

EQUITY ECONOMICS  
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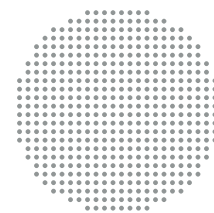
# HOW TO EASE RISING DISADVANTAGE AND MEET GROWING DEMAND FOR SERVICES?

POLICY OPTIONS FROM THE CHARITY  
SECTOR FOLLOWING COVID-19.

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**paulramsay**  
**FOUNDATION**  
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*The options and analysis in this paper emerged from a roundtable discussion on policy options for charities and foundations in response to the COVID-19 crisis and attendant recession. The roundtable, convened by the Paul Ramsay Foundation in early April 2020, was prompted by the need for better policy proposals to contribute to the national conversation on the role of charities in the COVID-19 response.*

*Held just after the federal government's pivotal decision to allow charities to access JobKeeper funding – crucial to ensure many charities avoided a sudden and catastrophic loss of income – the roundtable discussions focused on the next areas of need to which policy attention should turn. Alongside the need for release of more funds into the community and extension of charitable services to meet rising need, the roundtable also reflected hope that the disruption of this crisis might deliver new impetus for positive change in the charitable sector and new examples of innovative practice to set it on a more sustainable footing in future.*

*Participants joined the discussion from philanthropic, charitable, corporate and advocacy organisations. By sharing their many contributions here, we hope to stimulate the supply chain of ideas feeding national policy discussion for a better, more vibrant, more sustainable charitable sector in Australia.*

# INTRODUCTION: AN UNPRECEDENTED CRISIS

COVID-19 and the related economic crisis are causing widespread damage to human health and the economy. Unemployment, social isolation, wage loss, increased debt, business closure and slowing growth, are just some of the challenges government, business, households, foundations and charities are confronting.

Charities and foundations play an important role in our society during the best of times. In a time of crisis, their role is pivotal to how individuals and families experience the crisis and how they recover. Yet COVID-19 has also tested the operations of charities and foundations, presenting challenges that must be overcome for these organisations to be in a strong position to support people at this time of need.

The financial stability of charities is threatened by a reduction in income from donations, grants and other operations. This undermines the ability of charities to continue to provide existing services that communities rely upon and expand services to meet growing demand due to COVID-19.

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- **Between 27,000 and 37,000 charity workers unemployed, equating to between \$1.6 billion and \$2 billion in annual wages lost to households and the economy.**<sup>1</sup> This range is based on charities experiencing a proportionate loss in employees as a result of a projected doubling in unemployment from 5.1% to 10%, and the impact of estimated declines in charity revenue on staffing levels.

- **Revenue declining by \$2 billion as a result of reduced donations alone.**

This is a conservative estimate based on historical trends during periods of economic crisis. For instance, following the global financial crisis, income from donations, bequests and legacies declined by 20% in real terms from 2006–07.<sup>2</sup>

- **Gross value added to the Australian economy by charities declining by \$22 billion.** This reflects the estimated share of the economy contributed by charities, as a proportion of the OECD's projected declines in output by as much as 15%.<sup>3</sup>

In order to meet the needs of people in the current crisis, additional government support and reform of the charities sector are needed. In April 2020 the Paul Ramsay Foundation convened a roundtable to consider policy options that may help ensure the sector is able to play its role in supporting communities and households through the current crisis. In this paper we share the policy ideas that emerged and examine the implications of rising disadvantage for the scope and nature of the role of charities.

As the focus shifts to recovery efforts, there is a need to consider the lasting effects of the crisis on groups experiencing entrenched socioeconomic disadvantage, who are least able to respond without assistance or support. Without intervention many people stand to have a sustained reduction in wellbeing and opportunity, at great cost to themselves, their communities and the Australian economy.

<sup>1</sup> Equity Economics analysis based on charitable sector employment and wages data reported by the Australian Charities and Not-for-Profit Commission (ACNC) in the Australian Charities Report 2017

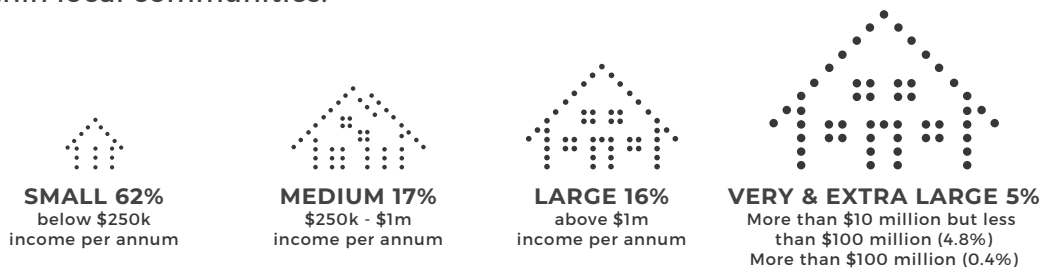
<sup>2</sup> McGregor-Lowndes, Myles (2014), *The Not for Profit Sector in Australia: Fact Sheet*, Australian Centre for Philanthropy and Non Profit Studies [http://eprints.qut.edu.au/75397/4/75397\(updated\).pdf](http://eprints.qut.edu.au/75397/4/75397(updated).pdf)

<sup>3</sup> OECD (2020) *New OECD outlook on the global economy*. <http://www.oecd.org/coronavirus/en/>. Equity Economics modelling based on applying findings from the 2017 Deloitte Access Economics report *Economic contribution of the Australian charities sector (2017) of the economic contribution of charities to current GDP and GVA*.

