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Doing good and doing it well?

Grant Thornton Australia and New Zealand
Not for Profit sector survey 2013/2014



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“The Grant Thornton teams in Australia and New Zealand have a track record of delivery. We have been committed to this sector for some 15 years providing both audit and advisory services and will continue to do so for decades to come. Our engagement with Not for Profits range from health, aged care, education, sporting clubs, societies, religious and social organisations and include varying sizes with regional, national and international focus. In a rapidly changing economic and compliance environment, sector expertise is more critical than ever”.

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Executive summary

The once popular perception of Not for Profits as amateur organisations run by enthusiastic volunteers has disappeared. Of the many trends that have emerged from the latest Grant Thornton survey of the sector, one stands out: Not for Profits on both sides of the Tasman are striving to adopt more professional standards in how they manage, operate and govern the enterprise.

Those organisations that are not moving in this direction (and their numbers are still significant) will face increasing business risks, not to mention challenges in sourcing the ongoing funding necessary for a sustainable enterprise.

This is the first time we have surveyed Not for Profit organisations on both sides of the Tasman (previously, our bi-annual survey has covered New Zealand only). We thought the results may show marked differences in how organisations in each country operate, and in the challenges they face. We discovered the opposite. By and large, and once size and turnover are taken into account, there are few significant differences between New Zealand and Australia.

Here, then, is a brief summary of the major challenges and trends we found.

Funding

As in 2011, funding continues to be the most significant challenge facing Not for Profits. A significant number could not plan more than 12 months ahead based on their current funding, and it was clear that many would not survive for more than six months if their current funding was not renewed.

One of the greatest pressures on funding is the sheer number of Not for Profit organisations in Australasia competing for a limited pool of money. This is one reason we conclude (as do many Not for Profits themselves) that some form of collaboration – ranging from sharing resources to merging and amalgamating, to using cloud technology – is a significant opportunity.

With the pressures from the global financial crisis now mostly behind us, the state of the economy is not seen as a significant constraint on fundraising. For organisations that are hoping an improved economy may ease their funding pressures, this finding may come as sobering news.

Governance

Not for Profits are required to meet similar governance standards as for-Profit organisations on both sides of the Tasman – and recent changes in both countries are upping the ante. New Zealand has introduced new reporting standards (with more on the way), and Australian organisations are dealing with the recent introduction of the Australian Charities and Not for Profits Commission and the National Disability Insurance Scheme. This continues a

trend that has been apparent for some years now.

One result is pressure on Not for Profit boards to be run by experienced people, typically from a business background. The alternative – boards run by passionate inexperienced volunteers – not only exposes the organisation to increasing legal risks, but also to greater funding challenges, as funders with the deepest pockets are more likely to demand that donee organisations demonstrate sound governance and business practices.

This is yet another reason for organisations to consolidate. Our survey shows that small Not for Profits are more likely to struggle in the governance sphere. While there are exceptions to this, the general trend is clear. We expect to see the average size of Not for Profits increase in coming years, and a trend towards more boards run by suitably qualified professionals.

Social enterprise

With funding and governance being the thorny issues they are, the trend towards social enterprises – essentially trading organisations owned by Not for Profits for the purpose of generating income – deserves serious attention. While social enterprises promise one solution to funding squeezes, they are easily mishandled and can pose significant risks to organisations that lack appropriate business and governance expertise.

Our survey results suggest that in New Zealand, at least, many of the Not for Profits that are considering establishing or buying social enterprises are doing so without sufficient preparation or due diligence. This should sound a

warning bell. It also points to the increasing need for Not for Profits to appoint boards with ample commercial and governance experience.

Social media

Social media is reshaping the way organisations market themselves and communicate with members, donors, potential funders and the communities they service. Not for Profits are no exception to this, although they vary widely in the extent to which they use social media, the number of channels they employ, the outcomes they seek from it, and the level of professionalism and commitment they bring to the table (by allocating or not allocating an annual budget to it, for instance). It is one area in which Australian organisations seem to be generally more sophisticated than their New Zealand counterparts; likewise, larger Not for Profits are generally more active in social media than smaller ones.

One thing is clear: Not for Profits, along with the wider business community, are still discovering what social media can deliver and what it cannot, and how to make best use of it. Perhaps the most compelling discovery to date is that it is not a silver bullet for fundraising (or any other single activity, for that matter), but is one marketing and communications tool among many, and works best as part of an integrated marketing and communications strategy.



“Continuing to provide current services with less funding is unsustainable.”

Significant issues

Significant issues challenging the Not for Profit sector

Funding and fundraising were identified as the major issues by around three quarters (76%) of New Zealand respondents and around two thirds (68%) of Australian respondents who cited either of these. A further 14% and 17%, respectively, identify financing activities as a significant issue. This is consistent with the 2011 New Zealand study in which over 81% of respondents identified funding and fundraising as the most significant issues.

Government and compliance with government regulations, including new governance standards by the Australian Charities and Not for Profits Commission (ACNC) and the introduction of the National Disability Insurance Scheme (NDIS), are particular concerns in Australia. Almost a quarter of respondents cite government as an issue, and 38% highlight compliance, particularly with ACNC governance standards. Ten percent point to the introduction of NDIS. These responses were given before we asked questions about

reform of the sector and the role of the ACNC (see p16).

By contrast, government and compliance were significant issues for only 17% of New Zealand respondents, although the number citing government alone fell from 20% of respondents in 2011 to 12% this year. The significance of the economy also decreased, from 18% to 8%. On the other hand, lack of resources, community engagement, costs and contracts are becoming more important.

One challenge identified by New Zealand organisations (14%), but not by Australians, was volunteers. Turnover is a factor here. Organisations turning over less than \$100,000 a year identify finding volunteers as the most significant issue after funding, while those with a turnover of more than \$10 million see compliance with the government/ACNC and the role of the board/governance as more significant. This is a reflection of not just the size of the organisation but also its maturity.

1: What are the most significant issues that challenge the Not for Profit sector this year? (AU & NZ)

Annual turnover	Less than \$100k (n=147)	\$100k - \$1m (n=123)	\$1m - \$10m (n=93)	More than \$10m (n=53)
Funding/grants	67%	67%	63%	55%
Financing the activities of the organisation	11%	16%	15%	19%
Fundraising/sponsorship/donations	19%	10%	11%	17%
Government	8%	18%	12%	25%
Volunteers	21%	8%	6%	4%
Compliance with regulations/Govt/ACNC	5%	3%	19%	30%
NFP sector - competition, collaboration	5%	19%	9%	9%
Retaining and motivating key staff/recruitment	7%	11%	10%	15%
State of the economy/recession	8%	7%	14%	11%
The role of the board/governance issues	5%	7%	13%	17%
Demand for services increasing	3%	7%	6%	9%
Lack of resources - time, training, information	2%	10%	1%	2%

The sectors in which the organisation operates are also relevant. Culture, sports and recreation Not for Profits identify finding volunteers as an issue, while those in education and research identify compliance with the government/ACNC and

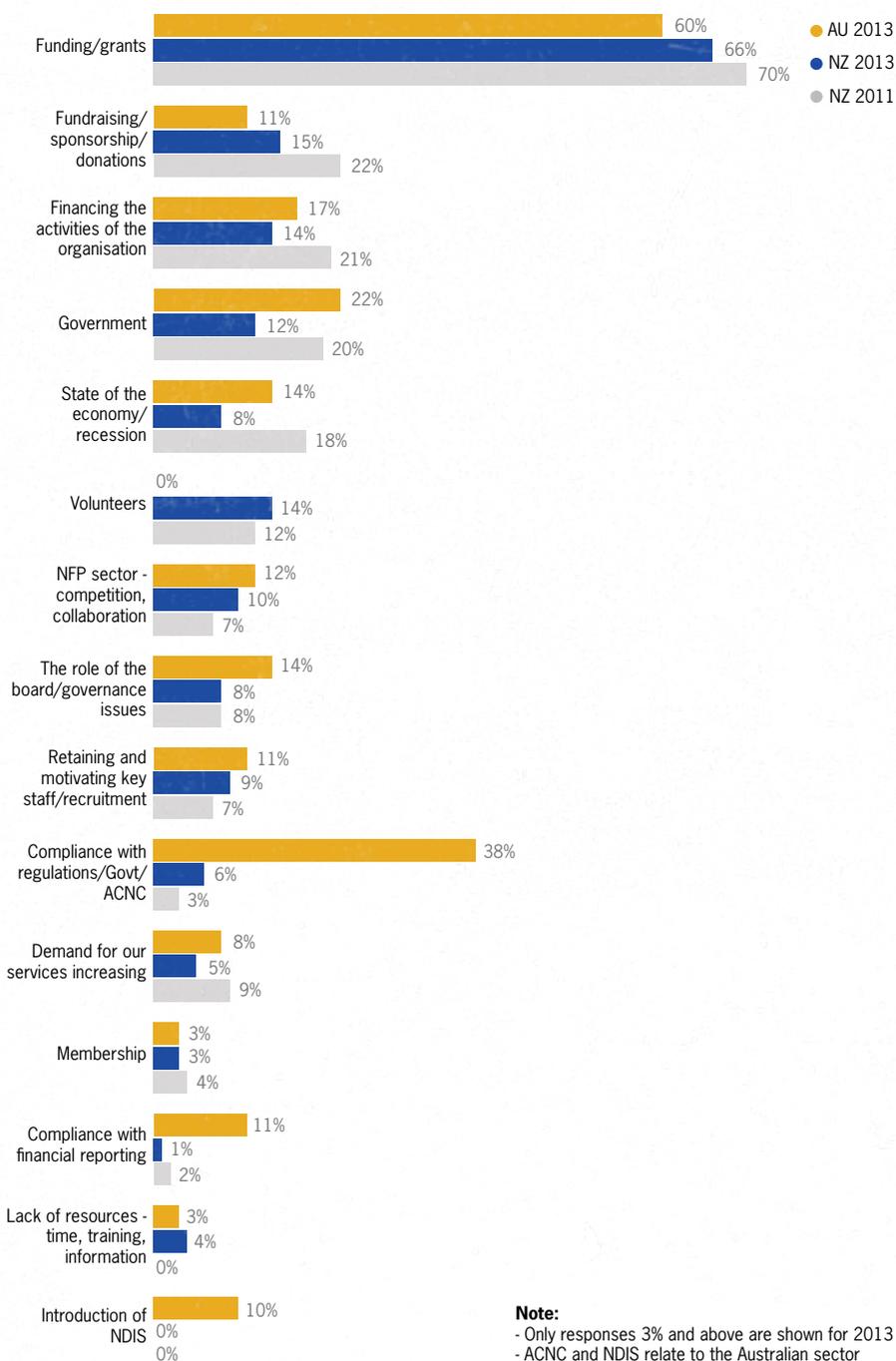
retaining and motivating key staff. Respondents in the social services sector report increased demand for their services coupled with a lack of resources to manage that demand.

2: What are the most significant issues that challenge the Not for Profit sector this year? (AU & NZ)

Sector	Culture, sports and recreation (n=68)	Education and research (n=63)	Health (n=60)	Social services (n=94)
Funding/grants	71%	62%	68%	71%
Financing the activities of the organisation	18%	17%	15%	14%
Fundraising/sponsorship/donations	12%	6%	18%	14%
Government	7%	21%	10%	17%
Volunteers	26%	11%	10%	7%
Compliance with regulations/Govt/ACNC	0%	19%	15%	11%
NFP sector - competition, collaboration	12%	10%	10%	11%
Retaining and motivating key staff/recruitment	9%	17%	17%	4%
State of the economy/recession	13%	10%	17%	2%
The role of the board/governance issues	4%	10%	10%	12%
Demand for services increasing	1%	0%	8%	13%
Lack of resources - time, training, information	1%	3%	2%	10%



3: What are the most significant issues that challenge the Not for Profit sector this year? (AU & NZ)



financing
 is an issue for
3/4
 of NZ NFPs...

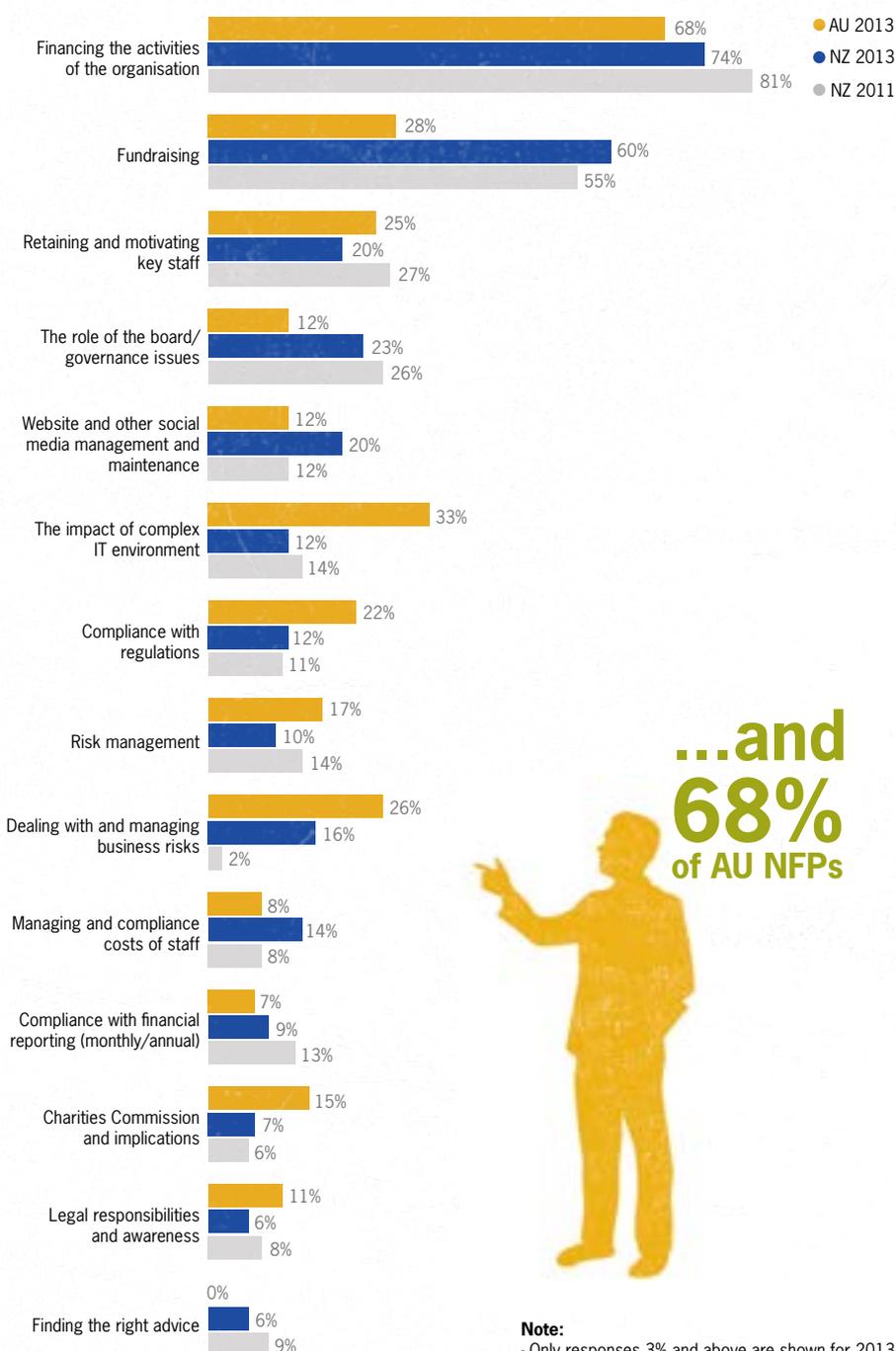


Significant issues challenging Not for Profit organisations

We next asked respondents about issues challenging them and their organisation. Three-quarters of New Zealand respondents and 68% of Australians identified financing – not surprising, given that this had already been identified as an issue facing the sector as a whole.

