



2015 Not-for-Profit Finance & Governance Insights



A MESSAGE TO MY FELLOW COMMUNITY BUILDERS

The Australian not-for-profit sector has long been recognised for its role in providing the essential services that underpin the social fabric of our nation.

But as a \$107 billion sector contributing more than \$55 billion to GDP annually and employing one in 12 Australians, it also makes a significant economic contribution. That's why it's essential that the sector is supported to make the most of its financial resources, maximising its effectiveness and social reach.

The 2015 Not-for-Profit Finance Survey is an important step towards this goal. With the participation of 845 respondents from every state and territory in Australia, the report provides a unique insight into the challenges and opportunities facing the sector at a crucial stage in its evolution. I sincerely thank the individuals and organisations who took part.

This report highlights the survey's findings on the challenges and opportunities for not-for-profit organisations seeking to raise and manage funds, reduce risk, meet rising demand for services and comply with increasingly complex reporting obligations. Importantly, it also offers a clear direction for filling gaps in the sector's capabilities and removing other obstacles to its ongoing success.

Alongside the key insights uncovered by this research, the report indicates some of the ways we plan to apply them in our own work with not-for-profit partners over the next 12 months. In this way, we hope to elevate the conversation around establishing robust financial management and governance practices, helping build a more sustainable sector for the future.

I welcome contributions from all stakeholders — governments, foundations, grantmakers, donors, service recipients, industry bodies and, of course, not-for-profit organisations themselves, along with the staff and volunteers who work together every day to make Australia a stronger, safer and more compassionate place to live.

I look forward to continuing the conversation with you.



Denis Moriarty
Group Managing Director
Our Community

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TEN KEY FINDINGS



56%

of respondents agreed that most board members had a good understanding of their organisation's finances.

22% did not. Only 16% believe all members of the board have a good understanding of the finances of the organisation they are governing.



53%

of community based and volunteer organisations have difficulty recruiting a suitable treasurer.

Perhaps as a result, 5% are paying their treasurer, rising to 11% for large organisations.



6%

have experienced fraud in the past three years and 60% of frauds are not reported to the police.

The bigger the organisation, the higher the rate of fraud. It's estimated that Australian not-for-profit organisations could be losing up to \$38 million to fraud each year*.



31%

of organisations believe they don't need any formal risk management processes because they trust their staff.

The smaller the organisation, the more trusting it is. Nonetheless, 79% of frauds are perpetrated by trusted insiders.



63%

of large organisations rely primarily on government contracts and grants for funding, while almost one in five now source the largest part of their income from trading activities or service provision.



29%

of respondents say their organisation isn't doing enough to protect against cyber-crime, while 39% aren't sure if their organisation is doing enough.



85%

say it's becoming harder to find consistent and regular funding. But despite the challenges, more not-for-profits are expanding their operations than are reducing them.



1 in 5

say the past year has been the most challenging year for raising revenue in their organisation's history.



15%

of respondents said they expected to take part in a merger in the next 12 months.



56%

are feeling pressure to reduce their overheads, and half of those say the most pressure is coming from their own board.

*5.94% of respondents to our survey indicated their organisations had suffered fraud in the past three years, with an average loss of \$33,769. Extrapolated across the 57,000 economically significant Australian not-for-profit organisations, this is a total loss of \$114,335,080, or \$38,111,693 lost to fraud each year.

About this report

This report is based on the findings of a comprehensive online survey of the not-for-profit sector in Australia, conducted between 23 February and 24 April 2015. Consisting of 42 questions, the survey provides important insights on questions of financial management, including funding, banking, risk management and governance.

With 845 participants, the survey's findings represent the views of a significant and representative sample of the not-for-profit sector. As a result, it provides a unique snapshot of the financial challenges and opportunities these organisations face.

The participants were drawn from across the not-for-profit sector and across the nation, with every state and territory represented roughly in proportion to their respective populations. As a result, a little more than half (58%) of the responses are from organisations operating in Victoria and New South Wales, with another 16% from Queensland.

The survey also included a diverse sample of organisations of different sizes, from large national charitable foundations, to local sporting organisations. Larger organisations were well represented, with around one in five (18%) respondents earning annual revenues of more than \$1 million. The breadth of the survey enabled us to gain a deep understanding of the unique challenges faced by both large organisations and their smaller peers, and analyse the significant differences between them.

The survey also captures the diversity of the not-for-profit community, with organisations from 28 different industry subsectors. The largest was Community Services, with around 21% of respondents, followed by Sport & Recreation and Education & Training organisations (14% and 11% respectively).

Given the nature of the survey, respondents were asked to take part only if they had a good understanding of their organisation's finances and financial governance. As a result, board members, senior staff members and CEOs made up around 80% of the survey's participants.

Who responded?

ORGANISATION SIZE

What was your organisation's annual revenue for the financial year ending 2014?



60%

of organisations were
SMALL

Financial revenue of
less than \$250,000



22%

of organisations were
MEDIUM

Financial revenue of
\$250,000-\$1,000,000



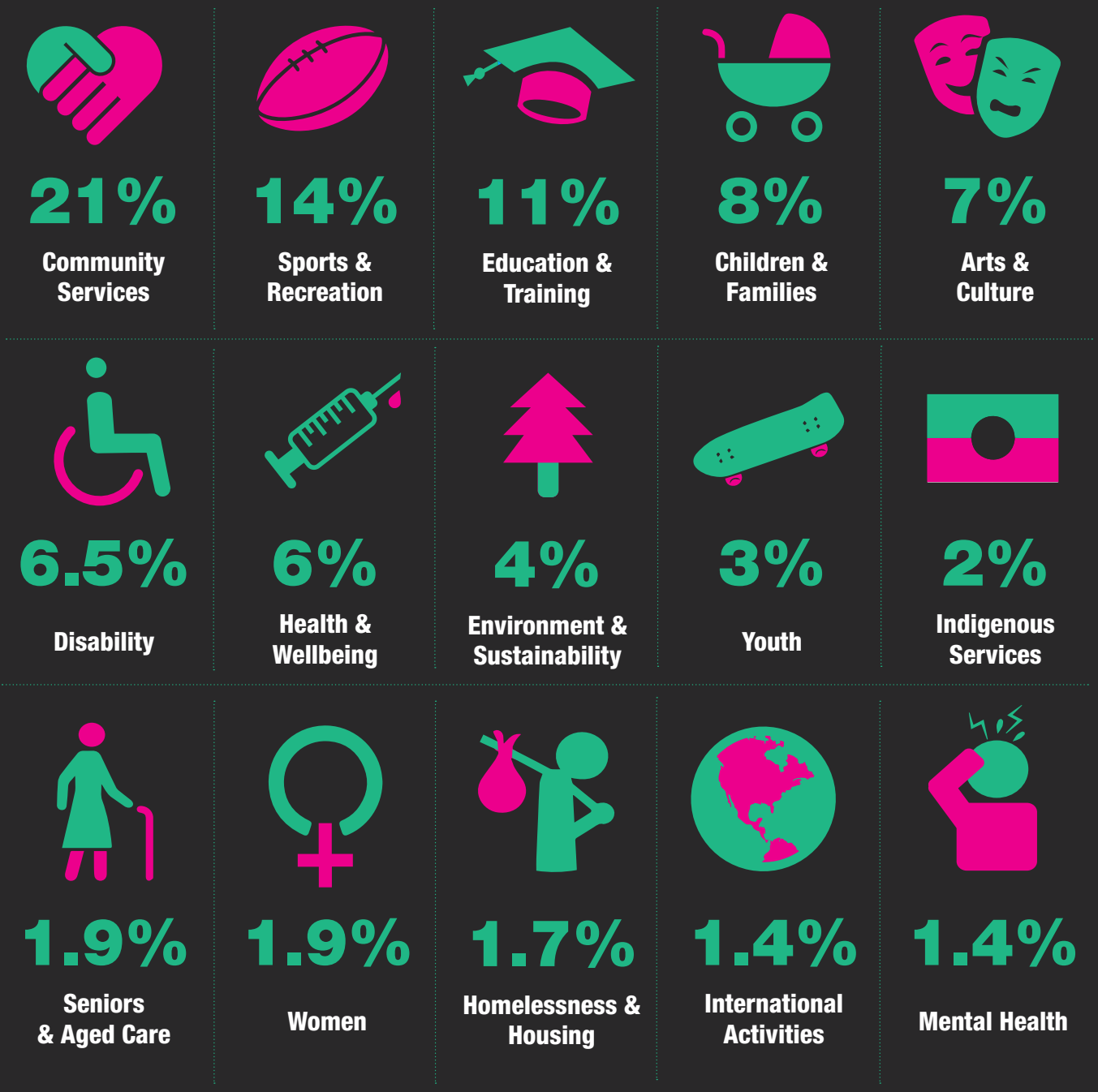
18%

of organisations were
LARGE

Financial revenue of
more than 1,000,000

ORGANISATION BY SECTOR

What sector/s does your organisation operate in?