# STRENGTHENING THE ABILITY OF FOUNDATIONS AND CHARITIES TO RESPOND

A range of responses are needed to support the immediate pressures confronting foundations and charities, while positioning the sector to support recovery and alleviate disadvantage.

There are currently approximately 56,000 registered charities in Australia of varying size and reach within local communities:<sup>4</sup>



The top 10 charities by revenue account for around 14% of the sector's entire revenue. The top 50 charities account for 34.4% of the sector's revenue.

Early estimates indicate that the impact of COVID-19 on charities as a result of reduced donations alone is a decline in revenue of at least \$2 billion this year. This is a conservative estimate based on historical trends during periods of economic crisis. For instance, following the global financial crisis, income from donations, bequests and legacies declined by 20% in real terms from 2006-07.<sup>5</sup>

Many charities operate with very little room for shocks to revenue, cost spikes and few liquid assets to see them through major disruptions. This vulnerability was highlighted in Deloitte Access Economics analysis for the Australian

Charities and Not-for-profits Commission (ACNC) in 2017, which found that the net current assets expenditure cover across the whole charity sector was just 5.5 per cent. This means that, on average, charities could cover less than three weeks of operations through their net current assets. (Deloitte Access Economics defines 15 per cent as the appropriate benchmark.)<sup>6</sup>

In order for charities to meet the challenges of the current crisis, roundtable participants identified a range of policy ideas and reforms that contribute to three broad areas: (i) addressing immediate pressures to ensure services can continue; (ii) facilitating innovation and new service delivery mechanisms; and (iii) supporting sectoral reform to strengthen organisational and financial sustainability.



<sup>4</sup>Australian Charities and Not-for-Profit Commission (ACNC) Australian Charities Report 2017, May 2019. <https://www.acnc.gov.au/tools/reports/australian-charities-report-2017>

<sup>5</sup>QUT Business School, Australian Centre for Philanthropy and Non Profit Studies, The Not for Profit Sector in Australia: Fact Sheet, 2014. [http://eprints.qut.edu.au/75397/4/75397\(updated\).pdf](http://eprints.qut.edu.au/75397/4/75397(updated).pdf)

<sup>6</sup>Deloitte Access Economics, Economic contribution of the Australian charities sector, 2017.

<https://www2.deloitte.com/content/dam/Deloitte/ie/Documents/Consulting/Charities%20and%20Not%20for%20Profit%20Event%20-%20Final%20OSlide%20Deck%20for%20Distribution.pdf>

# I. MEETING THE IMMEDIATE NEED FOR SERVICES

The Australian Government moved quickly to support charities in the evolving COVID-19 crisis, including by lowering charities' thresholds for the JobKeeper Payment and by providing \$100 million in funding for additional services. Yet with Australia's economy expected to contract by at least 5% through 2020, more support is likely to be required. Roundtable participants highlighted five discreet means for meeting these additional service needs.

## a. Establishing a National Emergency Fund

COVID-19 is equivalent to a continent-wide natural disaster and will require charities, large and small, to respond to immediate and potentially sustained need amongst disadvantaged groups. Disparate and uncoordinated fundraising efforts mean funds take too long to reach those who need them most, substantially constraining the delivery of an effective response.

A National Emergency Fund, with matching contributions from Government, would provide a single focal point for donations and support increases in service demand in a time of crisis. The United Kingdom adopted this approach in March 2020, launching a nationwide disaster appeal to raise funds for charities providing care and support for elderly and vulnerable people impacted by the economic and social consequences of COVID-19. The UK's appeal is coordinated by the National Emergencies Trust, established in 2019 in the wake of the Grenfell Tower disaster to provide a mechanism for raising and distributing funds during a crisis.

In Australia, such a fund could build on the existing COVID-19 National Funding Platform to distribute funding to charities and programs involved in the response, with eligible charities to be determined based on priorities for the crisis response.

A national emergency fund would also provide critical infrastructure to respond to other disasters such as bushfires, a capacity gap evident in efforts to respond to the unprecedented 2019-20 bushfire season, which also revealed the need for broader capability in learning, reflecting and evaluating outcomes in emergencies. Existing ideas for a Research and Learning Hub for Disasters could be incorporated with proposed National Emergency Fund, combining funding with learning and knowledge-sharing to better understand the scale of need and track distribution of funds, in order to inform current and future crisis responses. For example, it could address the difficult but essential processes of engaging and building trust with communities in government- and charity-led responses, a particular challenge where there have been failures during emergencies.

