

OFFICE OF SPORT
SECTOR BENCHMARKING & ORGANISATIONAL HEALTH RESEARCH PROJECT
STAGE 1 - REVIEW OF ORGANISATIONAL HEALTH BENCHMARKING PROJECTS

INTRODUCTION

1. As part of the NSW Office of Sport (**OoS**)'s sector benchmarking and organisation health research project (**Project**), we have engaged in a review (**Review**) of various organisational health benchmarking projects.
2. The Review encompasses studies which have been conducted in recent years in the sport sector and the broader not-for-profit (**NFP**) sector in Australia and New Zealand.
3. This Review includes considerations of various benchmarking surveys and highlights the common themes and key learnings from those surveys. These key learnings will form the basis of further elements of the Project, which includes sector briefing presentations, a survey of NSW sporting organisations, reporting on the NSW sport sector and individual organisations and providing resources and tools for organisations to carry out self-assessment in the future.

EXECUTIVE SUMMARY

4. The Review focused on the following indicators of organisational health:
 - (a) governance;
 - (b) financial management;
 - (c) leadership, culture and integrity;
 - (d) strategy/strategic plan;
 - (e) delivery; and
 - (f) risk management and accountability.
5. Based on the Review, the above broad "topics" will be used as the key indicators for organisational health in this Project.

NOT FOR PROFIT SECTOR BENCHMARK STUDIES

6. The Review encompasses a number of NFP benchmarking studies, including:
 - (a) *NFP Benchmark Survey Report* published in 2015 by Pitcher Partners and Russell Kennedy Lawyers (**RK Study**)¹;
 - (b) *The Challenge of Change: Not-for-profit sector survey 2015/16*, published in 2016 by Grant Thornton (**GT Study**)²;
 - (c) *2016 NFP Governance and Performance Study* published by the Australian Institute of Company Directors (**AICD Study**)³;
 - (d) *Pro Bono Australia 2014 - State of the NFP sector survey* (**PBA Study**)⁴;
 - (e) *Benchmarking with Benefits*, a three year NFP benchmarking project published by the Nous Group (**Nous Study**)⁵; and
 - (f) *Innovation Index: the Australian not-for-profit sector, March 2015* study published by GiveEasy Pty Ltd and Australia Post (**Innovation Index**)⁶.
7. All of these NFP benchmarking studies relate to the broad NFP sector. A number of the studies have a particular focus on one element of NFP operations, for example the Nous Study focusses on "back-of-house" functions (i.e. internal operations) of NFPs. However, viewed in totality, the above benchmarking studies provide a broad and useful snapshot of relevant benchmarking projects and their learnings and outcomes.
8. The Review also considered the *Australian Charities Report 2015* (**Charities Report**) published by the Australian Charities and Not-for-Profits Commission (**ACNC**), The Centre for Social Impact and The Social Policy Research Centre. The Charities Report provides an overview of the characteristics, structure, activities, purpose and resources of Australian Charities. While not all NFP organisations are charities, it provides useful insight into financial and sustainability data relevant to this Project.

RK Study

9. The RK Study focusses on governance, fundraising, strategy, risk management and the use of volunteer and professional resources in the NFP sector. The RK Study compiled data from over 80 organisations, generally with revenue exceeding \$1m annually.
10. Relevant themes from the RK Study include:
 - (a) NFPs continue to rely heavily on government funding and there is a general need to diversify income sources;

¹ Accessible online at:

http://www.pitcher.com.au/sites/default/files/downloads/NFP_SURVEY%20RESULTS_150310_e.pdf

² Accessible online at: <https://www.grantthornton.com.au/insights/reports/not-for-profit-sector-survey-the-challenge-of-change/>

³ Accessible online at: <http://aicd.companydirectors.com.au/advocacy/research/2016-nfp-governance-and-performance-study-raising-the-bar>

⁴ Accessible online at: https://probonoaustralia.com.au/wp-content/uploads/2016/01/pdf_survey_2014.pdf

⁵ Accessible online at: <http://benchmarking.nfpstrategy.com.au/>

⁶ Accessible online at: <http://ourneighbourhood.com.au/media/documents/Innovation-Index-Australian-NFP-Sector-2015.pdf>

- (b) a large percentage of NFPs report that over 25% of funds raised are used to pay for the costs of fundraising efforts and a high proportion of fundraising efforts are financially detrimental to NFPs;
 - (c) almost half of the responding organisations had 7-9 board members;
 - (d) almost 90% of respondent organisations have a risk management framework and 40% of those with a risk register said it was updated annually or less (40%); and
 - (e) over a quarter of NFPs do not regularly review their strategic plan, and do so on ad-hoc basis, which can be problematic.
11. The RK Study also provides some observations and metrics regarding the structure of organisations within the sector (including size and staff numbers), revenue, board, legal structure and charity status. These general statistics will form useful benchmarks for topics which will be featured in the survey of the sector as part of this Project.

