

## Submission to the External Reporting Board on proposed changes to Tier 3 and Tier 4 requirements

1. Thank you for the opportunity to submit in respect of proposed changes to Tier 3 and 4 Charities.
2. Our prime rationale for submitting relates to clause 6 below pertaining to income and expenditure detail. But, our initial comments in clauses 4 and 5 below respond to your questions posed in each of the two discussion documents.
3. To set the scene, we wish to note that our Institute is disappointed that increasing differentiation in reporting is being pursued. In our submissions to Charities Services on their consultation on changes to the Charities Act, we submitted the following:

### **Round 1 - Section A: Reporting requirements for small Charities**

*It is the opinion of FINZ that standard reporting should be required at all levels as a condition of registration, notwithstanding increasing levels of detail from Tier 4 to Tier 1.*

*(Q1) FINZ does not agree that current reporting obligations (as expressed) are disproportionate to the level of transparency and accountability needed from small Charities. Our rationale here is:*

*There is no compulsion for any charity or community organisation to seek registration under the Charities Act 2005. Organisations primarily seek Registered Charity status for purpose of:*

- *facilitating the ease with which the group/entity is able to attract grants, donations and other revenue where donors/grantors either require that status as a prerequisite to being considered for a gift or grant; or accepting that registered Charities status is a sufficient bono fide to warrant support in its efforts*
- *benefitting from tax advantages granted to organisations and entities with Registered Charities status.*

*The discussion document “Modernising the Charities Act 2005” states on page 9 “Knowing that charities are registered and regulated also drives public trust and confidence.” Dilution of reporting and accountability diminishes that intent.*

*In his Foreword to the same discussion document, then Minister Peene Henare stated “An Act that is working well for charities, the regulator, and the public will help*

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*ensure that the charities' sector is as effective as possible and enjoys the trust and confidence of the public." Proposed changes in reporting and accountability may well work for the charities and the regulator ... but not necessarily the trust and confidence of the public.*

*Irrespective of the size of a registered Charity, some measure of accountability is expected by donors, grantors or the conditions that arise from their legal framework (eg, Incorporated Societies Act). Neither donors nor grantors will automatically change their expectations based on organisational size. Registered Charity status should provide assurance that the entity abides by a standard accountability regime.*

## **Round 2 - Section B: Charities Regulator compliance and enforcement powers**

21. (Q3) *FINZ supports increasing monitoring both compliance with charitable purpose and the accuracy of performance reporting by both Registered Charities and the accuracy of data uploaded into the database. These all contribute to the perception and reality of the integrity of 'the system' in relation to Parliament's intentions and expectations when the legislation was enacted.*

Our primary concern with differentiation of reporting requirements is the dilution of 'whole of sector' detail. It leads to the situation where the only reliable 'whole of sector' financial data comes down to:

- Total revenue
- Total expenses
- Balance sheet/bank account net accumulation.

Meaningful visibility is being increasingly lost. The impact of this is demonstrated in our comments in Clause 6 below.

## **4. Tier 3 changes**

**Q 1. Do you agree with the proposed amendments relating to service performance information**

Yes.

**Q 2. Do you agree with the proposal to include requirements for the revaluation of property, plant and equipment within the Tier 3 (NFP) Standard, rather than require an entity to opt-up to Tier 2 ?**

Yes.

**Q 3. Do you agree with the proposal to require revaluation movements on property, plant and equipment to be recognised directly in accumulated funds through a revaluation reserve?**

Yes. This makes sense as revaluation is not related to the impact or efforts of organisations – it is market driven.

**Q 4. Do you agree with the proposal that investment property should be accounted for in the same manner as property, plant and equipment?**

We are not certain what purpose is trying to be served here. If a charity is to receive property through a gift in a Will and decides to retain the property while it works to determine how the value of that property is to be used to further achievement of charitable purpose, that constitutes a different scenario from a charity deliberately purchasing an investment property as part of its investment strategy. Both can have the same outcome despite differing motivations/causation.

Our reticence comes not from an accounting perspective, but suspicion as to how such information might be treated in the future. That is not clear from the supplied material. While on face value the proposal looks sensible, we remain very cautious to accept any change.

**Q 5. Do you agree with the proposal to allow publicly traded financial investments to be measured at market value?**

Yes.

**Q 6. Do you agree with the proposal to require changes in the market value of investments to be recognised as revenue or expenses in the statement of financial performance?**

These should only be recognised on realisation.

**Q 7. Do you agree with the proposals to amend the required revenue and expense categories?**

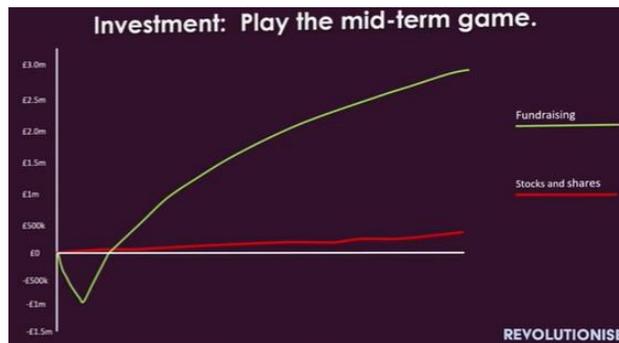
From our perspective, we applaud attempts to better categorise income and expenditure detail but believe that the proposed options do not go anywhere far enough. Please see our comments in Clause 6.