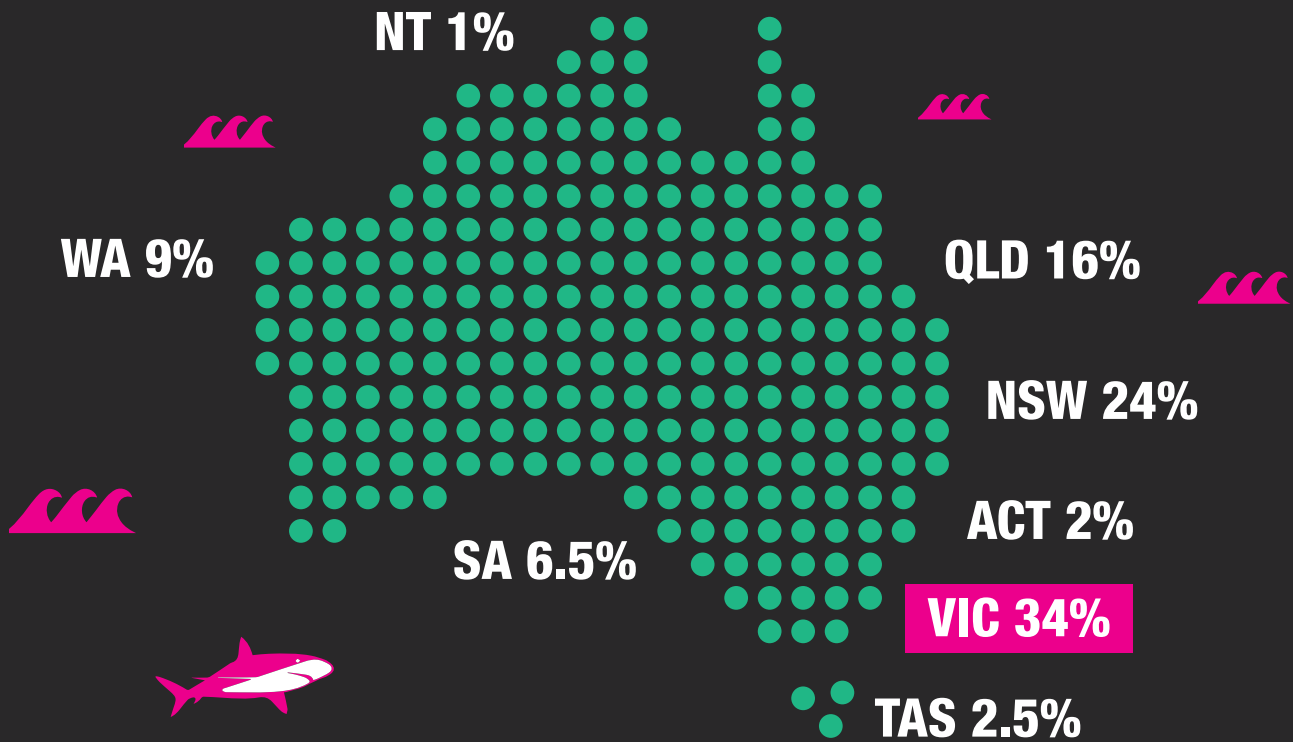


Faith & Spirituality	1.3%
Rural & Regional	1.3%
Animal Welfare	1.1%
Emergency & Safety	1.1%
Agriculture, Forestry & Fishing	0.7%
Employment	0.7%
Heritage & History	0.7%

Economic Development	0.5%
Law & Legal Services	0.5%
Tourism & Travel	0.5%
Science & Technology	0.4%
Professional Development	0.2%
LGBTIQ (Gay & Lesbian)	0.1%

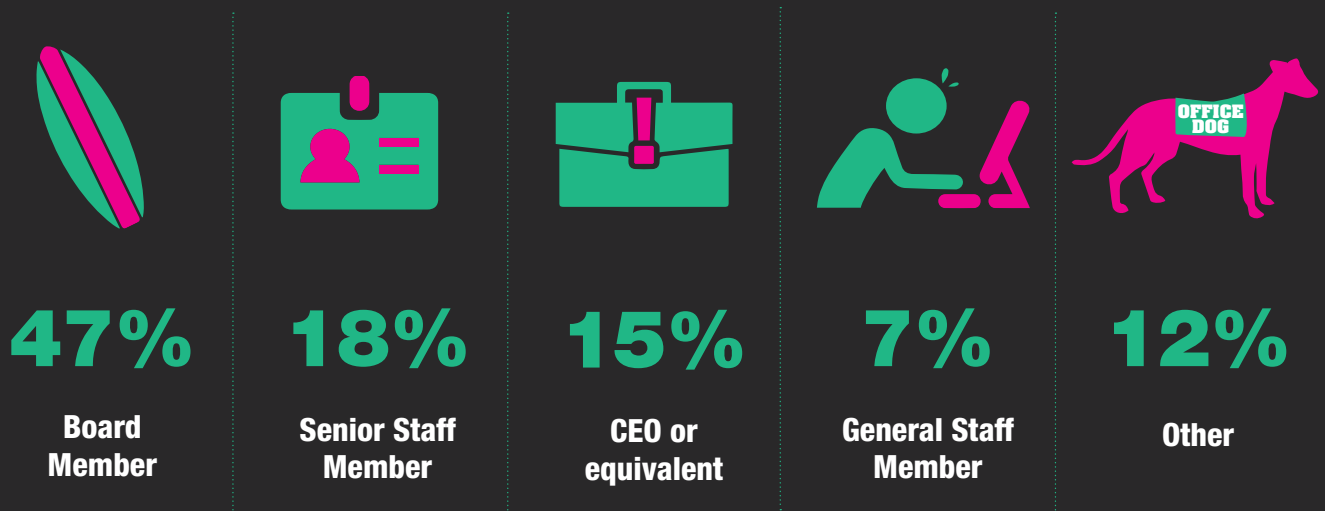
ORGANISATION HOME STATE

In what state does your organisation primarily work and operate?



RESPONDENTS' ROLE WITHIN ORGANISATION

What is your role within the organisation?



SECTION ONE:

Organisational Capacity

Challenges and opportunities



Recruiting and retaining good treasurers

A majority of organisations of every size find it difficult to recruit a suitable person to manage the organisation's financial affairs — and many treasurers have relatively short tenures.



Deciding whether to pay

As the role becomes more and more demanding, not-for-profit organisations may come under increasing pressure to pay their treasurer or financial controller. But with budgets already very tight, many smaller organisations may find it difficult to set aside funds for remuneration, making it even harder for them to compete with their larger peers.



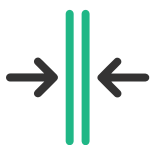
Getting new treasurers up to speed

More than one in five treasurers have been in the role for less than a year, suggesting that a significant proportion may be relatively inexperienced (although many have relevant professional experience or experience with other organisations).



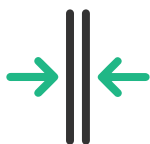
Promoting gender equity

55% of the unpaid treasurers' roles in Australian not-for-profit groups are performed by women. As the size of the organisation increases, the gender split reverses and it is more likely the financial management of the organisation will be managed by a man.



Filling capacity gaps

Understanding and implementing software and compiling governance policies are the major capacity gaps for Australian not-for-profits. Organisations would also welcome help with budgeting, accounting rules, cash flow management and financial reporting.



Closing financial skills gaps on boards

Organisations across the sector would benefit from additional skill development and support to enhance financial literacy and professionalism.

Who oversees the organisation's finances?

The survey showed that for many not-for-profits, financial management doesn't lie solely in the hands of a single person. The bigger the organisation, the more likely it was to have a higher level of financial oversight, with more than half of large organisations having a board finance committee (52%) and paid financial controller or CFO (54%).

This wasn't the case with small organisations, where only one in six had a finance committee — and a mere 5% had a paid finance manager. In fact, among organisations with revenue of less than \$250,000 a year, 92% relied entirely on a volunteer to manage the finances, compared with 82% for medium organisations and 64% for large organisations.

No matter what the size, one thing was clear: the growing scale and complexity of these organisations has made the financial management function more important than ever, leading to increasing demand for qualified individuals.

More than half (53%) of survey respondents said their organisation had difficulty recruiting a suitably qualified and skilled treasurer with small organisations worst affected.

Even among the medium and large organisations, a substantial number reported having difficulty finding a suitable candidate, at 50% and 42% respectively.

Even when the right person is found, the survey reveals that keeping them is another matter — with around 45% of current treasurers in the role for two years or less. This raises potential concerns, with the short tenure of many financial managers likely to hamper effective planning and the implementation of long-term financial strategies. To address the high rate of turnover, organisations may need to consider strategies such as fixed terms of tenure, and the appointment of an assistant or vice-treasurer, helping create more seamless transitions. See also the *Commonwealth Bank Not-for-Profit Treasurers' Awards 2015* report (www.ourcommunity.com.au/treasurersawardsbooklet2015), which highlights the increasing complexity of the role of the financial controller or treasurer and the impact of that on an organisation's ability to recruit successors.

To help attract and retain qualified financial managers, organisations may need to consider paying them for the work they do.

In a sector where volunteer office-holders have previously been the norm, 5% of organisations now say that they pay their treasurer or financial controller a salary. It's probably unsurprising that it's the large organisations with more revenue — and therefore more finances to look after — that are most likely to pay a professional manager, with 10% paying for this service, compared with 3% of small not-for-profits.

Interestingly, more than half (55%) of not-for-profit treasurers are women, a proportion that increases for smaller organisations. This suggests women are taking on significant responsibilities in ensuring the financial sustainability of the sector, often in voluntary roles.

The number of women in charge of financial management falls as the organisation's size increases — with the number of women falling from 65% in small organisations, to 46% for large not-for-profits.

RECRUITING TREASURERS

Do you have difficulty recruiting suitably qualified/skilled treasurers?



53%

YES!



