

# Here for good?



Not for Profit  
sector report 2022

# Foreword

**First and foremost, we want to thank all the organisations who participated in our research, and our contacts and clients who regularly share their thoughts, challenges and triumphs directly with us. It's these interactions that allow us at Grant Thornton to provide advice and make our own contribution to the success of your very worthy causes.**

If we have gained anything from working with NFP clients over the past 25 years, it is a deep conviction that the work you do is critical to NZ Inc. Your vital statistics are impressive, you employ over 145,000 New Zealanders, represent \$21.1bn in revenue and provide support to hundreds of thousands of people every year. If the true measure of society lies in how it treats its most vulnerable people, your continued success is vital to ensuring our country remains a fair and civil one, and for holding the government of the day to account when they fail to step up.

The following report showcases the great work many NFPs have done over the last few years in creating more robust and financially secure organisations. It's clear many of you are stepping up to the challenges you face. But where there is room for acknowledgement and celebration, there must also be room for honesty. This is where this year's theme 'Here for good?' goes to the heart of the matter to ask about your long-term survival. Our concerns lie not in whether you have enough Board members, or whether you regularly review your strategy - both of which are important - rather, they lie in the dangers hidden in plain sight that could destroy all your work with nothing more than a simple keystroke. We refer of course to privacy, cyber risk and risk management in general. There is little an engaged Board, innovative partnerships or ample cash reserves can do to repair the loss of trust and reputational damage caused by such events.

Our call to everyone who reads this report is to ask yourselves, what is the value of our purpose if we cannot continue to deliver on it?

There is no doubt we all face troubled waters ahead, should our fears of a recession be realised, it will be those who have planned well and invested in future proofing who will be equipped to continue their good work. Make sure your own oxygen mask is fitted before helping others with theirs.

We hope you enjoy this report. In its preparation we wanted to present you with more than a research piece, one where you tell us what is going on in your world. Rather, we wanted to present a conversation, room for debate and straight talking between us because your sector is one worth fighting for.

Let's make sure we keep ourselves safe so we can stay here for good.



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# Executive summary

From adapting to new ways of working, to retaining healthy reserves, and more regular strategic planning, the 2022 Not for Profit sector survey paints a picture of an agile industry bending with the winds of change, but the results also indicate a breaking point is on the horizon for many organisations.

The old adage, 'with crisis comes opportunity' has never been truer in recent times. However, the survey findings demonstrate

many Not for Profit organisations (NFPs) haven't taken full advantage of the opportunities to keep their organisations safe and help them improve now and well into the future.

We covered six key areas of focus for the sector. This report will give you insights into the opportunities the current climate presents and where the major challenges lie. Below is a snapshot of what survey participants told us.



## Legislative changes

Many organisations do not yet have a strong grasp of all upcoming legislation, what's required and the implications - particularly those impacted by the replacement of the Incorporated Societies Act and proposed changes from the recent release of the Charities Act Review. There is a very real possibility of exposure to risk if these entities don't brush up on their responsibilities - and quickly.



## Governance and strategy

Many NFPs have the right number of Board members and provide them with relevant training. Board members are also more likely to be paid now than in past surveys. Regular strategic planning is taking place, but engagement with wider stakeholder groups is low. This means some NFPs are overly insular in their decision-making and planning, and they're missing important opportunities for valuable input from others.



## Risk management

Many NFPs are doing too little business continuity planning or failing to share their business continuity plans. This is surprising given the sector has been operating in a fast changing environment for several years. Events like pandemics, changing demographics and economic shocks are common and ongoing. Having said that, we have seen some improvement in NFPs' overall risk management focus, with most maintaining at a minimum, a risk register. Like most things, something is better than nothing - progress not perfection.



## Technology

There's some strong spending on digital platforms, but the rewards from these efforts are at risk of being thwarted by the alarming number of organisations who have neglected to invest enough in cyber security. Although unthinkable, charitable organisations are seen as fair game for cyber criminals. Resolving a cyber attack is often a long and costly process which can be minimised by putting the right protections in place.



## Team, people and volunteers

NFPs are doing a great job of adapting to suit employees' and volunteers' work habits, including flexible hours, working from home and extended annual leave. The historic environment when passion made up for shortfalls in remuneration to full market levels is changing. NFP employees are starting to demand market salaries. This can mean the industry loses many good people to the commercial sector which is particularly problematic due to today's tight labour market and rising living costs.



## Funding and financial sustainability sources

Most NFPs are fiscally responsible and carry enough cash reserves to get them through the tough times. However, all organisations need to be aware of the recent Charities Act Review which signal an intense focus on reserves and what they are used for. Although there appears to be some risk aversion in terms of new sources of funding, the research revealed setting up a trading operation or social enterprise is becoming increasingly popular in the sector with many organisations already active in this space or seriously considering this in the future.

# What's keeping the Not for Profit sector up at night?

This question has been asked in every Grant Thornton NFP survey, and is designed to provide a picture of what NFPs are most concerned (or not concerned) about.

## Financing tops the list of the most significant issues facing the sector ... again

Financing NFPs refers to the various ways NFPs pay for their activities, fund any deficits and build up reserves, and it has topped the sector's list of challenges since our research began in 2003. While we are seeing some NFPs doing very well in this area, it is not uniform. Many face fresh challenges with securing sustainable funding including variable investment returns, rarity of contract terms beyond one year and pressures on the discretionary income of donors.

NFPs have many options available when it comes to financing the activities of the organisation – fundraising, investment returns, grants, donations, and use of accumulated surpluses.

This year's research reveals more NFPs are considering setting up trading organisations or social enterprises to boost financing, but this isn't a suitable option for all organisations. Those facing funding challenges should also explore collaboration with other organisations or any untapped potential in their trustee group. While collaboration with other organisations poses possible challenges for some, sharing resources, merging or amalgamating is an effective way to relieve financial pressure. And, although encouraging Board members to donate or secure funds for the organisation is also

highly effective, it's often under-utilised by NFPs even though there's potential to generate extra revenue by involving their trustees more.

New Zealand's low wage economy, rapidly rising living costs and the looming threat of a recession all contribute to an increasing demand for charitable services; nearly a quarter (21%) of survey respondents cited this as a significant issue they currently face.

## Pressure mounts as the war for talent rages on

The next most pressing challenge was talent retention: 43% felt this was among the most significant issues – a major increase from 12% in 2015. Attracting new team members and funding remuneration are among the biggest challenges in this area. The reasons for this and potential solutions are explored further in the 'teams, people and volunteers' section of our report on p27.

## What's slipped off NFPs' radar?

It's surprising to see managing the IT environment (security) and fraud are so low on most NFPs' list of concerns given the catastrophic affect a failure in these areas can have on the operations, reputation and financial position of an organisation.

In times of economic hardship, the risk of fraudulent activity increases for all organisations; continuous investment and training is required to reduce the risk of security breaches.

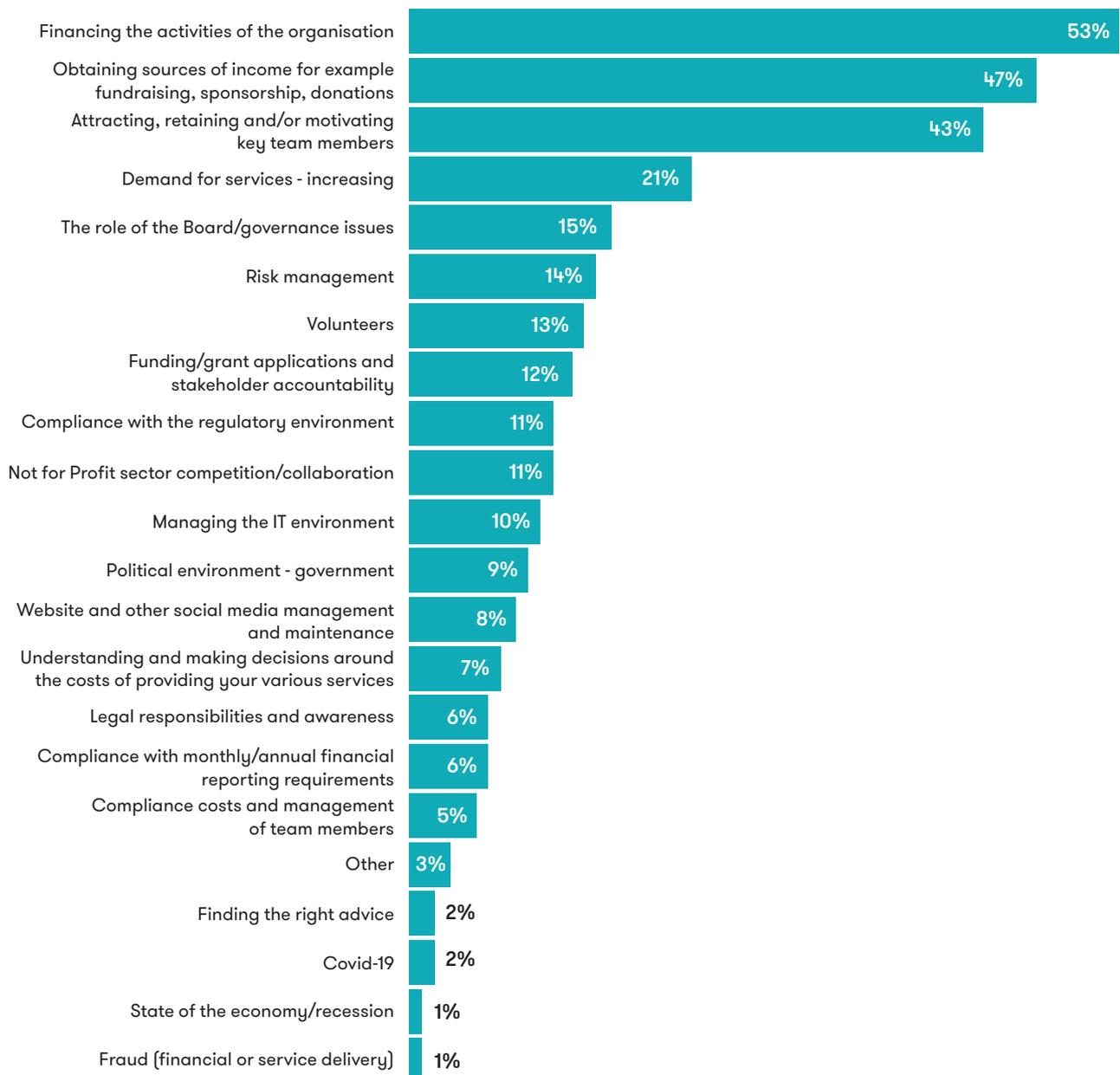


NFPs need to remain open-minded and agile to combat the decades-old financing problems the sector still faces. Setting up trading organisations or social enterprises are a great option for some, while others will benefit from collaboration with other organisations or exploring untapped potential in their director group.



Managing the IT environment and fraud are currently low on NFPs' list of concerns. Failure to recognise issues in these areas could be catastrophic for a NFP, so there's a lot to be gained from focusing on this more closely.

### What are the three most significant issues currently challenging the overall Not for Profit sector today?



N=174

# Legislative changes

## Is your organisation following the letter of the law?

Not for profits have seen a raft of legislative changes in recent years, and there are more on the horizon. However, not all NFPs fully understand the impact these could have on their organisations.

More responsibilities, more obligations and possibly greater risks mean it's mission critical NFPs remain well-informed about how these legislative changes could affect their organisations. New legal requirements are well signposted and happen slowly, so it could be argued that NFPs have had plenty of time to learn about their implications.

However, the survey responses indicate many NFPs are struggling to keep up with new legislation, to provide relevant training to the team or Boards, and to meet their reporting obligations. In many instances, organisations prefer to prioritise their scarce resources and focus on the delivery of their purpose – but this approach is not without risk.

