typically found in for-profit institutions. A challenge going forward for the sector will be how to attract and retain this talent. Retaining talent might have to involve spending more on training and development - not easy for non-profits but likely to be necessary.

If the talent isn’t readily accessible, then the focus turns to how an organisation can unlock the expertise held within its support network (e.g. its board, donor base, etc.) to equip the organisation for this new environment.

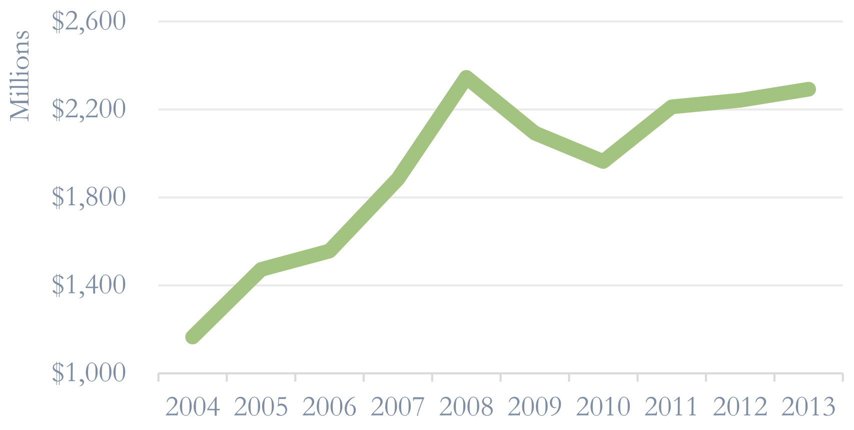
The good news is that Koda Capital has seen a trend emerge in recent years of younger people placing a higher value on a career with purpose. They have a desire to do things differently than those that have gone before. An advantage of many of Australia’s largest Corporate Social Responsibility programs is that they help institutions attract and retain young talent. Non-profits need to think about this as a competitive advantage. They can offer young talent the chance to leave a mark on society through their career choice. The challenge for non-profits is giving this generation enough freedom and responsibility to explore ideas and challenge traditional thinking, in order to keep them engaged.

It is Koda Capital’s view that the next generation of philanthropists want to be far more hands on and engaged than their predecessors. Non-profits should be ensuring that they are ready to tap into this desire, using supporters for their skills and intellect, as well as their dollars.

# Australian Giving – *Growing and benefiting from structured giving*

Australian giving has continued to grow over the last decade. In 2012-13 Australians claimed $2.29 billion in donations, the average donation claimed being $504.02. In 2003-04 Australians claimed $1.17 billion, with the average donation claimed being $300.71. Overall giving has rebounded since 2010 after two years of negative growth associated with the Global Financial Crisis. Whilst not at its 2008 highs, it is pleasing to see three years of sound growth. With stronger financial markets, Koda Capital believes this growth will continue.

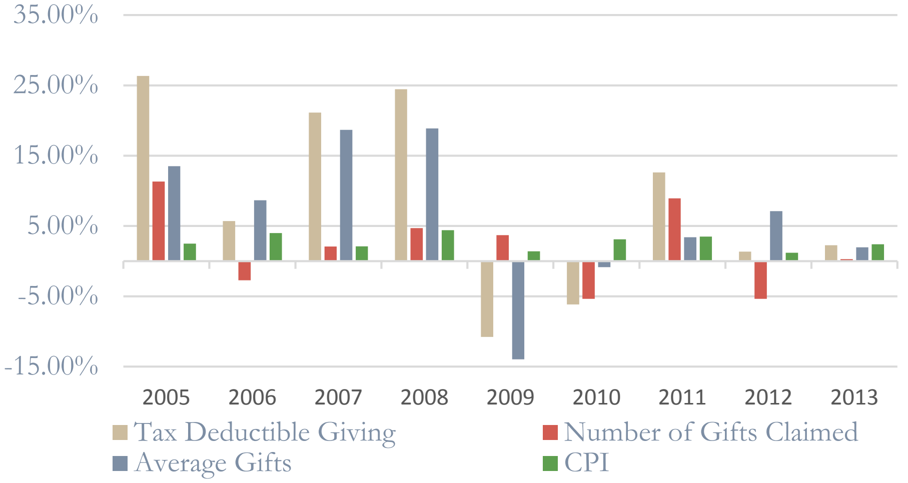
*Individual Gifts Claimed 2004-2013*




Source: ATO, Koda Capital

Only in 2009, 2010 & 2013 has the growth in giving not outpaced inflation. Particularly good years for tax-deductible gifts were 2005, 2007 and 2008.