47%

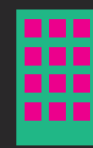
NO



=



Small organisations are the most likely (57%) to have difficulty recruiting a qualified treasurer



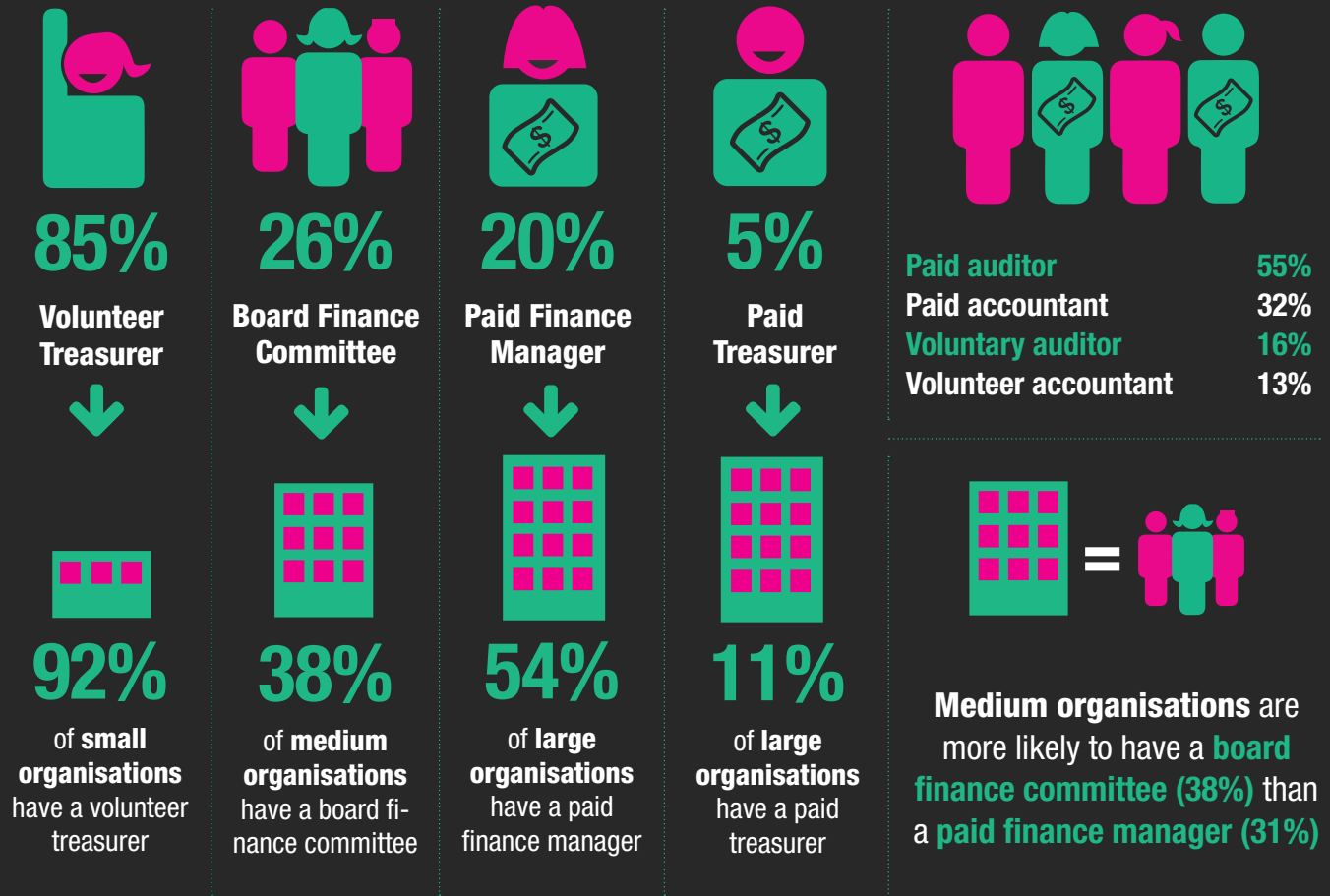
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Large organisations are the most likely (58%) to have no difficulty recruiting a qualified treasurer

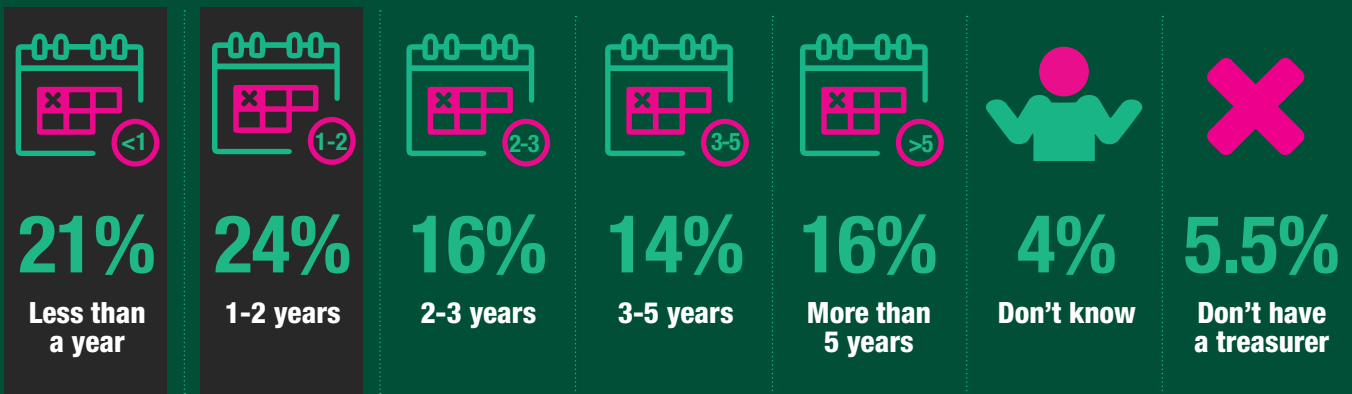
HUMAN RESOURCES

Which of the following does your organisation have?



TREASURER'S LENGTH OF SERVICE

How long has your current treasurer been in the role?



TREASURER'S GENDER

Is your current organisation's treasurer male or female?



Financial literacy & management

In recent years, growing scale and increased regulatory scrutiny have led to a greater focus on financial accountability in the not-for-profit sector. Donors, grantmakers and regulators want greater visibility of how their money is being used, along with a higher return on investment through measurable outcomes. Meanwhile, increased competition for funding means that organisations need to make sure their financial strategy is sustainable over the long term. So it's essential for organisations to have a sound understanding of their financial situation and strategy to ensure their responsiveness and ongoing success.

The good news is that the overwhelming majority of the surveyed respondents (96%) were confident that their organisation's finances are being adequately or well managed, with nearly a third agreeing that their finances are very well managed. And, despite the difficulties in finding and retaining suitable treasurers and financial controllers, there was a high level of confidence in the oversight they provided, with the majority (80%) agreeing they had a good understanding of the organisation's finances. Similarly, chief executive officers, chief financial officers and finance managers were seen to be capable and well informed about their organisation's financial affairs.

Medium-sized enterprises had the most confidence in their treasurers, with almost 80% saying their finances were managed well or very well. This compares to 71.5% for large organisations and just 67.9% for small organisations. In addition, only 2.5% of these medium-sized organisations thought their money was being managed poorly or very poorly — a smaller proportion than either small (4.1%) or large organisations (4.4%).

More than half of the survey's respondents also believed that the majority of board members had a good understanding of the organisation's finances.

However, more than one in five respondents (22%) disagreed, potentially indicating a significant capability gap across the sector. In fact, only 16% of respondents believed that all members of their organisation's board sufficiently understood the finances. A similar number of respondents reported that few or no board members had a sufficient understanding of their finances.

This is of significant concern both for those in the sector and those who fund it. Nonetheless, there are indications that many organisations are acting to close this capability gap, with around one in five organisations having sought outside help to improve their financial capacity over the last 12 months, while more than a third (35%) plan to do so in the year to come.

FINANCIAL MANAGEMENT

How do you think the finances of your organisation are managed?



33%

Very well



38%

Well



25%

Adequately



3.5%

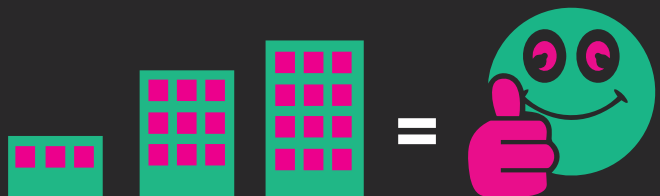
Poorly



0.5%

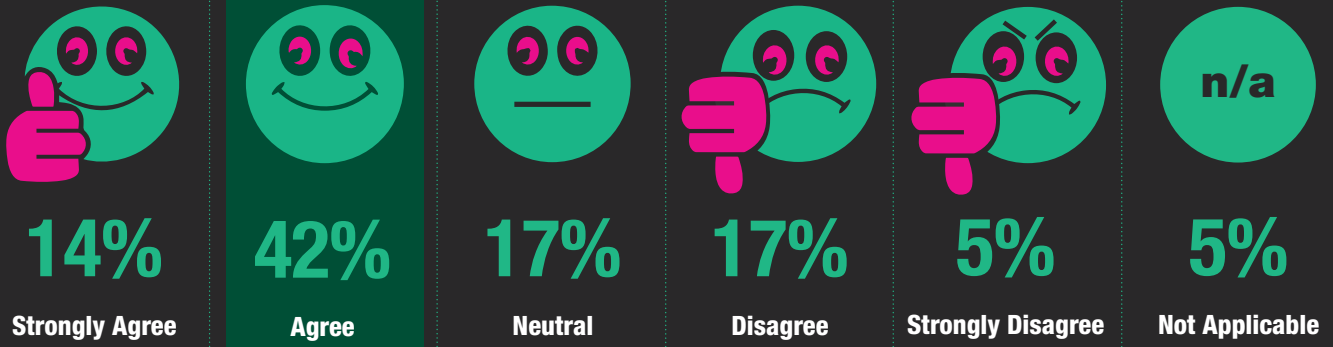
Very poorly

The **majority** of **small (37.5%), medium (41%) & large (36.5%)** organisations responded that their **finances are managed well.**

