



**Submission to the Assistant Treasurer**

***Options for improving the Unclaimed Bank Account  
and Life Insurance Money Provisions***

**July 2014**

## Introduction

This submission briefly summarises the CCA policy position in relation to improving the way government collects and uses unclaimed moneys.

While CCA has not focused on some of the issues relating to the administration and transfer functions, the primary purpose of this submission is to highlight the opportunity in any review of these measures to consider how any money collected might best be utilised to serve the community providing the funds.

To this end, this submission is really about how the collected money may be used on its way through to government revenue. It provides a brief rationale, a listing of conditions that might be considered, and examples of how funds might be applied to achieve community benefit without diminishing capital or significantly harming liquidity.

This submission has been prepared through consultation with members of CCA (*see Attachment 1 for a listing of CCA members*) and key organisations in the NFP sector. It also draws on recommendations from previous CCA submissions.

It is important to note that this submission does not override the policy positions outlined in any individual budget submissions from CCA members.

It is also important to note that although this submission makes no formal recommendations, it asks the Treasury to give greater consideration of previous reports and some international models.

CCA welcomes this opportunity to provide input into this consultation process and would like the opportunity to further explore any of the issues raised in this submission.

## The Community Council for Australia

CCA is an independent, non-political, membership organisation dedicated to building flourishing communities by enhancing the extraordinary work and effort undertaken by the NFP sector in Australia. CCA seeks to change the way governments, communities and not-for-profits relate to one another. This includes establishing a regulatory environment that works *for* community organisations, not against them.

CCA provides leadership to the sector by being an effective voice on common and shared issues affecting the contribution, performance and viability of NFP organisations in Australia, and:

- promoting the values of the sector and the need for reform
- influencing and shaping relevant policy agendas
- informing, educating, and assisting organisations in the sector to deal with change and build sustainable futures
- working in partnership with government, business and the broader Australian community to achieve positive change.

## **Context: the not-for-profit sector**

The NFP sector contributes over \$43 billion or around 5% of GDP per annum, encompasses over 600,000 organisations ranging in size from large to very small, and is estimated to employ over one million staff (or eight per cent of all employees in Australia). Current turnover is approx. \$110 billion annually and the sector holds assets of around \$175 billion. As best we can identify, the current breakdown of income sources for the 50,000 or so economically active not-for-profit organisations is 33% fees and services or self-generated funds, 33% government funded, 33% through donations and sponsorships (ABS Satellite Account 2012).

Over the last decade, the growth in the NFP sector is second only to the mining industry and employment growth has exceeded any other industry.

These figures only tell a small part of the story. The real value of the NFP sector is in the often unattributed contribution to the quality of life we all experience in Australia. NFPs are at the heart of our communities and are what makes us resilient as a society.

The importance of the NFP sector is now being recognised around the world with almost every government putting in place measures to drive improvements. Smaller government and bigger community is a common theme, driven in part by savings, but also by a commitment to greater civic engagement and increased investment in the NFP sector.

In Australia there are currently a range of initiatives seeking to promote social enterprise; reduce compliance costs for NFP organisations; encourage a diversification of financing options to build a more sustainable funding base; streamline and refine the regulation of NFPs and charities; establish less bureaucratic reporting requirements while building community transparency; increase philanthropy and improve relationships between government and the NFP sector. CCA supports these activities.

The Australian Charities and Not-for-profits Commission (ACNC) is now operational. The establishment of the ACNC is the first time the NFP sector has had an independent regulator dedicated to serving their needs. It is a positive step towards reducing red tape, supporting transparency, building community trust and enhancing the role of the sector.

The recent history of the NFP sector is framed by growth and reform, but there are a number of new issues emerging. The level of individual philanthropic giving has levelled out from the high in 2008. The ongoing increase in revenue available to governments is effectively stalling in real terms against a backdrop of increasing demands and higher community expectations.

There have been numerous reports and recommendations relating to the NFP sector over the last decade, but it is only in recent times that governments have begun to enact some of these recommendations and embark on a long overdue process of reform and enhancement.

There are some very important recommendations arising from reports relating to financing the not-for-profit sector over the past five years that have yet to be fully considered or enacted by governments across Australia. CCA believes these recommendations need to be fully considered and implemented wherever possible.

