Charity Regulation

Light-handed by necessity?

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Outline

• Why do charities form?
• Why regulate them?
• Who is regulated in New Zealand?
• How are these charities funded?
• A schema for change
Why do charities form?

- **Market failure**  
  (Rose-Ackerman, 1986)  
  Draw funds from donors, government, sponsors…

- **Government failure**  
  (Weisbrod, 1988, 1989)  
  Draw funds from members, sponsors…

- **Contract failure**  
  (Ben-Ner, 1986)  

- **Other?**
Why regulate charities (1)

• Idea of ‘market’ for charitable donations and need to operate effectively
  – Need to ‘promote public trust and confidence in the charities sector’ (Charities Act, 2005, s.10.1(a)).
  – And should: 'encourage and promote the effective use of charitable resources' (Charities Act, 2005, s.10.1(b)).

• Market notion leads to need to restrict entry and monitor miscreants
Why regulate charities (2)

• Market notion also leads to notion that information is necessary for accountability
  – E.g. annual return and charity information
• Late information may result in de-registration
• Poor information has previously been acceptable (Financial Reporting Bill may change that)
Carrying out regulation

• Deterrence and enforcement
  – Active monitoring and audit
  – De-registration

• Light handed compliance regime
  – Education (e.g. newsletters, information sheets, website, forums)
  – networking with stakeholders

• Cost-effectiveness tactics
  – Sampling
  – Responding to complaints
Arguments against regulation

• Donors/funders don’t check the information anyway
• Reporting is burdensome to charities
• Each segment of the ‘market’ (charities) is different and should be regulated differently
Expenditure

- < $40,000: 43%
- $40,000-$2m: 53%
- $2m - $30m: 4%
- > $30m: 0%
Income sources (from 16,478 returns)

- Service provision: 35%
- Government grants: 34%
- Donations: 41%
- Other: 24%

Donations make up the largest proportion.
Dissecting the Charities register

• Data collected Nov 2011 and analysed through 2012 from 836 charities
  – Approximately half small (exp <$40k) and half medium (exp >40k, <2million)
  – Stratified random sample across sectors and activities
• Charities’ summary pro-forma filings compared to underlying financial and narrative reports
• Final analysis compared to 2010 data set of 300 charities
Charity taxonomy

Resemblance: D1 Euclidean distance

2D Stress: 0.13

Cluster

1
2
3
4
5
How are charities funded?

- **Goods & services**
  - Member organization
  - Service provider
  - Infrastructure provider

- **Investments**
  - Trust/grantor

- **Members**
  - Classic charity

- **Public Donations**
  - Member organization
  - Service provider

- **Rental**
  - Classic charity

- **Sponsorship**
  - Trust/grantor

- **0%**
- **20%**
### A schema for change?

<table>
<thead>
<tr>
<th>Cluster</th>
<th>Main funder</th>
<th>Secondary funders</th>
<th>Type of regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Member organisation</td>
<td>Membership</td>
<td>Services, sponsors, investments, donations</td>
<td>Self regulation (member managers)</td>
</tr>
<tr>
<td>2. Service provider</td>
<td>Funders of goods and services</td>
<td>Donations, investments, members</td>
<td>Public regulation (government-funded services)</td>
</tr>
<tr>
<td>3. Infrastructure provider</td>
<td>Rental</td>
<td>Investments and donations</td>
<td>Self regulation (trustee/managers)</td>
</tr>
<tr>
<td>4. Trust/grantor</td>
<td>Investments</td>
<td>Donations and rental</td>
<td>Self regulation (trustee/managers)</td>
</tr>
<tr>
<td>5. Classic charity</td>
<td>Donations</td>
<td>Services, sponsors, investments, members, rental</td>
<td>Public regulation (public donations)</td>
</tr>
</tbody>
</table>
Conclusion

• Within a public interest based notion of charity regulation, available resources constrain effective regulation

• Enthusiasm for ‘registered charities’ has led to ‘over registration’

• Charities that do not depend on public resources should be monitored by members and trustees