Not only do legislative changes impact the organisation, but there are personal obligations and potential liabilities that NFP governance groups must also take into consideration.

The following legislative changes present an opportunity for NFPs to review their structure and operations. Leadership teams need to consider what the future looks like for their organisation and start preparing the groundwork now.

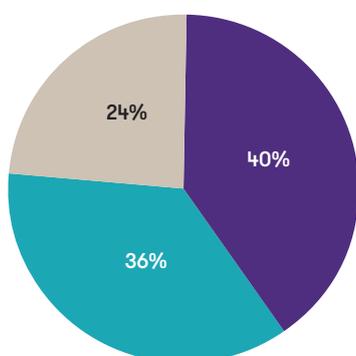
### The Incorporated Societies Act 2022

The newly passed Incorporated Societies Act 2022 is intended to help make incorporated societies more robust in a modern environment, and clarify the responsibilities and risks of the governance group.

The new Act affects 62% of the organisations surveyed and their responses demonstrate engagement and understanding of the replacement Incorporated Societies Act is much lower than expected.

Nearly a quarter have not yet considered the impacts of the new Act. Twenty-nine per cent (29%) of respondents haven't considered the new level of reporting obligations, and only 25% have reviewed their organisation's constitution.

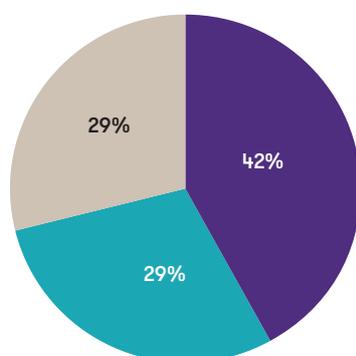
**Has your organisation considered the possible impacts of the intended replacement Act on its governance responsibilities and how it operates?**



● Yes ● Somewhat ● No

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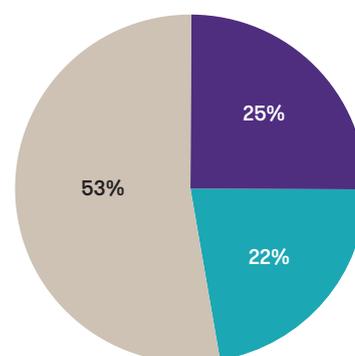
**Has your organisation considered the likely changes in the level of obligations relating to its year-end financial reporting as a result of changes in the replacement Act?**



● Yes ● Somewhat ● No

N=107

**Has your organisation's Constitutional / founding document (eg, rules/trust deed or such like) been reviewed as a result of the changes?**



● Yes ● Somewhat ● No

N=107



Nearly every society will need to register a new Constitution to comply with the new Act. Failure to re-register by the 2025 deadline will mean your incorporated society will cease to exist. There are also financial penalties for non-compliance with the Act and terms of imprisonment for more extreme cases.

These results may also demonstrate that as the law change has been an ongoing process for many years, NFPs haven't felt the urgency to get to grips with the practicalities of the Act's requirements. However, the Act will affect all incorporated societies, so if you are a member of an incorporated society, and particularly if you are an officer or a committee member of a society, the time to start planning is now. It is all but inevitable that nearly every incorporated society across the country will need to agree and register a new Constitution (often called Rules) that comply with the new Act.

Each society also needs to transition from its current reporting framework to the relevant PBE tier. For example, an entity transitioning to Tier 3 will follow the relevant standard from the start of the year of transition.

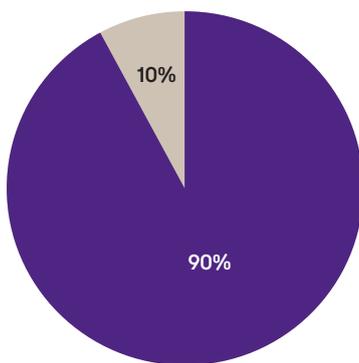
There are a range of penalties for non-compliance including fines and potential terms of imprisonment for more extreme breaches, so it's important to get this right first time.

### Privacy Act 2020

The introduction of the Privacy Act 2020 has strengthened requirements around the disclosure and protection of personal information, along with new implications for non-compliance.

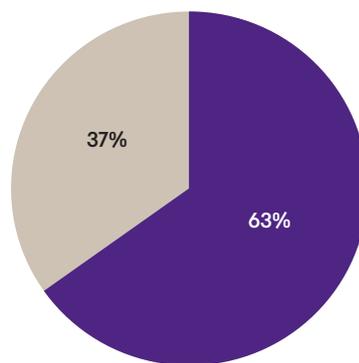
Most respondents (90%) are aware of the introduction of the new Privacy Act. However, well over a third haven't updated their privacy policies to inform stakeholders how their data will be used by the organisation or reviewed their third-party contractual agreements with providers.

#### Are you aware of the introduction of the Privacy Act 2020?



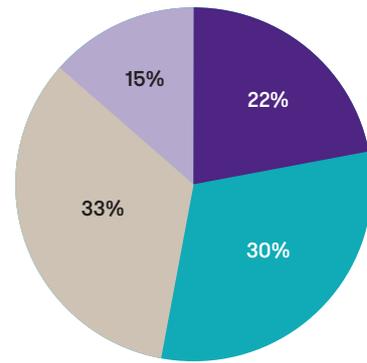
● Yes ● No  
N=174

#### Have your organisation's privacy policies been updated to align with the new legislation so users of your services and other stakeholders understand how you will be using their information?



● Yes ● No  
N=174

#### To ensure compliance with the new legislation, has your organisation reviewed its third-party contractual agreements with providers who store or process personal information they receive from you?



● Yes ● Somewhat ● No ● Don't Know  
N=174



Breaching the Privacy Act can result in fines issued by the Privacy Commissioner or proceedings being commenced before the Human Rights Review Tribunal which has the power to award damages to individuals who experience harm as a result of a privacy breach.

These outcomes will result in wasted time and resources for an NFP, not to mention the reputational damage that will inevitably follow.

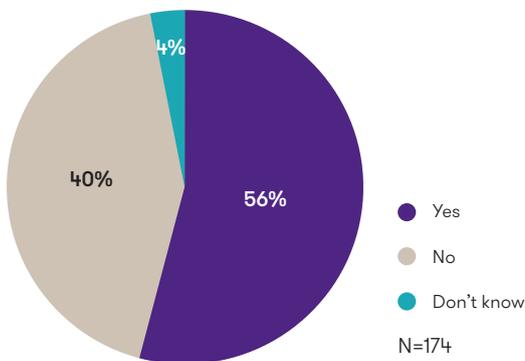
An even more alarming statistic emerged about the number of organisations in breach of the Act by not appointing a Privacy Officer (40%). Any organisation holding personal information and data about other people is required to have a suitable person in this role.

Privacy Officers prevent or resolve privacy issues before they become a reputational, legal or financial risk, so it's a vital appointment for charities and for-profits alike.

Your Privacy Officer needs to:

- have comprehensive knowledge about the privacy principles in the Act
- work to ensure the organisation complies with the Act
- manage any complaints about potential privacy breaches
- manage requests for access to personal information, or the correction of personal information.
- act as the organisation's liaison with the Privacy Commissioner.

### Does your organisation have a Privacy Officer?



If your organisation does not have a suitable Privacy Officer in place, a major data breach could be devastating not only in terms of financial penalties, but reputational damage and loss of trust in your charity.





The Office of the Privacy Commissioner has a wide range of resources and training available to help you get up to speed with the Act, understand your obligations, why these procedures exist and how to apply them.

The survey also reveals the NFPs which have Privacy Officers in place have selected people from disparate parts of their organisations. The most common appointees are the CEO and the governance team. Perhaps more surprising was the wide range of other people appointed to the role, including corporate services, operations, office managers and receptionists.

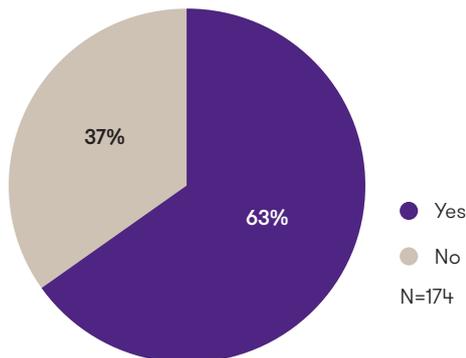
The best person for the role of Privacy Officer depends on the size of your organisation, the work it does, and what personal information it handles. In smaller organisations, the chief executive/general manager is normally responsible for all legal compliance, including privacy.

Often an in-house complaints, human resources, or legal team will do privacy work as part of their duties. However, organisations that handle a large amount of personal information may need one or more employees dedicated to privacy matters.

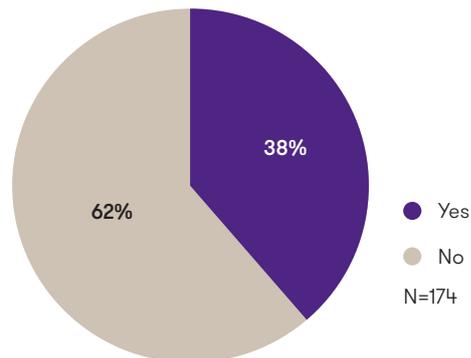
Whoever takes on the duties of a Privacy Officer in an organisation, it's important for everyone, at all levels of the organisation, to take their advice seriously.

Over two thirds of survey participants said they have effective procedures in place to detect and report data breaches, however, nearly the same number of organisations said they have not provided any training to their team members about the Privacy Act changes. This is a concern. The Office of the Privacy Commissioner has a wide range of resources and training available to help organisations understand their obligations, ensure everyone knows why those procedures exist and how to apply them.

#### Does your organisation have effective procedures to detect and report data breaches?



#### Has training been provided to your team members to highlight changes to the Privacy Act?



## Modernisation of the Charities Act 2005

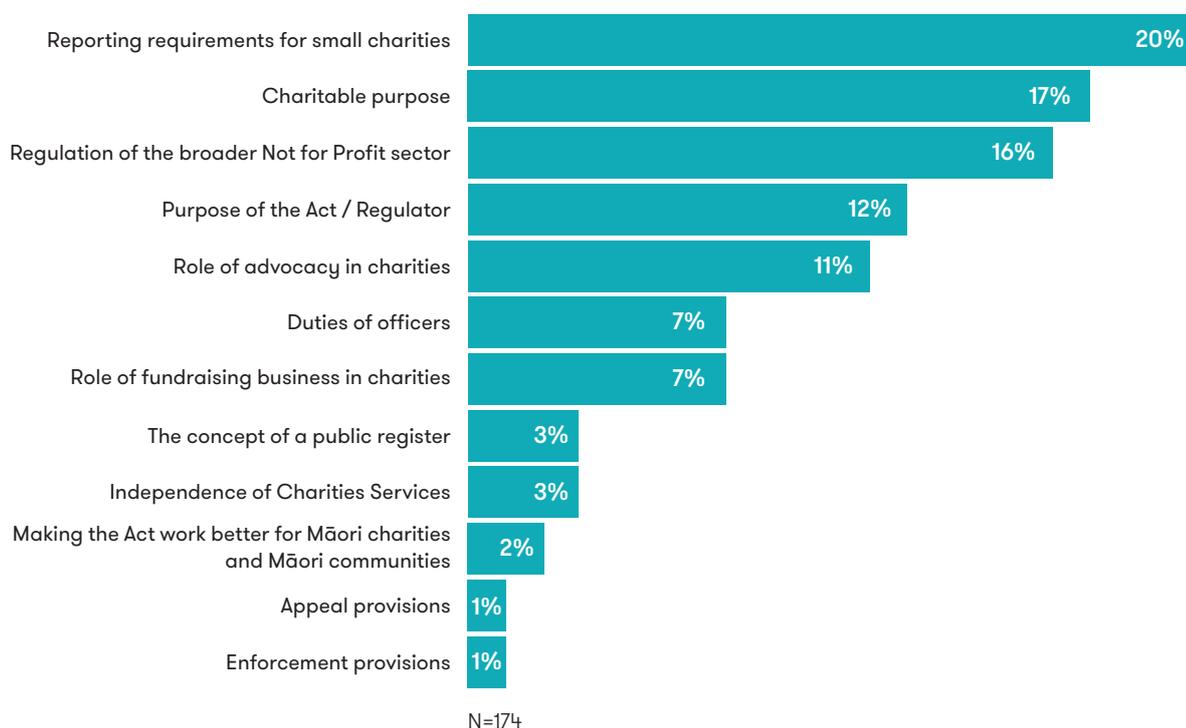
The Charities Act 2005 was reviewed for a number of reasons, including to determine if it is still fit for purpose, meets the diverse needs of the sector, and to ensure public trust in the sector is maintained.

