Partners in recovery: Moving beyond the crisis?

Partners in Recovery series,
Social Ventures Australia and the Centre for Social Impact
September 2022

Social Ventures Australia and the Centre for Social Impact acknowledge Traditional Owners of Country throughout Australia. We pay our respects to Aboriginal and Torres Strait Islander Elders past, present, and emerging. We also accept the invitation in the Uluru Statement from the Heart to walk together with Aboriginal and Torres Strait Islander peoples in a movement of the Australian people for a better future.

About Social Ventures Australia

Social Ventures Australia (SVA) is a not-for-profit organisation that works with partners to alleviate disadvantage – towards an Australia where all people and communities thrive.

We influence systems to deliver better social outcomes for people by learning about what works in communities, helping organisations be more effective, sharing our perspectives and advocating for change.

About The Centre for Social Impact

Established in 2008, the Centre for Social Impact (CSI) is a national research and education collaboration built on the foundation of four of Australia's leading universities: UNSW, The University of Western Australia, Swinburne University of Technology and Flinders University.

CSI's purpose is to catalyse positive social change, to help enable others to achieve social impact. This is achieved through transformational research and education that is rigorous and purpose-driven, and by working with people, communities, and organisations to grow their capabilities through research, education, and leadership development.

Acknowledgements

This report was prepared by Social Ventures Australia and the Centre for Social Impact. Contributors from SVA included Sally Garris, Rosie Hodson, Sam Thorp, Chantelle Dabrowski, Cassie McGannon Cecilia Kent, Patrick Flynn and Suzie Riddell. Contributors from CSI included Dr Leanne Lester, Professor Paul Flatau and Arminé Nalbandian. We thank the many other people inside and outside our organisations who have provided valuable feedback and advice on the work.

We thank the Snow Foundation, Lord Mayors Charitable Foundation and AMP Foundation for their generous support of the Partners in Recovery Project and their commitment to a thriving charitable sector.

Suggestion citation for this report

Social Ventures Australia and the Centre for Social Impact (2021) *Partners in recovery: Moving beyond the crisis?* .

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September 2022

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Executive summary

As we emerge from the most acute phase of the pandemic, charities will continue to play a critical role in rebuilding and strengthening the social fabric of our society. Policies and funding will need to be in place to help ensure we have healthy charities so that we can have thriving communities.

This is the fifth Partners in Recovery report drawing on Australian Charities and Not-for-profits Commission (ACNC) data, the Centre for Social Impact's Pulse of the For-Purpose Sector survey as well as other published reports. The report examines the role of charities in our communities, the impact of Covid-19 on charities in Australia, their financial health, and the challenges they face in the months and years ahead.

Our charities care for people who are sick, educate our children, bring art and entertainment into our lives, minister to those with faith, provide us with legal advice, provide housing and advocate for a more just society. As we have seen over the past two and a half years, we are especially reliant on charities during a crisis and through recovery – whether confronted by natural disasters, or the social and economic dislocation caused by the pandemic.

Charities also have played and will continue to play an important, but often overlooked role, in supporting economic and employment growth in Australia. They currently employ more than one in ten employees in Australia – 1.4 million people. However, charities continue to face a complex and challenging operating environment. They are now facing new economic headwinds that will make it difficult for them to thrive.

This report comes at an important moment where the ground is shifting for charities. We have a better picture of what has happened to charities during the pandemic thanks to data lodged by charities with the ACNC for 2020 and 2021. Australia is now in a different phase of the pandemic, with a more highly vaccinated population and wider treatments options to combat Covid-19. The economy has moved quickly to an inflationary cycle; unemployment has dropped below pre-pandemic levels. The Australian Labor Party has also formed a new government in Canberra with a commitment to develop a blueprint for charities and to establish Not-for-profit Sector Expert Reference Panel to chart out a more productive future for Australian charities.

The report shows that over the last two years, charities have fared better than feared thanks to prudent management and much needed financial support from governments and philanthropists in response to sector advocacy. This is a good outcome.

Overall, the sector has shown remarkable financial resilience through the crises, with data showing a smaller proportion of charities were loss-making in 2021 compared to 2019. In 2018 before the Covid-19 crisis, 65% of charities had an operating surplus (that is, revenue higher than expenses). This increased to 78% in 2020 (Figure 2). Approximately one-third of charities were operating in deficit in 2018 and 2019, reducing to one in five charities in 2020 and 2021.

However, the temporary funding supports have now wound down, demands are still high for some sub-sectors and many charities risk returning to the vulnerable financial position they were in prior to the pandemic.

As our previous Partners in Recovery reports have shown, charities were operating on thin margins prior to the onset of Covid-19. This was already having a real impact on the services that charities could provide. In the early stages of the pandemic, charities were faced with the immediate threat of financial viability whilst also having to adapt their operating and service delivery models to meet the changing need in the community. In mid-2020, more than half of charities faced some form of temporary closure, and more than 80% made some shift towards at least partial online service delivery. Almost half of all charities shifted part or all of their workforce to remote working; more than half also made other changes to staffing. Furthermore, 77% per cent reported that recent events had put strain on their financial operations; 52% were worried they would not be able to provide their services in the current economic climate.

The sector called for support and governments responded. The Australian Government provided almost 20,000 charities with over $9.6 billion in funding support (April 2020–March 2021) through JobKeeper. Additional supports were also delivered for some sub-sectors. These temporary government supports, together with changes to philanthropic behaviour and prudent financial decisions made by charities helped them achieve a stronger financial position overall. This was acheived despite the increase in demand. This was achieved despite the increase in demand for services, a drop in fee-for-service revenue and a declining of volunteer numbers.

As this most recent report also shows, the impacts on the charity sector have been uneven, with some charities faring better than others. Many health and emergency relief charities have had a dramatic uptick in both demand and funding, while others, like arts and culture charities saw their demand and funding disappear overnight. There is a risk with the rolling crises of natural disasters and the pandemic that weight of funding shifts towards crisis services – away from early intervention and prevention measures, which are ultimately more cost effective over time but take longer to see results.

New challenges have also emerged at a time when the temporary funding has been withdrawn. Service delivery and workforce disruptions continue to create problems for charities against the backdrop of rising service delivery costs, wage cost pressures and declining volunteer numbers. Donations from wealthier individuals through Private Ancillary Funds (PAFs) could also be at risk if Australia experiences a significant economic downturn, if assets held by PAFs reduce in value as was the case during the Global Financial Crisis.[1] Rising inflation and the impact on cost of living may impact on donation levels. Charities have also expressed deep concerns that with the withdrawal of the temporary stimulus measures, the sector will revert to the state of financial vulnerability that existed prior to the pandemic.

Demand for support from the community continues to outpace the provision capability of many charities. Four in five community sector charities reported an increased demand for support in September 2021 – this was highest among those delivering housing and homelessness services (88%) and those supporting young children and families (85%). Demand is anticipated to remain high at a time of increased inflation impacting on the current cost of living – with real wages growing by 3.5% amid inflation of 6.1% in the year to June 2022. This is likely to be particularly acute for charities seeking to alleviate poverty, given the end of the Coronavirus Supplement for income support recipients saw tens of thousands lifted out of poverty only to be pushed back into poverty when the supplement ended. Unlike other organisations, many charities income does not automatically rise to meet demand and so governments (the largest funder of charities) will need to ensure that charities are supported to meet these needs.

Spotlight on the care economy

In this edition of Partners in Recovery, there is a specific focus on the care economy. Collectively, those industries that make up the care economy employ over 3 million people. It is the fastest growing employment sector. Job opportunities in the health care and social assistance, and education and training industries are projected to collectively add more than 450,000 jobs over the next five years. Many of these jobs will be with charities.[2]

Charities make up a large proportion of the care economy and some of the care economy's largest players are charities – including early childhood centres and aged care facilities. Correspondingly, any market forces and policy decisions that impact the care economy will have a significant impact on charities.

The care economy is undergoing significant changes:

- Reforms in aged care and disability services as a result of the Royal Commissions will reshape these sectors.
- Significant new investments by Commonwealth and State governments in Early Childhood Education and Care (ECEC) will have a profound impact on organisations in these areas.
- Structural factors like low-wages, part-time work vulnerability of the workforce and labour shortages create challenges for the care economy workforce, particularly for women.
- Government stimulus measures during the pandemic favoured physical infrastructure projects that disproportionately employ more men over more gender inclusive social infrastructure projects.

The evolution and growth of the care economy will continue to shape the environment for many charities in the future. As such, major reforms in the care economy need to take account of the needs of charities, which may often differ from those of for-profit providers.

Recommendations

With the new Commonwealth Government committed to creating a charities blueprint and establishing a charities taskforce, the time is right to consider what is required for charities to be true partners in the recovery phase of the pandemic, and to define more sustainable policy settings that strengthens the charity sector and empowers charities to reconnect and rebuild Australia.

Charities policy is not the same as other sectors, given the unique constraints and barriers charities face as a result of their structures and the environment in which they operate. They include lack of access to capital and flexible funding, market dynamics that constrain innovation and productivity, and their very nature as organisations seeking to generate public benefit. There are clear economic and social benefits we all derive from charities – but this requires the right supports to succeed.

We have identified eight actions for governments that would build the resilience of charities and the sector. Governments should:

Ensure financial viability of charities so they can amplify their impact and improve their productivity

1. Provide full funding for contracted services delivered by charities to meet service demand in the community and cover the true costs, including indirect costs, of delivery for outcomes that have been identified.
2. Make fundraising and philanthropy simpler to increase giving.

Build sector capability and collaboration

3. Build workforce capability and incentivise volunteering and social participation, specifically:
   - The Australian Government's blueprint for the charities sector should include tailored strategies to build workforce capability.
   - Governments should consider a systematic approach to reverse the decline in volunteering.
4. Ensure charities have an active role in policy making. This includes economy-wide policy settings and in major reforms, such as those taking place in aged care and child care where charities play a significant role and are providing service to the most vulnerable groups.
5. Invest in systems and research to better measure and evaluate impact in the charities sector and enhance cross-sector collaboration.

Alleviate demand for charity crisis services through targeted investments

6. Make a meaningful increase to the permanent rate of JobSeeker, review the adequacy of other income support measures and prioritise prevention and early intervention services that may have been less of a focus during the crises that may have been less of a focus during the crises.

About this report

The Centre for Social Impact (CSI) and Social Ventures Australia (SVA) began the Partners in Recovery project in 2020. The project is aimed to help fill a gap in knowledge about the financial state of charities during the Covid-19 crisis, and prompt debate amongst decisions makers and within the sector about the policy settings needed to sustain the sector.

This report is intended to help inform policy makers, philanthropists, funders, charities and their partners about the steps that are needed to ensure Australia has the strong and healthy charities needed for thriving communities as we move beyond the crisis.

This new Partners in Recovery report is published at a time when better data on how charities fared during the first two and half years since the onset of Covid-19 is available from the Australian Charities and Not-for-profits Commission (ACNC) Annual Information Statements. It is also published when the operating environment has shifted significantly in what continues to be a challenging, complex and often unpredictable environment.

Governments should be commended for the investments made to support the charity sector during the crisis – this provided a significant, if temporary, boost. However, as the economic, health, environmental and social crises continue to unfold, concerns remain about charities capacity to withstand and respond to these ongoing shocks, whilst also building the strength and resilience to address future challenges.

In recognition of the importance of the charity sector's work in supporting and strengthening Australian communities, the new government has signalled a commitment to better supporting the sector through it's 'Building Capacity, Building Community' election policy. Decisions made now will strongly affect the capacity of the charity sector to survive and thrive in this challenging operating environment. These decisions need to be made in partnership with the sector and based on the best available information.

This is the fifth publication in this project, following on from:

- *Will charities be Covid-19 casualties or partners in recovery? A financial health check*, published in June 2020. This report models how ACNC-registered charities are likely to be affected by the crisis. It explores the implications of the sector experiencing greater financial vulnerability, assesses the impact of the first phase of JobKeeper, and sets out the extent of support needed to ensure a thriving, financially viable charities sector.
- *Partners in recovery: why charities need tailored support*, published in July 2020. This policy snapshot explores the different financial, legal and operational constraints to commercial businesses that charities face. It shows that charities need tailored support from government that recognises their unique situation if we are to preserve jobs and services.
- *Taken for granted? Charities' role in our economic recovery*, published in August 2020. This report updates the modelling presented in the June 2020 report to explore the implications of the revised JobKeeper wage subsidy arrangements announced by the Commonwealth Government in July 2020. It also presents new analysis on the economic contribution of the charity sector.

- *Vital support: building resilient charities to support Australia's wellbeing,* published in May 2021. This report reviews the first year of the crisis, and presents new analysis of data from two projects: the CSI *Pulse of the For-Purpose Sector* survey, and the Paul Ramsay Foundation and SVA's work on the *Sustaining Our Partners Taskforce*.

This report surveys the current landscape for charities and presents new analysis of the financial health of charities during the pandemic. It also includes new analysis of the latest wave of the CSI *Pulse of the For-Purpose Sector* survey, and a focus on the contribution of charities to the care economy.

Approach and limitations

This analysis uses data from the 2018, 2019, 2020 and 2021 Annual Information Statements (AIS) submitted by over 48,000 charities on the ACNC website. This is the most recent comprehensive data available.

While small charities and charities without staff play important roles in the functioning of communities, the scope of this report is limited. This analysis excludes:

- very small charities (those with income and/or expenses less than $50,000)
- charities with fewer than 0.8 full-time equivalent staff
- charities that did not provide the data required for analysis to the ACNC, and for which we were not able to reasonably extrapolate from the data provided.

Table 1 examines the size (in terms of total income) of the charities included in the current analysis. The size of the charities in 2018, 2019, 2020 and 2021 are comparable, hence comparisons have been made between the years throughout this report. Appendix 3 provides further details and explanations of these selection criteria.

Table 1: Total income and proportion of charities including in the analysis, 2018–2021

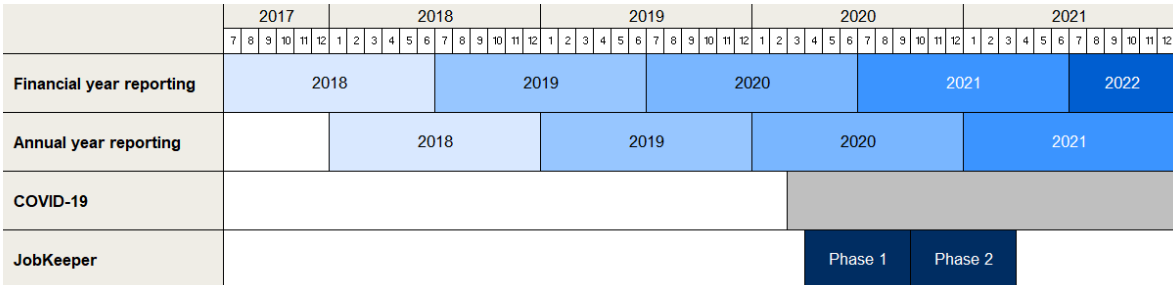
	2018		2019		2020		2021	
Total income	**Number of charities**	**Prop* of charities**	**Number of charities**	**Prop* of charities**	**Number of charities**	**Prop* of charities**	**Number of charities**	**Prop* of charities**
$50K–100K	728	4.7%	491	3.3%	455	3.1%	312	2.8%
$100–250K	2,650	17.2%	2,067	13.9%	1,989	13.4%	1,537	13.7%
$250–500K	2,369	15.4%	2,391	16.0%	2,205	14.9%	1,710	15.3%
$500K–$1m	2,425	15.8%	2,337	15.7%	2,413	16.3%	1,853	16.5%
$1m–$3m	3,002	19.5%	3,114	20.9%	3,185	21.5%	2,417	21.6%
$3m–$5m	1,045	6.8%	1,108	7.4%	1,170	7.9%	823	7.3%
$5m–$10m	1,188	7.7%	1,291	8.7%	1,252	8.4%	930	8.3%
$10m–$20m	877	5.7%	937	6.3%	976	6.6%	738	6.6%
$20m+	1,080	7.0%	1,178	7.9%	1,187	8.0%	884	7.9%
Total	15,364	100%	14,914	100.0%	14,832	100.0%	11,204	100.0%

*Note: * proportion of charities*

Charities have many different reporting periods, though most report either on a financial year (July–June) or calendar year (January–December) basis. For the purpose of this analysis, financial year and calendar year reports are considered as one group (for example, 2017–18 financial year is merged with calendar year 2018). This is the same approach taken by the ACNC when categorising reports.

This is important to note in the context of the pandemic, as it means that the effects of JobKeeper (April 2020–March 2021) are split between financial year reporters, where the majority of payments occurred in 2021 financial year, and calendar year reporters, where the majority of payments occurred in 2020. Financial year reporting is the most common form of reporting – in 2020, 65% of charities reported against financial years, 35% reported against calendar years, and 5% reported using other time periods.