GT Study

12. The GT Study is a bi-annual survey of the NFP sector across Australia and New Zealand, which was last conducted in 2016.
13. The GT study concludes that:
- (a) funding remains the primary concern in the NFP sector, with NFPs reporting significantly increased difficulty in sourcing regular funding; and
 - (b) other key challenges for NFPs are:
 - (i) risk management - particularly financial, reputational and operational. The study indicates that as the revenue of an NFP increases, so does the likelihood of it having a risk management plan in place;
 - (ii) effective use of technology;
 - (iii) retention of staff - primarily due to career limitations and remuneration;
 - (iv) effective engagement with Board members; and
 - (v) assessing the impact of the organisation (to secure funding) and reporting to stakeholders.
14. The GT Study also notes that a regular problem for NFPs is that uncertainty about funding makes it difficult to plan beyond a year ahead, particularly for organisations with relatively small turnovers.
15. The GT Study suggests there are links between technological investments and long-term goals, and that larger NFPs are more likely to appreciate and invest in technology.

AICD Study

16. The 2016 AICD Study is the most recent iteration of a regular survey the AICD publishes. This study compiles data from over 1,800 respondents, the vast majority of which were NFP non-executive directors. Therefore, the AICD study provides a

useful outline of timely issues in the NFP sector. Some of the key messages from the AICD Study include:

- (a) the standard of governance in NFPs is generally good, but is highly-variable;
- (b) many NFP directors perceive their organisation as constantly operating under financial stress, and that they should drive their organisation to be financially strong and self-sustainable;
- (c) NFP financial performance depends on the board and CEO's expectations of performance and their motivation and ability to deliver it;
- (d) there is a key misconception regarding whether NFPs should, or are permitted to make a profit. Approximately two-thirds of the respondents reported making a profit in their last financial year, although over 25% of directors reported a belief that their NFP should make a profit of 3% or less;
- (e) strategic planning was reported as the most common thing that NFPs believe they can improve in their organisation;
- (f) collaboration between NFPs is a popular and effective method of achieving efficiencies and delivering services and reducing costs;
- (g) most NFPs consider performance evaluation and management of boards and senior staff is an area in which much improvement can be made; and
- (h) there is a common perception that NFPs are inefficient and ineffective and that their staff have lower expectations upon them compared to an equivalent role in the for-profit sector - these perceptions do not align with the reality of the modern, sophisticated and well governed NFPs of today.

17. The AICD Study also provides some useful snapshots of the sector relating to their perceptions on the performance of the sector, governance of the sector, revenue sources, total revenue and payment of directors.

PBA Study

18. The PBA Study encompasses over 1,200 respondents from across the Australian NFP sector. The respondents in the PBA Study reported that performance in the sector is declining significantly. Approximately half the respondents projected the sector's performance to continue to decline again in the next year. This indicates that the sector has a pessimistic outlook on current and future operations. Interestingly, this outlook was fairly consistent across varying organisation sizes, suggesting that organisations with larger revenues do not necessarily have a more positive outlook than smaller ones.
19. NFPs associated with foundations and religion shared the most positive outlooks for the future. Comparatively, the arts, environment and human rights reported high concerns that their performance will worsen.
20. The PBA Study reported that "human capital" led to the positive impact in the NFP Sector. By "human capital" the study referred to skilled volunteers, board members and paid staff. Naturally, profit from commercial activities and social enterprises also ranked highly for having a positive aspect on NFPs.
21. Conversely, federal government regulation was cited as having a negative impact on NFP performance. The survey noted that the respondents identified the highest

priority for government was the establishment of a mechanism to expand and strengthen partnerships between NFPs and the private sector. This reflects the NFPs reliance on private sector to inject revenue into NFPs. It highlighted the theme of collaboration which has also been identified by other reports.

22. In addition to the sector's concerns in relation to government regulation, the sector reported strong support for the establishment of a "social finance taskforce" to develop a strategy to increase the capital available to the sector. This taskforce would have the aim of ensuring greater access for NFPs to philanthropic funds or to develop partnerships with private sector companies.