In the two years since our last report we have seen a heightened awareness of risk and risk management issues in the Not for Profit sector, which is reflected in the views of our respondents. While fewer New Zealand respondents regard risk management as one of the top issues challenging their organisation, the number that consider dealing with and managing business risks as an issue has increased eight-fold, from 2% to 16%. It is also a significant issue for 26% of Australian respondents, reflecting discussion around risk management in the wider business community, as well as more mature governance in segments of the Not for Profit sector. Effectively addressing business risks such as fraud is critical to the continued viability of many organisations in the sector.

4: Which are the three most significant issues currently challenging you and your organisation? (AU & NZ)



...and
68%
of AU NFPs



Note:
- Only responses 3% and above are shown for 2013

Governance

Directors and Trustees of Not for Profit organisations are expected to meet increasingly high standards of performance and accountability, similar to those of directors in the for-Profit sector. Respondents were asked whether all, some, or none of their board members understand this. Less than half (43%) of New Zealand respondents said all do, compared with 65% of Australians. While this is an improvement from previous years, there is still a need for board member education within the sector.

Board members in organisations with

higher turnovers were seen as having a better understanding of their legal responsibilities. Smaller organisations in the culture, sports and recreation sectors are most likely to think that board members do not understand their legal responsibilities. This is not surprising: board members of smaller Not for Profits are generally more closely aligned to the purpose/mission of the organisation, and less likely to be appointed for their governance experience. On the other hand, larger organisations with a higher profile are more likely to attract experienced

board members with strong governance skills. However, even in the highest turnover category, the percentage of organisations where all board members were seen to understand their legal responsibilities was a low 57%.

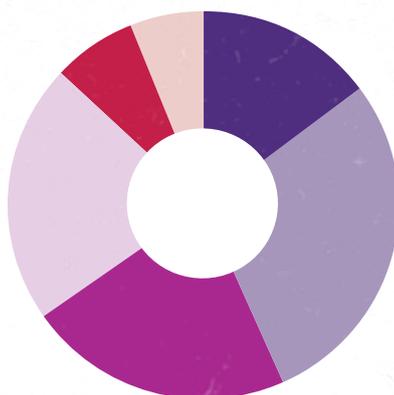
The constitution is the base document for the Not for Profit organisation, establishing the rules and regulations that govern its operations. While most respondents review their constitution regularly, 13% say their constitution has not been reviewed or they don't know when it was last reviewed.

5: Which statement best fits the level of understanding your organisation's board members/trustees have of their legal responsibilities? (AU & NZ)

Annual turnover	Less than \$100k (n=147)	\$100k - \$1m (n=123)	\$1m - \$10m (n=93)	More than \$10m (n=53)
All board members understand their legal responsibilities	40%	46%	55%	57%
More than half of the board members understand their legal responsibilities	34%	34%	31%	32%
Less than half of the board members understand their legal responsibilities	22%	16%	14%	11%
None of the board members understand their legal responsibilities	4%	4%	0%	0%

6: How often is your constitution reviewed? (AU & NZ)

- On an annual basis 15%
- 1 - 3 year cycle 29%
- 3 - 5 year cycle 22%
- Less frequently than every five years 22%
- Never been reviewed 7%
- Don't know 6%

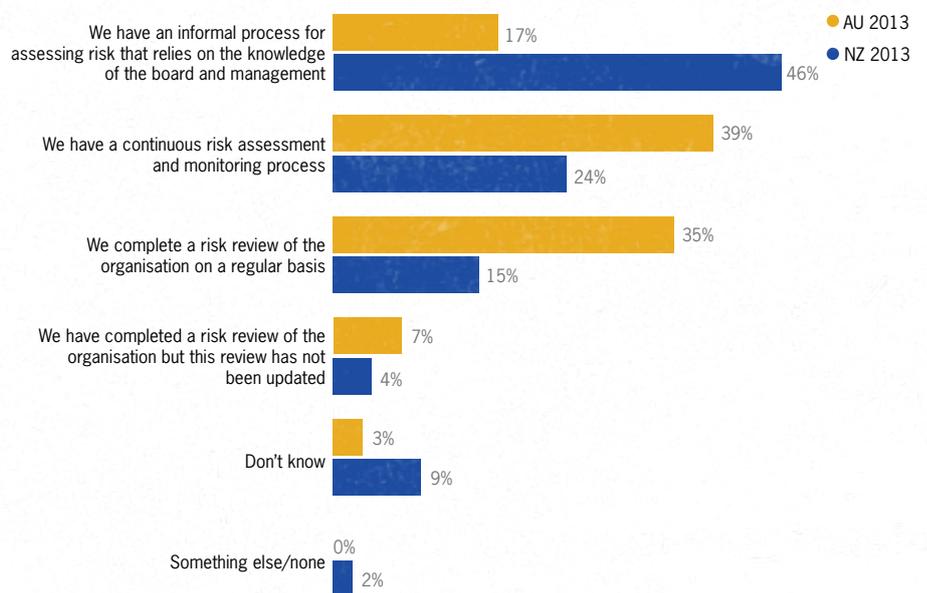


Risk management

Risk management has gained a higher profile in the Not for Profit sector in recent years. Identifying operational risks early and devising an appropriate strategy eases day-to-day management and contributes to long term survival.

We asked respondents how they monitor business and strategic risks. About 25% said they have a continuous risk assessment and monitoring process, while 20% complete a regular risk review. About 40% have an informal process that relies on the knowledge of the board and management. The responses suggest a marked contrast between the processes of Australian and New Zealand respondents. However, this is largely eliminated when we compare results by size of turnover.

7: Which statement best describes your organisation's approach to monitoring the business and strategic risks that your organisation may face? (AU & NZ)



“There is a distinct lack of good governance process, relationships and policies”.

“Confusion over governance v management roles and responsibilities still exists”.



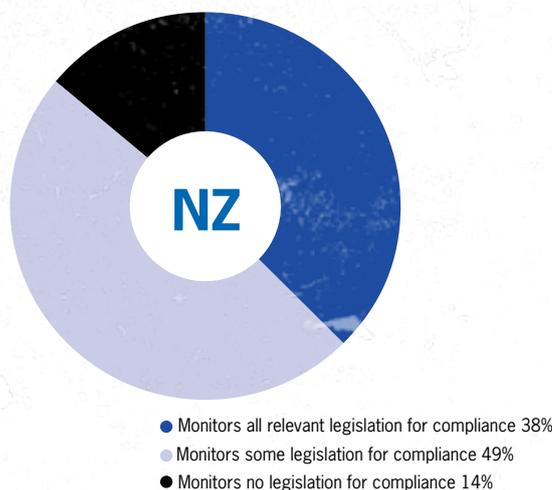
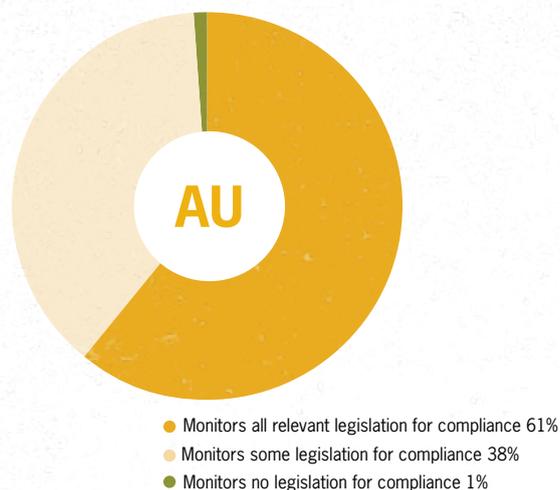
Not for Profits in the health sector have more formal processes, with 30% indicating they complete regular risk reviews. Only 22% report that it is an informal process, significantly lower than in other sectors. Larger organisations also have a more formal approach. Most (88%) with turnover greater than \$10 million have either a continuous or a regular risk assessment process. By contrast, less than half of those with turnover under \$1 million have a formal process.

New Zealand lags behind Australia in its monitoring of compliance-related legislation, with 38% of respondents saying they monitor all such legislation, compared to 61% of Australian organisations. About half of New Zealand respondents monitor some legislation for compliance, but 14% do not monitor any (compared with just 1% of Australian respondents).

8: Which statement best describes your organisation's approach to monitoring the business and strategic risks that your organisation may face? (AU & NZ)

Annual turnover	Less than \$100k (n=147)	\$100k - \$1m (n=123)	\$1k - \$10m (n=93)	More than \$10m (n=53)
We have a continuous risk assessment and monitoring process	12%	28%	38%	43%
We complete a risk review of the organisation on a regular basis	9%	15%	24%	45%
We have completed a risk review of the organisation but it has not been updated	3%	3%	9%	2%
We have an informal process for assessing risk that relies on the knowledge of the board and management	55%	49%	27%	9%

9: When it comes to monitoring the level of compliance with legislation, how much does your organisation do? (AU & NZ)



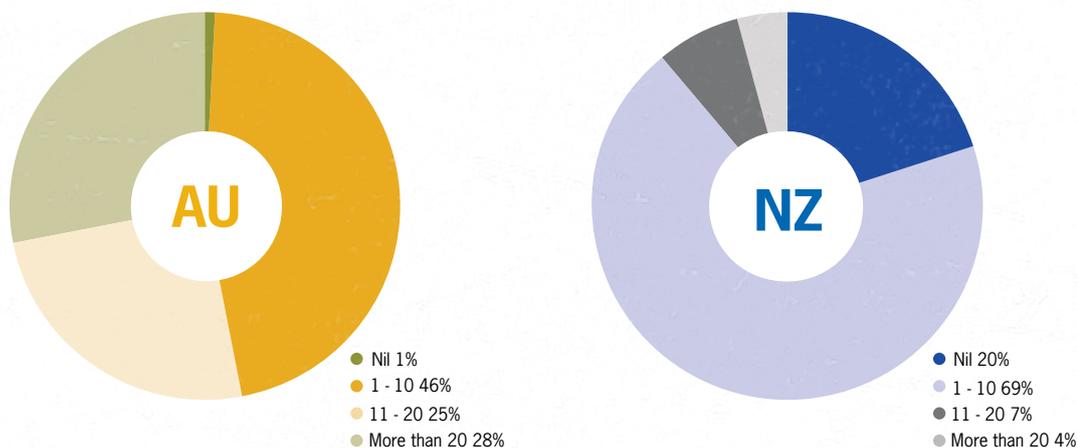
The education and research sectors are the most likely to monitor legislation for compliance, with 63% saying they do so, significantly higher than other sectors. The culture, sports and recreation sectors are most likely to monitor no legislation (22%). Larger organisations are also more likely to monitor all relevant legislation for compliance.

Monitoring legislation for compliance represents a cost to the organisation. To assess how onerous this cost is, we asked respondents how many pieces of legislation they monitor; overall 8% said they monitor more than 20, indicating a potential drain on resources.

10: When it comes to monitoring the level of compliance with legislation, how much does your organisation do? (AU & NZ)

Annual turnover	Less than \$100k (n=147)	\$100k - \$1m (n=123)	\$1m- \$10m (n=93)	More than \$10m (n=53)
Monitors all relevant legislation for compliance	34%	30%	56%	64%
Monitors some legislation for compliance	45%	59%	41%	36%
Monitors no legislation for compliance	21%	11%	3%	0%

11: How many pieces of legislation does your organisation currently monitor? (AU & NZ)



Financial reporting in New Zealand

New Zealand has recently introduced a number of changes to financial reporting, including auditor registration, and more changes are coming once the Financial Reporting bill is passed. These will have implications for Not for Profits' internal processes and reporting requirements. Respondents were asked if they were aware of these changes, and 77% said they were.

We asked those respondents whether the changes had been discussed within their organisation and a response agreed on. Three-quarters had discussed them

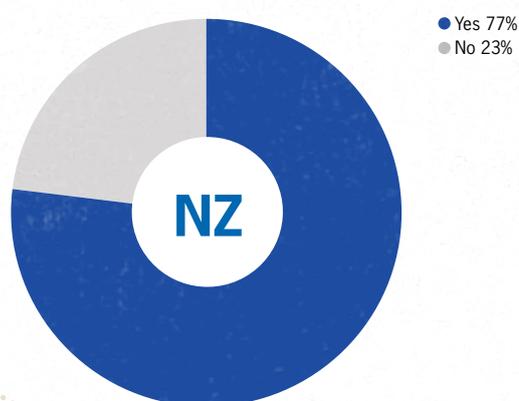
at the board/trustee level, and about 15% had not discussed them at any level. Where the changes and their implications had been discussed, a response had also generally been agreed on.

The compliance requirements are largely seen as reasonable, with 27% calling them completely reasonable and only 3% saying they are completely unreasonable. However, one in five were unsure about their impact, indicating a possible lack of understanding among some Not for Profits.

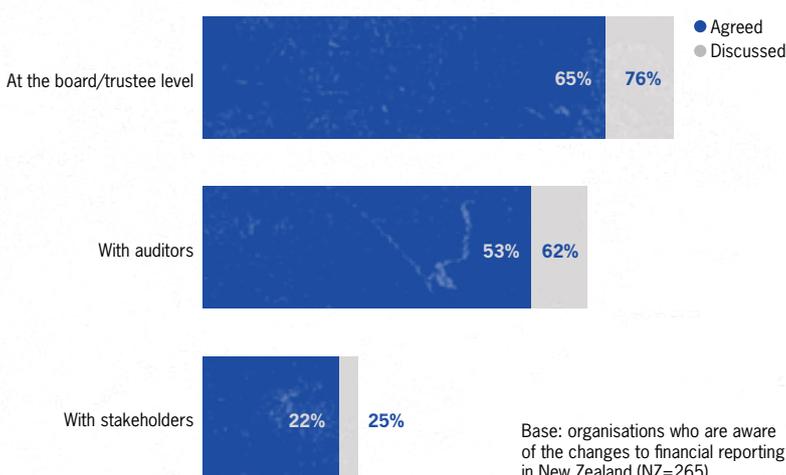
Less than one-quarter of respondents said they asked stakeholders what information they wish to see included in their annual reports. This is not unexpected, as many Not for Profits view their annual report more as a report card than a marketing opportunity that provides insight into the future and helps differentiate them from other Not for Profits.

Those that do view their annual report as a 'shop window' are generally keen to respond adequately to the information needs of all stakeholders and potential readers.