Prior its completion, we asked survey participants which issue they'd like to see addressed the most as part of the review. The greatest concern is reporting requirements for small charities; one in five respondents see this as the top priority, with Tier 3 and Tier 4 charities being the most concerned about this.

The good news is that if the review recommendations are passed into law, smaller organisations could apply for exemptions from financial reporting through Charities Services. This also aligns with the XRB's consultation about changes to financial reporting for Tier 3 and Tier 4 charities.

Larger charities with operating expenses over \$140,000 will need to disclose the reasons for accumulating large amounts of cash and assets. We explore this further on p28.

### What is the most important issue you would like to see addressed as part of the Charities Act Review?



The second major concern was the issue of charitable purpose, which poses a weighty question: What qualifies as a 'charitable purpose'? The four original 'heads of charity' are relief of poverty, advancement of education or any other matter beneficial to the community (often sport) and advancement of religion. There are often questions around the role of religion in modern New Zealand and whether private charitable trust or community groups sometimes associated with crime should qualify as charitable. The Department of Internal Affairs specifically ruled out considering the definition of charitable purpose in its review, stating consideration of other issues such as the mechanisms to appeal regulator decisions will enable better case law to develop in this area.

A Bill to amend the Charities Act is expected to be introduced this year and further submissions can be made at select committees during the legislative process.

The third most important issue is that of regulation which is, again, of greatest concern to smaller Tier 3 and Tier 4 NFPs.

### Service performance reporting (SPR)

Service performance reporting has now been introduced for larger Tier 1 and 2 charities to tell stakeholders how their goals are being met and the wider impact their activities have on the community. Although this new standard has been in the pipeline for several years now, only 31% of the larger NFPs have finalised the service reporting measures for their next annual report.

The first year of reporting requires comparative measures, so planning for how your service performance will be measured needs to take place now. Charities that implement the standard effectively can use it as a tool to communicate their service performance story to their external stakeholders in an



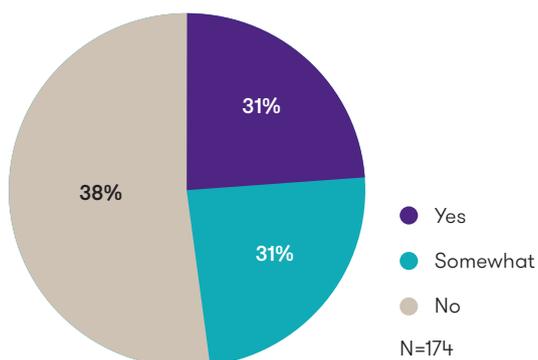
Service performance reporting is your opportunity to tell the world how your organisation contributes to the community and it's an effective management tool to measure how the organisation is meeting its objectives.



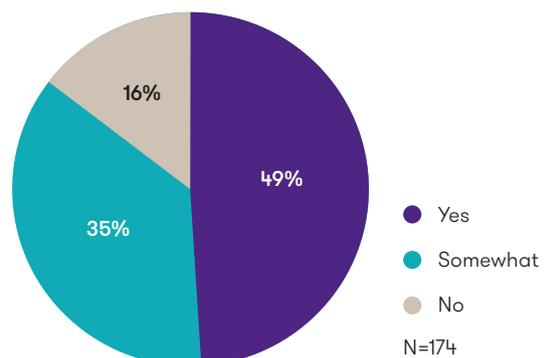
increasingly competitive environment, and it's a crucial piece of information for funders who want to see your performance outcomes. Service performance reporting can also be used as an effective internal tool for management and governance to understand if the organisation is meeting its objectives.

While these requirements are new for Tier 1 and Tier 2 NFPs, Tier 3 and Tier 4 organisations might also consider taking this opportunity to review and improve their own service performance reporting to highlight the good work they are doing. Their reporting requirements have been in place for some time and current reports may no longer be fit for purpose.

#### Have you finalised your SPR measures for your next annual report?



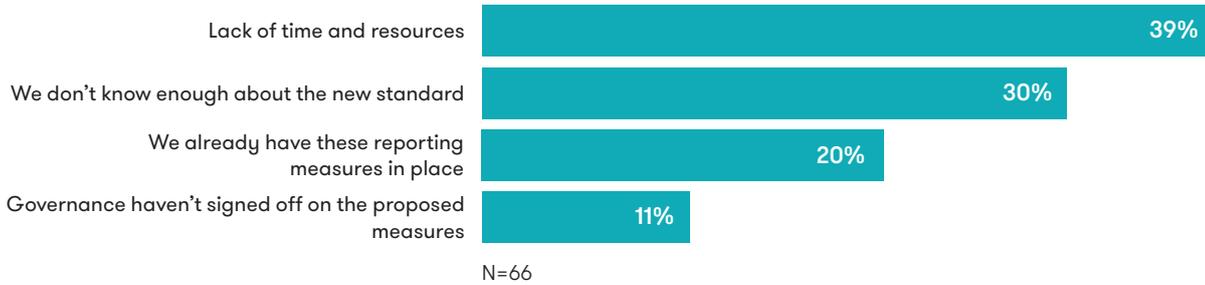
#### Does your organisation understand the purpose of the SPR and how it will be used by external stakeholders?



Survey respondents who have not yet finalised their SPR cite lack of time and resource as the main reason for this. Given the value service performance reports can deliver to both internal and external stakeholders, this needs to be moved further

up the priority list. This exercise should be considered as an expression of the value your charity brings to NZ Inc, rather than just a piece of gratuitous compliance.

**You have indicated you haven't finalised your SPR measures, which of the following best describes the reason for this?**

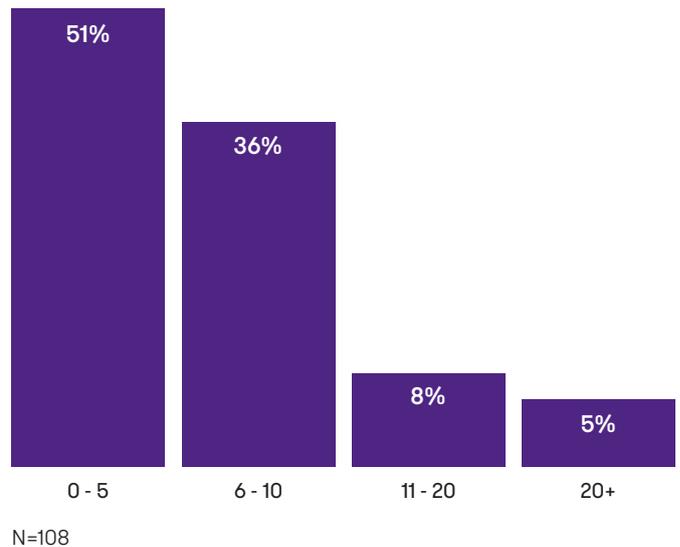


**Focusing on what matters most**

Almost half of the organisations surveyed (49%) will be reporting against six or more measures, with 5% reporting against 20 or more.

We recommend NFPs choose no more than five key measures to report on; any more than this, and you run the risk of diluting the true impact your entity is making as well as the most important areas the organisation needs to focus on in order to improve. When choosing your measures, be selective and have a clear understanding of the performance story you want to communicate. The measures should be tied to your organisation's purpose, its strategic planning and how you are delivering to your strategy.

**How many service performance measures will your organisation be reporting against?**



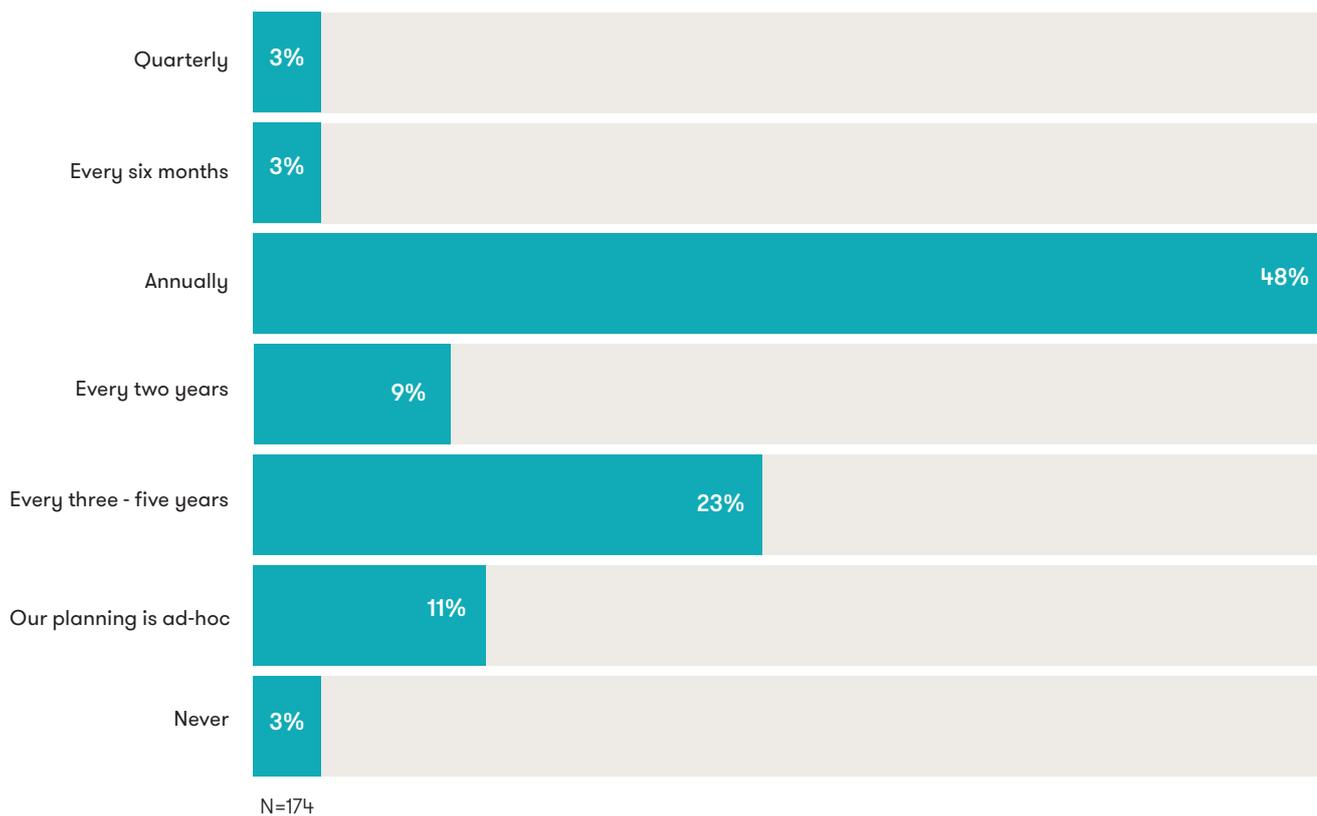
When it comes to choosing your organisation's performance measures, less is more. Commit to no more than five to ensure readers and funders focus on the true impact your organisation makes on society, and to assist in better decision making when assessing where to focus resources and effort.