Figure 1: Reporting periods and JobKeeper payments



There are a number of limitations of this analysis and the underlying dataset that should be noted:

- The complexities of organisations are often not captured in the ACNC data. For example, grant-making organisations are not easily distinguished from service-delivery organisations in the data.
- ACNC data is often imperfect, with some known weaknesses in terms of data quality.[3]
- There is approximately 25% less data available in the 2021 period (as collected at 7 July 2022) compared to previous periods, meaning those results may be less comparable (see Appendix 1 for further detail). This appears to be primarily due to AIS reports being provided late by charities.
- This report contains a 'point in time' synthesis of the most recent research, data and analysis available on the charity sector. However, due to the lag between data collection and reporting, some information may not be representative of the current state of the charity sector, as at the time of reporting.

Appendix 3 provides more detail about the methodology used for this work.

The state of the charity sector

Charities are crucial in crisis and for equitable communities

Charities deliver wide reaching social and community benefits

As has been demonstrated throughout the Partners in Recovery report series, charities fulfil a vital role in our society. The nation's 57,000 charities feed, heal, shelter, educate, inspire, enlighten and nurture people in Australia of every age, gender, race, geography and socioeconomic status.[4] As a society, we all benefit from the contributions charities make across a wide range of sectors – from education, health care, aged care and disability support to sports and recreation, arts and culture, animal protection, and environmental protection.

As a community, we are especially reliant on charities through crisis and recovery. Australian charities have played a vital role in supporting the nation through the unprecedented crises that have occurred over the past two and a half years. The 2019 bushfires, ongoing Covid-19 pandemic and east coast floods of 2022 have caused radical social and economic dislocation in many communities. Against this backdrop, Australia's charity sector has played a critical role in helping millions of Australians to rebuild their lives. This includes recruiting, managing and ensuring the safety of Australia's vast volunteer workforce to deliver frontline support.[5]

Throughout this period, charities have also continued to be responsible for delivering many essential services and building community capacity on behalf of Commonwealth, state and territory governments. Though their work, charities play a vital role in strengthening the fabric of our communities by providing a platform for the most vulnerable and excluded to find their voices, enhancing social connection, fostering innovation and community-led solutions, and promoting civic engagement. Charities also provide an important avenue through which to channel our best intentions and our desire to reach out to others and support our communities.[6]

Charities play a vital role in supporting economic and employment growth

The charity sector is a significant economic force in Australia. With over 57,000 charities in Australia, their total economic contribution is estimated to be the equivalent to 8.5% of GDP.[7] In fact, charities add around the same value to Australia's economy as the retail (10% of GDP) and construction sectors (9.2% of GDP). They also employ more people than mining and manufacturing combined.[8]

Charities are also major employers. The charity sector employs 1.4 million people – or close to 11% of workers in Australia.[9] Many of these jobs can be found in large industries where strong growth is expected in the coming years. Job opportunities in the health care and social assistance, and education and training industries are projected to collectively add more than 450,000 jobs over the next five years. Many of these jobs will be with charities.[10] As 'Charities, jobs, gender and the "care economy"' section of this report explores, charities form a significant part of the care economy, which employs some 3 million people. As such, charities in the care economy are anticipated to grow in line with this fast-growing part of the economy and will also be impacted by the same market forces and policy decisions.

Charities also spur indirect economic activity and employment.[11] Beyond the direct generation of jobs, charities create work opportunities for millions of individuals above and beyond the millions they employ directly.[12] They provide job training and placement services for people who would otherwise be unemployed or underemployed under current policy settings.[13] They also play a critical role in reducing the reliance on informal care. This, in turn, increases the supply of labour across the economy, which is an important driver of economic growth.[14] Charities also spend on a wide range goods and services that indirectly create local jobs and generate more tax revenue for local governments.[15] In 2017, the indirect economic contribution of Australian charities was estimated at $57 billion, consisting of $44.2 billion in labour income and a further $12.8 million in goods and services.[16]

Volunteers are an important asset in the economy and make an enormous contribution to Australian society. Through charities, volunteer programs provide not only an invaluable resource, they also bring community networks and connections, and a deep knowledge of specific community needs particularly in multicultural communities, or areas where there are particularly complex levels of marginalisation.[17]

Volunteers are vital for an effective charity sector with over 51% of charities operating without any paid staff.[18] Volunteers also generate important economic value for society. Prior to Covid-19, volunteering work in Australia was worth around $43 billion to the Australian economy per year, with volunteers often engaging in sectors and activities that are not well supported by government or the market.[19]

Charities have stepped up to address gaps and deliver critical services

Charities have played an important role in responding to the recent crises. Governments relied heavily on charities to deliver new services and fill critical gaps and address the immediate needs of affected people and communities.[20] While many charities were already stretched from their involvement in supporting their communities through bushfires, they stepped up to assist people and communities hit hard by the health crisis and the ensuing floods. Some examples of how the charity sector has most recently partnered with government and philanthropy to deliver essential services include:

- **Housing and homelessness**: In 2020, the NSW Government partnered with community housing providers (CHPs) and homeless services across the state to deliver the Together Home program.[21] The dual aims of the program were to minimise the spread of Covid-19 for people sleeping rough, whilst also transitioning people into long-term, stable housing. Government supported people who were homeless during lockdown periods by offering places in hotels and motels. The program also provided CHPs and service providers the opportunity to connect with and support a population that can be difficult to engage, resulting in many using the opportunity to pursue permanent housing options.[22] This has seen a dramatic drop in the numbers of people sleeping rough: the 2022 City of Sydney Street Count showing a 17% reduction in rough sleepers since February 2021 and a staggering 48% reduction since February 2017.[23]
- **Food security**: Supported by a $200 million Commonwealth funding boost for emergency and food relief, many charities have rapidly expanded operations to support the increasing numbers of people seeking food relief, driven firstly by the pandemic and associated lockdowns and more recently as a result of the east coast floods and rising cost of living. NSW based charity, OzHarvest, scaled up its food deliveries from 28 million meals in 2019–20 (which includes the first few months of the pandemic), to close to 40 million meals in 2020–2021.[24] In Victoria, Vinnies saw a 31-fold increase in meal deliveries from 12,000 meals pre-pandemic to 373,000 meals in 2021.[25]
- **Disaster response**: During the 2022 east coast floods, Australian Red Cross delivered 24/7 support to over 42,000 people and communities, enabling trained emergency response team

members and volunteers to help with evacuations, relief centres, and outreach services across Queensland and New South Wales. This included providing 55 evacuation centres and 48 recovery hubs across New South Wales and Queensland.[26]

- **Social Sector Workforce Wellbeing**: To address the rising rates of burnout and mental ill-health in the social sector, The XFactor Collective Foundation with support from Lord Mayor's Charitable Foundation will launch a new Social Sector Wellbeing and Resilience Hub in April 2023. The hub will act as a central repository of content and resources related to organisational and individual mental health and leadership. The creation of the hub follows a research study conducted in 2020 by The XFactor Collective – RESET 2020 National Impact+Need Research Study – which revealed the high levels of poor mental health being felt among social sector workers.[27]
- **Additional mental health services and supports**: the Australian Government funded Beyond Blue to create a dedicated Coronavirus Mental Wellbeing Support Service to provide free 24/7 mental health support, particularly for people not already connected to the mental health system.[28] Online and phone-based suicide prevention and mental health support services, such as Lifeline, Beyond Blue and the Kids Helpline received specific boosts to allow them to respond to the increased number of people seeking mental health support. Online and call centre mental health services reported substantial increases during the pandemic.[29]

These crises have highlighted the valuable role charities continue to play in supporting communities through crisis and recovery. Without a vibrant charity sector, many more people would have been left behind.

A thriving charity sector is vital for the future productivity and wellbeing of Australia

In recognition of the importance of the charity sector's work in supporting and strengthening Australian communities, the new Commonwealth Government has signalled a commitment to better supporting the sector through it's 'Building Capacity, Building Community' election policy. The government commits to work with the sector to develop a blueprint that sets out how Australia's charities can reach their potential and cultivate the sector's role as experienced community builders and responders to isolation and social disconnection. [30] Further, the government has committed to encouraging an efficient, informed and independent sector by modernising fundraising regimes, and protecting advocacy, while also working with the philanthropic sector to double philanthropic giving by 2030.[31] These are welcome commitments that can shape a sustainable policy setting for the future – one that supports the charity sector to steward a reconnected and resilient Australia.

> "The charity sector is critical in reconnecting people, but is facing unprecedented pressure. In recent years, charities, staff and volunteers have helped millions of Australians rebuild their lives after floods and fires and have kept communities together in the face of falling volunteer numbers and a decline in donations. They need help, so they can continue helping others."[32]
>
> **– The Hon Dr Andrew Leigh, MP**
>
> **Assistant Minister for Competition, Charities and Treasury**

High demand persists for community sector support

Charities' experiences of Covid-19 and their responses varied greatly but within the community sector there has been a significant increase in demand that is likely to continue even as the economic environment shifts and changes.

Australia has experienced significant social and economic dislocation through a series of crises

Australia, along with the rest of the world, experienced a dramatic economic crash at the beginning of the pandemic with the effective unemployment rate reaching 17% in April 2020.[33] In response, the Commonwealth Government introduced a suite of income supports and grants (including the Coronavirus Supplement and JobKeeper) that helped to successfully steer Australia through the early months of the pandemic and significantly reduced income inequality and poverty. For the first time in years, many people on the lowest incomes could afford to pay household bills and put food on the table.[34] The creation of the Coronavirus Supplement, delivered a large reduction in poverty (from 3 million (11.5%) before the pandemic to 2.6 million (9.9%) by June 2020).[35] Both JobKeeper and the Coronavirus Supplement were wound up in April 2021, and the JobSeeker Payment was increased by just $25 per week, not nearly enough to lift people out of poverty.[36]

The onset of the Delta wave of the pandemic in June 2021 triggered repeated and prolonged lockdowns and border closures in the context of initially low vaccine supply. By September 2021, the effective unemployment rate had increased back up to 10% from 5.6% in March 2021. However, the Covid income supports in response to the Delta wave were less robust and 80% of those on the lowest income support payments were excluded, leaving them to rely on payments, such as the inadequate $45 a day JobSeeker Payment.[37]

Subsequently, the number of people in poverty rose by around 20% and income inequality once again increased, with a bias in jobs growth towards high-paid professions and a rapid rise in investment incomes.[38] When the Omicron outbreak occurred in November 2021, the level of subsidies provided was again reduced.[39] Governments focused on removing or lessening trading restrictions and introduced the Pandemic Leave Disaster Payment to support workers who lost hours due to being forced to isolate in compliance with health regulations.[40] These payments were lower than the Covid-19 Disaster Payments during the Delta strain due to the lack of lockdowns.[41]

The increase in service demand corresponding with the withdrawal of support measures leaves community services organisations to fill the gap, with organisations reporting large unanticipated costs and uncertainty about "how resources will stretch to maintain service levels and meet demand into the future". [42]

Impacts of the Coronavirus Supplement on recipients

Research has shown that the Coronavirus Supplement and suspension of mutual obligations:

- Improved respondents' physical and mental health and contributed to their overall wellbeing.
- Increased respondents' engagement in labour market and other economic activities.
- Allowed people to better engage in many forms of unpaid productive work, including care work and community support.[43]

However, following the first reduction in the level of the Supplement (between September and December 2021), recipients experienced increased stress and erosion of the gains they had made in physical and mental health, and economic participation.[44] The reduction of Supplement and JobKeeper payments was estimated to "push more than 700,000 people into poverty".[45]

Australians who access JobSeeker and JobKeeper payments were asked how they are coping since these have been wound back. Of those who accessed JobSeeker and JobKeeper payments during the period between March 2020 and March 2021, almost half (48%) say they are not coping well at all since the payments have been wound back.[46]

Centrelink searches on the Infoxchange Ask Izzy website increased significantly in March 2020 as Australians started to experience the effects of the pandemic. In March 2021, however, online searches for financial assistance other than Centrelink were much higher than in 2020, indicating that many Australians were still in need of help beyond what was available from the Commonwealth Government.[47]

The easing of restrictions in early 2022 and increased economic activity while migration rates were still significantly reduced saw the unemployment rate drop to a low of 3.5% by June 2022 – the lowest unemployment rate since 1974.[48] This has undoubtedly had a significant positive impact for those whose incomes have recovered with further paid employment but has not helped those predominately relying on income support, nor alleviated the combined impacts of two years of disruption and crises.

Economic recovery has not been shared equally, with many people and communities still feeling significant effects of the pandemic and natural disasters:

- **Bushfires (2019):** The catastrophic 2019–20 bushfires were estimated to cause between $4 and $5 billion worth of economic losses to the Australian food systems. This is equivalent to 6–8% of the value of national agriculture output in the same period and recovery is still ongoing.[49]

- **East coast floods (2022):** An estimated 500,000 people across 23 Local Government Areas were affected, at a total cost of $7.7 billion – with the human and social cost estimated to stand at $4.5 billion – the costliest disaster on record.[50,51]

A number of communities and groups have also been disproportionately impacted by Covid, whether it be due to the labour market conditions, restrictions or the unequal nature of the response:

- **Women:** In the first 12 months of the pandemic, women experienced the bulk of the cumulative losses in employment – equivalent to a 55% share of total months of lost employment – despite comprising only 47% of total employment prior to the pandemic.[52] While there has been a bounce back in employment, the long-term impact of lost income will likely be lifelong.

  Women are also more likely to be in casual and insecure work in comparison to men, or employed part-time, placing them at a disadvantage aligned with the job losses incurred by the causal and part-time work force. They are also more likely to be in the industries hit hardest by Covid, such as tourism, hospitality, arts and recreation, health care, child care and higher education.

  Covid has exposed deep gender divisions in parenting and household labour, which has contributed to the precarity of women's economic independence. Working in short-term casual jobs made many women ineligible for JobKeeper payments.[53] The already entrenched construction of women's paid work as 'secondary' was exacerbated during lockdown. Women took on more of the increase in unpaid household chores and caring responsibilities than men, including supervising children learning remotely. Women were more likely to drop out of work and study to accommodate caring responsibilities.[54] The gendered impacts on the care economy are examined in more detail in 'Charities, jobs, gender and the "care economy"' section of this report.

- **Multicultural communities:** Culturally and linguistically diverse (CALD) communities have been disproportionately affected throughout the extensive and recurrent lockdowns.[55] The pandemic further exacerbated and highlighted employment inequality. A survey of migrant and refugee women in Victoria found that the proportion employed on a part-time or casual basis increased during the pandemic – from 45% to 55% among the women interviewed, while the proportion in full-time work decreased from 19% to 11%.[56]

  CALD service providers face unique challenges, particularly around health literacy. Pivoting to online services incurred unique challenges, including difficulties accessing interpreters, a lack of access to internet and computers at home, and varying levels of English and tech literacy. These challenges have all generated higher demand for material, emotional and culturally appropriate family supports.[57]

  The Victorian Government provided $61.4 million in funding to support multicultural and faith-based groups that provide emergency relief, service provision, outreach efforts and translation services through the pandemic.[58] Many within CALD communities, however, continue to face a lack of digital equipment and internet access, or have limited access to digital technologies. The shift to telehealth services has impacted the quality of healthcare delivery for vulnerable members within certain communities.[59]

- **Young people**: During the 2021 lockdowns, young people were disproportionately impacted by job losses – despite making up just 14% of the workforce, young people made up 55% of those who lost jobs during the period.[60]

- **People in casual or part-time work:** Casual and part-time workers accounted for over half of all job losses as the first wave of Covid-19 struck in 2020. And in 2021, casual workers were 8 times more likely and part-time workers were 4.5 times more likely to lose their job, than full-time workers.[61]

- **People experiencing vulnerability for the first time:** Covid also pushed some groups who were previously financially stable into a vulnerable position where they needed to engage charities and support services for the first time. The need for help and advice was greatest in relation to mental health (25% of all those who became unexpectedly vulnerable), followed by employment issues, access to money or grants, housing and education.[62]
- **People with disability and those with underlying illnesses**: Of particular concern is the increasing impact on people who may be at higher risk of adverse outcomes from Covid-19 (either because of increased risk from the virus or ability to access services). This includes people with disability and with underlying illnesses. While the circumstances of these groups can be very different, the impact can be similarly felt. For example, the increasing isolation experienced and the need to take additional precautions as rates of infection have increased and restrictions have been removed.[63]

While a full picture of the impacts of the compounding crises is yet to emerge and the labour market has recovered faster than anticipated, it is clear that many people and communities continue to experience significant hardship and lingering impacts.