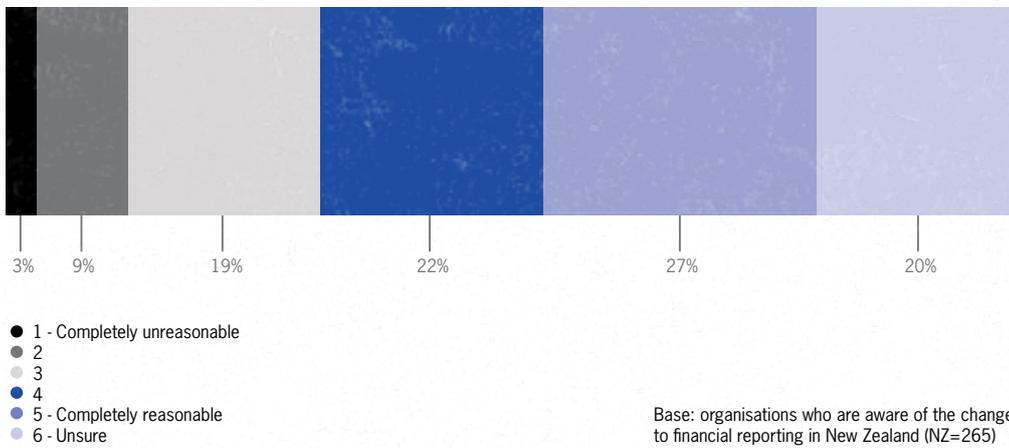
12: There are a number of changes to the New Zealand financial reporting regime that have been introduced in the last two years (eg, auditor registration) or are being introduced (eg, the Financial Reporting Bill). Are you aware of these changes? (NZ)



13: Have these changes and their implications been discussed? And has your response to them been agreed? (NZ)

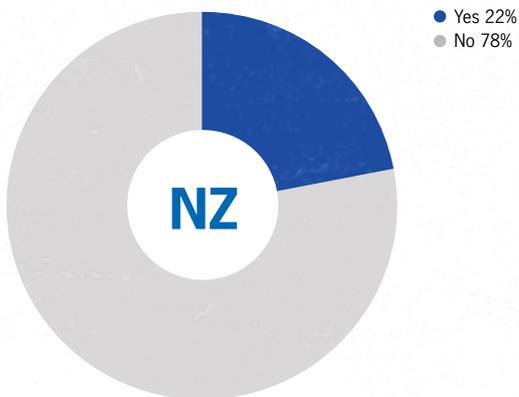


14: How would you describe the compliance requirements that these changes place on your organisation? (NZ)



Base: organisations who are aware of the changes to financial reporting in New Zealand (NZ=265)

15: Has your organisation asked readers of your annual report (stakeholders) what information they wish to see reported on? (NZ)



77% are aware of financial reporting changes



Not for Profit reform in Australia

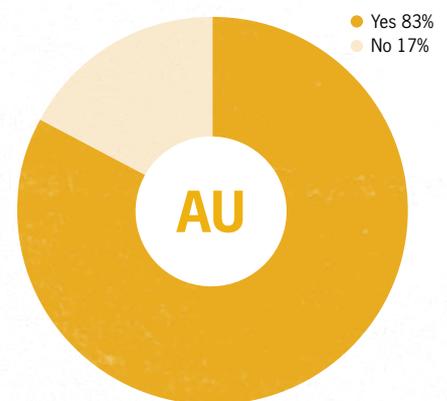
In December 2012, the Not for Profit sector in Australia experienced radical change with the commencement of the Australian Charities and Not for Profits Commission (ACNC). The ACNC's governance standards came into force on 1 July 2013, and will be followed by the Statutory Definition of Charity Bill, which comes into force on 1 January 2014.

Earlier in this report 38% of Australian respondents identified compliance with regulations, government and ACNC as a significant challenge. Nevertheless, Australian respondents also support the direction

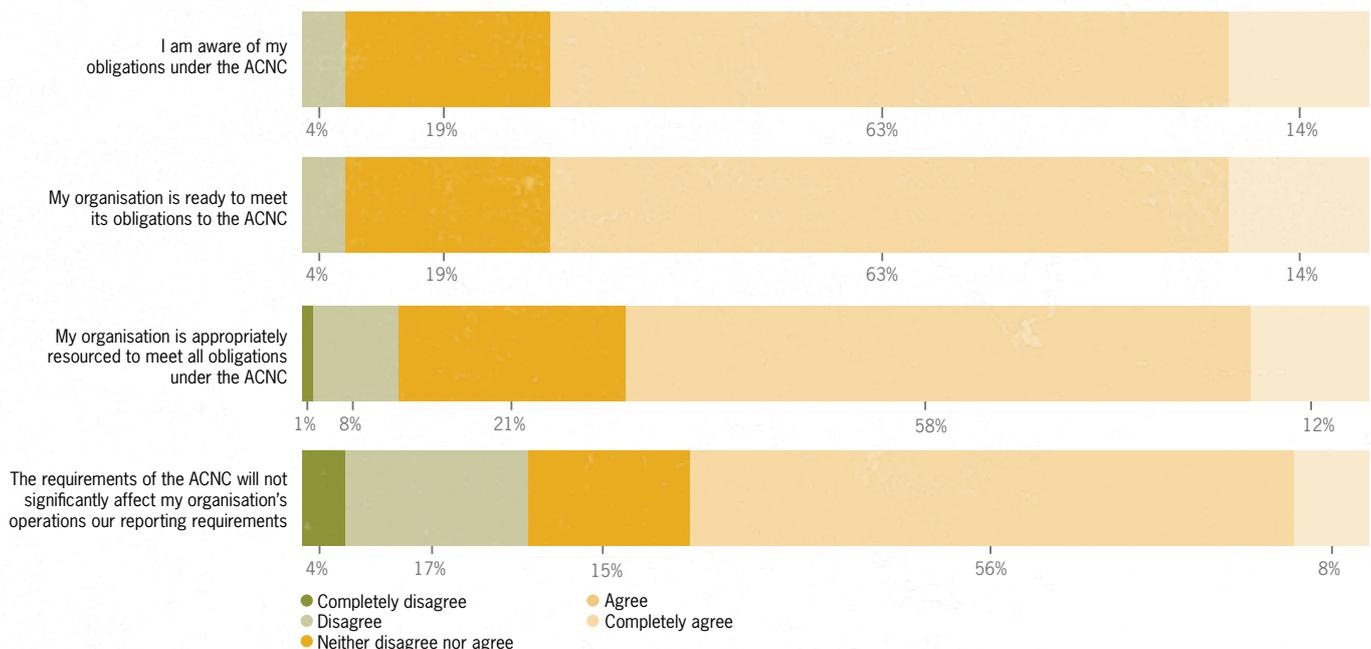
of the reforms, with a clear majority (83%) believing the sector needs a national regulator.

Generally, the sector appears well prepared for the changes, with three-quarters saying they are aware of their obligations and their organisation is ready to meet them. Some 70% said their organisation is appropriately resourced to meet their obligations under the ACNC. Although most felt that ACNC requirements will not significantly impact their organisation's operations, a significant proportion (21%) felt they would.

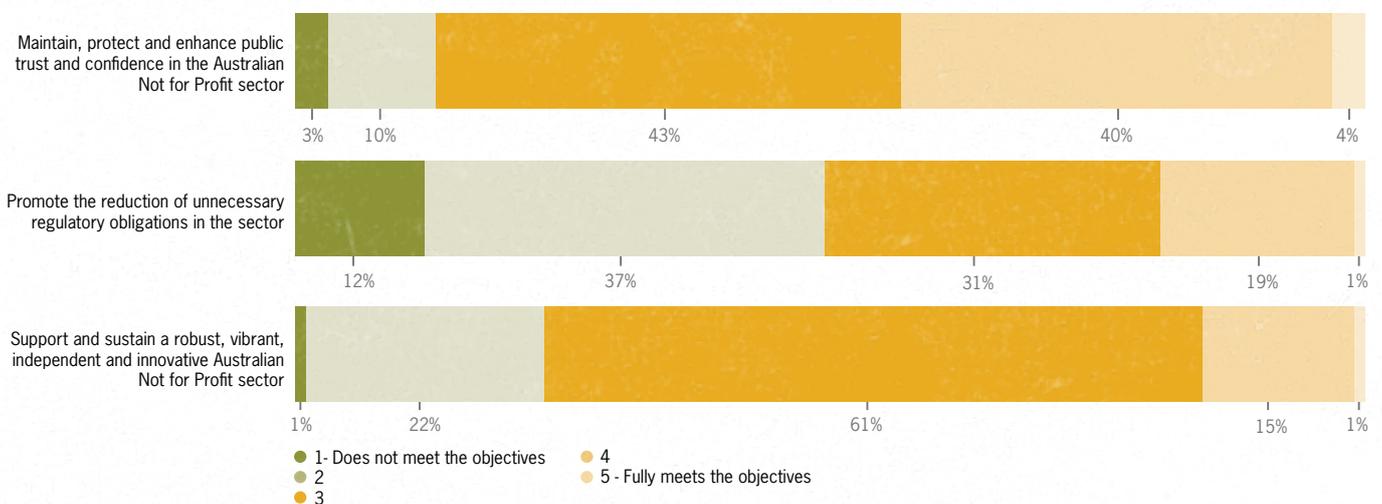
16: Do you believe that the sector needed a national regulator? (AU)



17: Thinking about the commencement of the ACNC, how much would you agree or disagree with the following statements? (AU)



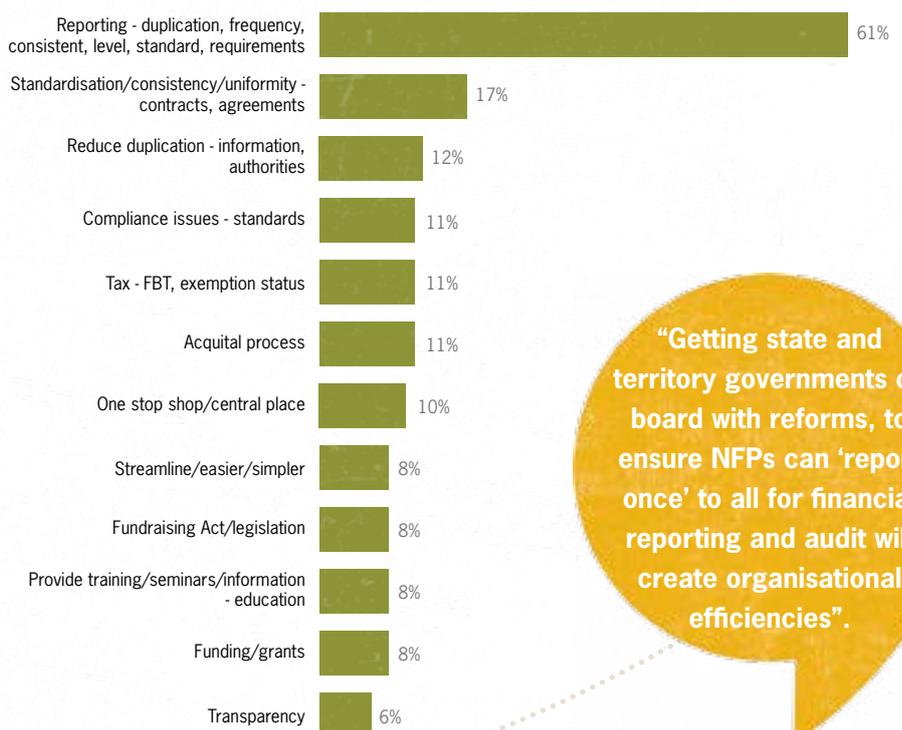
18: The ACNC has three stated objectives. Please rate how well, given its current powers and regulations, you think the ACNC will perform in relation to those objectives. (AU)



Respondents were asked to predict how well the ACNC will perform against its three stated objectives. Optimism was strongest in terms of maintaining, protecting and enhancing trust and confidence in the Not for Profit sector, with 44% feeling it will meet this objective and only 13% feeling it will not. However, around half felt that the ACNC would not meet the objective of promoting the reduction of unnecessary regulatory obligations in the sector. Respondents were neutral (61%) regarding the third objective, supporting and sustaining a robust, vibrant, independent and innovative Australian Not for Profit sector.

When asked where the commission should focus its attention in order to reduce red tape in the sector, most respondents identify reporting. Standardisation of contracts and agreements and reduced duplication among authorities are less important.

19: The reduction of red tape has been a focus for the sector for a number of years. List the top three areas where you believe the ACNC should focus its efforts in this area. (AU)



“Getting state and territory governments on board with reforms, to ensure NFPs can ‘report once’ to all for financial reporting and audit will create organisational efficiencies”.

Alignment to outcomes/impact assessment

Not for Profits in the social, health and education sectors are increasingly expected to deliver against outcomes. Governments are introducing social impact measures as well as working with Not for Profits and communities to develop new solutions to so-called “intractable” or “wicked” problems. The development of social investment and social impact bonds provide potential alternative funding streams for Not for Profits but also require them to report on their results against specified outcomes.

Alignment to outcomes

Australia is well down this path already. However, given that the New Zealand Government is considering social impact bonds, we asked respondents in both countries whether they measure outcomes and how they report results.

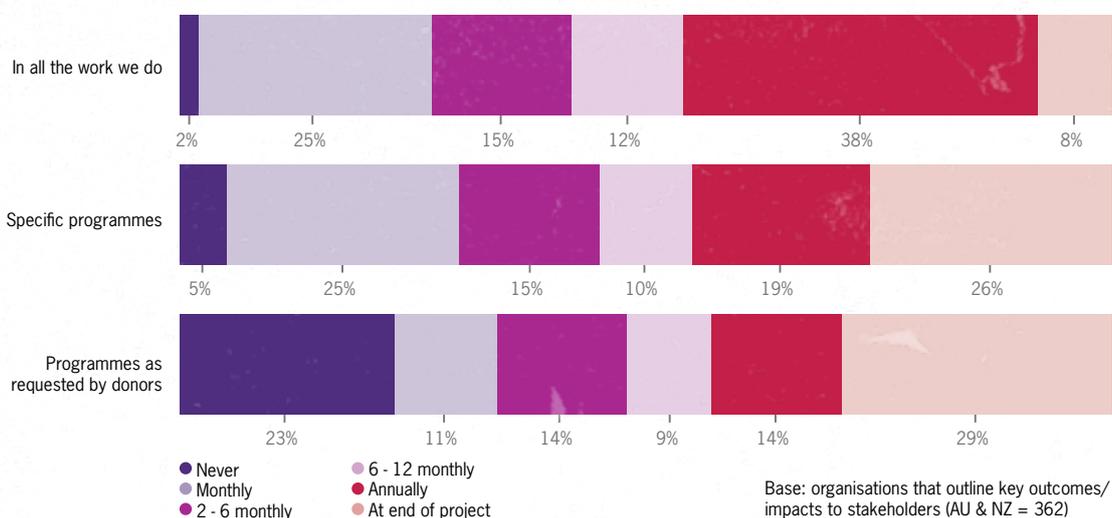
Eighty-six percent of New Zealand respondents said they outline their key outcomes and/or impacts to stakeholders, compared with 92% of Australian respondents.

Organisations are most likely to report annually or monthly, as per the usual pattern of governance reporting. Donor-funded programmes are most likely to be reported on at the end of the project, although there is considerable variation in reporting requirements (generally reflecting the duration of the programme).

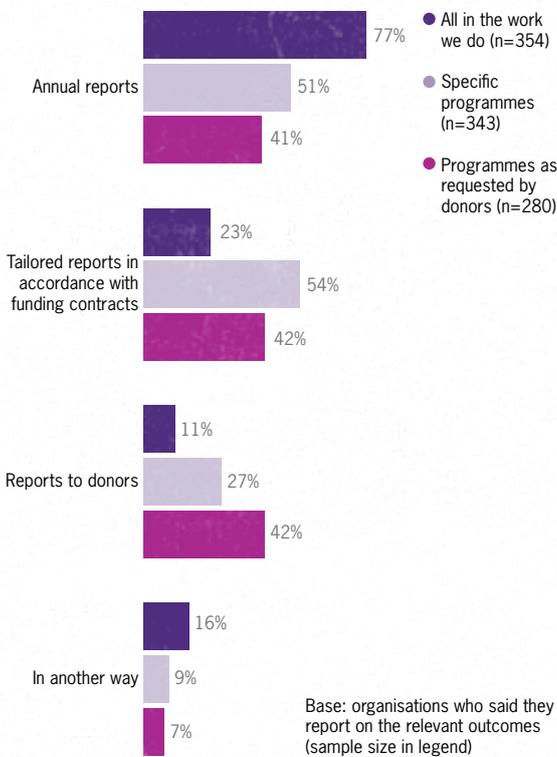
Of the 23% of organisations who never report on programmes as requested by donors, about one in ten do not have the resources to do so.

