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Managing in a Downturn

A survey of the impact of the economic downturn on Australian nonprofit organisations

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This Background Paper provides a more detailed assessment of the survey undertaken by the Centre for Social Impact, PricewaterhouseCoopers and the Fundraising Institute Australia in April and May 2009, published as *Managing in a Downturn*, July 2009 (see http://www.csi.edu.au/latest-csi-news/managing-in-a-downturn/) It focuses particularly on the qualitative comments that many respondents included in their returns.

Contents

Headline findings

Two thirds of all respondents have experienced a fall in total income over the past six months and two thirds are predicting continuing falls over the next twelve months

Two thirds of organisations working in the arts and cultural sectors have seen falls in income over the past six months

- Over 80% is expecting funding to fall over the next year
- 10% is expecting increases in funding over the next year
- This sector is predicting returns next year will be worse
- This sector is looking to collaborations and partnerships to survive the downturn

Almost three quarters of small and medium organisations have recorded falls in income

- They are predicting returns next year will be marginally worse
- They are looking to collaborations and partnerships to survive the downturn

Less than half of large organisations have experienced a decline in income although half are expecting income to continue to decline next year

- Slightly more than a third of large organisations have experienced increases in income
- Slightly more than a third of large organisations are expecting increases to continue into the next year

All respondents relying on investment income have seen their funding collapse and all expect an equally poor performance next year

Two thirds of all respondents anticipate increases in operational costs (excepting arts and culture organisations that anticipate holding expenditure)

- Around two thirds of respondents do not plan to increase charges for services or to reduce the number of services
- Around a third plan to increase spending on their website and a third in communicating with stakeholders in order to increase brand awareness
- Almost half of all respondents plan to increase investment in fundraising activity over the next twelve months

There is optimism in the sector that the economic downturn provides an opportunity to ‘get their house into shape’

- Almost three quarters of respondents are taking action
- Fundraising dependent organisations are most active in this regard
- Three quarters are looking to collaborations and partnerships

Background to the survey

Australian nonprofit perspective of the economic downturn

Managing in a Downturn was a survey of Australia's 'charitable' sector undertaken in April and May 2009. It was conducted collaboratively by PricewaterhouseCoopers (PwC), Fundraising Institute Australia (FIA) and the Centre for Social Impact (CSI) and a summary report issued in July 2009.[1] This paper, informed by the written comments of respondents, provides further background on an important initiative.

Such a survey was desperately needed. Australian nonprofits[2] have been suffering from a lack of substantial data on the impact of the economic downturn on their funding and reliable guidelines as to the best strategies for their future growth and development. As all nonprofits know and understand, the need for their services does not decline as the economy trends downward.

> 'People with disabilities do not go away.' (small regional organisation, health and welfare, NSW)

For some organisations, the economic downturn is proving quite confusing and they demonstrate little confidence in seeing a way forward:

> 'Who knows what will transpire. I don't have a crystal ball and governments are so unpredictable we can not rely on them to get us out of this mess. It is all very well to be upbeat and positive but I think we have to be realistic also.' (medium organisation, education and research, Queensland)

This level of anxiety among Australian nonprofits continues to be fuelled by general reports on the economy as well as news coverage highlighting some of the most palpable effects of the economic downturn. Against the background of financial collapses in the business sector, some significant reductions in funding have also been reported in the nonprofit sector and if recent media reports are to be believed, Australian charities have missed out on $500 million in cash donations over the past year.[3]

Speaking at FIA's international conference in February 2009, David Gonski, Chancellor of UNSW and a board member of the Centre for Social Impact, noted that donors who are themselves impacted by the financial crisis will give less, particularly if they are 'uncertain of the future'. However, he pointed to instances when philanthropy increased during 'bad times' as those with the good fortune of a job purposefully looked to support those less fortunate. Gonski suggested the nonprofits should focus on workplace giving,[4] Prescribed Private Funds, bequests, gifts of time and corporate social responsibility to sustain their levels of fundraising.[5]

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[1] http://www.csi.edu.au/latest-csi-news/managing-in-a-downturn/

[2] By the term nonprofit we include those organisations that may identify as charities, community based organisations, not-for-profit organisations, third sector organisations, non-government organisations (NGOs), international non-government organisations (INGOs) and social enterprises. Unless otherwise stated, all quotations come from responses to the *Managing in a Downturn Survey*.

[3] *The Age* 21 June 2009

[4] *Third Sector* 16 June 2009, under 'Payroll giving is recession proof' reports that the number of employees signing up to workplace giving schemes has fallen only slightly together with only slight falls in the average donation.

[5] http://www.australiacouncil.gov.au/the_arts/features/david_gonskis_speech_to_the_fundraising_insititute_of_australia_conference,_2009 accessed 12 June 2009

Impact on the arts

Melbourne City Council announced a 20% reduction in arts grants for 2009/2010,[6] Opera Australia acknowledged a significant drop in its cash reserves, while smaller losses were suffered by the Australian Chamber Orchestra and Sydney Theatre Company. Queensland Performing Arts Centre has reported a significant fall in sponsorship for its season of the Paris Opera Ballet, achieving 35% of the sponsorship budget although box office was not impacted.[7]

Tough times lead to innovative funding solutions such as that being developed by businessman Chris Cuffe, who has turned his skills to providing untied funds to a philanthropic cause through donating the majority of management fees of a newly-established growth fund.[8] It is likely that other social enterprise solutions will be developed during this time. However, there are many Australian nonprofits that need financial assistance immediately.

Yet, as if to prove giving is elastic, ordinary Australians have also continued to support natural disasters and national appeals with more than $300 million raised over the two months following the Victorian bushfires in early February 2009, while the Salvation Army's National Red Shield Appeal in late May 2009 raised 3.4% nationally over the 2008 appeal, largely due to gifts from NSW that in the Sydney metropolitan area alone were a staggering 16% more than in 2008. In late 2008 another campaign developed by Australia for UNHCR in partnership with PwC raised a staggering $5million internationally over a period of ten days to assist an aid and development program in Sudan.[9]

For all that nonprofits are not feeling confident and at times are reflecting this in their marketing materials. One charity recently sent its donors quite alarming materials including clips from news around the country on the impact of the financial crisis on children's services and followed this with a suggestion that their funds would drop by $2m or more during 2009. While it has been acknowledged internationally as well as in Australia that managing relations with donors is of utmost importance, especially at a time of financial stress, it is questionable as to whether donors will respond to blunt entreaties such as 'without your help, the cuts I will be forced to make will need to be even more drastic than they are already' (*name of charity withheld)*, particularly as trends reported through this survey indicate the direct mail is one of the fundraising methods being hit by the economic situation.

Outstanding philanthropic largesse, also, continues to provide leadership to funding and supporting charitable work. Recent gifts, such as Betty Amsden's $5 million endowment to the Arts Centre, Victoria, for arts educational programs for children[10] demonstrate that some organisations will continue to attract significant support because of the donor's intense personal connections with particular causes.

While giving from individuals displays elasticity, funding through investment income has proved disastrous for nonprofits.

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[6] *The Australian* 6 June 2009
[7] *The Australian Financial Review* 18 June 2009
[8] *The Australian Financial Review* 9 June 2009
[9] This program won FIA's Most Outstanding Fundraising Project 2009, see http://digital.crowtherblayne.com.au/?xml=fia.xml accessed 12 June 2009.
[10] *The Age* 6 June 2009

Impact on investment income in higher education and religion

Higher education has not escaped the economic crisis with some of Australia's wealthiest universities posting combined losses from their investments of more than $550 million.[11] The Australian National University reported a $108m deficit in 2008, compared with a $95m surplus in 2007, largely due to the 'battering' of its investment income.[12] Other reports claim that philanthropic contributions to higher education appear to be continuing to be 'relatively unaffected'.[13] The University of Melbourne has been reported to be reconsidering its first major fundraising campaign in fifty years.[14]

The Anglican diocese, reputed to be the world's richest and largest, has lost more than $100 million through investment and is reported to be reducing funding to its programs in Sydney from $30 million two years ago to $5.6million currently.[15]

In spite of widespread public pessimism, some nonprofits expressed great confidence in their ability to weather any economic storm passing overhead:

> 'Survival is not an issue … having a strong brand and good track record in delivering tangible outcomes means that we will be less impacted than many other organisations.' (large organisation, education, national)

Others, meanwhile, see the economic downturn as an opportunity for growth:

> 'There will be a rationalisation of competitor organisations and as such there will be less competition for us… we are looking at acquisitions of other organisations.. We are open to working with partner organisations to maximise the income for both. Our mergers are more like takeovers. There are a number we are looking at.' (medium organisation, education and research, SA)

Between these extremes, there are organisations of all sizes working across various sectors that are viewing the current economic downturn as a chance to focus on mission, to review core and non-core activities and to collaborate with other for the greater good.

The purpose therefore in undertaking this survey is to provide those working in the nonprofit sector with better pointers as to how to manage the economic downturn and some solid data as to how the downturn is impacting on other organisations.

> 'While the short-term impact will be felt, our organisation has a robust P&L and balance sheet and so will weather the storm. Others, however, will struggle. Indeed it is likely that in the true private sector they would have already ceased to trade. This therefore presents an opportunity for the whole sector to sensible consolidation around pillars of strength and specifically offers an opportunity for organisations like mine.' (large organisation, health and welfare, WA)

First, however, it is useful to review some international reports on the impact of the economic downturn on fundraising.

[11] *The Australian Financial Review and The Sydney Morning Herald* 21 May 2009
[12] *The Australian Financia Review* 19 June 2009
[13] *The Campus Review* 11 May 2009
[14] *The Australian Financial Review 'Education'* 22 June 2009
[15] *The Brisbane Times* 10 June 2009

What's happening internationally?

United States of America

North American data has focussed on fundraising income rather than total income so it presents a different slice of data to that in the survey. Nevertheless, recent reports show a decline in donations of 3% in 2007/08 coupled with a 30% increase in the number of beneficiaries and potential beneficiaries, many of whom have never before called for help in their lifetime (an increase from 9.8 million calls in 2007 to 14 million in 2008).[16] The Centre on Philanthropy at Indiana University has posted a 27% drop in fundraising as measured by its Philanthropic Giving Index (PGI) for the period between December 2007 and December 2008, which they note is the lowest level since the first survey was undertaken in 1998,[17] and impacts on every level of giving, particularly donations from corporations, foundations and major donors.

In parallel with some instances in Australia small donations from individuals have increased. There is concern in the US that some pledged or regular giving will be impacted as donors are unable to meet their commitments due to their personal financial stress.

Advice to US nonprofits is to diversify their sources of income and to remain confident – some 54% of AFP members are confident they will raise the same or more funds in 2009/10 – so that when the economic climate turns they will benefit from what is commonly termed the 'globalization of giving'.

United Kingdom

In the UK, the survey undertaken by PricewaterhouseCoopers, the Institute of Fundraising and the Charity Finance Directors' Group in October 2008,[18] predicted a significant decline in income with 70% to 90% of respondents expecting income to decline or remain flat. The exception to this was funding through sales of goods and services which 43% of respondents expected to grow over the next twelve months. However the general conclusions of the survey were that costs would increase over the next twelve months while income would not and would more likely decrease.

Like their US counterparts, UK nonprofits were continuing to feel optimistic that some opportunities would arise from the economic conditions and that those that restructured their operations would emerge stronger when the economy turned. The report advised that during this period nonprofits should build and diversify their fundraising strategies and focus on relationship development and management to strengthen their capacities in key operational areas.

The first UK survey asked nonprofits to predict their income over the period from October 2008. In all cases, apart from bequests, actual performance reported in the second survey (published July 2009) was worse than predicted. The re-run of the UK report shows that actual performance was worse than predicted over the last six months and predictions for the next year are even more pessimistic.[19] Indeed whereas in December 2008 39% of respondents expected a decrease in income and 36% expected no growth, fundraising over the past six months declined for 45% of respondents while 30% reported no growth since December 2008. What this shows is that the downturn is now being felt by a

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[16] http://www.rotary.org/en/MediaAndNews/TheRotarian/Pages/0906_Philanthropy.aspx accessed 6 June 2009

[17] 'Like the Consumer Confidence Index which tends to overreact to good news and bad news, the PGI jumps around more than actual giving… but… it's still a fairly accurate barometer' according to Professor Patrick Rooney, the centre's interim director.

[18] http://www.fia.org.au/AM/Template.cfm?Section=Managing_the_Downturn_April_2009&Template=/CM/HTMLDisplay.cfm&ContentID=7292 accessed 19 June 2009

[19] http://www.institute-of-fundraising.org.uk/pressnews/topstories/Charity+expectations+of+recession+worsen.htm accessed 1 August 2009

greater proportion of charities. Expectations of the continuing impact of the recession in the next twelve months are fifty percent worse than those reported for the past six months. There are now 78% of respondents taking action to reduce the impact compared with 71% in the survey six months ago.

The 'worst' performing methods of funding and fundraising in both the UK and Australia over the past six months were investment income and corporate funding.

A key comment in the UK survey is that the contemporary nonprofit sector is also differently shaped to the sector that weathered the economic downturn in the 1990s. In the UK this is reflected in increases in the number of nonprofits, increased reliance on government funding, increasing variety and sophistication of fundraising methods and an increasing propensity for funding to be project or program focused rather than providing adequately for administrative requirements.

In the light of these findings it's not clear how much credibility should be given to an independent report in the UK of an increase of 16% in new donors signed up through face to face fundraising (pledged giving).[20]

The survey

The survey *Managing in a Downturn* was a timely intervention on behalf of Australian nonprofits which have been suffering from a lack of substantial data on the impact of the economic downturn on their funding and reliable guidelines as to the best strategies for their future growth and development. This gap in data hasn't been the case in the UK where two surveys, in October 2008 and May 2009, were undertaken to determine the impact of the economic downturn on funding and fundraising.[21]

In Australia a partnership between CSI at the University of New South Wales, PwC, an active and engaged corporate citizen which has developed a number of initiatives enhancing the work of Australian nonprofits, and FIA, the peak national body for professional fundraisers, enabled the first significant survey based on actual results to be distributed to Australian nonprofits.[22]

How the survey was planned

Australia's survey *Managing in a Downturn* was developed along the lines of the UK survey so that some comparisons might be made between the responses to both surveys. This was also a prudent decision given PwC's involvement in both surveys.

Some of the UK terminology had to be changed to reflect Australian practice and some of the questions were further developed to gain better responses as to the impact experienced over the past

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[20] http://www.thirdsector.co.uk/News/FundraisingBulletin/914806/Record-numbers-recruited-face-to-face-fundraising/50195D29E435691E5335BF93B6B2B5A2/?DCMP=EMC-FundraisingBulletin

[21] http://www.fia.org.au/AM/Template.cfm?Section=Managing_the_Downturn_April_2009&Template=/CM/HTMLDisplay.cfm&ContentID=7292 accessed 19 June 2009

The survey was a partnership with PricewaterhouseCoopers LLP, the Charity Finance Directors' Group and the Institute of Fundraising UK.

[22] The survey was launched on 23 July 2009. See http://www.csi.edu.au/latest-csi-news/managing-in-a-downturn/
Immediate media reports include: 'Downturn hits where it shouldn't, like charities' *The Australian Financial Review*23 July 2009; 'Charities face disclosure changes' *The Australian Financial Review* 24 July 2009; 'Charities face economic "triple whammy" yet see a silver lining' *The Sydney morning Herald* 23 July 2009; 'Falling donations and rising costs hit charities' *The Australian* 23 July 2009

six months and predictions for the next twelve. Nonprofits were asked to identify their organisation, the location of their operations, the particular sector in which they worked (health, welfare, education etc.), size by income, and income sources through various methods of fundraising and funding. As the survey was distributed following a number of natural disasters, the bushfires in Victoria, floods in Queensland and an oil spill on the east coast of Australia, an additional question sought to disaggregate this data from the responses to routine fundraising for particular causes.

Funding and Fundraising

The original seventeen different methods of raising funds were categorised into four broad groups: fundraising, market income, government funding and investment income.

Fundraising was further disaggregated into eleven different fundraising methods (of which eight returned sufficient data). Responses were sought as to the impact of the downturn on each method. Some additional questions sought more detailed information on government funding with regard to contractual terms and lengths of contracts as well as income from property and risk management strategies for investment funds.

It was particularly important to tease out as much information as possible on strategies currently implemented and those planned for the next twelve months with regard to administrative costs, impact on staffing, spending restrictions or cuts and areas of possible growth as a response to the situation. Questions on reserve policies, public awareness and volunteers were included to prompt nonprofits to consider how they had managed these over the past six months and whether more focus needed to be directed towards these areas over the next twelve.

