
Statement of Intent **2006–2009**

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Chair's overview

Charities and charitable organisations have always been an important part of New Zealand's social fabric. The new Charities Act established the Charities Commission to ensure the charitable sector continues to receive public support and to inform social development policy.

The Commission began operating on 1 July 2005. We have now completed our first year of operations, in which we:

- established the Commission and employed staff
- have been building the systems and processes to undertake and manage the Charities Register
- initiated and developed our relationship with the charitable sector and other key stakeholders
- reached agreement with Inland Revenue over how the exchange of information between our organisations will occur, and
- worked with the Department of Internal Affairs (DIA) on developing regulations, including developing the registration forms.

This past year has been a busy one but I am confident that we have established a good foundation to carry out the Commission's functions effectively in the years ahead.

Although there are still unknowns and uncertainties surrounding our operations, this inaugural *Statement of Intent* provides an outline of our priorities. We do not know, for example, the actual number of charities who intend to register and this creates a challenging environment in which to implement our new legislation and establish our organisation.

While we have a number of functions under the Charities Act, our key focus for the next year is to receive and process applications for registration and provide information and support to charities to enable them to register.

The Board and staff of the Charities Commission are committed to:

- developing an organisation that charities and the public can have confidence in; and
- undertaking our functions in a responsive and transparent manner.

We understand that to fulfil our mandate we must build strong relationships with the charitable sector and work closely with a number of other government agencies.

The Commission is excited about the challenges ahead while being aware of the degree of change involved for the sector.

Given the high degree of commitment, capability and professionalism of the Commission and its staff, I am confident of our ability to make a significant contribution to the sound future of the charitable sector.



Sid Ashton
Chair

Introduction

THIS IS THE CHARITIES COMMISSION'S FIRST *STATEMENT OF INTENT*. IT CONTAINS OUR GOALS, STRATEGIC PRIORITIES AND SERVICES TO BE DELIVERED FROM JULY 2006 TO JUNE 2009. IT ALSO SETS OUT THE COMMISSION'S FINANCIAL PLANS AND MEASURES. THE *STATEMENT OF INTENT* IS BASED ON A CLEAR SET OF PRINCIPLES THAT GUIDE THE WORK OF THE COMMISSION.

Who are we?

The Charities Commission was established by the Charities Act, which was passed in April 2005. The Commission came into existence as an Autonomous Crown Entity (ACE) on 1 July 2005. (Autonomous Crown Entities are established by, or under, an Act and must have regard to government policy when directed by the responsible Minister).

The role of the Charities Commission, as set out in section 10 of the Charities Act is to:

- promote public trust and confidence in the charitable sector
- receive, consider and process applications for registration of charitable organisations
- compile and maintain a register of charities
- receive annual returns and monitor the activities of charities
- inform charitable organisations on how to comply with the Charities Act
- provide an education and support function to the charitable sector
- advise on matters relating to charities
- stimulate and promote research into any matter relating to charities
- encourage good practice in governance and use of resources.

Our principles

The Charities Commission is new to its role but clear on the approach needed to carry out its work. These principles will guide the Commission:

1. *Fairness and impartiality* – All individuals and organisations with which we have dealings will be treated impartially and reasonably, following the principles of natural justice;
2. *Consistency* – We will ensure that people in similar circumstances or with similar issues will be treated similarly in the way we apply the law, the processes that we follow, the way policy is applied and the decisions that we make;
3. *Transparency* – We will explain requirements in plain terms, set out the criteria by which we make decisions, explain what we expect from charities and provide reasons to explain and justify all decisions. We will be able to demonstrate that we are 'fair and reasonable' and display openness in the circumstances;
4. *Legitimacy* – We will only use powers that we are authorised to use and we will ensure that these powers are used properly;
5. *Independence* – We will act in the interest of the public in carrying out our role and we will ensure, consistent with our status as an Autonomous Crown Entity, that others, unless authorised to do so, will not interfere with, direct or control the Commission;
6. *Accountability* – We will inform Parliament of our intentions and outline how our performance can be assessed each year in our *Statement of Intent*. We will also publish an annual report, which includes an audit report. We are accountable for our decisions through the High Court, which can overturn them. We will provide information and explanations of our important decisions on our website and we will engage with our stakeholders prior to introducing major new policies or practices;
7. *Responsibility and respect* – We will act with personal and professional responsibility with an understanding of the consequences of our actions and show respect to others in all our dealings.

The context of our operations

The Government recognises the important role of the charitable sector, and is consequently promoting policies that acknowledge and support its unique contribution to society. The importance of the charitable sector to government agencies in New Zealand was demonstrated by the signing of the Statement of Government's Intentions for an Improved Community-Government Relationship (December 2001).

The charitable sector

Charities make a significant contribution to New Zealand society. Although the exact figure is unknown, it is estimated there might be between 15,000 to 40,000 charitable organisations in New Zealand. There is little detailed information about the size and make-up of the charitable sector and no definitive list of charities entitled to, or receiving tax exemption. As data on the sector is weak, good decision-making and resource allocation by Government and other funders can be difficult.

Having a more accurate description of the sector should help charitable organisations who want to raise the profile of the sector and access funds.