Annual reports are the most common reporting method, with tailored reports and reports to donors also playing a role.

20: How often do you measure the outcomes of particular areas? (AU & NZ)



21: How do you report to your stakeholders against these outcomes? (AU & NZ)



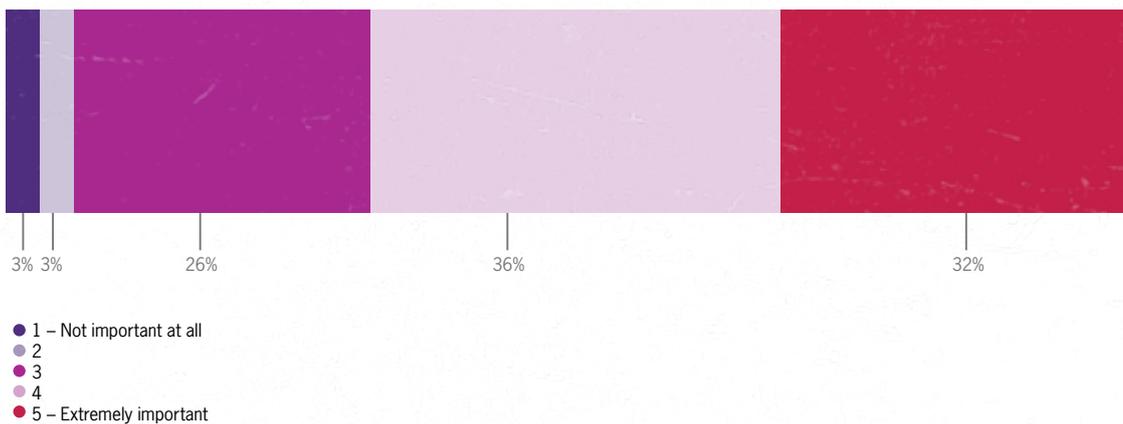
Impact evaluation

About two-thirds of respondents identified impact evaluation as important or extremely important; less than 10% thought it was not important. Organisations with a turnover above \$10 million were significantly more likely to rate it as important: 74%, versus 58% of organisations turning over less than \$100,000.

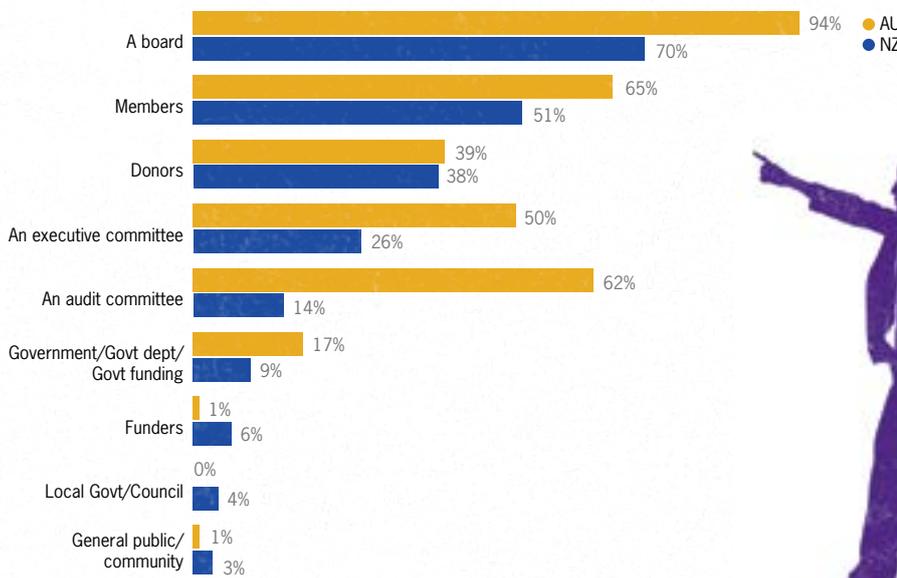
The most common stakeholders (refer to graph 23, p20) that organisations identified are boards (74%), members (53%), donors (38%), executive committees (30%) and an audit committee (23%). It is surprising, given the weight most respondents gave to government funding, that only 17% in Australia and 9% in New Zealand identify government entities as stakeholders.

These responses highlight that most organisations have a strong internal focus for their reporting. Impact evaluation can be an effective marketing tool with both donors and potential clients; besides showing how well an organisation is achieving its objectives, it can also address the organisation's wider role in the community. That said, impact assessment is an emerging art and Not for Profits should treat it as one tool in their armoury when seeking funding.

22: How important do you think impact evaluation is? (AU & NZ)



23: To which stakeholders is your organisation required to report or have accountability to? (AU & NZ)



Most organisations have a strong internal focus for their reporting.

24: To what degree do these constraints prevent you from undertaking impact evaluations? (AU & NZ)



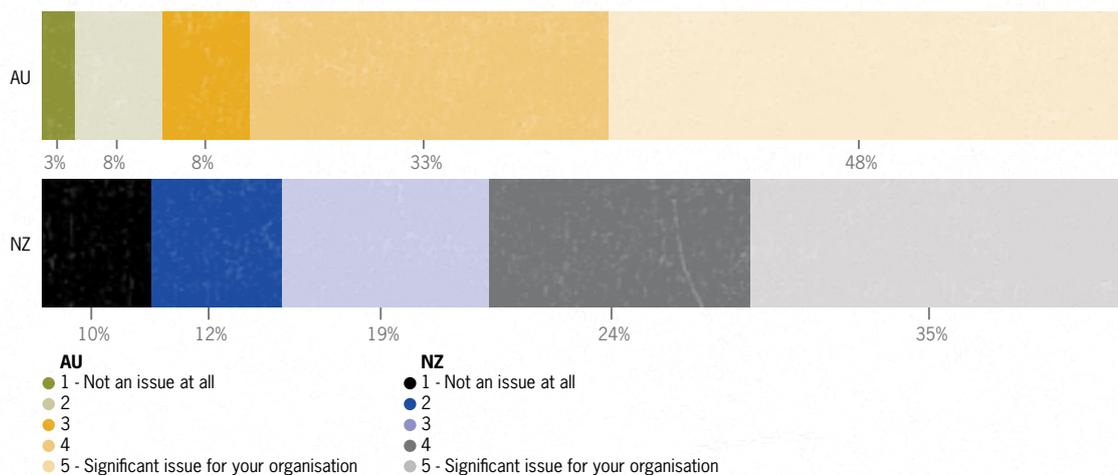
Controlling expenditure

Given the challenges of funding, it is perhaps no surprise that controlling expenditure is also an issue for just over half of New Zealand (59%) and 81% of Australian respondents.

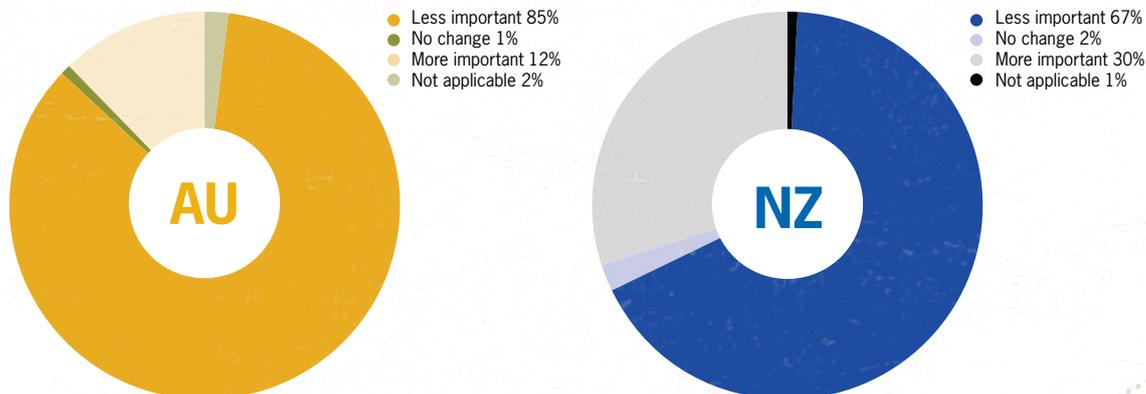
Nonetheless, 67% of New Zealand respondents (85% in Australia) indicate that it is less important than it was five years ago, one year into the global

financial crisis. In reality, most respondents have been working with tight budgets for some time, suggesting they have addressed most expenditure control issues and will be more confident about expenditure management. As noted earlier, the state of the economy is not considered to be a significant issue.

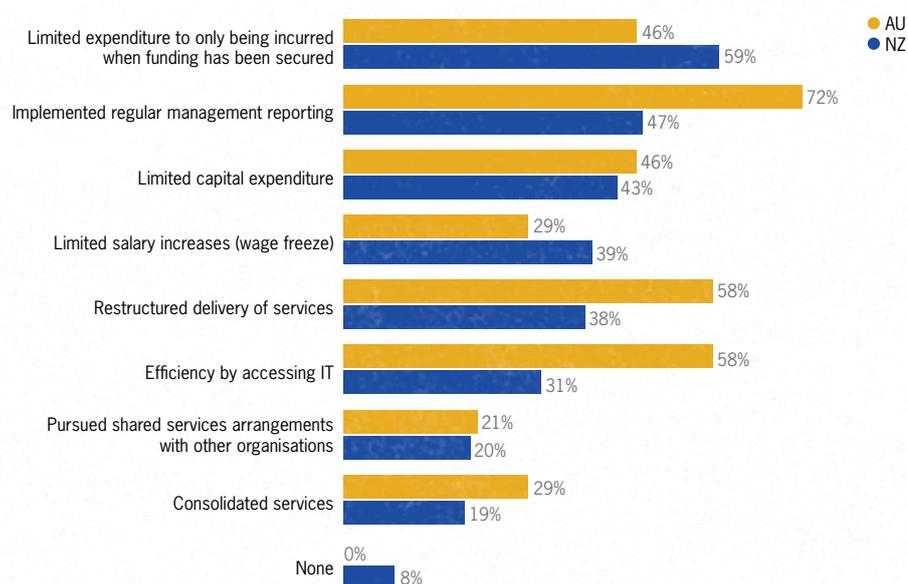
25: To what degree is controlling expenditure an issue for your organisation? (AU & NZ)



26: Has controlling expenditure become more or less important over the last five years? (AU & NZ)



27: What have you done to improve expenditure control? (AU & NZ)



When asked about controlling future expenditure, 42% of total respondents said they would consider entering into shared services agreements, followed by 25% who would consider merging with a similar organisation. There is considerable opportunity for consolidation within the Not for Profit sector in New Zealand and Australia.

The largest barrier to improved expenditure control is stakeholder resistance (identified by one in three respondents). Unwillingness to accept the changes needed and/or the presence of opposing agendas are key factors at play here.

Surprisingly, organisations with a larger income/turnover were more likely to experience such roadblocks.

28: Of those of you who considered options to control future expenditure, what are some of the roadblocks preventing you from progressing any of these options? (AU & NZ)

Annual turnover	Less than \$100k (n=72)	\$100k - \$1m (n=77)	\$1m - \$10m (n=58)	More than \$10m (n=41)
Managing stakeholder expectations	24%	44%	40%	59%
Accepting changes required to achieve the results	28%	36%	34%	37%
Opposing agendas	31%	31%	40%	27%
Opposition from board members	14%	18%	19%	24%
None	29%	16%	21%	20%

Social media and communication

The advantages of a strong social media presence are attractive to many Not for Profit organisations. However, the risks and rewards must be carefully evaluated, and a social media strategy developed with both in mind. Engagement with supporters remains the critical factor for successful fundraising, with social media used as one tool among others. The dangers of treating it as a silver bullet are highlighted by a 2010 United States survey which found that 77.6% of Not for Profits that used Facebook to raise funds raised less than \$1,000.

Given the advantages of social media, and the fact that most Not for Profits are still learning about how best to use it, we wanted to know:

- Is social media integrated into the wider business/marketing strategy or is it run in isolation?
- Do the people managing social media have the requisite skills?
- What reputational risks should be considered when using social media, particularly if it is not managed in line with the organisation's strategic objectives?
- How is the organisation monitoring the effectiveness of its social media activity?
- Is social media an effective tool for fundraising?
- Is social media meeting the needs of donors as a communication channel?

Our findings provide interesting answers, and also raise interesting questions for Not for Profits operating in the social media space.

Website usage

Seventy-nine percent of New Zealand respondents' organisations have a website. This is significantly lower than in Australia, where the corresponding figure is 99%.

Those in the health sector are most likely to have a website (92%), while the culture, sports and recreation sectors are least likely to (74%).

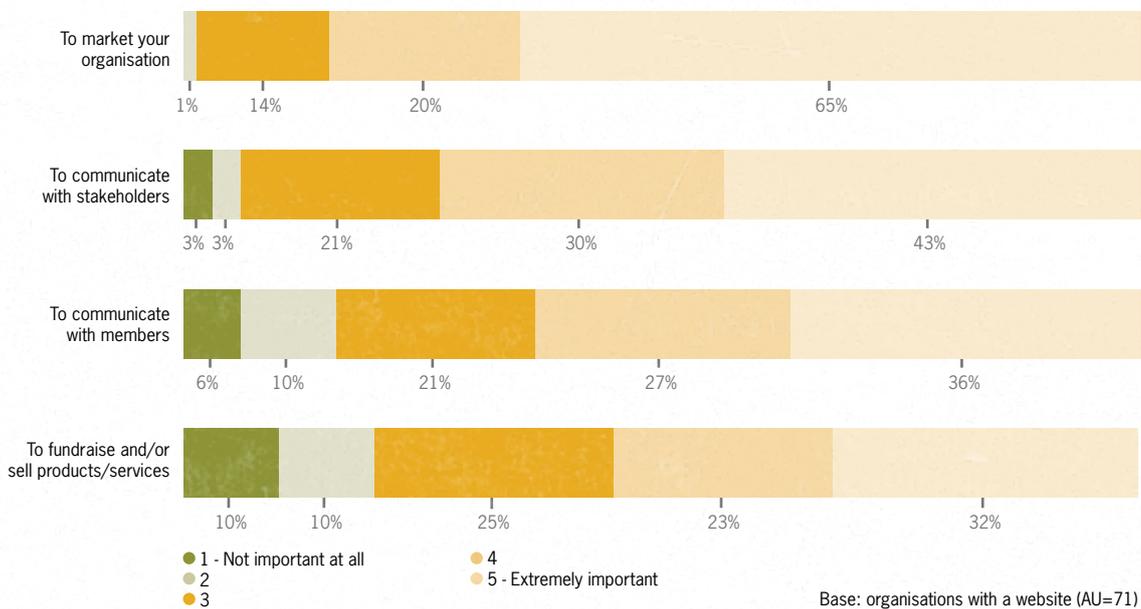
The most important purpose of a Not for Profits website is to market the organisation, followed by communicating to members and stakeholders, with fundraising a relatively distant fourth. Organisations in Australia are arguably using their websites more than those in New Zealand, where it appears that some organisations lack a clear website strategy. This may be a function of a lack of dedicated resources among smaller New Zealand Not for Profits.

