Colin Biggers & Paisley

Care economy webinar.

Capital management and recycling of assets in Not-for-Profits

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Capital management and recycling of assets in NFP

What is good capital management in NFP sector?

- ensuring that every dollar, building, or piece of equipment serves your mission — not just today, but 20 years from now.
- making your physical and financial resources work harder and last longer, for the benefit of the people you serve.

Why is it important?

The NFP sector has unique financial constraints and accountability obligations. These include:

- Sustainability of purpose of the NFP
- Limited access to capital markets
- Asset stewardship and compliance
- Risk and resilience - balancing act
- Stakeholder confidence and future planning
- Governance and Regulatory issues

What does this mean in practice for Boards and management?

Board and management to ensure that the following are done (by the appropriate team):

- Carefully allocate funds across operations, facilities, and future service needs to align with mission
- Maintain and upgrade assets to meet compliance, safety, and comfort standards and values
- Ensure liquidity to manage operational demands and unforeseen events (such as regulatory changes or pandemics).
- Plan ahead for capital-intensive projects like redevelopment, expansion, or technology upgrades.
- Balance short-term needs with long-term viability, always with the NFP's mission and operational imperatives in mind

Key things to consider:

Action	Key Concerns
Selling a major asset	Check it is for a charitable purpose; check funding agreements, obtain member approval
Investing reserves	Check if it aligns with risk profile and purpose; avoid any speculative investments
Borrowing for capital project	Is solvency affected? Has member approval been obtained ?, Has the Board exercised a duty of care ?
Restructuring (e.g., merger)	What are the Boards governance obligations? Is there any specific governing legislation and is consent from a regulator (or funder) needed ?
Returning capital to members	You cannot do this under most NFP structures

Key challenges and potential solutions to achieving good capital management in a NFP

Challenge: To develop a capital management plan that is achievable

Challenge: Limited access to capital markets:

Solutions:

- Build internal capital reserves
- Secure debt against property or other stable assets
- Apply for capital-specific grants;
- Partner with private or philanthropic investors;
- Social impact bonds or concessional loans.;
- Grants.

Challenge: How to balance your purpose with financial sustainability?

Solutions:

- Develop investment criteria that weighs financial and purpose impact and use impact weighted asset allocation;
- Prioritise capital projects that improve client/customer/resident wellbeing and operational efficiency;
- Ask does this asset still serve our purpose? Mission and/or financial.

Key challenges and potential solutions to achieving good capital management in a NFP - Cont'd

Challenge: Long asset cycles

Solutions:

- Develop a rolling 10 -15 year capital works and renewal plan;
- Plan for replacement and avoid deferred maintenance traps;
- Stage large projects in phases to reduce financial shock and increase flexibility.

Challenge: Funding tied to service delivery:

Solutions:

- Negotiate for capital inclusions in funding contracts especially where service expansion is required;
- Maintain unrestricted income streams to build flexible reserves.;
- Use capital from asset recycling (selling underperforming assets) to reinvest in key priorities.

Ready to implement? What are the next steps? Whole of organisation buy in is needed

- Conduct a Full Asset Register & Condition Audit,
- Obtain Valuations on assets?
- Develop a Capital Works Plan (5-10 years),
- Link Capital Strategy to Financial Planning and establish and maintain Capital Reserves,
- Pursue Partnerships or other joint funding.
- Recycle Underperforming or redundant assets.
- Ensure there are solid processes for Governance and Accountability.
- Is there a process to monitor Asset Performance & KPIs.
- Does the NFP have specific sustainability goals.
- Communicate with the staff what the plan is .

Examples of capital management that may work for your NFP

- A church group sells an ageing hall in an underused area and uses the proceeds to build multi-purpose community housing on other land they own.
- A national disability services provider sells legacy properties and reinvests in accessible purpose-built housing closer to their clients.