Nous Study

23. The Nous study includes a three-year analysis of 13 NFPs across Victoria in relation to benchmarking of their "back of house" functions. "Back of house" in this sense was used to refer to six key internal functions, being payroll, human resources, fleet, finance, compliance and ICT (information communications and technology). The study generally included primarily social services and religious organisations.
24. One key characteristic of the Nous Study is that it draws data from the same respondents across a three-year period, allowing for trends to be analysed. Some key data from the Nous Study included the amount invested by NFPs per full-time employee on their back-of-house functions (for example, in year 1 of the study, this was \$9,949). The average investment on these functions was 11.1% of organisational expenditure. The satisfaction of NFPs with each of these internal functions is also assessed.
25. This is useful to allow NFPs to compare their own spend in order to gain an understanding of where they sit relative to the industry in terms of internal spend and satisfaction. The Nous Study is based on the premise that effective "back of house" functions leads to better delivery of the NFP's functions and operations (i.e. the service it provides to the public).
26. It also concluded that the project demonstrated that NFP organisations are prepared to disclose and share lessons and best practice on detailed areas of their organisational operations. By doing so, NFP organisations share and collaborate to achieve efficiencies.

Innovation Index

27. The Innovation Index is a study which focusses primarily on innovation in the NFP sector, which the report notes, is typically a conservative and non-innovative sector. The Innovation Index compiled survey results from 744 responses across 495 NFPs. The study is premised on the notion that innovation is an important trait in NFPs, particularly in relation to revenue.
28. Key messages from the Innovation Index results included:
 - (a) the relationship between innovation and deriving revenue from new sources is almost linear (e.g. innovation tends to lead to new revenue streams). NFPs who prioritise innovation tend to have comparatively rising revenue streams;
 - (b) collaboration - both internal and external to an NFP - is an important indicator of innovative NFPs;
 - (c) innovation is less likely in larger organisations; and

- (d) innovation is driven by people and NFPs can take steps to increase their "culture" of innovation. This can include creating an open culture where ideas can be raised, recognising and rewarding new ideas and responding to change and new ideas quickly. The Innovation Index suggests NFPs rank low in these cultural areas.

Australian Charities Report 2015

- 29. The Charities Report is a comprehensive record of the Australian charity sector and was prepared by The Centre for Social Impact and The Social Policy Research Centre in conjunction with the ACNC. The Charities Report includes data relating to the size and shape of the charity/non-profit sector and indicators of sustainability. The financial sustainability of organisations is explored by analysing financial performance, financial position and using a sustainability framework and is further analysed below. The data can be interrogated in online interactive data-cubes and filtered by income size, State/Territory, geographical region, sector and activities. This can be used to identify information relevant to targeted sectors, for example, the NSW sport sector.

Themes across the reviewed reports

- 30. The above studies and surveys produced a number of common themes about the NFP sector, as well as some consistent results.
- 31. Overall, the considered studies portray the NFP sector as:
 - (a) primarily concerned with funding levels and government regulation. Additionally, the sector continues to rely on government funding heavily and diversifying income streams for NFPs is an important but difficult challenge;
 - (b) increasingly looking towards the private sector to form valuable relationships, which may lead to further revenue;
 - (c) one which should be encouraged to be more willing to embrace change and innovate to derive new sources of revenue; and
 - (d) one which is willing to spend, but not without consideration, on effective internal functions with a view to improving external operations consistently.

SPORT SECTOR RESOURCES

32. In addition to the above benchmarking studies and surveys which relate to the NFP sector generally, this Review has considered and reviewed resources which relate to the sport industry.

SCORS Report

33. The Review includes a consideration of the report to the Standing Committee on Recreation and Sport (**SCORS**) from the Western Australian Department of Sport and Recreation, titled the SCORS governance review (**SCORS Report**).
34. Although the SCORS Report was published in 2006 it continues to provide useful analysis and trends for the sporting industry, particularly in relation to governance. Relevant recommendations from the SCORS Report include:
- (a) the commercial interests of NFPs should be simple, not diverse and in pursuit of the common purpose of the organisation;
 - (b) NFPs legal and administrative structures should be regularly updated;
 - (c) NFPs need to be aware of the potential for the role of directors to be confused and they should not take part in the day-to-day operation of the NFP. Ongoing governance education for directors is recommended to address this, as a properly functioning board is integral;
 - (d) ensuring that NFP boards have full governance powers free from unnecessary interference from members (subject to the law at all times);
 - (e) independent directors (rather than those affiliated with or representing a member or stakeholder) should form the majority of the board; and
 - (f) that governments assist sporting NFPs to achieve "better" governance structures.
35. Notwithstanding that the SCORS Report was published in 2006, the above recommendations continue to be relevant today.