If we can make the not-for-profit sector more productive and responsive to the changing needs of the Australia, we will not only strengthen civil society organisations, but all the communities they serve.

## **Why access to capital is critical**

The way charities and the not-for-profit sector access capital is a critical component to the effective and efficient functioning of our economy and our communities. CCA believes there needs to be a freeing up of capital to support the not-for-profit sector.

Unfortunately many banks and other financial institutions have difficulty engaging with or underwriting the not-for-profit sector as risks are not always as easy to identify and quantify.

In an ideal world, there might be a 'stock market for good' where investors interested in achieving various social outcomes and impacts could invest in the broad range of social programs, and organisations delivering better outcomes would be able to attract greater capital and deliver a greater social benefit.

Concepts such as impact investing are in some ways only just beginning in Australia. New approaches in this area include government backed social development investment and social bonds, but we still have a long way to go if increased capital is to be made more readily available to address social needs. (The partially government funded 2013 Report: *Impact Australia – investing for social and economic benefit*, Addis R., McLeod J, Raine, A., provides a good summary of where Australia is in this area.). This area is slowly growing.

CCA is a part of the Social Impact Investment Taskforce in Australia, working through the G8 and other local and global initiatives to facilitate greater social impact investment.

These initiatives are to be encouraged, but they would work much better if there was a clear source of additional capital for the not-for-profit sector.

CCA has consistently argued for an NFP bank underwritten by unclaimed moneys (unclaimed Superannuation etc.) that could invest in generating increased social benefit.

## **How would a not-for-profit 'bank' work?**

CCA believes there are a range of options for structuring a throughput based 'banking' capacity using unclaimed moneys. It is important that any proposed model ensure:

- a. that the capital is preserved and is available to anyone seeking to claim back their unused moneys
- b. that the capital is not only preserved but is available to government within a reasonable time
- c. that any use of the funds should not only be revenue neutral but should also make a small positive return over time
- d. that the use of any funds is both transparent and accountable
- e. that there is a real and tangible benefit to the community from any investment made with unclaimed funds.

CCA believes it is possible to draw on experience in the UK and Europe to create a national fund or not-for-profit bank that can meet all the above conditions. Perhaps just as importantly, CCA believes that the community would support the diversion of unclaimed moneys into a fund that is transparent and achieves real social benefit. In many ways such a 'bank' could be seen as a form of future fund and similar structures might apply, with some modifications to meet the above conditions.

## **Four areas of potential investment in the sector**

### **1. Building capacity**

One of the often repeated criticisms of NFPs is that it does not invest in itself. A nursing home that has the capacity to build additional dementia care beds may well be in a position to make additional income from the increased capital expenditure, but if the scale is limited or the returns not substantial, the investment is often considered too risky even though there would be real benefits to the organisation and the community it serves. It can also be a complicated process for a not-for-profit to undertake capital raising.

There are many examples of not-for-profits failing to realise their potential because they lack access to capital that would enable them to be more efficient and effective, as well as more productive.

In January 2010, the Productivity Commission (PC) presented its [report](#) to the government on the contribution of the not for profit sector in Australia. The report examined various aspects of this contribution including funding by government, the sector's workforce, its productivity and knowledge base, as well as the ability of the sector to build relationships with business. [Chapter 7](#) of the report (pp. 184–195) contains a section on the sector's access to capital.

The PC report noted that many not for profit organisations report difficulty accessing the capital they require. It identified some of the key impediments to more funding as the lack of collateral to guarantee loans, the lack of a reliable revenue stream to service debt, the large transactions costs relative to the capital required and the lack of a suitable organisational structure to allow the organisation to raise equity capital.

### **2. Mergers, collaboration and brokers**

One of the often repeated criticisms of NFPs is that there are too many duplicate organisations and there would be real savings if more organisations merged or were taken to a scale that allowed real efficiencies to be achieved.

There are a number of problems with this observation. The first issue is that it is not always the case that bigger and more efficient means better services to the community. All NFPs are driven by community need and the desire to provide the best possible services to their community. In practice, the charitable purpose can sometimes best be achieved through small responsive organisations well connected to local communities and services rather than larger organisations.