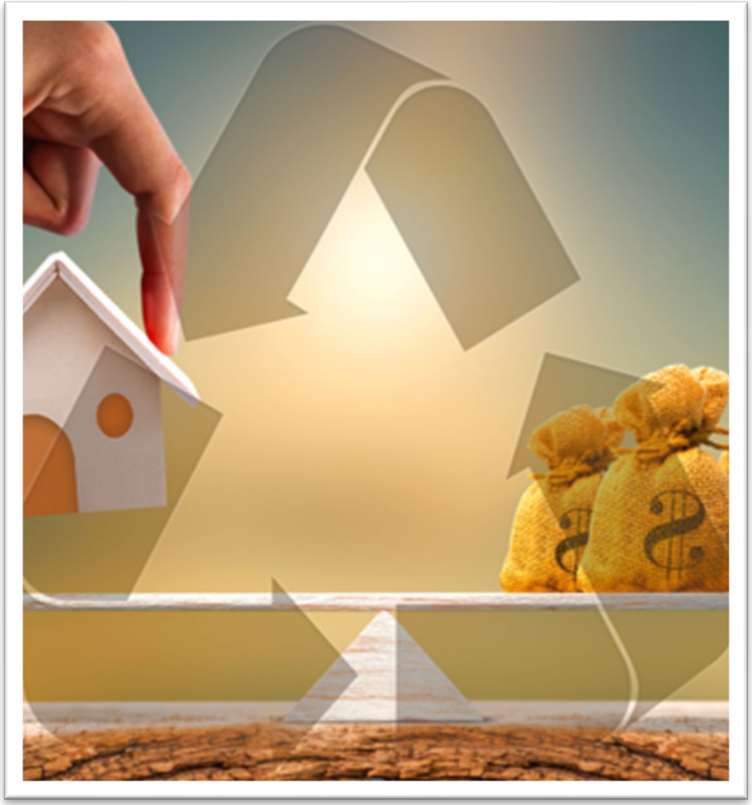
Recycling of Assets: What does this mean exactly?

It is the active review and reallocation of capital assets - especially land and buildings - to:

- Unlock value tied up in underused or ageing facilities.
- Redirect funds into modern, purpose aligned infrastructure or services.
- Ensure you are operating as effectively as you can.
- Respond to changing community needs, demographics or care models.

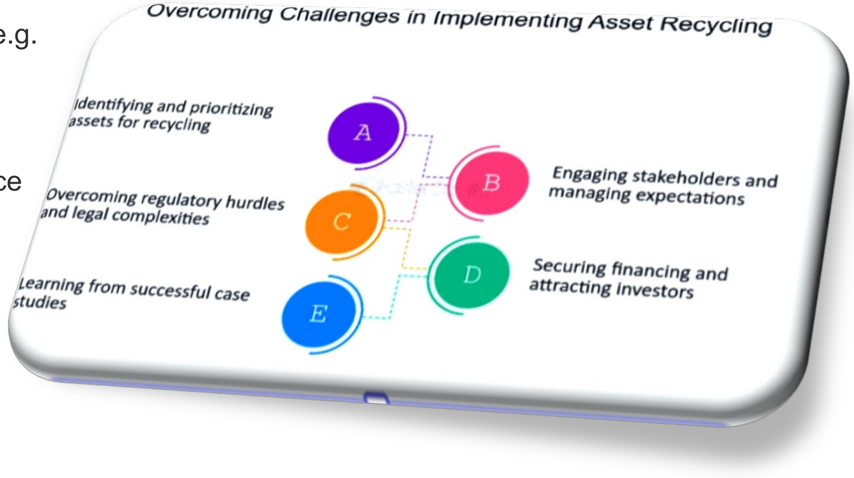
It's about making sure your assets evolve with your NFP's purpose..

[**Note:** Fed/ State Gvts had National Partnership Agreement on Asset Recycling 2014- 2019 but there is no national program for NFP]



What are the key challenges in recycling assets?

- Legacy asset portfolios: ageing assets may not be fit-for-purpose or financially sustainable.
- Regulatory and title restrictions: Land or buildings may have use restrictions (e.g. community use covenants) that limit disposal or redevelopment.
- Reputational risk: Selling /repurposing assets communicate with stakeholders
- Governance hurdles: Boards may be risk-averse or lack commercial experience
- Is there sufficient internal expertise ??



So what can you do?