# Strategy

A clear and focused strategy is the cornerstone for success – it supports key decision making processes and directs resources to where they are most needed. While 54% of survey respondents tell us strategic planning is carried out at least annually, it is concerning that 35% leave it longer.

An annual review and refreshed strategy is an important step in ensuring it remains relevant to the current social and economic climate, as well as the legislative environment as it continues to evolve and change.

## How often does your organisation undertake strategic planning?



Most respondents engage governance and management when it comes to developing a strategy, as well as employees - however, only 13% of NFPs engaged with funders on their strategy, with most saying they either 'somewhat' or 'don't' engage with funders at all.

When an organisation's strategy is planned in a vacuum, NFPs run the risk of deciding how best to help their beneficiaries based on the input of a small group of people who often have the same viewpoint.

This lack of diversity can keep organisations from reaching their full potential. Wider engagement brings diversity of ideas and broader viewpoints to the organisation. Building relationships and sharing resources can help every NFP to get the most from their funding and their people, becoming more efficient, more relevant and doing more to serve the people they want to help.

Effective strategic planning should comprise the following six key tenets:

- setting priorities and common goals
- ensuring employees and other stakeholders are working toward these common goals and priorities
- establishing where to focus energy and resources
- planning around how to strengthen operations
- establishing an agreement around intended outcomes and results
- assessing and adjusting the organisation's direction in response to a changing environment.



When you're in planning mode - reach out! Open your mind and your doors to more ideas. Working with a wider variety of people and groups can expand your peripheral vision and truly benefit your organisation.



Funding and financing the activities of the organisation continue to be the top concerns cited by NFPs in our research. This would be less of a challenge if more entities invited their funding partners and external stakeholders to the table during any strategic planning. Communication and engagement with funders are key, so it's important to bring them along on your strategic planning journey.

### When developing your strategy, who does your organisation engage with?

#### Governance



#### Management



#### Employees



#### Members



#### Volunteers



#### Recipients of your services/activities



#### Relevant community groups



#### External advisors



#### Funders



#### Other Not for Profit organisations



#### Government



#### Iwi



● Yes ● No ● Somewhat ● N/A

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# Governance

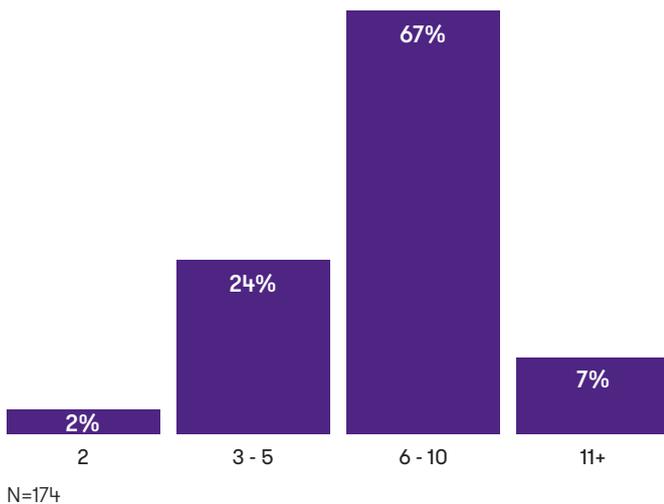
## The Board composition balancing act

The optimal number of Board members is six or seven. This number is sufficient enough to bring in the mix of skills, diversity of thought and experience required to effectively lead an organisation. Smaller Boards generally have shorter, more focused discussions and it's easier for a smaller group to form strong bonds which can increase the trust and therefore effectiveness.

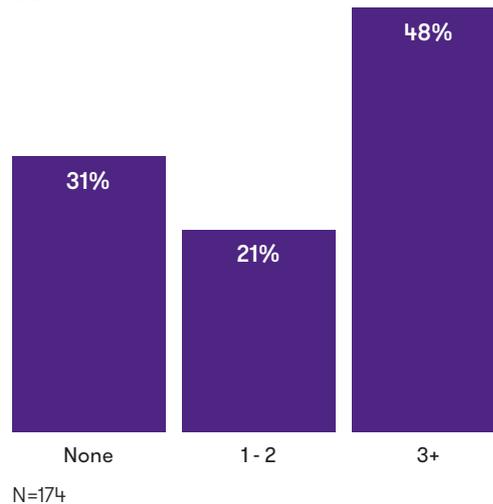
Most organisations are hitting the mark by having between six and 10 Board members and nearly half of the NFPs surveyed have at least three independent Board members.

It's best practice for any organisation to have at least two independent directors. Board members can inadvertently form clusters that can lead to groupthink, so having two independent directors provides extra support, different skill sets, and encourages more diversity of thought and fresh ideas.

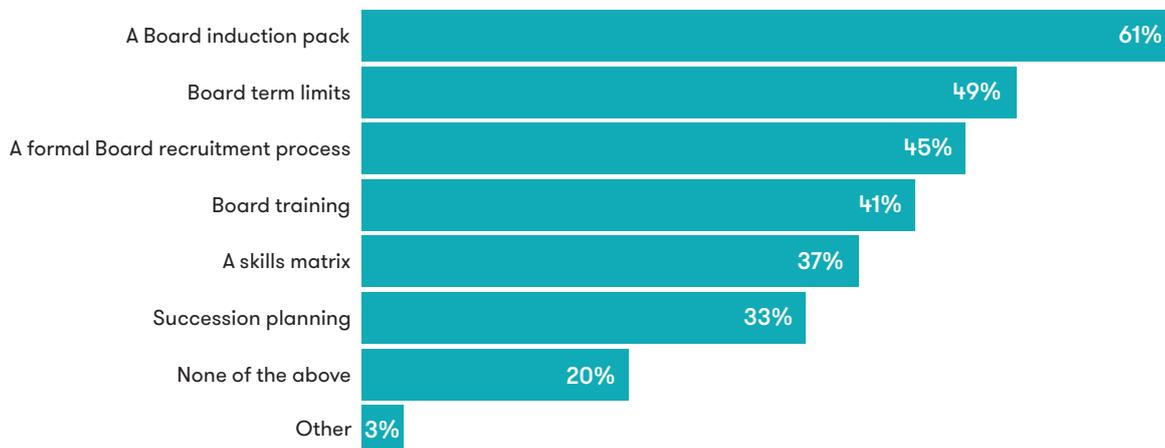
### How many members does your Board currently have?



### How many independent members does your Board have?



### Does your organisation implement any of the following activities for its Board members? Please select all that apply.



## Getting the best out of your Board

Most NFPs are on the right track by supplying some training materials to their Board members but 59% of those surveyed do not currently offer any training at all. All NFPs should provide comprehensive training to their Boards to get the most out of the talent and experience these directors bring to the table. At a minimum, Board training should ensure competence around effective strategic planning, financial obligations and literacy, and good governance practice.

Boards should also provide basic induction packs that cover the organisation’s history, recent planning undertaken and overall risks, as well as any Board policies like code of behaviour, meeting requirements and conflicts of interest.

## What’s on the agenda?

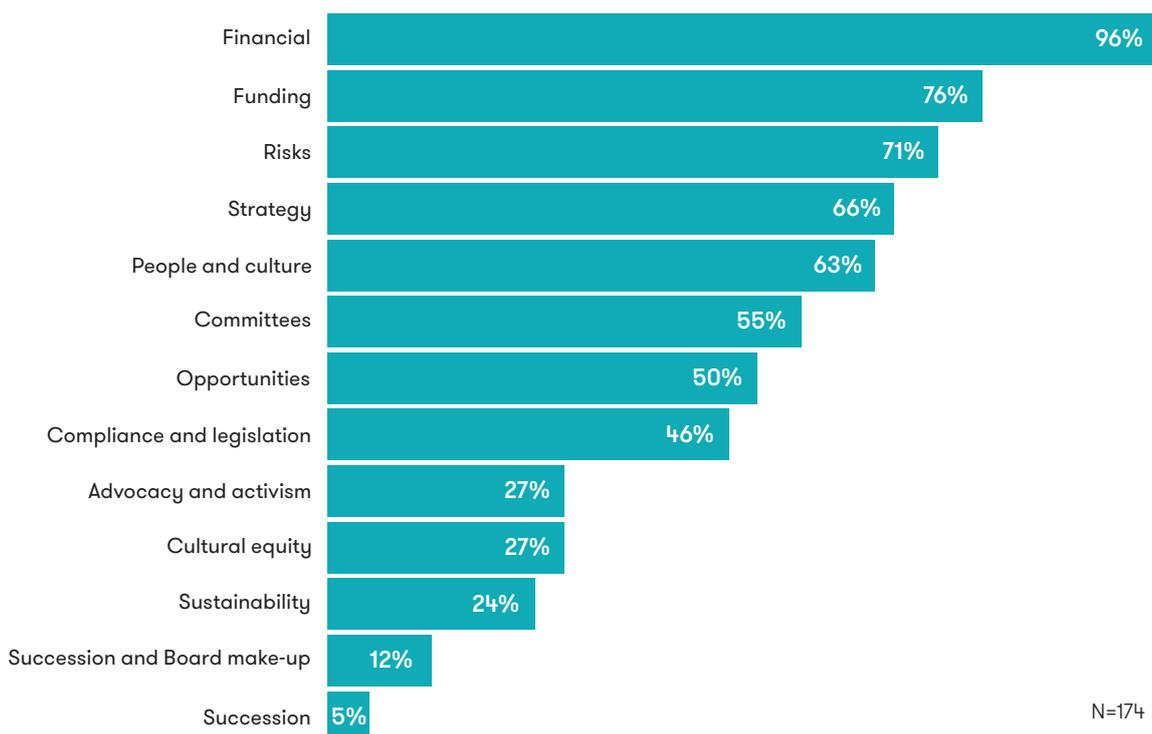
The most common agenda items are those associated with finances and funding. These have always been the traditional areas of focus at Board meetings, but concentrating exclusively on the numbers does not provide balance within an organisation, particularly Tier 1 and Tier 2 organisations

who are now required to report on their performance in more detail. Over one third of Boards aren’t discussing strategy at all. Strategy is a must-have on every Board’s agenda as it provides a roadmap for all areas of the organisation. At each meeting, it’s important Boards cover future strategic objectives as well as progress toward achieving the organisation’s existing plans.

Cultural equity and sustainability also feature low on the priority list. These areas not only deliver the benefits diversity can bring to an entity, but more appeal to funders and the groups targeted during fundraising activities. Funders and donors alike are becoming increasingly discerning about the organisations they partner with or support, and their decisions are often swayed by an organisation’s investment in its people and the environment. Early adoption of sustainability principles will be an advantage for the future of any organisation.

Risks and opportunities also sit high on many agendas which demonstrates Board members are becoming increasingly future focused and aware of the need to address real or perceived risks head on.

## Which of the following are typically included in the formal meeting agenda? Please select all that apply.

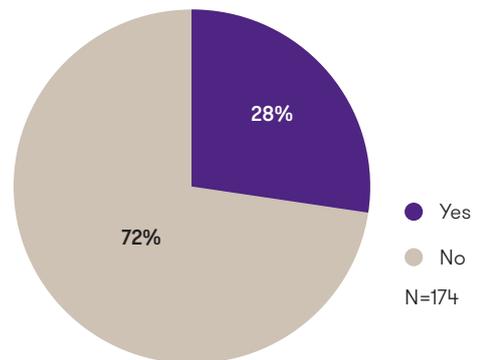


## Board remuneration

There has been an increase in the proportion of Board members who are paid for their role – 28% this year, up from 22% in the 2015 survey. They are also being paid more.