**Q 8. Do you agree with the proposals to amend the revenue recognition requirements for significant grant, donation, bequest and pledge funding?**

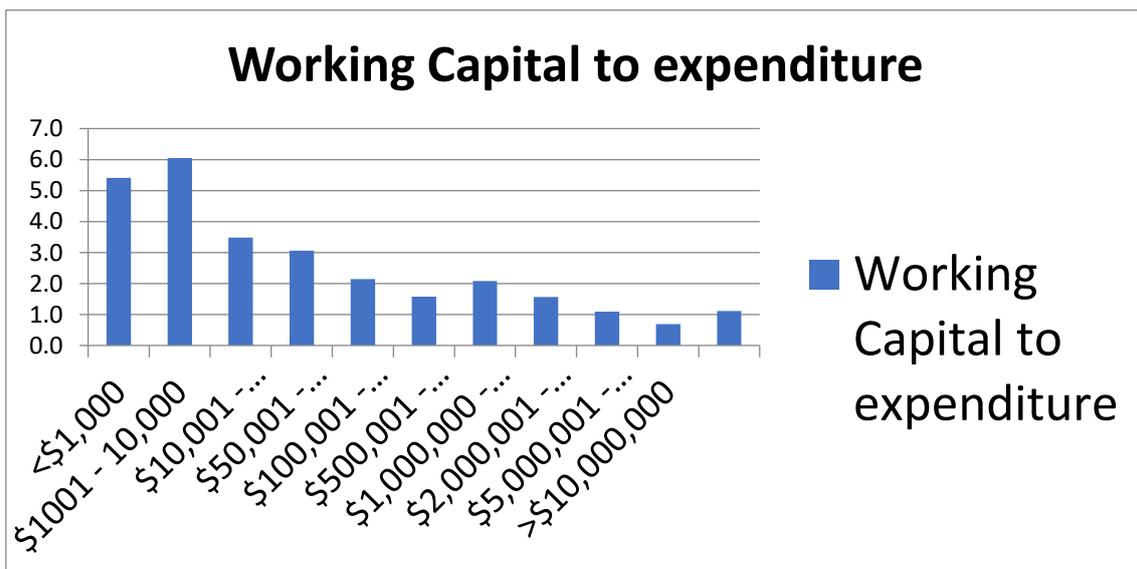
Yes.

**Q 9. Do you agree with the proposals to require an entity to provide enhanced note disclosure that explains the purpose for which accumulated funds are held?**

No. The moment this is imposed, judgements will be made by others beyond ‘users.’ Users have unfettered ability now to question the charity directly. This proposal has the prospect of the information being supplied to be used by for example, IRD, as a basis for formulating regulatory requirements. Please do not interpret our response to being anti-transparency or against accountability. Our Institute is constantly encouraging Boards and organisations to unlock their convertible assets for investment in fundraising activity, as the graph below from recognised UK based fundraising and philanthropy leading thought expert, Alan Clayton demonstrates:



It is the nature of the work of our Institute and its Members to most commonly deal with Boards who fail to invest in fundraising – the very thing that would best assist in the ultimate achievement of mission. This is particularly so of Tier 3 and 4 organisations. An analysis from the Charities Services database undertaken in 2016 showed how many years of working capital was available as a proportion of annual expenditure for various sized charities’:



Source: Project Periscope Ltd

Tier 3 Charities are only just starting to position their working capital to that equivalent of Tiers 1 and 2. Tier 3 charities remain vulnerable to the vagaries of both marketplace and governance stability/competence – Tier 4 charities moreso.

**Q 10. Do you agree with the proposals to remove the requirements related to restricted reserves?**

No. This is an example of dumbing down reporting diminishing the overall sector view. At the macro level, it is indeed useful to be able to observe what percentage of reserves are restricted as a proportion of total reserves. This proposal dilutes the ability to make that observation with any accuracy.

## **5. Tier 4 changes**

**Q1. Do you agree with the proposed simplifications to the Tier 4 (NFP) Standard?**

No. As citizens, we are required by law to submit annual tax returns. There is no separation by earnings level. Charities should be no different. If a group elects to register, they should accept the associated obligations. As we have indicated in clause 3 above, there should be no impediment to the accumulation of total sector financial data. The dumbing down of reporting requirements impedes the ability of attaining a 'whole of sector' view. If the governors of an organisation are incapable of providing full disclosure, it questions competency. Full standardised disclosure should be mandatory. We recognize the need for some organisations to be able to access assistance in some circumstances but to change the process for all for the sake of a few is unfortunate and undesirable.