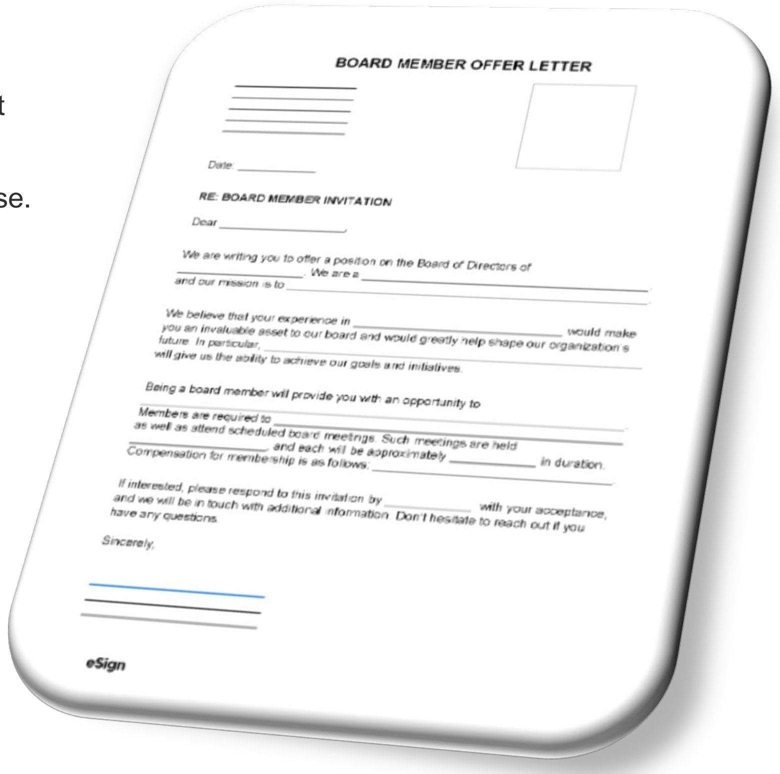
- Conduct a Strategic Asset Review.
- Identify Underperforming or Surplus Assets.
- Evaluate Options: Divest, Repurpose, Redevelop.
- Reinvest into Mission-Aligned Priorities.
- Engage Stakeholders and Manage Risk.
- Legal and Governance Considerations.

Recycling Assets - Don't want to sell?

- Reduce waste generation.
- Reuse materials.
- Donate used equipment (don't discard).
- Optimise assets (preventative maintenance programs).
- Sustainable procurement.
- Community educations and engagement.
- Social enterprise partnerships.
- Reporting and transparency.
- Examples of recycling and repurposing assets

What if you want to prepare an Offer Letter for the sale of NFP assets?

- Check NFP constitution and restrictions under ACNC Act, state trustee laws, trust deeds.
- How was Asset received? (Donated, granted, or funded?) Check conditions of use.
- Governance Approval: Board approval needed. Do you need legal advice here?



BOARD MEMBER OFFER LETTER

Date: ______

RE: BOARD MEMBER INVITATION

Dear ______,

We are writing you to offer a position on the Board of Directors of ______. We are a ______ and our mission is to ______.

We believe that your experience in ______ would make you an invaluable asset to our board and would greatly help shape our organization's future. In particular, ______ will give us the ability to achieve our goals and initiatives.

Being a board member will provide you with an opportunity to ______.

Members are required to ______ as well as attend scheduled board meetings. Such meetings are held ______ and each will be approximately ______ in duration. Compensation for membership is as follows: ______

If interested, please respond to this invitation by ______ with your acceptance, and we will be in touch with additional information. Don't hesitate to reach out if you have any questions.