Social media must be **integrated** into the wider marketing strategy

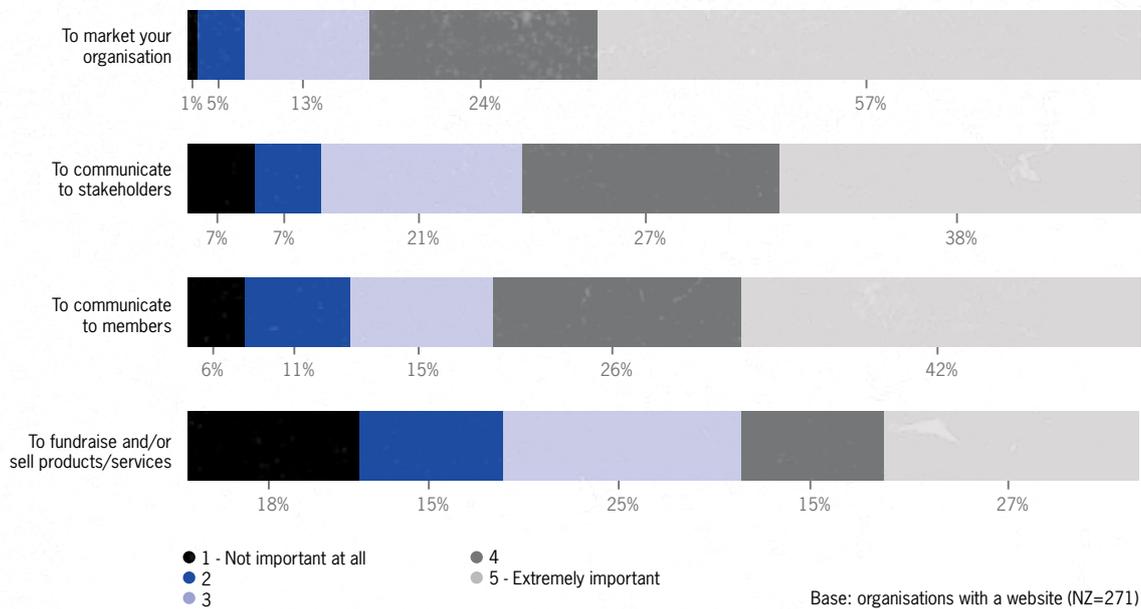
Monitoring effectiveness of social media is critical



29: Your website may fulfil a number of needs for your organisation. Please rate the importance of the following. (AU)



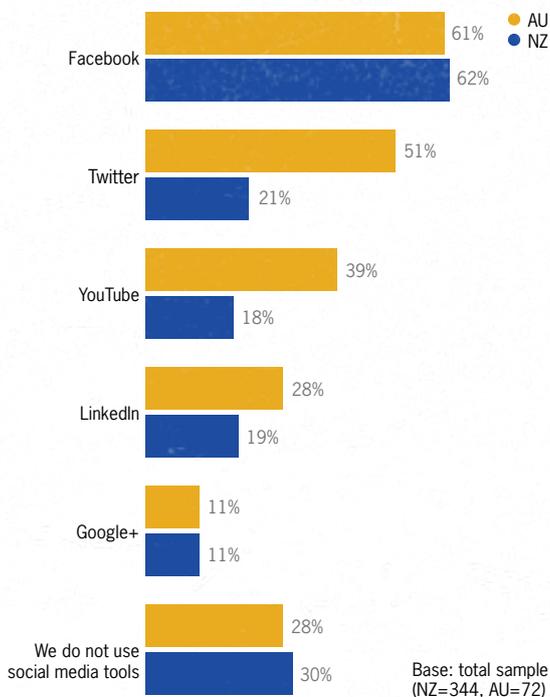
30: Your website may fulfil a number of needs for your organisation. Please rate the importance of the following. (NZ)



Social media usage

Social media is becoming increasingly important to marketers, as reflected in the 71% of respondents who use some social media tools. In New Zealand, Facebook is clearly the preferred channel, used by 62% of respondents, with Twitter, LinkedIn, YouTube and/or Google+ used by only 10-20%. Australian organisations are significantly more likely to use Twitter (51%) and YouTube (39%), possibly indicating a more developed market in social media usage.

31: Which if any, social media channels does your organisation use? (AU & NZ)



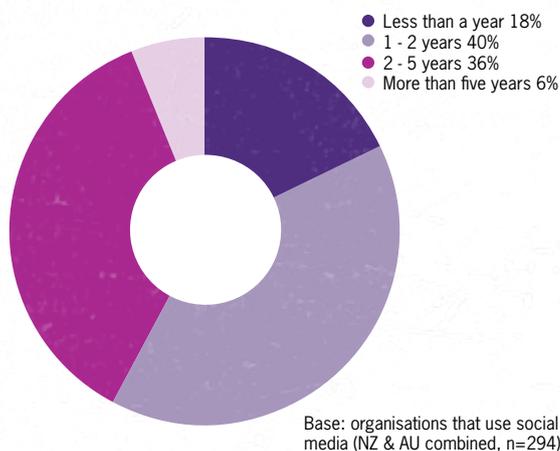
Organisations with an annual turnover of less than \$100,000 are less likely to use social media tools (39%) than other organisations. Those with an annual turnover of more than \$10 million are more likely to use Twitter (49%) and YouTube (42%).

32: Which if any, social media channels does your organisation use? (AU & NZ)

Annual turnover	Less than \$100k (n=147)	\$100k - \$1m (n=123)	\$1m - \$10m (n=93)	More than \$10m (n=53)
Facebook	54%	71%	62%	60%
Google+	7%	9%	15%	21%
Twitter	10%	27%	39%	49%
LinkedIn	10%	24%	32%	21%
YouTube	10%	19%	33%	42%
We don't use social media tools	39%	23%	23%	28%

New Zealand Not for Profits are recent adopters of social media. 59% of respondents have used the tools for two years or less, compared with 48% in Australia (where 50% have used them for two to five years).

33: How long have you used social media tools? (AU & NZ)

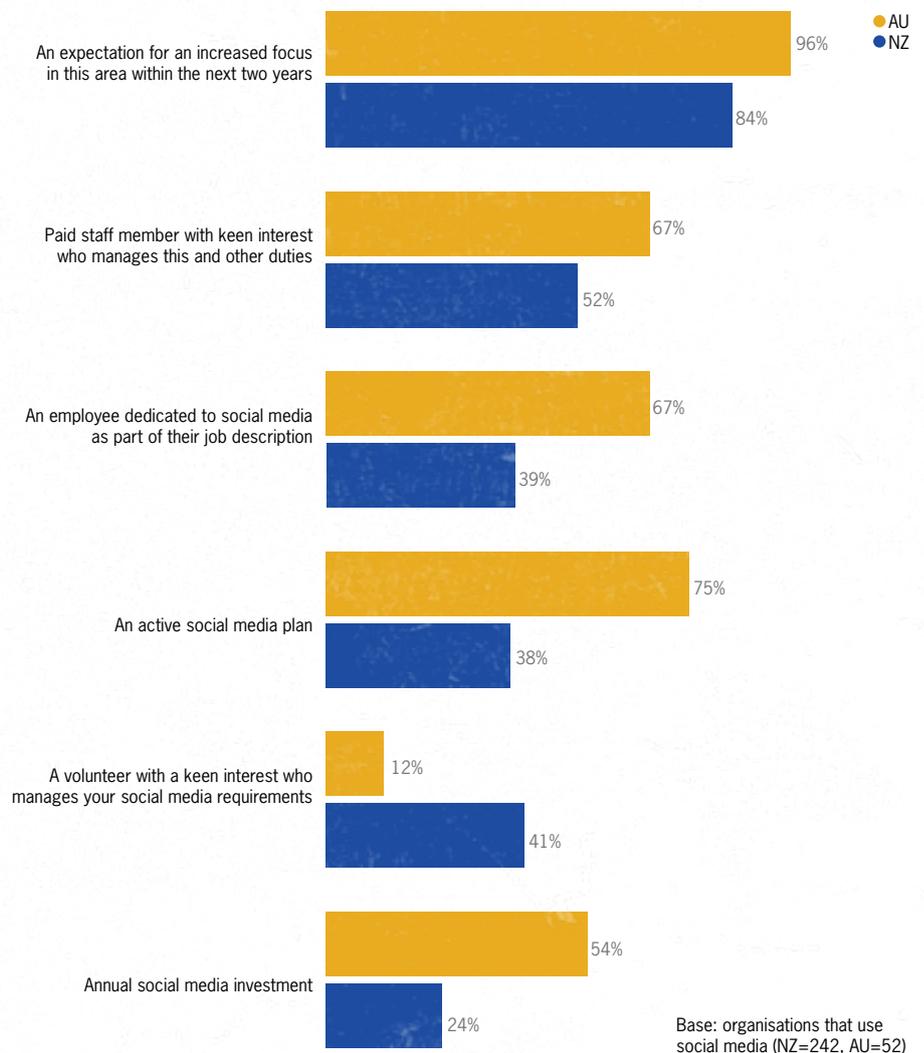


There are clear differences between New Zealand and Australian social media strategies. Australians are significantly more likely to have an annual social media budget, an active social media plan, and an employee dedicated to social media. New Zealand organisations are more likely to rely on a keen volunteer. This difference is partly a function of Australian organisations' greater size, but also reflects their earlier uptake and greater experience of social media.

Whether social media is used to promote an organisation, communicate with stakeholders or help fundraising, it is critical that it is integrated into the wider business/marketing plan. Its use in isolation could create more risk than benefit.

The health sector appears to place the most focus on social media, with about 98% of organisations saying they expect to increase their activity in this area, and 44% reporting an annual social media budget. Those in the culture, sports and recreation sectors, on the other hand, are significantly more likely to rely on a volunteer (62%). Smaller organisations with limited resources face greater risks of social media damaging their brand through lack of skills, knowledge and monitoring.

34: Which represents how your organisation manages its social media? (AU & NZ)



When asked how the organisation uses social media, the most common responses were to share news, as part of a marketing and communications strategy, to generate conversation, to monitor opinion and, lastly, to solicit donations (the health sector ranked highest in this last response, with 51% reporting it).

Larger organisations appear to use social media for a wider range of activities. Seventy-one percent of those with a turnover of more than \$10 million use it to monitor opinion, compared with only 40-60% of other organisations.

Social media is used by half of respondents to engage the general

public, while the other half use it to reach specific target audiences.

Secondary objectives include marketing, communicating with stakeholders and attracting new members. Social media plays a smaller role in fundraising and selling, but is still important for 44% of New Zealand and 48% of Australian respondents.

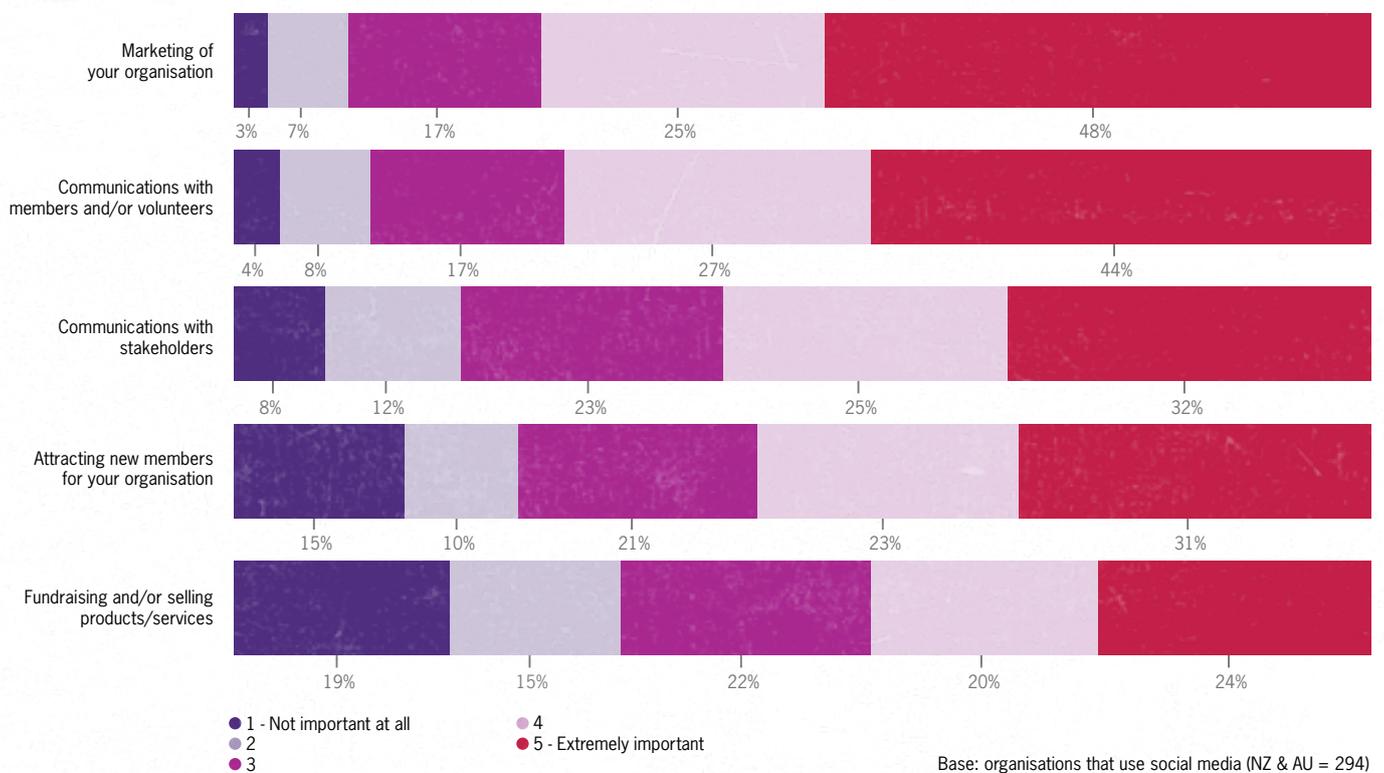
35: Which of these things are included in how your organisation uses social media channels? (AU & NZ)

Annual turnover	Less than \$100k (n=147)	\$100k - \$1m (n=123)	\$1m - \$10m (n=93)	More than \$10m (n=53)
To share news	97%	97%	92%	97%
As part of the overall marketing and communications strategy	78%	81%	85%	92%
To generate conversation	71%	75%	74%	87%
To monitor opinion	51%	41%	57%	71%
To solicit donations	34%	27%	36%	47%

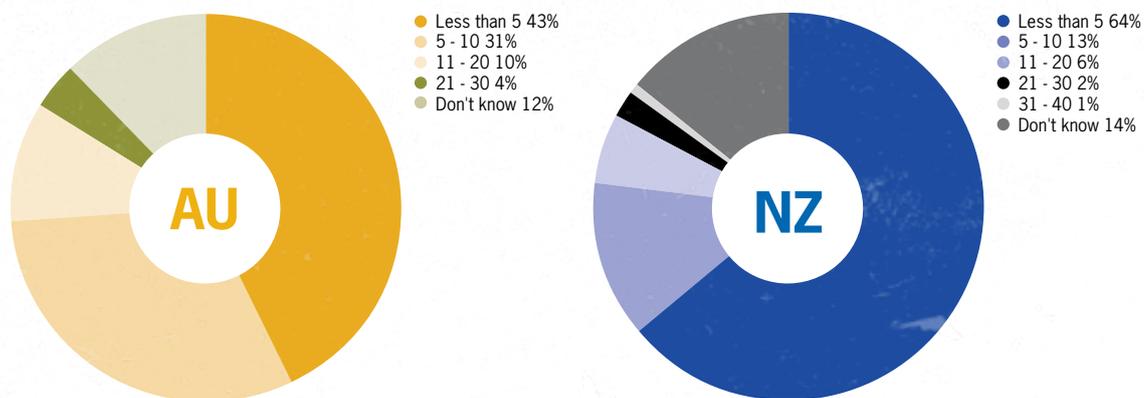
86%
 expect an increased focus
 in use of social media
 within the next
2 years



36: Thinking about the overall role of social media in your organisation, how important are the following factors? (AU & NZ)



37: What percentage of your marketing budget do you allocate to social media per year? (AU & NZ)



Base: organisations that use social media (NZ=242, AU=52)