In line with the UK survey, one question specifically sought out comment on the advantages of the downturn that could provide an opportunity for various organisations. Since mergers and partnerships are often cited as apparent remedies to financial stress, this question was included for response.

By the time the survey was widely distributed in every state and territory through April and May 2009 the economic downturn had advanced in its impact, enabling the capture of more reliable data and, possibly, a greater understanding of its immediate impact and better predictions for the next twelve months than was possible with the earlier UK survey. Certainly, by May 2009, it was rare to find Australian nonprofits that were not reviewing their business plans in some way in the light of the economic climate.

The purpose therefore in publishing this background paper to the survey is to provide those working in the nonprofit sector with greater detail on the impact of the economic downturn and some solid benchmarking data as to how the downturn is impacting on other organisations.

The survey was web-based and went live on 21 April 2009, initially with a response date of 4 May which was extended to 11 May on request to allow nonprofits further time to complete. Invitations to respond were sent through FIA to its membership and through various peak bodies[23] capturing the attention of an exceptionally broad list of nonprofit organisations.

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[23] Apart from FIA's datalist, the invitation to participate was sent out through ArtSupport, Australian Charities Fund, Australian Council for International Development, Australian Council for Social Services, Centre for Philanthropy and Nonprofit Studies Queensland University of Technology, Centre for Social Impact UNSW, Centre for Volunteering NSW, Charities Aid Foundation, Jobs Australia, National Roundtable of Nonprofit Organisations, Ourcommunity.com, Philanthropy Australia, United Way, the following publications: *Third Sector News e-Bulletin*, *Fundraising & Philanthropy, Pro Bono,* and the Office of the Parliamentary Secretary for Social Inclusion.

Economy

Minutes of the Reserve Bank of Australia's board meeting in June noted that the Australian economy 'was experiencing a downturn but, on the information available so far, this would be less severe than in most other countries'.[24]

However, movements of Australia's key economic and social indicators posted by the Australia Bureau of Statistics for June 2009 show both a fall in GDP and net national disposable income. Add to that rising unemployment (5.8% in June 2009, up from 5.7% in May 2009) and levels of under-employment, it is probable that there may be more caution in the making of gifts or that gifts may be directed to causes which support needs related to the economic downturn.

Table 1: Economic Indicators, Last Downturn (1990) And Current Downturn (2009)

Economic Indicators - last downturn & current	**%** **1990/91**	**%** **Latest quarter**
Real GDP Growth	-1.5	-0.1
Interest Rates	12.0	3.0
Inflation	3.4	0.1
Unemployment	8.1	5.8
Household Consumption Expenditure	-0.5	0.4
Household Debt to Household Assets Ratio	8.6	19.7
Household debt to Disposable Income ratio	47.1	155.2
Average Weekly Earnings growth	4.7	1.5

Source: ABS, RBA

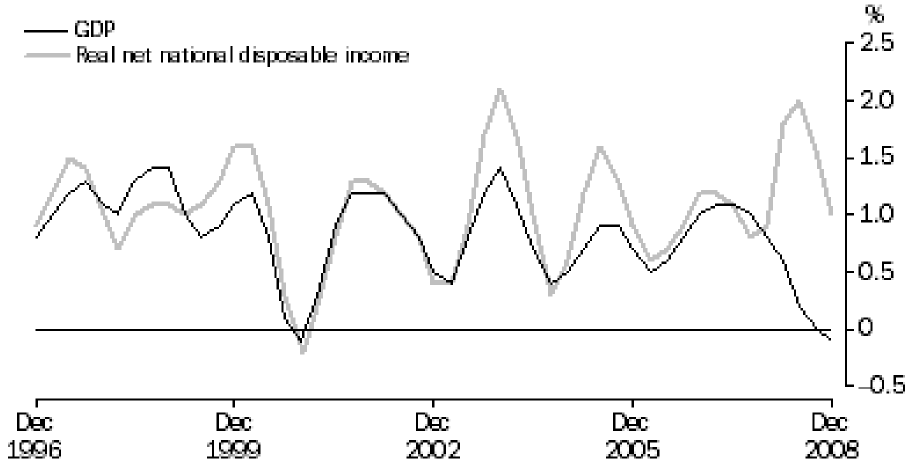
These indicators suggest that individual Australians, who it is remembered contribute the majority of funding to nonprofit enterprise, may not be in a position to respond as generously as in the past.

Figures from the National Accounts show negative trends in GDP which impact significantly on the ability of Australians to continue to contribute generously to so many causes.[25]

[24] *The Australian Financial Review* 17 June 2009

[25] http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/1345.0Main%20Features99992007?opendocument&tabname=Summary&prodno=1345.0&issue=2007&num=&view= accessed 12 June 2009

Table 2: Comparison GDP And Real Net National Disposable Income (Source Australian National Income 2009, National Accounts)



Source: Australian National Income, Expenditure and Product, (cat. no. 5206.0)

Against this economic data, analysis of tax-deductible donations made by Australians in 2006/2007 from data supplied by the Australian Tax Office to Deductible Gift Recipients (DGRs) indicated $1.89b was claimed as tax deductible donations, an increase of 21.1% over the previous year ($1.55b).[26]

At the other end of the financial spectrum, it's reported that Australia's richest are 'feeling the pain of the current downturn' and the entry level for the *BRW Rich 200* in 2009 was $150m, down from $200m in 2008.[27] Indeed, *Forbes* has reported that the wealth of the world's billionaires fell by 45% over the past year, with the top end of wealth falling across Europe and Asia.[28]

Australia's nonprofit sector June 2009

Giving to Australia's nonprofit sector was first surveyed in 2005, published as *Giving Australia: Research on Philanthropy in Australia* (Cth of Australia 2005).[29] This survey estimated that giving to nonprofit organisations totalled $11 billion, comprising $7.7b from individuals and $3.3b from businesses. It has since been noted that *Giving Australia* used a more liberal definition of gift in order to arrive at a figure of $11b for 2005. At the time of this survey, it was estimated that total revenue for the sector, comprising 700,000 organisations, was $33.5b.

As noted above, a key comment in the UK survey is that the contemporary nonprofit sector is differently shaped to the sector that weathered the economic downturn in the 1990s – a greater number of nonprofits, greater reliance on government funding, significant development in funding and

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[26] CPNS Current Issues Information Sheet 2009/1, Queensland University of Technology 2009.
[27] *Business Review Weekly* (special edition) May – July 2009
[28] *Business Review Weekly* (special edition) May – July 2009, quoting *Forbes, 2009 Sunday Times Rich List, Hurun Rich List 2009,* reported falls across top end in UK (37%), Hong Kong (54%), Japan (23%), Europe (43%), South Korea (34%) and China (38%).
[29] http://www.fahcsia.gov.au/sa/communities/pubs/Community/Giving_Aus_Finding/Pages/default.aspx accessed 23 July 2009

fundraising methodologies and trends towards increasingly project focussed funding, largely excluding administrative costs.

The Australian nonprofit sector is a bit different to the UK's. Australia has seen marginal increases in government funding but has experienced significant increases in private giving by both individuals and business. Other changes in the Australian environment are the introduction of Prescribed Private Funds (PPFs) in June 2001, which numbered 769 on 1 July 2008. PPFs are to be known as Private Ancillary Funds from 1 October 2009.

In June 2009, the ABS reissued data from their survey of the performance of nonprofit organisations during 2006/2007. The data differed in minor ways from that in the original October 2008 report. It was drawn from 41,000 nonprofit organisations that were deemed economically significant (38,000 were employers). They employed 890,000 people. Revenue was $76 billion; 39% coming from the sales of goods and services and another 34% from government as grants or payment for the purchase of services. Another 9.5% ($7.2 billion) came from donations sponsorships and other forms of fundraising.

Managing in a Downturn does not claim to be a representative sample of the wider Australian nonprofit sector. It does reflect well the size and shape of those organisations traditionally described as 'charities' that depend upon funding from the public – and, increasingly, governments – as an important source of revenue to advance their cause. Predominantly they are enterprises that are heavily reliant on fundraising for the health and social welfare services that they provide, in Australia and overseas. Also included in the survey are organisations which deliver education, research and cultural programs.

Respondents

Completed responses were obtained from 263 nonprofits, a healthy response that reflects well the size and shape of the 'charitable' sector.[30] Among respondents a few were foundations situated in government entities but as they operate as independent charitable trusts their responses are also included in the analysis. Respondents were primarily CEOs, CFOs and Fundraising Managers who would all have had good access to reliable data and a complete understanding of the complexities of their funding sources.

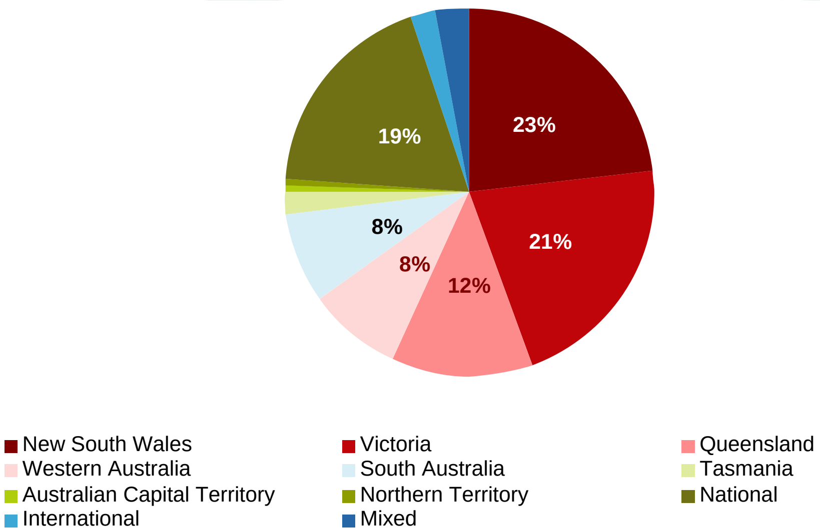
We present analysis of the responses by location, size according to staff numbers and income, sector and funding source.

[30] The response rate compares well with the UK's survey which received 362 responses.

Distribution of respondents by state and territory

A little less than a quarter of respondents operate in either Victoria or NSW, while national operations account for 19%, Queensland 12%, 8% in SA and WA and the remainder 6% across other states and territories and international.

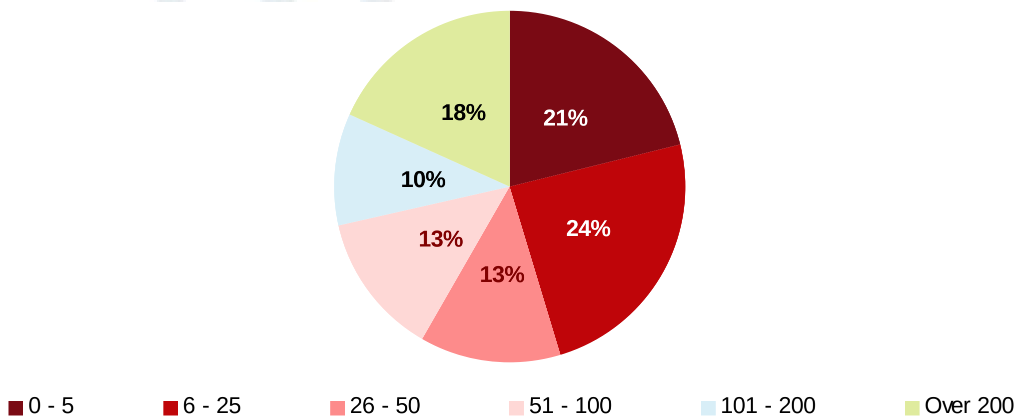
Table 3: Distribution Of Respondents By State And Territory



Distribution of respondents by staff number

In terms of respondent organisations' staff numbers, the largest group (24%) employ between 6 – 25, with 21% having 0 – 5 employees and 18% over 200 employees.

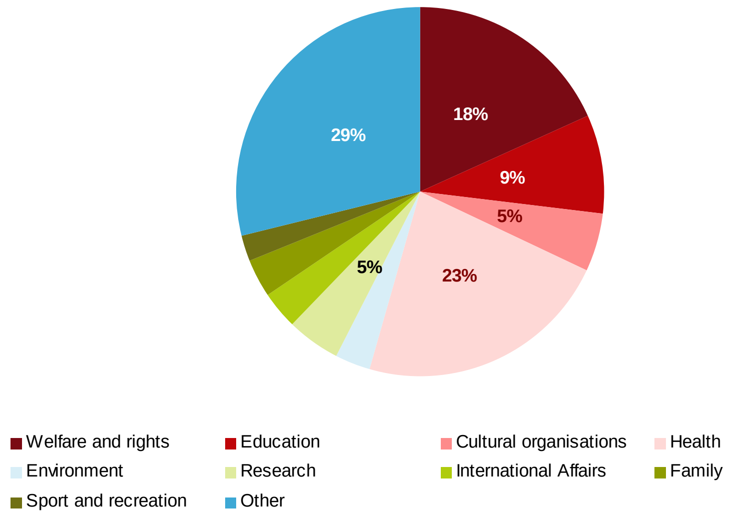
Table 4: Distribution Of Respondents By Staff Number



Distribution of respondents by sector

The data from all respondents was disaggregated according to the particular sector in which organisations worked. The first grouping was based on the original survey question and shows a significant number of respondents – 29% - selected ‘other’ as their organisation type.

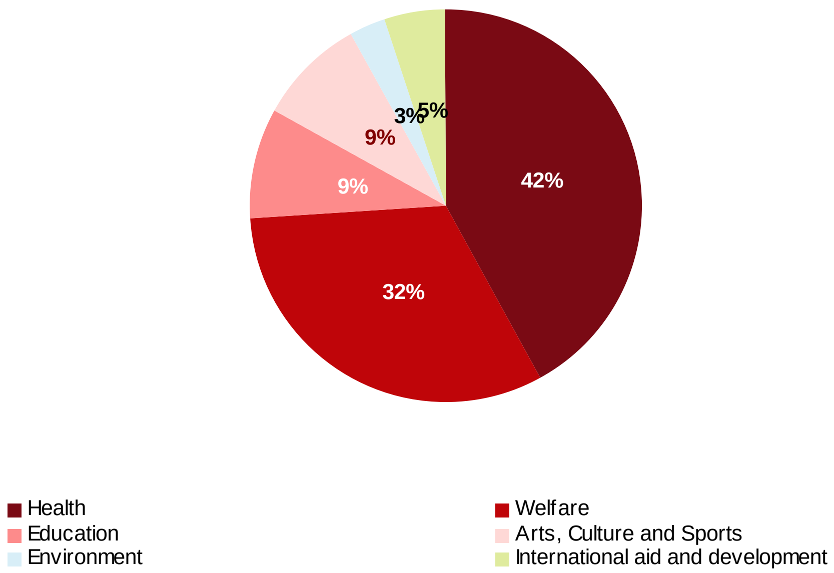
Table 5: Distribution Of Respondents By Sector



Subsequently this distribution was combined into six consolidated groups, with the responses from the ‘other’ category re-categorised into the consolidated groups based on the nature of the services they provide.

- Health 42%
- Welfare 32%
- Education 9%
- Arts, culture and sport 9%
- International aid and development 5%
- Environment 3%

Table 6: Distribution Of Respondents By Consolidated Sectors



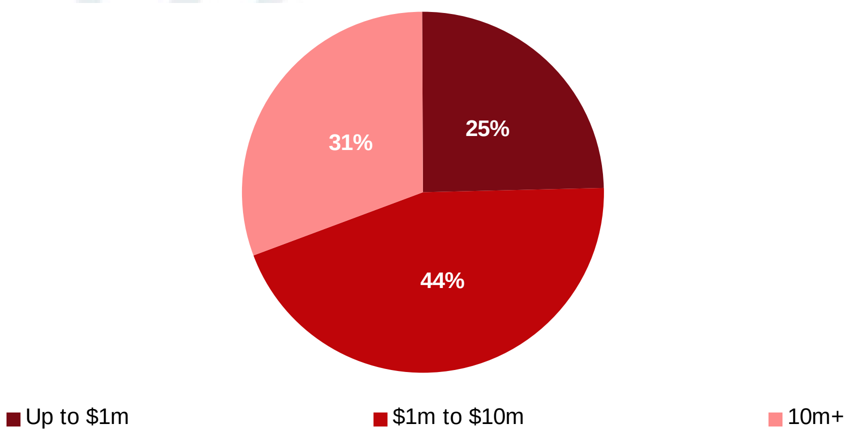
In the context of Australian nonprofits overall, the sample of responses to this survey is biased towards health (42%) and welfare (32%) and within the category arts, culture and sport (9%), possibly towards the performing arts. A further 9% are categorised as education organisations.