Sincerely,

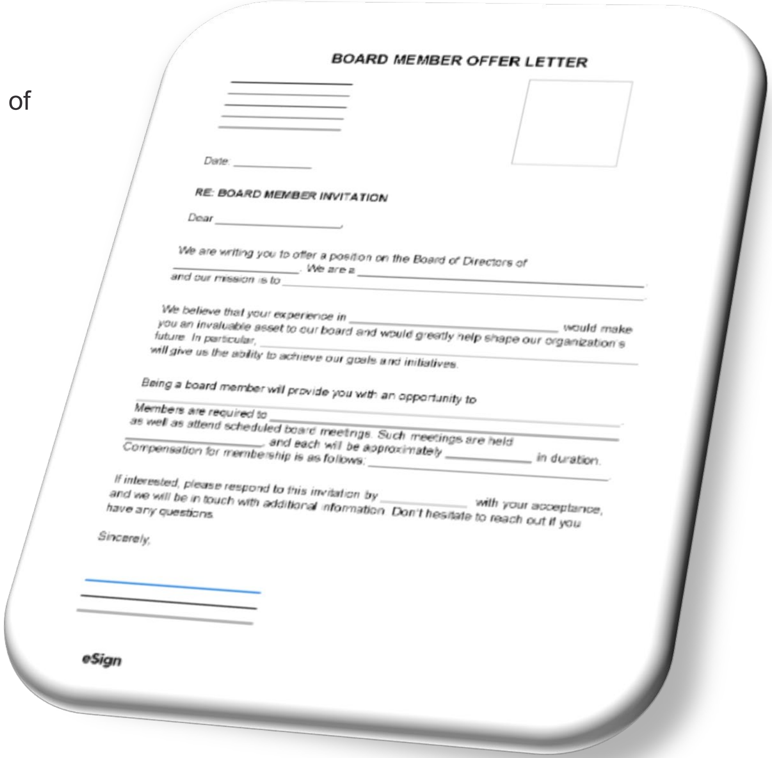
eSign

Offer Letter Terms - what should they be?

- Clear and appropriate commercial terms, description of the asset (equipment etc), type of transaction: sale, lease, licence partnership;
- Proposed price and payment terms,
- Key dates - sale and completion
- Any Conditions precedent (e.g. regulatory approvals, due diligence)
- Any potential GST, duty or CGT, and any applicable exemptions?
- Who pays for what (e.g. legal costs, outgoings, valuations)
- Is the asset is held on trust, subject to any restrictions or requires approvals
- Comply with ACNC governance standards,

Due Diligence - what is expected by the purchaser?

Are there any Stakeholder and Community Implications ?



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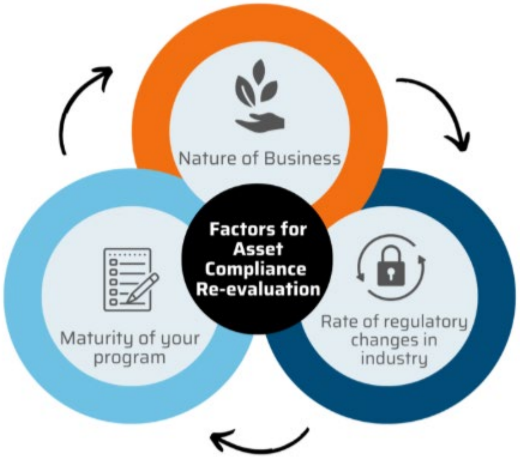
Regulatory concerns re capital management and recycling of assets

- **Prudential Compliance Requirements:** *Aged Care Act 1997* and associated Accountability Principles. Liquidity: funds available to meet RAD liabilities. Record-keeping and financial governance:
- **Resident Protection and Use of RADs:** RADs must be used only for permitted purposes. Misuse can lead to sanctions—ie redirecting funds to unrelated commercial ventures or speculative developments.
- **Quality Standards and Duty of Care :** No compromise on Resident safety, dignity, or wellbeing, compliance with Aged Care Quality Standards
- **Governance/Conflicts of Interest:** transparency and alignment with mission
- **Planning and Zoning Laws :** Selling or redeveloping aged care land likely to require Local council approval and zoning compliance

What are the best practices to avoid regulatory risks?

- Clear governance frameworks around capital decisions
- Segregation of RAD funds (nd other restricted capital)
- Stakeholder consultation—residents, families, and staff—when assets are recycled
- Transparent reporting to ACQSC, relevant Health/Aged Care Dept and funders
- Independent valuations and feasibility studies for any asset disposal or re-use



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Thank you.

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