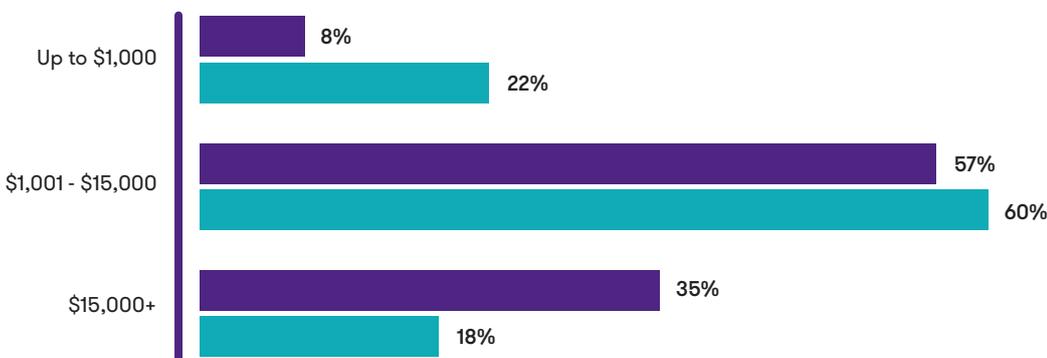
While we are seeing an increase in the proportion of Board members being paid, it is still a low percentage overall. Is it a false economy to not remunerate your Board members? A common response to this is, “I’ll pay my Board when I pay my volunteers”, but this view is fast becoming outdated. Legislative requirements for Board members continue to increase and the cost of getting it wrong could be significant to both the organisation, its clients and Board members personally.

## Are any of your Board members remunerated for their Board position?



## Board remuneration 2022 vs 2015

● 2022 ● 2015



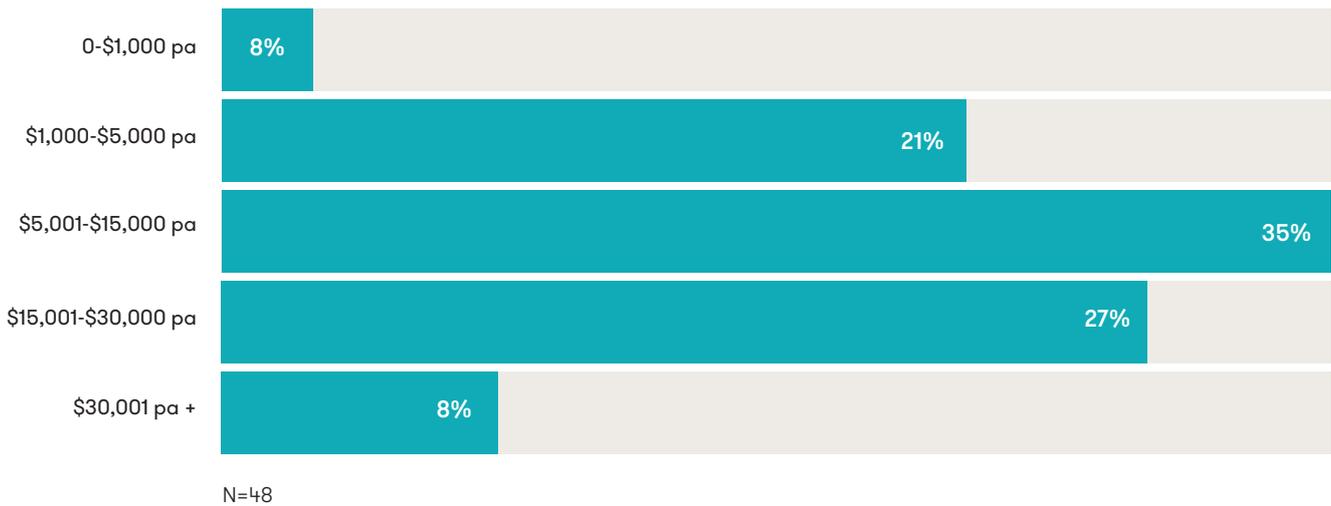
Is it a false economy to not remunerate your Board members? A common response to this is, “I’ll pay my Board when I pay my volunteers”, but this view is fast becoming outdated.

And if NFPs want to attract talented directors with the right skills and experience to achieve their strategy, fair remuneration should be considered.

Although around 61% have not increased their remuneration to Board members, 35% have increased it, and only 4% are

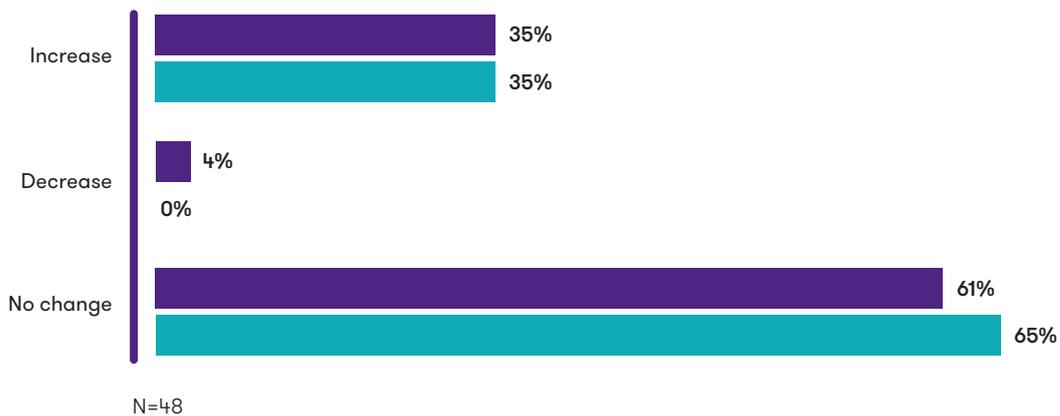
paying existing Board members less. We had expected the number of organisations to decrease pay to Board members would be higher after the stresses of the pandemic, so this was a particularly interesting finding.

**What is the annual fee per individual?**



**In the last two years, has there been a change to the level of remuneration your Board members receive?**

● Existing board members ● New board members

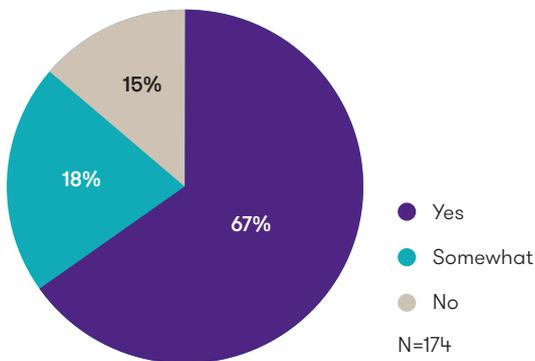


# Risk management

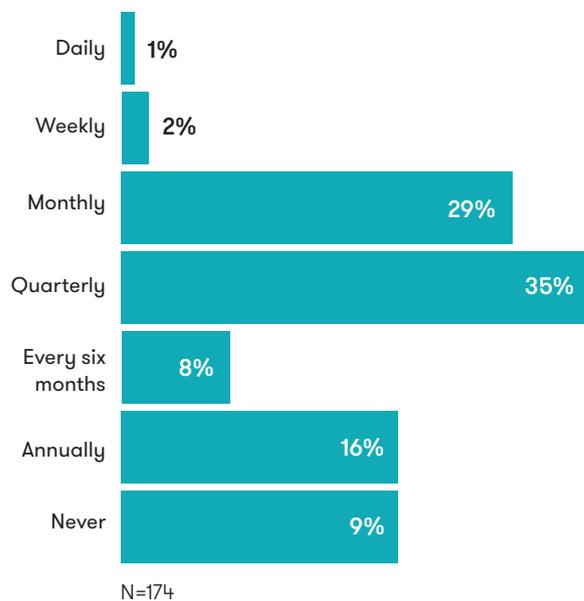
## The good ...

Overall, the risk section of our survey tells a positive story: Two thirds of organisations maintain a risk register and 91% are reviewing their risks at least once a year.

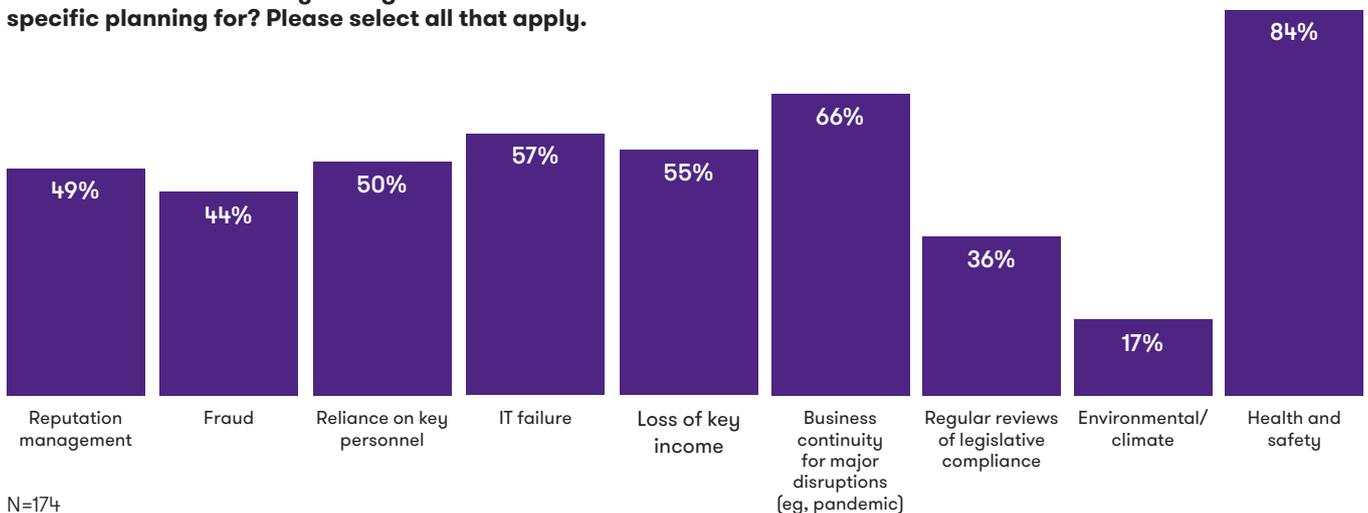
### Does your organisation maintain a risk register?



### How frequently do you review your risks?



### Which areas of risk does your organisation undertake specific planning for? Please select all that apply.



### ... and the bad

However, there is room for improvement in the sector’s business continuity planning – ‘black swan’ events are becoming more prevalent, and things can go wrong very quickly.

The results paint a picture of severe neglect in this area - one quarter of NFPs never update their business continuity plan, over half never test the plan they have, and 59% never circulate the plan to employees.

How can an organisation’s business continuity plan be successful if it’s never updated, not tested, and not communicated to the people that are supposed to be executing it?

It’s vital that organisations make people aware of business continuity information – it must be easily accessible to all stakeholders, including employees, the Board, and any relevant external stakeholders.

### Thinking specifically about the business continuity plan, how often is it:

Updated



Tested



Circulated to all employees



Circulated to the Board



● Monthly    ● Quarterly    ● Every six months    ● Never

N=114



Unfortunately, there will always be black swan events on the horizon, so complacency isn’t an option. Always ensure your business continuity plan is kept up to date, regularly tested and circulated to all team members.