Funding

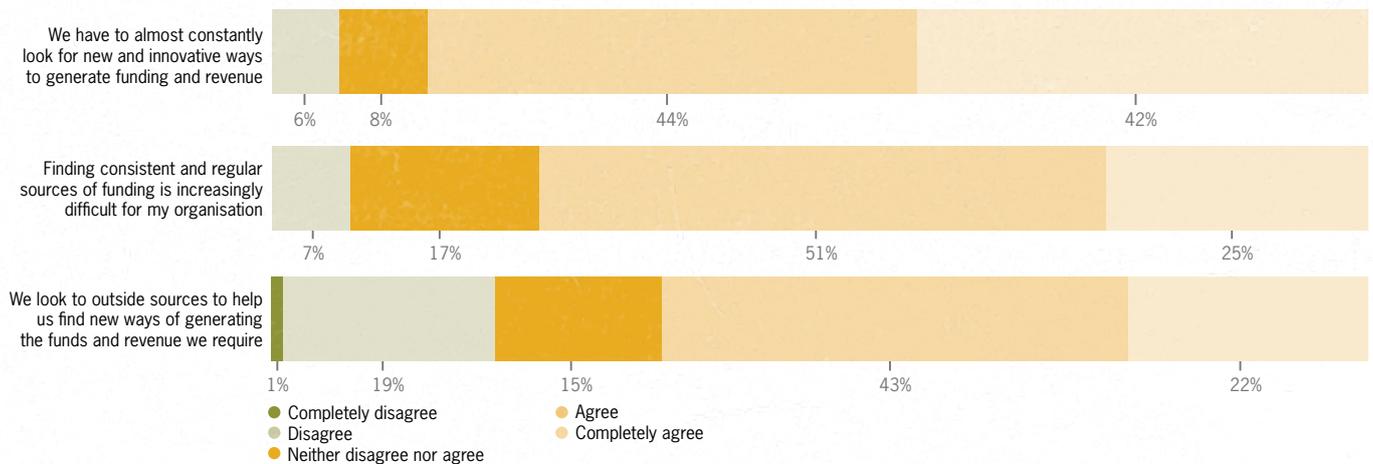
Funding continues to be the most significant challenge facing the sector, with 40% of respondents unable to plan more than 12 months ahead based on current funding. Most New Zealand respondents (84%) are almost constantly looking for innovative

ways to generate revenue, 80% say that finding consistent, regular sources of funding is increasingly difficult and 59% look to outside sources to help them find new ways to generate revenue.

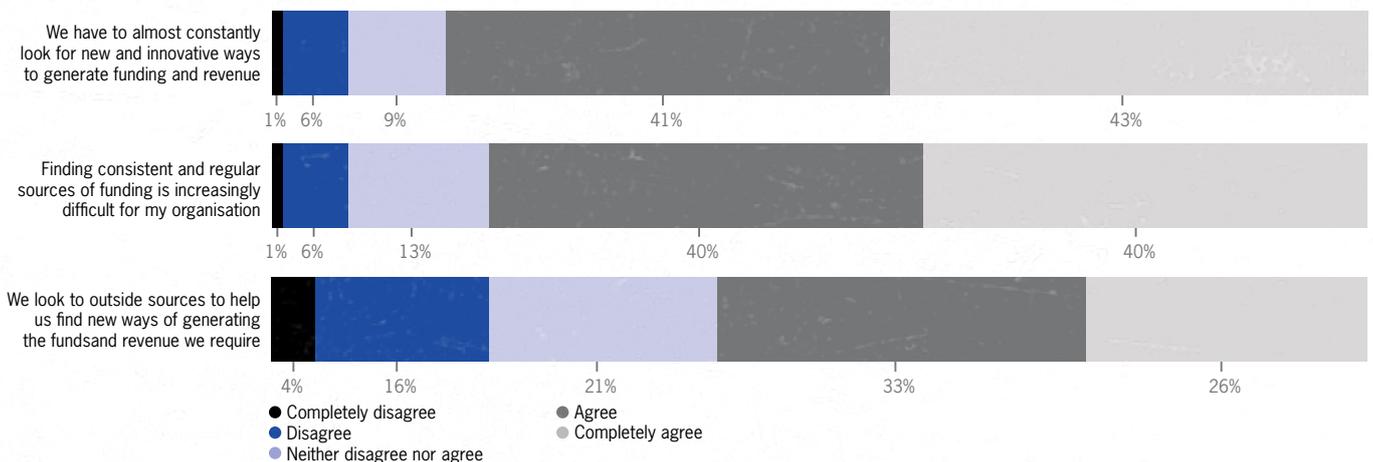
The Australian response is

strikingly similar. Eighty-six per cent are constantly looking for new ways to generate funds, 76% report that finding consistent sources of funding is increasingly difficult and 65% look to outside sources to find new ways to generating new funds.

38: Thinking about the challenges that Not for Profit organisations face in relation to funding and revenue generation, how much would you agree or disagree with the following statements? (AU)



39: Thinking about the challenges that Not for Profit organisations face in relation to funding and revenue generation, how much would you agree or disagree with the following statements? (NZ)



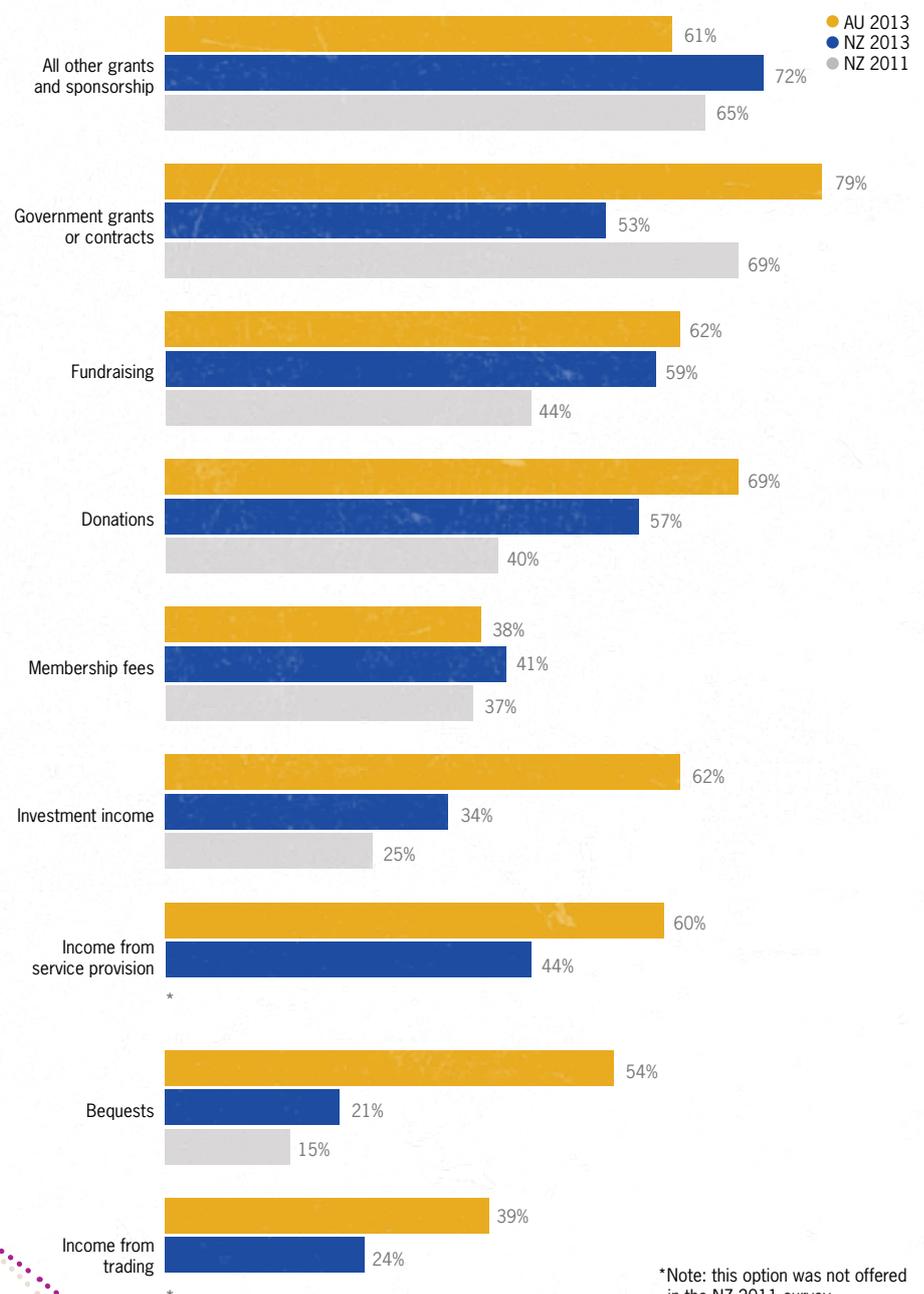
Sources of funding

Many of the funding sources used by Not for Profit organisations are of short duration or subject to fluctuations in donor sentiment. Respondents were asked what sources of funding their organisation uses and how important each one is.

In 2011, government grants and contracts were the most significant funding source for 69% of New Zealand respondents. In 2013 this dropped to 53%, behind other grants and sponsorship (72%), fundraising (59%) and donations (57%). This suggests that Not for Profit organisations in New Zealand are trying to become less reliant on government funding.

Government grants and contracts are the most prominent source of funding for 79% of Australian respondents. Donations (69%), fundraising (62%), investment income (62%), other grants and sponsorship (61%), income from service provision (60%) and bequests (54%) are significant for over half of respondents, indicating that Australian organisations receive funding from more sources than their New Zealand counterparts.

40: What are the sources of funding for your organisation? (AU & NZ)



*Note: this option was not offered in the NZ 2011 survey

In organisations where government grants and contracts feature (in both New Zealand and Australia), they are a significant source of funding; 90% of such organisations say they are important or extremely important. Those organisations in the social services sector are most likely to rely

on government grants and contracts (77%) and generally deliver services for which government agencies are the default funder.

Organisations with turnover of less than \$100,000 are significantly more likely to bring in funding from fundraising (68%), donations (67%)

and membership fees (46%). Those with turnover above \$10 million are more likely to raise funds from government grants or contracts (91%), investment income (70%), income from service provision (70%) and bequests (58%).

41: What are the sources of funding for your organisation? (AU & NZ)

Sector	Culture, sports and recreation (n=68)	Education and research (n=63)	Health (n=60)	Social services (n=94)
All other grants and sponsorship	82%	62%	73%	79%
Donations	57%	54%	67%	55%
Fundraising	69%	54%	68%	56%
Government grants or contracts	43%	68%	65%	77%
Income from service provision	46%	52%	52%	50%
Membership fees	59%	30%	38%	31%
Investment income	22%	40%	52%	39%
Income from trading	29%	27%	20%	19%
Bequests	18%	22%	47%	24%

42: What are the sources of funding for your organisation? (AU & NZ)

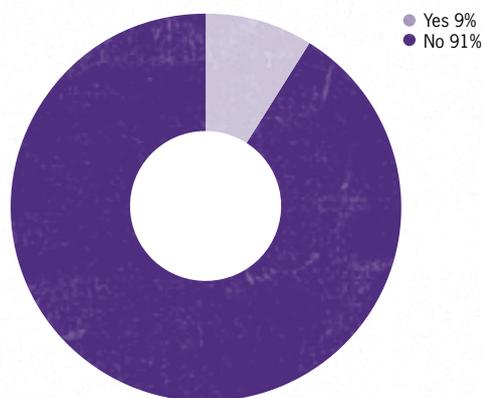
Annual turnover	Less than \$100k (n=147)	\$100k - \$1m (n=123)	\$1m - \$10m (n=93)	More than \$10m (n=53)
All other grants and sponsorship	72%	78%	63%	55%
Donations	67%	59%	47%	62%
Fundraising	68%	53%	55%	58%
Government grants or contracts	35%	61%	69%	91%
Income from service provision	26%	59%	49%	70%
Membership fees	46%	37%	38%	36%
Investment income	19%	35%	59%	70%
Income from trading	18%	29%	32%	34%
Bequests	17%	17%	35%	58%

Funding changes

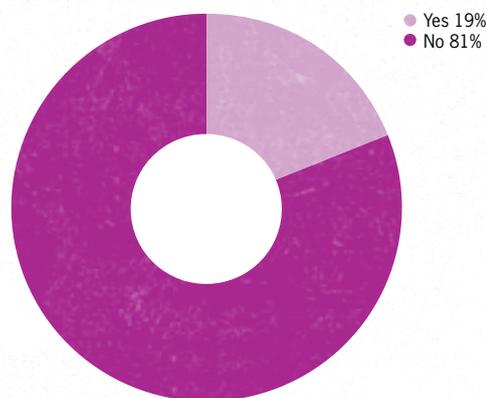
Nine percent of New Zealand respondents changed their primary source of funding in the last one to two years, down from the 2011 figure of 12%, but still more than the 7% in Australia who did this. Principal reasons were change being forced on the organisation (31%) and a lack of available funding (31%). Twenty per cent of New Zealand respondents and 15% of Australian expect to change their primary source of funding in the next two years.

In New Zealand, non-governmental grants, sponsorship and fundraising have increased in importance. That said, 37% of respondents consider government grants and contracts more important than one to two years ago, while service provision and donations are considered more important by 35% and 33% of respondents, respectively. In contrast government grants and income from service provision have become more important for more than half of Australian respondents.

43: Has your organisation changed its primary source of funding in the last 1 – 2 years? (AU & NZ)



44: Does your organisation expect to change its primary source of funding in the next two years? (AU & NZ)



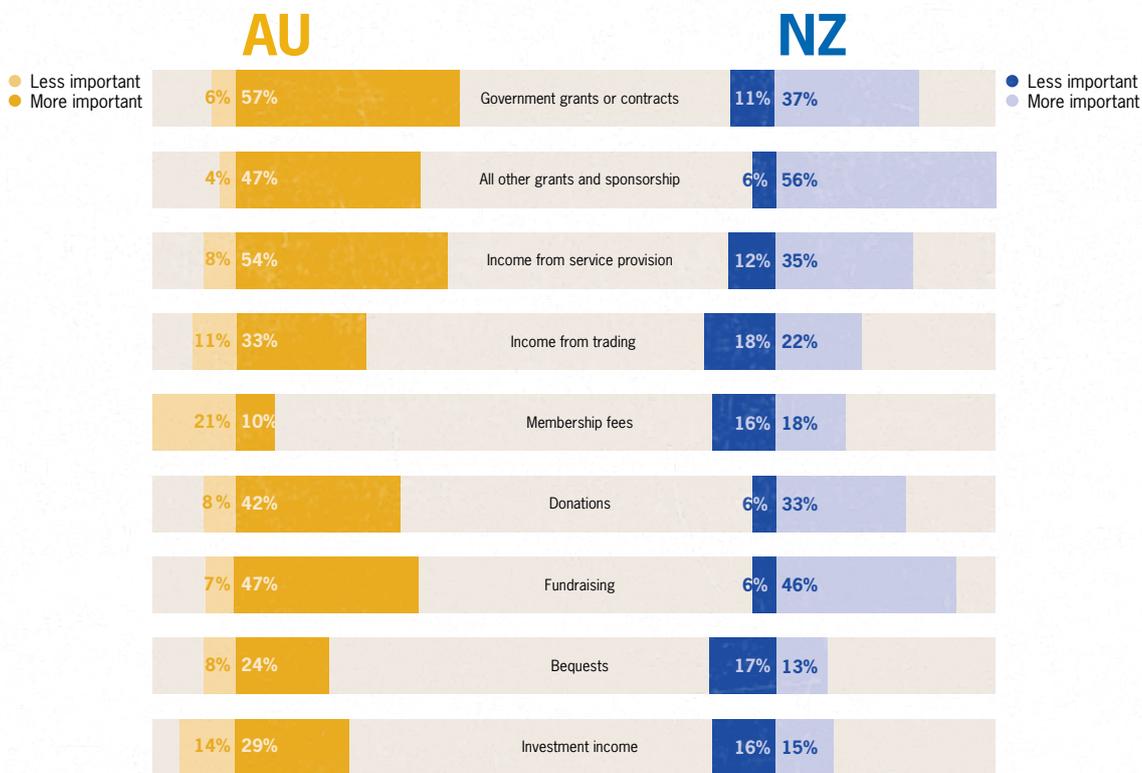
9% of NZ
NFPs changed their primary source of funding within the last
2 years



7% of AU
NFPs changed their primary source of funding within the last
2 years

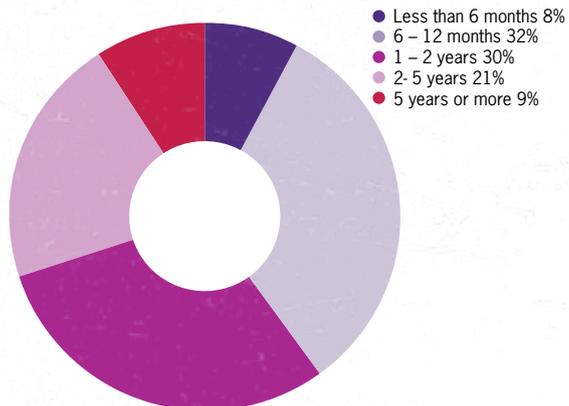


45: Thinking about the sources of funding available to you, which of these has become more or less important or stayed the same over the last 12 – 24 months. (AU & NZ)



The ability to plan ahead is important for any organisation, especially when it is delivering services to the public. Respondents were asked how far ahead they are able to plan based on their current funding. While over half of New Zealand respondents and 84% of Australian respondents can plan for a year or more, a worrying 40% (across both countries) cannot, and 8% cannot plan beyond the next six months.