Regarding environment (3%) and international aid and development (5%) the responses are likely to be less representative. For all that, generalised findings will provide guidance to these particular sectors and those that work in them.

Distribution of respondents by income size

Size of the organisation as a reflection of income has an impact on some responses. The largest group of respondents has a total income between $1m and $10m (44%), while a quarter are up to $1m and slightly less than a third above $10m.

Table 7: Distribution Of Respondents By Income Size



Distribution of respondents by funding source

Funding for organisations was categorised in four ways, according to the dependency of an organisation on its source of funds as follows:

- Government funding
- Fundraising
- Market (sales of goods and services, including membership)
- Investment income

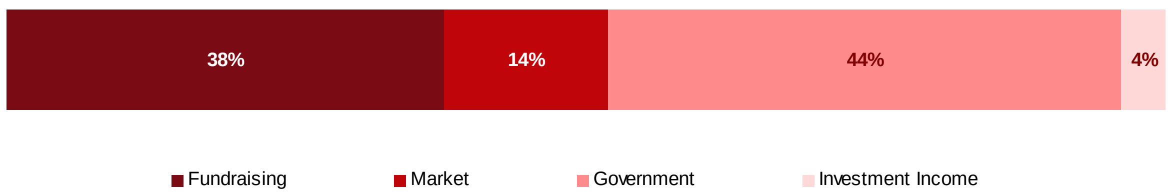
With the current interest in social enterprise, some organisations that have been categorised as market dependent may also identify as social enterprises.

When data was aggregated according to funding dependency there was a group (11%) categorised as 'mixed' as they did not attract the majority of their funding from any one source. This data was re-categorised into the four consolidated funding sources.

Accordingly the survey sample leans towards government funded organisations, with 44% of respondents having a majority of funds derived from this source, compared with ABS data which shows just over one third of all nonprofit organisations are dependent on government funding.

Along with 44% that are dependent on government funding, just over a third of respondents (38%) are 'fundraising dependent', while 14% are market dependent and 4% investment income dependent.

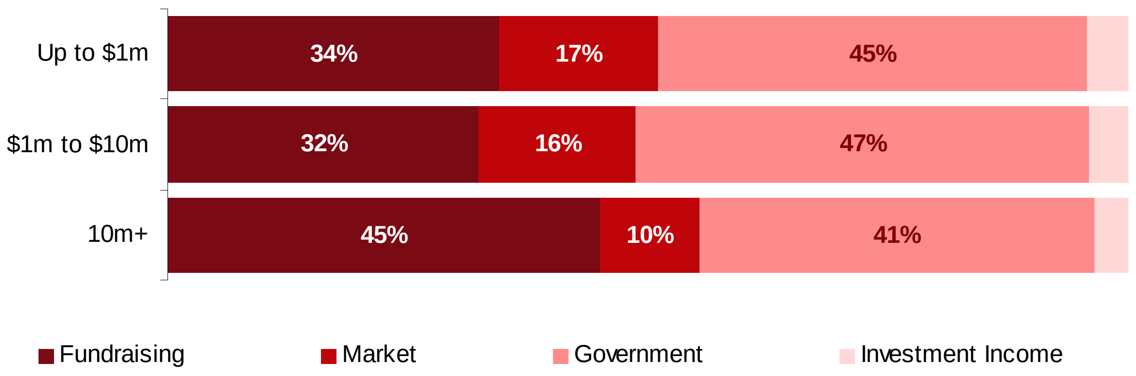
Table 8: Distribution Of Respondents By Funding Source



Funding source by income size

Categorisation by size of organisation according to income provides evidence that among the respondents, large organisations have a greater dependency on fundraising than medium-sized or small organisations. Small and medium organisations can be seen to have a high reliance on government funding along with a significant dependence on market funding (17% and 16% respectively).

Table 9: Funding Source By Income Size



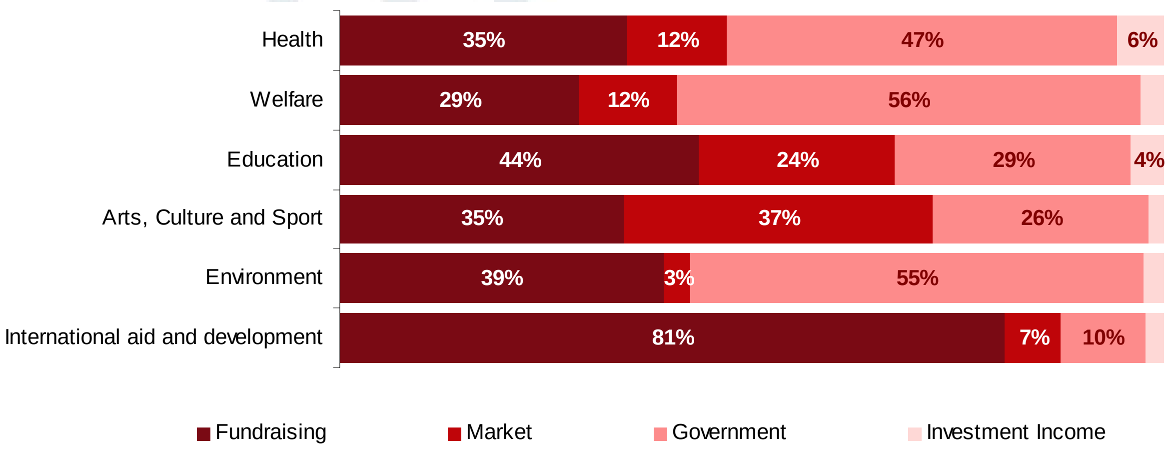
Funding source by sector

Even allowing for the bias of the data because of the low response rate from international aid and development organisations, the sample of respondents shows that 81% of organisations working in this sector rely on fundraising for their income.

Education organisations also depend predominantly (44%) on fundraising. Not surprisingly, welfare organisations predominantly (56%) depend on government funding as do health organisations (47%). This is also true for the small sample of environment organisations, in this survey (55% depend on government funding) but this may not be representative of the wider environment sector.

The predominant source for arts, culture and sport organisations is market income (37%), although fundraising at 35% is a close second.

Table 10: Funding Source By Sector



In the health sector, 6% of respondents received income from investments, compared with 4% in the education sector and 3% in welfare.

Fundraising methods

Nonprofit organisations demonstrate a remarkable flexibility in attracting funds through a variety of fundraising methods. In addition to market and government funding, and investment income, the survey sought responses on income results and predictions across eleven different methods of fundraising.

Respondents report receiving 2% or less of their income through e-fundraising (1%), charitable gaming (2%) and charitable telemarketing (2%). These results, therefore, provide insufficient data for reliable analysis and predictions. With this caveat in mind, comment will be made from time to time where information seems relevant.

Of the total income reported by respondents, eight methods are significant for fundraising.

Of total income 14% is raised through one fundraising method:

- regular or pledged giving

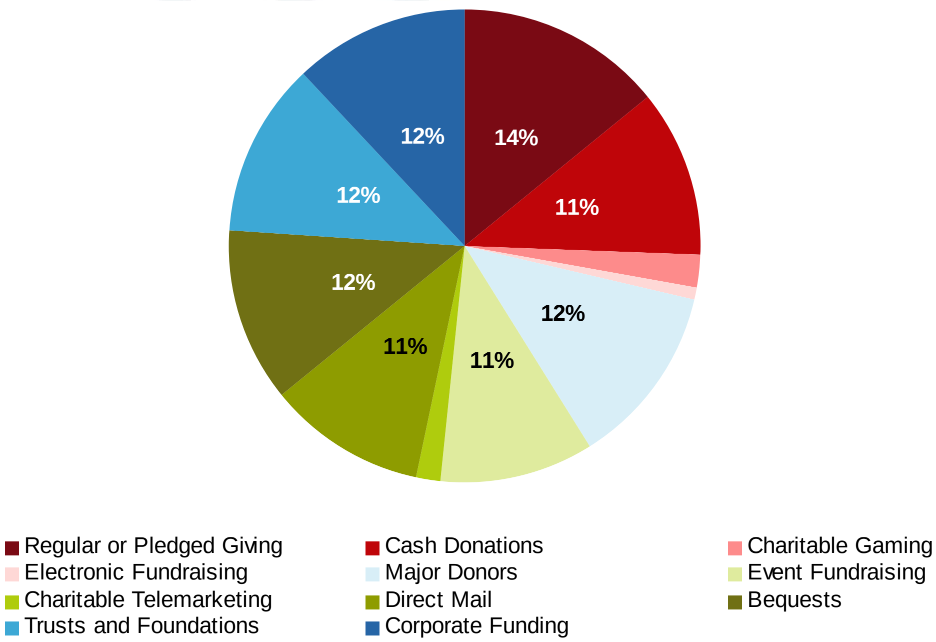
Of total income 12% is raised through each of four fundraising methods:

- trusts and foundations
- major donors
- bequests
- corporate funding

Of total income 11% is raised through each of three fundraising methods:

- cash donations
- event fundraising
- direct mail

Table 11: Fundraising Methods



Income

Managing in a Downturn has demonstrated that the anecdotal reports of falling income are substantially correct. There is a clear trend to falling incomes and expectations of this trend continuing over the next year. An important comment to note is that a number of organisations advised they would have a clearer picture of their financial performance when the financial year results were collated post 30 June 2009, which was after the collection of data in this survey.

First data is presented for all respondents on impacts on total income and predictions for the next twelve months. Respondents were asked to report on the impact of the economic downturn on their total income over the past six months and then to predict what changes they expected over the next twelve months. Responses are presented in two tranches below, first the impact on income over the past six months, and secondly income expectations for the next twelve months.

The data is then disaggregated according to income size, sector, funding source and fundraising method.

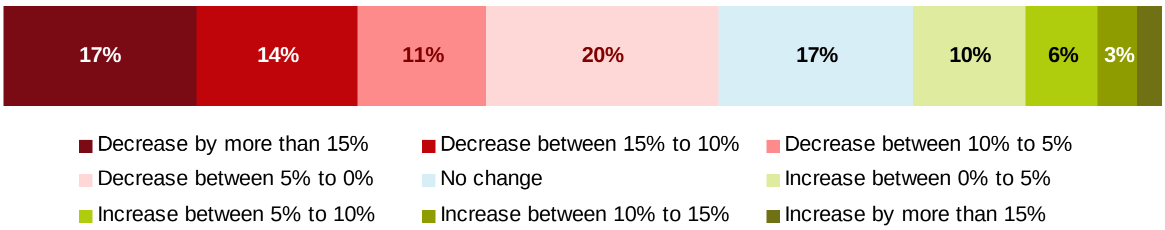
No growth

For those nonprofit organisations that have not experienced growth over the past six months it is likely that they will be challenged to maintain current service delivery without drawing on funds from other sources, such as reserves. Recent analysis of the corporate sector has indicated that although continuing services may be maintained in the absence of growth, it is difficult to sustain this position without growth. Ideally, organisations should be aiming to grow, as a minimum, at the rate of GDP revenue growth.[31] I return to this question in the conclusion.

Impact on total income over the past six months

Almost two thirds of all respondents reported that their income has decreased over this period and of these 31% have experienced a decrease of 10% or more. Some organisations (17%) have not experienced any change, making a total of 79% of respondents that have reported zero growth or falls in income over the past six months. Indeed 22% have seen increases in income, including 5% that have seen income increase by more than 10%.

Table 12: Impact On Total Income Over The Past Six Months

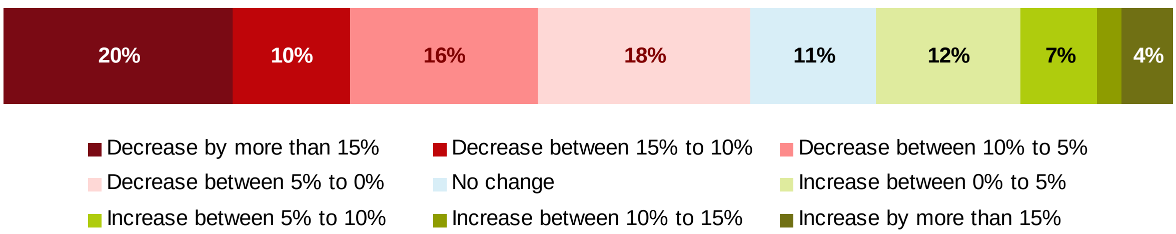


[31] It is claimed that companies that achieve faster than GDP revenue growth are the most likely to sustain growth, beat the market and survive, see *The Granularity of Growth: making choices that drive enduring company performance*, Patrick Viguerie, Sven Smit & Mehrdad Baghai, Marshall Cavendish Ltd & Cyan, London, 2007.

Predicted impact on total income over the next twelve months

Predictions of further impact on income are on top of those already recorded. This means as 75% of all respondents predict that income will continue to fall or fail to grow over the next twelve months the impact may be significant on their potential to provide core services to their communities. A further 12% expect only 0% - 5% increase in income.

Table 13: Predicted Impact On Total Income Over The Next Twelve Months



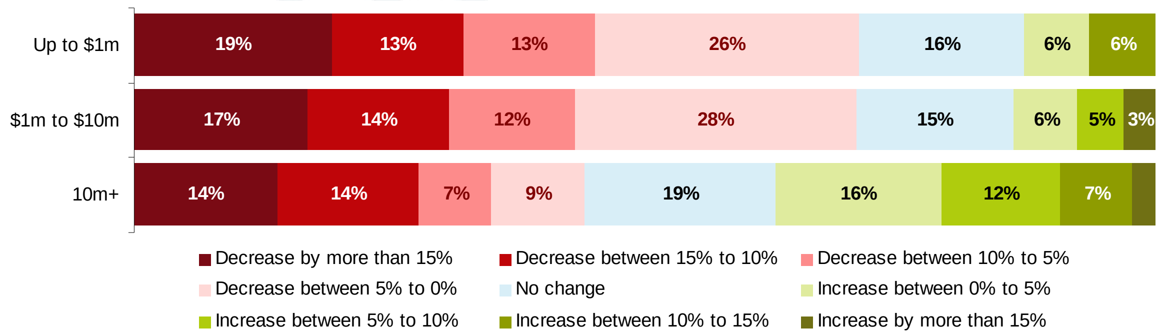
To take a more optimistic perspective, 25% of respondents predict that income will rise over the next twelve months and of these 13% predict increases of 5% or more.

Impact on total income over the past six months by income size

Although all organisations irrespective of size report a decrease in or static income over the past six months, size does appear to be an important factor in the ability of nonprofits to demonstrate resilience through the period of economic downturn. Over a third of large organisations have experienced income growth over the past six months, compared with 13% and 14% for small and medium organisations.

Of large organisations 44% have experienced falls in income over the past six months, compared with 71% of both small and medium organisations.

Table 14: Impact On Total Income Over The Past Six Months By Income Size



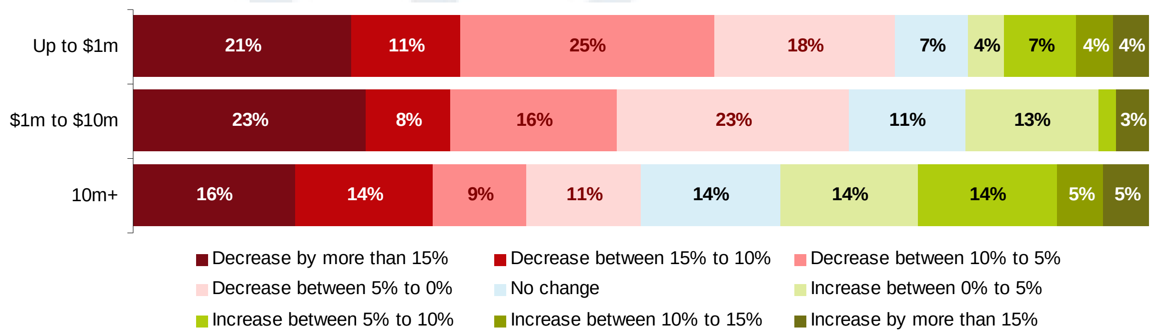
As noted above among the respondents, small and medium sized organisations lean towards government funding compared with large organisations, which report fundraising as their most important income source (45%), although admittedly government funding is not far behind (41%). Small and medium sized organisations also report a significant dependency (17% and 16% respectively) on funding through market operations, compared with 10% for large organisations. This difference in funding sources may be impacting on the capacity of small and medium organisations to maintain income streams. However, as noted later, large organisations have responded more actively to contain costs and implement management strategies to counter the impact on their income and expenditure streams.