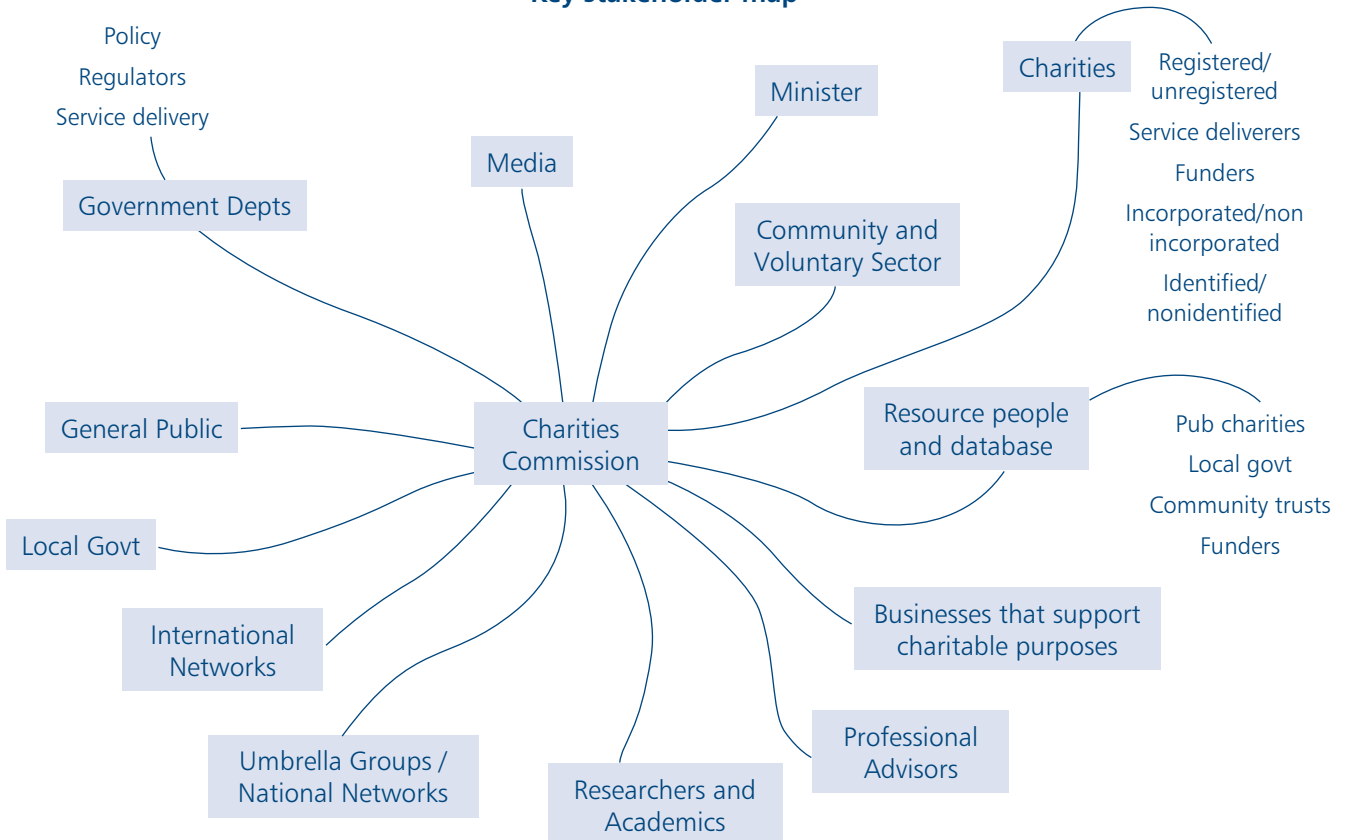
Charitable organisations improve our society by providing diverse activities and services that range from health and social services to arts and culture, from education and sport and recreation to religion and places of worship. They range from national umbrella groups to small trusts and charities working at grass roots level. Some organisations are staffed almost entirely by volunteers, while others engage only paid officers. Governance structures, balance dates, standards of administration and accounting all vary widely. This makes the task of registration a challenging one.

Building capacity and capability

A number of organisations, including the Charities Commission, have a role to play in supporting capacity building and capability development within the sector. By registering under the Charities Act, charitable organisations will provide us with information on the charitable sector in New Zealand. This, in turn, will help the Commission to fulfil its information and support function to the sector, to the public and to Government.

There is some debate about whose role it is to help the charitable sector build capacity and develop capability. Some leaders from the sector consider that capacity building and capability development should be carried out solely by the sector. Some advocates of this approach consider that Government funding, at least initially, should be provided to support this. Other approaches involve partnerships between government agencies and sector organisations, and government agencies providing information, resources and other support.

Key stakeholder map



Stakeholders

The Charities Commission knows that its stakeholders – shown in the chart above – have expectations of, and some concerns about, the Commission based on their particular understanding of the sector and of what the Commission might deliver or ask of them.

Establishing the Charities Commission and implementing its functions will certainly be one of the most significant changes to the charitable sector to date.

Since the Charities Commission was established in July 2005, our Board members, Chief Executive and staff have met with many groups and individuals to build an understanding of the current environment, consider stakeholders' needs and expectations and explore how they might change over the next three to five years. The Commission's annual meetings will provide a significant opportunity for us to further engage with the sector and discuss the expectations and operations of the Commission. The first annual meetings of the Commission, planned for November 2006, will be held in five regions to ensure adequate opportunities for discussion.

The following section provides an overview of our stakeholders' current expectations.

Our operating environment

Charitable sector

The charitable sector is looking to the Charities Commission to be an independent voice on matters affecting charities. The Commission has the power to consider, report and make recommendations on any matters relating to charities, either on its own behalf or on referral from the Minister. The sector has indicated it will be very interested to see how this power is exercised.

We also have a role to stimulate and promote research on matters relating to charities. We will do this by collecting and disseminating information about charities or, by advising on areas where further research or information about charities should be undertaken. The information from the Register will result in a better understanding of the sector as a whole. The sector has high expectations that the Commission will provide relevant information.

The charitable sector receives funds from a number of different sources. The table below shows the latest available figures on the funds received by the community and voluntary sector. While the community and voluntary sector is not identical to the charitable sector, the information is the best available and is indicative of funding sources. Charitable organisations seek funds in a highly competitive environment.

Philanthropy New Zealand published this information in 2002 on funding to the community and voluntary sector. These figures are known to be out of date but they do give some indication of the funding managed by the community and voluntary sector. Gaps and difficulties with data collection mean that the amounts shown are a conservative estimate. The lack of up-to-date and comprehensive data does highlight the lack of current information overall.

| Source | \$000 (millions) |
|-----------------------|------------------|
| Central government | 920,595 |
| Personal donations | 281,906 |
| Philanthropic trusts | 142,801 |
| Gaming machine trusts | 131,241 |
| Lottery Grants Board | 91,381 |
| Local government | 28,200 |
| Bequests | 37,698 |
| Total | 1,633,822 |

A substantial amount of funding flows to the community and voluntary sector in the form of contracts for services by the Crown. Some, but by no means all, of this funding will be included in the central government category. There are also other sources of income for which statistics are not available, such as income from investment or trading activities.

While New Zealanders are generous with their time, they are not, by international standards, generous with cash donations to the charitable sector. For example, in the year ending 30 June 2001, the average amount spent per household per year on church, charitable and civic donations was \$168.¹ This compares, for example, with \$210 in Canada and \$424 per adult in Australia in the year ending 31 January 2005. (This Australian figure is not directly comparable but certainly is indicative of relative levels.) As the number of charities continues to increase, so does competition for financial support from the public.

Changing public expectations are putting charities under pressure to improve their efficiency and accountability, deliver services to a high standard and demonstrate that they are providing value for money. Charities receiving funds from a variety of agencies must also comply with different reporting requirements from those agencies.

The charitable sector is responding to these demands and is looking for assistance and guidance on how best to improve its capabilities. In this environment, the charitable sector is looking to the Commission to provide advice and support concerning regulatory obligations and duties, and to assist charities to get access to good information and guidance on issues relating to governance and management.