Ensuring the National Emergency Fund connects with place-based organisations, working at the community level particularly in emergency effected areas, will be important to the effectiveness and distribution of funding.

A National Emergency Fund is consistent with the principles for expansionary fiscal policy (and stimulus) in times of economic crisis. Similar to the operation of transfer payments like JobSeeker, increased

funding of charities during times of crisis can act as an automatic stabiliser: the additional funding flows when pressure on services is heightened and eases when the need also reduces.

A proposed approach is the establishment of a single body responsible for raising and disbursing funds during a national crisis, able to respond quickly to an emergency, engage a network of charitable organisations, track short- to long-term needs and manage funds for the longer-term recovery and resilience of those most affected. The target for funds is \$1 billion, being 50% of the estimated loss in revenue from falling donations over the forthcoming 12 months. A disaster and emergency knowledge and learning hub should also be incorporated into the remit of a National Emergency Fund.

#### **b. Increase the Deductible Gift Recipient (DGR) Tax Rebate to 150 per cent**

In order to directly address the reduction in donations experienced by charities, an increase in the tax rebate for donations to all charities to 150 per cent would help ensure the sector remains viable throughout the current crisis.

Currently the Federal Budget is estimated to benefit up to \$180 million in 2019-20 due to the anticipated reduction in donations during the economic crisis. Increasing the tax rebate from 100 to 150% for the remainder of 2019-20 could be achieved within the existing budget envelope.

Increasing the tax rebate would spur donations and provide urgent support to charities. The change could then be then evaluated at the conclusion of 2019-20

financial year, before a decision on its ongoing viability is made. Increasing the tax rebate would spur donations and provide urgent support to charities. The change could then be then evaluated at the conclusion of 2019-20 financial year, before a decision on its ongoing viability is made.

#### **c. Providing protective equipment and testing for charity workers**

The charity sector currently employs approximately 1.3 million workers (10 per cent of the Australian workforce) and relies on a further 3.3 million volunteers to deliver their services and support.<sup>7</sup>

COVID-19 has made the ongoing reliance on this workforce challenging. Further, with many volunteers aged 70 years and over, there will be ongoing need to ensure the safety of charitable volunteers and the workforce more generally.

The Government's emergency response should continue to include access to necessary protective equipment and testing to keep workers and volunteers working. Access to priority testing is required for both health and non-health charity staff who work with people in face-to-face roles. The roundtable heard that many sector staff were not prioritised and many who have been in contact with clients suspected of having COVID-19 have lacked access to testing.

Expenditure that builds human capital or protects it from decay during this crisis is a cost-effective stimulus measure. Ensuring the charitable workforce is able to continue to deliver services will not only reduce the impact of the COVID-19 crisis on individuals, households and

<sup>7</sup> Australian Charities and Not-for-Profit Commission (ACNC) Australian Charities Report 2017, May 2019, <https://www.acnc.gov.au/tools/reports/australian-charities-report-2017>

communities in need, it also makes sense as an expenditure measure, recouping around 30 percent of its cost from continuing to collect the tax contribution of charitable workers.

*The Government has already announced \$1.1 billion to enhance the medical stockpile, and allocated reserves for aged care workers. Charities can help identify workers and volunteers requiring access to PPE. An estimate of the budget impact of this measure is up to \$150 million over 2 years, based on the provision of protective equipment to 10% of charitable workers and volunteers, with potential offsets coming from the revenue generated by their continuing employment.*



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## CASE STUDY 1: GOOD SAMARITAN INN

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The Good Samaritan Inn is located in the inner north of Melbourne and provides 24/7 support to women and children recovering from family violence and homelessness so they can, with hope, successfully move on with their lives. The Inn is operated by a number of professional staff but also relies on approximately 40 volunteers to cook meals, provide additional support, maintain the communal garden and undertake maintenance. Inn volunteers have been involved since the inception of the service, 23 years ago, and their support is regarded by the organisation as invaluable.

While the volunteers undertake specific tasks, they also provide a sense of community support within the Inn that benefits women and children and a message of worth to the guests accessing this service. In response to COVID-19 the Inn has had to suspend its use of volunteers, due to the risk of an outbreak in the centre and for the safety of

volunteers, many of whom are in groups at risk from COVID-19. How and when it can bring these volunteers back and resume normal services will require careful planning, guidance from relevant authorities and access to necessary equipment. The Inn will have to compete with informal volunteering opportunities that have presented in response to COVID-19 that may not follow the same screening and structure as existing volunteer programs. A huge loss of momentum has resulted from suspending volunteer activity that will be challenging to rectify in future and may set back volunteer engagement, training and support.

A lack of volunteer continuity will impact the quality of services and environment that the Inn can provide to the women and children, and volunteers themselves may become isolated and vulnerable by having lost connection and sense of purpose through their volunteer activity at the Inn.