Predicted impact on total income over the next twelve months by income size

Predicted changes to income over the next twelve months are expected to continue the same downward trend. The impact of this continuing trend will be to further hamper small and medium organisations, in particular as concerns their ability to deliver their services and indeed to survive the downturn.

Of large organisations 50% predict further falls in income over the next twelve months, compared with 75% of small organisations and 71% of medium organisations. More than a third of large organisations are predicting increases in income over the next year, compared with 18% and 19% for small and medium organisations respectively.

Table 15: Predicted Impact On Total Income Over The Next Twelve Months By Income Size

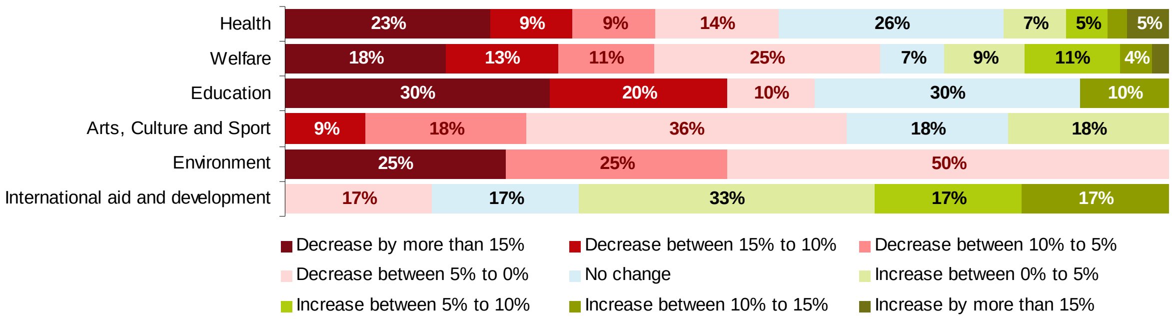


Impact on total income over the past six months by sector

Among welfare organisations 67% have experienced a decline in income and a further 7% report income has remained flat. Other sectors – arts, culture and sport, education and health - report similar results in declining income (63%, 60% and 55% respectively) while there are worrying levels of income remaining flat (18%, 30% and 26% respectively).

According to the survey only 10% of respondent organisations working in the education sector have seen income growth, compared with 18% of arts, culture and sport organisations, 19% of health organisations and 26% of welfare organisations. Welfare organisations have led the way in income growth over the past six months.

Table 16: Impact On Total Income Over The Past Six Months By Sector



The two sectors with the least reliable response rates nevertheless report findings that are of interest because they contrast starkly with the bulk of responses. All respondents working in the environment sector reported a fall in income compared with only 17% reporting a fall in the international aid and development sector and a further 17% reporting income remaining flat.

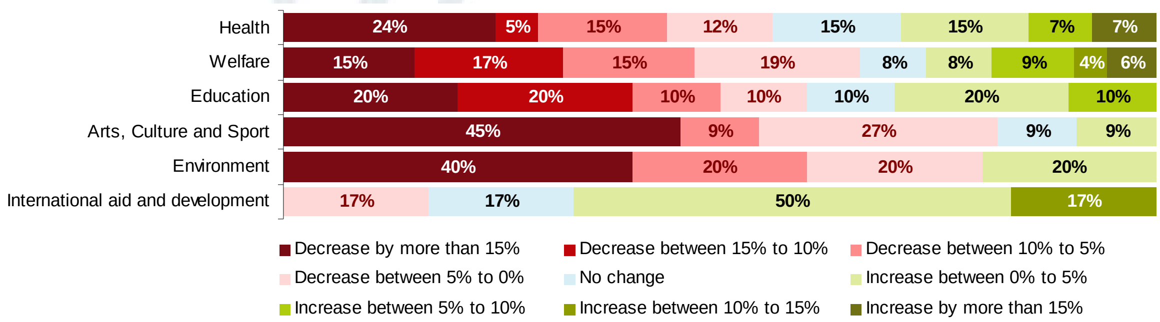
Predicted impact on total income over the next twelve months by sector

Over the next twelve months, there are a few pockets of hope for improvements in income levels. Almost a third of organisations working in education, health and welfare predict incomes will increase. The education sector is the most confident with 30% of respondents predicting income growth, a marked change from 10% that reported growth in the last six months, followed by health (29%) and welfare (26%).

Arts, culture and sport organisations are the most pessimistic about their income over the next twelve months with only 9% predicting growth.

There appears to be extraordinary confidence in the small sample of international aid and development organisations with two thirds predicting growth although 81% of their income is through fundraising which has been hit hard by the downturn.

Table 17: Predicted Impact On Total Income Over The Next Twelve Months By Sector



There's a distinct lack of confidence among organisations working in the field of arts, culture and sport. Their performance over the past six months almost parallels that for all respondents as reported above but there is markedly less optimism about the next twelve months with 81% predicting falls in income (compared with 63% reporting actual falls) and 45% of these predict falls will be in the order of 15% or more, 9% predicting zero growth (compared with 18% reporting actual falls) and less than 10% predicting increases in income (compared with 18% reporting actual falls). Market funding returns 37% of income for this sector while 35% is raised through fundraising, which based on the level of responses may be biased towards major gifts from individuals and corporations. Government funding accounts for a further 26%. Arts, culture and sport organisations are unlikely to benefit from the federal government's stimulus packages, indeed cuts are more likely as the government shifts attention towards key services in health, welfare and education.

> 'We may need to utilise some of our reserves in the current financial (calendar) year. Our board has agreed to use part of our reserves should some of the anticipated income not be achieved in order to ensure activities committed in 2009 are achieved and in the positive belief that the groundwork and continuity we provide this year will stand us in good stead in the medium future.' small organisation, arts and culture, WA.

Impact on income over the past six months by funding source (refer Table 18 below)

Data has been aggregated into four sources of funding and fundraising – government funding, fundraising, market and investment income.

As noted above, 62% of all respondents reported falls in income, 17% reported no growth and 22% reported increases in income. Against this yardstick, investment income has been worst hit, although few nonprofit organisations, and only 4% in the survey, rely on this as their major source of income.

Government funding

Of the respondents 44% are dependent on government funding. Although the least impacted funding stream over the past six months has been government funding with only 11% of respondents reporting that government funding has fallen, 80% have reported that income has remained flat. As a consequence of this, organisations depending on government funding will not have maintained economic position, let alone improved it over the past six months. Only 9% of respondents reported an increase in government funding.

One agency reported governments being

> 'keen to take back unspent funding rather than … rolling unspent funding forward.' (medium organisation, health and welfare, Queensland)

A number of respondents noted that such funding may change as government policy positions alter. Examples of this are the stimulus packages and relief packages (such as drought relief in rural and regional areas which have helped nonprofits located in these regions to provide services).

Impact on fundraising income

Fundraising income represents 38% of total income for respondents. Half of all respondents reported declining income through fundraising and 44% reported that income remained flat. Some 6% of respondents reported increases in income. The impact of this is that fundraising is generally under threat although different methods are returning different results, as discussed below.

Impact on market income

Market income, which represents 14% of respondents' income, has not performed well over the past six months. Indeed 43% of respondents with income through the sale of goods and services and membership reported falls in income, together with a further 49% reporting income remained flat.

> 'Our business venture is in recycling … global prices have fallen/crashed by 75% since October 2008.' (medium organisation, health and welfare, Tasmania)

> 'Our commercialisation enterprise is linked to the construction and automotive sectors both of which are hurting at present. We are being impacted.' (large organisation, education and research, national)

For all that a number of respondents are seeing opportunities in this area:

> '… the demand for second hand household goods has gone up as more people face financial difficulties.' (large organisation, health and welfare, Queensland)

> 'Second hand clothing and furniture is in demand. Currently we are travelling well financially. … Nevertheless, through scenario planning we have developed action plans (respectful exit of staff, reducing service delivery etc.) should the worse happen.' (medium organisation, health and welfare, Queensland)

Impact on investment income

Respondents to the survey reported 4% of total income was derived through investments. Overall, this proved the most vulnerable method of fundraising, where falls in income have been experienced by 88% of respondents. Perhaps surprisingly, 11% have reported no impact, possibly a reflection of prudent risk management and conversion of holdings into cash rather than other forms of investment. Those sectors where investment income was most prominent include the health (6%) and education (4%) sectors.

Predicted impact on income over the next twelve months by funding source (refer Table 19 below)

As noted above 64% of all respondents have predicted further falls in income over the next twelve months, and a further 11% predict that income will remain flat while 25% are looking forward to increases in income. Against this aggregated data more than 90% of respondents predict that income will fall or remain flat across the four funding sources - government funding, fundraising, market and investment income.

Predicted impact on government funding over the next twelve months

Over the next year around three quarters of respondents predict government income will remain flat and 18% predict decreases in funding (an increase on the 11% reporting funding had declined over the past six months). Therefore 92% of respondents predict zero or negative growth, while only 8% anticipate income growth.

Added to the expectations of falling levels in real funding, some respondents felt that changes to government funding might also be accompanied by amendments to contractual terms.

> 'We are currently negotiating triennial agreement which will have reduced funding. We have already experienced closer monitoring and changes to financial reporting.' (medium organisation, arts and culture, Queensland)

It can't help but be noted that some organisations seem to be locked into government funding and rather unprepared for changes in government policy which may impact.

> 'We have been in existence for about 40 years now so have weathered downturns in the past. Since we are 95% government funded we should get by unless the government decides to completely cut funding for key programs.' (large organisation, health and welfare, WA, that has a reserves policy of 3% of annual budget)

Of the respondents, some are completely dependent on government funding and therefore in a precarious position if government policy changes. Yet some are anticipating the policy changes relating to the federal government's stimulus packages will provide increases in funding and still others are being asked to respond to government directions to cut services:

> 'The government told us to reduce services.' (small organisation, health and welfare, SA)

and expenditure:

> 'The Government has asked all state departments to cut back of their spending by 3% (efficiency drive) … hence reporting procedures have really tightened up and are more outcomes focussed.' (small organisation, education and research, WA)

None referred to the possible impact of the compact currently being negotiated between the federal government and the nonprofit sector.[32] However, a number of respondents did express concern that there may be changes to the length of government contracts over the next year and a majority of respondents is clearly concerned about increased monitoring of government contracts which, naturally, could add to the costs of administration at a time of stress on funding sources.

> 'We may be required to operate as an NGO if the recommendations of the Weller Report, an independent review of Queensland Government Boards, Committees and Statutory Authorities [are adopted].' (medium organisation, education and research, Queensland)

Of education organisations, 29% are reliant on government funding and there is some anticipation in higher education of the impacts of current policy reviews by the federal government.

> 'The degree to which the recommendations of the Bradley Report are implemented and at what speed will impact on government monitoring of spending and outputs.' (large organisation, education and research, national)

Predicted impact on market funding over the next twelve months

Income from the sale of goods and services is not expected to pick up over the next twelve months with 41% predicting further falls, 48% that income will remain flat and only 10% predicting increases in income.

Predicted impact on investment funding over the next twelve months

The immediate impact of falls in investment income has been significant.

> 'We have had a massive fall in investment income over the past year. We are hoping the worst is over but it will impact on our level of activity in 2010 considerably.' (medium organisation, health and welfare, national)

Despite falls in income being experienced by 88% of all respondents, a slight improvement is seen in the predictions for the next twelve months with 75% of respondents predicting further falls in

[32] http://www.socialinclusion.gov.au/compact/Pages/default.aspx accessed 21 August 2009

investment income. When predictions for no growth are taken into account, 94% of respondents predict income will fall or remain flat, a result which parallels that predicted for income generated through fundraising.

One organisation reported a decrease of more than 15% in investment income and commented this is

> 'a major impact for us this year, however thankfully the decrease has been less than market average. We are predicting some growth next year however this needs to be balanced against a significant decline this year. It will be a good 3-5 years before we are generating similar income from this stream that we have enjoyed in the past. … We already run a conservative ethical investment plan however we might look at different ways of managing the portfolio.' (large organisation, health and welfare, national)

Those nonprofit organisations that deliver programs overseas face particular challenges, dealing in currencies where risks may be significant.

> 'Our investment income arises from holding various amounts of foreign cash and movements between foreign currencies and the Australian $.' (large organisation, international aid and development, national)

Predicted impact on fundraising over the next twelve months

Just over half of all respondents predict further falls in income while 42% suggest it will remain flat over the next twelve months. What fundraisers want to know is how the economic downturn is impacting on particular methods of fundraising and the survey has certainly turned up useful data in this regard.

Impact on income over the past six months by fundraising method

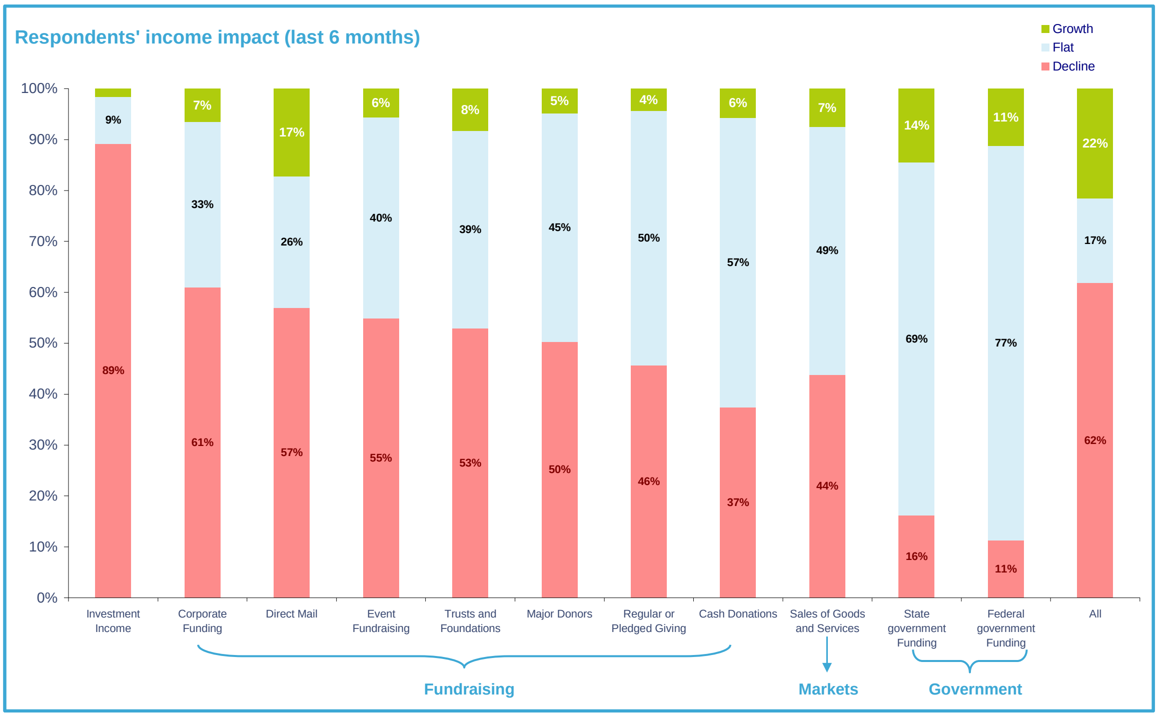
Some 15% of respondents have reported increases in fundraising from direct mail, while 7% have improved funding from trusts and foundations and 5% reported increased funding from major donors.

These optimistic results, however, run counter to the general trend of falls in income over the past six months across all forms of fundraising, the worst impacted being corporate funding (63% of respondents reported income had fallen), followed by direct mail (57%, in spite of the contrary results above), event fundraising (54%) and funding from trusts and foundations (50%).

The least impacted fundraising method was cash donations (36% recorded decreases in income over the past six months), but 60% reported zero growth.

More than 90% of respondents, however, have been impacted by zero or negative growth in income across all fundraising methods with the exception of direct mail, which is also severely impacted by 86% of respondents.