ASC resources - Sport Scan, ASPR and Club Health Check

36. The Australian Sports Commission (**ASC**) assesses national sporting organisations (**NSOs**) in a range of areas by using a survey referred to as sport scan (**Sport Scan**). Sport Scan allows the ASC to benchmark NSOs on a number of key areas including:
- (a) vision and mission;
 - (b) governance;
 - (c) systems and policies;
 - (d) compliance and risk;
 - (e) performance management;
 - (f) strategy and planning;
 - (g) culture and leadership;

- (h) integrity;
 - (i) research; and
 - (j) delivery.
37. Many of these key areas will be relevant for this Project and providing benchmarks for sporting NFPs in New South Wales. Therefore, Sport Scan is a useful indicator of how NFPs should be benchmarked.
38. The ASC also publishes an "Annual Sport Performance Review Summary" (**ASPR**). The ASPR further demonstrates broadly how the performance of NSOs is assessed by the ASC. The ASPR includes assessment on a broad range of NSO operations including:
- (a) high performance;
 - (b) financial position (including assets and liabilities, change in revenue and use of ASC funds);
 - (c) governance; and
 - (d) participation (including short and long-term targets and membership).
39. The ASPR results in each NSO receiving a report outlining the ASC's assessment, which is also set out in a dashboard summary. The dashboard summary uses a meter indicator to demonstrate the level to which each NSO is achieving each goal. It is intended that this Project will utilise a similar method to portray its assessments of NFPs. A "traffic light" system will be used by the Project (for example with red to indicate non-compliance and green to indicate compliance, with amber indicating partial compliance with a particular target).
40. The ASC also operates an online self-assessment tool for Australian sporting clubs to assess their operations. This tool is titled "Club Health Check" (**Club Health Check**).
41. The Club Health Check has a local focus, given its purpose is for use by sports clubs. Therefore, some areas of the Club Health Check are not relevant to state sporting organisations. However, there are some applicable elements of the Club Health Check, including:
- (a) the NFP understands its aims and is guided by an agreed objective;
 - (b) governance - including board structures, meetings and policies; and
 - (c) risk management - including monitoring and compliance with budgets, auditing of accounts and diversity of revenue streams.
42. Further resources from the ASC relating to governance are considered in this Review below.

Sport New Zealand

43. The Review also considered Sport New Zealand (**SNZ**)'s document titled "eligibility requirements for Sport NZ and HPSNZ investment for NSOs and NROs" (**SNZ Document**). As the title suggests, the SNZ Document sets out criteria that must be

met by sporting NFPs in New Zealand in order to be eligible to receive funding from SNZ.

44. The SNZ Document includes a questionnaire which assesses potential funding recipients on a number of factors. The matters that NFPs are assessed against in the SNZ Document include:
 - (a) legal status;
 - (b) world anti-doping code compliance;
 - (c) independent auditing or verification of accounts;
 - (d) board composition including elected/appointed directors and gender and ethnic diversity; and
 - (e) term length and maximum number of terms of board members.
45. There are further factors that, while not determinative in relation to funding, are stated to also be relevant, including:
 - (a) how a NFP delivers its services including affiliation with regional and international organisations;
 - (b) whether an organisation has a strategy to increase participation;
 - (c) how well the organisation aligns with SNZ's priority of more sporting success for New Zealand on an international scale; and
 - (d) how sustainable other sources of income are for the NFP.
46. In a similar manner to Sport Scan and the ASPR, the SNZ Document forms a means by which a government regulator assesses sporting NFPs when considering funding allocations. It provides a further indicator of the basis on which the organisational health of sporting NFPs can be assessed and benchmarked in the Project.