#### **d. Provide automatic rollover of government grants to charities**

State and Federal Governments have delayed their annual Budgets because of COVID-19. This has generated uncertainty about existing and future year grant funding, contributing to charities facing financial difficulties and influencing decisions to let go of staff.

An automatic rollover of current government grants for a period of 12 months would provide certainty for the sector to continue operating and negate the need for large job losses.

The rollover of grant funding should be guided by the specific environment, to ensure funding maps priorities in the context of the crisis and recovery efforts. Where services have been impacted, ceased and need to be restored, prioritising grant funding will be particularly important. To achieve this, the rollover of funding should be supplemented with greater flexibility to re-purpose existing funding as priorities change in crisis and emergency environments. The contractual arrangements can be amended to reflect this.

*This measure is not estimated to impact on Federal or State Budgets as charitable grants and programs are likely to continue as part of the normal budget process. The measure simply removes uncertainty, avoiding significant transaction costs for the sector and ensuring continuity of services.*

#### **e. Develop a National Volunteer Strategy**

The charity sector relies on volunteers, which make up to 25 per cent of its workforce. COVID-19 has confirmed the important role volunteers play in service delivery and communities. Yet overall rates of formal volunteerism have been declining.<sup>8</sup> Ensuring the role of volunteers is sustained during crisis is important to meeting growth pressure and demand for services.

The development of a National Volunteer Strategy and support mechanisms to ensure the sustainability of volunteer contribution and impact will improve service delivery and the effectiveness of the sector longer-term. Volunteering also provides an important source of value and engagement of community members, particularly in a period of rising unemployment.

A National Volunteer Strategy could be developed in close collaboration between the charities sector and volunteers themselves. The cost of this activity would be relatively small and provide an opportunity to expand and emphasise the critical role played by volunteers in Australian communities.

<sup>8</sup> Australian Bureau of Statistics, 4159.0 – General Social Survey: Summary Results, Australia, 2014, 17 September 2015

## II. FACILITATING INNOVATION AND NEW SERVICE DELIVERY MECHANISMS

Social distancing requirements constrain many service delivery models relied upon by the charities sector. Conventional face-to-face approaches to place-based delivery, community outreach and case management are particularly affected. Yet the COVID-19 crisis has also reinforced the value and effectiveness of location-specific community services.

COVID-19 prompted urgent transitions to digital platforms and remote service delivery mechanisms in the charitable sector. Acceleration of digital transformation in service delivery has revealed some new opportunities for impact with some vulnerable cohorts, while also highlighting the ongoing importance of face-to-face interactions for others. There is a need for further investment in service delivery innovation as direct access points are limited and new sources of disadvantage emerge.

Many normal points of service contact became increasingly strained or even redundant as a result of social isolation measures. The closure of critical mechanisms for referral to services, such as schools, workplaces, community organisations and churches is reducing access to people in need, particularly vulnerable children and youth. Many charities created new networks and communication channels to identify those in need of support and services. These challenges are likely to endure well beyond the period of social isolation, as disadvantaged individuals become disconnected from services and service providers. A particular cause for concern is disadvantaged youth falling significantly behind, not returning to school or facing additional challenges when they do.

In this environment, innovation is occurring organically at the local level but there is growing need and unmet demand for services. Opportunities exist to identify the enabling conditions that support innovation and change in the sector. Government and foundations can help to navigate the constraints to innovation and support new approaches to meet the expanded need for services and potentially hidden disadvantage. A number of measures to support innovation and services are briefly considered here:

### **a. Support for digital services**

The movement of services where feasible online presents a safe and sustainable way for the sector to continue to support the community. Yet the skills and expertise in online delivery do not always exist within the charitable sector and advances in adoption of digital technologies and delivery mechanisms can be limited by resource and skill constraints.

Further, many communities lack access to the internet and online services limiting their access to online services. High risk groups are not necessarily digitally literate, such as senior members of people from culturally and linguistically diverse (CALD) backgrounds. Ensuring these groups have access to online services is important as this becomes a growing method for service delivery.

The provision of digital services support to interested charities could help charities transition to online services. Government grants and the facilitation of partnerships with the private sector could advance these efforts more rapidly and enhance service delivery over time.

At the same time developing policies and programs that support internet access amongst disadvantaged groups requires additional investment, if we are to avoid widening inequality and developmental outcomes.

*This cost of this proposal will depend on the scale of proposed government support and potential contribution of private sector partners. An initial mechanism to support this activity could be to establish a team mandated to identify digital needs across communities and opportunities for the charitable sector and facilitate partnerships with private sector providers. This could be incorporated into existing mechanisms for sectoral coordination or digital infrastructure working group. The growth in online education, tele-health, and challenges for rural and regional access present an opportunity to pursue broad reforms that promote digital access to disadvantaged communities.*

#### **b. New service offerings for high risk groups**

While social isolation has been necessary to manage the significant health risk from COVID-19, it nevertheless entails other risks for particular groups as a result of disconnection from education, deskilling as a result of unemployment, and evidence of rising mental health challenges, family crisis, domestic violence and drug and alcohol abuse.