*Individual Tax-Deductible Giving and CPI*




Source: ATO, Koda Capital

***Key Takeouts:***

*– The giving recovery is complete post the Global Financial Crisis and growth remains steady*

*– Structured giving vehicles such and PAFs and PuAFs are becoming increasingly important*

*– Big gifts and public philanthropy are becoming commonplace, providing hope for the development of a culture of philanthropy*

*– Australians gave tax-deductible gifts totalling $2.3 billion in 2012-13 with an average of $504.02 given per person*

*– PAFs have distributed over $1.4 billion since their introduction in 2001*

Australia ranked 6th in The Charities Aid Foundation's World Giving Index[iv]. The Index covers 135 countries and ranks responses to three questions relating to the donation of money, helping a stranger and volunteering time.

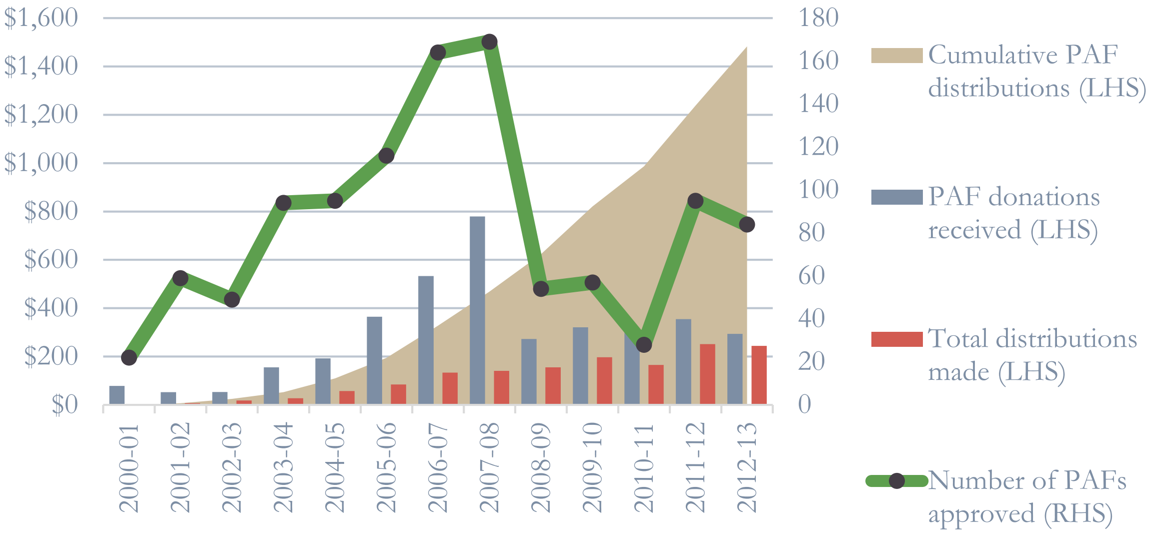
| | Australia | United States | United Kingdom | Canada | New Zealand |
|---|---|---|---|---|---|
| 2014 CAF World Giving Index Ranking | 6 | 1 | 7 | 3 | 5 |

Source: Charities Aid Foundation

***Structured Giving***

Koda Capital continues to have confidence in the power of structured giving vehicles and the increasing income stream that they provide the non-profit sector. Private Ancillary Funds (PAFs) continue to impress with over $1.4 billion distributed since their inception in 2001. In 2012-13 alone they distributed over $244m. There are now over 1,270 PAFs in existence across Australia. Public Ancillary Funds (PuAFs) distributed over $306 million to charitable organisations in 2012-13.