State government resources

47. We have also included in the Review a consideration of resources from various state government departments including the Tasmanian Department of Premier and Cabinet's Communities, Sport and Recreation, SA's Office for Recreation and Sport and WA's Department of Sport and Recreation.
48. These documents also focus on similar themes to the ASC and SNZ resources. The state departments place high priority on governance, financial and risk management and participation.
49. However, given the state-centric nature of these documents, they also suggest other criterion which can be used in assessing NFPs which are relevant to organisations with a state focus. For example, these include:
 - (a) regional delivery of services;
 - (b) community reach;
 - (c) ethics and inclusion; and

- (d) talent development pathways.
50. The implementation of policies including anti-doping, member protection and working with children was also a relevant factor for some state departments.
51. The variance in criterion between the ASC and SNZ resources compared to more state-centric resources demonstrates the different objectives of a NSO compared to a state sporting organisation. The characteristics of state sporting organisations will obviously be the focus of the Project, as they are the target organisations.
52. A 2016 "SSO Aggregate" survey published by the South Australian Office for Recreation and Sport suggests that generally the sporting organisations in that State are perceived to have a moderately good performance (which was a slight improvement from the same survey in 2013). A similar outcome was reported on the level of engagement of those organisations. This resource features considerable questionnaires utilised to obtain data, including questions relating to:
- (a) leadership;
 - (b) relationship and communication with stakeholders;
 - (c) services and support; and
 - (d) policies;
53. Again, these questions provide useful examples of relevant means of assessment for inclusion in the Project.

FINANCIAL RATIOS

54. It is commonly accepted that NFPs require sound financial health in order to remain viable operations and to achieve their objectives and this conclusion was drawn in many of the reviewed resources. In addition to other forms of financial management assessment which has been outlined in this Review, an important mechanism for assessing financial health of NFPs is the use of financial ratios.
55. Financial ratios can be used to calculate a broad range of indicators about the financial health of a NFP. For example, ratios can be used to provide an assessment of an organisation's financial performance, financial position and ongoing sustainability.
56. A number of key financial ratios, which will be included in the Project, and the information those ratios provide are outlined below. The Charities Report published by the ACNC provides a useful outline and demonstration of the utility of various financial ratios as indicators of financial health. This Review has drawn on a number of relevant ratios as an indicator of those that will be reflected in the Project.
57. The Charities Report data will be analysed to provide financial benchmarks for NSW state sporting organisations (including disability state sporting organisations) in this Project.

Net income ratio

58. **Net income ratio is commonly used to assess financial performance.** A NFPs net income ratio is calculated as follows:

$\text{Net Income} = \text{Total Income} - \text{Total Expenses}$ $\text{Net Income Ratio} = \text{Net Income} / \text{Total Income} (\%)$
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59. The net income ratio is used to quickly calculate and demonstrate the ratio of an organisation's surplus or deficit to its total income over a period (usually a financial year). This can be used to demonstrate (at a high-level), a NFPs financial health over that period.
60. Obviously, for a NFP to be consistently viable, it will require more income than expenses. This will be shown as a positive number in the net income ratio. Where expenses outweigh the income, the ratio will be a negative number. Net income ratio is commonly expressed as a percentage, and the percentage is used to indicate the amount of its revenue (i.e. total income) which is realised as profit (i.e. net income).
61. What is an "average" or "healthy" net income ratio will depend broadly on the nature of the organisation. However, in the context of NFPs, a positive net income ratio is the priority as this indicates that the organisation has returned a profit over the relevant period. The Charities Report provides that charities that are based in NSW and operate in the sport sector reported on average a net income ratio of 8-9%.

Net asset ratio

62. While net income provides an indicator of financial health at a certain point, the **net asset ratio is used to provide an indicative assessment of long-term financial health** (or financial position). The net asset ratio considers not just income relative to

⁷ ACNC Charities Report

expenses, but all assets relative to liabilities. This provides another important indicator as it allows for organisations which may hold a large number of assets but are not deriving large income over that period. In such an example, factoring assets into the calculation will provide another view of financial health. When net asset ratio is expressed as a percentage, the percentage indicates the portion of an organisation's assets which exceed its liabilities. For example, a net asset ratio of 30% means that 30% of an organisation's assets would remain if it had to use its assets to satisfy all of its liabilities at that point.

<p>Net Assets = Total Assets – Total Liabilities</p> <p>Net Asset Ratio = Net Assets/Total Assets (%)</p>

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63. The Charities Report estimates that overall the net asset register of the charities sector is 69.7%.⁹ The higher the net asset ratio, the better as it indicates that a NFP has less liabilities (compared with its assets).