Table 18: Impact On Total Income Over The Past Six Months By Fundraising Method



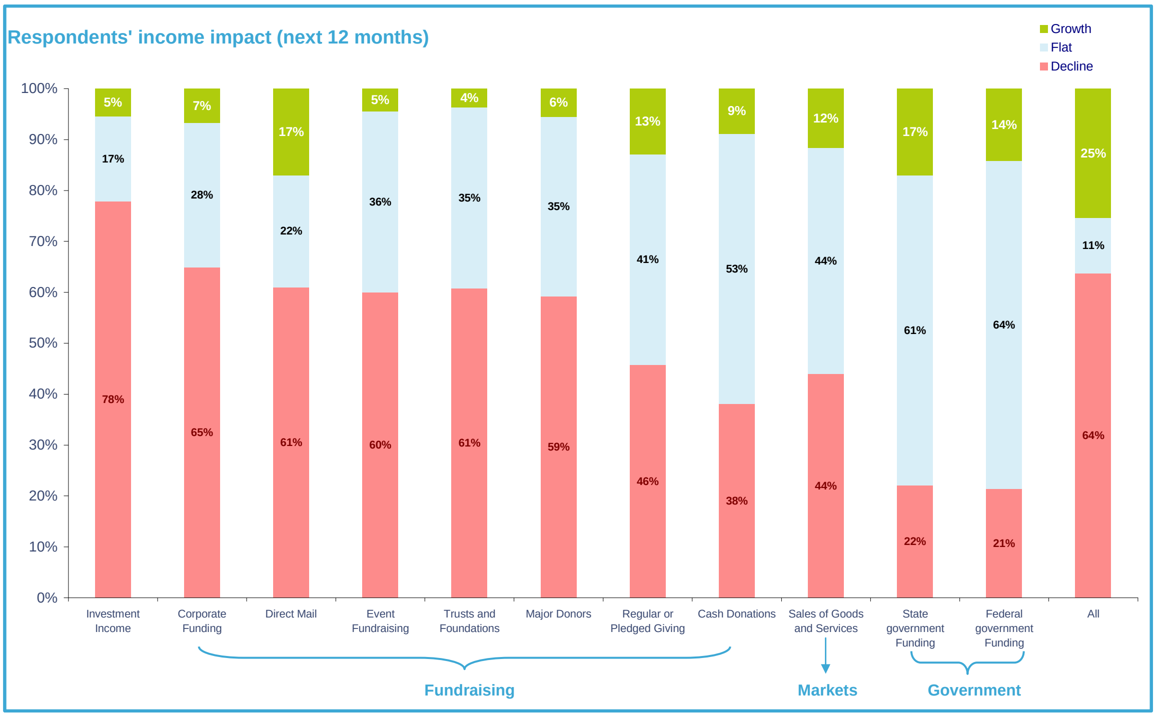
Predicted impact on income over the next twelve months by fundraising method

In predicting which fundraising methods will be most impacted over the next year, more than 90% of respondents advised that they expect income will fall or remain flat, excepting direct mail where 87% of respondents predict declining income or zero growth. These responses present a similar pattern to those reported on the impact already experienced on income over the past six months.

It's hard to claim there is much confidence reflected in fundraising results over the next twelve months but where there is some limited optimism it is for direct mail (13% of respondents predict increases in income), regular or pledged giving (6%) and cash donations (5%).

While 7% of respondents saw increases in income from trusts and foundations over the past six months only 2% retain confidence of funding from these sources over the forthcoming year.

Table 19: Predicted Impact On Total Income Over The Next Twelve Months
By Fundraising Method



Regular or pledged giving

Regular or pledged giving accounts for 14% of fundraising income. Among our respondents, 2% reported increases in regular or pledged giving over the past six months and 6% expect this to be the case over the next year.

One form of regular or pledged giving is known as face to face fundraising and among respondents one commented on new bank regulations which are additionally impacting on the continuing returns from pledged donors.

> 'There is some evidence that banks are tightening their credit rules, which is increasing the number of dishonoured debits and cancellation rates. No evidence at the moment that donors are proactively cancelling faster.' (large organisation, international aid and development, national)

Face to face fundraising does not appeal to all nonprofit organisations. It is particularly suited to aid and development and advocacy organisations as it usually attracts a younger cohort to donate. Once signed up, around half remain pledged donors for periods of between 5 to 7 years.

Trusts and foundations

Trusts and foundations contributed 12% of fundraising income to our respondents, of whom 7% reported increases in income but only 2% predict increases will continue into the next twelve months. Such falls in confidence are in contrast to one respondent who described the impact of the economic downturn on falling funding from trusts and foundations as

‘ an irritant but not our worst problem … which will slow down development and implementation of some services but not make them disappear.’ (medium

organisation, health and welfare, national)

Major donors

Major donors contributed 12% of fundraising income to our respondents. They are not expected to respond more generously next year than they have over the past six months, in all likelihood due to the impact of the economic downturn on their own income streams. Although 5% of respondents reported increases in income over the past six months, only 3% expect increases to be realised over the next year.

Bequests

Among the sample, respondents reported that 12% of their fundraising was achieved through bequests. However when it came to answering the specific question on bequests, only 16% advised that they had been impacted by the economic downturn. One can surmise that this is because an external event such as the global crisis may have little immediate impact on bequests which are realised over a long period unless the mooted bequest was dependent upon investment income.

> ‘One or two complicated bequests we were notified of last year involved large share holdings. These have reduced in value significantly. Bequest administration often involves liquidation of property which may also be more vulnerable.’ (large organisation, international aid and development, international)

> ‘Bequest income overall has increased significantly, so although the value of property and shares has fallen from what they would have been twelve months ago, our overall income is higher as the number of bequests continues to increase.’ (large organisation, international aid and development, national)

Unfortunately, there are insufficient responses to make more than generalisations about what impact the financial climate may have had on bequest income and what trends are expected over the next year.

It seems up to a quarter of large organisations reported an impact on their bequest income and a significant number indicated a concern that this impact would be heightened over the next twelve months. Around a similar number of organisations working in the environment and international aid and development also seem worried about their bequest income.

Corporate funding

Corporate funding accounted for 12% of fundraising income for respondents, of whom 5% reported increases over the past six months and 4% estimate this trend will continue into the next twelve. This is not however the experience of the majority who have found corporate funding disappeared quite quickly:

> ‘Larger businesses seem to have been quicker to shed any sense of corporate social responsibility.’ (large organisation, arts and culture, Queensland)

> ‘The key change we have seen is with those companies involved in cause-related marketing relying more on PR than above the line advertising to promote their involvement.’ (large organisation, education and research, national)

Cash donations

Cash donations accounted for 11% of fundraising income for respondents. Cash donations are not expected to perform better over the next twelve months, with 4% of respondents reporting increases in cash donations over the past six months and 5% predicting there will be further increases over the next twelve months.

Cash donations registered the lowest impact on income with 36% of respondents reporting falls in income of the past six months and 34% predicting continuing falls. Both percentages are well under the average for all income, indicating that this is the strongest fundraising source over the next year.

Yet a worrying 60% reported zero growth in cash donations over the past six months and 64% predict this lack of growth will continue into the next twelve months.

> ‘Donations are few and far between but they are getting less because we are a small organisation – most people prefer to give to a large known organisation.’ (small organisation, health and welfare, WA)

Event fundraising

Among the respondents, 11% of fundraising income was raised through event fundraising. There are not many respondents who have seen positive outcomes for event fundraising over the past six months (2%) and hardly any lift in confidence that this will change over the next twelve (3%).

Direct mail

Around 11% of fundraising income for respondents was attracted through direct mail. Direct mail has seen significant falls in income over the past six months (59%) and a very similar picture is expected over the next twelve (57%). However, it is the one fundraising method where there has been a noticeable level of increase in income over the past six months (reported by 15% of respondents) and predictions of continuing increases have been reported by 13% of respondents.

Expenditure

A number of questions drew out detailed responses on costs impacting on nonprofit performance during this period of economic downturn and where there were expectations of rising costs associated with general running expenses and staff costs.

Running costs

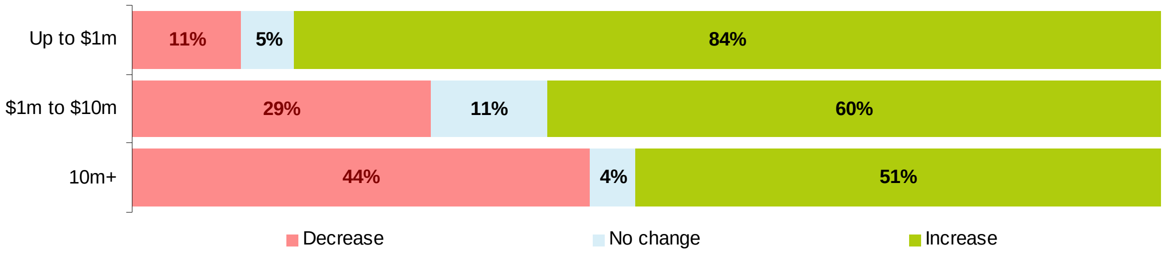
Almost two thirds of all respondents anticipate increases in operational costs.

Table 20: Expected Change In Total Running Costs Over The Next Twelve Months

It's worth noting, however, that almost 30% of organisations anticipate costs will decrease over the next twelve months and a further 7% that costs will be contained to 2008/2009 levels. As this is unlikely to happen without management intervention, it's reasonable to suggest that a third of nonprofit organisations are taking significant action to contain running costs. Where this action is focussed is interesting.

Income size

Table 21: Expected Change In Total Running Costs Over Next 12 Months By Income Size

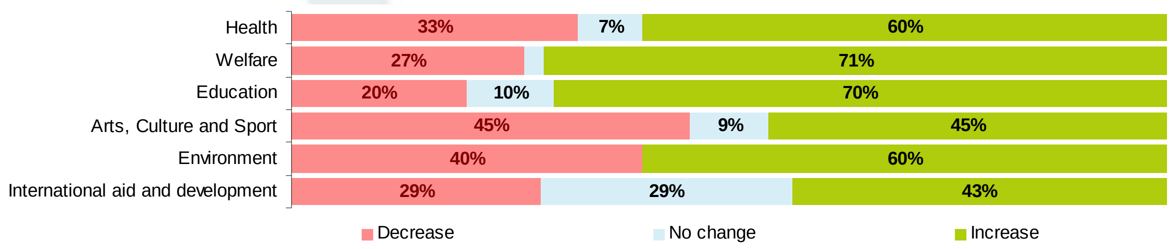


Almost half of large organisations (48%) are expecting to contain or cut running costs over the next year, compared with 40% of medium organisations. It is certainly worrying that only 16% of small organisations can foresee costs being held at current levels and suggests, as would be expected, that small organisations have less capacity to implement cost saving strategies.

Sector

When the data is disaggregated to reflect the sector in which the nonprofit works, it is clear that some sectors are struggling to contain costs. More than two thirds of health, welfare and education organisations are anticipating rising costs while just over half of arts, culture and sport organisations are showing signs of confidence in their abilities to manage and contain costs.

Table 22: Expected Change In Total Running Costs Over Next 12 Months By Sector



A similar level of confidence in containing costs holds for fundraising or market dependent organisations which seem to be managing and containing costs with cautious optimism.

Human resources

With regard to staffing costs, while almost two thirds anticipate costs will increase, over a third is confident of containing or cutting costs.

Table 23: Expected Change In Staffing Costs Over The Next Twelve Months

Some respondents reported on the increasing value of current employees:

> 'Staff are more loyal and less sick leave is being taken.' (large organisation, health and welfare, Victoria)

Management

Are organisations taking action?

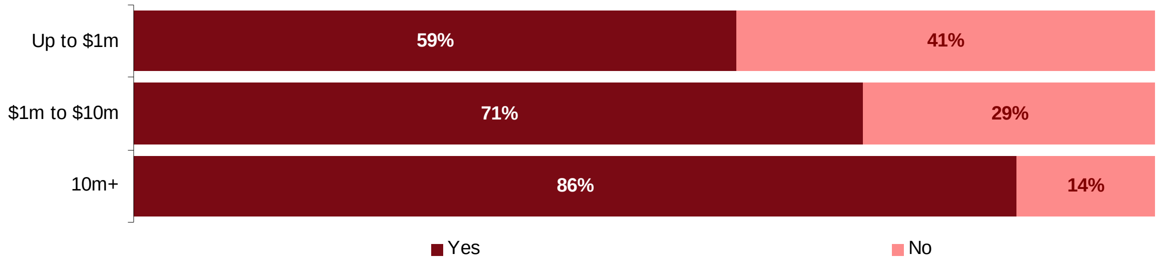
Organisations were asked whether they were taking action in the light of the economic climate as there's an external perception that nonprofit organisations are not well geared to respond swiftly to changes in economic conditions. Certainly, some respondents indicated that as their funding model was locked into a multi-year contract, they did not see an immediate need for action:

> 'Impact of economic crisis is not immediate as we receive primarily 3 year [government] funding. However as unemployment and housing crisis increases, this is likely to result in an increase in funding to us to deliver services in these areas.' (large organisation, health and welfare, national)

However three quarters of respondents indicated that they were taking some action in the light of the economic situation and in some cases across the board:

> ‘We have reduced our expenditure budget, delayed replacing staff who have left or are on leave, revised down our income forecasts.’ (medium organisation, environment, SA)

Table 24: Indication Of Extent Of Management Action By Income Size



Large organisations are proving most responsive with almost nine out of ten implementing action, as are more than two thirds of medium organisations. Small organisations which have to this point appeared exposed and unresponsive are also active as over half indicated they were implementing actions to counter the economic downturn.

When organisations are considered by the sector in which they work it is also clear that the majority, and in some cases up to two thirds, – whether health, welfare, education or arts, culture and sport - is actively repositioning their organisations to cope with the economic impact.

> ‘We are continuously assessing our reserves in the context of potential further declines in revenue over 1 and 2 years to determine our liquidity. The budgeting process for FY2010 is being conducted in a far more rigorous manner, relying on evidence-based assumptions rather than blue sky, aspirational goals.’ (large organisation, education and research, national)

According to the sources of their funding, organisations are taking different levels of activity. Most active are those dependent on fundraising income as they are almost in their entirety reviewing operations. Still actively implementing management and financial plans are around two thirds of government dependent organisations and less than half of market dependent organisations. A lower level of current action of around a quarter of those depending on investment income may be due to the early catastrophic income falls they experienced before the economic downturn had much impact on the rest of the sector.

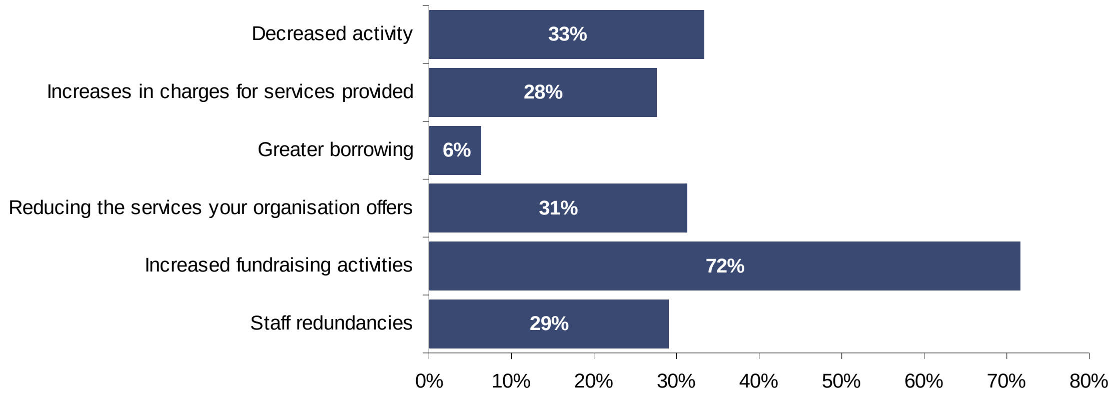
Actions being implemented over the next twelve months

Respondents were asked to indicate what actions they were intending to implement over the next twelve months to counter the economic downturn. A number of options were provided and respondents could check all that were relevant for their organisation:

i. decreasing activity
ii. increasing charges for services provided
iii. greater borrowing
iv. reducing services provided
v. increasing fundraising activities
vi. implementing staff redundancies

Most attention is being given to increasing fundraising activities.

Table 25: Actions Being Implemented Over The Next Twelve Months



i. decreasing activity

A third of respondents are planning to decrease activity. Taking a decision such as this would be bold for organisations that pursue missions in fields of social services, education and the arts where service provision is usually maintained at all costs.

> 'We are decreasing the activities of the organisation for the next twelve months.' (medium organisation, arts and culture, ACT)

Those most interested in taking this action are arts, cultural and sport organisations, followed by those whose income is fundraising dependent and small organisations.

ii. increasing charges for services provided

More than a quarter of respondents advised they intended to increase charges for their services. However for three quarters, there is little interest in doing this, probably because it will conflict with their commitment to serving client needs.

More arts, culture and sport organisations are considering this option, with interest also being shown by fundraising dependent and small organisations.

iii. greater borrowing

All organisations, irrespective of size, sector or income source are reflecting extreme caution with regard to increasing borrowings. This lack of appetite to increase risk is also revealed below when we consider risk management strategies.