Demand for support increased and often outstripped provision capability

Poverty and disadvantage increased, along with the complexity of need. The charities sector has observed a significant increase in the demand for support and the complexity of need within the community. There are indications that rates of economic hardship, domestic violence and mental ill-health rose as a result of the economic and social dislocation and many of these issues persist.[64,65] In December 2021, around three quarters (73%) of charities surveyed in Australian Council of Social Service's (ACOSS) Australian Community Sector Survey reported increased levels of poverty and disadvantage in the communities they support. In particular, very high proportions of charity respondents observed rising poverty and disadvantage in people accessing housing and homelessness services (84%), financial support and counselling services (82%), and child, youth and family services (80%).[66] A large proportion of community sector respondents (81%) also reported an increase in the complexity of needs among service users, showing the deep and sustained toll the pandemic has had on those living on low incomes across the country [67, 68] This was highest among those focused on child, family and youth services (89%) and housing and homelessness (86%).

Even as the more immediate impacts of these crises recede, the long-term impact of these dynamics on affected individuals and communities will be substantial. Charities will have an important and enduring role to play in supporting people and communities to recover and build resilience over time.

Demand for food relief increased rapidly. Food relief charities are facing unprecedented demand for assistance. Even before the pandemic, Black Summer bushfires and east coast floods demand for food relief was rising. However, this has increased dramatically over the past two and a half years. Foodbank's food distribution increased every year between 2011–12 and 2019–20.[69] The pressure shows no sign of easing: Foodbank found that 1 in 6 adults in Australia hadn't had enough to eat in the 12 months to July 2021.[70] Another organisation, Vinnies Victoria, saw demand at the city-based soup van increase 25% in the month to May 2022.[71]

> "Demand for food relief is soaring as Covid, inflation and natural disasters pile pressure on the vulnerable. Australia's major food banks are reporting huge need, with many who have never needed their services before reaching out for help"[72]

The burden of mental illness rose and is likely to remain high. Research conducted by ANU, shows the fluctuations of mental health in Australians throughout the pandemic. It is recorded that in February 2017, 8.4% of Australians were experiencing psychological distress, rising to 10.6% in April 2020, and rising again to 12.5% between August and October 2021. In January 2022, there was a minimal decrease in comparison to figures from August to October 2021, to 11%, which is 2.6% higher than numbers pre-Covid.[73]

CALD communities, migrants and those born outside of Australia were more likely to report clinically significant levels of anxiety, as they experienced unique Covid-19 related challenges, including a lack of eligibility for financial support from the Australian Government, heightened racism and prejudice and higher lockdown-related unemployment.[74] Young adults, adolescents and children faced heightened depression and anxiety due to the restriction on social activities, increased screen time, increased drinking habits and social isolation. Parents of children that were learning remotely, were found to have worse mental health and stress trying to support schooling, while continuing to work and other caring duties.

Demand for support is outstripping capacity of charities to meet demand. ACOSS's Australian Community Sector Survey reported that four in five survey respondents (80%) reported an increase in demand for their main services in 2021.[75] This was higher among those delivering housing and homelessness services (88%) and among those supporting children, young people and families (85%).[76]

In many cases, demand for support outstripped the capacity of support services to meet demand. In 2021, just 6% of survey respondents said their service was 'always' able to meet demand.[77] This proportion dropped from 2020, when 19% of participants agreed.[78] Agreement was even lower in housing and homelessness services (where only 3% of participants agreed) and in migrant and multicultural services (2%).[79] The combination of increased community need, combined with financial and service delivery disruptions means that many people in the community are missing out on vital support.

Increased cost of living will lead to greater levels of need in the community

Against this backdrop, wage growth has fallen further behind inflation, which is flowing through to increased cost of living. Real wages rose to 3.5% amid inflation of 6.1% in the year to June 2022. This means Australian workers have taken a significant real wage cut over the past year – the biggest fall since the series began being measured in 1998.[80, 81] Economists generally expect it will take another two years for wages growth to exceed the rising cost of living.[82] With the cost of living increasing and challenging economic headwinds, it is anticipated that demand for support from the charity sector will remain high, with many people struggling to make ends meet.

Operating environment remains challenging

Like many types of organisations across Australia, charities continue to face a complex and challenging operating environment that is anticipated to place further strain on their operations and the sustainability of the charity sector. The key workforce and service delivery disruptions to the charity sector are discussed here and financial disruptions are covered further in ‘The financial health of Australian charities’ section of this report.

The charity workforce – both paid and volunteer – has been significantly disrupted by the crisis.

Many charity workers are exhausted after a prolonged period of lockdowns, compounded by workforce disruptions due to illness. Service demand has also remained unsustainably high for many charities, risking burnout and increased staff turnover.[83] Labour Force data shows that the proportion of people working fewer hours due to illness or sick leave rose from 3.3% to 5.5% from July 2021 to July 2022.[84]

Charities have also experienced a dramatic reduction in the volunteer workforce. In 2021, there were 2.3 million fewer Australians volunteering than there were in 2019, representing a loss of 293 million hours in economic output from volunteers in a 12-month period.[85] The loss of the volunteer workforce is forcing many organisations to navigate new challenges associated with both volunteer management and the available supply of volunteers for their work.[86]

The charity sector remains viable due to high amounts of unpaid work. To support recovery and build the resilience of charities, charities must be supported in finding and retaining a strong volunteer workforce, while also ensuring the work provided by volunteers is not a long-term stopgap for increased and changing patterns of service demand.[87]

Charities are facing new technology capability challenges.

In 2020, charities were faced with the challenges of moving some or all services online, whilst also supporting staff to work from home. Analysis from the latest *Digital Technology in the Non-Profit Sector Survey* identified many areas in which the sector is improving its digital capability and skills, signalling a positive digital transformation trajectory. The number of not-for-profits who have moved, or are or in the process of moving, to the cloud increased from 58% in 2020 to 69% in 2021.[88]

The transition to online working and service delivery was felt differently and responded to in different ways. In Victoria, 45% of organisations had to significantly change the way they delivered services, compared to 37% in NSW and 30% across Australia.[89] The April 2022 ACOSS Survey reported that participants across the country rearranged service delivery to support clients remotely, which ensure continuity of care for many existing clients, and had flow on benefits such as connecting with people who previously faced access barriers.[90] However, participants also observed that a transition to online services delivery highlighted the digital divide. Many clients were unable to access electronic devices, could not afford the necessary data package or did not feel comfortable using digital platform to access services.[91]

While in 2021, not-for-profits spent more on technology than they did the year before (6% of operating expenses in 2020 and 6.4% of operating expenses in 2021), the biggest challenge to improve their technology infrastructure was funding.[92] Many Victorian based organisations were forced to work within existing funding constraints, reallocating funds from planned service improvement projects to enable remote working through laptops or other technology solutions.[93] NSW had a different approach, with the Social Sector Transformation Fund allowing not-for-profits to enable remote working and also transform service delivery.[94]

Some key Covid-19 adaption challenges remain – 37% of respondents indicated that access to affordable, skilled and technical advice and resources remain the top challenges for not-for-profits. New priorities have also emerged that pose much bigger challenges than previous years – only 56% of respondents have a security incident response plan in place, showing a greater need to invest in security, risk management and business continuity plans to keep up with changes to the digital operating environment. In the long term, there is a need to better reflect the cost of purchasing, upgrading and maintaining technology within ongoing service contracts.

Reporting obligations to government can be overly burdensome

Charities have long been calling for government to streamline the reporting obligations of charities as part of the delivery of government contracts and regulatory reporting. Some charities have observed greater flexibility around reporting and deliverables during the pandemic. They acknowledged the efforts some governments were making in trying to determine how best to develop a more flexible, outcomes-focused, partnership approach into future funding contracts.[95] However, other charities have noted that the funding processes and contract requirements were making government funding more difficult. Key challenges identified by charities include high reporting expectations without corresponding funding for additional resources, lack of information about contract renewals and lack of information on when reports need to be delivered.[96]

On June 30, 2021, the former Commonwealth Government announced it would be “cutting red tape for charities”, with financial obligations to be eased from 1 July 2022.[97] New reporting reforms depend on the size of the charity and their annual revenue, which should save each charity between $2,400 and $3,000 per year. This reduction is a response to the ACNC Legislation Review. Other recommendations that will be enforced include large charities having to “report remuneration paid to responsible persons (directors) and senior executives on an aggregated basis in their 2022 Annual Information Statement”.[98] From 1 July 2023, “all charities will be required to report related party transactions in their annual reporting to the ACNC”, to increase transparency and manage higher risks of conflict of interest.[99]

The financial health of Australian charities

This section of the report provides an analysis of the 2018–2021 Annual Information Statements (AIS) submitted by over 48,000 charities on the ACNC website. For the first time, the report provides an analysis of what happened to charities over a 4-year period from before the bushfires and Covid-19 crisis to the end of 2021. As outlined below, Australian charities were already in a precarious financial state driven by long-standing structural issues with funding and support. When Australia experienced the dramatic economic crash in the early months of the pandemic, the sector raised concerns that their already stretched finances would not be able to accommodate the economic shock of the pandemic. Governments and philanthropy acted swiftly and strongly to support the sector as it underwent profound changes in service delivery while dealing with increased demand for services. The data suggests this provided a significant, if temporary, boost to charities. It appears that far fewer charities than feared closed down, and the general financial health of the sector improved.

However, while the sector received substantial support overall, it was unevenly distributed. In addition, the data suggests that charities may have acted cautiously with the new funds available, not spending them immediately as it was anticipated that they would be time limited payments. Looking ahead, the underlying pressures that led charities to be highly vulnerable to the shock remain relatively unchanged and new challenges have also emerged. There is a significant risk that the end of Covid supports offered in 2020 and 2021 means the sector will re-enter the precarious financial position that existed in 2019 at a time when demand is still high.

Significant pressure on charities pre-pandemic

Charities are different to other organisations

As previous Partners in Recovery reports have demonstrated, charities face different financial, legal and operational constraints to commercial businesses, which will make it harder for them to rebound from the pressures of the pandemic.[100] Charity revenues don't recover from downturns the same way that business revenues do. And they can't easily access the resources they need to rebuild after crises.[101]

These constraints present genuine market failures that have been exacerbated by Covid, including:

- a lack of access to capital and flexible funding
- constraints on innovation and productivity. The Productivity Commission recognised these constraints in their landmark report on the non-profit sector more than ten years ago, which informed their recommendation to extend some industry supports to the charity sector
- being in the business of public benefit. Charities operate not to respond to the demand of paying customers, but to public need – and funding does not always follow that need. These constraints,

and the national benefits of a thriving charities sector, present a strong rationale for the government providing tailored support for charities.[102, 103]

These constraints have profoundly shaped the way the sector operates and has led to many charities operating on thin margins and underinvesting in core capabilities as standard practice. Recent research has delved deeper into many of the causes of this widespread financial vulnerability:

- **Funding insecurity:** Prior to the pandemic, research showed short-term contracts with government and uncertainty about funding transition processes were major factors seen to hold the sector back. While representatives from the community sector acknowledged recent gains, such as five-year contracts and funding flexibility, these gains are not widespread, and not all are lasting. Underfunding and insecure, fragmented funding relationships remains the norm – too many organisations are forced to rely on short-term contracts that stifle innovation and constrain their capacity to make a difference for communities.[104]
- **Funding insufficiency:** Against the backdrop of years of insufficient funding, charities have been faced with rising levels of demand driven by the pandemic and natural disasters. The latest *Carrying the Costs of the Crisis* report demonstrated the ongoing challenges with underfunding.[105] In 2021, only 20% of charity respondents reported that their main funding source covered the full costs of service delivery and just 14% said that indexation arrangements for their main funding source was adequate. Government funding processes, which prioritise low prices over sector viability, makes it difficult for charities to operate effectively, and to put away reserves to manage future crises.[106] Since 1 July 2019, the majority of community service organisations have also had to fund the 1.65% portable long service leave levy, effectively decreasing the amount of funding available to support the community.[107]
- **Funding restrictions:** Recent work in the *Paying What It Takes* report has found that not-for-profit organisations across Australia are, in general, not funded for the actual cost of what they do.[108] As a result, this is holding charities back from operating effectively and delivering better outcomes in the community. Despite research showing that not-for-profits that invest more in their indirect costs can be more effective than those that do not, many not-for-profits find themselves with limited funds that can be spent on core costs, such as measurement and evaluation, IT and human resources.[109] Even when funders do not put explicit restrictions, there is a widespread trend of not-for-profits under-reporting their true indirect costs due to persistent beliefs about what funders are 'willing' to pay.[110] This has led chronic under investment in essential infrastructure and increased vulnerability. And while some of these impacts may be masked by the temporary investments from government during Covid, this will undoubtedly persist in the absence of more structural reforms.
- **Funding flexibility**: The lack of flexibility on contractual obligations has also been highlighted through the recent crisis, with charities needing to pivot their operating models rapidly within the confines of their funding. Community sector leaders have previously highlighted how project-based funding with tight contractual limits on funding use make it difficult for organisations to be adaptive and innovative to new circumstances.[111] Funding restrictions also disadvantage some parts of the sector specifically. Limited funds are available for advocacy, making it more difficult to identify and address significant community concerns.
- **Financial norms:** Operating in a constrained financial environment over the long term has led to the evolution of a set of financial norms for the sector. These norms, such as 'minimise overhead', 'diversify revenue' and 'avoid debt' are a rational response by charities to the pressures they observe from funders and the systems they operate in.[112]

Yet recent research in the US has shown just how counterproductive those norms can be. A study found that charities that follow these norms tend to underperform charities that do not.[113] Many of the behaviours that charities undertake to appear 'trustworthy' are likely to be impeding their ability to achieve good outcomes.

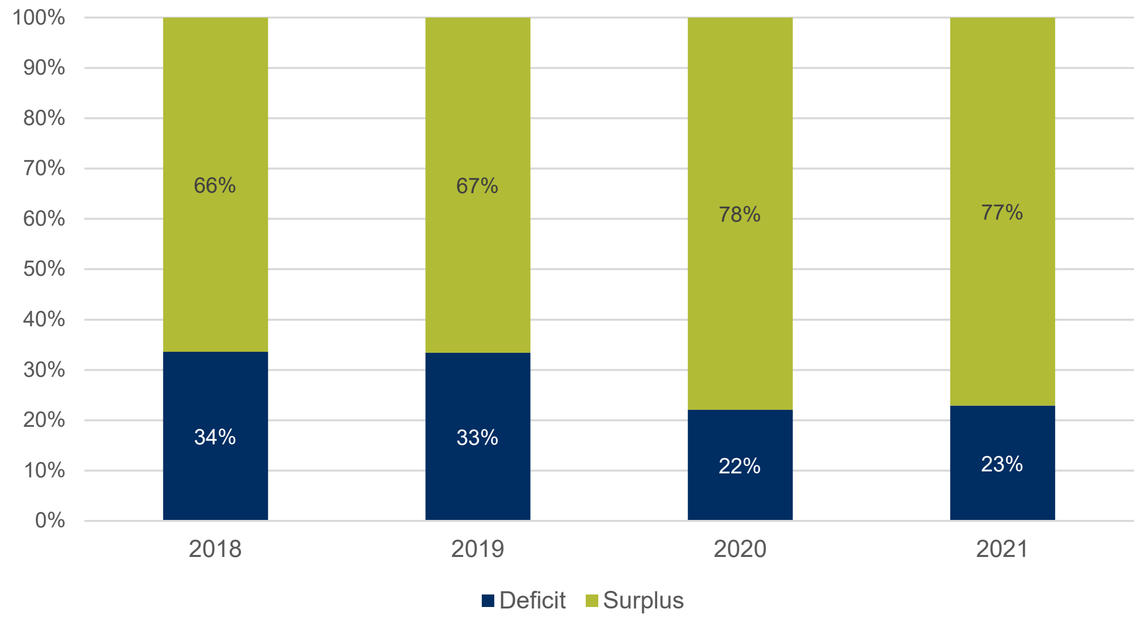
Short-term cash and cost controls supported charities in 2020–21

The pandemic has had a complex and uneven impact on the charity sector. Some charities have seen an increase in demand for services, a drop in fee-for-service revenue and a withering of volunteer numbers. At the same time, these challenges have been offset by temporary government funding and changes to philanthropic behaviour.

Overall, the sector has shown a remarkable financial resilience through the crises, with data showing a smaller proportion of charities were lossmaking in 2021 compared to 2019.

In 2018 before the Covid-19 crisis, 66% of charities had an operating surplus (for example, revenue higher than expenses). This increased to 78% in 2020 (Figure 2). Approximately one-third of charities were operating in deficit in 2018 and 2019, reducing to one in five charities in 2020 and 2021.