Net current asset and current ratio

64. There is an important difference between "current assets" and "non-current assets." A current asset is generally considered to be an asset which will be realised (or "liquidated") within a current financial year (for example, an invoice that is expected to be paid or a donation expected to be received). This can be distinguished from, for example, land or other property that is unlikely to be sold within that financial year (and therefore unlikely to be converted into cash in that period) which is considered a "non-current asset." Therefore, **ratios relating to the net current assets can be used as an indicator of short-term financial health**, as they consider assets which are likely to be realised in the short term.

<p>Current Ratio = Current Assets/Current Liabilities</p> <p>Net Current Assets = Current Assets – Current Liabilities</p> <p>Net Current Assets Expenditure Cover = Net Current Assets/Total Expenses</p>

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65. The **current ratio** (also known as the **liquidity ratio**) is calculated as shown above. If the ratio is over 1, it indicates that a NFP has more current assets than current liabilities. Generally, a current ratio of above 1.5 is considered a healthy benchmark.¹¹ A higher ratio suggests a healthier position as a NFP has more current assets through which it can meet its short-term debts (and possibly any unanticipated liabilities).
66. **Net Current Assets** is simply a **measure of whether a NFP's current assets are more than (or less than) its current liabilities**. Net current assets is useful as it enables an organisation to compare this against its total expenses (over a period), to determine, the duration of time it could operate solely from its net current assets. For example, a NFP with \$10m of current assets and annual expenses of \$1m could fund operations for 10 years solely from current assets.

⁸ ACNC Charities Report

⁹ ACNC Charities Report

¹⁰ ACNC Charities Report

¹¹ Footnote 43 of ACNC Charities Report which refers to Eg S. Dianne Azoor Hughes, *Financial Fundamentals for Directors*, AICD 2014, p14.

Asset years and asset growth

Asset Years = Net Assets/Total Expenses (expressed in months or years)

Asset Growth = Net Income/Net Assets (%)

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67. More complex ratios can be **used to assess financial sustainability**. **Asset years** is a useful indicator to demonstrate **the duration of time for which a NFP could (in theory) continue to operate if it ceased deriving any form of revenue**. This is particularly relevant, for example, if an NFP relies predominantly on one source of income, and it was lost or suspended, then the NFP's capacity to survive (without any new source of income) can be forecast. The ACNC Report found that around 40% of charities would be able to operate for less than six months on this indicator.¹³ Increasing this period of time can be a difficult decision as some board members consider that NFPs should not reserve funds (which would increase the asset years ratio) and should instead use/expend the funds for the immediate benefit of members.
68. This can be a useful means by which NFPs can assess their viability, to assist them to make decisions relating to budgets and as a risk management tool.
69. A simpler ratio which also demonstrates where there is reliance on a particular revenue stream is the core funding reliance ratio, as published by the Institute of Community Directors Australia (**ICDA**). The core funding reliance ratio is calculated by determining the percentage of total revenue that any one major source of funding for that NFP constitutes. A lower percentage indicates that a source of funding makes up a smaller amount of funding for a NFP, indicating a reduced reliance on that funding compared to a higher percentage. Obviously, a 100% percentage would arise where a NFP derives all revenue from one source, which may indicate that the NFP needs to diversify its revenue streams. Further resources from the ICDA are considered below in this Review.
70. **Asset growth** is calculated as set out above and can be **used to indicate the rate at which a NFP is growing or using its net assets**. In a for-profit context, asset growth is often referred to as "return on equity" and is used to demonstrate its revenue (in a period) as a percentage of its assets. Where the asset growth is a negative percentage, then it will indicate the rate at which a NFP is using its assets (i.e. the amount its total assets were reduced by over a certain period).

CPA Resource

71. The Review has also considered a publication from CPA Australia (**CPA**) titled "Financial Management of *not-for-profit organisations*" (**CPA Resource**).
72. The CPA Resource provides guidance for the NFP sector, particularly in relation to financial management. The CPA Resource provides detailed outlines and demonstrations of accounting concepts including budgeting and forecasting, income and expenditure, cash flow, margins and inventory ratios.
73. While the above does not necessarily lead into an assessment which will form an element of the Benchmarking Criteria, it provides further context and background as to why sound financial management is integral to the functioning and sustainability of a NFP.