¹ New Zealand Household Economic Survey

The Government

The Government is aware that the charitable sector makes a significant contribution to the New Zealand economy but the sector's actual contribution in terms of dollars and services is unknown, as is the size and makeup of the sector as a whole.

Many government agencies rely on the charitable sector to provide public services, either by funding the sector directly or by filling a recognised need. The Government is committed to government agencies working in partnership with the charitable sector to establish and develop services and promote community development. It also wants to be sure that funds flowing into the charitable sector are used appropriately to provide effective and efficient services.

Charitable organisations currently receive an income tax exemption from the Government, which now wants to increase assurance that only organisations with charitable purposes qualify for this exemption. In a similar manner, donors of gifts to charities do not have to pay gift duty. The Government intends for this gift duty exemption to continue for donations to registered charities.

The Government also provides individual taxpayers with a rebate for charitable donations – a process that will continue to be managed by Inland Revenue (IRD).

Indications are that there will be increasing economic pressure on government spending, creating an increasingly competitive environment for charities seeking funding.

The Government has expressed a desire that government agencies will coordinate their activities, wherever possible, to avoid duplication and to minimise the compliance costs to the sector. This coordination extends to ensuring that the charitable sector has access to appropriate advice and support concerning regulatory obligations.

In this environment, the Government is looking for good information and advice on the sector and assurance that funds are spent wisely and organisations are managed well.

Government agencies

Many government agencies have charitable organisations as stakeholders – as part of their work, as recipients of their services, or as providers of services – which contribute to achieving the departments' outputs. However, with the exception of the Charities Commission, no single government agency deals with the charitable sector as a whole.

Like the charitable sector, government agencies face increased pressure from the public to deliver value for money and to have transparent and sound processes. They are also expected to deliver their services through partnerships with communities, where appropriate, and promote community development.

Government agencies therefore have a stake in a charitable sector that is well managed and effective. They also need good data on the sector to develop policy advice. In this operating environment, they will be looking to the Commission to be a source of information and guidance on issues relating to the charitable sector.

Because registration under the Charities Act can have tax implications, the Commission and Inland Revenue will require a very close working relationship. The exchange of relevant information between these organisations is particularly important.

The public

Currently the public has limited information about the charitable sector. Much of the public's interaction with the sector is through personal involvement with a particular charity, donations to fundraising campaigns and information in the media.

With the establishment of the Charities Register, people will be able to access more information on registered charities, including financial information, once annual returns are filed. Governing documents, charitable activities and other application information will be readily available to the public, making it easier to learn about the nature of the charitable sector, the contribution it makes to society and helping to promote public confidence in it.

The regulatory regime before July 2005

Before the Charities Act was passed, there was no single regulator for the charitable sector. There was legislation, such as the Companies Act 1993, the Charitable Trusts Act 1957, the Incorporated Societies Act 1908, and the Trustee Act 1956, which applied to the charitable sector or to the incorporation of some charities. Charitable organisations were required to comply with the legislation that related to their specific situation.

Inland Revenue legislation dealt with tax related issues for charitable organisations and this will continue in the future. This legislation requires charities to determine their entitlement to the various tax exemptions on charitable grounds, with Inland Revenue retaining the right to question and scrutinise any case. Practically, Inland Revenue has played a significant role in assisting charities to determine their eligibility for tax exemptions on charitable grounds.

Key themes

The assessment of our operating environment raises a number of issues that will affect our work.

In summary:

- There is little information on the charitable sector and its size and scope is uncertain;
- All stakeholders in the charitable sector would benefit from the availability of good data on the charitable sector;
- There are opportunities for government agencies to work in partnership with the charitable sector to establish and develop services and promote community development;
- The Commission has a role to build capacity and develop capability in the charitable sector, however other organisations also have this role and we need to better understand this picture;
- Charities are under increasing pressure to improve efficiency and accountability, particularly when accessing and accounting for government funding;
- New Zealand's public rate of financial donations appears to be low by international standards – we need to gain a better understanding of this; and
- There is a need to coordinate activities between government agencies working with the sector to ensure compliance costs are minimised, and clarify and communicate roles and boundaries to avoid confusion.

These key themes have influenced our choice of the outcomes the Commission is aiming to achieve and the Commission's strategic priorities over the next three years.

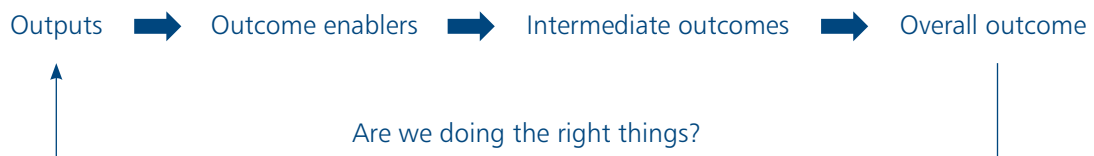
Strategic directions

Our planning approach

In order to make the best use of the resources we have, and to ensure we are undertaking those activities that are going to be of most relevance, we started our planning processes by focusing on outcomes. *Outcomes* are the state or condition of New Zealand society that we are able to influence to varying degrees to make a positive impact on the lives of New Zealanders.²

We began by considering what it is we are ultimately trying to achieve, i.e. what is the overall outcome we are seeking? We realise that an overall outcome is a very high-level goal and its achievement is the result of many contributions.

The relationships between our intermediate outcomes and the final outcome are illustrated in the diagram below.



Intermediate outcomes are those outcomes that, when attained, will influence the overall outcome and *enablers* are the mechanisms that help the outcomes occur. The *outputs* are the services we deliver. The nature and extent of these are agreed with the Minister for the Community and Voluntary Sector each year.

Our outcomes framework

We aim to be an efficient and effective regulator and to provide education and support to improve charities' overall effectiveness and promote public trust and confidence. The overall outcome we are looking for is a strong and well-managed charitable sector that performs effectively and can make a significant contribution to society.

We believe that if we are an effective regulator, which also provides targeted education and support to the sector and information on the sector, public confidence in the charitable sector will improve. We would hope that as confidence in the sector improves, and the sector can demonstrate value for money, the public will feel able to increase their donations, in time and resources, thus improving the sector's capacity and its contribution to society.

Although the Commission has a lead responsibility in achieving this intermediate outcome, other organisations will also have a contribution to make, and external factors will also influence the nature of the outcome.

The outcome enablers are the factors that we consider will impact on public trust and confidence in the charitable sector. This is our initial Outcomes Framework, based on our understanding at this time. We will develop and amend this framework as it becomes clear whether or not our activities are contributing to the desired outcomes.

