



**Philanthropy
New Zealand**
*Tōpūtanga Tuku
Aroha o Aotearoa*

29th September 2022

To XRB External Reporting Board,

CONSULTATION ON IMPROVEMENTS TO TIER 3 (NFP) STANDARD

The current Tier 3 Not-for-profit (NFP) reporting requirements being consulted on by XRB contain two issues that we and some of our philanthropic sector members are particularly interested in, namely:

- Refining and clarifying the required categories for presenting revenue and expenses in annual reports;
- Amending the requirements relating to reporting on accumulated funds

We believe this consultation is of wider importance given that the new Tier 3 standards will help inform the future redevelopment of standards for Tier 1&2 NFPs into the future.

Current system issue in collection of giving data

We currently have a data system issue where the regular collection of private and structured philanthropic giving data is limited. We need more baseline measures and annual monitoring data to understand levels of giving in Aotearoa New Zealand (including donations, bequests and grantmaking). This would enable us and other sector representatives (including in the private and public sectors) to promote greater giving, support better giving, and build a strong sector for giving and tackle any system constraints. We believe these actions will ultimately drive more funds into the NFP sector, which is under pressure and financially constrained.

We at Philanthropy New Zealand/Tōpūtanga Tuku Aroha o Aotearoa also want to support the profile of the philanthropic sector and see data available for research into levels of giving, causes supported, and trends over time. This supports our ability to engage with our funder members and Government around opportunities and issues of common concern.

An important source of giving data that currently exists is within the annual financial reports of recipient charities with data extracted by and accessible via Charities Services, however it needs to be slightly more granular to support system level research.



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New Zealand
Tōpūtanga Tuku
Aroha o Aotearoa

Categories for presenting revenue and expenses

Given the issues posed above and the need to better understand private giving trends and balanced against likely reporting burden, we recommend these changes in how data is requested in Annual Return forms:

- ***separating government grants out clearly from private donations/grants/bequests*** given government community and lottery grants funding is amalgamated with private and philanthropic sector giving in ‘Donations, fundraising, and other similar activities’ in the current proposal. This allows us to understand non-government giving patterns and trends and provide appropriate support and awareness raising activities within the philanthropic sector.
- ***having bequests (where identified as such) as its own category within Donations*** given that bequests are a carefully managed form of giving within charities and form a significant income stream. This is a critical area to understand currently given the growing number of older people in our population and because the greatest wealth transfer in history is taking place (from baby boomers to younger generations). Much can be gained from support activities that seek to increase the number of wills that leave gifts for charity and the impact of these activities should be monitored.
- ***having some ability to distinguish external donations from the transfer of donations from national charity bodies to their branches/subsidiaries*** given this can result in double-counting of donations and impact the accuracy of giving estimates

Reporting on accumulated funds in annual returns

The recent government consultation around Modernising the Charities Act 2005 run by the Department of Internal Affairs (DIA) showed interest in promoting transparency around the reasons for accumulated funds. PNZ (informed by discussions with our funder members) support this transparent approach in providing more information about how and when these funds are intended to be used to ensure that charitable organisations are delivering on their charitable purpose as a funder and grantmaker.

We note of course that the accumulation of funds is often a legitimate activity for philanthropic organisations and grantmakers to deliver their charitable purpose and generate income for distribution to good causes. These accumulated funds may come from a variety of sources including returns on investments, business revenue, and fundraising.



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Tōpūtanga Tuku
Aroha o Aotearoa

Accumulation might happen for a range of reasons in any given year, including:

- there weren't suitable candidates to receive funding against the criteria set;
- to enable response in times of need;
- to enable steady granting despite a turbulent economic market
- strategic grant-making practice and impact investments spread over multiple years but paid in one lump sum or accumulated for future payment

The narrative provided by charities around their accumulated funds was seen to be critical during our member conversations last year, however some guiding questions to aid financial reporting were thought to be useful.

We understand that this guidance is currently included in the Exposure Draft. We wonder if the most relevant section is:

A196.1. An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies, and processes for managing its accumulated funds. In meeting this requirement an entity shall disclose a brief description of the entity's general plans for applying its accumulated funds towards its stated purposes. A196.2. Information which an entity may consider disclosing for this purpose includes: (a) Whether the entity intends to begin any specific projects to which its accumulated funds will be applied; (b) To what extent the entity's accumulated funds represents investments in assets. This can be property, plant and equipment that are used in pursuit of its stated purposes in future. It can also include long term investments held to generate revenue returns to be used in pursuit of its stated purposes; or (c) Whether the entity is accumulating funds with the intent to make a significant distribution to another entity with similar objectives.

We ask that XRB considers whether this guidance is just as relevant to grant maker and philanthropic charities who make distributions to other charities (with a range of objectives) and whether you are confident that enough guidance is provided to support transparency.

We encourage you to get in touch if you would like to discuss any issues raised in this letter.

Ngā mihi nui,

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