¹² ACNC Charities Report

¹³ ACNC Charities Report

74. The CPA Resource also provides some outlines and demonstrations on a number of financial health ratios in addition to those which were outlined and explored above. Ratios outlined in the CPA Resource include:
- (a) liquidity ratio - another term for the current ratio, the liquidity ratio is a metric which can be used to indicate a NFPs ability to pay its debts, and its ability to turn its assets into cash to pay those debts if required to do so. Generally, the higher the liquidity ratio, the healthier the state of the NFPs financial position;
 - (b) solvency ratio - indicating a NFPs ability to pay its debts from sources other than cash flow (and therefore remain solvent and able to operate);
 - (c) profitability benchmarks - another metric used to measure the financial performance of a NFP including the return on assets, return on revenue and return on equity;
 - (d) operational benchmark - similar to the profitability metric, however restricted to particular activities, this measure can be used to assess the financial performance of each distinct activity of a NFP;
 - (e) management ratios - which can be used to indicate how effectively a NFP manages its key cash flow activities; and
 - (f) balance sheet ratios - a ratio used as an indicator of how effectively a NFP uses its assets and equity to return a profit.
75. David Hey-Cunningham's resource titled "Financial Reporting for NFP Directors Workbook" also suggests that ratios to indicate size can be utilised to demonstrate the change in revenue and assets of a NFP. These are calculated based on relatively simple calculations and relevant metrics (i.e. income, revenue, assets, etc) for the current and previous year.
76. Calculation of financial ratios can also be used as a prompt for action, both in relation to expenses and revenue as well as consideration of the risks that may affect both of those metrics. For example, steps that may be taken in relation to revenue include aiming to reduce dependency on one or two funders. Risks relating to expenses include the extent to which economic conditions increase the cost of delivering the NFPs services, long-term leases and long-term funding commitments.

FURTHER NOT FOR PROFIT GUIDELINES AND RESOURCES

77. In addition to the studies we have considered above, the Review encompasses publications which consider successful governance, management and operation of NFPs.

ASC - governance principles

78. In addition to the resources outlined above, the ASC publishes two sets of principles which are used to guide and assess NSOs in relation to governance. Those principles are known as the:
- (a) Mandatory Sports Governance Principles; and
 - (b) Sports Governance Principles (together, the **ASC Principles**)
79. The ASC Principles provide useful assessments the ASC use to benchmark NSOs in relation to the health of the governance of their organisation. While some of the assessments are relevant only to a national sport, there are many that apply more broadly and are therefore relevant indicators which will be considered for use in the Project.
80. ASC Principles relevant to this Project include:
- (a) the structure of the organisation;
 - (b) board composition, powers and operation;
 - (c) reporting, integrity and ethics; and
 - (d) stakeholder relationships.
81. The ASC Principles will be considered in the Project and benchmarking of healthy governance within the sector.

AICD Resource

82. The Australian Institute of Company Directors (**AICD**) published a document titled "*Good governance principles and guidance for not-for-profit organisations*" (**AICD Resource**).
83. The AICD Resource outlines ten principles that promote good governance, which are:
- (a) clear roles and responsibilities for directors and the board - clarity of roles is likely to lead to more effective operation;
 - (b) board composition - an effective board should have an effective mix of people with differing skills and experience to form a collectively capable board;
 - (c) the board's role in setting the vision, purpose and strategy of a NFP;
 - (d) risk oversight and controls - risks can arise from staff, volunteers, physical operations, records, compliance and financing for example;
 - (e) organisational performance being assessed by the board;

- (f) an effective board (shown by forward planning of board activities, regular meetings, assessment of board and director performance, use of sub-committees, etc);
 - (g) integrity and accountability to external stakeholders, auditing of finances;
 - (h) organisation building;
 - (i) culture and ethics; and
 - (j) engagement.
84. These principles from the AICD Resource provide further insight into indicators of good or effective governance. This will provide further material to be included in the Project.

Governance Institute of Australia Resource

85. A 2015 publication from the Governance Institute of Australia (GIA) titled "*Guidelines: whole-of-organisation governance*" (**GIA Resource**) includes some useful guidelines for NFPs. While this resource does not have a particular focus on the NFP sector, there remain some useful guidelines provided that can apply to NFPs in the same manner as they apply to for-profit entities.
86. The GIA Resource has a focus on governance of organisations, in particular the concept of "whole of organisation" governance as a principles-based approach to good governance from the board through to the staff of an entire organisation. The GIA Resource states that the four key components of governance are transparency, accountability, stewardship and integrity.
87. The GIA Resource suggests five guidelines which, if followed, are likely to be indicators of an organisation which is governed effectively. The guidelines are as follows:
- (a) decide and articulate the strategic objectives of the organisation and assign the delivery of those objectives to the executive management team;
 - (b) articulate who has authority to make which decisions in order to achieve the strategic objectives;
 - (c) establish the boundaries on conduct - for example, limitations on financial authority for staff;
 - (d) implement sound internal controls; and
 - (e) ensure that there are appropriate mechanisms in place for gaining assurance (i.e. assessing and managing risk).

