



everyone's family

**The Smith Family's submission on the
*Australian Charities and Not-for-profits Commission:
Implementation design Discussion Paper***

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Background on The Smith Family

The Smith Family is a national, independent children's charity committed to increasing the educational participation and achievement of Australian children and young people in need. Our **vision** is a better future for young Australians in need. Our **belief** is every child deserves a chance and our **mission** is to create opportunities for young Australians in need, by providing long-term support for their participation in education.

The Smith Family provides holistic and long-term support from pre-school, through primary and secondary school and on to tertiary studies. In 2010-11, The Smith Family supported over 44,000 children, young people and parents/carers through its suite of *Learning for life* programs, including around 33,000 young people on an educational scholarship, approximately 4,500 of whom were of Aboriginal or Torres Strait Islander background. A further 73,000 children, young people and parents/carers participated in programs facilitated by The Smith Family, such as the Commonwealth Government's *Communities for Children* initiative.

The Smith Family has a strong focus on sustainability and draws its income from a range of sources. In 2010-11, its annual income was just over \$68.5 million. Just under a quarter of this was sourced from Government funding, over 60% from fundraising (donations and corporate support) and bequests, around 8% from the VIEW (Voice, Interests and Education of Women) Clubs of Australia and just over 3% from The Smith Family's commercial enterprise.

The Smith Family was established in 1922 and is a company limited by guarantee. It has Public Benevolent Institution and Deductible Gift Recipient status and is an Income Tax Exempt Charity.

Principles underpinning reform and a regulatory approach in the NFP sector

The Smith Family welcomes the opportunity to provide some brief comments on the *Australian Charities and Not-for-Profits Commission: Implementation design* Discussion Paper. These comments complement our previous submissions made on the *Exposure Draft: Australian Charities and Not-for-Profits Commission Bill 2012* and the *Review of not-for-profit governance arrangements* Consultation Paper.

The not-for-profit sector has historically enjoyed strong public confidence as evidenced in part by their significant community fundraising and volunteer base. One of the reasons that governments, of all political persuasions, have increasingly contracted out to the not-for-profit sector a diverse range of services previously provided by government, is in part, the public confidence and trust in which the sector is held. Current reforms should build on this confidence and the complementary principles of:

- Transparency and public accountability;
- Certainty, consistency and workable compliance regimes; and
- Maximising the contribution of the charities and not-for-profit sector to the Australian community.

In its submission on the *Exposure Draft Australian Charities and Not-for-Profits Commission Bill 2012*, The Smith Family suggested that some thought needs to be given to refining the proposed Object of the Act, so that it reflects in particular the third principle identified above, and the clear message from government and the wider community of the value of the sector.

In light of its commentary on the draft Object, The Smith Family is pleased to note that the regulatory approach proposed in the *Australian Charities and Not-for-Profits Commission Discussion Paper* includes the following comments:

- The evidence suggests that non-compliance largely results from a lack of knowledge or capability, rather than deliberate refusal. (p. 5)
- The ACNC will begin from a presumption of honesty on behalf of charities (p. 5).

This approach is more in line with previous comments made by government of the critical role the charitable and not-for-profit sector plays in the economic and social wellbeing of individual Australians and the nation as a whole (see for example the *A definition of charity* Consultation Paper (Treasury, 2011) and the *National Compact: working together* (PMC, 2011)). It also reflects the Department of Prime Minister and Cabinet's commitment to building a relationship with the not-for-profit sector that is based on 'mutual respect and trust' (PMC, 2011: 7). The Smith Family supports that this approach should underpin the implementation design of the ACNC.

Educative role of the ACNC

The educative role of the ACNC will clearly be critical, particularly given that 'the evidence suggests non-compliance largely results from a lack of knowledge or capability' (p. 5). Significant work has already been done by a range of organisations that can support the educative role of the ACNC. The Smith Family would therefore urge that where appropriate the ACNC endorse education and guidance material provided by other entities in order to avoid unnecessary duplication (Discussion question 15).