# Technology

## Is it up to spec?

Digital platforms remain the top priority for investment in technology. Seventy one per cent (71%) of respondents have invested in web, social or other digital platforms in this survey, the same rate as in our previous survey, and 32% of organisations planning to invest in client relationship management (CRM) systems to manage their donors, stakeholders and customers.

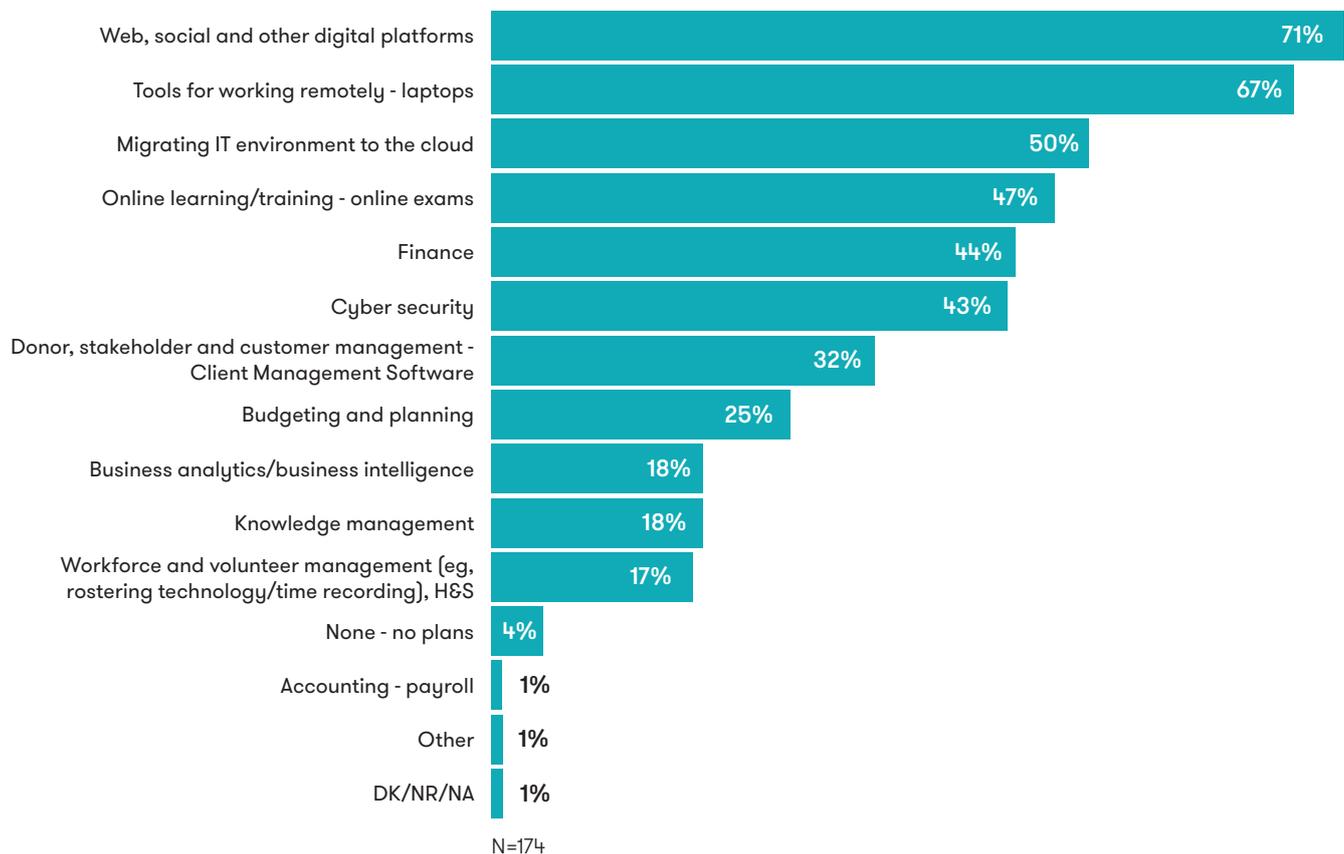
However, the results suggest more investment is needed in cyber security – only 43% of NFPs invested in this over the past two years and 27% plan to invest in it over the next two to three years.

This is an area that needs ongoing investment as all types of organisations are constantly being bombarded with phishing attempts and ransomware attacks. These incidents can cause enormous disruption and even shut down operations. Although we'd like to think that cyber criminals wouldn't go after NFPs,

unfortunately this is not the case. In 2021, a New Zealand charity was locked out of its computer systems and asked to pay a ransom to regain access. The charity was successful in getting back into its accounts without paying the ransom, but solving the problem required all hands-on deck and considerable expert assistance. Sadly, positive outcomes like this are rare.

The steps NFPs can take towards improving online security can be as simple as using multi-factor identification for sites and applications like banking or Xero, switching to e-invoicing to prevent fraud, and perhaps the most important – security awareness training for your team so malware scams, ransomware attacks and fraudulent activity can be avoided. It only takes one person to inadvertently click a malicious link and give a cyber criminal access to all of your organisation's sensitive information.

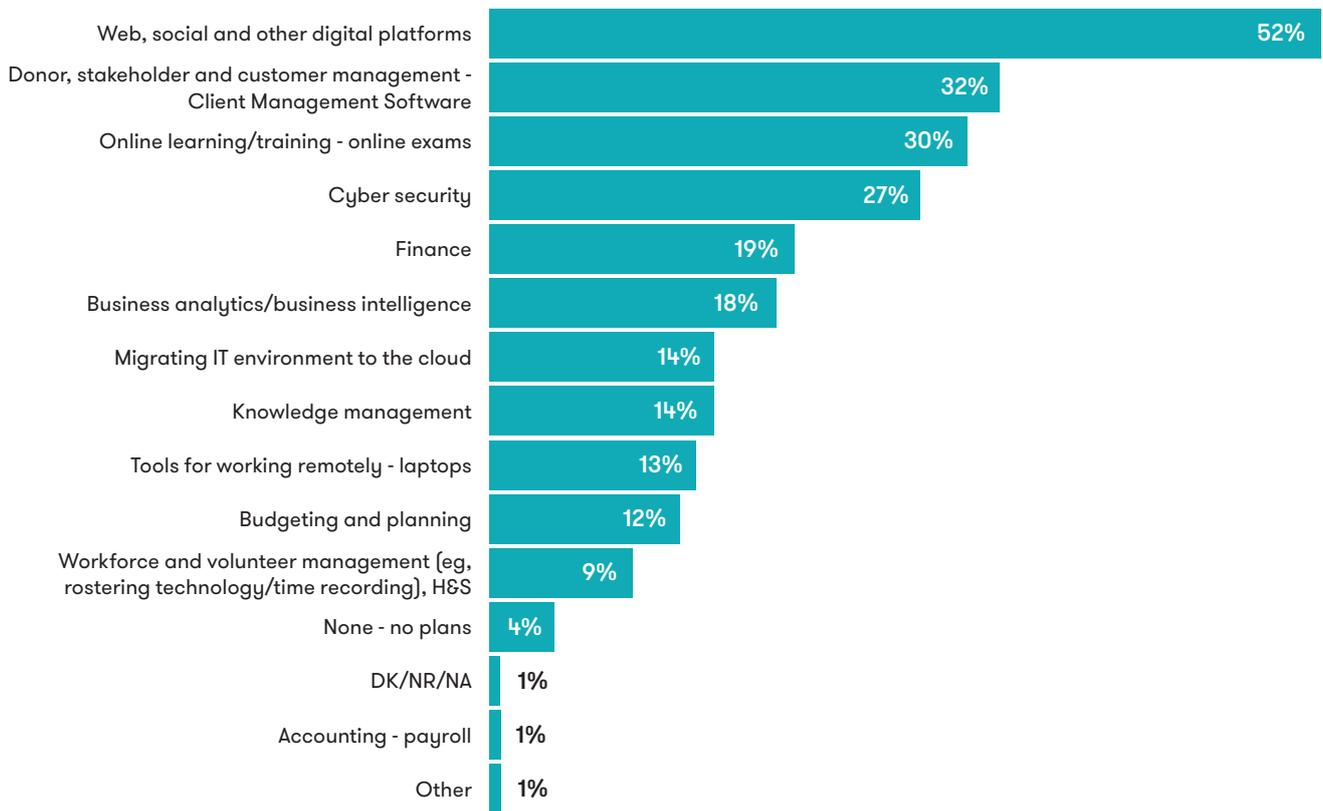
### Which technologies has your organisation invested in over the last two years? Please select all that apply.





Maintaining a secure online environment requires ongoing investment. If your organisation isn't up to speed in this area, the best place to start is training for your team so malware, ransomware and fraudulent activity can be identified and avoided.

**What are the top three technology projects you expect to invest in over the next two to three years?  
Please select up to three responses.**



N=174



Charities have been the workplace of choice for those who value flexible working, workplace culture and making an impact on their communities. Now that this has fast become a focus for commercial businesses that can offer higher pay, NFPs need to reflect on how they're remunerating their team members and what they can offer that sets them apart from other industries.



# Team, people and volunteers

When it comes to people, the biggest challenges for NFPs are attracting new team members and funding fair remuneration. The difficulty with recruiting is unsurprising and reflects the tight local labour market - economic pressures and rising wages in the commercial sector are impacting the availability of talent. The NFP sector also retains a traditional expectation that its people will (or should) accept less than market remuneration compared to a comparable job in a commercial business.

Traditionally, NFPs have made up for reduced remuneration with flexibility of working, workplace culture and the ability to make a positive impact on wider society. However, as the commercial sector is now offering these benefits, along with higher remuneration, NFPs will need to think carefully about their employer brand and what they need to do to effectively compete for people with the knowledge, skills and experience they need.

Retaining talent is key to quality outcomes for NFPs – recruiting, on boarding, and training new team members is a costly exercise, not to mention the loss of institutional

knowledge if key team members move on. NFPs should consider putting a talent management strategy in place to identify, strengthen and retain key leaders. It is also beneficial to ensure that reward and recognition are clearly linked to wider strategic and operational plans, recognising that to be effective, these plans need to be clearly communicated throughout the organisation.

Paying fair remuneration will add additional pressure to the existing funding challenges the sector already faces. NFPs need to reflect on what they can offer to potential candidates that sets them apart from other organisations, as well as considering if there are novel ways they can fund fair remuneration to retain key team members or attract new stars.

There has been a huge jump in the number of NFPs saying they've lost team members to a personal choice or change in lifestyle: up to 25% from just 4% in the last survey. It's likely that this trend reflects the Covid-19 pandemic and lockdowns, which has made people reassess their personal goals and values.

**On a scale of 1 to 5 where 1 is not challenging at all, and 5 has been incredibly challenging, rate your organisation's current experiences in the following areas:**

Providing flexible working hours for team members



Working from home



Providing extended annual leave for team members



Providing opportunities for team members to participate in CSR initiatives



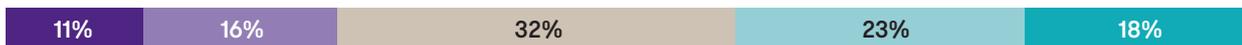
Funding fair remuneration for your team



Retaining team members



Attracting new team members



● 1 - Not challenging at all   ● 2   ● 3 - Somewhat challenging   ● 4   ● 5 - Incredibly challenging   N=174

# Funding sources and financial stability

Over three quarters of survey respondents said their NFPs could survive for six months or more based on their current reserves. The level of reserves to be held is a question often debated around the Board table. There is no one right answer, it is individual to the organisation and there are important factors to consider – the short-term operational cash flow needs of the organisation, as well as the organisation’s goals or strategy.

However, a word of caution for the NFPs carrying large reserves: organisations need to articulate to stakeholders and funders why these reserves are being held and what they are going to be used for, otherwise it could be perceived the organisation is not investing in advancing its purpose.