46: How many months/years of activity can you plan for based on your current funding? (AU & NZ)



Sectors where planning is most challenging are social services, culture, sports and recreation and education, as evidenced by the table to the right (note the rows “less than 6 months” and “6-12 months”).

Organisations that can only plan ahead for 12 months or less generally source their funding from other grants and sponsorship, donations, fundraising and government grants or contracts. Donation and fundraising revenue can vary considerably from year to year, especially in tough economic times. Many Not for Profits on both sides of the Tasman compete for funds from a limited pool of donors. Government and other grants are usually for a limited period and come with considerable caveats on their use. This can lead Not for Profits to tailor their operations to funders’ requirements.

To ensure financial sustainability, we believe Not for Profits must develop a sound income strategy. This includes identifying the target market and potential donors; using tools like annual reports, impact assessments and social media to communicate effectively with stakeholders (internal and external); and mechanisms to handle donations efficiently. The larger, more mature organisations appear to be managing these areas well.

47: How many months/years of activity can you plan for based on your current funding? (AU & NZ)

Annual turnover	Less than \$100k (n=147)	\$100k - \$1m (n=123)	\$1m - \$10m (n=93)	More than \$10m (n=53)
> 6 months	14%	7%	6%	0%
6-12 months	42%	40%	17%	6%
1-2 years	22%	39%	33%	26%
2-5 years	14%	10%	33%	42%
≤ 5 years	7%	5%	10%	26%

48: How many months/years of activity can you plan for based on your current funding? (AU & NZ)

Sector	Culture, sports and recreation (n=68)	Education and research (n=63)	Health (n=60)	Social services (n=94)
> 6 months	12%	8%	5%	12%
6-12 months	37%	32%	30%	37%
1-2 years	34%	29%	23%	33%
2-5 years	15%	16%	37%	16%
≤ 5 years	3%	16%	5%	2%

Alternative revenue options

About three-quarters of respondents in both New Zealand and Australia are considering alternative revenue sources, and over 80% with turnover between \$100,000 and \$10 million are doing so.

Alternative options being considered include increased fundraising activity, sponsorship, and partnerships with other organisations. Re-negotiating contracts and setting up a trading operation or social enterprise have also been considered.

In our 2011 survey, the preferred options of 72% of New Zealand respondents were increased fundraising and 49% for re-negotiating contracts. The increased importance of fundraising as a source of funding for New Zealand Not for Profits may reflect this. Given the number of competing causes in the Not for Profit space we believe that there are limited opportunities for many to grow their revenue significantly by increasing traditional fundraising methods.

Not for Profits' struggles to strengthen their funding are compounded by uncertainty around the tax regimes of both countries. In Australia, to a lesser extent, the opposition's policies around the Not for Profit sector also introduce uncertainty.

Given the large number of Not for Profits in Australasia, and the fact that many appear to compete directly with each other (not only for funding but also in terms of their purpose/mission and service delivery), for the sector to be sustainable in the medium term, collaboration and consolidation are

required. New Zealand's whanau ora model, which has seen like-minded organisations integrate and share services, shows one possible way forward.

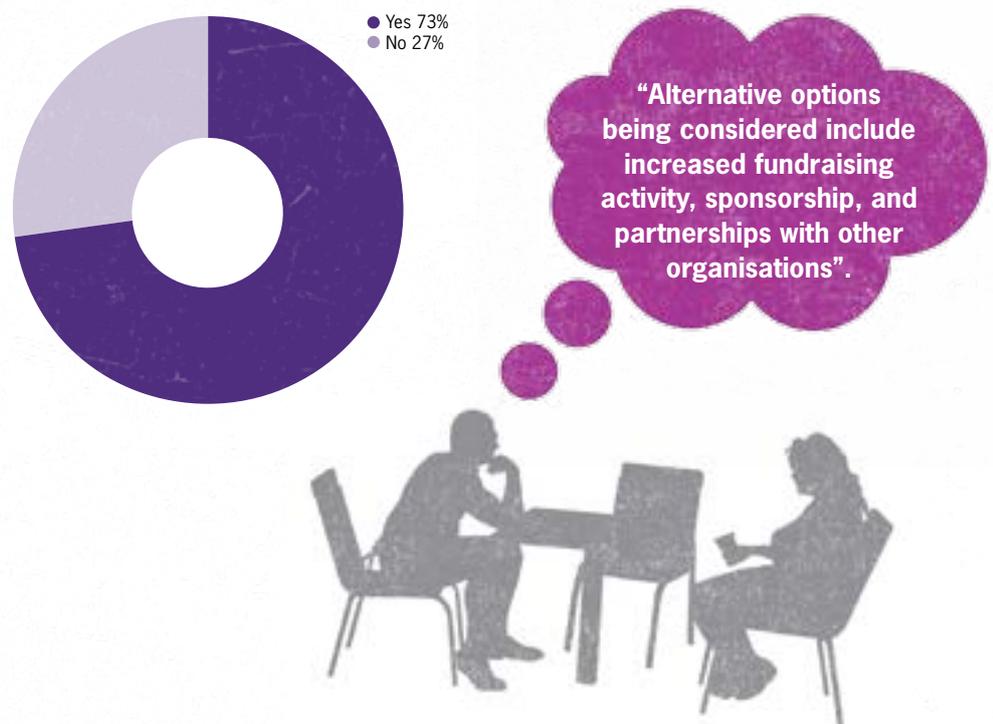
Other examples include organisations with a national focus consolidating their regional operations

under a national umbrella, thereby achieving internal efficiencies as well as reducing the confusion among funding agencies and the public. Working with a consolidated budget and planning process increases the planning horizon and the organisation's sustainability.

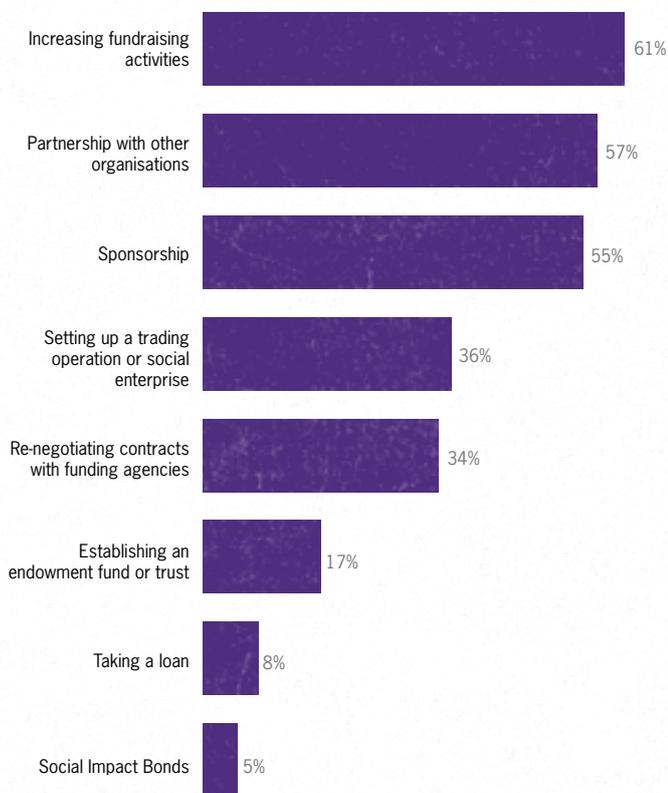
49: Is your organisation considering alternative revenue options to ensure continuity of funding? (AU & NZ)

Annual turnover	Less than \$100k (n=147)	\$100k - \$1m (n=123)	\$1m - \$10m (n=93)	More than \$10m (n=53)
Yes	60%	82%	83%	68%
No	40%	18%	17%	32%

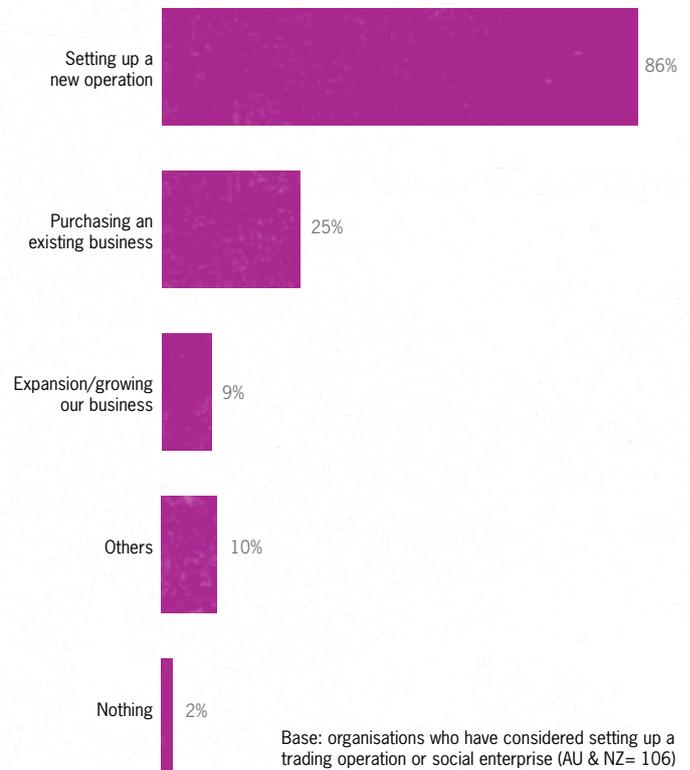
50: Is your organisation considering alternative revenue options to ensure continuity of funding? (AU & NZ)



51: Which of the following funding options have you considered? (AU & NZ)



52: Which of these trading operations or social enterprises have you considered? (AU & NZ)



Social enterprise

Social entrepreneurship is a hot issue in the sector worldwide. Given the pressure on funding, opportunities to generate consistent revenue while also delivering on the Not for Profit's purpose/mission are attractive indeed. However, there are also considerable risks, especially for organisations with limited governance capability.

Those considering setting up a trading operation or social enterprise were asked to outline what types of operations they have considered.

Eighty-six percent of these respondents have considered setting up a new operation, 25% have considered purchasing an existing enterprise and 9% have considered expanding/growing their enterprise.

A social enterprise faces similar issues to any business, including the real risk of failure. The parent entity should therefore ensure a legal structure that minimises its liability in the event of failure. Funding and investment are also issues.

Unlike the United Kingdom,

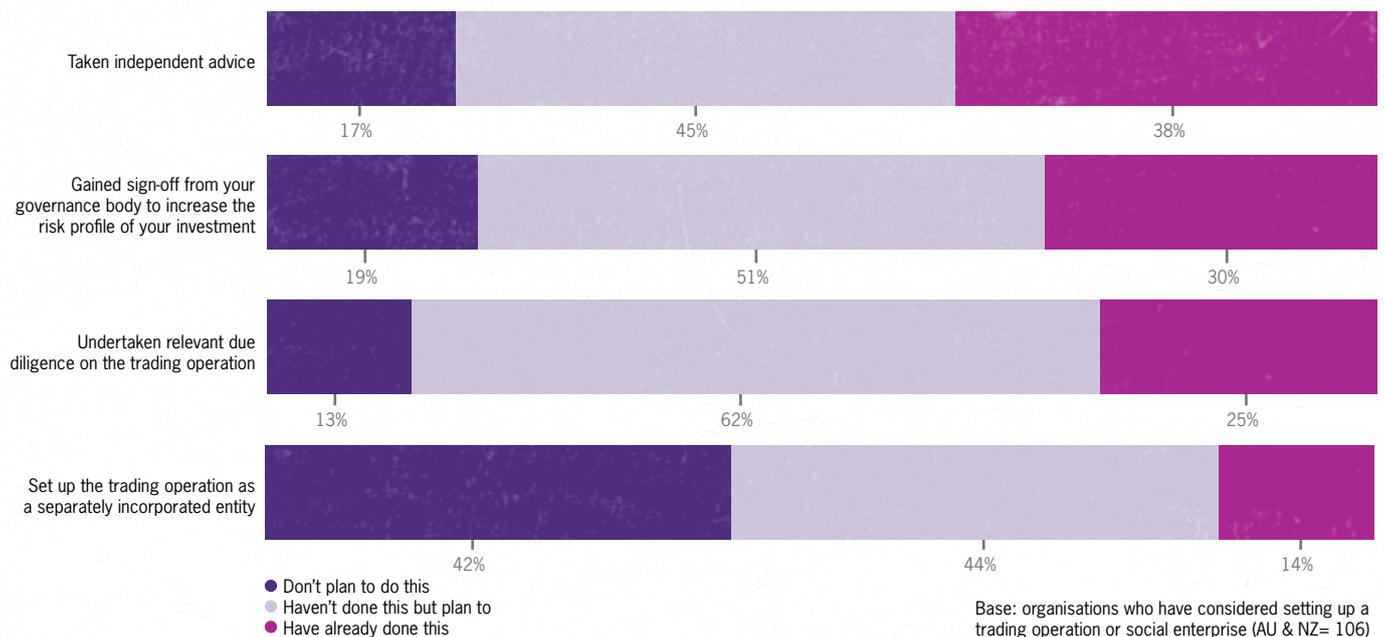
Australia and New Zealand's regulatory regimes do not make any special allowances for social enterprises. Given the benefits of the social enterprise model in delivering social services, governments should review their policies to ensure they support Not for Profits wanting to launch social enterprises. For example, they could review public procurement policies and revisit the nature of the contracts for services between them and Not for Profits.

We asked respondents how they have prepared to set up the trading operation. Thirty eight percent had taken independent advice and 30% gained sign-off from their governance body to change the risk profile of their investment. About one-quarter had

completed due diligence on the trading operation, while one in seven set up the trading operation as a separately incorporated entity. Almost half were not planning to set up the trading operation as a separately incorporated entity. We regard this as a risky strategy

as it exposes the whole Not for Profit organisation to the potential failure of that particular social enterprise. About 5% of respondents were not planning any of the above actions.