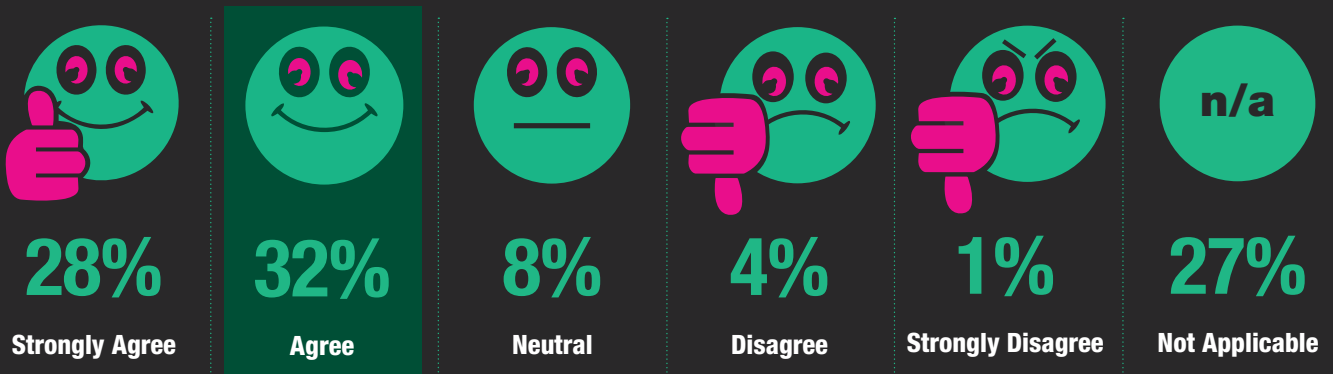


FINANCIAL MANAGEMENT

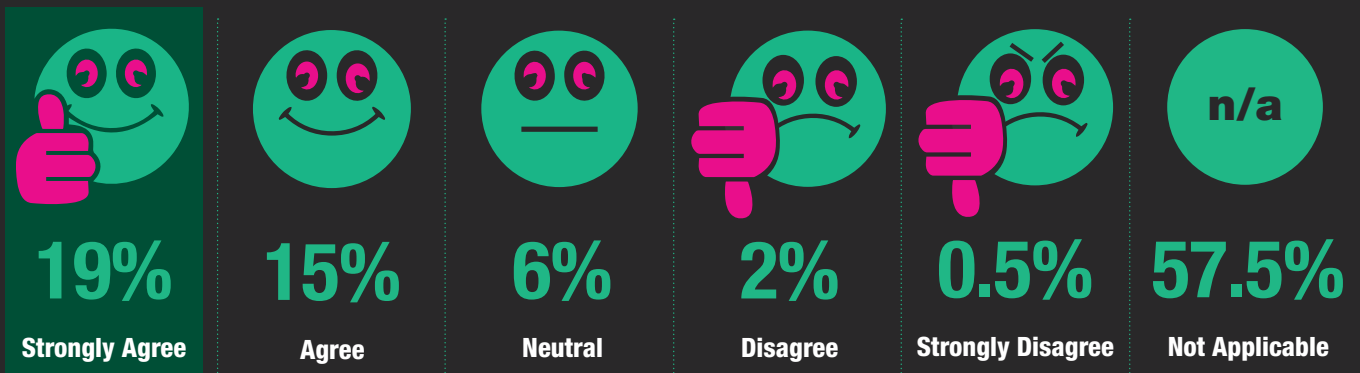
The **majority of the board** have a good understanding of the financial management of our organisation.



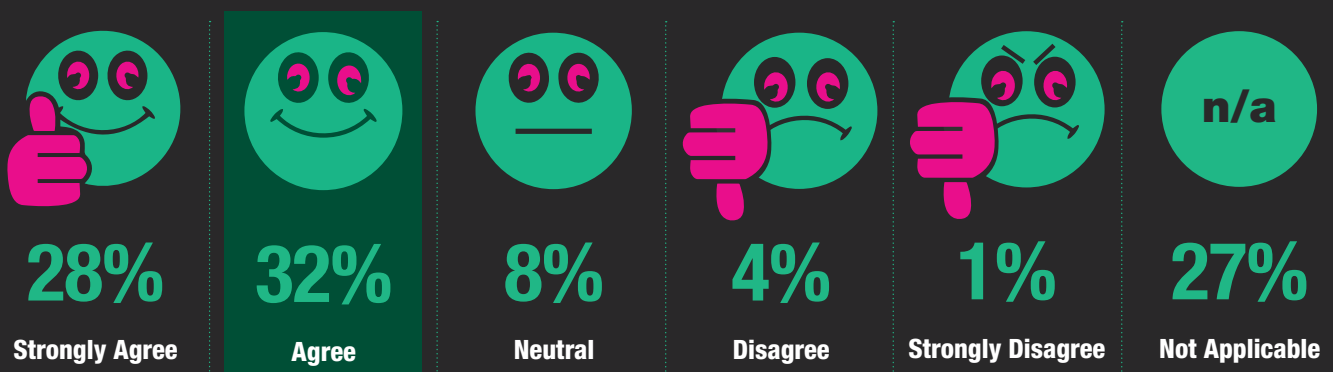
The **Chief Executive Officer (CEO)** has a good understanding of the financial management of our organisation.



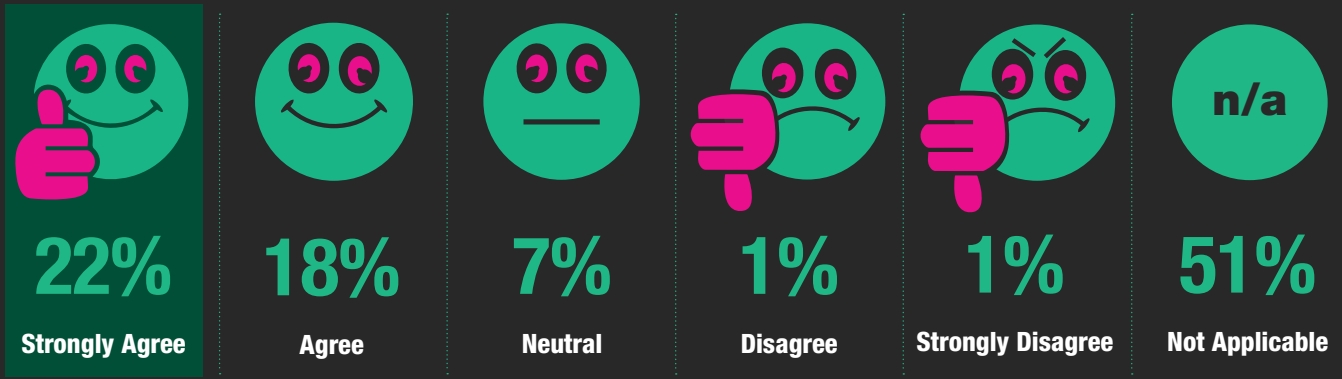
The **Chief Financial Officer (CFO)** has a good understanding of the financial management of our organisation.



The **Treasurer** has a good understanding of the financial management of our organisation.

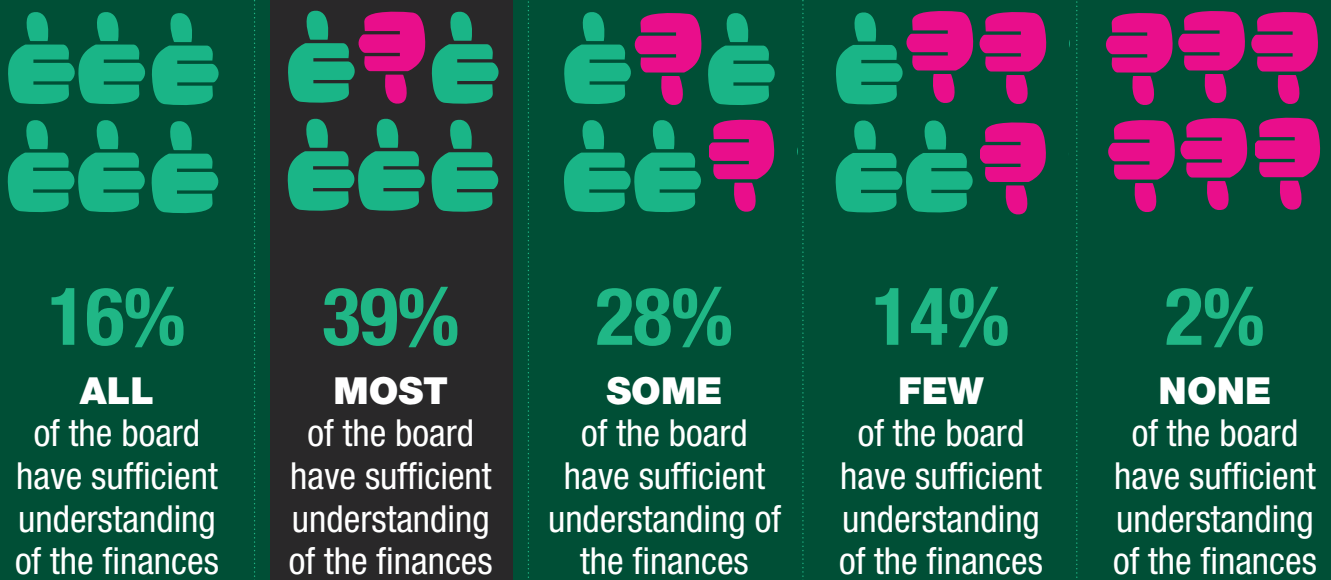


The **Finance Manager** has a good understanding of the financial management of our organisation.



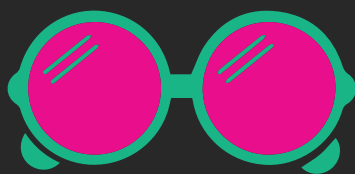
UNDERSTANDING YOUR ORGANISATION'S FINANCES

What proportion of the board do you think has a sufficient understanding of the finances of your organisation?



SEEKING EXPERT HELP

Have you or do you plan to use outside help to improve financial knowledge or capacity?



21%

HAVE USED outside help
in the past 12 months



35%

ARE PLANNING on using outside help
in the next 12 months

Capability gaps

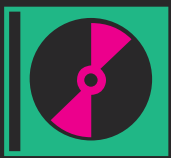
The survey reveals areas of financial management and governance where office holders may need additional support in developing and maintaining the skills needed to manage fast-growing and increasingly complex organisations.

The importance of effective IT systems in managing a sustainable organisation was very much in evidence, with more than a third (34%) of respondents saying their organisation needed help in understanding and implementing software.

A similar number said they needed help with their organisation's governance policies, perhaps reflecting the greater scrutiny and regulation of not-for-profits — particularly those competing for government funding. There was also significant demand for help with budgeting, keeping up with accounting rules and regulations, cash flow management and financial reporting.

CAPACITY BUILDING NEEDS

Which of the following resources and information does your organisation need the most help with?