*PAF Donations, Establishment & Distributions*

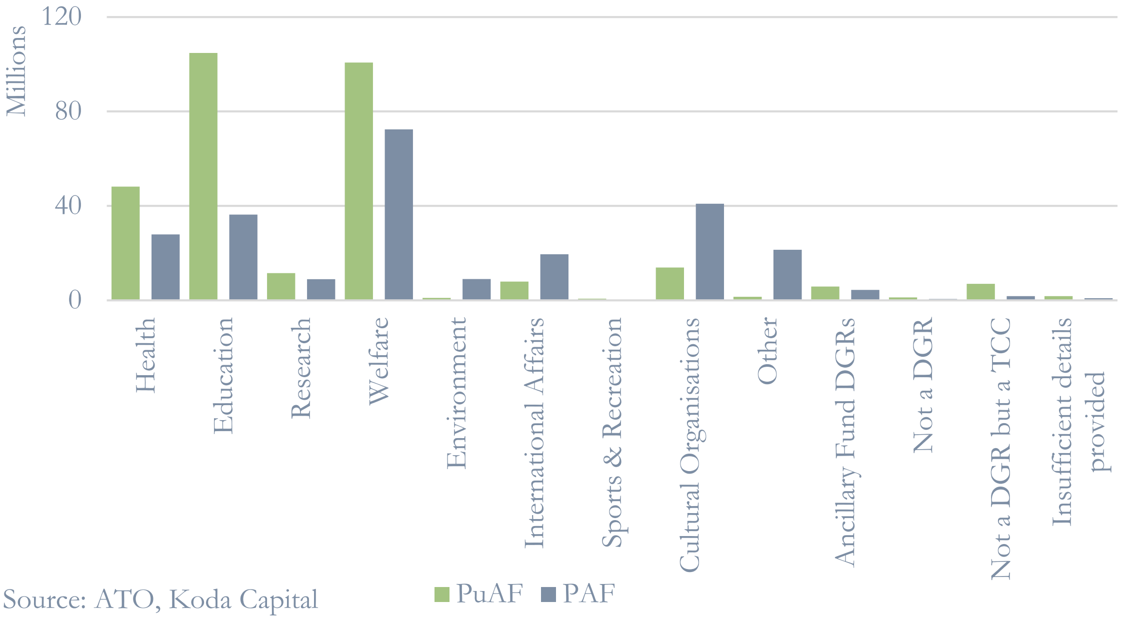



Source: ATO, Koda Capital

The benefits of PAFs and PuAFs to the non-profit sector will amplify over coming decades as more are established and their assets continue to grow in a tax-free environment. As the pool increases so will the annual distribution stream that flows to charities. For charities looking to tap into this revenue stream, it is important they understand the structures, how they are used and the motivations for establishing them. Smart charities will help donors set up PAFs and sub-accounts in PuAFs.

'Education' is the big winner from PuAFs, receiving 34% ($104.8 million) of the total distributions, compared to 14.9% ($36.4 million) from PAFs. 'Welfare' charities receive 33% ($100.7 million) of distributions from PuAFs compared to 30% ($72.4 million) from PAFs. Many PuAFs are run as community foundations where local community programs are put in the spotlight, likely resulting in the slightly heavier weighting to 'Welfare'. 'Health' was also a big winner from PuAFs, receiving 16% of grants, compared to 11% coming from PAFs. This is likely to be distorted by the fact that many ‘Health’ institutions set up foundations as PuAFs. Therefore, all money received flows through to the one institution or perhaps a couple of closely associated healthcare institutions. ‘Cultural’ organisations received over three times as much funding from PAFs as PuAFs, 17% and 5% respectively. ‘International Affairs’ was also a winner when it comes to PAFs, receiving 8% of all distributions compared to 3% granted out of PuAFs.

*2012-13 Distributions from Public & Private Ancillary Funds*




Source: ATO, Koda Capital

***Public Philanthropy***

Over the last few years big gifts and public philanthropy have become common practice. For example, Andrew and Nicola Forrest have pledged $65 million to Western Australian universities. Graham and Louise Tuckwell gifted $50 million to the Australian National University. Clive Berghofer made a $50.1 million donation to the QIMR Berghofer Medical Research Institute. Corporations have also upped the ante, with Westpac gifting $100 million to the Westpac Bicentennial Foundation. The Packer Family Foundation and Crown Resorts Foundation came together to provide a $200 million gift to establish the National Philanthropic Fund which will predominately support the arts. The late Paul Ramsay recently left an estimated $3 billion bequest to charity, the largest in Australian history.

These philanthropic acts are encouraging for both the size and public nature of the gifts. We believe that these gifts will provide an example to others, giving hope for the development of a culture of philanthropy in Australia.

Interestingly, one of Australia’s biggest donors isn’t an Australian. Charles ‘Chuck’ Feeney, an American, has gifted an estimated $500 million in Australia through his Atlantic Philanthropies organisation. These gifts were largely to educational and medical research institutions. Chuck Feeney’s work in Australia extends to a Living While Giving campaign, designed to encourage wealthy Australians to give more and give earlier.

# *Looking Forward – A digital age where traditions are challenged*

***Taking an organisation’s mission and intellectual property across borders***

As non-profits look to expand the reach of their mission and enter new markets, Koda Capital is seeing some forward-thinking organisations look across international borders. When charities understand their unique selling proposition and the power of their intellectual property, they begin to understand that it holds value across international borders. This has resulted in non-profits selling their intellectual property to governments and other non-profit groups around the world. As a developed nation, our social programs are proving valuable overseas and NPIs are discovering a new source of revenue with which to fund their mission.