Figure 2: Proportion of charities in analysis by operating surplus/deficit, 2018–2021



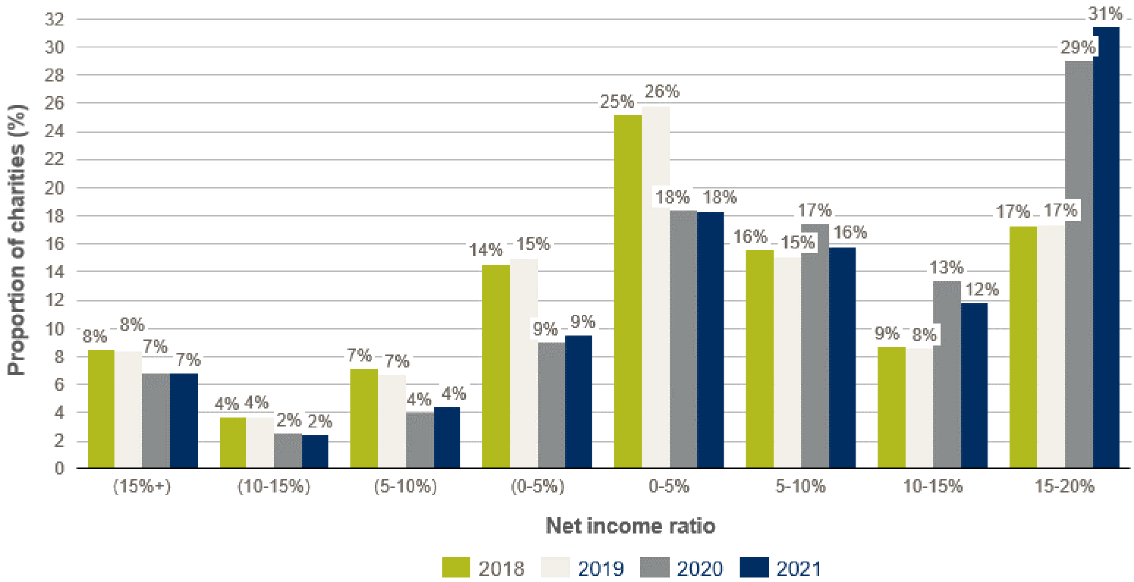
The number of charities in a precarious financial position also decreased. In 2018 and 2019, 60% of charities included in the analysis were in a precarious financial position (this number was calculated by adding the number of charities in operating deficit to those with an operating surplus of less than 5%). By 2021, this number had reduced to 41%. Detailed modelling of charity financial vulnerability is included in Appendix 2.

The aggregate net income ratio fell from 8.9% in 2016 and 8.5% in 2017, to remain stable from 2018 (4.9%) to 2020 (4.6%), and then rose again to 8.0% in 2021. This corresponds with findings from the

Australian Institute of Company Directors (AICD), where 84% of survey respondents reported making a surplus or breaking even in the 2020–21 financial year.[114]

As we can see in Figure 3, the proportion of charities with a net income ratio between 15 and 20% also increased significantly in 2020 and 2021.

Figure 3: Proportion of charities in analysis by net income ratio (operating surplus/deficit as a % of income), 2018–2021



The main factors that have contributed to this positive story can likely be attributed to the substantial financial intervention from government through JobKeeper, prudent financial management from charities and the unexpected strength in the economy as it rebounded.

Charities' estimates of their own financial health early in the pandemic were dour. The first CSI's Pulse of the For-Purpose Sector survey (Pulse survey) in 2020 found that 53% of charities were concerned about being able to continue providing services in the current economy. This dropped substantially, to only 13%, by July 2021 survey. It is likely that many charities took strong actions in 2020 to offset the worst of the predicted effects.

This is not to underestimate the stresses that charities have been under. Sixty-six percent of Pulse survey respondents reported a reduction in revenue, and 35% of AICD respondents had used their financial reserves to fund their organisation over the last year. In 2020, 79% of the Pulse survey respondents indicated that Covid-19 was placing a financial strain on their operations, which was echoed in the 2021 Pulse survey with 74% of responding organisations answering they were under financial pressure.

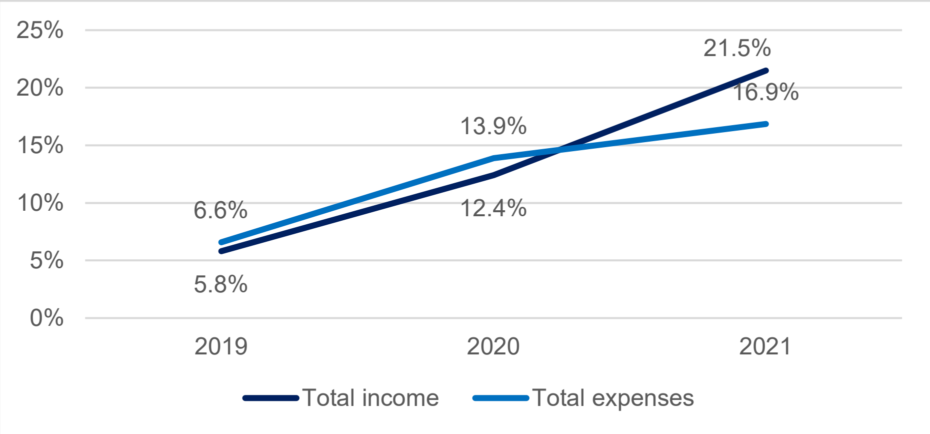
Expenses did not rise in line with the temporary income boost from Government

A longitudinal analysis of a sub-group of charities from 2018 to 2021 demonstrated growth in both demand and income over time, with total income increasing by 21.5%, while total expenses only increased by 16.9% (Figure 4).[115]

It is interesting to note the divergence in income and expenditure in 2020 and 2021. In 2020, expenses rose at a slightly higher rate than revenue. This reversed in 2021, with income rising substantially faster than expenses. One hypothesis for this pattern is that the sector reacted to the temporary nature of the 2021 funding increase (much of which is likely to be JobKeeper) and thus did not take on long-term expenses.

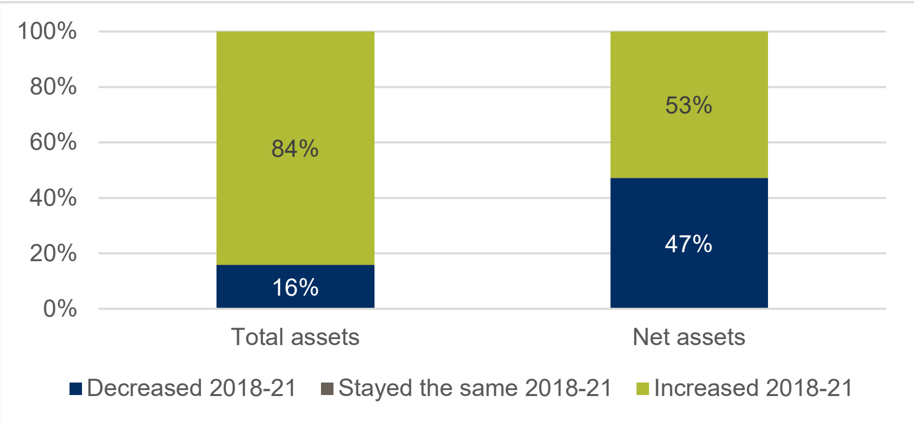
The data suggests that charities have potentially sought to reserve some of the additional temporary income and not spend it immediately (expenses didn't rise in line with income) so that they can use it to provide higher service levels than pre-pandemic for a longer rather than having to immediately shrink back to pre-pandemic levels of service after the temporary income ceased. This will only become clear in future data sets.

Figure 4: Percentage increase in real total income and expenses of charities in longitudinal analysis from 2018 baseline to 2021



Within this group of charities, the vast majority (84%) increased their total assets between 2018 and 2021, with only 16% recording a drop in assets. Yet for many this rise in assets was offset by a corresponding rise in liabilities. In this sample, 47% had their liabilities rise faster than their assets, leading to an overall decrease in their net assets (see Figure 5).

Figure 5: Proportion of charities with relative rises and falls in total assets and net assets from charities in longitudinal analysis from 2018 baseline to 2021

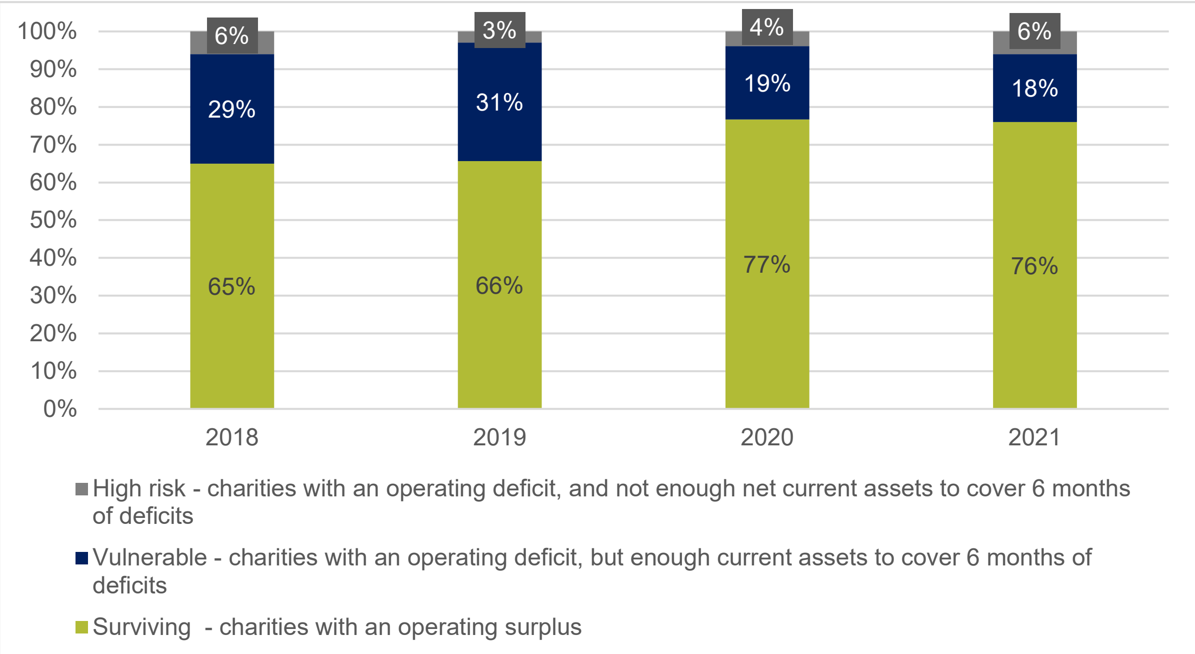


An analysis of charity vulnerability was conducted for the period from 2018 to 2020. Charities were categorised into three groups based on their financial viability:

- **Surviving**: Charities with an operating surplus and likely to survive
- **Vulnerable**: Charities who are vulnerable as they have an operating deficit, but enough assets to cover six months of deficits
- **High risk**: Charities with an operating deficit, but not enough assets to cover six months of deficits.

In line with the increase in net income ratio, the proportion of charities at risk of being unable to pay their debts decreased, while charities with an operating surplus increased. Further, the proportion of 'vulnerable' charities decreased from 29% in 2018 to and 18% in 2021; the proportion of 'surviving' charities (those with an operating surplus) increased from 65% in 2018 to 76% in 2021 (Figure 6). Interestingly, the vulnerable charities have decreased from 29% in 2018, 31% in 2019, to 19% in 2020 and 18% in 2021. The proportion of high-risk charities, remained relatively stable from 2018 to 2021 at between 3–6%. This could suggest that for some charities, the increase in funding has not necessarily led to an increase in long-term stability. Alternatively, it may reflect the uneven way in which the funding has been spread across the different parts of the charities sector.

Figure 6: Proportion of charities by financial viability



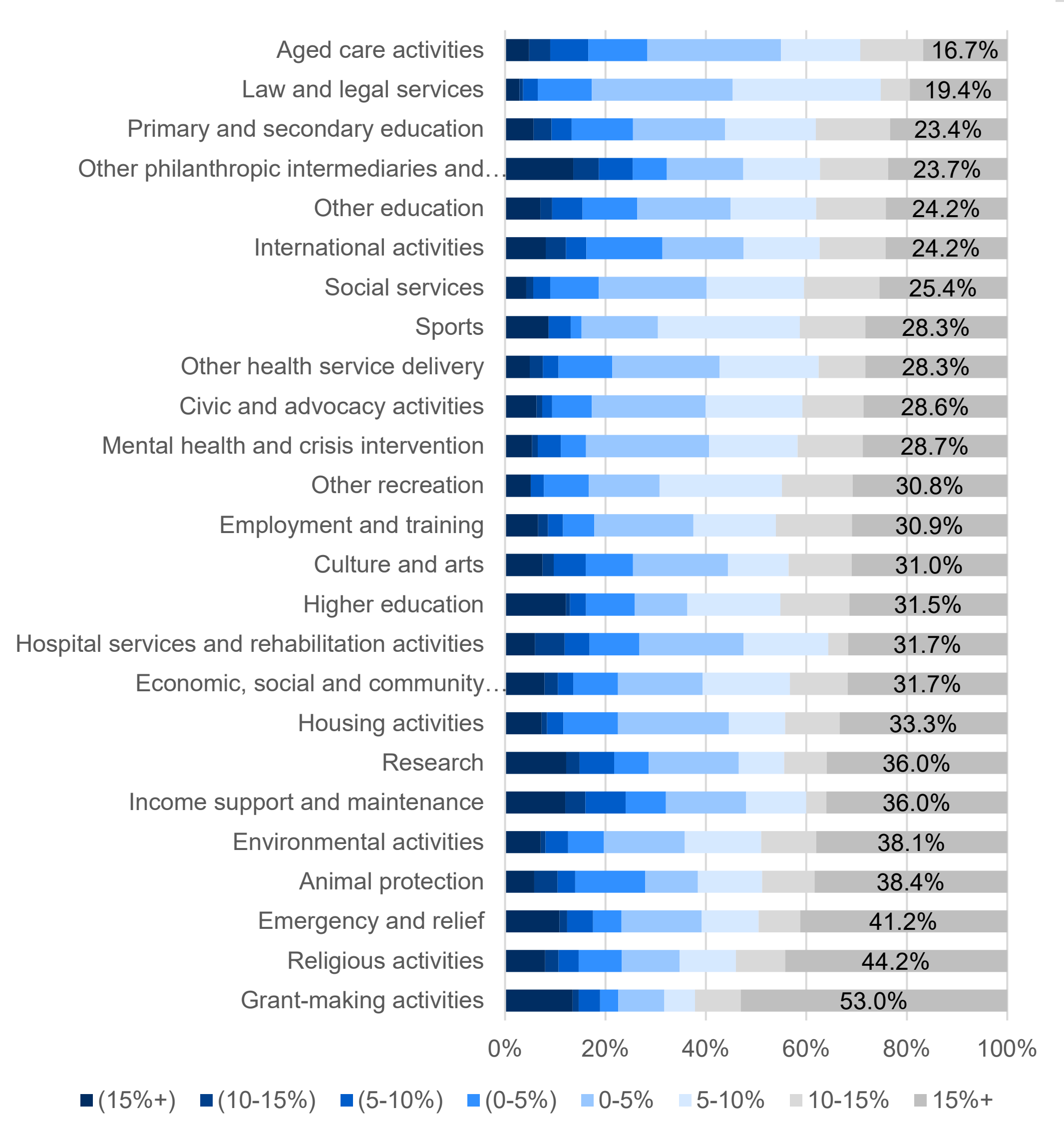
Charity vulnerability differed across various sectors

The last two years have had complex impacts on different parts of the charity sector. Some, like health, emergency and relief charities have had a dramatic increase in both demand and funding. Others, like the culture and arts sector, saw their demand disappear almost overnight.

In this report we have, for the first time, included a breakdown of charities according to their main activity to better understand their different situations. This analysis looks at charities financial position in 2021, so it does not show what happened to charities over time. Data will need to be revisited in future reports to better understand the trends within subsectors.

In 2021, aged care and income support charities were identified as the most financially exposed groups. Our finding showed 54.9% of aged care charities and 48% of income support charities made a loss or small surplus that year. In comparison, 44.2% charities that focused on religious activities and 41.2% of charities that focused on emergency relief showed a significant surplus (Figure 7). It should be noted that this data does not distinguish between service delivery organisations and philanthropic organisations, who have had very different pressures and spending patterns throughout the pandemic. The proportions of different kinds of organisations can be difficult to know for certain but there are 7,000 philanthropic funds, trusts and organisations in Australia, many of which are registered with the ACNC.[116]

Figure 7: Main activity of charities in analysis by net income ratio (operating surplus as a percentage of income), 2021



Nonetheless, when combined with other sources, the data points to high degrees of investment in crisis and emergency response services. One of the ongoing policy challenges will be the extent to which investments in early intervention services and longer-term structural reforms will be able to attract attention and investment in the future following an increase in crisis supports.