Mango Resources

88. Mango is a United Kingdom based charity which exists to strengthen the financial management of NFPs. It has publicised "health check" resources (**Mango Resources**) which have been included in this Review.
89. The Mango Resources provides statements of good practice in terms of financial management in the following key areas:

- (a) budgeting;
- (b) accounting systems;
- (c) financial reporting;
- (d) internal controls;
- (e) grant management; and
- (f) staffing.

90. The Mango Resources further reinforce notions of what is considered effective financial management for NFPs and questionnaires on the above topics will be reflected in the Project.

It's Your Business

91. In 2002, the NSW Department of Sport and Recreation published the resource "*It's Your Business*" (**It's Your Business**). It's Your Business was designed as a tool for directors to assist with financial information, governance, legal obligations and risk management. Notwithstanding the age of the resource, many of the principles from It's Your Business remain relevant and useful for the Project.
92. The key concepts from It's Your Business have been considered, are consistent with those regularly outlined in this Review and will be reflected in the Project. Key focus areas from the resource include:
- (a) risk and financial management;
 - (b) legal issues;
 - (c) corporate governance;
 - (d) government policies;
 - (e) marketing; and
 - (f) education, training and technology.

Institute of Community Directors Australia

93. The ICDA publish a range of tools which will be considered for use in benchmarking organisations in this Project. For example, in addition to tools relating to financial health indicators, the ICDA publish tools relating to governance, strategic planning and risk management.

KEY LEARNINGS AND COMMON THEMES

94. It is apparent from this Review that there are many common themes and aspects of the operations of a NFP which should be considered for inclusion in the Project. The common themes which have been identified in the Review which indicate the health of a NFP include:
- (a) effective governance;
 - (b) financial ratios as an indicator of financial health;

- (c) financial management;
 - (d) risk management;
 - (e) accessibility of regional services;
 - (f) diversity of revenue streams;
 - (g) partnerships with private for-profit entities; and
 - (h) the culture of innovation of an NFP.
95. Having considered the resources set out in this Review, it is the authors' preliminary view that the following indicators are appropriate measures to benchmark and assess the health and performance of NSW sporting organisations (including NSW disability sporting organisations):
- (a) governance;
 - (b) financial management;
 - (c) leadership, culture and integrity;
 - (d) strategy/strategic plan;
 - (e) delivery; and
 - (f) risk management and accountability.

CONCLUSION

96. This Review constitutes the initial step in the Project. The benchmarks and key indicators drawn from the Review will form the basis and structure of the Project.
97. The next steps in the Project are two-fold:
- (a) prepare and present to the sector regarding the Review and the Project. These sector briefings will be used to inform the sector of the Project, its aims and how it will progress. Importantly, these briefings will also be used to seek feedback from the sector regarding areas they see as key to address when measuring organisational health and performance. The sector briefings will take place on 6 and 7 July 2017; and
 - (b) prepare the online "organisational health" questionnaire survey and distribute the questionnaire which will form the basis on which relevant information is gathered. As previously discussed, this will involve the production of questions to be "road tested" on a select sample of the sector (one small SSO, one SDSO and one large SSO as nominated by the OoS). The online "organisational health" questionnaire will then be finalised and distributed.
98. Following the completion of the questionnaire by the sector, the authors will then review the results and undertake a comprehensive survey analysis. This analysis will form the basis of a presentation of key themes and issues to the OoS' Project team. Finally, two reports will be produced by the authors:
- (a) a "state-of-the-sector" report which will be publicly available to inform the sector about its overall organisational health. This report will compile the data

in relation to the sector generally and present a high-level overview of industry-wide organisational health; and

- (b) a "management" report to the OoS which will analyse the sector generally, as well assessing the health of each respondent (i.e. each SSO and SDSO) as compared to the standards across the sector. This will provide insights for each respondent into their strengths and weaknesses comparative to the sector and commonly accepted standards. As previously noted, this can also include an individual report for each SSO and SDSO for the OoS to provide to them if requested. Such a report would only include that respondent's analysis compared with de-identified sector standards and not data identifiable to other respondents).

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