34%

of organisations need help with implementing & understanding **Software**



32.5%

of organisations need help with **Governance Policies**



24%

of organisations need help with **Budgeting**



21%

of organisations need help with **Accounting Rules & Regulations**



20%

of organisations need help with **Cash Flow Management**



16%

of organisations need help with **Bookkeeping Basics**

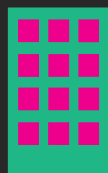


SMALL ORGANISATIONS are most likely to need help with **bookkeeping basics** (23%)



12%

of organisations need help with **Cyber-security**

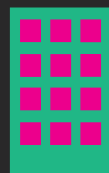


LARGE ORGANISATIONS are most likely to need help with **cyber-security** (23%)



4%

of organisations need help with **Fraud**



LARGE ORGANISATIONS are most likely to need help with **fraud** (13%)

Financial reporting
19%

Investing money
17%

Auditing
16%

Leasing
4.5%

Loans
4.5%



SECTION TWO:

Fraud & Risk Management

Challenges and opportunities



Strengthening fraud-prevention systems

With at least 6% of respondents in this survey having fallen victim to fraud over the past three years, more needs to be done to help organisations protect themselves. And since 79% of frauds are perpetrated by trusted insiders, the focus must be on strengthening internal systems, particularly among those organisations that continue to rely on trust in their staff instead of formal processes and controls.



Responding to the risk of cyber-crime

While only a few organisations have fallen victim to cyber-crime, many could be subject to unnecessary risks, with fewer than a third of respondents agreeing that their organisation has adequate protections in place. As a priority, organisations should put a cyber-safety policy in place and implement staff training on topics including internet and email security, secure laptops and smartphones.

Fraud

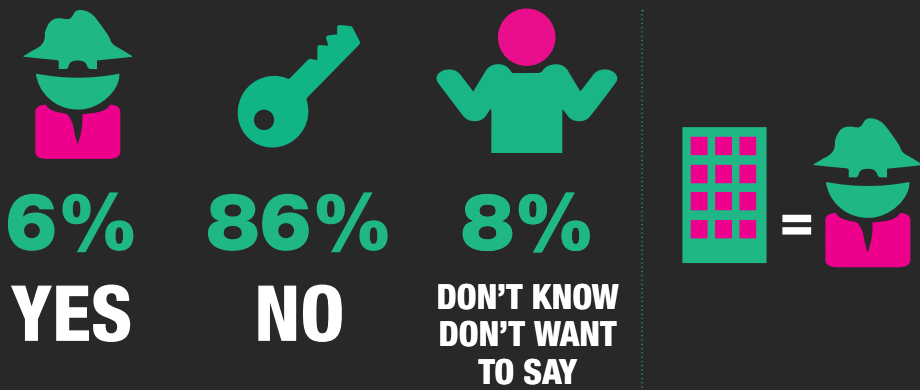
As the not-for-profit sector continues to grow in size and economic importance, it is increasingly exposed to the risk of fraud from both staff and clients. Six per cent of not-for-profit organisations in this survey have experienced fraud in the past three years, with a further 8% unsure or unwilling to say whether they have been affected. In some cases, the losses were alarming — the largest incident cost one organisation \$250,000, while a number of others lost more than \$100,000.

Extrapolated across the sector, the average loss of \$33,769 suggests a total potential loss of \$38 million annually may be occurring in this sector.

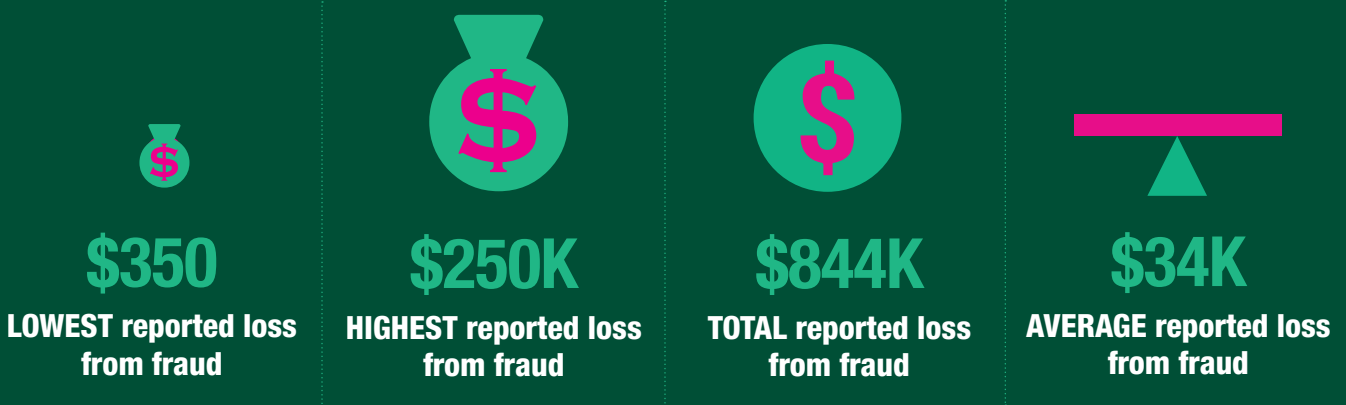
Yet despite the scale of the risk, not-for-profit organisations remain reluctant to put formal risk management measures in place. Almost a third (31%) believed they did not need any formal financial risk management processes because their staff were highly trustworthy, with smaller organisations most likely to rely on trust alone. Nonetheless, of those who had suffered fraud, 79% said the fraud had been committed by a trusted insider.

EXPERIENCING FRAUD

Proportion of not-for-profit organisations that have experienced fraud in the past three years

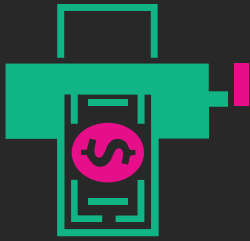


HOW MUCH IS LOST TO FRAUD



FRAUDSTERS

Who perpetrated the fraud?



79%

INTERNAL
(cheque fraud,
payroll fraud, cash
theft)



21%

EXTERNAL
(external theft,
cyber-crime)

WAS IT REPORTED TO POLICE?



35%

YES



58%

NO



7%

**DON'T
KNOW**

Cyber-crime

Like most organisations, not-for-profits are moving much of their financial management, including their financial systems, online.

This places them at a greater risk of cyber-crime, particularly where inadequate security measures are in place.

While only a small proportion (2.5%) of organisations have fallen victim to cyber-crime in the past three years, the lack of focus on cyber-security revealed in the survey suggests this may be a result of good fortune rather than good management. In fact, only 31% of survey respondents think that their organisation is doing enough to protect against cyber-crime, while a further 39% aren't certain. Less than a third of not-for-profits have a cyber-security policy in place, or train their staff in email and internet security. And only around half use measures to protect confidential information (55%) or protect their systems with a firewall (53%).

On the other hand, most organisations are getting the basics right, installing anti-virus software and backing up data regularly. Nonetheless, our survey suggests that if organisations want to minimise the risk of cyber-fraud, many will need to focus additional resources in this area.

FINANCIAL LOSS AS A RESULT OF CYBER-CRIME

In the past three years, has your organisation experienced any financial loss as a result of cyber-crime?



2.5%

YES



91.3%

NO



6.2%

**DON'T KNOW
WON'T SAY**

How much has been lost to cyber-crime?



\$250

**LOWEST
reported loss
from
cyber-crime**



\$25K

**HIGHEST
reported loss
from
cyber-crime**

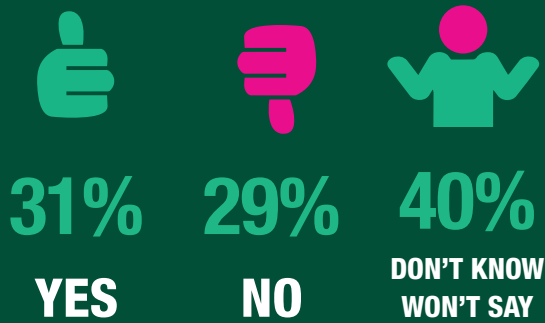


\$9.3K

**AVERAGE
reported loss
from
cyber-crime**

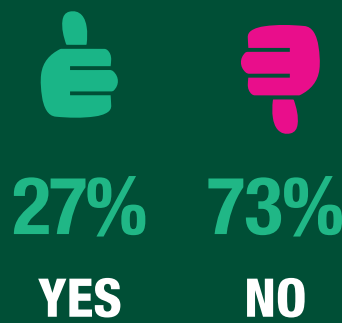
PROTECTION AGAINST CYBER-CRIME

Do you think your organisation does enough to protect against cyber-crime?