As only 6% of respondents indicated this was an option they would pursue, caution should be exercised as to the representative nature of these responses. With this caveat in mind, a few organisations dependent on market income and government funding and a smaller number of those in health, welfare and education would consider increasing borrowings.

iv. reducing services provided

Reducing services is another tough decision and almost a third of respondents have advised it is their intention to reduce services. It is possible that some will also implement prioritisation in service delivery in order to ensure that the most pressing needs are addressed as best as possible.

Reduction of services is an option being considered by a small number of health, welfare and small organisations.

v. increasing fundraising activities

Almost three quarters of respondents claimed to be increasing fundraising activities over the next year, pointing to a very strong response to keep asking even though times are tough and expected to become tougher for fundraising.

Those most interested to do so are international aid and development, organisations, followed by those working in environment and education together with organisations dependent on fundraising, market and investment income. However interest in increasing fundraising activity is strong across the board for at least a third of all respondents.

vi. implementing staff redundancies

Less than a third of respondents indicated that they would use staff redundancies as a means to reduce costs. While these responses indicate an aversion to retrenchments, those that plan to implement them on a small scale include organisations in health and welfare, along with market and investment income dependent organisations. A number of organisations commented that they had already implemented redundancies and would be looking to other ways in which to curb costs.

> ‘We went through the redundancy process in late 2008. We are currently investing in our capacity to raise funds. We have under-invested in this for some time.’ (medium organisation, education and research, national)

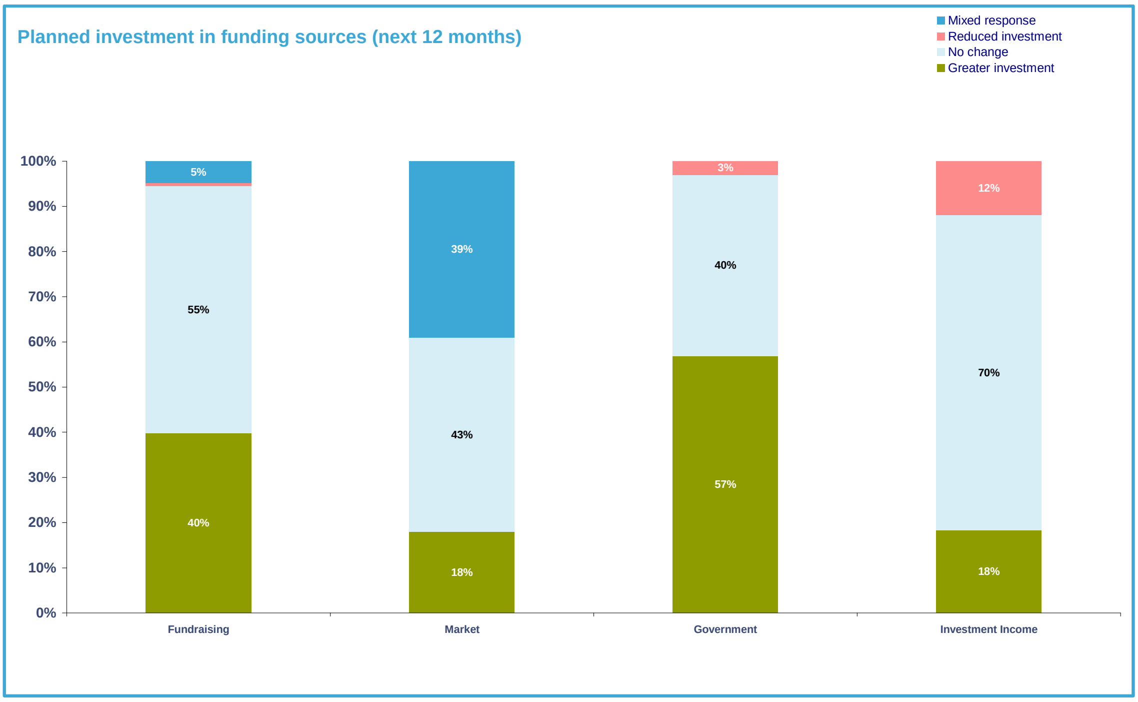
Planned investment in funding sources over the next twelve months

In the survey 44% of respondents are dependent on government funding, 38% on fundraising, 14% market dependent and only 4% investment income dependent.

Government funding appears to be a target with more than half of all respondents indicating their intention to increase their investment in attracting government funds, closely followed by 40% of respondents planning to increase investment in fundraising.

It is to be expected that there is little intention to increase spending on investment opportunities over the next twelve months with 70% of respondents intending to retain investment commitments at their current level. Indeed 12% plan to decrease their investment in this area.

Table 26: Planned Investment In Funding Sources Over The Next Twelve Months



Given the opportunities which some respondents have pointed to with regard to increasing market income, particularly through clothing bins and opportunity stores, perhaps surprisingly almost half of respondents do not intend to change their current commitment to this funding source. Those organisations working in arts, culture and sport have experienced most challenges in maintaining their market income through ticket sales and box office receipts.

Planned investment in budgeting and planning over the next twelve months

Responses to these questions demonstrate that nonprofit organisations are well positioned in terms of budgeting and planning. Moreover, there is significant interest in further investment in systems and processes.

Questions on the survey attempted to tease out two aspects of budgeting and planning. First I will address strategic planning, then financial planning and budgeting.

Investment in strategic planning

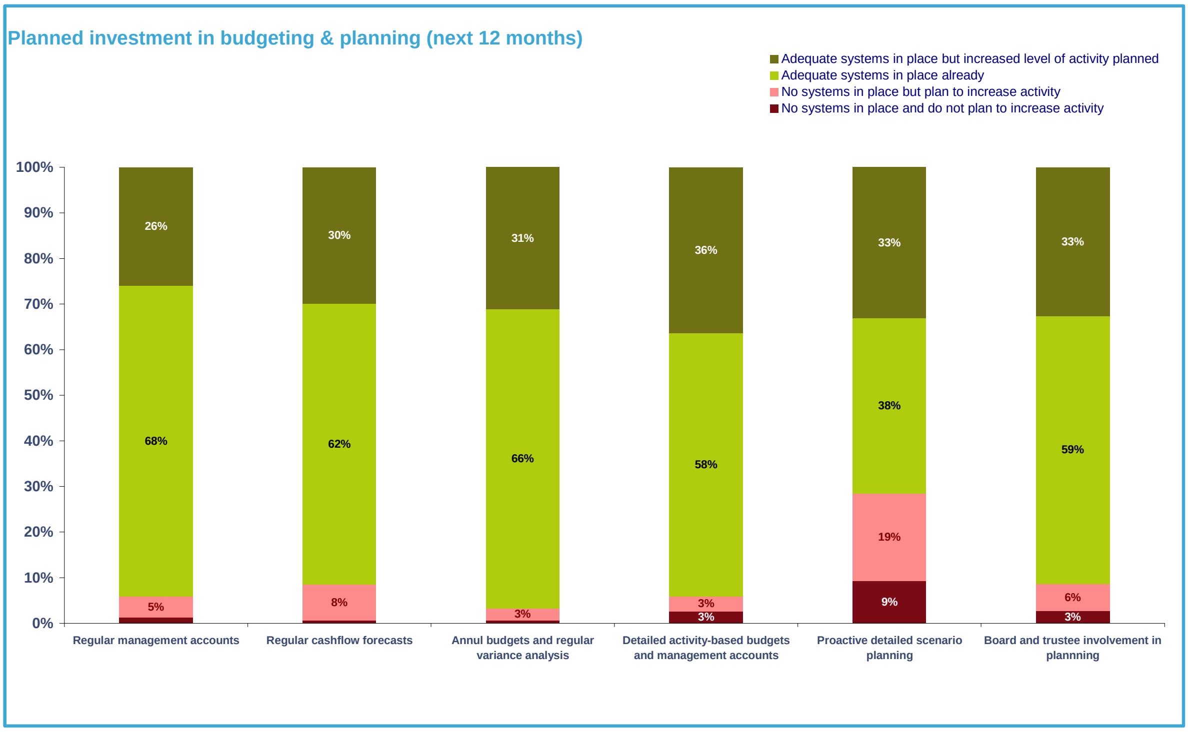
Respondents have indicated that nonprofits are increasing their commitment to strategic planning and management. Almost two thirds of all respondents reported they had adequate systems for financial management together with planning systems in place and the remaining third that they intended to increase their management and planning activity.

Scenario planning appears to have a high degree of acceptance across all types and sizes of organisations, in particular for investment income dependent, international aid and development organisations. It is least popular with market dependent organisations.

According to the responses, there is almost universal commitment to adequate or enhanced governance strategies though surprisingly 3% of respondents indicated that they had no board involvement in planning. Nor did they intend to implement it.

> 'Very solid structure and good experienced trustees.' (small organisation, education and research, SA)

Table 27: Planned Investment In Budgeting And Planning Over The Next Twelve Months



Financial planning and budgeting

A number of questions drew out where organisations already had systems in place and where there was preparedness to increase investment for further improvement.

Almost two thirds of all respondents indicated they had a variety of financial systems in place, including regular management accounts, regular cash flow forecasts, annual budgets and variance analysis and detailed activity-based budgets and management accounts.

Large organisations intend to put more focus on regular cash flow forecast.

Investment income dependent organisations indicated their intention to put a greater focus on annual budgets and regular variance analysis.

Education and arts, culture and sport organisations reported greatest intention to focus more on activity-based budgets and management accounts, a theme taken up by organisations dependent on fundraising and government funding.

Planned cost reductions over the next twelve months

A further series of questions explored in more detail planned cost cutting. Respondents were asked to indicate if they were cutting costs over the next twelve months across a range of areas:

i. planned building expenditure
ii. planned fleet renewal
iii. planned IT projects
iv. planned website development
v. planned staff recruitment
vi. spending on consultancy services

Human resource management, IT projects, spending on consultancy services and website development were the four areas where more than half of all respondents indicated that they had either implemented cost cuts or were planning to do so over the next twelve months. By contrast a majority of respondents had, or have, no plans to cut expenditure on planned building expenditure or fleet renewal.

For many respondents, cuts are happening widely.

> 'Trying to reduce expenditure and marketing and offering more discounts.' (medium organisation, arts and culture, NSW)

The following responses were recorded to these questions:

i. planned building expenditure

A majority of environment organisations together with market and investment dependent organisations indicated they had already cut planned building expenditure.

ii. planned fleet renewal

This question received the largest responses from health, welfare, medium and large organisations along with those dependent on government or investment funding, all of which either have cut, or intend over the next twelve months to cut, fleet costs.

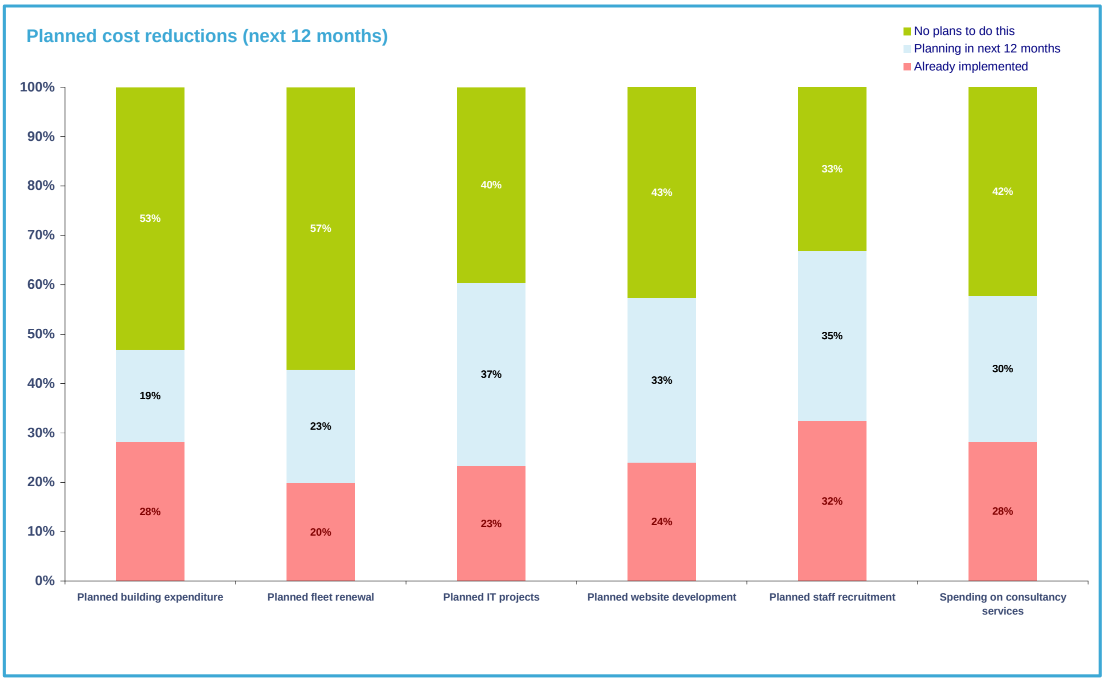
iii. planned IT projects

Cutting expenditure on IT projects was of most interest to education institutions, arts, culture and sport and environment organisations, large organisations and those dependent on fundraising and government funding.

iv. planned website development

Education institutions expressed greatest intent to reducing expenditure on website development. Some interest in cutting expenditure was also indicated by organisations dependent on market and investment income and government funding.

Table 28: Planned Cost Reductions Over The Next Twelve Months



v. planned staff recruitment

Those organisations which have already acted to cut staff recruitment, or intend doing so shortly, include organisations working in health, welfare, education and environment, large organisations, and those dependent on fundraising and government funding.

In the nonprofit sector, cuts to staff recruitment may be minimised by taking on more volunteers, although there remain ongoing costs whether people work voluntarily or for salary. The majority of respondents are expecting increases in the number of volunteers over the next twelve months but on average less than half have any particular activities planned to retain or attract volunteers during this period.

> 'With unemployment numbers rising we are coming into contact with far more skilled volunteers eager to give of their time. This trend will continue.' (large organisation, education and research, national)

vi. spending on consultancy services

Large organisations are the most emphatic about cutting expenditure on consultants, followed by those working in areas of health and welfare and those dependent on government funding.

Brand awareness

Proactive measures being taken to raise awareness of organisations include around a third of organisations planning to increase spending on their website and around a third in communicating with their stakeholders. Less than a fifth intends to involve beneficiaries in raising awareness. Around 15% are either not increasing spending or actually decreasing spending on brand awareness.

> ‘We are just keeping the home fires burning now as we put in place some new branding last year before the world really went into the negative spiral. We will survive with a bit of luck and careful planning.’ (medium organisation, education and research, Queensland)

The flip side to this is that the vast majority seems to be actively working to increase brand awareness.

Risk management of investments

In light of the findings of this survey, a focus on risk management of investments could have been expected. I assume that the low response rate on taking action is because the question was tied to investment income. There seems little appetite for changes to risk management with only a third of all respondents indicating they would be considering this strategy. Leading the way in risk management are large organisations and those which are investment income dependent, about half of which are changing their risk management.

> ‘We had already made changes… and crystallised the loss of some major funds. This means we have decided to adopt a more conservative approach to minimise the risk of this happening again.’ (large organisation, health and welfare, WA)

Reserves Policy

One way in which organisations might ride through financially challenging periods would be to hold reserves and to draw on them through this time. A few respondents indicated this was their strategy to maintain income in the face of falling funding from other sources.

> ‘Reserve funds in investment portfolio took a king hit.’ (medium organisation, health and welfare, NT and SA)

Almost half (48%) of all respondents has a reserves policy but whether this is translated into actual reserves was not tested.

Large organisations, market and government dependent organisations with international aid and development and education organisations reported better than average responses to this question.

A third of small organisations have such policies but only a quarter of investment income dependent organisations have reserves policies which, given the impact on their incomes, leaves this group particularly exposed.

> ‘We have had a massive fall in investment income over the past year. We are hoping the worst is over but it will impact on our level of activity in 2010 considerably.’ (medium organisation, health and welfare, national)

Opportunities

Even during challenging times, there are opportunities for exploration and consideration that become available and some respondents indicated their willingness to engage with initiatives that might not otherwise have presented. Like the UK survey, one question specifically sought out comment on mergers and partnerships since these are often cited as remedies to financial stress.

About half of respondents reported positive impacts to the downturn, and about half reported negative impacts. There was a greater tendency towards negative impacts for arts and culture, environment and international aid and development sectors as well as small organisations and those dependent on investment income.