53: In preparation for setting up the trading operation or social enterprise, have you . . . (AU & NZ)



Almost half
 were not planning to set up the trading operation as a separately incorporated entity. We regard this as a risky strategy.

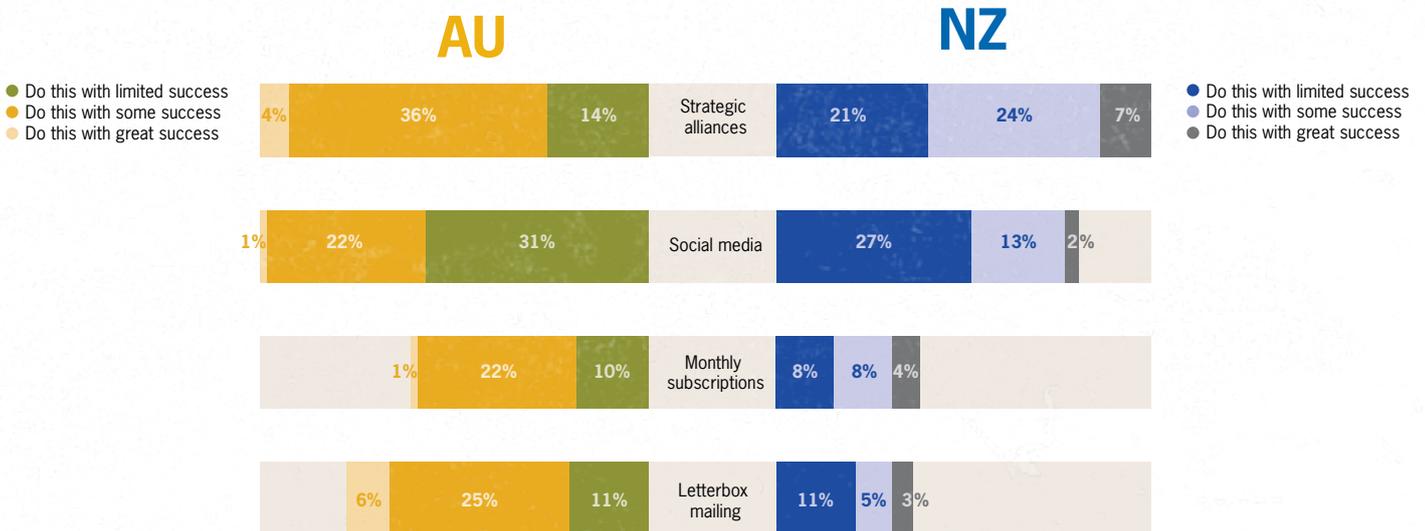
Fundraising

All respondents were asked about their fundraising methods and how successful they are. The most common methods are strategic alliances and social media, followed by monthly subscriptions and letterbox mailing. Telemarketing and street day / door-to-door appeals are used successfully by less than 20%.

There is a marked difference between Australia and New Zealand in the success rates of fundraising methods. This may be a function of the average size of the Australian entities and the resources they commit to fundraising. The successful use of social media is related to the higher level of uptake of social media tools by the Australian sample (see social media, p26).

Not for Profits need to manage the reputational risks associated with social media, especially when using it for fundraising. Organisations without a full time social media resource and appropriate monitoring tools are at the greatest risk of damaging their brand.

54: What methods are you using to fundraise and how successful are they? (AU & NZ)



The survey methodology

Background

The Grant Thornton Not for Profit Survey is a public study undertaken every two years to provide an overview of the sector, the challenges it is facing and an in-depth look at its internal processes such as expenditure control, governance and impact evaluation.

The survey has previously been conducted in New Zealand. In 2013 the survey was extended to include the Australian Not for Profit sector. Respondents from each country were asked the same questions, with the exception of a country-specific section on financial reporting in New Zealand and the introduction of the ACNC in Australia.

In 2013 the research was performed with Ipsos, the market research company, and partners for previous studies.

Methodology

The survey was conducted online and respondents were invited to participate through invitation e-mails sent out by Grant Thornton New Zealand, the Charities Commission New Zealand and Grant Thornton Australia.

Respondents were initially invited to complete the survey on 17 April 2013 and were given until 10 May 2013 to complete it. To thank participants for their time and co-operation, they were given the opportunity to go into the draw to win a \$500 contribution to the Not for Profit organisation of their choice and offered a copy of this report.

Three hundred and forty four respondents completed the survey in New Zealand and 72 in Australia. For those questions where not all respondents answered, we have identified the sample numbers in the graphs and tables.

The major difference between the two samples is that the Australian respondents were from larger organisations than those in New Zealand. We have provided some comparisons between the two countries, and compared the responses by sector and organisation size where appropriate. For some findings, the differences were related to organisational size or the sector rather than country. Comparisons with previous years relate to New Zealand experience only.

In the charts throughout this report, New Zealand is represented by predominantly blue colours, while Australia is represented by predominantly yellow colours. When results from the two countries are combined, predominantly purple colours are used.

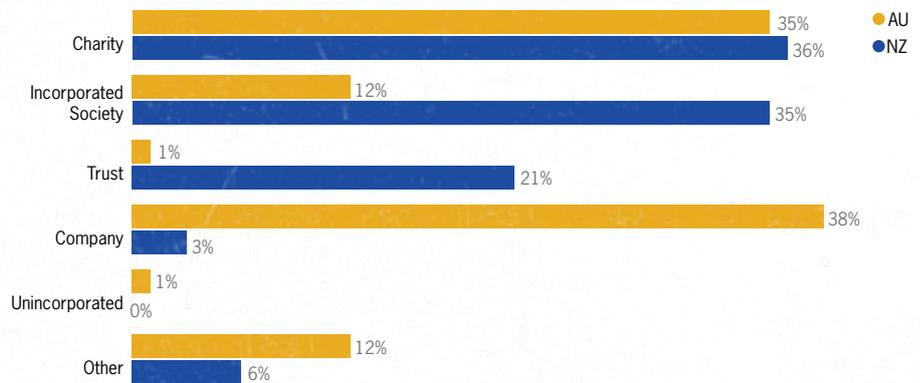


Survey respondents

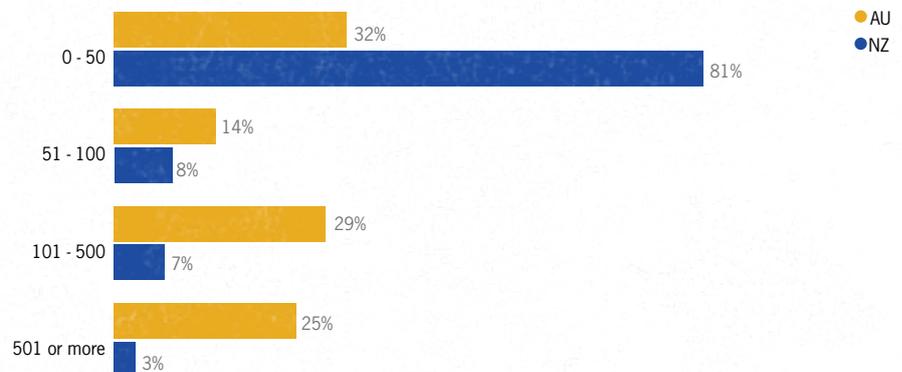
The New Zealand sample of 344 was predominantly made up of charities, incorporated societies and trusts, whereas the Australian sample of 72 comprises mainly charities and companies. The greater use of company incorporation by Not for Profits in Australia may have some implications for their internal governance structures. Of more significance is that the Australian respondents had more employees/volunteers and higher annual turnover/income. When we sorted the total sample by turnover we found few significant differences between the experience of Australian and New Zealand respondents.

Organisations came mainly from the social services, culture, sports and recreation, education and research, and health sectors. Around one-third of organisations benefit the general public, while organisations benefiting children/young people made up around one-fifth of the sample. In the New Zealand sample, 94% of respondents are registered with the Charities Commission.

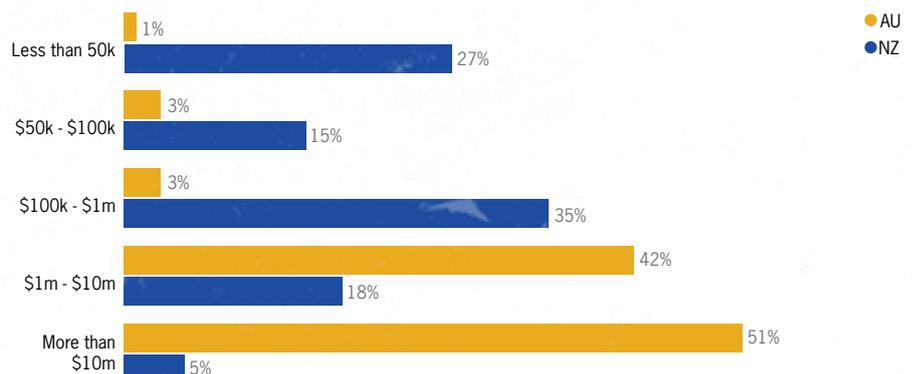
55: Type of organisation (AU & NZ)



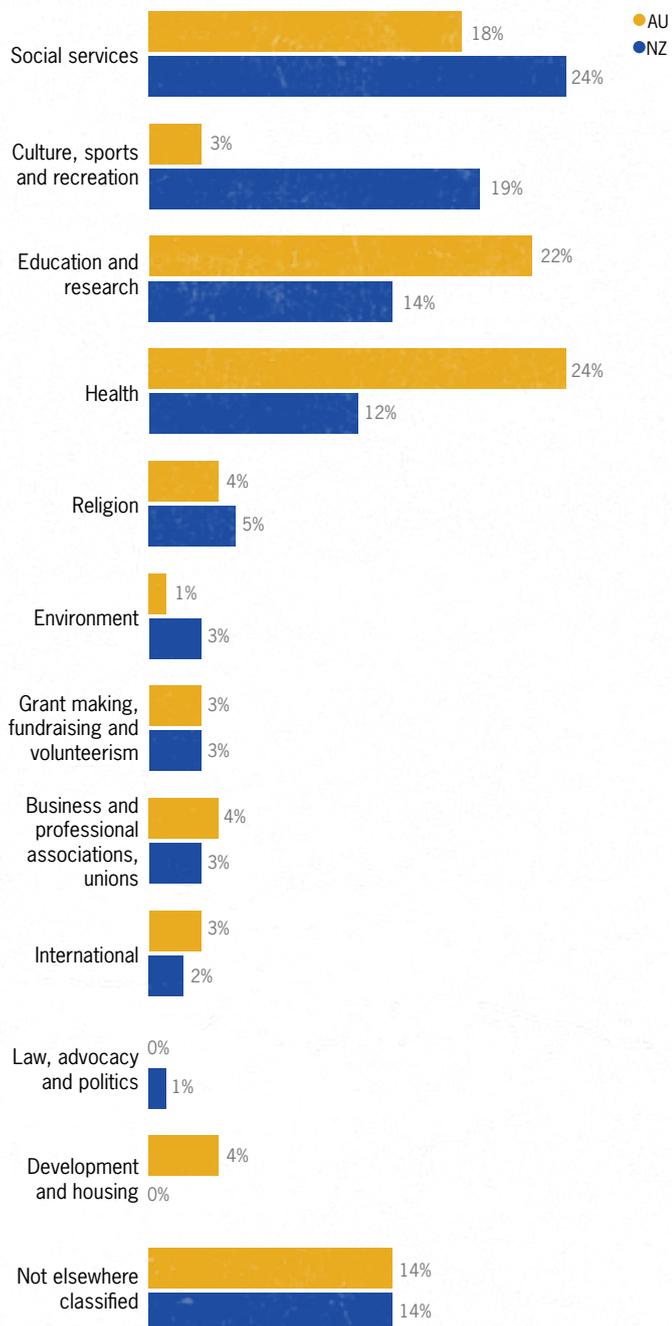
56: Number of employees/volunteers (AU & NZ)



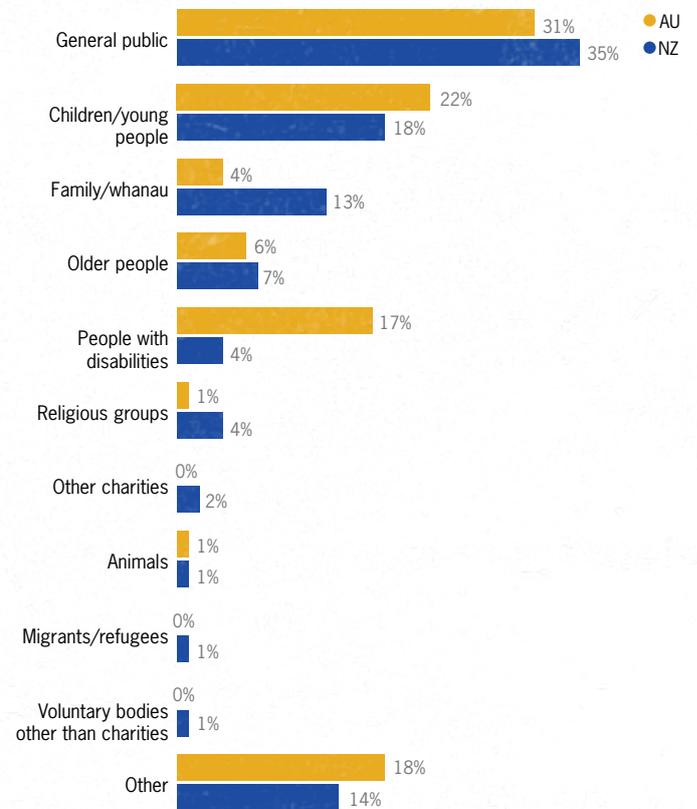
57: Annual income (turnover/funding) (AU & NZ)



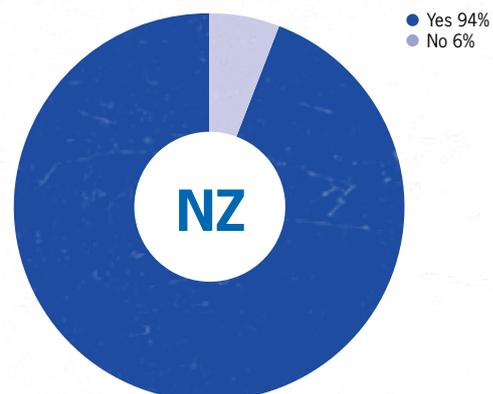
58: Nature of activity (AU & NZ)



59: Main beneficiary (AU & NZ)



60: Are you registered with the Charities Commission? (NZ)



Acknowledgements

Thank you to the 416 Not for Profit organisations who took the time to complete our survey and share their thoughts and knowledge of the sector and their organisation. As tokens of our appreciation Grant Thornton pledged a \$500 donation to Stopping Violence Services at the request of Dee Cresswell from Stopping Violence Services, the winner of the New Zealand draw. Ken Gabb, the winner in Australia, also received \$500 and pledged it to Disability Services Australia.

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Grant Thornton Australia Ltd and Grant Thornton New Zealand Ltd are leaders in the Not for Profit sector, providing tailored assurance, tax, and advisory services to Not for Profit organisations. From charities and universities, to social landlords and trade unions, we understand the issues facing organisations across the globe and offer personalised solutions to help Not for Profits deliver on their mandates while overcoming ever present financial issues and operational challenges. We also recognise the inherent diversity of the sector, having worked with all types of Not for Profit organisations, small community groups and large Not for Profits operating in multiple countries. We offer empathetic advice and understanding to organisations facing unique regulatory and operational issues. Clients can access an international team of knowledgeable

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