CYBER-SECURITY POLICIES

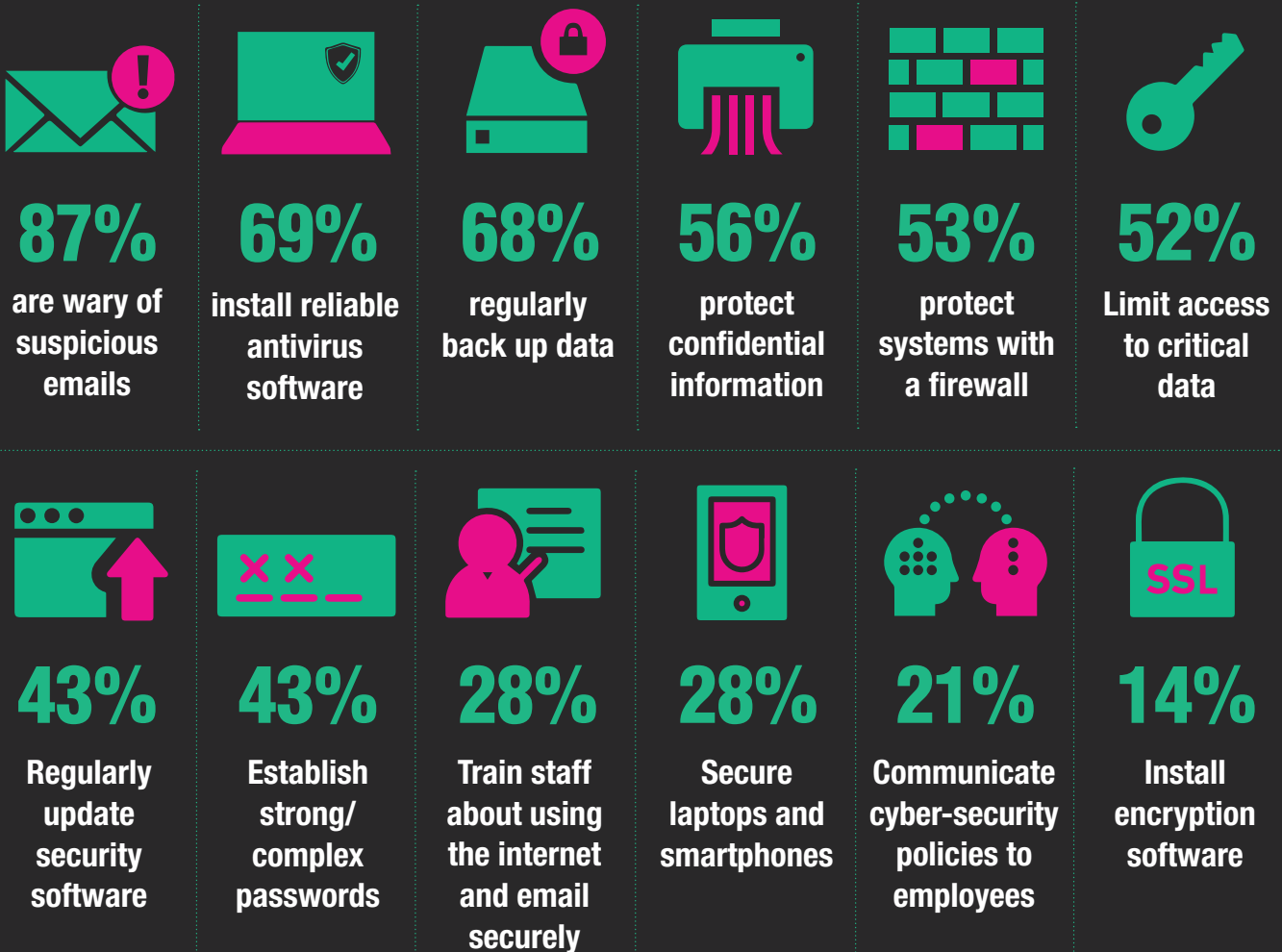
Does your organisation have a cyber-security policy?



80% of Small organisations don't have a cyber-security policy, compared with medium (65%) and large (58%) organisations.

CYBER-SECURITY MEASURES

What cyber-security measures do organisations have in place?



Financial risk management

Our survey investigated the not-for-profit sector's approach to financial risk management, in an effort to identify the links between processes and practices and not-for-profit organisations' growing vulnerability to fraud. We found that almost a third of all organisations (31%) had no risk management systems in place, including 40% of small organisations, with the remainder using a range of mechanisms to assess, monitor and control risk.

As a result, it appears that a significant proportion of not-for-profit organisations are putting themselves at unnecessary risk, with 79% of the frauds reported in this survey perpetrated by insiders, including staff, volunteers and trusted personnel. For small organisations, the risk is arguably even greater than for large organisations, since the actions of just one person could create sufficient damage and affect their long-term viability.

FINANCIAL RISK MANAGEMENT

What financial risk management personnel, systems and processes does your organisation currently have in place?



38%

have a
**Financial Risk
Monitoring
Process**



34%

have a
**Financial
Risk Review
Process**



33%

have a
**Financial Risk
Policy**



32%

have a
**Financial Risk
Assessment
Process**



23%

have a
**Financial Risk
Committee**



16%

have a
**Financial Risk
Manager**



31%

say they have no need for
any formal financial risk
management process as
they are very trusting of
their staff



=



Small organisations are the most
trusting (**40%**), followed by **medium**
(**19%**) & **large** (**17%**)

SECTION THREE:

Funding & Sustainability

Challenges and opportunities



Responding to government funding reductions:

Organisations have responded to government funding reductions and other funding challenges by seeking innovative new approaches to raise funds in order to maintain their level of service. Nonetheless, creating a more diverse and sustainable funding base is a more pressing issue than ever before, and likely to be high on the agenda for not-for-profits in the year ahead.



Managing growth:

Despite a difficult funding environment, many not-for-profit organisations are expanding in response to growing demand, exposing them to the challenges of rapid growth.



Reducing overheads:

Not-for-profits are already highly conscious of the necessity of reducing overheads as far as possible. But with the entry of not-for-profit ratings agencies on the Australian scene, overheads are likely to come under further scrutiny.



Collaborations and mergers:

Mergers look set to rise among Australian not-for-profit organisations, with 15% expecting to take part in a merger over the next 12 months. But while a merger may bring new efficiencies in the medium term, it can also create short term challenges, including organisational and service delivery disruptions.

Financial challenges

With governments looking to trim spending, wage growth at 17-year lows and unemployment edging higher, Australian not-for-profit organisations are operating in an unusually challenging funding climate. Asked to name their top three financial challenges, two in three organisations said that establishing a sustainable funding strategy was a significant issue, while 38% nominated competition for funding and 34% cited government cuts.

Even more strikingly, an overwhelming 86% of organisations agreed that finding consistent and regular funding is becoming increasingly difficult, while one in five said that the past year had been the worst in their history for funding and revenue generation. Nonetheless, a significant minority have succeeded in maintaining healthy funding flows from donations and investment income, with around one in four respondents agreeing that their organisations are in great financial shape.

Organisations have responded to the challenge by searching out new opportunities to secure the funding required to maintain and expand their programs.

Ninety-three per cent agree that they are constantly looking for new and innovative ways to generate funds.

MOST PRESSING FINANCIAL CHALLENGES

What are the three most pressing challenges your organisation is currently facing?



67%

Establishing a sustainable and varied fundraising strategy

(funding, fundraising, grants, sponsorship, donations)



38%

Competition from other not-for-profit organisations

(competition includes funding, members, donors, grants and contracts)



34%

Cuts in government funding

Developing cash reserves 29%

Meeting demand for services or programs 24%

Ability to remunerate, retain and recruit required staff 21%

IT concerns (obtaining and incorporating required technology) 16%

The role of the board/governance issues 13.50%

Compliance with government regulations (i.e. ACNC, State regulators) 11%

Managing donor, funder and sponsor expectations 10%

Financial risk management 8%

State of the economy 7.5%

FUNDING FORTUNES

Thinking about the challenges not-for-profits face in relation to funding and revenue generation, how much would you agree or disagree with the following statements?



We are constantly looking for new and innovative ways to generate funding & revenue:

58% Strongly Agree
 35% Agree
 4% Neutral
 2% Disagree
 1% Strongly Disagree



Finding consistent and regular funding is becoming increasingly difficult:

53% Strongly Agree
 33% Agree
 12% Neutral
 1% Disagree
 1% Strongly Disagree



The past year has been the worst in our history:

9% Strongly Agree
 10% Agree
 33% Neutral
 35% Disagree
 13% Strongly Disagree



We are in great financial shape:

3% Strongly Agree
 22% Agree
 41% Neutral
 25% Disagree
 9% Strongly Disagree

Services

Despite the challenging funding climate, a majority of not-for-profits are determined to increase the scope and reach of their services as demand increases. Forty-two per cent have established new programs or expanded their existing services over the last 12 months, while a similar proportion plan to do so over the year ahead. Similarly, around half intend to increase the number of people they reach, with 42% forecasting a rise in the volume of services offered to each recipient.

Yet financial constraints still have the potential to impact service provision, with a significant proportion of organisations expressing uncertainty about their ability to continue offering the same level of service in the future. Almost four in five respondents said they were not sure whether they would reduce or restructure the geographical locations they served, while around half could not say whether they may move to reduce or eliminate existing programs.

PROGRAMS & SERVICES

Has your organisation taken (or is it planning to undertake) any of the following actions in the past/next 12 months?



Taken in past 12 mths



Planning in next 12 mths



Not sure

Add or expand programs or services:

Reduce or eliminate programs or services:

Expand geographies served:

Reduce or significantly restructure geographies served:

Modify demographics of target clients or audience:

Increase the number of people served or audience reached:

Decrease the number of people served or audience reached:

Increase the amount of services or programs offered to each client or audience member:

Decrease the amount of services or programs offered to each client or audience member:



42%



43%



15%

27%

19%

54%

22%

32%

45%

9%

11%

80%

19%

37%

44%

38%

49%

13%

7.5%

11%

81%

28%

42%

30%

9%

12%

78%

Funding sources

Not-for-profits draw on a wide variety of funding sources, reflecting both the diversity of the sector and the drive towards innovation in securing sustainable funding flows.