***‘Generation Next’ challenging the way we run non-profit organisations***

Charity leaders should allow themselves the time to explore best practice overseas. Young social entrepreneurs are taking their cues from international pioneers and developing their own ways of running a social enterprise. Groups such as Y-Generation Against Poverty (YGAP), are using engagement opportunities to harness the energy of their generation. They do this by offering young supporters the chance to use their skills, networks and knowledge to directly assist social pioneers in developing countries. Established non-profits need to pay attention. Some of the largest corporates in the world have achieved phenomenal growth because they challenged the norm. Facebook, Uber, Airbnb and Spotify have changed the way we engage, commute, travel and listen to music and have done so by drastically altering business models. At Koda Capital we see the potential for the same thing to happen in the non-profit sector as our generation begins to exert influence.

***Key Takeouts:***

*– Digitisation will be critical in not only engaging stakeholders, but in actually addressing social issues and achieving mission*

*– Non-profits are beginning to understand the value of their intellectual property here and overseas*

*– An engaged ‘next generation’ are challenging the way we operate non-profits and what it means to be a charity*

***Getting up to speed with digital***

In Koda Capital’s view, few non-profit groups have been able to fully utilise the power of the digital world to engage supporters and assist in mission success. Many of Australia’s largest institutions have undergone significant information technology spends. This comes with the understanding that the return on equity is substantial and innovating in this space provides a significant competitive advantage. An example of how this has worked in the for-profit sector is the Commonwealth Bank of Australia and their early investment in technology, which has since seen the bank gain a significant competitive advantage over its slower rivals.

Non-profit groups rarely have the resources or supporters willing to invest in such organisational infrastructure. Yet in this new age, it is critical to organisational and mission success.

The Connected Continent Two Report (2015) [v], from Deloitte Access Economics, valued the digital economy at $79 billion or 5.1% of Australian GDP. They forecast this value will rise to $139 billion by 2020 or 7.3% of GDP. It is imperative that we find a way to help NPIs invest in technology, otherwise the sector will quickly be left behind.

# *Conclusion*

The non-profit sector should be congratulated for expanding its impact on Australian society and the economy during a trying period. With an ageing population and a continued reliance on the sector to deliver critical services, the non-profit sector needs to continue to search for new ways to generate income and capital to solve social issues. We must challenge the norm and encourage the next generation of social pioneers to find alternative means to achieve mission success.

By 2012-13, NPIs had increased their reliance on government funding and had elevated their cash positions. In 2015, we are in an environment of low interest rates and government funding is under significant pressure.  As a result, many organisations will find themselves in a challenging financial position, and will no doubt be examining their business models closely.

Non-profit leaders should be looking at the strength of their organisation's balance sheet and ensuring there are no lazy assets. They need to focus on diversifying their income streams and looking for opportunities to derive self-generated revenue.  They must continue to innovate and challenge traditional thinking to ensure their organisation stands out from the crowd and doesn't get left behind. They should embrace technology and empower young and talented employees to effect change in their organisation. With limited resources, donors and other stakeholders need to be fully engaged, to drive organisations forward. And all this must be done with a single-minded focus on giving NPIs the best possible chance to achieve their mission.

At the same time, the non-profit sector cannot and should not be expected to address the social issues facing Australia on its own. Australia needs all the major participants in society to work together.  This requires the creation of a new platform for change.  Consequently, we conclude this report by calling for the establishment of a National Centre of Excellence in Civil Society (NCE), of the kind envisioned by the Centre for Social Impact in its recently released Civil Society report.  Koda believes this NCE should be designed in such a way that it can be funded, owned and operated by all the major participants in Australian society – non-profits, governments, corporations and philanthropic organisations.  Success depends on working together and it is crucial to give all the major players 'skin in the game', adequate representation and shared accountability when it comes to organising the pursuit of excellence.

An NCE established in this way should focus on:

- Fostering worthwhile collaborations
- Building shared accountability
- Measuring and valuing social outcomes
- Developing and sharing best practice
- Aggregating and disseminating data and experience
- Identifying opportunities to increase efficiency, effectiveness and productivity
- Developing a national vision for the civil society we want to live in

An NCE of this type would complement rather than replace existing infrastructure designed to have a positive effect on civil society, namely the Australian Charities & Not-for-Profits Commission and the Prime Minister's Community Business Partnership.