**Q2. Do you agree with the proposal to reduce reporting requirements for 'small' Tier 4 NFP entities?**

No. It amounts to pandering. Please do not interpret our comment as being unsympathetic to small charities. Our Institute puts a lot of time, effort and resource into assisting small charities. We do so willingly and at some financial cost to our Institute. We understand the difficulties of small charities and demonstrably do our bit. But, by diluting reporting requirements, we jeopardise the integrity of being able to view the entire sector and trends within it.

**Q3. Are there any proposed reporting concessions for small Tier 4 NFP entities you do not support?**

No.

**Q4. Are there any other reporting concessions for small Tier 4 NFP entities that should be considered?**

No.

**Q5. Do you agree with the proposed amendments relating to service performance information?**

Yes.

**Q6. Do you agree with the proposals to amend the cash received and cash paid categories?**

No.

**Q7. Do you agree with the proposal to remove the Statement of Resources and Commitments and instead require note disclosure about any significant assets or liabilities?**

No.

**Q8. Do you agree with the proposed effective date of 1 April 2024, with early adoption permitted**

We cannot agree or disagree given that we oppose the proposal.

**Q9. Do you have any other comments on the proposals to simplify and improve the reporting requirements for Tier4 NFP entities?**

As citizens, IRD does not provide means to simplify our reporting requirements as individuals or Company Directors. It is obligatory, with consequences if we do not comply. The same should apply to charities. There are consequences of not meeting the obligations that should apply to receiving the benefits of registration.

We interpret these efforts to simplify as a consequence of non-compliance. If so, the solution lies in application of the rules, up to an including deregistration. The application of differing standards provides Charities Services with the ability to shirk responsibilities they should be fulfilling.

## **6. Income and expenditure reporting**

### **a. Income**

Up until 2016 it was possible to analyse and track:

- Grants and sponsorship
- Bequests
- Donations and Koha
- Membership fees.

Our disappointment was that we were unable to also track other fundraising, such as events, merchandising and other transactional style fundraising. We would also have preferred to see grants and sponsorship split so that those activities could have been tracked as well.

We were dismayed to discover the 2016 changes. We were unable to find any evidence that our Institute was consulted on the changes and somewhat aghast that the consultation documents made public on the XRB web-site were predominantly (by a wide margin) only from large Accountancy businesses.

It was largely from the identification of bequest income that our Institute facilitated the establishment of a separate trust "Include a Charity" to follow suit on equivalent programmes internationally to encourage people to leave a gift in their Will to charity. The cessation of reporting of bequest income stymied our ability to track the impact of that initiative, undertaken at some considerable cost to benefit the entire charity sector.

We note the move in Tier 3 to reinstate some level of segregated reporting on income streams and we applaud that initiative. However, as stated in Clause 4, Q7 above, we do not consider the proposed changes to go far enough.

We would encourage XRB to broaden its reporting requirements across all Tiers so that there is clarity to trends and movements in fundraising performance that can be tracked and used to educate and inform Charities – a role we believe we have some responsibility for as part of our education role.

Our recommended categories would include:

- Donations and koha
- Grants (we would prefer other revenue source splits above separation of grants into capital and operational)
- Bequests
- Sponsorship (we assume that this is not able to include gifts in kind but would value any move to make this visible)
- Other fundraising (including events, merchandising and other GSTable fundraising transaction activity)
- Membership fees

#### **b. Expenses**

We have no specific recommendation to make in relation to recording of expense categories other than to share our observation that the category "expenses relating to public fundraising" fails to identify the true costs of fundraising undertaken. The use of the word "public" is likely confusing. We are aware that many charities refrain from reporting costs under this heading for any fundraising undertaken that is directed at their known donors and supporters on the basis that those people are identifiable stakeholders and therefore not 'public' by comparison.

The information supplied within this category is effectively useless as it is currently defined.

Having said that, we question the purpose of the category.

## 7. The Fundraising Institute of New Zealand

There has been a professional institute associated with fundraising in New Zealand for forty years. Beginning as a Chapter of The Australasian Institute of Fundraising in 1983, it morphed into Fundraising New Zealand in 1990. The Institute has member categories (Individual, Organisational, Business supplier, Honorary) with all Members bound by the Institute's codes of Ethics and Professional conduct.

Current membership encompasses in excess of 2000 individuals working for or with charities in New Zealand to raise funds for legitimate charitable purpose.

The Institute's current mission is

**To inspire, create and strengthen  
confidence in giving and generosity across  
Aotearoa New Zealand that leads to positive impact.**

As the mission implies, we are not about the doers (fundraising professionals) or fundraising (benefitting organisations). We are about inspiring confidence in philanthropy and giving. Of course, we can only do that by upskilling fundraising professionals to aspire to achieving effective and efficient fundraising and by working with charities to improve understanding of the fundraising process – a people business, not a money business (monies raise being but a barometer measure of the health of relationships with donors and supporters).

Our subscription system is tiered and based on annual reported fundraising revenue, But importantly, it includes free membership to small start-up charities to enable them to access training and other membership benefits.

ENDS.

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