Shift in income sources and fee-for-service revenue

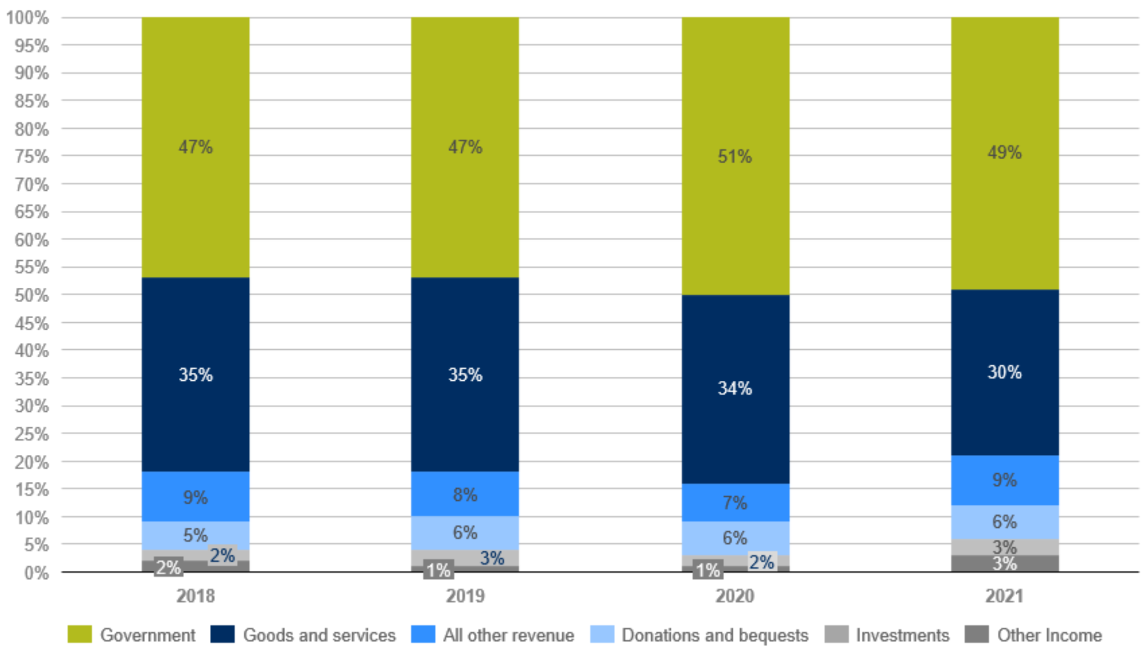
While the data suggests that charity income has risen overall, there are significant differences by type of funding.

Goods and services income declined, but all other sources stayed relatively constant

Charities receive their income from a variety of sources including government, goods and services, donations and bequests and investments. As Figure 8 shows, in aggregate between 2018–2021, the largest direct source of income for charities was from government (47%–51%). Interestingly, the significant influx of JobKeeper funding did not appear to make an impact on the overall proportion of government funding received by charities. This could be because JobKeeper offset drops in other forms of government income. Alternatively, charities may have recorded JobKeeper as ‘other income’ or ‘other revenue’ (both of which rose).

The next largest income source for 2018–2021 was the sale of goods and services. In aggregate, approximately one third (30–35%) of income for charities in the 2018–2020 analysis came from goods and services, such as operating an opportunity shop or providing services to the public. This includes income from Commonwealth, state and local governments who indirectly purchase services from charities in areas such as, disability, employment, health care and education. Aggregate income from goods and service dropped from 35% in 2018 and 2019 down to 30% in 2021.

Figure 8: Aggregate charity income by source, 2018–2021



Approximately 5–6% of aggregate income for 2018–2021 charities in our analysis came from donations and bequests. In our 2021 sample, approximately three-quarters (73%) of the charities had revenue from donations and bequests.

It is again interesting to contrast these results with sector survey results. The CSI Pulse survey had 59% of organisations recording a reduction in donations in the previous 12 months, with 31% of respondents reporting a funding cancellation, and 54% of organisations facing delays in receiving planned funding.[117] These findings suggest that different charities had significantly different experiences through the pandemic.

Philanthropic funders changed their approach and funding focus during the crisis

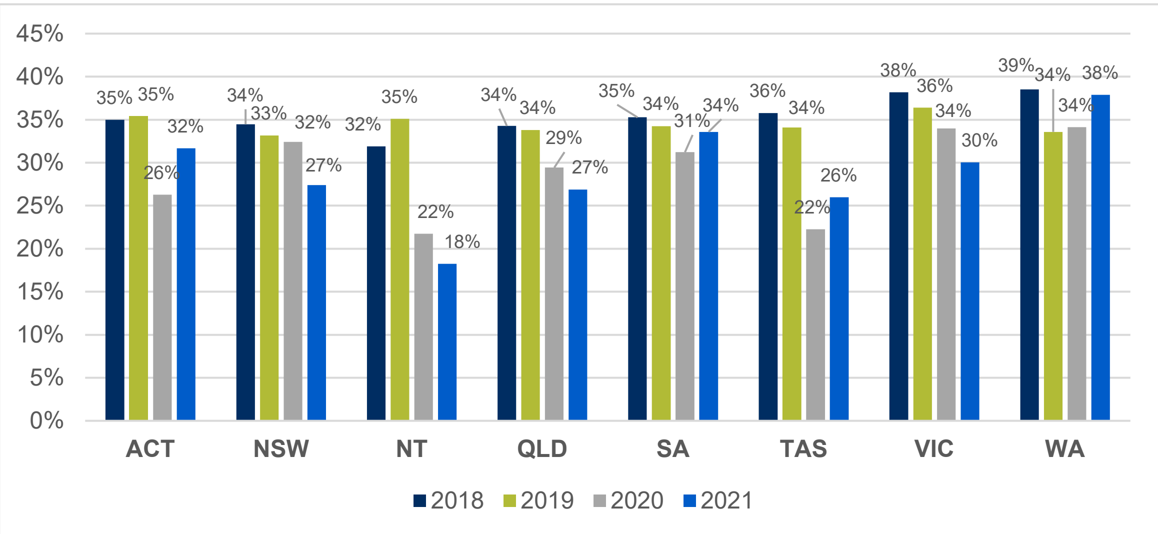
While overall philanthropic funding levels were maintained as a proportion of income, research from the CSI's *Pulse of the For-Purpose Sector Final Report: Wave Two* suggests that many philanthropic funders changed their approach to provide charities with greater flexibility during the pandemic. Charities that receive grants from charitable trusts reported high levels (83%) of flexibility from funders as a response to the challenges faced by Covid-19.[118] In addition, funders were willing to bring forward grant payments or offer advance payments that allowed financial resources to be directed where they were most needed.[119]

Funders also pivoted their funding focus – a large proportion of charities (80%) believed that philanthropic funders had switched their focus or redirected their regular grants towards programs with a Covid-19 focus.[120] In some cases, this pivot may have made funding more difficult to access for many charities: almost 60% of charity respondents in the ACOSS survey reporting that they were finding it more difficult to access funds from philanthropic foundations and more than two thirds of respondents reporting that it was more difficult to access support from both businesses and the public in 2021.[121]

Goods and services income varied by state

From 2019 to 2020, the proportion of goods and services of total charity income decreased in all states except for Western Australia (Figure 9). Largest decreases were seen in Australian Capital Territory, Northern Territory and Tasmania. When comparing 2020 to 2021, New South Wales, Northern Territory, Queensland, and Victoria showed decreases in the proportion of goods and services of total charity income, whereas Australian Capital Territoty, South Australia, Tasmania and Western Australia showed increases in the proportion of goods and services of total charity income.

Figure 9: Proportion of goods and services of total charity income by state, 2018–2021

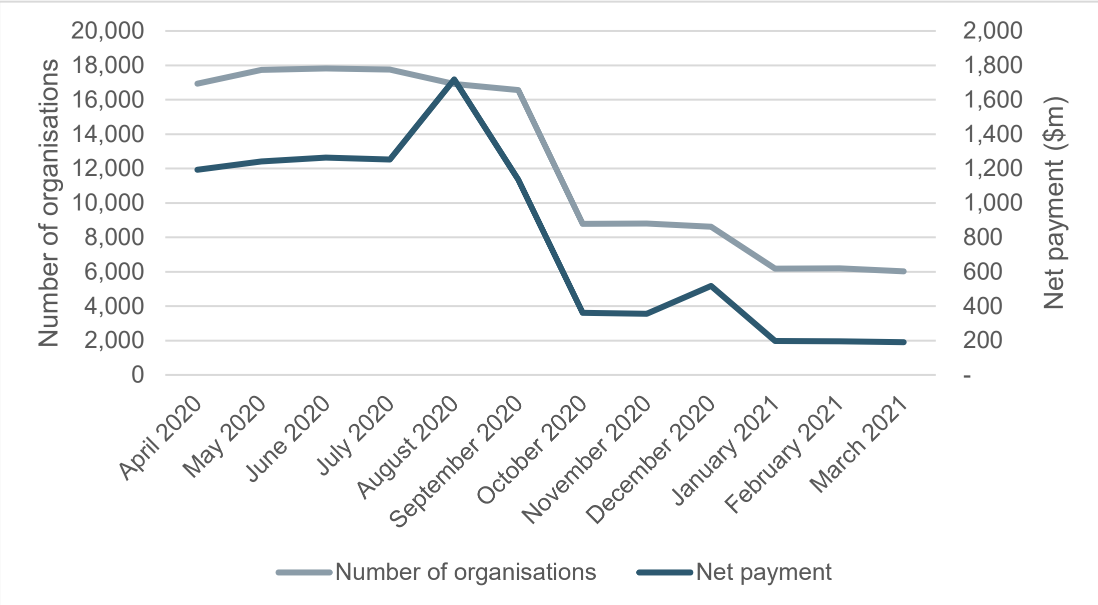


Some of the changes in the proportion of income from goods and services are likely to reflect the impact of lockdowns. The differential impact of international and state border closures will also have contributed, as may the mix of charities in different states and territories. It is unclear whether trading income will return or whether this represents a more fundamental shift – this warrants further investigation in future analysis.

JobKeeper provided the charity sector with critical support, though it was unevenly distributed

JobKeeper support provided the charity sector with substantial and critical support as the crisis unfolded. The majority of this support for not-for-profits was provided during the first phase of JobKeeper, from April to September 2020 (Figure 10). According to ATO data, 19,031 not-for-profits (note this is a different but overlapping group to charities) received a total of $9.6 billion in JobKeeper support over JobKeeper Phases 1 and 2 (April 2020–March 2021).[122] Eligibility requirements varied for many charities, with some being able to access the subsidy if their income dropped by 15%, while others were required to prove an income drop of 30% or more. Some very large charites – including universities – were excluded altogether.

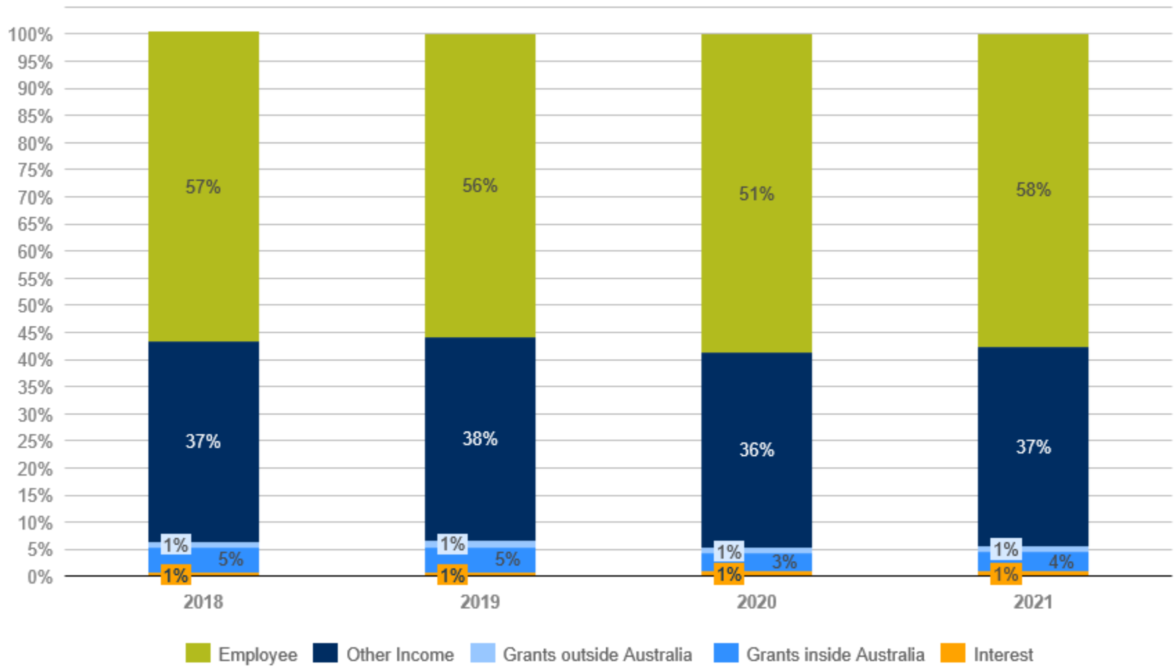
Figure 10: Support received by charities from April 2020 to March 2021



Charities' spent in similar proportions

The proportion of income spent on grants, interest and employees was roughly similar across all four years. However, the proportion of funds spent on grants given inside Australia appeared to drop from 4.7% in 2018 and 2019 to 3.3% in 2020 (Figure 11). The available data does not paint a clear picture of how charity expenses have been shifted by the pandemic. It is likely that the significant disruptions to charity operations had implications for expenses and investment that are not visible in this data.

Figure 11: Expenditure by charities from 2018 to 2021

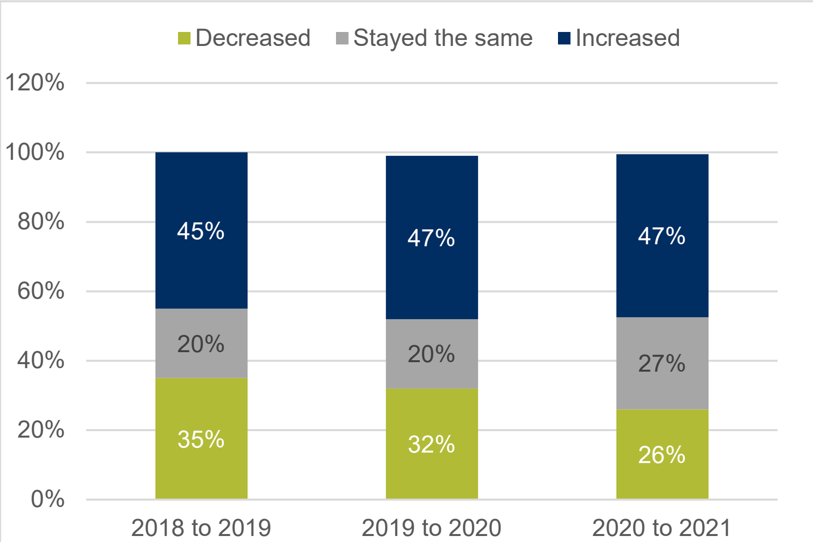


Many charities brought on more staff during the last four years

Using the same longitudinal data set highlighted earlier and tracking a set of 9,482 charities from 2018 to 2021, we are able to see what happened to staff levels over that time. Over 30% of charities had a decrease in FTEs (full-time equivalent) during the period, while 60% finished the period with more staff. The proportion of charities that decreased their FTE from 2020 to 2021 actually dropped, from 32% to 26%. This is likely due to a combination of increased demand and JobKeeper allowing charities to retain staff. The average number of FTE in this group of charities increased by 21%, from 44 FTE in 2018 to 53 FTE in 2021 (Figure 12).

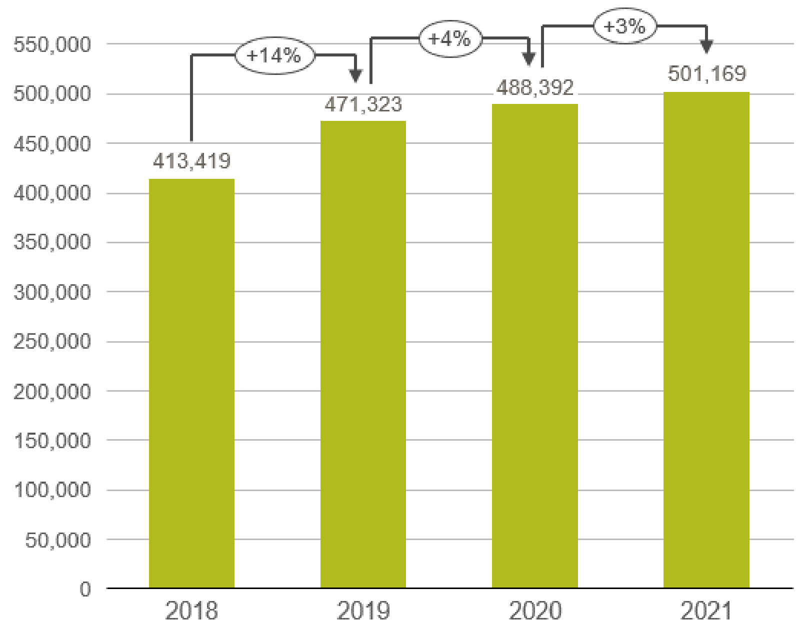
Charities are a large and diverse group of organisations and this suggests that there were significant difference in the impacts on different kinds of organisations, with some expanding while others contracted. The overall picture was one of increased staffing.