While difficult to address in the short-term, the current crisis presents an opportunity to reshape support services, reflecting the lessons and need for more sophisticated responses to disadvantage. This could be achieved through expanded case management, with funding allocated to meet individual needs and coordinated across a range of providers to reduce complexity, improve information flow and support more coordinated and integrated care. Greater prioritisation of low socioeconomic areas is also needed to address local capacity constraints to respond to crisis.

Programs focused on reconnecting disadvantaged youth with education, combined with comprehensive supports in health, employment and other social protection measures, have the potential to avoid the long-term consequences and costs of enduring social isolation amongst young people. While there are many services and programs available, the particular crisis we are confronting and also willingness amongst stakeholders to adapt to new delivery models presents an opportunity to pursue coordinated care for Australians most in need.

*Additional resources are needed to support online education and outreach to disadvantage youth during the period of social isolation and its immediate aftermath. Building on this, a pilot supporting children and youth at risk of ongoing isolation will reduce the heavy burden already being borne by teachers and schools and could test more comprehensive models of support at the micro-level.*

**c. Invest in evidence-based policy to scale effective services**

A persistent challenge confronting the charities sector is the lack of resourcing and institutional frameworks to advance the measurement, evaluation and learning (MEL) in social services. The charity sector is deeply committed to MEL and has incorporated evaluation at many levels of its services, but funding constraints, competing priorities, skill gaps and institutional imperatives in tension with evidence-based practice result in under-investment in evaluation and in learning from it.

Crises heighten the need for accessible, meaningful and timely data, evidence and evaluation. The roundtable heard calls to establish an independent evaluation body that can also provide 'bottom up' data and information from communities and individuals receiving services, producing a kind of 'learning commons'. In addition to aiding coordination of evaluation, such a model would add rigor and credibility to future budget and funding submissions.

Better evaluation requires better data and more access to it. Gaps in data sharing and analysis prevent charities from validating their work and impact. We lack evidence not only of where services are working and should be increased, but also where limited impact and value to communities mean others should be ceased. Developing better data standards

and interoperability between different providers will strengthen the evidence base for social services. The current crisis presents an opportunity to build monitoring and evaluation infrastructure that can not only scale successful innovation but also drive better crisis response next time. Such monitoring and evaluation should collaborate with but be structurally independent from delivery in order to measure the effectiveness of rapidly evolving service delivery innovations.

Institutionalised leadership will be required, potentially through a national agency, to build independent mechanisms of transparency, data sharing and promote systematic scaling up of success or scaling back of disappointments. Smaller investments in independent MEL of pilot programs and innovations would also provide the basis for more systemic support in an ongoing way.

An opportunity exists to establish an independent institution for developing evidence-based policy in social services, building on lessons such as the Evidence for Learning model (discussed in Case Study 2 below). The institution would need to be independent of government and work to promote lessons across organisations, including through better data collection and sharing.



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## CASE STUDY 2. EVIDENCE FOR LEARNING

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Evidence for Learning is a creation of Social Ventures Australia (SVA) that helps great practice become common practice in education. Operating nationally across all sectors of the Australian education system, Evidence for Learning enables and supports evidence-informed education practice in Australian schools.

The model aims to help educators increase learning by improving the evidence of what works and why. SVA recognised that educators face challenges to make the best decisions about which approaches will have the greatest learning impact for their students – a challenge made harder if each teacher is trying to navigate these questions independently.

'It is frontline professionals who... should be at the heart of evidence-informed practice.'  
(Sharples J, Evidence for the Frontline, 2013)

Evidence for Learning brokers, translates and mobilises knowledge between education researchers, policymakers, systems leaders, school practitioners and the wider community.

'Schools need to become incubators of programs, evaluators of impact and experts at interpreting the effects of teachers and teaching on all students.' (Hattie J, What Works Best in Education: the Politics of Collaborative Expertise, 2015)

Evidence for Learning funds research, supports schools to make better decisions about how to use that evidence and works with the broader system to support the greater use of evidence.

Evidence for Learning provides a potential model of evidence-based policy from which we can learn and apply lessons to improve outcomes in other areas.

Extract from the Education for Learning website (<https://e4l.org.au/about/>). See also Social Ventures Australia website: <https://www.socialventures.com.au/consulting/our-experience/education/>



#### **d. Expand innovative finance through the Social Impact Investing Taskforce**

The COVID-19 crisis and anticipated decline in traditional revenue generating options has prompted many charities to examine more innovative financing options. These include mechanisms such as workplace annuities and social impact bonds, as well as improving balance sheet management and access to capital through community purpose funds and structured philanthropy.

The Department of Prime Minister and Cabinet's Social Impact Investing Taskforce is an existing mechanism well-suited to the task of bolstering the role of impact investing and exploring other options for finance generation in response to COVID-19.