Annual Information Statement

Inclusion of narrative descriptions of outcomes (Discussion question 4)

The *Implementation Design* discussion paper asks whether charities should have the option of providing narrative descriptions of the outcomes they achieve. The Smith Family's submission on the *Review of not-for-profit governance arrangements* expressed the view that one of the keys to strengthening the sector and its contribution to the wellbeing of Australia is for it to have an increasing focus on reporting on the **outcomes** of its work (ie what difference did an organisation's work make to the intended beneficiaries) rather than its **inputs**. The Smith Family would urge that over time one of the key areas that the ACNC can contribute to is supporting a stronger sector focus on outcomes and that this work build on previous work undertaken by the Productivity Commission and many organisations across the sector.

The Smith Family therefore strongly supports the option of including narrative descriptions in the Annual Information Descriptions. This will contribute to enhancing the public's understanding of the

work of charities, which often involves a level of complexity not fully understood through the use of financial data alone.

The Annual Information Statement and the Charities Portal

The current draft *Form 3* to be completed by Tier 3 charities (of which The Smith Family is one), appears to suggest that only items 1 to 3 which relate to the Entity's details will be included on the portal. This excludes a range of other information that it is suggested that the Annual Information Statement will collect, such as Financial information and Activities statement. The Smith Family sees merit in the Financial information and Activities statement being more widely available to the public, including through the portal, in line with the objective of transparency and public accountability and also to increase public understanding of the work of the charity sector.

The Smith Family notes that the draft Income Statement at C.3 of Form 3 includes a line item of 'Fundraising contributions' under Income and a similar item of 'Fundraising costs'¹. As indicated in its submission to the *Review of not-for-profit governance arrangements* The Smith Family recognises the value of NFP organisations reporting on fundraising ratios as part of good governance and for encouraging charitable donations from the public. The Smith Family reports on this on a regular basis. The Smith Family is also aware that this topic is one which is often discussed within the public domain, including through the media. There is currently significant variability in the ways in which ratios are calculated and reported in the sector and this does not lead to the desired level of transparency and accountability that would best serve both the sector, and more importantly, the wider community. The Smith Family therefore urges that the ACNC play a leadership role in developing guidelines for the calculation and reporting of fundraising ratios for the sector. Such reporting needs to be sophisticated enough to reflect the importance of building organisational capacity and the role investments in this area have in the long term effectiveness and sustainability of organisations. It also needs to be able to reflect the diversity of client groups and the operating environments of organisations across the sector. Without a significant level of clarity regarding what should be included by charities under the 'fundraising contributions' and 'fundraising costs' line items, then the goal of transparency and public accountability will not be achieved and there is the possibility that *less* transparency and accountability may occur.

The Smith Family, like a range of charities, distributes funds to individuals, in our case, scholarships to fund educational participation. We would therefore draw attention to the need for Form C3 to reflect this.

Standard Business Reporting and Standard Charter of Accounts

The Smith Family notes the references to the Standard Business Reporting initiative and the Standard Charter of Accounts in section 4.3.4 of the Discussion Paper and supports their use. It also notes that the SBR taxonomy aligns with the Australian Accounting Standards issued by the Australian Accounting

¹ The current draft of Form 3 – C3 is missing the heading 'Gross expenses'.

Standards Board (p. 13). It is to be hoped that the SCOA will also remain up-to-date in line with any changes made to the Australian Accounting Standards.

Concluding remarks

The Smith Family welcomes the not-for-profit reform initiatives that aim to work with the sector to strengthen relationships, reduce red-tape and implement more uniform regulatory arrangements across government. We look forward to working closely with the Government on these endeavours.

The Smith Family also supports significant effort being made by the ACNC to promote the alignment of jurisdictional requirements, in order to reduce the burden of reporting on the sector, particularly for those organisations which work across jurisdictions. Notwithstanding the inherent challenges of this goal, it is one which The Smith Family and many within the sector would warmly welcome as an early priority for the ACNC.

References

PMC (Dept of Prime Minister and Cabinet; 2011), *National Compact: working together*, PMC, Canberra.

Treasury (2011) *Definition of a charity: consultation paper*, Australian Government, Canberra.