Figure 12: Charity changes to reported FTE in longitudinal analysis from 2018 baseline to 2021 (matched subset of charities)



Total FTE employed by this group of charities rose every year from 2018 to 2021, though growth was notably slower from 2020–21 rising by only 3%, compared to a 14% increase from 2018 to 2019 Figure 13).

Figure 13: Charity total reported FTE in longitudinal analysis from 2018 baseline to 2021 (matched subset of charities)



Covid-19 had a substantial effect on volunteering throughout the NFP sector as noted above. According to ACNC data of a matched set of charities from 2020-21, volunteer numbers decreased by 7% from 1,929,417 in 2020 to 1,791,846 in 2021. This drop in reported volunteer numbers is significantly smaller than the many estimates, with Volunteer Australia data suggesting that 72% of respondents having either partially operational (60%) or not operational (12%) volunteering programs when surveyed in early 2021.[123]

Service delivery changed dramatically

The pandemic led to significant operational disruption. Ninety five percent of surveyed charities stated that their service delivery had changed somewhat, with changes to the way employees work and how to reach vulnerable populations.[124] Ninety-six percent of surveyed not-for-profits noted that there were areas of their technology that needed more attention due to changes caused by the pandemic.[125] Nonetheless, Australian not-for-profits spent a similar amount per employee on IT as pre-pandemic, which was surprising given that 77% had a change in staff working patterns.

Charities remain under financial pressure

Not yet clear how many charities ceased operations

One of the major concerns at the start of the pandemic was that a substantial number of charities may not survive. As was highlighted above, 53% of organisations from the 2020 Pulse survey were questioning their survivability due to the pandemic.

Thanks to rapid responses from government, philanthropy and the sector itself, the feared collapse of charities does not appear to have taken place, and the proportion of organisations fearing closure dropped to 13% by the 2021 Pulse survey. The proportion of charities being deregistered from the ACNC did not appear to change significantly over the pandemic, though it should be noted that there may be long delays between charities shutting down and them appearing in ACNC revocation data.[126] At the time of data collection, it was not possible to identify which charities may have ceased operating in 2021 as opposed to simply being late in their ACNC reporting. There remains significant uncertainty about the effects of the pandemic on the number of operating charities, particularly those relying exclusively on a volunteer workforce. The analysis in this paper only captures those charities with a minimum 0.8 FTE.

Charities may be more likely to scale back than close

It has been noted that, rather than closing, the more immediate risk is that charities scale down their operations in order to cut costs and continue to survive, rather than close entirely.[127] This would increase the amount of unmet need in the community, without obviously reducing the number of charities.

There are already indications that charities are too stretched to meet community needs, as outlined in 'The state of the charity sector' section of this report. According to the Pulse survey, 80% of service providers received requests for support they could not meet in 2021, with 15% experiencing a large or very large number of unmet services for their clients or communities.

In addition, while JobKeeper payments were noted to significantly alleviate the burden on finances, 33% of organisations indicated that the stimulus only meant that they didn't need to shut down completely.

Interestingly, AICD research found that charity merger activity and discussions were at an all-time low in 2021. This potentially implies that many charities that are under financial pressure do not believe that their current challenges can be solved by increased scale or diversification, or that an increased focus on operational issues has reduced the ability of charities to explore strategic opportunities.

Charities appear to have been prudent through Covid-19

The short-term money provided to the charity sector by government and philanthropy has allowed the sector to weather the pandemic and keep providing services in an environment of significantly increased demand.

As we saw with the bushfires, charities receiving short-term windfalls of cash generally act carefully with it, knowing that the issue they need to address will likely long outlast the funding attention. This pattern appears to have been repeated with Covid-19. Charities used the financial support to keep staff and programs going as fee-for-service income dropped, but many chose to run surpluses by strategically allocating expenditure over a longer period of time. One of the factors driving this financial conservatism is likely that there is an awareness that the structural issues with funding for the charity sector remain unaddressed.

Current economic headwinds are placing additional pressure on charity finances in the future

Charities continue to face a confluence of financial challenges in the current operating context – from rising staff costs and higher service delivery costs to donations being eroded by inflation. Further, grant funding is not keeping up with indexation and demand for services remains high. In the face of these challenges, many charities will need to put anti-inflation strategies in place.

Covid supports provided a welcome, but temporary fix. Early in the pandemic charities held deep concerns about their financial viability and actions by government, including the lower threshold for accessing JobKeeper (a drop in 15% of revenue) played a significant role in ensuring charities survived. However, these supports only served to provide a temporary fix to financial stresses faced by the sector.[128] The latest *Pulse of the For-Purpose Sector (Wave 2)* survey revealed that over a quarter of charities reported a decrease in the availability of funding to support their work, with just one in eight charity leaders saying that there was enough funding to meet demand in 2021.[129] Moreover, more than 80% of respondent charities agreed that the non-profit sector needs more financial help from governments.[130] Without structural changes to the way the sector is supported, there is no reason to believe that the sector will not soon find itself in similar levels of financial vulnerability.

The cost to deliver services is increasing. The withdrawal of stimulus has coincided with a number of other trends that make it challenging for charities to thrive. The sector is now faced with rising service delivery costs, primarily driven by the rapidly escalating cost of food and fuel against the backdrop of the Ukraine war. Inflation rose to 6.1% in the June quarter (2022) – the fastest annual increase in 21 years.[131] Alarmingly, inflation is expected continue to rise, reaching 7.75% by year end.[132] The rise in the cost of goods and services that charities buy and provide, is expected to impact how much support they can deliver to people and communities in need.

Charities are facing wage cost pressures. In June 2022, the Fair Work Commission announced a 5.2% increase to the national minimum wage and 4.6% increase to modern award minimum wage.[133] The superannuation guarantee also increased by 0.5% as of 1 July 2022. While these changes will support workers on low incomes confronted with the rising cost of living, the charitable sector is likely to face wage cost pressures, while also dealing with rising cost of service delivery and operations.[134]

If inflation outpaces even these sizeable wage rises, salaries for charity workers will start reducing in real terms. The sector already has issues with low pay and there is a risk of significant staff churn in the sector. Charities may struggle to replace staff, as many are already experiencing a shortage of job candidates.

Tightening household budgets are anticipated to impact donation levels. With rising inflation and cost of living pressures, there is a risk that donation levels will decline as households tighten their budgets.[135] At the same time, for those who continue to give, the value of donations will reduce in real terms should inflation remain at its current level.[136] For example, if a donor is giving $20 a month to charity, this would shrink in real terms by more than a fifth to $15.94 in just four years should inflation remain at its current level.

Structured giving has failed to keep pace with the accumulation of wealth. The Centre for Social Impact's recent report *High Net Wealth Giving: A Review of the Evidence* showed giving by those in the Financial Review Philanthropy 50 List for 2022 had decreased 2.3% on the previous year, while the wealth held by the Top 200 Australian Financial Review (AFR) Rich List for 2022 grew by 15.7% on the previous year. Australia gives at a lower percentage of GDP (0.81%) compared to the United Kingdom (0.96%), Canada (1%), New Zealand (1.84%) and the United States (2.1%)[137]. Even a slight increase in giving by Australia's wealthiest would dramatically boost the Australian charitable sector and improve social and environmental outcomes across the country. A commitment by the 200 wealthiest Australians to donate 1% of their wealth to charity would generate an extra $5.55 billion for the sector, boosting revenue by 3.2% and donations by 44%.[138]

Charities, jobs, gender and the 'care economy'

In this edition of the Partners in Recovery series, we examine the interconnected relationships between charities and the care economy due to the large role charities play in providing these essential services to individuals and communities.

Policies impacting the care economy should take account of the needs of charities. Underlying challenges facing caring industries and employees in the care economy including pay and conditions for workers as well as decisions and reforms undertaken by governments have a profound impact on charities and can have different impacts to for-profit organisations operating in the same markets. Charities in the care economy are also more likely to be providing services to vulnerable and marginalised groups whose views can easily be overlooked in policy debates.

Charities are at the core of the care economy

While there is no universally agreed definition of the care economy, it is broadly considered to encompass a range of services that support individuals requiring assistance due to their health, living conditions, ability and/or age and is largely defined as including heath, aged care, disability care, mental health, early childhood education and care, housing and food services.

The care economy has long been a dominant force of the overall economy and continues to grow in many Organisation for Economic Co-operation and Development (OECD) countries, including Australia. In 2015, employment in health and social care made up approximately 10% of total OECD employment, with employment growth between 2000 and 2015 averaging 42%.[139] Within Australia, between November 2013 and November 2018, growth in health care and social assistance was 21.4% compared with 10.6% in all other industries.[140]

A 2012 report prepared by AEC group found that the care sector employed 1.8 million workers – across preschool and school education, health care and social assistance and personal care.[141] Using the same methodology, these sectors now employ over 3 million Australians.[142] As Table 2 shows, health care and social assistance, and education and training, are expected to be two of the largest sources of new employment in the coming years, projected to collectively add more than 450,000 jobs by 2026.[143] These sectors far outstrip expected growth in industries that frequently benefit from industry support such as, mining (15,900 more jobs) and manufacturing (23,100 fewer jobs). In New South Wales alone, the social sector will demand an extra 62,000 jobs by 2030, including 27,000 in regional NSW.[144] The most in-demand jobs in Australia currently include early childhood teachers and workers, registered nurses, child carers, and aged and disabled carers.[145]

Table 2:Projected number and proportion of jobs added to November 2021, by industry

Industry	Projected % employment change (5 years from Nov 2021)	Projected total employment (Nov 2026) '000	Projected new employment (Nov 2026) '000
Health Care and Social Assistance	14.2	2,201.1	301.0
Accommodation and Food Services	16.8	961.9	112.4
Professional, Scientific and Technical Services	11.0	1,433.3	206.6
Education and Training	10.8	1,265.2	149.6
Mining	8.3	287.3	15.9
Construction	6.8	1,210.0	66.4
Manufacturing	(0.7)	887.3	(23.1)

As of August 2022, the health and education sector also had the largest output between sectors in Australia at 13.2%, with mining coming in next at 11.5%.[146] In June 2020, the health spend had increased 50% in the past decade to $185 billion, with the telehealth market growing to $1.9 billion, mental health market $9.9 billion, independent living at $4.6 billion and vaccines and therapeutics at $3.9 billion.[147]

More than a quarter of (27.2%) of not-for-profits reporting to the ACNC were categorised as either health, social services or development and housing organisations with a further 19.5% education and research (encompassing early learning) and 29.8% religious (which will also incorporate some religious organisations that also deliver caring services).[148]

If we assume that the proportions of employees in each of these sectors is similar, then more than a quarter of the 1.4 million people employed in charities employed in either health, social services or development and housing organisation – more than 380,000 people, all of them working in the care economy. If charity employees working in the care economy in other categories including education and religious charities were added the number would be larger still. On any calculation, people employed by charities make up a significant portion of the care workforce.

Very large and extra-large charities (according to the ACNC definitions) are also more likely to be operating in the aged care, social services, education and higher education.[149] Some of the biggest providers within the care economy are not-for-profit or charities, for example, St Vincent's Health, UnitingCare Community, Epworth Foundation, Baptcare, Warrigal Care, Mecwa, Beyond Blue and Goodstart Early Learning.[150]

Growth in the social and community services (a subset of the caring economy) has also represented a significant contributor to the growth in the caring economy, owing to Australia's ageing population and the implementation of the NDIS.[151] Community services encompass services, such as health, disability support, aged care, housing and homelessness services, child and family services, youth justice, child protection and employment services. Many community services are highly specialised and have traditionally been delivered by small not-for-profit charitable and community-based organisations.[152] Most continue to be delivered in the not-for-profit sector.[153]

The care economy faces particular challenges

Stimulus measures often favoured other sectors. Historically, economic stimulus policies have centred on large-scale physical infrastructure projects that disproportionately employ men and exclude many women from the benefits of the stimulus.[154] This was echoed in the response to the pandemic.

Infrastructure construction has become far more capital-intensive and less labour-intensive in recent years.[155] Increasing research demonstrates that public investment in social infrastructure (for example, education, health and care services) is a more labour-intensive form of macroeconomic stimulus available to governments that boosts women's employment.[156] A modelling study by The Australia Institute predicted that an investment of $1 million in caring sectors compared with a $1 million investment in the construction industry would provide more job opportunities (1.2 jobs with investment in construction compared to 10.2 jobs with investment in health care and social assistance).[157] Jobs created in caring industries would also strongly benefit women – with every $1 million creating 10.6 jobs for women in education, 7.9 jobs in health care and social assistance and 0.2 jobs in construction.[158]

A study by Victoria University showed how a $1 billion annual investment to lift wages and boost supply of the care economy would deliver a $10 billion boost to Gross State Product by 2030.[159] The growth promise offered by the care economy outweighs other sectors' ability to grow and develop the Australian economy.

Based on a study of seven OECD countries, Elizabeth Hill has modelled the benefits of public investment on care industries over construction in Australia and found that:

- The boost to direct employment from a 1% GDP investment in care industries is almost five times greater than the direct employment generated in construction.
- The impact of 1% GDP investment in care industries on the overall rate of employment would be twice that of investment in the construction sector.
- Women stand to gain two-thirds of the new jobs created under the care sector scenario but only one-third of jobs generated if the investment was in construction.
- Investment in care reduces the gender pay gap whereas investment in the construction sector widens the existing gender employment gap in favour of men.[160]

As Sam Mostyn, President of Chief Executive Women said in her address to the National Press Club of Australia:

> "We need to start valuing, maintaining and investing in [the care economy] with the same energy and focus as we would any arterial road" and that "in order to recover from the long-term impacts of Covid-19 we need significant and innovative investments in social infrastructure and in people"[161]

And yet, our analysis of ACNC data has identified that some parts of the charity sector in the care economy were more financially vulnerable in 2021 than others. Notably, aged care and social services charities were much less likely to have an operating surplus (16.7% and 25.4% respectively) than charities whose main activity is animal protection (38.4%), emergency and relief (41.2%), religious activities (44.2%), and grant making activities (53.0%) (Figure 7).

Structural factors create challenges for the care economy workforce, particularly for women. The care economy is facing multiple challenges including low-wages, poor working conditions in some pockets, part-time work vulnerability of the workforce, lack of career development, and worker fatigue and burnout caused by Covid-19.[162,163] Labour shortages in the care workforce are already acute and expected to worsen with a projected shortfall of 286,000 care workers by 2050.[164] The community services sector is dominated by low-paid, part-time work.[165] Equity Economics found in 2020 that half of NSW not-for-profit employees were on a casual or fixed-term basis.[166] Significantly, roughly 80% of employees are women.[167] Australia continues to have some of the most gender-segregated occupations and some of the most gendered divisions of labour in the OECD.[168] A greater proportion of women worked in traditionally female-dominated industries (including education and health care and social assistance) in 2018 than in 1998.[169]

High underemployment rates within the community services sector are accompanied by high levels of multiple jobholding, whilst low pay and poor working conditions contributes to high turnover rates and difficulty attracting skilled and experienced workers.[170]

The gendered undervaluation of work in the community services has historical roots and is by no means unique to Australia. Traditionally, work performed in the community services sector (including by charities) was performed by women on a volunteer basis. The association of this type of work with women's unpaid domestic work has contributed to the gendered devaluation of paid work in community services.[171]

Systemic underfunding by governments for the provision of contracted services is also significant factor contributing to low wages within the community sector.[172] In 2010 the Productivity Commission noted that the government regularly underfunded community services organisations contracted to provide services by 30% of the full cost of service delivery.[173] The *Paying What It Takes* report has found that this continues to be an issue in the funding provided to charities from governments and the philanthropic sector.[174]

Additionally, with the support of multiple governments, private for-profit companies have assumed responsibility for community service provision previously undertaken by public and not-for-profit community service organisations. This has placed further pressures on wages and employment conditions.[175]

There has been a significant gendered impact of Covid on both paid and unpaid caring. In addition to a global public health crisis, Covid-19 has also been described as a 'crisis in care'.[176, 177] Repeated Covid-19 lockdowns meant people working in the care economy could either not work and therefore not earn an income or had to continue working – placing them, their families and households at a higher risk of infection. This often resulted in required time off due to Covid-19 exposure and/or illness, leading to potential loss of income.[178] In addition to women being the dominant gender in the care economy, they are also the dominant gender to take on the unpaid care of families.[179] When Covid-19 caused schools to turn to online schooling, it was women predominantly leaving the workforce to care for children. More than 90,000 Australian parents were forced to leave the workforce due to homeschooling, the high cost of child care (the need for which increased for some groups due to lockdowns and visitation restrictions) as well as the shortage of employers offering high-quality flexible working arrangements.[180]

Women's employment and participation rates were at an all-time high pre-Covid-19.[181] After dropping sharply during 2020 (the participation rate fell from 61.4 in January 2020 to 57.5 in May 2020), these rates have now risen even higher (as of July 2022 the participation rate was 62.2).[182] This remains 8.6% lower than the male participation rate. More support mechanisms are needed to allow women to join or return to the workforce without having to juggle multiple jobs and to earn a decent and comparable income. To allow for this, the most important and biggest contributor is affordable and accessible child care – a key plank of the care economy.