The second barrier is that even where mergers or collaborations could deliver improved services to a specific community, there are no incentives and no brokers and no capital investment to drive such mergers even where there may well be good returns. Unlike the business world where intermediaries often make substantial money through developing and brokering deals that increase profit, there are only a handful of intermediaries across the not-for-profit sector supporting mergers and collaborations that enable better services to be provided to a community.

Given the issues outlined above, having access to a form of capital that may underwrite real productivity gains in the sector could be critical to enabling a more sustainable and effective not-for-profit sector.

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

In Australia, a relatively small group of organisations within the finance sector have challenged this view and have been working to develop products and options to attract more investment in the not-for-profit sector and better leverage that investment into real outcomes. The down side of most of these products is that they require scale – larger amounts that enable more consistent returns. Developing a financial product for one school or hospital or drug treatment program may be worthwhile, but it is unlikely to be as productive as developing a financial product for 100 schools, hospitals or drug treatment programs. In some ways, the products themselves will be driven by scale and it is this need for scale that may ultimately lead to more considered investment in mergers and collaborations.

Access to new capital is one of the key drivers for building scale. Making new capital available through an unclaimed moneys bank or its equivalent has the potential to very significantly change the landscape for mergers and collaborations across the not-for-profit sector.

### **3. Philanthropy and sponsorship**

There are very few options for charities or not-for-profits seeking funding to underwrite their philanthropic or sponsorship development. As a consequence, the pattern of giving in Australia is largely dominated by three forms of giving: the brand name national charities we all recognise and trust; the local charities we are directly connected to and involved in (like our children's sporting teams); the one off giving in the face of some man made or natural disaster (bushfires, floods etc.).

A medium sized charity seeking to develop fundraising has to compete with all three of these major forms of giving. Developing an effective fundraising program invariably takes time and investment, both of which are often in short supply within medium sized and even some larger charities.

Access to capital to underwrite fundraising and sponsorship development may be one of the critical areas to be considered by any proposed not-for-profit bank.

### **4. Underwriting Government financing**

Many organisations in the NFP sector are partly dependent on government policy and funding decisions for their future survival. Changing governments, program reviews and shifting priorities can leave organisations exposed as is currently the case with thousands of charities and not-for-profit organisations across Australia not knowing if they will be receiving government funding for programs that end within six months or even less.

There is clearly a need for a form of buffer funding to underwrite shifts in government priorities and funding allocations. This may be one area where new products could be developed as a form of security or even insurance based product providing appropriate lead times for establishing and closing down programs and services. There is real potential to develop this or a similar product drawing on the capital in the unclaimed moneys pool of funds.

## Conclusion

As noted in the introduction, the purpose of this submission is primarily to promote discussion about how we can use unclaimed moneys to leverage more capital into the not-for-profit sector while having a minimal impact on government revenue.

If we can create an additional capital pool for the not-for-profit sector it will deliver real economic and social benefits for governments and our communities in the longer term.

Over the past two decades, the NFP sector as a whole has not benefited from any detailed economic analysis by governments across Australia. This is despite the very considerable contribution the broader NFP sector makes in terms of employment, productivity and community resilience. The current financial systems reflect this lack of real engagement in enabling the NFP sector to be better resourced and better able to fulfil its values and purpose.

Governments around the world have recognised the importance of driving reform in the way they engage with their communities and with the NFP sector. The harsh reality for most governments is that income levels are stalling while demand for services is continuing to increase. Part of the solution to this dilemma is achieving real productivity within government and within the NFP sector. Achieving these gains however, requires more than simply giving more money to the sector. It is also about creating new ways of working that preserve or even increase capital while better serving communities.