Federal and state governments have conducted initial pilots into impact investment, with some demonstrating positive results, though more work is required.<sup>9</sup> There is potential to scale these efforts and a strong willingness amongst stakeholders to support these approaches. Reflecting best practice, these efforts should also be expanded to in terms of their 'impact measurement' in order to capture the full spectrum of impact beyond funding objectives.

Other innovative financing models include new methods of fundraising such as workplace annuities, whereby regular giving from employee earnings are contributed to charitable purposes. This financing model presents a potential source of regular and reoccurring revenue growth, while also growing Australia's charitable and philanthropic culture.

*The role of PM&C's Social Impact Investing Taskforce could be expanded to include a range of innovating financing options. This includes workplace annuities and building the ecosystem for social enterprise, along with continued exploration of social impact bonds as a means to expand and improve the quality of social services and impact measurement.*

#### **e. Build greater capacity for client driven design and community feedback**

Charities, on the whole, exist to serve community needs. As such, the role of clients and communities should be central to the design of policies and programs. This is often overlooked in the development of government design and can be inadequate at the point of delivery including by charities. There is a need to build greater capacity for client-driven design into services including stronger client and community feedback. Policies and system architecture do not always support and facilitate meaningful participation and collaboration.

Community feedback on the adequacy and methods of crisis response following both COVID-19 and the 2019-20 bushfires should inform reform efforts. But such community feedback should not be a one-time study or limited to crisis conditions alone. Instead, client-driven approaches need to be incorporated into all policy and program development processes and maintained throughout delivery efforts.

<sup>9</sup>For instance, see discussion of impact investment in Social Ventures Australia Response to the Commonwealth Government's Social Impact Investing Discussion Paper, September 2017

The charities sector and governments should work together to accelerate and deepen efforts to improve community engagement in policy and program development. This could be achieved through more place-based approaches to social services which, while resource intensive, are often better attuned to community needs in design and delivery.



# III. SUPPORTING SECTORAL REFORM TO STRENGTHEN ORGANISATIONAL SUSTAINABILITY

Organisational and financial sustainability remain enduring challenges for the charitable sector. A tighter fiscal environment and new organisational challenges resulting from COVID-19 have heightened the urgency of securing the sustainability of the charities sector. These challenges come on top of existing funding constraints and limits on working capital. For example, many charities delivering services, including on behalf of government, incur less than full-cost funding, resulting in gaps in staff costs and other related expenses. These challenges threaten the sustainability and quality of services.

Roundtable participants discussed latent need for structural and funding reform to improve the sustainability of the sector, which the current crisis has made more urgent.

Opportunities to improve the performance and sustainability of the sector have been proposed in various forms over recent years. Three opportunities emerged during the roundtable:

## **a. Fully funding the direct and indirect cost of service delivery**

For many charities delivering publicly funded services, less than full-cost funding has increasingly drained financial resources to fill wage gaps and related delivery costs. While charities top-up funding through donations and other revenue to ensure quality services and outcomes, less than full-cost funding is not sustainable for many services. Under-funding has a range of knock-on effects including impacts on a charity's resilience, innovation and capacity for evaluation.

Clarity and agreement with state and federal government is needed on fixed cost issues, leave portability and indexation. Accountability for service standards is also needed.

*Understanding the true cost of services is a first step to improving the financial sustainability of many charities. Ensuring contracted services are fully funded is essential to the quality and sustainability of those services. An assessment of the cost of service delivery in existing public service contracts could inform the need for funding reform and fee-for service models going forward, including clarity and agreement between state and federal levels of government.*

## **b. Business Development Teams and Financial Sustainability Reviews**

Related to the above challenge, while many bigger charities have sufficient capability in financial management, a large number of smaller charities with significant resource constraints often lack access to financial management acumen that would assist them with navigating

<sup>10</sup> This is a long-standing trend; see Productivity Commission 2010, Contribution of the Not-for-Profit Sector, Research Report, Canberra



more innovative finance and changing business models. Opportunities are emerging for new business models such as for-purpose companies/charity structures, which may assist the social enterprise sector to grow. Roundtable participants raised the need for this to be a joint effort that blends the complementarity of both corporate and community sectors.

To aid this process a business development and advisory panel could be established to leverage pro-bono partnerships so that charities can engage advisors on organisational strengthening and financial sustainability reviews. This would provide charities with access to expert advice on optimising their structure to avoid silos and provide services that meet the complex needs of their clients, while also sharing broader understandings of 'shared value' and efficiencies with the corporate sector. Many charities would benefit from support forming social enterprises, particularly in their early years. This should include leveraging the Business Development Teams to assess and measure the community level impact.

While a number of charities are well-resourced and supported by corporate partners in these areas, many do not have existing relationships or networks and would benefit from more coordinated financial support. A business advisory panel could also assist charities as they explore new business models, such as social enterprise, for new and innovative sources of finance, as well as connecting to new partners and promoting collaboration with the private sector, where beneficial to both the charitable and corporate sectors. A related challenge is how better to utilise the assets held by charities.