# *How to use this Review*

- Give it to your Fundraising team
- Provide a copy to your Board
- Share it with your Risk Audit & Finance Committee
- Invite the Koda Philanthropy & Social Capital team in to discuss it with your team
- Provide a copy to staff or board members new to the non-profit sector
- Invite the Koda Philanthropy & Social Capital team speak at an event or conference

# About the Authors

Chris Wilson
Director of Philanthropy & Social Capital, Partner

Chris has a decade of experience in financial services, working predominantly with high-net-worth individuals, corporations, and charitable institutions. Chris is responsible for bringing philanthropic opportunities and solutions to clients. He also provides strategic advice to charitable and non-profit organisations in relation to their governance, endowment practices, capacity building, sustainability, and donor relations activity.

Prior to joining Koda Capital, Chris was a Director of JBWere's Philanthropic Services team. Chris sits on the Board of the Reach Foundation and is a Founding Committee Member of Impact100Melbourne. Further to this Chris also Chairs the Reach Foundation's Fundraising Sub-Committee and sits on their Impact Sub-Committee. Chris holds a Masters of Commercial Law, Bachelor of Business (Economics & Finance), and a Diploma in Financial Planning.

Chris.Wilson@kodacapital.com | 0428 866 607

David Knowles
Head of Philanthropy & Social Capital, Partner

David heads Koda's specialist Philanthropic & Social Capital team. His primary responsibility is providing strategic advice to charitable, non-profit, and philanthropic investors. In a 25-year private wealth management career David worked for Coutts and Merrill Lynch in the UK and held senior advisory and leadership positions at Perpetual and JBWere. David is a member of the Centre for Social Impact's advisory council, Impact Investing Australia's market building working group, and a Director of the charity BoardConnect. David also sits on the editorial advisory board of Generosity magazine. In 2012 David established a Public Ancillary Fund account to encourage philanthropy within his own family. David recently attended Harvard Business School, where he completed the Governing for Non-Profit Excellence executive education course.

David.Knowles@kodacapital.com | 0429 726 277

# About Koda Capital

At Koda Capital we are taking an innovative approach to wealth management - an approach that puts your needs first. We are proud to be pioneers, offering professional services unencumbered by pre-existing ownership structures and practices. Our sole focus is giving our clients tailored financial solutions that are well-informed, independent, and transparent.

We act as an investment adviser to philanthropic, charitable and non-profit organisations. We go beyond the provision of tailored investment services, to provide expert advice on best practice, governance, regulation, investment strategy and relevant trends in the sector.

***Koda's Commitment to Clients***

- We will always be independent, and free from conflicts of interest that could affect our advice.
- We will always put our clients' best interests ahead of any other considerations, particularly in respect of any investment or product we recommend.
- We will agree, in writing, the services we will provide and deliver those services to the standards we promise. Our clients will have access to the best solutions available not just a list of solutions restricted by commercial relationships.
- We will only earn fees which are paid directly and transparently by our clients, and if we were to receive any commissions they will be fully rebated to our clients for their benefit. We will detail the basis on which the fees are charged and will discuss them with clients at any time. Clients have – and will always have – full discretion to choose the type of fee structure that works best for them: be that on a fee-for-service basis, transaction basis, or asset basis. We believe that as advisers we should be rewarded according to the strength of our client relationships and the success of our financial strategies, not by our ability to promote specific products.

# End Notes

i. Urban Institute, http://www.urban.org/UploadedPDF/413277-Nonprofit-Sector-in-Brief-2014.pdf

ii. Imagine Canada, http://www.imaginecanada.ca/resources-and-tools/research-and-facts/key-facts-about-canada%E2%80%99s-charities

iii. Giving USA, http://givingusareports.org/

iv. Charities Aid Foundation, https://www.cafonline.org/pdf/CAF_WGI2014_Report_1555AWEBFinal.pdf

v. Deloitte, The Connected Continent II – 2015, http://www2.deloitte.com/au/en/pages/economics/articles/connected-continent.html

***Disclaimer***

This document has been prepared without consideration of any client's investment objectives, financial situation or needs. Before acting on any advice in this document, Koda Capital Pty Ltd recommends that you consider whether this is appropriate for your circumstances.
While this document is based on the information from sources which are considered reliable, Koda Capital Pty Ltd, its directors, employees and consultants do not represent, warrant or guarantee, expressly or impliedly, that the information contained in this document is complete or accurate. Koda does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect any of the information contained in this document.



www.kodacapital.com