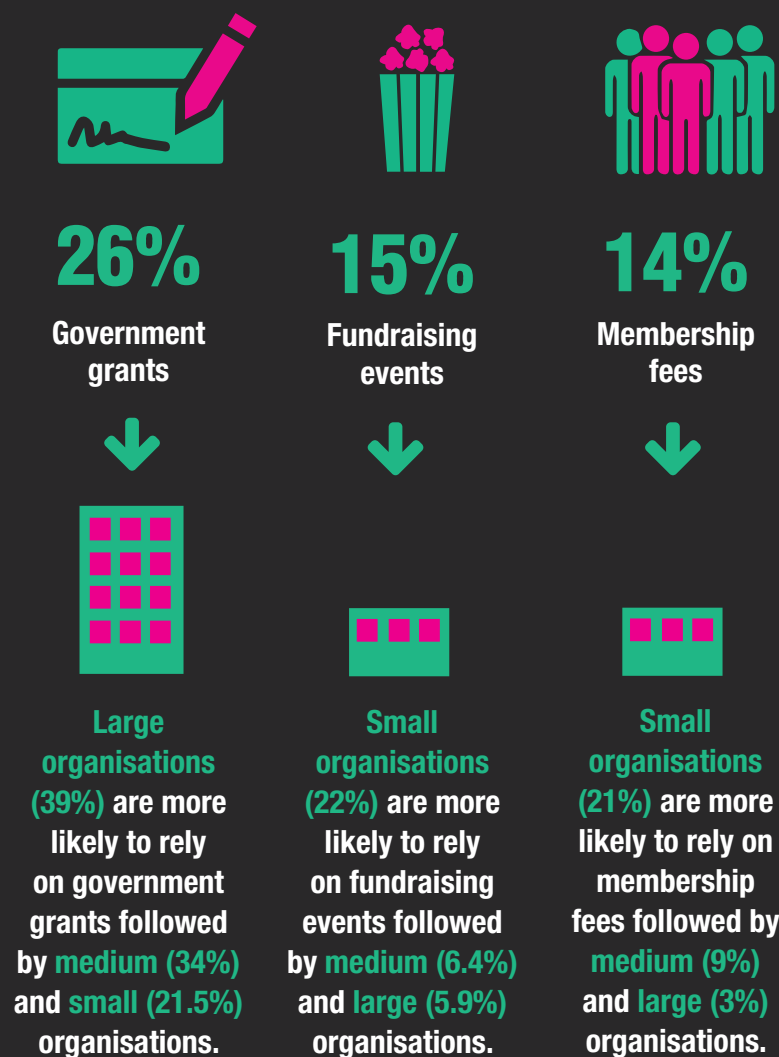
However, there are significant differences between organisations of different sizes, with more than two-thirds (63%) of large organisations relying primarily on contracts and grants from governments, compared to just under half (48%) of medium-sized enterprises. Overall, around one in four large organisations receives most of its revenue from government contracts, reflecting the greater capacity of large national organisations to deliver on the scale increasingly demanded by governments looking to outsource day to day services.

Even more strikingly, almost one in five large organisations now sources the largest part of their income from trading activities or service provision. This suggests that many are succeeding in creating a sustainable income stream independent of governments and fundraising activities.

By contrast, small not-for-profits reported the lowest levels of government funding, with only a quarter relying mainly on government grants or contracts as their main source of funds. Instead, they are significantly more likely to rely on membership fees (21%) and fundraising events (22%) than either large or medium-sized organisations.

MAIN FUNDING SOURCES

What has been the MAIN source of funding for your organisation over the past 12 months?



Income from trading/ service provision	11%
Government contracts	9%
Donations	9%
Other types of funding	6%
Other Grants	6%
Sponsorship	3%
Don't know	1%

	Small	Medium	Large
Bequests	0.7%	0%	1.5%
Crowdfunding	0.2%	0%	0%
Donations	10%	11%	5%
Government contracts	4%	14%	24%
Other grants	7%	6%	1.5%
Income from trading/ service provision	8%	15%	19%
Investment income	0.7%	2%	0%
Loan finance	0%	0%	0%
Sponsorship	4.5%	2%	0%
Don't know	0.9%	0.6%	0.7%

Innovation




Fundraising challenges and increasing demand for services have seen not-for-profit organisations adopt new approaches to securing sustainable funding. Almost 60% plan to seek entirely new funding sources in the next 12 months, while one in four has already done so. Among these organisations, 39% intend to launch a campaign to raise capital for a specific project, while 34% say they will start up a social enterprise, in the hopes of securing an independent source of income for the long term.

The potential of innovations like these is evident in the growing proportion of organisations who have either added to their reserve funds in the past 12 months (24%), or hope to do so in the year ahead (52%). Yet around one in four have drawn down on their reserves during the year before the survey, reflecting both a challenging economic environment and, more positively, the added flexibility that a healthy reserve can bring.

Meanwhile, the growing professionalism of the sector is demonstrated by the large number of organisations that have either conducted long-term strategic or financial planning over the last 12 months (24%) or who plan to do so in the near future (51%).




IN SEARCH OF SUSTAINABILITY

Has your organisation taken (or planning to undertake) any of the following actions in the past/next 12 months?

 Taken in past 12 mths
  Planning in next 12 mths
  Not sure






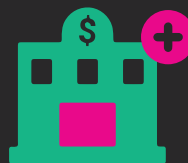
Seek brand new sources of funding

 26%
 59%
 15%






Use Reserve Funds

 27%
 28%
 44%






Add to Reserve Funds

 24%
 52%
 24%






Pursue an earned revenue (social enterprise) venture

 14%
 33.5%
 53%






Change main ways of raising/spending money

 19%
 53%
 28%






Launch a capital campaign

 12%
 39%
 49%






Upgrade hardware or software to improve efficiency

 24%
 43%
 33%






Conduct long-term strategic or financial planning

 24%
 51%
 25%



Seek different funding such as loans/investments

 25%
 31%
 44%

Reducing overheads

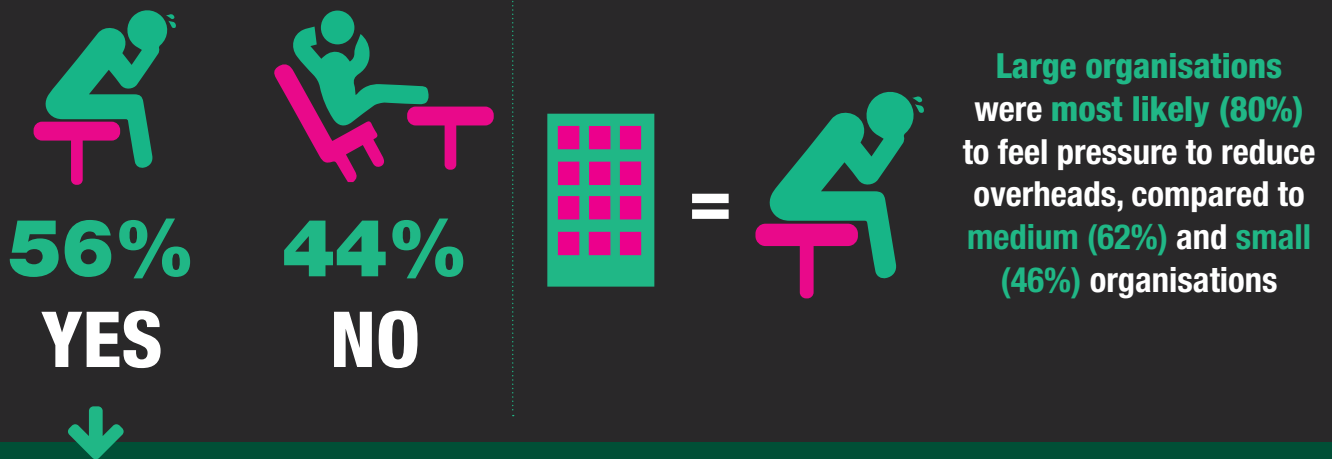
With competition for the philanthropic dollar intensifying, and demand for services increasing, not-for-profits are under constant pressure to reduce any expenditure that does not directly benefit service recipients. That especially applies to overheads such as staffing, rent, utilities, accounting, marketing and legal costs.

On average, more than half of all organisations (56%) say they feel pressured to reduce their overheads. The larger the organisation, the more intense that pressure is likely to be, with 80% of large organisations agreeing that their overheads are subject to scrutiny, compared to just 46% of their smaller peers. That is despite the fact that large organisations tend to benefit from economies of scale, allowing them to devote more of their revenue to philanthropic programs. Almost two-thirds of large organisations spend at least three dollars in every five on programs and services, whereas only 48% of small organisations do so.

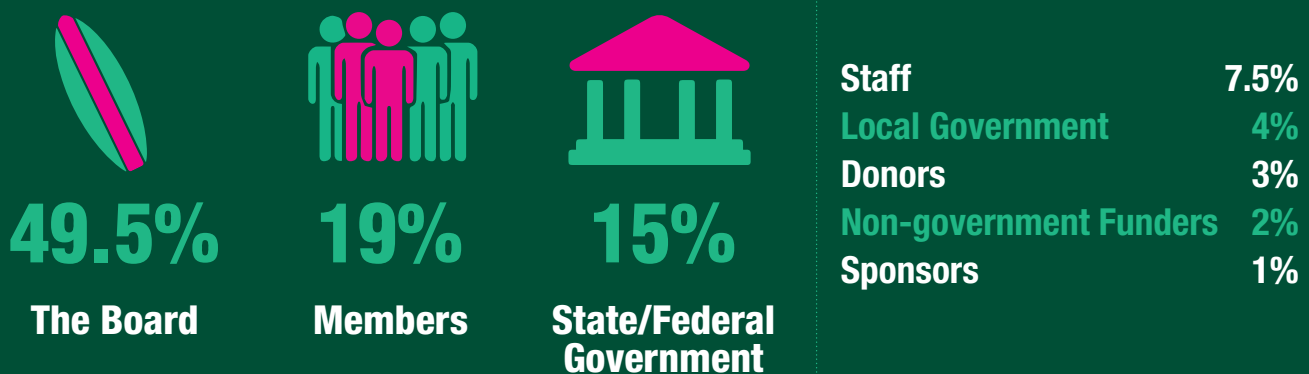
Asked who was pressuring them to reduce costs, 50% of respondents said the main source of scrutiny was their own board, followed by the organisation's members and governments. In contrast, Australian donors and sponsors are relatively unlikely to exert pressure on the organisations they support.

OVERHEAD PRESSURE

Do you feel pressure to reduce your overheads?



Who is applying the most pressure to reduce your organisation's overheads?

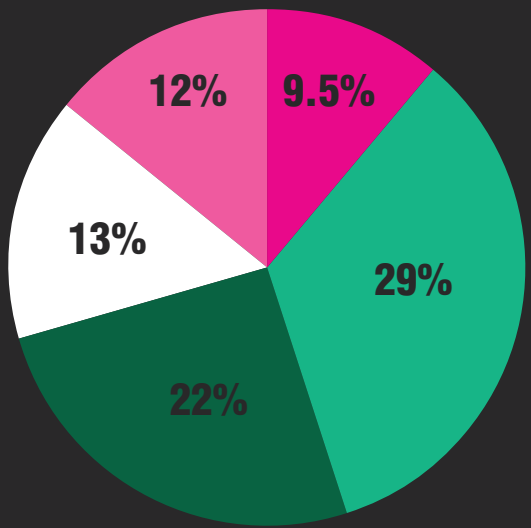


Does your organisation calculate its overhead ratio (the proportion of operating expenses compared with the total revenue of an organisation)?