While many charities lack liquidity, there is scope to improve the use of working capital and optimise the potential of balance sheets for longer-term financial viability. This is distinct from requiring foundations and charities to increase grants and cash flows by selling assets during a crisis, compromising their financial position at exactly the wrong time and for the longer-term.

The establishment of a business development team to assist charities struggling to survive would be a resource for charities to help them navigate immediate pressures, explore new innovative financing and business models, and achieve longer term structural reform.

*A business development and advisory team could be established at low cost in partnership with the private sector to enhance access to innovative finance advisory services and other business development services, where sought by charities. The team could provide technical advice, such as enhanced balance sheet management and new business model insights, depending on the particular needs of charities. Ideally this would be a collaborative model whereby the capabilities of charities are also shared with the corporate sector, particularly to strengthen the effectiveness of new business models such as social enterprise.*

### **c. Support for sector consolidation**

Consolidation of existing charities is one way to ensure that the underlying mission of charities is not threatened due to a lack of financial sustainability, while also providing a mechanism to remove silos between service providers,

expand geographical reach and deepen engagements. An opportunity exists to reduce administrative costs through consolidation of back-office support services such as human resources, fundraising and other corporate services. Consolidation can also expand access to scarce resources and skills, particularly important as the sector adapts to new delivery and financing mechanisms.

While mergers and methods to consolidate charitable overheads have been successful in the past, there can be barriers to this process and difficulties for charities identifying potential synergies. Foundations and charities can be reluctant to consider mergers, often due to concerns over community trust in organisations and reputation.<sup>11</sup> At the same time, significant efficiencies may be achieved through the consolidation of at least some portion of Australia's 56,000 charities.

Developing easy-to-use tools for charities, covering the tax, legal and organisational elements required to undertake a consolidation, could facilitate this process. Other support needed to facilitate mergers and collaboration includes legal, financial and governance advice, as well as skills in organisational change management. The above-mentioned Business Development Teams could be an avenue to develop and provide the support needed to progress mergers, where assessed as appropriate and desirable.

Clearly not all charities are suited to consolidation; in many cases small, localised, community-based organisations are effective in meeting their purpose. For these organisations, there remains an opportunity to having to work in isolation by supporting collaboration and lesson sharing across strategically aligned organisations. The independent body for evaluation, proposed above, could support this collaboration. An initial step is to fill the information gap on funded activities, potentially through a register of major programs, to improve the available information for service providers and funding bodies. The sector would benefit from an explicit service mapping process as a precursor to any attempt to optimise. Ultimately this would inform a shift to a service network model not just a constellation of agencies.

A number of sector-wide reviews have been undertaken, though with relatively limited implementation. Taking stock of existing recommendations for the sector could guide outstanding reform, in addition to mapping funded services through a national register of major programs.

*A stocktake of existing reviews of the charities sector be undertaken, with a view to identifying outstanding reforms and opportunities for sectoral consolidation and collaboration, where appropriate. This work could be commissioned by the*

<sup>11</sup> <https://probonoaustralia.com.au/news/2018/02/sponsoredcontent-better-together-charities-merge/>

*government and involve representatives of the foundations and charities sector. The review could identify the need for new tools and resources to support implementation<sup>12</sup> of recommendations, including Business Development Teams that could independently advise on consolidation and more collaborative models of delivery where appropriate. Mapping and publishing major funded services through a national register would support greater collaboration and complementarity of effort across organisations, while identifying opportunities to strengthen the network of available services.*



<sup>12</sup> For instance, the Productivity Commission completed a study on 'The Contribution of the Not for Profit Sector' in 2010. See <https://www.pc.gov.au/inquiries/completed/not-for-profit/report/not-for-profit-report.pdf>. Other sector or issue specific regions have also called for greater collaboration or consolidation. For example, the Royal Commission into Institutional Responses to Child Sexual Abuse also highlighted the need for shared responsibility and greater collaboration in child safety.

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## CASE STUDY 3: SAVE THE CHILDREN MERGERS WITH LIBRARY FOR ALL DURING COVID-19 CRISIS

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On the 6 April 2020, Save the Children and Library For All (LFA) announced their decision to merge. This decision brings together one of Australia's largest NGOs working to protect children with the edtech disruptor, expanding the use of technology to improve educational outcomes for children around the world.

*"At present, there are roughly 250 million children globally who are missing out on a basic education, with about 90 million not even attending primary school and therefore at great risk of becoming further entrenched in a cycle of disadvantage and poverty.*

"The COVID-19 pandemic has highlighted the need to find ways for children to continue their education remotely during times of emergency and access to e-learning is critical to this. Children in poorer countries are at an even greater disadvantage in the current scenario, which makes scaling up innovations like LFA so important.

LFA CEO Rebecca McDonald said the merger would enable the organization to scale up its offer significantly.