A key proposal from the recent Charities Act Review is Charities Services’ ability to question organisations holding large reserves that aren’t clearly communicating the reasons for holding these funds

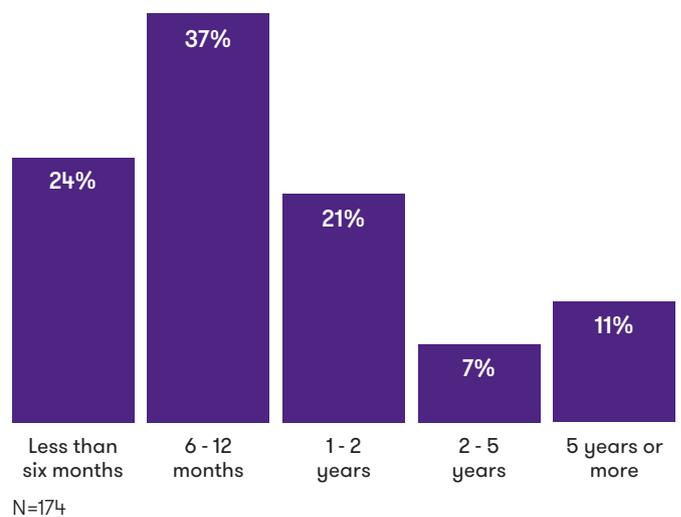
Even if the outcomes from the Charities Act Review do not directly affect all NFPs (ie, non-registered charities), any such obligations on charities will soon bleed into the expectations of all funders, stakeholders and the public.

Forewarned is forearmed – now that we know reserves could be closely scrutinised, many NFPs need to develop improved reporting in this area to help provide the complete story and clearly present the organisation’s financial situation.

Remember, to get to the stage where your NFP can present its reserves story accurately, you first need to understand your own risks, strategic plans and environment to set the level of reserves you actually need.

Also, high reserves don’t necessarily mean lots of cash is on hand and ready to spend, so NFPs also need to understand the makeup of their reserves and how quickly these can be converted to cash.

**If your organisation’s financial funding stopped tomorrow, how long could your organisation operate based on the use of current reserves only?**

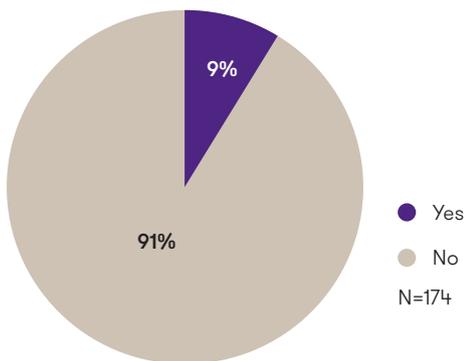


If you have large cash reserves - why? If you’re saving for a big project, tell that story. If you’re just being risk-averse, is it time to loosen the purse-strings?

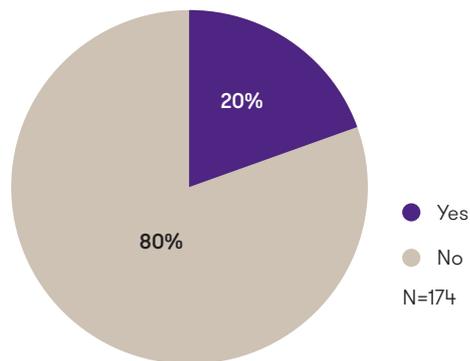
Partnerships with other organisations have increased indicating organisations are interested in working alongside one another to achieve better outcomes for their stakeholders. Working together, sharing skills, knowledge, resources and operational models can increase the impact of a particular cause, while also reducing inefficiencies and duplication of effort in the sector. Interest in setting up a trading operation or social enterprise is also up 12% compared to the last survey ago

(35%). We can also see that 35% of organisations do operate a trading operation or social enterprise, and this appears to be a popular move for NFPs right now. Social enterprises can be an effective way for NFPs to differentiate income sources to increase the longevity of the organisation, while providing value to stakeholders through their business activities. A social enterprise also allows an NFP to de-risk commercial activity while protecting their core assets.

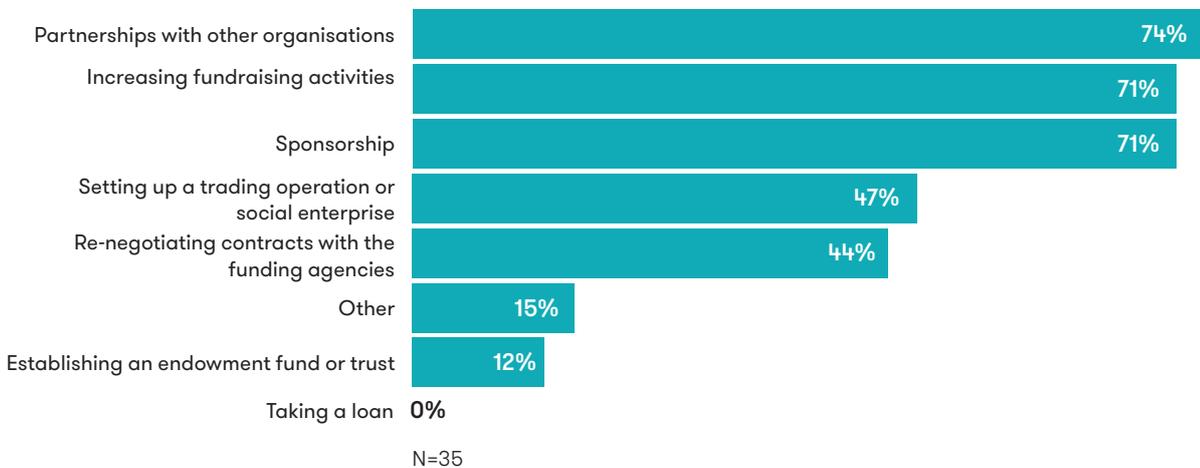
**Has your organisation changed its primary source of funding in the last 1 – 2 years?**



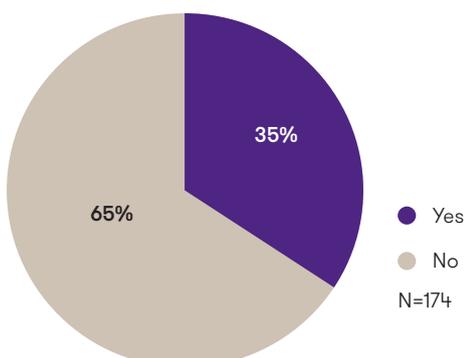
**Does your organisation expect to change its primary source of funding in the next 1 – 2 years?**



**Which of the following funding options have you considered? Please select all that apply.**



**Does your organisation operate a trading operation or social enterprise?**



A social enterprise can provide value to your stakeholders, and it's a useful way to differentiate income sources to increase the longevity of your NFP.

# Levels of support during Covid-19

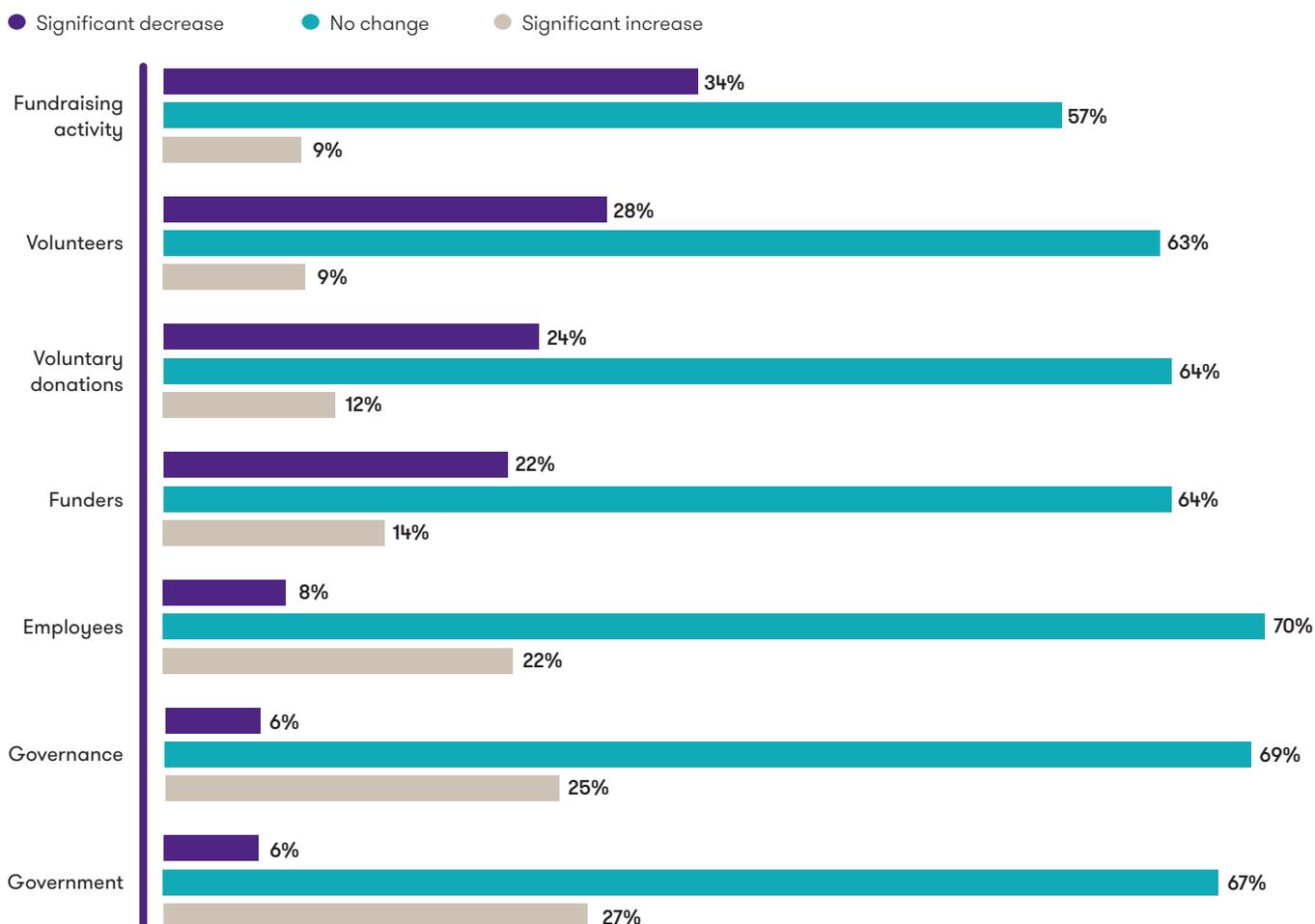
Two thirds of NFPs indicated their level of Government funding did not increase significantly during the past two years. However, our work in the sector tells us our clients have seen more support in Government funding, although in many cases it was a guarantee of full annual funding, rather than an increase. The knowledge that funding was locked in has been a huge lifeline for the sector, allowing for some certainty in times that were essentially impossible to plan for. NFPs have also had strong support from funders, with 80% seeing no change or a significant increase. This is outstanding news for the sector and the communities they serve in tough times.

The funding hit seems to have come from lower support in fundraising and voluntary donations. A third of respondents

said fundraising activity had seen a major decrease, while a quarter said voluntary donations were down significantly. Pandemic restrictions have made traditional fundraising activities like street day appeals more difficult, if not impossible. This adds to the ongoing challenge an increasingly cashless society presents for those relying on cash donations.

The NFPs with more flexibility can pivot to meet this new environment. For example, a New Zealand charity that has historically held a street appeal but had to cancel this in 2020 set up a Givealittle page instead. Donations to the page reached \$300,000, which was far more than what had been achieved through the street appeal.