² See s2(1) of the Public Finance Act 1989

| Outcome | Intermediate Outcome | Outcome enablers | Charities Commission outputs and activities |
|---|--|---|---|
| Strong and well managed charitable sector that performs effectively and makes a significant contribution to society | Increased public trust and confidence in the charitable sector | Promotion of legal compliance Access to an effective complaints procedure regarding charities Supporting the sharing of knowledge Increasing access to quality information about charities and the effective use of charitable resources | Register of charitable entities Advice, education and information on issues affecting charities Monitoring of activities of charitable entities |

Measuring progress towards our goals

In 2006/2007 we will work on establishing the most appropriate methodology to evaluate our progress towards achieving our outcomes. We envisage that we will develop a range of strategies and indicators to measure our effectiveness.

Strategic priorities

- Our first priority is to become an effective regulator. This will include providing registration support for charities.
- The second priority will be to provide education and support for the sector and to target those areas of greatest need for the sector.
- The third priority will be to provide information on the sector and on issues affecting the sector.
- Lastly, we have a responsibility to coordinate our work with other agencies working with the sector, establish the boundaries of our work and determine how best to work together.

Statement of Forecast Service Performance

Charities Commission outputs

The following section outlines the outputs the Commission intends to deliver over the next three years.

The priority for us in the first year will be receiving and processing applications for registration and providing information and support to charities to enable them to register.

In the second year, we will continue with registration activities but will also process the annual returns of registered charities. Over this period, the Commission will begin to analyse information received during the registration process, and consider how to communicate this and what further information would be useful to obtain. We will also begin our monitoring activities and provide information and support on governance and good management.

In the third year, we will continue to focus on processing annual returns and registering charities, but monitoring activities will become more a focus of our work. Developing and communicating information relevant to charities will be an increased focus over this period.

Output Class: Charities Administration

OUTPUT 1.1 Registration of charities under the Charities Act 2005

REGISTRATION ACTIVITIES WILL FORM THE MAJOR PART OF THE COMMISSION'S OPERATIONS OVER THE NEXT THREE YEARS.

Registration and annual returns

Applications for registration can be made from February 2007. All existing charities must register within the required timeframe to maintain their tax exempt status.

It is unknown how many charities will apply to register under the Charities Act, but projections have used a base volume of 25,000 new applications and associated annual returns. The actual number of registrations may well be greater than this but we have used this number for planning purposes.

We have developed some forecasts based on the assumption that the Commission will receive applications for registration in the three to six months following charities' balance dates.

Once the initial registration period is over, projections of new registrations are minimal. We expect to receive the majority of annual returns once the registration peak is over.

Output description

Under this output, the Commission will:

- establish the Register of Charitable Entities
- receive, consider and process applications for registration as charitable entities
- ensure the Register of Charitable Entities is compiled and maintained
- receive, consider and process annual returns submitted by charitable entities
- supply information for the purposes of the Inland Revenue Acts.

Performance information

| Performance Measures for 2006/07 | Standard/Target |
|---|---|
| Number of charities registered | 3,000–7,000 |
| Annual returns received and processed | Nil |
| Fully completed applications for registration decided within 30 working days of receipt | 85% |
| Annual returns processed within 25 working days of receipt | 90% |
| Register will be online and fully operational to the public and charities | No less than 97% availability per month |
| A quality audit on a sample of the recommendations for registration | Indicates no significant areas for improvement and shows only minor inconsistencies in decisions. |

| 2006/07 Output Summary | \$000 GST exclusive |
|--|------------------------|
| <i>Registration of charities under the Charities Act 2005:</i> | |
| Output revenue | 2,046.8 |
| Output expense | (3,482.9) |
| Net deficit | (1,436.1) |

OUTPUT 1.2**Provision of advice, education and information**

PROVIDING REGISTRATION INFORMATION AND SUPPORT WILL BE THE COMMISSION'S PRIORITY IN THE FIRST YEAR, FOLLOWED BY ACTIVITIES TO SUPPORT THE COMPLETION OF ANNUAL RETURNS. AS REGISTRATION ACTIVITIES SETTLE DOWN, INFORMATION AND SUPPORT ACTIVITIES WILL BROADEN TO INCLUDE SUPPORT RELATING TO GOOD GOVERNANCE AND MANAGEMENT.

Output description**Registration information and support**

We will provide information and support to help charities to apply for registration under the Charities Act.

In 2006/07 we will develop and deliver education material around the registration process. We will deliver this material through our own workshops for the charitable sector, online and as a hard copy pack. We will develop our relationships and networks with the charitable sector so we can disseminate information about registration. We will also begin to develop education material to help charities complete annual returns.

In 2007/08 we will provide education and support on the annual return process and continue to support charities through the registration process. Our experiences in the registration education process in 2006/07 will influence how we approach the annual return education process.

Advice on issues affecting charities

The Commission will provide advice as required on the implementation of the Charities Act and its regulations. It will also be important for the Commission to comment on any proposals for change arising out of the Ministry of Economic Development's intended review of the Financial Reporting Act 1993, in terms of their impact on charitable entities.

We will also provide advice to stakeholders and the Crown on other matters affecting charities as they arise over the timeframe of this document. Priorities for this advice will focus on initiatives relating to taxation, governance and the compliance obligations of charitable entities.

Information dissemination

The nature and extent of the charitable sector is currently not well understood. Through our registration process, the Commission will receive comprehensive information on the charitable sector. There is an opportunity to use this information to provide statistical data and other relevant information to stakeholders about the charitable sector, particularly when it will increase public understanding and awareness of the sector.

Analysis of the information received through the registration programme will highlight areas where further information would be valuable. However, our initial priority will be to understand the information that the Register contains, and how that information can be used. This awareness will provide an opportunity for the Commission and our stakeholders to discuss priorities for using and disseminating the information.

On the basis of this discussion, we will begin a sector-wide consultative process focused on developing an understanding of the charitable sector's research needs and its views on research priorities.

Based on an agreed set of priorities we will then be able to commission research in areas where information is not currently available or, where we believe further investigation is warranted. This research will be a resource for stakeholders, and help us to target and prioritise educational initiatives.

Education programmes

A key role of the Commission is to provide charitable organisations with support and advice on good governance and management. We will achieve this by providing sample rules and governance documents and advice on where to go for more information and guidance. Printed support material will be sent directly to interested stakeholders in an education pack and be available on our website. We will also use our networks to help charities to share their knowledge about good practice.

Our priority for education and support for the first two years will be to provide appropriate information and support to help charities apply for registration under the Charities Act and to submit annual returns. In the second year, 2007/08, we will develop our detailed approach for the delivery of support and advice on good governance and we will implement this in 2008/09.

Good practice guidelines

The Commission will develop and disseminate guidelines and recommendations on good practice governance and management of charitable organisations.