While the government has promised to lower the costs of child care, which is commendable, there remains a staff shortage in the early child care sector due to low wages and poorer working conditions.[183, 184] The early childhood sector pays on average between $10,000–$20,000 less than teachers in state schools making attainment and retainment of educators difficult.[185] A shortage of qualified early childhood teachers means that despite the government's plan to make child care more affordable, childcare centres will be unable to enrol more children without parallel investments to support the workforce and build a pipeline of future employees.

The low wages in the care economy may be due to the part-time work or shift work by women also caring for their families. The structure of the care economy is a significant contributor to the gender pay gap in Australia. Within healthcare services the gender pay gap is a difference of $408.00 per week, which may be attributed to the lack of career path opportunities presented to women as they take more maternity and carer leave.[186] After a steady decline from a peak in November 2014, the gender pay gap in Australia started to increase in November 2020, and rose again between November 2021 and May 2022 to 14.1%.[187] Covid-19 further removed women from the workforce, stunting progression in their careers. Modelling from Grattan the Institute found that by either losing their jobs or leaving the workforce for as little as 6 months, women's life savings would be reduced by $100,000.[188, 189]

Employment challenges that are presenting themselves in the care economy are particularly acute in the not-for-profit sector, due to the financial constraints discussed in 'The state of charity sector' and 'The financial health of Australian charities' sections of this report.

Charities need central role in planning for the future

The evolution and growth of the care economy will continue to shape the environment for many charities in the future.

There is already community appetite for reform and investment in the workforce. The Covid-19 pandemic has prompted a societal revaluation of the importance of care work. In a nationally representative survey of more than 1,000 Australians conducted in September 2020, 80% of respondents stated that aged care workers should be paid more. Meanwhile, 50% of respondents said they would be willing to pay extra taxes to improve wages and conditions for aged care workers.[190] A June 2020 poll of 1,085 respondents in Australia found that more than half believed that nurses are underpaid. Additionally, 45% said that early childhood teachers are underpaid.[191]

To both attract and retain employees, the care economy could be made more attractive by increasing wages, offering more flexibility with working arrangements, portable leave, as well as offering more pay and career progression and pathways.[192] Increasing pay in the sector will inevitably assist in closing the gender pay gap, as over 75% of employees in the care economy are women.

Improving the training pipeline and retention of workers is similarly important including examining financial incentives for TAFE and university fee-free admissions to attract young workers, including male workers, to become qualified in areas where employment is suffering.[193]

To increase the workforce and develop a more balanced workforce within the care economy, there needs to be more consultation between the charities sector delivering services and with the government to understand the pressures being faced to attain and retain staff, to cover costs of running essential services, and to be able to offer more permanent secure employment.

The Jobs and Skills Summit (the Summit) explored a number of concerns that are felt within the care economy and could provide a platform for reforms. The challenges surrounding child care costs that would allow parents to return to work, skill shortages that were evident pre Covid-19 particularly in the care economy, and the forecasted loss of employees within the care economy were among the issues highlighted in the government's issues paper.[194]

Women and their role within the economy was front and centre at the Summit. Issues that received focused attention included the operation of current employee bargaining arrangements within the care economy and the value of extending paid parental leave to address the gender pay gap and reduce gender segregation in unpaid care.[195, 196] The outcomes from the Summit include commitments for further work to improve workplace relations, training and migration to address challenges for the care economy, as well as enhanced reporting on gender equality and the gender pay gap.[197]

It is both welcome and encouraged that the government continue to look and act on strengthening the care economy to ensure Australia will meet its workforce and care demands.

Service delivery is also evolving in the care economy and charities will play a role. Reform is needed across the care economy to ensure equal access to services. For example, enabling coordination between providers to allow for individual health care plans and placing greater emphasis on preventative health that will alleviate pressure from hospitals and emergency departments.[198] Use of digital resources is one area that is likely to be crucial, as highlighted in the fourth report in our Partners in Recovery series *Vital support: building resilient charities to support Australia's wellbeing* and the subsequent reports from Infoxchange.[199] It not only supports the sectors to utilise digital operations freeing up personnel resources, but it also increases the digital maturity of organisations.[200]

Effective monitoring and evaluation also rely on having the correct platforms and equipment as does the ability to collaborate with other agencies supporting common clients, patients or consumers.

Charities do not always have the same access to capital as for-profit providers that would allow them to make investments in assets or technology and so supports in these areas should be designed to ensure charities can participate. Not-for-profits are often left out of the consultation phase with government when designing tax incentives and policy changes. However, it is imperative for governments to realise that often, the tax incentives or grants available to for-profit organisations and companies are not applicable to charities, further hindering their operations and leaving them out.

Major reforms in the care economy need to take account of the needs of charities. The Royal Commission into Aged Care Quality and Safety shone a light on the way this system has been failing older Australians and has rightly promoted a set of recommendation and proposed reforms. Findings from the Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability, the proposed changes to the operation of the National Disability Insurance Scheme and the commitments to increase funding and access to early learning will similarly have a significant impact on charities.

As charities play such a large role in these sectors, they should be consulted when the government responds to the recommendations, as these policy creations and changes will affect charities who are often in a position with the least amount of flexibility, money, and ability to respond to new policy changes and obligations. Partnerships between industry and the governments deliver the best outcomes as both non-government organisations and governments need the other to operate at optimum capacity.

It is imperative to invest now in the care economy especially the charities providing care services, to ensure it is prepared for the significant growth it will go through as society will continue relying heavily on these services. That is, the care economy must be “four times more productive by 2050 to meet forecast demand”.[201]

What’s next for charities?

The need for structural reform to move beyond crisis response

The experience of the last two and half years has emphasised how Australians are especially reliant on charities during a crisis and through recovery. The initial onset of the Covid-19 pandemic exposed the vulnerability of the sector to shock. Charities were faced with the immediate threat of financial viability, whilst also having to rapidly pivot their operating and service delivery models to meet the dramatic need in the community.

Our analysis shows that over the last two years charities have fared better than feared as a result of prudent management and much needed financial support from governments and philanthropists in response to sector advocacy.

With temporary funding ending in 2021, demand still high and emerging economic headwinds, many charities risk returning to the vulnerable position they were in prior to the pandemic. To move beyond crisis, funding and policies need to enable healthy charities that can support thriving communities.

Underlying financial vulnerability cannot be tackled without government support

As outlined in ‘The financial health of Australian charities’ section of this report, charities face unique constraints and barriers to commercial businesses: a lack of access to capital and flexible funding, constraints on innovation and productivity, and being in the business of public benefit. These fundamental issues cannot be addressed without government support.

Underfunding by governments for the provision of contracted services is a significant factor contributing to low wages within the community sector as outlined in ‘Charities, jobs, gender and the “care economy”’. More than ten years ago, the Productivity Commission recommended that not-for-profit funding be based on payment of market wages, which should take into account the skill sets required and appropriate market wage growth.[202] The Productivity Commission noted that: “full funding may be one of the most important steps to address the workforce issues in the relevant human services sectors”.[203] Yet underfunding and low wages have become more problematic during this period, in particular with a growing casualisation of the workforce in the community services sector. Sadly, the *Paying What it Takes* research has only confirmed that this continues to be an underlying problem.

Funding insecurity persists, with a reliance on short-term contracts constraining the capacity of charities to make a difference for communities. For longer-term contracts, uncertainty remains as indexation of funding is often determined year-to-year at government’s discretion. High and increasing inflation and Fair Work Commission decisions on wage rises make adequate indexation even more significant to funding viability. We are encouraged that the Minister for Social Services The Hon Amanda Rishworth MP has committed to trial longer term funding contracts in community services funding grants and to proper indexation.[204, 205] This builds on recent gains, including some five-year contracts and greater funding flexibility. Continuing this progress is critical to provide greater certainty allowing charities to plan and invest for greater impact.

Our analysis has identified that some parts of the sector are in a stronger financial position than others. Impacts from Covid-19 have been uneven across geographies – for example, in the changing proportion of income from goods and services. Additional research is needed into how different parts of the sector are faring, and the differential impact of current policy, funding and regulatory settings.

Systemic action is needed to withstand future shocks

Charities under invest in core capabilities as standard practice and rising costs and wage pressures, may exacerbate this problem. Recent research, including the *Paying What It Takes* report, has found that this leads to less effective operations and reduced impact.

The sector needs to build capability in particular areas, most notably:

- digital systems and skills, given the significant shift to digital working and service delivery. Areas for investment include better managing digital security and addressing the digital divide
- impact measurement, which includes the ability of organisations to measure impact and focus effort on the most impactful activities
- workforce capability in particular investment in upskilling workers and retaining staff in high demand sectors
- governance and leadership, including skills to realise opportunities for collaboration and structural change to respond to changing business conditions. This may include mergers and other consolidation options where appropriate.

In our previous reports we called for a one-off, time limited, Resilient Charities Fund to build capability and support successful recovery from the pandemic. While not implemented nationally, one such fund was introduced in NSW – the Social Sector Transformation Fund. The objective of the fund is to modernise operations of small to medium not-for-profits so they can remain efficient, effective and viable. In the future, the examination of the impact of the SSTF will also be valuable to inform future investment.

In addition to targeted actions to build capability, support can also be provided systemically – most importantly through adequate funding to ensure that charities can provide services to meet the required levels of outcomes and respond to community demand. Other steps could include common outcome frameworks to measure impact, such as the NSW Human Services Outcomes Framework, and improvements in data access and transparency to improve the alignment of funding contracts with the outcomes being sought.[206]

While the Data Availability and Transparency Act allows more data to be shared between government bodies, researchers and universities, an opportunity was missed to extend the data sharing scheme to not-for-profits and communities.[207] Establishment of enhanced technical infrastructure and governance mechanisms for open data – for example, through data labs – can help not-for-profits evaluate their impact. Collaboration with other not-for-profits to better target support to need and to deliver shared goals is also enhanced by these measures.

Systemic action is also required to address continuing falls in volunteering and social participation. Volunteering Australia has found that volunteering increased in 2021 compared to 2020, but it is unclear that this will change a long-term trend in falling volunteering rates.[208]

Greater impact can be delivered through stronger partnerships

Creating an environment that encourages collaboration can enhance the impact of the sector and ensure that emerging challenges and pressures are addressed early. Neglecting to engage charities in policy-making can result in policy, financial and regulatory settings that do not work for the charity sector. This is relevant for overarching economic policy, as well as specific social and environmental issues. Lack of engagement with charities contributes to operational and financial pressures. For example, the $150,000 instant asset write-off was a core economic support measure for small business, yet it provided no benefit to charities.

Better outcomes can be achieved for charities and the communities they serve if their expertise and unique circumstances can shape policy-making. Charities are well-placed to help governments better understand need and demand and to design support for individuals and communities that reduces need for crisis services.

Government support for future productivity and wellbeing

To strengthen charities for the future, tailored support from government remains essential. It is encouraging that the Albanese government has made commitments to support charities – including fixing fundraising laws, doubling philanthropy by 2030, supporting charitable advocacy and working collaboratively with the sector. Implementation of these commitments and effective partnership with the sector will be a positive step. There are likely to be additional supports required, involving all levels of government.

Our previous reports identified six recommendations under three themes for how government could support charities through Covid-19 recovery. As we continue living with Covid-19 and facing significant economic pressures, we have revisited these recommendations to consider what governments need to do next. These recommendations can inform implementation of the Albanese government's commitments – including the development of a blueprint for the sector, announced by the Assistant Minister for Competition, Charities and Treasury Dr Andrew Leigh – as well as state and territory government action.

Ensure financial viability of charities so they can amplify their impact

1. We recommend governments provide full funding for contracted services delivered by charities to meet service demand and cover the true costs of delivery for greater impact, including refocusing funding on prevention and early intervention. Failure to meet current service demand contributes to rising demand over time, as needs escalate. Funding should take into account changes to charity cost structures, including compliance and regulation, and the ability to pay a market wage. In providing full funding, governments need to:
    - *Adequately cover indirect costs of service delivery* to allow charities to invest in critical capability such as IT and digital capability, service quality and professional development. Our research has found that this is likely to increase efficiency and effectiveness providing a productivity gain and enhanced impact.[209]
    - *Improve stability of funding through adequate indexation and longer contracts.* Contracts should reflect the length of the period required to achieve outcomes to allow organisations to plan and make capability investments.

- *Design funding to achieve outcomes and retain the contract flexibility introduced during the pandemic.* The removal of arbitrary funding restrictions enabled charities to respond to changing community needs with fewer constraints. Continuing a shift from funding for specific activities and outputs enables charities greater flexibility to deliver impact for their beneficiaries.
- *Examine the impact of one-off funds to support charity sector capability* as a precursor to future targeted investment, noting full funding will take time to achieve and implement.
- *Support alternative financing models, such as impact investing*, to attract private capital to support charities and amplify their impact.

2. We reiterate our call for **governments to make fundraising and philanthropy simpler to increase giving**. The Albanese government has committed to harmonise fundraising regulation, as agreed by the Council on Federal Financial Relations in December 2020.[210, 211] The administrative burden for charitable fundraisers that operate across multiple jurisdictions will be significantly reduced with implementation of this reform. The Albanese government has also committed to work with the philanthropic sector to double philanthropic giving by 2030.[212] These commitments are welcomed. Philanthropic funding has a distinct role in supporting the charities sector. It does not replace government funding but can provide risk capital and an agile response to emerging need. As outlined in 'The financial health of Australian charities' of this report, CSI's recent report on high net worth giving in Australia suggests scope to increase the rate of giving among Australia's wealthiest.[213] A number of opportunities to grow structured giving are outlined in Philanthropy Australia's *A Blueprint to Grow Structured Giving.*[214] One opportunity is for the government to examine expanding Deductible Gift Recipient (DGR) status to all charitable institutions and funds as recommended in the Productivity Commission's landmark report on the *Contribution of the Not-for-Profit Sector* or at a minimum streamline the process by charities apply for DGR.[215] Of 57,000 charities in Australia, only around 30,000 have DGR status. Many charities fall through the cracks due to the complexity of current laws. Charity funding would be boosted by broadening and simplifying access to DGR.[216]

Build sector capability and collaboration

3. We recommend that **governments build workforce capability and incentivise volunteering and social participation.**

   - **The government's blueprint for the charities sector should include tailored strategies to build workforce capability**, particularly within the care economy. We are encouraged that workforce challenges, including in sectors such as aged care and child care, are getting attention. Action is needed to enhance training, professional development and progression, in addition to pay – for example, portability of leave across organisations and financial support for in-work training. Tailored strategies for the not-for-profit sector will be needed to allow charities to compete for and retain talent. Changes to industrial relations in the care economy will also have a flow through to charities.

   - **Governments should consider a systemic approach to reverse the decline in volunteering**. Volunteers provide a crucial workforce for charities and generate significant economic value for society. Volunteers often engage in sectors that are not well supported by government or the market. Volunteer programs also bring community networks and connections. The sharp decline in volunteering during the Covid-19 pandemic accelerates a trend of falling volunteer numbers. Reversing this decline could involved streamlining regulatory settings, introducing funding and procurement processes that recognise the true cost of volunteer involvement and greater recognition and professional development for volunteer managers. [217, 218]

4. **Governments should ensure charities have an active role in policy making including economy-wide policy settings.** Engagement with the charities sector – as an important contributor to the economy, as well as a service provider and employer – is critical in policy design. Government stimulus during the pandemic highlighted the need for tailored economic policies for the charity sector. It is particularly important that, where services are provided in a mixed market, government creates a level playing field between sectors – with tailored strategies to provide equivalent support for charities to those available to for-profit businesses. An immediate focus is policy reform in the care sector, which significantly impacts charities. This includes the implementation of recommendations arising from the Disability and Aged Care Royal Commissions and policy and funding changes to achieve the government's objective of "cheaper child care". The government's commitment to establish a Not-for-profit Sector Expert Reference Panel is welcomed. The panel will be most valuable if it leads to ongoing and meaningful engagement on policy design on the full range of issues that impact the sector.