**Please select the level of support your organisation has received from the following stakeholders over the last two years.**



# Survey methodology

## Background

The Grant Thornton Not for Profit sector survey is a public study undertaken to provide an overview of the challenges and opportunities within the industry, as well as an in-depth look at internal processes like governance, strategy and risk management. The survey has been conducted in New Zealand since 2003.

## Methodology

The questionnaire was developed by Grant Thornton New Zealand's team of Not for Profit specialists and the 2022 research was carried out by Ipsos, a global leader in market research. The survey was conducted online, and participants responded to email invitations to participate sent by Grant Thornton New Zealand. The survey was also promoted in newsletters published by Charities Services, NFP Resource and ApprovalMax.

The survey opened on 7 March 2022 and closed on 21 March 2022. The number of completed surveys received was 174. Most participants are either incorporated societies or charitable trusts across all reporting tiers. We also received a few responses from unincorporated bodies and other types of Not for Profit organisations. A more detailed breakdown of the sample can be found on p32.

## Charitable donation

Survey participants who completed the questionnaire by 14 March 2022 went into a draw to win \$500 to donate to the charity of their choice. The money was donated to Rainbow Youth at the request of Braden Clark from the Aotearoa New Zealand Association of Social Workers.

## Acknowledgements

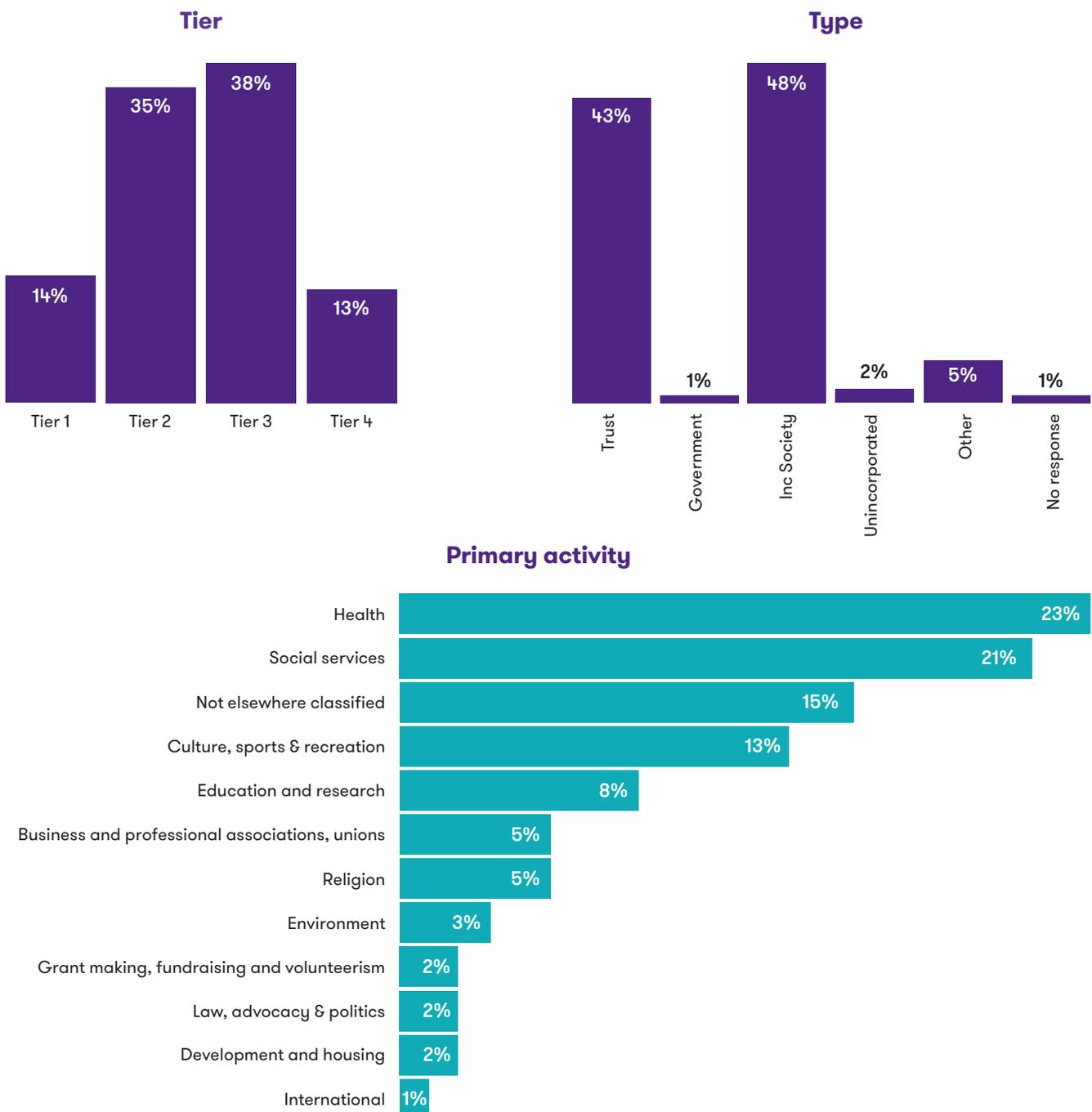
Thank you to the 174 Not for Profit organisations who took the time to complete this survey, and shared their thoughts and knowledge about the sector.

Grant Thornton New Zealand would also like to thank Charities Services, NFP Resource and ApprovalMax for promoting the survey and giving their networks the opportunity to participate.

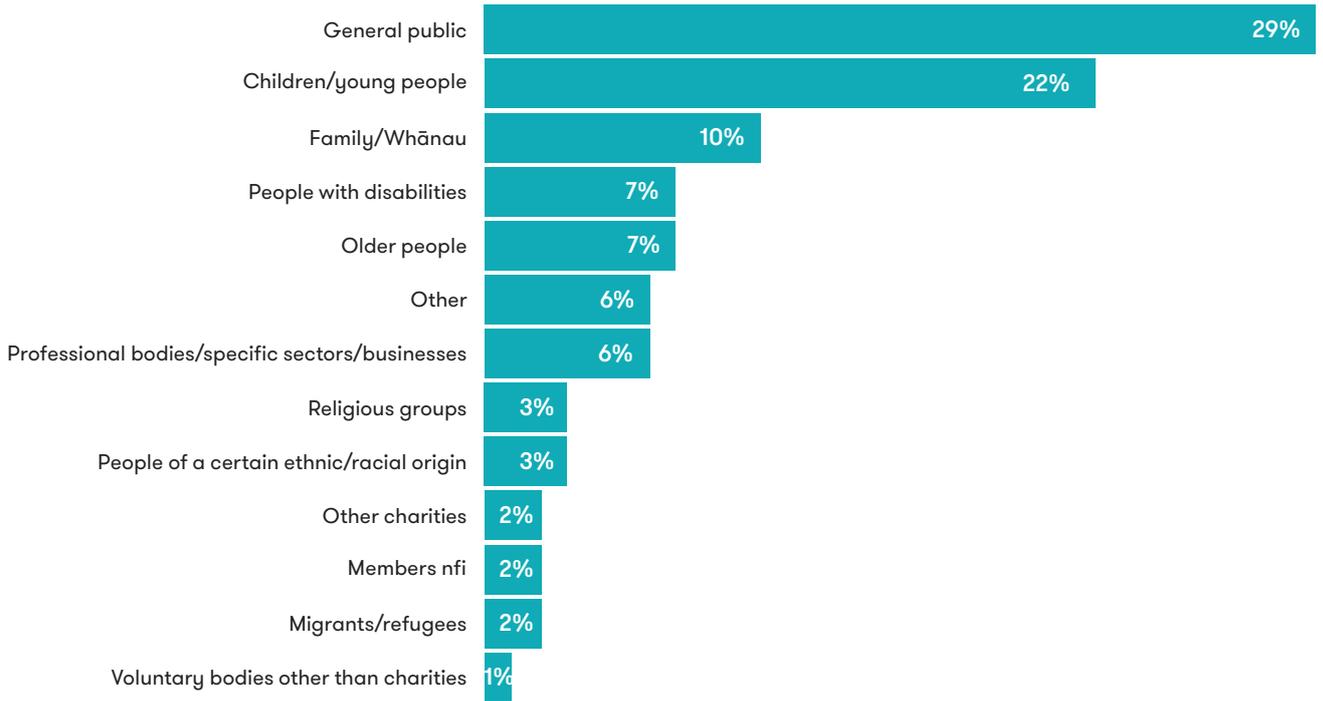


# Survey respondents

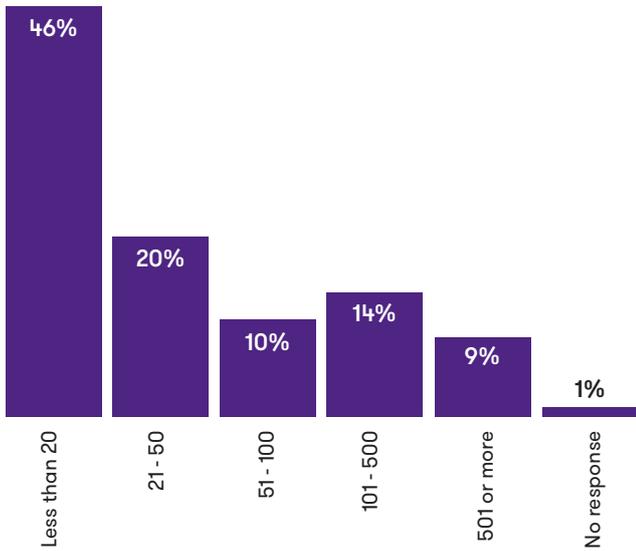
The sample of 174 predominantly comprised charities and incorporated societies. The majority of respondents came from the social services, culture, sports and recreation and health sectors.



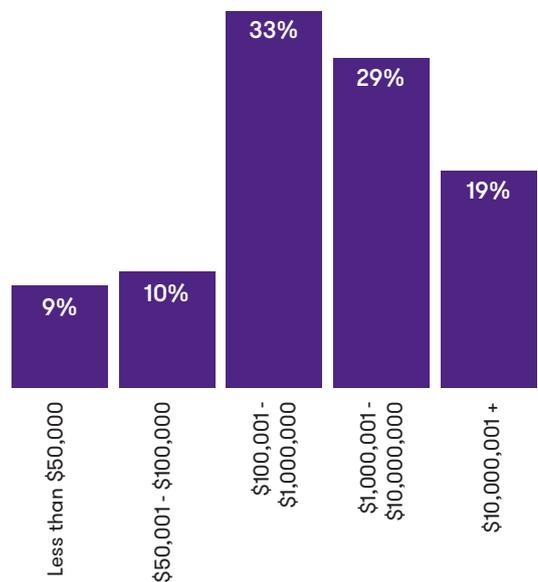
### Main beneficiary



### Headcount



### Revenue



# Our work in the Not for Profit sector

The Not for Profit sector is continuously evolving. New approaches to funding, maximising your technology investment and ensuring that your best people stay with you are all critical factors for success.

Our clients include some of New Zealand's most loved and admired NFPs, and we are proud to help these organisations address their challenges and succeed. Grant Thornton understands the commitment and scrutiny within this sector,

and our industry specialists can offer innovative solutions to help you develop new skills and open up sources of funding.

We offer NFPs advice in reporting requirements, audit, specialist assurance confirmation, business risk, technology risk, internal audit, taxation, GST, investments, and governance. Our specialists can help you with raising finance, conducting due diligence, reducing costs, avoiding fraud and using technology to its best advantage.

## Your Not for Profit specialists

Our Not for Profit leadership team is passionate about helping you achieve your mission and goals, and they understand the market you operate in. We work across the whole industry, both nationally and internationally.



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