Performance information

| Performance Measures for 2006/07 | Standard/Target |
|--|--|
| <i>Registration information and support:</i> | |
| <ul style="list-style-type: none"> Free phone advisory service | Able to answer a peak of 2,000 calls per month Evaluation of a sample of callers indicates that needs of participants have been met |
| <ul style="list-style-type: none"> Information on registration on the Commission's website | Stakeholder feedback on the usefulness of the material |
| <ul style="list-style-type: none"> Education packs | 5,000 distributed Stakeholder feedback on the usefulness of the material |
| <i>Advice on issues affecting charities:</i> | |
| <ul style="list-style-type: none"> Development of an policy advice work programme Policy advice is delivered in accordance with work programme | Positive stakeholder feedback on the usefulness of the advice |
| <i>Information dissemination:</i> | |
| <ul style="list-style-type: none"> Update newsletter produced & distributed monthly | Circulation list over 2,500 Readership survey on usefulness of newsletter |
| <ul style="list-style-type: none"> Fact sheets provided on issues such as group registration, tax and funding. | 5 fact sheets produced Positive stakeholder feedback on the usefulness of the information |

| 2006/07 Output Summary | \$000 GST exclusive |
|--|------------------------|
| <i>Provision of advice, education and information:</i> | |
| Output revenue | 600.1 |
| Output expense | (1,020.9) |
| Net deficit | (420.8) |

OUTPUT 1.3 Monitoring activities of charitable entities

THE COMMISSION'S REGULATORY ROLE WILL INCREASE IN IMPORTANCE AS THE REGISTRATION OF CHARITABLE ENTITIES PROCEEDS. AS A RESULT, THERE WILL BE LIMITED ACTIVITY UNDER THIS OUTPUT IN THE FIRST YEAR OF OPERATIONS WITH ACTIVITIES INCREASING IN SUBSEQUENT YEARS.

Output description

Under this output, the Commission will:

- monitor registered charitable entities to ensure they maintain their qualification for registration
- enquire into any conduct of charitable entities that may constitute a breach of the Charities Act
- monitor and promote compliance with the Charities Act and take prosecutions under this Act
- receive and investigate complaints about charities.

Performance information

| Performance Measure for 2006/07 | Standard/Target |
|---|---|
| Investigations under the Charities Act | Nil |
| Establishment of a complaints procedure | Matters brought to the Commission's attention are followed up and responded to within 25 working days |

| 2006/07 Output Summary | \$000 GST exclusive |
|--|------------------------|
| <i>Monitoring activities of charitable entities:</i> | |
| Output revenue | 14.4 |
| Output expense | (24.5) |
| Net deficit | (10.1) |

How uncertainties may affect the Commission delivering its outputs

There are a number of risks and uncertainties relating to the Commission's activities in the initial period of our operations. We have attempted to plan our activities on the best available information and to manage our risks in the most appropriate way. However, given the uncertainties, we cannot eliminate the risks entirely. Some examples of the risks and uncertainties are outlined here.

Number of charities seeking registration

The Commission does not know how many charities will seek to register in the initial qualifying registration period. There is no definitive information on how many charities exist and what their intentions are. We have budgeted on the basis that 25,000 charities will seek registration over this period but the reality may be that there are many more charities than this wanting to be registered and to qualify for tax exemption.

Time taken to process registrations

We need to review and consider each application for registration. We have budgeted on each application taking a certain amount of time to consider. It may be that applications take longer to process than we have estimated and are more complex than we have anticipated at this stage.

Future resourcing needs

The Commission is required to undertake a number of new tasks and activities over the next three years as part of the registration of charities. There is a degree of uncertainty surrounding the level of work required to complete these tasks and activities as the Commission is still in the "early days" of its operations. As a result, the level of resourcing required is also uncertain at this stage and will need to be reviewed on a regular basis throughout the period.

Assistance for charities

We have planned how we will provide support and education for charities seeking to register and submit annual returns to meet the constraints of our current budget. Charities may require more assistance, for example to complete group registration requirements, than we have allowed for in our plans and budgets.

Building of the Register

The Register is an information system that is designed to meet our requirements for the functions we are responsible for. If the project for the development and implementation of the Register is delayed, it will affect our ability to undertake our activities as planned. Delays will also affect the funds we will receive from the filing of annual returns.

Risk management

We will closely monitor the risks outlined above and manage these risks, and any other others identified, to our best ability. Where our planning and budgeting assumptions change we will need to work with the Minister and her advisors at the Department of Internal Affairs on how additional funding can be made available to the Commission to ensure we are able to carry out our functions as required.

Consultation and reporting to the Minister

In accordance with section 141(1)(g) of the Crown Entities Act 2004, there are no specific matters on which the Commission intends to consult or notify the Minister. However, the Commission will adopt the following approach:

No surprises

The Commission will ensure that the Minister is adequately warned in advance, where prediction is possible, about:

- issues likely to attract external attention, or represent potential risk to the Government
- key risks or matters that may have a bearing on her role as Responsible Minister.

The matters on which the Commission will report to the Minister and the frequency of reporting are summarised below:

Reporting

- Annual Report – as per the Crown Entities Act 2004 and the Public Finance Act 1989 requirements
- Reporting quarterly against the performance dimensions established in both the *Statement of Intent* and the Output Agreement
- Financial information showing actual revenue and expenditure against budget for the quarter and year to date, and an updated forecast of operating revenue and expenditure for the financial year in the second and third quarterly report
- Risk management – reporting quarterly

Relationships with key government agencies

The Commission has an “inner circle” of government agencies it works with. The nature of the relationships that the Commission has with these organisations is outlined below.

The Department of Internal Affairs (DIA)

DIA is the government department that assists the responsible Minister (the Minister for the Community and Voluntary Sector) with the oversight and management of the Crown’s interest in, and relationship with, the Commission. DIA also provides assistance to the Minister with exercising any statutory responsibilities she has in relation to the Commission. This means that DIA monitors the performance of the Commission and provides advice to the Minister. In practical terms the Commission talks with DIA about its *Statement of Intent*, annual Output Agreement with the Minister (which includes budget) and the Annual Report.

Inland Revenue (IRD)

The registration test of the Charities Commission under the Charities Act 2005 is closely aligned with the relevant test under the Income Tax Act 2004 administered by IRD. This means that charities that meet the Commission's requirements for registration may also meet IRD's test for retaining or acquiring tax-exempt status. (Tax-exempt status means registered charities do not have to pay income tax and donors of gifts to registered charities do not have to pay gift duty.)

Under the Charities Act the Commission may supply IRD with information in order for IRD to carry out its functions under any of the Inland Revenue Acts. The Commission and IRD have developed Memoranda of Understanding to cover how they will exchange information and work with each other. The Commissioner of IRD and the Board of the Commission will monitor the implementation of these memoranda.