*"Connecting our digital library capabilities into Save the Children's extensive global program portfolio will allow us to scale quickly and significantly, driving edtech innovation in the sector and reaching more of the world's readers," she said.*

This is the latest in a number of strategic mergers through which Save the Children aims to use its reach, expertise and networks to help successful social enterprises achieve greater scale and capacity.

Extract from: Save the Children, Media Release, Harnessing technology to give more children across the globe greater access to education, 6 April 2020. <https://www.savethechildren.org.au/media/media-releases/exciting-merger-with-library-for-all>



## IV. CONCLUSION: WE MUST ACT TO AVOID SUSTAINED DISADVANTAGE IN AUSTRALIA

A financial lifeline to charities will ensure critical services continue to be delivered to the sick, homeless, isolated and disadvantaged, during this crisis and as Australia recovers. Yet funding alone is insufficient to avoid sustained consequences for disadvantaged groups as a result of the COVID-19 crisis. Early and ongoing support, innovation and structural reforms can help to avoid further costs to the Australian economy, including the risk of widening inequality and entrenched disadvantage.

A historic opportunity exists to support the economic recovery through investments which produce fiscal multipliers, help the most vulnerable in our communities, address longer term development needs and position Australia's charities and foundations to be amongst the most innovative third sectors in the world.

As the extent of the economic and health crisis unfolds, there will be new areas of disadvantage that need addressing in order for the recovery to be successful. There is growing evidence of heightened risks that are emerging, with implications that may last well beyond a vaccine for COVID-19:

- **Widening disparity in educational outcomes** between more and less disadvantaged students likely as a result of unequal access to online learning and/or limited parental and other supports during social isolation and school closures. Schools reported having lost access and contact with large number of disadvantaged students and concern is rising whether they will return when schools reopen.<sup>13</sup> Access to quality education is a requirement for equitable outcomes. Widening inequality in educational outcomes places this cornerstone of Australian values at risk and will come at significant cost to individuals, communities and the economy if measures to reconnect disadvantaged children to education are not prioritised.

- **Increased risk of child abuse and domestic violence** is a growing concern with reduced visibility, confinement to homes and fewer access points to vulnerable children and victims of violence. International evidence finds increased rates of abuse during past health emergencies.<sup>14</sup> A reduction in the number of volunteers essential to the operation of safe houses and shelters for victims has reduced access to services at a critical time, with potentially devastating and permanent consequences for victims.

<sup>13</sup> <https://www.smh.com.au/national/the-kids-who-will-never-return-to-school-after-COVID-19-20200411-p54j0e.html>

<sup>14</sup> UNICEF, COVID-19: Children at heightened risk of abuse, neglect, exploitation and violence amidst intensifying containment measures, March 2020, <https://www.unicef.org.au/about-us/media/march-2020/coronavirus-risks-to-children>

• **Isolation and restricted health services is impacting on mental health**, with reports of higher rates of anxiety and depression as a result of social isolation and reduced access to support.<sup>15</sup> Failure to manage mental health crisis in the short term will have lasting consequences for individuals, families, carers and the health system.

• **Unemployment is expected to reach double digits during 2020** with immediate implications for household incomes, housing stress and families in crisis. These impacts are expected to continue well beyond the health crisis, with loss of skills and long-term unemployment likely to rise as the economy slowly recovers.

There is however a danger that many of these risks will only become apparent years after the crisis when they emerge in established data sets.

Foundations and charities have a critical role to play through this crisis and in the recovery. The charities sector already contributes an estimated \$129 billion in gross value added to the Australian economy, equivalent to 8.5% of Australia's GDP in 2015.<sup>16</sup> The IMF estimates that output will decline by 6% in advanced economies as a result of COVID-19 and the related economic crisis.<sup>17</sup> This will make charities an even more important component of the economy.

Federal and state governments are taking unprecedented measures to manage the COVID-19 crisis. But managing the immediate health challenges and positioning the economy for recovery will not be enough to avoid the likely protracted impact of COVID-19 and the related economic crisis on the most disadvantaged and vulnerable Australians. A gap remains in securing the critical role of foundations and charities, as they seek to meet the growing needs of the most disadvantaged, while transitioning to a new working environment. Much more can be done and COVID-19 provides the impetus

<sup>15</sup> Beyond Blue has reported an all-time high in activity on its online forums with its "Coping during the coronavirus outbreak" chatroom attracting 7 times the amount of conversation than its bushfire forum did earlier this year.

<https://www.beyondblue.org.au/get-support/online-forums/staying-well/coping-during-the-coronavirus-outbreak>

<sup>16</sup> Deloitte Access Economics, Economic contribution of the Australian charities sector, 2017.

<https://www2.deloitte.com/content/dam/Deloitte/ie/Documents/Consulting/Charities%20and%20Not%20for%20Profit%20Event%20-%20Final%20Slide%20Deck%20for%20Distribution.pdf>

<sup>17</sup> IMF, World Economic Outlook, April 2020.

<https://blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/>