Among the positive impacts were continuing levels of optimism, enhanced awareness of causes and needs, opportunities for staff and volunteers, governance and management issues, along with responses to collaborations and partnerships.

Comparison with UK

Australian nonprofits may do many things in similar manner to their counterparts in the UK and US. But Australian nonprofits work in a different environment. If there is one message to take home when comparing the Australian and UK data it is that UK charities have been hit harder than their Australian counterparts and are expecting a deeper and more sustained downturn than Australian nonprofits.

As I have already discussed, Australian nonprofits differ to UK nonprofits in terms of reliance on government funding and the significant increases in individual and corporate giving. The point made in the UK survey, which is accepted as valid for Australian nonprofits, is that whatever strategies and responses were evident in the 1990s (and there is a lack of substantial data in Australia to determine what these were) they are relatively unimportant to the strategies needed to manage and survive the current economic situation.

As far as investment income is concerned, nonprofits in both the UK and Australia have been badly hit. UK organisations are predicting more severe conditions over the next twelve months than their Australian counterparts. For fundraising methods the impact has been far more severe in the UK and is predicted to fall further in the UK over the next twelve months than in Australia.

Australia's 'worst hit' list after investment income and corporate funding sees funding from trusts and foundations heading major donors and regular giving. Bequests have performed much better in Australia than in the UK, and although a period of stagnation is expected, they do provide a bright spot for fundraisers, along with income from memberships.

It is of some comfort to see that Australian nonprofits should be better positioned than their English counterparts when the economic downturn turns around. However, no matter where there are rays of hope, falls in income across the board will mean that all will be starting from a lower base in order to effect their recovery, predicted by financial analysts for 2010.

Optimism

In spite of downturns in income in the sector, there is an extraordinary level of optimism. Overall 96% of respondents believe in their organisation's ability to survive the next twelve months. Among investment income dependent organisations three quarters are confident of the survival of their organisations. Although there was some degree of nervousness expressed by small organisations, market dependent and education organisations it was among less than 10% of respondents.

> 'A year ago the answer was no [to survival]. We reached a low point that necessitated action, new energy and new people.' (small organisation, health and welfare, Queensland)

For those that were broadly optimistic, their confidence is often related to their longevity, which could be a valid parameter for their continuing existence.

> 'We have been here since 1895 – every time the economic down cycle forces more people to seek help. We plan to be available to help this time around.' (large organisation, health and welfare, Queensland)

> ‘We have been around for 25 years and have weathered and absorbed loads of changes to government policy etc. etc. We are SURVIVORS. Where others see doom and gloom we see opportunities and possibilities.’ (medium organisation, health and welfare, Victoria)

Awareness

Respondents in the welfare sector, in particular, are acutely aware that an economic downturn means greater demand on their services, which at this time in Australia is also accompanied by government stimulus packages to support ‘housing and hunger,’ along with unemployment.

For some organisations, therefore, the economic downturn provides an opportunity for increased awareness of their cause, which often also converts into increased funding, from both public and private sources.

Human resource management

A number of respondents pointed out that with rising unemployment there are opportunities to increase the skills of staff employed by nonprofit organisations either through external recruitment or internal training.

> ‘Better quality of staff applying for frontline roles such as Customer Service, Telefundraising or Street Fundraising.’ (large organisation, international aid and development, national)

> ‘We are using some of the less busy time to give additional training to staff that we have not had time to do previously.’ (large organisation, health and welfare, WA)

Probably through fear of retrenchment and unemployment, according to respondents their staff are also showing new levels of commitment to their positions, particularly with regard to those in junior positions.

> ‘Rise in accountability and awareness among junior staff.’ (small organisation, health and welfare, Victoria)

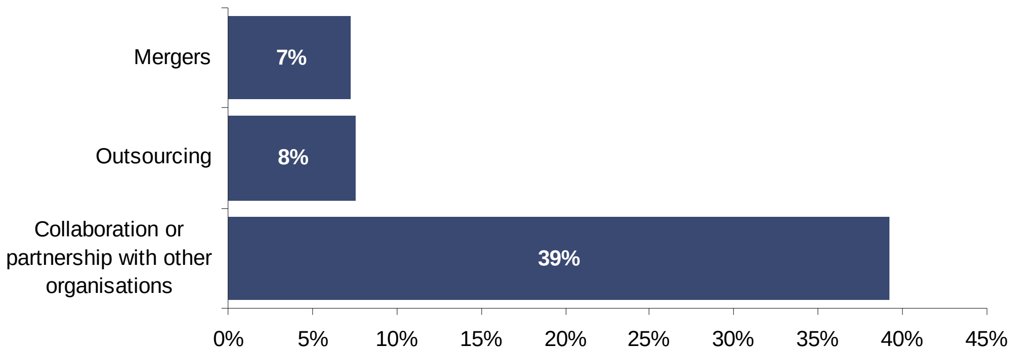
Governance and management strategies

A number of respondents indicated that the economic downturn had provided an opportunity to review direction and to bring their organisation back to its constitutional purpose and to introduce aspects of change management.

> ‘It provides an opportunity to bring forward some organisation changes which might be delayed during prosperous times. It has forced tremendous debate over core and non-core activity and has enabled great debate on mission creep. … the current gfc might encourage further collaboration within our sector as other agencies might not weather the storm as well [as us].’ (large organisation, health and welfare, national)

Collaborations or partnerships, mergers and outsourcing

Table 29: Opportunities For Nonprofit Organisations: Mergers, Outsourcing, Collaborations And Partnerships



Collaborations or partnerships

Collaborations or partnerships are on the cards for more than a third of respondents, particular for those in arts, culture and sport, investment income dependent and small organisations.

The question for nonprofit organisations is which organisation to partner with. Some relationships are based on parallel or similar missions and causes:

> 'Joining with other Christian organisations to effectively negotiate better costs effective deals with major cost items such as media buys, mailing houses…' (medium organisation, education and research, NSW)

> 'Have entered into a partnership with 3 other similar organisations to share information, policies and procedures and to improve and measure quality of services.' (medium regional organisation, health and welfare, NSW and Victoria)

One agency expressed its frustration with grant procedures which mitigate against collaborations and partnerships.

> 'The interagency model for delivery of services provides better use of resources and will be pursued despite government preference for competitive funding model.' (medium organisation, health and welfare, Queensland)

Another way of looking at collaborating with nonprofit organisations is to consider the backroom services which are common to all and implement savings through increased volumes.

> 'We collaborate with a range of other organisations to enhance our service. We have established strong relationships with suppliers of equipment who loan us stock for display and trial by clients. We team up with other organisations to travel to rural areas to provide information and in the process, the other organisations save fuel, both have a travelling companion (OH&S reduced), the number of clients seen is usually increased. We cross-share information with some organisations (eg. Policies, assistance with accreditation process etc.).' (small organisation, health and welfare, Tasmania)

Outsourcing

Outsourcing is not popular with most rejecting this option although there is some scant interest among international aid and development organisations, particularly as concerns outsourcing some technical and non-core roles. For those that have outsourced it clearly has some positive benefits.

> ‘We outsourced our accounts in 2007 and it has been very successful – reduced costs.’ (small organisation, health and welfare, WA)

One respondent noted their interest in sharing back end resources in order to lower costs (large organisation, education and research, national) while another noted they were co-locating with a similar organisation to reduce rental costs (small organisation, education and research, WA). Outsourcing management is perhaps an extreme response but apparently effective:

> ‘We already outsource many management functions including the role of CEO.’ (small organisation, education and research, Victoria)

Some organisations certainly see the downturn as an opportunity to ‘get their houses into shape’ and provide outsourced services for others:

> ‘We have been around for 60 years and are in a reasonably good financial position. This situation will strengthen our financial viability, cut waste, focus performance. It may also assist in growth – acquisition of clients from smaller services that will not survive, new business opportunities to provide corporate services to other services to reduce their overheads. We are looking to cut costs of back room functions such as IT systems, payroll, procurement etc.’ (large organisation, health and welfare, Queensland)

Mergers

Mergers find even less favour. Only 7% of respondents indicated an interest in mergers. Is this surprising? There is a widely held belief in both business and government, and in some parts of the sector, that mergers are a solution to both the proliferation of numbers of nonprofit organisations and the sustainability of similar organisations separately located.

> ‘New opportunities for mergers and acquisitions as small organisations seek to survive… we are always looking for opportunities … and have just acquired an organisation in another state.’ (large organisation, health and welfare, Victoria)

However, as I have already commented, the mission-driven focus of nonprofits, generally runs counter to the concept of merging.

> ‘A merger may be the last resort if things don’t go well.’ (medium organisation, health and welfare, NSW)

A number of prominent mergers have recently been implemented, apparently successfully, and it is a strategy that is sure to create continuing comment, particularly during a time of economic stress. The survey suggests that for most organisations it is not a preferred outcome: forms of collaborations, shared services and alliances are far more acceptable.

Conclusion

This survey initially sought to tease out the impact of the economic downturn on funding, in particular fundraising income, for nonprofit organisations. Overall there are both rising costs and falling incomes, a disastrous combination that is differently impacting across the nonprofit sector. The survey has exposed a rich seam of information relating to strategic management solutions and financial planning, along with detailed information on funding. The survey shows that the adversity hitting nonprofit organisations is widespread, significant and across all sectors. Furthermore it is ongoing.

From a fiscal perspective, there are three key conclusions of this report relating to:

1. financial stability
2. governance and risk management
3. the new funding scenario.

Before concluding, I make a brief comment on managing the media. As noted earlier media reports paint a dire picture which has worried the (donating) public and (regulating) governments. In this background paper I draw out some of the optimistic aspects of this difficult period, as well as the critical issues which nonprofit organisations are facing and managing. The picture of the impact of the economic downturn is not just black, there are shades of grey which should also be given media space in the interests of ensuring that nonprofits are not unduly penalised by severely negative media.

Respondents overwhelmingly indicated that their organisations would survive this economic downturn. The extent of this confidence may be surprising if one considers some of the responses to more detailed questions. However there are two factors buoying up confidence, only one of which relates to income.

Flexibility and agility are the first factors.

Nonprofit organisations are surprisingly resilient and prepared to be flexible in how they manage changing conditions including variations to the regulatory environment as well as financial changes. The number of nonprofits is growing annually in spite of the economic conditions, due to the mix of mission drive and passion, volunteer commitment and energy. Alongside the predominantly small and medium nonprofits, there are a number of extremely large organisations whose scale and reach rivals that of major businesses.

It's promising to note that organisations of all sizes and all endeavours are viewing the current economic downturn as a chance to focus on mission, to review core and non-core activities and to collaborate with others for the greater good.

The second factor relates to income.

It is tempting to read the results in a largely negative light. However the second important factor is the actual impact of no growth on nonprofits which have been riding a crest of significant growth in both income and reach over the past decade. I address this below.

Financial stability

The total income received by respondent nonprofits has fallen over the past six months and is expected to continue to fall. Around two thirds of respondents have experienced a downturn and a similar number expect income to trend down over the next year. Almost a quarter had the opposite experience of income rising over the last six months and expectations of similar return over the next year.

It’s worth rethinking how to cut this data to get another perspective on the financial stability of nonprofit organisations.

Impact on income

In spite of the caveats expressed earlier regarding the impact of no growth in income, I will reconsider the survey results with regard to static or increasing income.

Around one third of respondents reported that income had remained flat or risen and

Similar results are expected over the next twelve months. I suggest that large organisations are faring better than average because income has remained static or increased over the past six months for more than half or respondents, and half anticipate income will continue to resist falls over the next twelve months. Organisations in the health sector have performed better than average with the welfare sector worse over the past six months. Over the next twelve months arts, culture and sport organisations, along with small and medium organisations, expect their financial performance will be worse than average expectations.

It’s only when one looks at funding sources that it appears to me that the massive falls in investment income have skewed results when all responses are aggregated. Apart from investment income, all funding sources have performed better than average in terms of falls both experienced and expected in income levels.

Seeing the results in this light presents a different picture of optimism, at least for some segments, namely large organisations and those in the health sector.

Impact on expenditure

Over a third of all respondents reported that they did not expect running costs to increase over the next twelve months. Large organisations were more optimistic with almost a half expecting to hold or decrease running costs. More than half of arts, culture and sport organisations expect to hold or decrease costs and less than half of health organisations. Small, welfare and education organisations continue to have low expectations of their ability to contain expenditure.

What is this question about the impact of no growth?

It is timely to return to the earlier assumption that no growth would have a dramatic impact on nonprofit organisations. This would be true if the philanthropic income of nonprofits had remained static over previous years but it has not done so.

> ‘We’d be happy with a 0% growth this year rather than a loss.’ large organisation, education and research, national

It has been noted above that deductible gifts contributed by Australians in 2006/2007 increased by 21.2% over the previous year, from $1.55b to $1.89b. Figures are not yet available for the following year, but as the economic crisis did not bite hard until mid or late 2008, and there were few reports about a crisis hitting charities until the second half of 2008, it is probable that philanthropic gifts would have increased further in 2007/2008. The 2008 Interim Australian Charities Financial Analysis (by Givewell) has suggested gross revenue increased by 11% in 2008, on the back of an annual growth rate of 9.4% over the past eleven years. A more recent survey by Givewell (February/March 2009) found that funds raised through annual appeals conducted since July 2008 had declined overall by 4.2%. This fall, together with the evidence of our survey, is a strong indication that growth in nonprofit revenue has peaked, for the time being.

Any losses in income, particularly through fundraising, need to be considered against this rising bottom line in the nonprofit sector, although it is true that many nonprofits have expanded their organisational structure and the reach of their services in line with the improvements in income.

Impact on future performance

What seems clear is that the way in which organisations have felt the impact of the economic downturn over the past six months will have a significant bearing on their performance over the next twelve months. In general those that are travelling well and improving their funding are predicted to continue to do so while those that have been hit badly by the downturn will have a greater struggle to maintain their current position, let alone improve on it. I noted above the board of one respondent working in the arts, culture and sport sector has approved utilisation of reserves to fund activities.

If stagnation in funding were to persist it would be likely to prove a huge stumbling block for the sector as it would fail to keep up with routine increases, as reflected for example through the Consumer Price Index (CPI). However if current static levels of income are soon reversed along with the economic downturn, it is argued that the impact will not be long lasting.

Those best positioned to ride out the economic downturn from a financial perspective are large organisations. Government funded organisations have performed better than average and are predicting to hold this lead over the next year. The data on international aid and development organisations may not be representative but it’s worth reporting that those that responded returned markedly better results than average with two thirds reporting an increase in income. This last group expects to continue to hold its ground over the next year.

For the future, arts, culture and sport organisations, small and medium organisations and market and investment dependents are expecting to do worse than average. Bearing in mind the sample for environment organisations may not be representative, these are also predicting worse than average declines in income over the next year.

Effective financial management

A number of financial performance measures are already being followed by nonprofits, including regular management accounts, cash flow forecasts, annual budgets and variance analysis and project management budget analysis. There was a strong indication of current board involvement in financial management and indications of increasing levels of monitoring.

Respondents seem well prepared. Financial management strategies are universally in place and being acted upon. What might be further refined is the response time between identification of fall or failure in financial performance with response times and remedial action.

The option of outsourcing has not attracted much interest and is at around the same level as interest in mergers. While a low interest in mergers is expected due to the independent nature of nonprofit organisations and the diversity of their operations (according to cause, size, location etc.), it was not anticipated that there would be such antipathy towards outsourcing which would seem to provide a logical solution for financial management in some nonprofits. It is possible that nonprofits might explore outsourcing more positively although the level of management time and the costs associated with working across organisations for activities such as IT and financial management often make this option uneconomic.

When asked specifically about cutting costs, the area where most reductions had been implemented or planned for the next twelve months is staff recruitment according to two thirds of respondents. Other targeted areas in which our respondents had already acted included website and IT projects and consultancy services.

The most serious of these cost cutting measures is the halt in staff recruitment. Volunteers are anticipated to fill some gaps but it is obvious that not all staffing needs will be addressed this way with an expected impact on services in some way. Organisations that are changing outputs to respond to the economic downturn will be taking into account two colliding impacts, falling incomes and rising costs. How they balance these issues against their commitment to service delivery is typical of the challenges common to the nonprofit sector.

Governance and risk management

Good governance is crucial to survival. Responsibility for the health of nonprofits ultimately rests not only with professional management but with effective boards. There are clear indications that boards are involved in planning and reviewing. Indeed 92% of respondents confidently reported that adequate systems were in place, and a third of these were planning to increase their involvement in planning.