The Commission and IRD need to work closely together to ensure that appropriate processes and procedures are in place for both organisations to undertake their statutory functions.

The Office for the Community and Voluntary Sector within the Ministry of Social Development (OCVS)

Although the Department of Internal Affairs has the monitoring and oversight role of the Commission, it must work closely with the Ministry of Social Development in relation to the Commission's strategic direction and performance. The way in which these obligations are met is currently being worked out and the Commission expects to work closely with both organisations as they carry out their functions.

The Office for the Community and Voluntary Sector (OCVS) was established to facilitate cooperation and good relationships between the Government and the community and voluntary sector. OCVS has four work streams that comprise its current work programme. These are:

- Building community and voluntary sector capacity
- Building knowledge
- Overcoming policy barriers; and
- Building good practice in the public service.

The activities under this work programme are supported by OCVS providing advice to the Minister for the Community and Voluntary Sector.

The Commission and OCVS share an interest in developing the community and voluntary sector and will work together to establish the boundaries of our work.

Statistics New Zealand

Statistics New Zealand's role under the Statistics Act is to provide information for the purpose of making policy decisions, and to "be the key contributor to the collection, analysis and dissemination of official statistics relating to New Zealand's economy, environment and society". As part of this role, Statistics New Zealand collects information from the not-for-profit sector and can require those organisations which hold statistical information to provide it to them. Both Statistics New Zealand and the Charities Commission have an overlapping interest in expanding the current analysis of the charitable sector, and have already been discussing mutual information interests.

In light of this shared interest the Charities Commission and Statistics New Zealand have agreed to develop a "relationship agreement" that will confirm the way the two agencies will work together by information sharing, research priorities and relationships with stakeholders.

The Ministry of Economic Development (MED)

MED was the responsible department for the Charities Bill. When it was decided that the Commission would have an education, support and assistance role for charitable organisations in addition to our regulatory role, it was agreed that MED was no longer the most appropriate department to administer the Charities Act and monitor the Commission.

DIA was made the responsible department to oversee and manage the Crown's interest in the Commission.

Although MED is no longer overseeing the Commission, the relationship between the Commission and MED is still significant, with ongoing engagement occurring though both MED's advisory role in the Register Project, and MED's current intention to review the application of the Financial Reporting Act 1993 to charities and the not-for-profit sector in 2006/2007.

Developing our organisation

Organisational capability

Organisational capability means ensuring the Commission has the people, systems and processes required to deliver our planned outputs and achieve our stated outcomes.

People

Our objective is to carry out our functions in an effective, professional, responsive and transparent way. To achieve our strategic goals and operational priorities we need people who are knowledgeable and experienced in their fields. They also need to be capable of handling the ambiguity and uncertainty of a new organisation dealing with new functions and have an understanding of both the charitable and the state sectors.

The Commission's focus in our first year was to attract good people to our roles. We did this in a considered way and now have the majority of people we need. Our focus now shifts to retaining, developing and enabling these staff, although attracting good people will obviously continue to be important as the need arises.

• Retaining

We recognise that employees have a range of different needs that, when met, will enhance the contributions they can make to the Commission. The Charities Commission is concerned about employee welfare and is committed to providing a work environment that meets the needs of employees and the organisation.

The Commission has developed some basic human resources policies and procedures in its first year and these will be developed further. The emphasis will be on ensuring the Commission has the right practices and incentives in place to ensure that employees are able to contribute, feel valued, develop and grow.

• Developing

We will develop our capability by providing individualised development plans that support the goals of the organisation and are linked to career options. Individual development priorities will be identified through our performance management processes.

We will also operate a corporate programme of development which will focus on ensuring that employees have the competencies required to deliver the Commission's priority objectives. The emphasis initially will be in the areas of:

- presentation, communication and facilitation;
- management and coaching; and
- cultural awareness.

• Enabling

Employees who have a clear understanding of their roles, the differing roles of management and governance and the clarification of appropriate delegations, policies and procedures will enhance our capability. In our first year, we developed governance policies and delegations and some related policies and procedures. We would expect to develop these further as the organisation matures.

We would also expect that, as the organisation settles down into its operations, the nature and scope of the roles of all employees will be clarified. Where gaps are identified in our roles or organisational capability, we will look at strategies to close these.

Information and technology

In order for our people to do their work well they need the right tools and management systems.

In our first year, we implemented a basic IT infrastructure (which includes a financial management and payroll system) and a records management structure.

We will need to take these basic building blocks and develop an information and systems strategy that will clarify our information and technology needs for the next 3–5 years. The objective of the strategy will be to align our information and technology resources with the Commission's strategic and operational plans.

Management of organisational risk

We established the Audit, Risk and Compliance Committee last year to oversee the management of risks for the Commission. The committee developed a work programme to ensure that risks (to the Commission's operations or reputation) are identified, assessed and strategies developed for their management.

The implementation and further development of this work programme will occur over the next year. Risks come in many forms and it is expected that the risk management programme will cover a broad range of risks to the Commission, including legal, human, financial and technology issues.

Prospective Financial Information

Prospective Financial Statements

The prospective financial statements have been prepared for the purposes of this *Statement of Intent* and to provide a basis for future accountability of the Charities Commission. The projected figures are based on the current information available and are the best projections by the Commission in order to meet its future obligations within the existing funding available.

Statement of Prospective Financial Performance

For the years ending 30 June

| | Projected 2005/06 \$ | Projected 2006/07 \$ |
|------------------------------------|----------------------------|----------------------------|
| Revenue | | |
| Crown Funding | 5,241,000 | 2,661,333 |
| Interest Income | 90,000 | 45,540 |
| Other Income | – | – |
| Total Revenue | 5,331,000 | 2,706,873 |
| Expenses | | |
| Administration | 676,265 | 1,897,883 |
| Audit Fees | 30,820 | 15,000 |
| Depreciation | 39,079 | 212,878 |
| Occupancy Costs | 128,114 | 149,400 |
| Personnel | 1,116,211 | 1,706,321 |
| Professional Fees | 1,414,147 | 546,779 |
| Total Expenses | 3,404,636 | 4,528,261 |
| Operating Surplus/(Deficit) | 1,926,364 | (1,821,388) |

Statement of Prospective Movements in Taxpayers' Funds

For the years ending 30 June

| | Projected 2005/06 \$ | Projected 2006/07 \$ |
|---|----------------------------|----------------------------|
| Taxpayers' funds at start of year | – | 3,515,364 |
| <i>Movements during the year:</i> | | |
| Net surplus/(deficit) | 1,926,364 | (1,821,388) |
| Total recognised revenues and expenses for the year | 1,926,364 | (1,821,388) |
| Capital contribution | 1,367,000 | – |
| Litigation funds | 222,000 | – |
| Taxpayers' Funds at end of year | 3,515,364 | 1,693,976 |