There are many lessons to be learned from international moves to create charity and not-for-profit banks and other forms of capital raising using unclaimed moneys. While not making formal recommendations, this CCA submission calls on The Treasury and those involved in conducting this review into unclaimed moneys to note the international experience particularly in the UK as well as the considered recommendations of previous reports and submissions including:

- *Contribution of the Not-for-Profit Sector*, Productivity Commission, 2010
- *Investing for good: the development of a capital market for the not-for-profit sector in Australia*, Senate Economics References Committee Report, 2012
- *Impact Australia – investing for social and economic benefit*, Addis R., McLeod J, Raine, A.,

The NFP sector is too large and too important to be left on the margins of economic debates and major policy reforms within Australia. A great deal of time and energy and knowledge has already been invested in identifying what needs to change to achieve a more effective and productive not-for-profit sector. Access to new forms of capital is one critical measure to driving increased productivity.

We hope this initial issue raising submission will lead to some more considered reflection on how using unclaimed moneys can not only be a catalyst for a stronger not-for-profit sector, it can also build community engagement and support, and deliver real outcomes for governments and the communities they serve.

## **Current Membership – Community Council for Australia Attachment 1**

### **Organisation**

2Realise

Access Australia's National Infertility Network

ATODA (Alcohol Tobacco and Other Drugs)

Anex

Australian Council for International Development

Australian Healthcare and Hospitals Association

Australian Indigenous Leadership Centre

Australian Institute of Superannuation Trustees

Australian Major Performing Arts Group

Australian Women Donors Network

Canberra Men's Centre Inc

Church Communities Australia

Churches of Christ Community Care VIC and TAS

Compass Housing

Community Colleges Australia

Connecting Up Australia

Consumers Health Forum of Australia

### **Drug Arm**

e.motion21

EthicalJobs.com.au

Family Life Services Centre,

Foresters Community Finance

Foundation for Alcohol Research and Education

Foundation for Young Australians

Goodstart Early Learning

### **Good Beginnings Australia**

HammondCare

### **Hillsong Church**

IRT Group

### **CEO/Director**

Rowena Stulajter

Sandra Dill

Carrie Fowlie

John Ryan

Marc Purcell

Alison Verhoeven

Rachelle Towart

Fiona Reynolds

Bethwyn Serow

Julie Reilly

Greg Aldridge

Chris Voll

Paul Arnott

Greg Budworth

Kate Davidson

Anne Gawen

Adam Stankevicius

### **Dr Dennis Young (Director)**

Karina Posanzini

Michael Cebon

Jo Cavanagh

Belinda Drew

Michael Thorn

Jan Owen

Julia Davison

### **Jayne Meyer-Tucker (Director)**

Stephen Judd

### **George Aghajanian (Director)**

Nieves Murray



**Lifeline Australia**

**Life Without Barriers**

Maroba Lodge

Melbourne Citymission

Missions Interlink

**Mission Australia**

**Musica Viva Australia**

Opportunity International Australia

Philanthropy Australia

Port Phillip Housing

Pro Bono Australia (Associate member)

Relationship Australia

**RSPCA Australia**

SANE

SARRAH

Save the Children

St John Ambulance Australia

Social Ventures Australia

The ANZCA Foundation

The Australian Charities Fund

**The Benevolent Society**

The Big Issue

The Centre for Social Impact

**The Smith Family**

The Ted Noffs Foundation

The Reach Foundation

Variety Australia

**Volunteering Australia**

**Wesley Mission**

Wesley Mission Victoria

**Jane Hayden (Director)**

**Claire Rodds (Director)**

Viv Allanson

Rev. Ric Holland

Pam Thyer

**Toby Hall (Director)**

**Mary Jo Capps (Director)**

Rob Dunn

Louise Walsh

Karen Barnett

Karen Mahlab

Alison Brooke

**Heather Neil (Director)**

Jack Heathe

Rod Wellington

Paul Ronalds

Peter LeCornu

Michael Traill

Ian Higgins

Edward Kerr

**Anne Hollonds (Director)**

Steven Persson

Andrew Young

**Lisa O'Brien (Director)**

Wesley Noffs

Sarah Davies

Neil Wykes

**Brett Williamson (Director)**

**Keith Garner (Director)**

Rob Evers

Work Ventures

Workplace Giving Australia

**World Vision Australia**

YMCA Australia

Youth off The Streets

YWCA Australia

Arsenio Alegre

Peter Walkemeyer

**Tim Costello (Chair)**

Ron Mell

Fr Chris Riley

Dr Caroline Lambert