> ‘The Board and management have exercised due diligence and sound management practices and systems through continual review as part of our ISO 9001 – 2008 Quality Systems Accreditation.’ (large organisation, health and welfare, SA)

Even with due care and diligence some nonprofits run so lean that a slight reduction in their funding or unexpected delay or loss of a contract can prove a tipping point.

> ‘We already do a great deal of work on a shoestring with minimal numbers of staff. We do not have the flexibility to make many more sacrifices. If we don’t win the tender, we don’t get the money – we close our doors.’ (small organisation, health and welfare, NSW)

Organisations work best if boards and management understand their mission. This requires thought to be given to classic planning procedures such as determining purpose and vision, strategic plan and an annual business plan and risk strategy.

> ‘I believe there will be an increased proactive approach taken involving our Board Directors in assisting with building our broader community relations. The approach, I would hope, will be of the current economic crisis to provide a sense of contemplation on past practices and embracing opportunities that now will arise from the crisis rather than dwelling on the negative aspects.’ (medium organisation, education and research, Tasmania)

Respondents to this survey indicated clearly that they understood the importance of having a strategic planning processes and responding to the external environment. Clearly much thought has been given to the sustainability of organisations and their capacity to survive the next twelve months. Almost entirely (96%) respondents indicated their confidence in the survival of their organisation and a clear majority indicated their intentions to pursue partnerships or collaborations.

The level of board participation in planning is reassuring with almost all indicating that this is a key activity for their board and a third responding that their investment of time in planning processes and procedures will be increased.

Boards also do well to establish audit and investment committees, bringing in external members to assist in provide the governing body with well thought through analysis and recommendations. Overwhelmingly respondents indicated that they had financial management systems in place and around a third intended to enhance existing systems. It’s a challenging position for a board to take but there should be an honest assessment of the minimum critical scale for sustainable operations and exploration of options such as centralised overheads to cover core costs, particularly in the current environment.

Mergers

There was a distinct distaste for mergers and it is my understanding that this independence is often led by boards though this perception was not tested in this survey. Some successful mergers have recently taken place among Australia's larger nonprofits and perhaps this is a strategy of scalability that some organisations might consider. Whatever the driver, as North American colleagues have reported, the risk with financially-driven mergers is that they often run counter to the emotional investment of staff and volunteers.

Some robust organisations are certainly viewing the economic downturn as an opportunity to explore acquisition rather than merger.

Risk assessment and scenario planning

There are likely to be benefits to the sector if it increases its focus on risk assessment through and beyond the economic downturn.

I can offer no better advice than reiterate the UK survey guidance to ask a few 'what if' questions and to play out the results carefully to ensure that your organisation could withstand such an event if it arose. The survey has clearly demonstrated for some organisations they have been hit by catastrophic and unexpected events. Their governance and monitoring should include triggers which alert management and boards to impending challenges and which cause them to increase monitoring until an upturn is firmly in place.

Reserves policy

The question on reserves elicited responses on policies rather than asking a more specific question on whether nonprofits actually held reserves. Nevertheless, around half of respondents do have a reserves policy, the remaining half do not. For some respondents their reserves have or will provide a financial buffer as they intend to draw on reserves through this period.

As noted above, the adoption of a reserves policy does not mean that reserves have necessarily been built. However it is prudent governance to ensure that a policy exists and efforts made to cover at least short-term requirements such as essential expenditure including liabilities like rent and staff benefits, for a reasonable period.

The question of reserves for nonprofit organisations is however not easily resolved. In 1999 during a perceived crisis brought on by increasing costs and falling revenues, an independent enquiry into the major performing arts organisations recommended adoption of a reserves policy, among other initiatives to secure their 'financial viability.' Reports some five years later showed their 'overall wellbeing … [had] … not markedly improved'.[33]

Investment policy

Investment policies for nonprofit organisations are a governance matter caught up with both prudent financial planning and ethical considerations, some of which are outlined in FIA's Code of Acceptance and Refusal of Donations.[34] In spite of the usually more cautious outlook of the nonprofit sector, those

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[33] http://epress.anu.edu.au/anzsog/revisioning/mobile_devices/apgs06.html accessed 20 June 2009.

[34] http://www.fia.org.au/Content/NavigationMenu/EventFlyers/Code_of_Acceptance_and_Refusal_of_Donations.pdf accessed 20 June 2009

that are dependent on investment income have suffered more than any other group. A few have indicated their investment performance is cause for serious review of strategy.

Two thirds responded that they did not expect changes to the risk management of their investments over the next twelve months. For many it is presumed that this is because they have already acted to counter the downturn or, as is probably the case of investment income dependent organisations, losses preceded significant action.

The economic downturn will undoubtedly cause a close review of investment policies, including their ethical underpinning, sources of investment income, including income from property, investment in building programs and fleet, and detailed risk analysis and monitoring.

Nonprofit regulation

If some of the mooted changes to tax measures are implemented as a result of the number of reviews of the sector being undertaken in 2009, nonprofits may have a different financial crisis on their hands. One benefit for some nonprofits, that is those identified as public benefit institutions, is that due to fringe benefits tax concessions, they can package salaries more attractively, minimising the fact that nonprofit salaries are notoriously low in comparison with the business sector. The forthcoming review of the Australian tax system, known as the Henry Review,[35] as well as that being conducted by the Productivity Commission,[36] together with the 'third sector compact',[37] are issues which should be of vital concern to nonprofits, particularly those dependent on government funding.

Boards should show due diligence in ensuring that they are aware of the regulatory environment in which they work and the potential for governments to change the landscape. Many nonprofits would not have the resources to keep their boards abreast of the current intense interest in nonprofit regulation. In this regard the role of peak bodies, such as the National Roundtable of Nonprofit Organisations as well as research institutions such as CSI, is essential for providing sufficient background to the nonprofit sector. Boards are encouraged to ensure their executive staff also keep abreast of regulatory reviews.

The new funding scenario

Some traditional methods of funding and fundraising may be challenged by the new economic environment. Governments are responding actively to external conditions and negotiating with the nonprofit sector about their experiences in funding and fundraising and the demand for their services. Businesses are pulling back and reviewing their interest in corporate social responsibility and are likely to take a more proactive role in directing funds in the future. The market for nonprofit products is shrinking as people rationalise where and how they invest their discretionary income.

As is clear from the responses, a majority of respondents favour increasing their efforts to attract government funding which currently accounts for 44% of income. A large majority (80%) of respondents has seen government funding hold and 9% have reported increases in government funding. It is the most secure form of funding for nonprofits but realistically government funding is not available to a significant portion of the sector, although among respondents it accounts for the largest revenue stream for small and medium organisations.

[35] http://taxreview.treasury.gov.au/Content/Content.aspx?doc=html/home.htm accessed 21 August 2009
[36] http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2009/017.htm&pageID=003&min=ceb&Year=&DocType= accessed 21 August 2009
[37] http://www.socialinclusion.gov.au/compact/Pages/default.aspx accessed 21 August 2009

Government stimulus packages are providing a boon in funding to the nonprofit sector but they are purposefully directed towards welfare, education capital works and job creation in the main.

Market income accounts for around an eighth of all income and has suffered significant impact. Almost half of respondents reported falls in income from sale of goods and services and membership. For the other half, income has remained flat or grown. The most impacted in this regard are arts, culture and sport organisations, almost half of which have seen their market income, including ticket sales and box office receipts, fall significantly.

There is interest, however, in stimulating market income with a fifth of respondents planning to increase their efforts in raising income, probably correlating with the opinion expressed by a quarter of respondents regarding increasing charges for services. The majority do not plan to alter their direction in stimulating market income over the next twelve months.

Unquestionably investment income has performed very badly with 75% reporting falls in income. Add to this around a quarter than has seen income remain flat and the situation is clearly critical for these organisations. Even so almost 20% plan to increase their attention to developing investment income over the next year. This activity seems to correlate with the confidence expressed by some respondents for a slight recovery in investment income over the next twelve months, although a majority is predicting falls to continue.

Fundraising

Fundraising dependent organisations account for 38% of the sample. It is the largest source of income for large organisations and provides for half the revenue of the sample of education organisations, a third of revenue for small and medium organisations and three quarters of the revenue of small sample of international aid and development organisations (noting that the sample is biased towards large international aid and development organisations).

Of the respondents, 40% plan to increase their fundraising activities and 55% plan to continue *status quo* over the next twelve months. The question is where are they best advised to put their resources?

When one teases out particular fundraising methods and separate fundraising revenue from all income a ‘clearer’ picture emerges. Although falls in income are universally reported across all methods, some are performing ‘better’ than others and some are performing markedly better than the falls reported across total income. For all that every method of fundraising is experiencing an impact to some extent. Not all impacts are negative as some respondents have reported positive impacts such as increases in income over the past six months.

Some organisations have realised that there may be potential in developing other fundraising methods while a few have commented on development of new products and programs to diversify their income streams.

Increasing fundraising activities

One way in which nonprofits seek to counter the downturn is to increase their fundraising activities, a reflection of the fundraising mantra that to receive (monetary) gifts, you have to ask.

From a business perspective it may seem contrary for organisations to invest further funds to prop up income streams which are falling significantly, but this is a typical activity for nonprofit organisations which focus considerable effort on ‘relationship management’ and ensuring that supporters, including staff, volunteers, clients and donors are recognised for their work and generosity.

In terms of 'worst' performance, the more challenged methods of fundraising have been, and are expected to continue to be, corporate funding, funding from trusts and foundations, event fundraising and direct mail. Income has held up for funding from bequests (although the disaggregated response rate was too low to have detailed information on bequests), membership, regular giving, major donors and cash donations.

According to the *Giving Australia* report,[38] respondents were asked to recall how they had been approached to make donations over the previous twelve months. This information cannot be used directly as the categories used in the report and the survey are different. However given the data the survey pulls up on direct mail, it is at least interesting to note that the third most common approach was mail appeals (66%), the most common being charitable telemarketing (77%). When asked about their giving habits, respondents to the *Giving Australia* survey reported that they responded most to street appeals (19%) and mail appeals (14%).

These high recognition and response rates for direct mail are interesting because it is the one fundraising stream that had a growth rate over the last six months and is predicted to show a 13% increase over the next twelve months. Such growth, however, is sitting on top of falls in income for more than half of the respondents. Growth in direct mail seems to be selective, probably an indication that those nonprofit organisations that have successful DM campaigns should continue to roll them out whereas those that have not commenced heavy direct marketing might be more cautious.

The principal statistics from *Giving Australia* were that the most important donors were individuals, not corporates, at a ratio of 7:3. The survey supports this finding and my recommendation is for nonprofits to focus on those methods where expectations of around half of respondents are that income will not fall, although it may also not increase over the past six months. These fundraising methods are first and foremost cash donations, regular and pledged giving and possibly major donors.

As noted in the analysis of the results of the survey, some respondents reported that bequests were impacted because of falls in investment income. Bequest fundraising has not seen its potential in Australia. It accounts for 12% of total income of respondents, on par with trusts and foundations, major donors and corporate funding, and as far as total income is concerned suffered around a 20% decline, the best performance of any fundraising method. Given overseas experience, I suggest that there remains great potential to develop bequest programs in Australia. Bequest income does not deliver immediately. It is a long-term investment and one recommended as worthwhile. Indeed respondents to the UK survey noted that they expected the "full impact of the downturn … in the coming 12 to 24 months, although the volume of legacies is not expected to change, the realised value is. The largest expected impact on income is the reduction in investment and property values.'

Of those few organisations that engage with e-fundraising, it has been barely impacted by the changes to economic conditions and some respondents advised increases in income from this fundraising method while others hope to replicate some of the successes of prominent e-campaigns, such as the 2007 e-campaign of the now-President of the United States:

> 'We plan to move into website, SMS, mobile, email and blogging. Following a recent survey to all our donors and stakeholders, this is definitely their preferred option for 2009-2010.' medium organisation, education and research, NSW.

[38] http://www.fahcsia.gov.au/sa/communities/pubs/Community/Giving_Aus_Finding/Pages/default.aspx accessed 23 July 2009

Social enterprises

It is likely that new social enterprise solutions will be developed during this time. Some may be stimulated through the government's stimulus packages which are being fanned out across the nonprofit and business sectors. Other organisations will refocus their work and may redirect their missions in ways that are less dependent on governments and fundraising and more focussed towards market income.

Whichever directions they take, nonprofits should review their dependence on the most impacted forms of funding and fundraising, remembering that stagnant funding levels will still pose a problem if costs are not managed, though clearly not so much as actual declines in income.

Final words

Being driven by community mission provides a huge motivation for the nonprofit organisations that participated in the survey to manage their way through the economic downturn. Mission creep is a threat to the good governance of nonprofit organisations. At times such as this, organisations may be tempted to seek funding outside their core purpose in order to maintain their income streams. For some the tougher environment means an increasing focus on ethical behaviour and responsible decision making.

> 'Our organisation has a long history and a sound basis of support within the community. It is well respected by range of stakeholders including national and state level environment organisations, key government agencies and smaller community groups. It is committed to long term benefits and sustained operations, on the basis of modest and viable growth, without compromising principles or integrity.' (small organisation, environment, Queensland)

Such commitment means that nonprofit organisations usually function with low administration costs, assistance from volunteers in both staff and board roles, and a tremendous collaborative effort across the wider sector. It is rare to find an executive in a nonprofit that does not hold at least one volunteer board position. People working in the sector, therefore, are generally well networked, a fact which is of great benefit in times such as are being experienced now. Even without the knowledge of the data thrown up by this survey, nonprofit organisations were already working together to minimise impacts where they could, a fact supported by the almost unanimous response concerning collaborations or partnerships. The timeliness of the survey *Managing in a Downturn* means that such efforts can now be better focussed towards where they will have most positive impact.

Some information about the contributors

This survey would not have been possible without the intense collaboration of Rick Millen, PricewaterhouseCoopers (PwC), Chris McMillan, Fundraising Institute Australia and Professors Peter Shergold and Mark Lyons, at the Centre for Social Impact (CSI). At PwC enormous cooperation was provided by the actuarial team, including Kirsten Armstrong, Ricky Leung and Annie Lin, and Shae Watkins, from PwC Foundation. FIA's team included Stephanie Wong, Prabhleen Ahuja and Marianne Ramsay, who took carriage of the development of the survey and its distribution.

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In particular I extend my warmest thanks to Professor Mark Lyons, Director of Research at CSI, whose guidance and wisdom have measurably assisted the analysis of the data. Further sincere thanks are due to Professor Peter Shergold who had confidence that my intimate knowledge of the sector would provide the right framework for the analysis of the data. I have truly appreciated the opportunity to work with CSI.

Most of all, I thank the senior practitioners who took the time to complete the survey. I don't underestimate the time and effort they spent in completing the survey. Their commitment to collating solid data for analysis has provided this report with information that should benefit the further work of Australia's nonprofit sector in raising funds to address Australia's social, cultural, environmental and economic needs.

About the Author

Dr Sue-Anne Wallace is currently Managing Director with Global Philanthropic, an international consulting firm with offices in London, Hong Kong, Brisbane, Sydney and Wellington NZ. Prior to this for almost five years she was CEO of Fundraising Institute Australia, the national peak body for professional fundraising. She has a bachelor's degree in pharmacy from the University of Sydney, First Class Honours in Fine Art (Australian National University), a Doctorate in art history from ANU, graduate qualifications in management from Monash University and an indulgent diploma in Italian from UNE.

During her work with FIA Sue-Anne drove a major project to develop the principles and standards for fundraising practice and formalized FIA's practice in ethics and dealing with complaints. In addition to her extensive knowledge of fundraising, Sue-Anne also has experience as a grant-maker through the Australia Council where she was Executive Director, Visual Arts/Craft Board and founding director, Audience Development and Advocacy.

She has worked as a manager in the nonprofit sector for over twenty years. An arts educator, she has spent most of her career working in higher education and cultural organizations, including the Australian National University, Queensland University of Technology, National Gallery of Australia and the Museum of Contemporary Art (Sydney) and as a sessional lecturer at the College of Fine Arts UNSW, Boston University (Sydney Campus) and the University of Sydney. She has been an assessor for the Australian Research Council since 1994.

She has contributed, voluntarily, to a number of nonprofit organizations, including the Association of Fundraising Professionals (US) Ethics Committee, the International Summit of Fundraising Organizations, and is director of the National Roundtable of Nonprofit Organisations, Blake Society, Centre for Volunteering (NSW), High Resolves Initiative, and vice-chair of the Australian Council for International Development Code of Conduct Committee. She was a member of the group engaged in the research for *Giving Australia*, a project funded by the Federal Government which provided the first in depth survey of giving in Australia in 2004 – 2005. Sue-Anne is a member of CSI's Advisory Council.

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