Statement of Prospective Financial Position

As at 30 June

| | Projected 2005/06 \$ | Projected 2006/07 \$ |
|--|----------------------------|----------------------------|
| Current Assets | | |
| Bank Balances | 2,699,431 | 237,258 |
| Receivables and Accrued Revenue | 3,000 | 2,500 |
| GST Receivable | 84,800 | 48,000 |
| Total Current Assets | 2,757,231 | 287,758 |
| Non-Current Assets | | |
| Capital Work in Progress | 525,000 | – |
| Fixed Assets | 369,096 | 1,656,218 |
| Total Non-Current Assets | 894,096 | 1,656,218 |
| Total Assets | 3,651,327 | 1,943,976 |
| Current Liabilities | | |
| Accounts Payable and Accruals | 100,000 | 200,000 |
| GST Payable | – | – |
| Employee Entitlements | 35,963 | 50,000 |
| Total Current Liabilities | 135,963 | 250,000 |
| Total Liabilities | 135,963 | 250,000 |
| NET ASSETS | 3,515,364 | 1,693,976 |
| Taxpayers' Funds | | |
| Capital Contribution | 1,367,000 | 1,367,000 |
| Litigation Fund | 222,000 | 222,000 |
| <i>Accumulated Funds:</i> | | |
| Balance at Start of Year | – | 1,926,364 |
| Operating Surplus/(Deficit) for the Year | 1,926,364 | (1,821,388) |
| Balance at End of Year | 1,926,364 | 104,976 |
| TOTAL PUBLIC EQUITY | 3,515,364 | 1,693,976 |

Statement of Prospective Cash Flows

For the years ending 30 June

| | Projected 2005/06 \$ | Projected 2006/07 \$ |
|--|----------------------------|----------------------------|
| Cash Flows From Operating Activities | | |
| <i>Cash is provided from:</i> | | |
| Crown Revenue | 4,981,000 | 2,661,333 |
| Interest Income | 87,000 | 46,040 |
| Other Income | – | – |
| Net GST to be received/(paid) | (84,800) | 36,800 |
| | 4,983,200 | 2,744,173 |
| <i>Cash is disbursed to:</i> | | |
| Operating Expenses | (2,969,594) | (4,201,346) |
| Net cash outflows from/(used by) operating activities | 2,013,606 | (1,457,173) |
| Cash Flows Used In Investing Activities | | |
| <i>Cash is provided from:</i> | | |
| Capital Contribution | 1,367,000 | – |
| Litigation Fund | 222,000 | – |
| <i>Cash is disbursed to:</i> | | |
| Capital Work in Progress | (525,000) | – |
| Purchase of Fixed Assets | (408,175) | (975,000) |
| Net cash outflows from/(used in) investing activities | 655,825 | (975,000) |
| Net increase/(decrease) in cash held | 2,669,431 | (2,432,173) |
| Add opening cash brought forward | – | 2,669,431 |
| Closing Cash To Be Carried Forward | 2,669,431 | 237,258 |
| <i>Closing cash carried forward is represented by:</i> | | |
| Bank Balances | 2,669,431 | 237,258 |

Significant Assumptions and Significant Accounting Policies

Financial planning assumptions

Reporting Entity

The Charities Commission is a crown entity as defined by the Public Finance Act 1989 and is an Autonomous Crown Entity as defined by the Crown Entities Act 2004.

Statutory Base

The financial statements are prepared in accordance with section 62 of the Charities Act 2005, section 45B of the Public Finance Act 1989 and generally accepted accounting practice.

Measurement Base

The financial statements have been prepared on a historical cost basis.

Uncertainty

Under the Charities Act 2005, the Charities Commission is to provide a registration system for charitable organisations. As this is an entirely new process, there are a number of uncertainties surrounding the underlying assumptions used to develop these prospective financial statements. These uncertainties include:

- the number of applications for registration;
- the timing of the receipt of applications;
- the proportion of applications received online and in hard copy form;
- the time to process each application;
- the time to complete a review of an organisation's rules to see if it meets the charitable purpose test under the requirements of the Charities Act; and
- the ability to recruit sufficient qualified staff.

Where possible, we have used existing information available from the charitable sector as well as information from organisations who undertake similar functions within the public sector. However, there is still a risk that some of the underlying assumptions will prove to be incorrect.

Accounting Policies

The following accounting policies which materially affect the measurement of financial performance and financial position have been applied.

Revenue

The Charities Commission derives revenue through the provision of outputs to the Crown, annual return fees and interest on its investments. Such revenue is recognised when earned and is reported in the financial period to which it relates.

Goods and Services Tax (GST)

These financial statements have been prepared on a GST exclusive basis except for receivables and payables which are stated inclusive of GST.

Property, plant and equipment

The initial cost of a fixed asset is the value of the consideration given to acquire or create the asset and any directly attributable costs of bringing the asset to working condition for its intended use. Property, plant and equipment are shown at initial cost less depreciation.

Depreciation

Depreciation is provided on a straight line basis so as to write off the cost of the assets over their expected economic lives. The expected economic lives and associated depreciation rates of major classes of assets are as follows:

| | | |
|------------------------|---|-----------------|
| Computer equipment | – | 4 years (25%) |
| Computer software | – | 4 years (25%) |
| Furniture & fittings | – | 10 years (10%) |
| Office equipment | – | 10 years (10%) |
| Registry software | – | 4 years (25%) |
| Leasehold improvements | – | 12 years (8.3%) |

The cost of leasehold improvements is capitalised and depreciated over the unexpired period of the lease.

Commitments

Future payments are disclosed as commitments at the point a contractual obligation arises. Commitments relating to employment contracts are not disclosed.

Contingent Liabilities

Contingent Liabilities are disclosed at the point at which the contingency is evident.

Leases

The Charities Commission leases office premises, printers, photocopiers and two car parks. As the lessor retains all the risks and the ownerships of these leases, they are classified as operating leases. Operating lease costs are expenses in the period in which they are incurred.

Financial instruments

The Charities Commission is party to financial instruments in the form of bank accounts, receivables and payables as part of its operations. These are recognised in the Statement of Financial Position at fair value. All revenue and expenses in relation to the financial instruments are recognised in the Statement of Financial Performance at historic cost.

Taxation

The Charities Commission is, as a public authority, exempt from income tax under the Income Tax Act 1994.

Employment entitlements

Provision is made in respect of liability for annual leave. Annual leave is expected to be settled within 12 months (or approval gained to carry forward leave) of reporting date. This has been calculated on an actual entitlement basis at current remuneration rates. The Charities Commission does not provide long service leave or retirement leave.