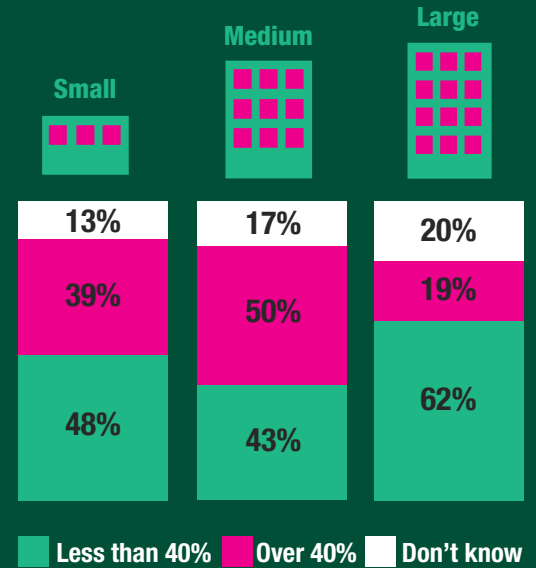
PERCENTAGE OF REVENUE SPENT ON OVERHEAD

What percentage of revenue does your organisation spend on overheads?



■ Less than 20%
 ■ 21-40%
 ■ 41-60%
■ 61-80%
 ■ More than 80%

Split by organisation size:



OVERHEAD RATIO

Do you think that overhead ratio is a good measure of the effectiveness of a not-for-profit organisation?



32%

YES



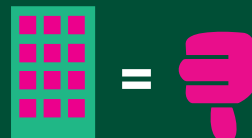
30%

NO



38%

DON'T KNOW



Large organisations were most likely (49%) **NOT** to think that overhead ratio is a good measure of effectiveness.



Small (42%) and medium (40%) organisations were most likely to not know whether overhead ratio is a good measure of effectiveness.

What is an acceptable level of overheads?

In the US, recent years have seen fierce debate over what constitutes an acceptable level of overheads for not-for-profit organisations. With at least two not-for-profit ratings organisations starting up in Australia, it seems likely that similar issues will be on the agenda here in the near future.

Currently, there is no standard benchmark for an acceptable level of overheads in Australia, nor even a clear definition of what should be included in that calculation. Nor is there any compulsion for not-for-profits to calculate their overhead ratios — although our survey reveals that 51.6% do so. In any case, there is no clear agreement that overhead ratios are a good metric for evaluating effectiveness, with 32% of our respondents for, 30% against, and 38% uncommitted.

Among those who calculate their organisation's overhead ratio, 28% appear to be running extremely lean and efficient operations, with a ratio of less than 20%. Overall, half have ratios of 40% or less.

Collaboration and mergers




An increasingly popular way for not-for-profits to take advantage of economies of scale and extend their reach is to collaborate with another organisation.

Over the last 12 months, 22% of organisations collaborated with another organisation to reduce administrative expenses, while more than a third (36%) used collaboration to improve or expand the reach of their programs and services. This trend looks set to continue, with 24% expecting to collaborate to reduce administration costs in the next 12 months, and 45% expecting to partner with another organisation to deliver services.

For organisations seeking to take their collaboration to the next level, a merger has the potential to further reduce overheads and increase organisational capabilities. And as the trend towards collaboration gathers momentum, mergers are also set to rise. While only 5% of the organisations have taken part in a merger in the past 12 months, three times that number expect to be involved in a merger in the coming year. Among those anticipating change over the next 12 months, medium-sized (23%) and large organisations (21%) are far more likely to see a merger on the horizon than small organisations (9%).




JOINING FORCES

Has your organisation taken (or is it planning to undertake) any of the following actions in the past/next 12 months?

 Taken in past 12 mths
  Planning in next 12 mths
  Not sure






Collaborate with another organisation to reduce administrative expenses

 **22%**
 **24%**
 **54%**



Collaborate with another organisation to improve or increase programs or services offered

 **36%**
 **45%**
 **19%**

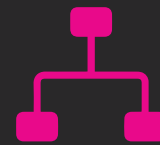


Merge with or acquire (or be acquired by) another organisation

 **5%**
 **15%**
 **80%**



Medium organisations were most likely (24%) to merge with or acquire (or be acquired by) another organisation. Followed by large (21%) and small (9%) organisations.



Undergo major organisational restructuring

 **17%**
 **29%**
 **54%**



Medium organisations were most likely (34%) to undergo major organisational restructuring. Followed by large (33%) and small (26%) organisations.

SECTION FOUR:

Delivering Outcomes

Challenges and opportunities



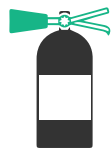
Collecting data:

Improved technology has provided not-for-profit organisations with more accurate tools for harvesting data to understand the impact of their programs. But while these new tools can be empowering, they also require organisations to invest time and money in developing new systems and capabilities to understand and use the data.



Understanding impacts:

Once data is collected, not-for-profits need to learn how to objectively interpret it and use it to inform their work. This is a key emerging challenge.



Responding to threats to advocacy:

There are some troubling threats to not-for-profit organisations' ability to advocate to government and the wider community on behalf of their constituents and/or their cause. Many organisations expect to scale down such activities in the next 12 months. This is likely to affect the ability of many organisations to achieve their mission.

Delivering outcomes




In an era of data-driven, evidence-based management, not-for-profits are increasingly focused on measuring both the outcomes of their programs and the mechanisms behind those outcomes — allowing them to determine not only what works, but why it works. These initiatives are important because, in future, funding is likely to be focused on organisations with good data to support the effectiveness of their programs. Organisations that don't keep pace with the movement towards evidence-based practice run a real risk of being left behind.

The first step in understanding an organisation's outcomes is to measure outputs — the number of people you've helped, for example, or the number of aged care beds you've delivered. This is already standard practice for most organisations, with 76% saying they collect measures of program productivity, including 80% of large organisations. Encouragingly, 52% of organisations have also taken the next step, collecting data on tangible program outcomes. Again, large organisations are both most likely to have put data collection mechanisms in place and most likely to have come under pressure to do so from governments and other stakeholders.

Many organisations, although by no means the majority, are using technology to collect the data they need. Around one in four have harnessed measurement software over the past 12 months, with another 40% planning to do so in the year ahead. Similarly, 30% of organisations have upgraded their IT systems to improve program delivery in the past 12 months, with 43% intending to upgrade in future.

For many organisations, another key aspect of achieving concrete outcomes on behalf of their clients is to undertake advocacy activities on their behalf. Our survey indicates that around two in five organisations had engaged in advocacy in the year before the survey, with that proportion set to fall slightly to 35% in the following 12 months.

GETTING TO GRIPS WITH OUTCOMES

 Yes  No  Not sure

Please tick the appropriate box based on your organisation's conduct.



Collects output data: measures of program productivity, such as number of clients or size of audience

 76%  18%  7%

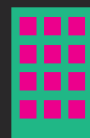


Medium (87%) & Large organisations (80%) are more likely to collect output data, followed by small (70%) organisations.



Collects outcomes data: measures of how our services improve the lives of our clients or audience members

 52%  35%  13%



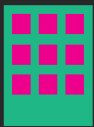
Large organisations (69%) are more likely to collect outcomes data, followed by medium (63%) and small (43%) organisations.

GETTING TO GRIPS WITH OUTCOMES

Please tick the appropriate box based on your organisation's conduct.



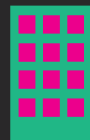
Uses outputs and outcomes data in our marketing and fundraising activities.



Medium organisations (60%) are most likely to use outputs and outcomes data in marketing and fundraising activities, followed by large (48%) and small (46%) organisations.



Has come under pressure from funders and supporters to provide more data about outputs and outcomes



Large organisations (50%) are most likely to have come under pressure to provide more data about outputs and outcomes, followed by medium (37%) and small (24%) organisations.

USE OF TECHNOLOGY IN CAPTURING DATA

Has your organisation taken (or is it planning to undertake) any of the following actions in the past/next 12 months?



Use, purchase, or upgrade software specifically to capture data on program impact





Upgrade hardware or software (computers, IT systems, applications) to improve service or program delivery



ADVOCACY ACTIVITIES

Has your organisation taken (or planning to undertake) any of the following actions in the past/next 12 months?

 Taken in past 12 mths  Planning in next 12 mths  Not sure



Have you or are you planning to advocate to government on behalf of your organisation's cause?

 39%  35%  28%

Response to the findings

The Institute of Community Directors Australia (ICDA) will use the survey's findings to provide better support to not-for-profit organisations and their people. Specifically, we will seek to:

- Fill capacity gaps by providing new financial literacy resources through Our Community's online Community Financial Centre, building awareness of ICDA's free Board Matching and Policy Bank services, and rolling out relevant training and awareness campaigns.
- Look for opportunities to promote the benefits of being a treasurer to the wider community.
- Monitor the trend in paying treasurers and board members to gain a better understanding of its benefits and disadvantages, and republish help sheets to help not-for-profits negotiate this trend as it emerges.
- Expand the program to support new treasurers and board members, building on initiatives such as the Damn Good Advice financial literacy series and the Not-for-Profit Treasurers' Awards.
- Seek opportunities to help the not-for-profit sector to constructively frame the discussion about overhead ratios.
- Investigate existing resources to help organisations assess and implement affordable data platforms, and disseminate these tools to our members.
- Release a series of online help sheets on outcomes measurement and evaluation to assist organisations new to the field.
- Continue to champion the rights and obligations of Australian not-for-profit groups to advocate for their cause.

About the Institute of Community Directors Australia

The Institute of Community Directors Australia is the best practice governance network for the members of Australian not-for-profit boards, committees and councils, and the senior staff members who work alongside them.

An Our Community enterprise, the Institute is Australia's leading provider of information, tools, training and qualifications for Australian not-for-profits.

**Be the best
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