Receivables

Receivables are stated at net realisable value.

Statement of Cash Flows

The Statement of Cash Flows is prepared exclusive of GST, which is consistent with the method used in the Statement of Financial Performance. Definitions of the terms used in the Statement of Cash Flows are:

- 'Cash' includes coins and notes, demand deposits and other highly liquid investments readily convertible into cash.
- 'Investing activities' are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.
- 'Financing activities' are those activities relating to changes in equity of the entity.
- 'Operating activities' include all transactions and other events that are not investing or financing activities.

Changes in Accounting Policies

No changes are expected to accounting policies during the period.

Signing of the *Statement of Intent*

In accordance with section 141(3) of the Crown Entities Act 2004 this first *Statement of Intent* of the Charities Commission is signed by Sid Ashton, Chair of the Charities Commission and Kerry Ayers, Board Member of the Charities Commission on behalf of the Board of the Charities Commission.



Sid Ashton

Chair

29 June 2006



Kerry Ayers

Board Member

29 June 2006

Appendices

Board members' biographies



Sid Ashton – Chair

Sid Ashton, an Officer of the New Zealand Order of Merit for services to Māori and the Community, has been a Christchurch accountant for over 30 years. Sid Ashton chaired the Tax and Charities Working Party in 2001/2002 and has recently been the Chairperson of the Charities Commission Establishment Group, which advised the Ministry of Economic Development on the establishment of the Charities Commission.

From 1993 to 1996, Mr Ashton was the Chief Executive Officer of the Ngāi Tahu Māori Trust Board and then served as the Chief Executive Officer of Te Runanga o Ngāi Tahu to 2002. From 2002 until 2004, Sid was the organisation's corporate secretary. He is currently serving as Chairman of the Christchurch Arts Festival Board and as a trustee for the Diabetes Training and Research Trust – both of which are charitable trusts. He is also Director of Ryman Healthcare, a publicly listed company.



Judith Timpany – Deputy Chair

Judith Timpany is the Chief Executive of the Whanganui Community Foundation Incorporated and a Justice of the Peace. She has recently completed her Masters in Philosophy in Social Policy at Massey University.

Judith has 19 years experience in the charitable sector in a broad range of community focused activities, including three years as a Wanganui City Councillor, Chairmanship of Philanthropy New Zealand (currently a board member), membership of WINGS CF (an International Grant maker's body) and as a Director in relation to environmental and infrastructural services on behalf of the Wanganui District Council.

From 2001–2003 she served on both the Tax and Charities Working Party and the Accountability of Charities Working Party. She has commercial expertise having served as a Trustee of the Wanganui Savings Bank and then Trust Bank Central Ltd. From 1993–2004 she was a director of the publicly listed company Powerco Ltd.



Kerry Ayers – Board member

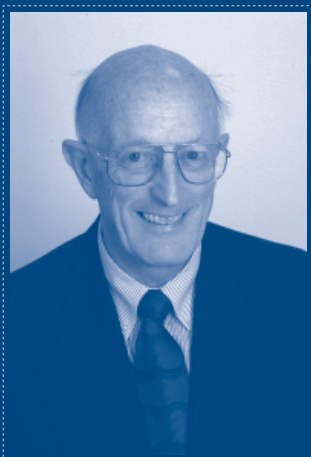
Kerry Ayers, a Christchurch based lawyer, is a specialist in trust law. Since 1979 Kerry has practised in the Christchurch law firm Helmore Ayers. He was probably the first lawyer to undertake the New Zealand Institute of Management Executive Staff course in 1996, and is an accredited LEADR (Lawyers Engaged in Alternative Dispute Resolution) mediator.

Over several years, Kerry assisted iwi in the Chatham Islands and was recently appointed Vice President of the New Zealand Law Society. In addition, he has had a long involvement with the Canterbury and New Zealand law societies and is a member of the New Zealand Law Foundation.



Ian Calder – Board member

Ian Calder, an Officer of the New Zealand Order of Merit for services to children and the family, has considerable experience in and knowledge of the not-for-profit sector. Ian has been the Chief Executive of Barnardos New Zealand from 1976–2003, the President of the New Zealand Federation of Voluntary Welfare Organisations, Treasurer of the International Forum for Child Welfare, and a member of various government advisory boards including the 1988–89 Working Party on the Taxation of Charities and Sporting Bodies. From 2003 he has been a member of the Social Workers Registration Board.



Frank Claridge – Board member

Frank Claridge, a Justice of the Peace, is an Auckland accountant by training and experience, and has been involved with many not-for-profit and charitable organisations in financial management and governance roles throughout his career. From 1984 until July 2003, Frank served as Treasurer for the Royal New Zealand Foundation of the Blind and is a past Treasurer of the New Zealand Federation of Voluntary Welfare Organisations.

Frank has also been a member of the Fundraising Institute of New Zealand's National Ethics Committee, and served on the Tax and Charities Working Party 2001/2 and the Ministry of Economic Development's Charities Commission Establishment Group. He has also had continuous involvement with the governance of the Methodist Church since 1962. Frank is a Fellow of the NZ Trustees Association, and a member of their National Executive. He is currently a board member of the Bledisloe Estate Trust.



Amohaere Houkamau – Board member

Amohaere Houkamau is the Chief Executive of Te Rūnanga o Ngāti Porou, based in Ruatoria, and has played a leading role in developing iwi-based service delivery. At the forefront of development in Ngāti Porou during the last decade, she has also been actively involved in youth, Māori and women's issues in the Canterbury region, where she was an inaugural member of the Canterbury Regional Employment Board (REAC). Amohaere has also been a member of the Oringi Kaupapa Trust and the National Youth Council.

Amohaere is a member of the Board of Māori Television, National Lottery Welfare and National Search and Rescue. She is also a trustee of the Tauawhi Trust, co-chairs the Tairāwhiti Social Development Forum and is a member of the Tairāwhiti Development Partnership Co-ordinating Committee.



Patricia Webster – Board member

Patricia (Pat) Webster is a member of the New Zealand Order of Merit for Services to international development and to the community and voluntary sector. A former Executive Director of the Council for International Development she has had particular links with Oxfam and Save the Children New Zealand. She was an executive member of ANGOA (the Association of Non-Governmental Organisations of Aotearoa) and a member of the steering group on Government and Voluntary Sector Relations from 2001–2003.

Pat was a member of the Accountability of Charities Working Party from 1995–1999 and in 2001–2002 she was a member of the Tax and Charities Working Party. She is from Nelson where she is a member of The Community Workers Training and Support Trust and a community representative on the governance board of the Nelson Bays Primary Health Organisation, which is also a charitable trust.

Organisational Structure