5. **Governments should invest in systems and research to better measure and evaluate impact in the charities sector and enhance cross-sector collaboration**. Organisations working on similar initiatives can in some cases collaborate very little on sharing information, data and resources. While charities may have the same goal, mission or deliverable they are competing against each other for funding and grants. This can be detrimental to achieving certain social outcomes that require greater collaboration and system coordination. ACNC data provides valuable information about the not-for-profit sector, however as is evident through this report there remain challenges with data availability, quality and timeliness to assess the viability and impact of charities. Investing in systems to enhance measurement of outcomes will help governments, philanthropists and charities prioritise and partner to deliver more impactful approaches. Specific steps should include:
   - Providing not-for-profits and communities with improved access to data to support data-informed decisions and better outcomes.
   - Governments incentivising collaboration and impact measurement through commissioning and program design. This can include encouraging joint bids to deliver services and the development of common outcomes frameworks to assess impact.
   - Supporting further research to better understand the charities sector so that they are funded for impact. This should include examining the business models of charities and how they are shaped for future shocks so that they don't just survive but are able to deliver the public good for which they exist.

Alleviate demand for charity crisis services through targeted investments

6. In our previous work we called on government to retain JobSeeker and other payments at a higher level (instead of reverting to previous Newstart amounts) to mitigate the increase in service demand on charities, while also stimulating the broader economy. In setting only a small permanent increase, the government has missed a significant opportunity. Therefore, we recommend:

- We call on the new government to **make a meaningful increase to the permanent rate of JobSeeker**. Immediate financial support has been identified as the most pressing need for individuals approaching charities, and this is likely to increase with the increasing cost of living and high rate of inflation. The current permanent rate represents a real drop in incomes for the many Australians who are still unemployed and is inadequate to meet basic living costs. A relatively small rise in social security spending would lift many people out of poverty and financial stress.[219] It would also reduce long-term costs for both government and charities, given the far greater value-for-money provided by spending on preventing rather than solving significant social challenges.[220]

- While JobSeeker is the primary income support payment, **government should look at the adequacy of other income support payments given the changing economic circumstances**. Parenting Payments and Commonwealth Rent Assistance may need particular attention, noting increased demand for support in 2021 was highest among those charities delivering housing and homelessness services and those supporting young children and families.

- In addition to increasing income support payments, pressure on charity services can be reduced by making investments that will shift demand over time.Our analysis suggests that charities focused on emergency and relief services are in a relatively better overall financial position than many other charity sub-sectors. Yet funding for crisis response does not address the root problems and create impact over the long-term. **We recommend governments prioritise prevention and early intervention services that may have been less of a focus during the crises.**

Appendix

Appendix 1: charities in analysis

This was the same methodology as used in the previous 2020 report, which focussed on data from 2018. This report provides a more comprehensive picture and uses data from 2018, 2019, 2020 and 2021. A total of 16,021 charities were included in the 2018 analyses: 14,914 in the 2019 analyses, 14,832 in the 2020 analyses, and 11,204 in the 2021 analyses. An analysis of 2021 has been based on a smaller number of charities than previous years as a number of charities have not submitted their Annual Information Statement reports by 30 June 2022.

For this analysis, we were primarily interested in charities who have paid staff, and are actively providing services or activities in their communities. To identify this cohort, we excluded the following:

- charities with less than 0.8 full-time equivalent employees
- charities with income and/or expenses of less than $50,000
- charities that did not provide the data required for analysis to the ACNC, and for which we were not able to reasonably extrapolate from the data provided.

The 2020 and 2021 data provided did not include main activity and was matched to the ABN of 2019 where possible to obtain main activity information.

Table 3 examines the size (in terms of total income) of the charities included in the current analysis. The size of the charities in 2018, 2019, 2020 and 2021 are comparable, hence comparisons have been made between the years throughout this report.

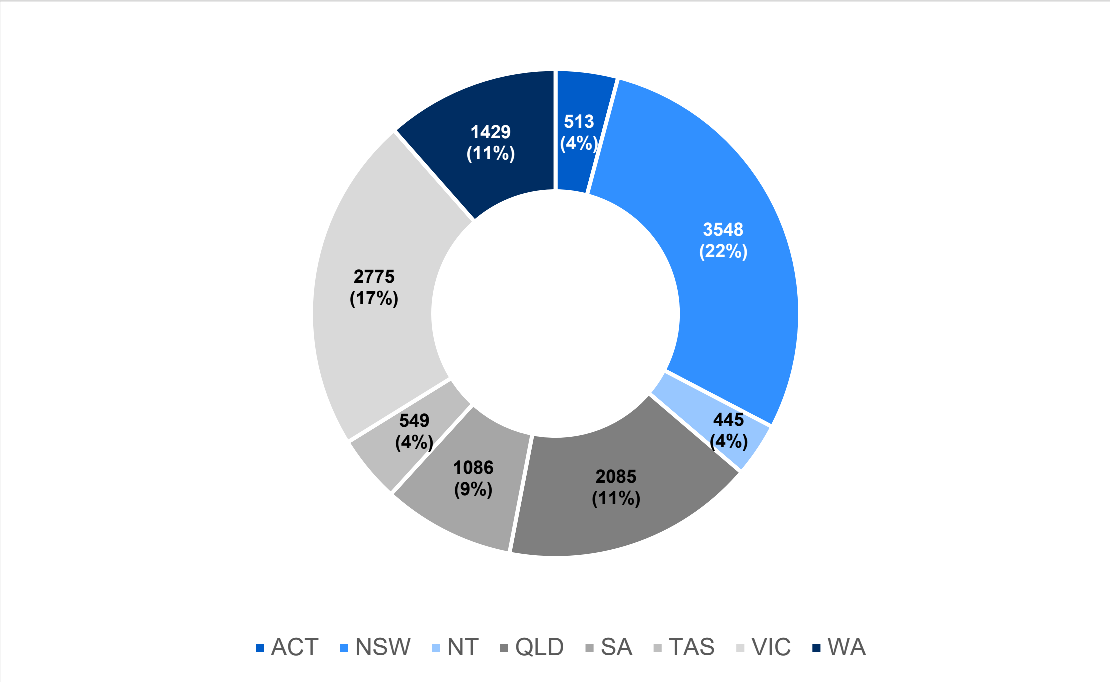
Table 3: Size of charities included in the analysis

	2018		2019		2020		2021[221]	
Total income	**Number of charities**	**Prop of charities***	**Number of charities**	**Prop of charities***	**Number of charities**	**Prop of charities***	**Number of charities**	**Prop of charities***
$50K-100K	728	4.7%	491	3.3%	455	3.1%	312	2.8%
$100-250K	2,650	17.2%	2,067	13.9%	1,989	13.4%	1,537	13.7%
$250-500K	2,369	15.4%	2,391	16.0%	2,205	14.9%	1,710	15.3%
$500K-$1m	2,425	15.8%	2,337	15.7%	2,413	16.3%	1,853	16.5%
$1m-$3m	3,002	19.5%	3,114	20.9%	3,185	21.5%	2,417	21.6%
$3m-$5m	1,045	6.8%	1,108	7.4%	1,170	7.9%	823	7.3%
$5m-$10m	1,188	7.7%	1,291	8.7%	1,252	8.4%	930	8.3%
$10m-$20m	877	5.7%	937	6.3%	976	6.6%	738	6.6%
$20m+	1,080	7.0%	1,178	7.9%	1,187	8.0%	884	7.9%
Total	15,364	100%	14,914	100.0%	14,832	100.0%	11,204	100.0%

*Note: * Proportion of charities*

In 2021, 29% of charities were from NSW, 22% Victoria, 17% Queensland, 11% WA, 9% SA, 4% Tasmania,4% ACT, and 4% NT (Figure 14).

Figure 14: Number of charities in analysis by state, 2021



A matched analysis was used to determine if there were differences between 2020 and 2021 charities. Charities who have been included in the 2021 analysis were matched by ABN to charities who reported to ACNC in 2020. A total of 9,852 charities have been included in the matched data analyses.

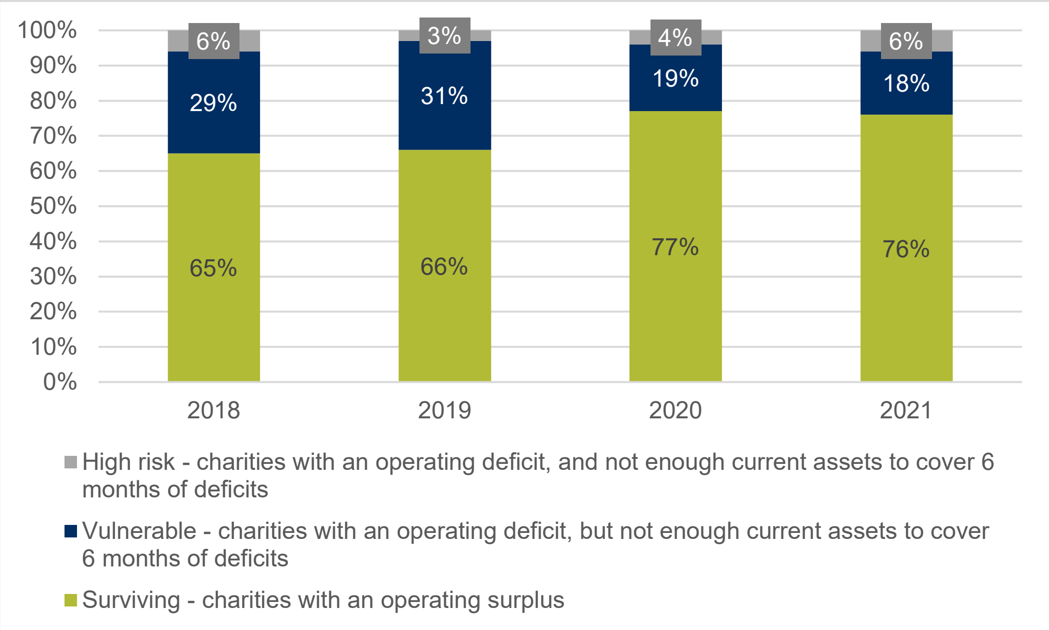
Appendix 2: charity vulnerability

Charities have been categorised into three groups based on their financial viability:

- **Surviving**: Charities with an operating surplus and likely to survive
- **Vulnerable**: Charities who are vulnerable as they have an operating deficit, but enough assets to cover six months of deficits
- **High risk**: Charities with an operating deficit, but not enough assets to cover six months of deficits.

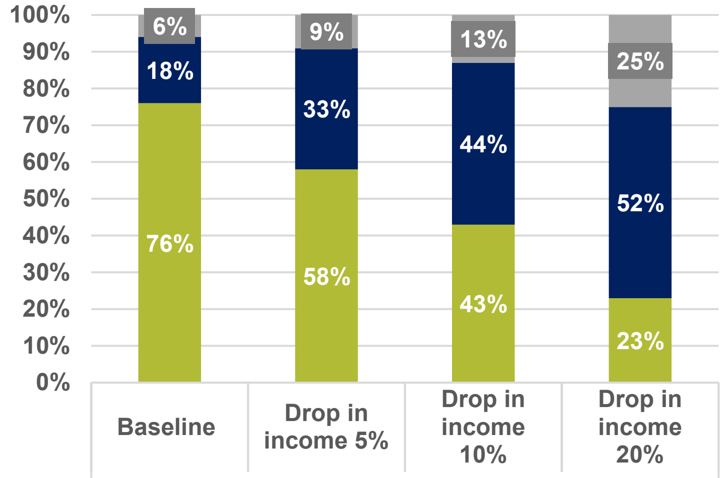
Charities with an operating surplus have increased from 65% in 2018 and 66% in 2019, to 77% in 2020 and 76% in 2021 (Figure 15). Vulnerable charities have decreased from 29% in 2018, 31% in 2019, to 19% in 2020 and 18% in 2021. High risk charities have remained relatively stable from 2018 to 2021 (between 3%–6%).

Figure 15: Proportion of charities by financial viability



A sensitivity analysis has been performed on 2021 charity viability, where a drop in income of all sources of 5%, 10% and 20% has been modelled. Modelling a 5% drop in income from all sources, shows the proportion of surviving charities will drop from 76% to 58%, whereas modelling a 10% drop in income shows surviving charities dropping to 43%, and a 20% drop in income shows surviving charities dropping to 23% (Figure 16). Vulnerable and high risk charities will increase two-fold with a 10% drop in income, and high risk charities will increase four-fold with a 10% drop in income.

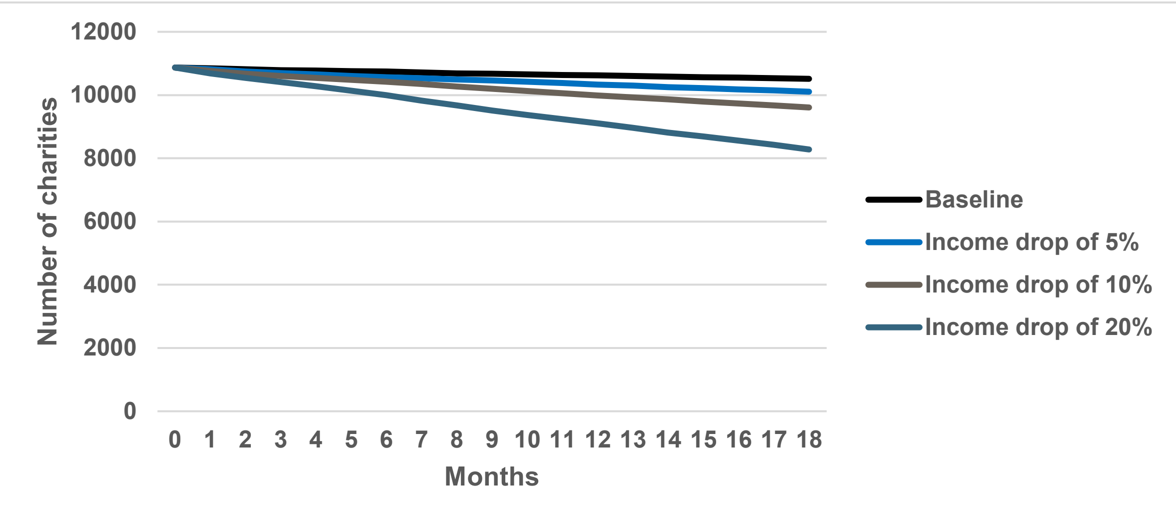
Figure 16: Sensitivity analysis on charities by financial viability



	Baseline	Drop in income 5%	Drop in income 10%	Drop in income 20%
High risk - charities with an operating deficit, and not enough net current assets to cover 6 months of deficits	6%	9%	13%	25%
Vulnerable - charities with an operating deficit, but enough current assets to cover 6 months of deficits	18%	33%	44%	52%
Surviving - charities with an operating surplus	76%	58%	43%	23%

Figure 17 shows the severe impact a drop on income has on 2021 charity viability over time. With an income drop of 20%, after six months over 870 charities would have run out of net current assets to cover their ongoing deficits. After twelve months, over 1,700 charities (approximately 16%) would have no net current assets left.

Figure 17: Number of charities in analysis with positive net current asset balance each month, after using income and net current assets to cover expenses under four scenarios: baseline, 5%, 10% and 20% drop in income from all sources for 2021



Appendix 3: methodology

This analysis uses data from charities' 2018, 2019, 2020 and 2021 Annual Information Statements (AIS), as published on the Australian Charities and Not-for-profits Commission (ACNC) website. This report uses the most recent year for which data for most charities is available. Unless otherwise noted, all data discussed in this Appendix comes from this data source.

An overview of the 2020 data is published in the ACNC's *Australian Charities Report – 8th Edition*. Further information on the data that charities are asked to provide is available at the 2018 Annual

Information Statement Hub can be found in ACNC website. Unless otherwise noted, we have used the ACNC's definitions and categorisations.

1. Cleaning the data

We took the following steps to clean the data:

- Checked total income and total expenses were each equal to the sum of their components.
- Removed charities with no data recorded.
- Removed outliers, based on looking at the relativities between key metrics (revenue to expenses, net surplus to revenue/expenses) for that entity. For example, a charity that recorded low income, significant expenses, but also a significant net surplus was considered an outlier and excluded.

2. Defining the cohort for analysis

In 2018, the analysis was based on 46,883 charities, 49,858 charities in 2019, 47,842 charities in 2020, and 36,191 charities in 2021. The analysis of 2021 data has been based on a smaller number of charities than previous years as a number of charities have not submitted their AIS reports by 30 June 2022.

For this analysis, we were primarily interested in charities who have paid staff, and are actively providing services or activities in their communities. To identify this cohort, we excluded the following:

- charities with less than 0.8 full-time equivalent employees
- charities with income and/or expenses of less than $50,000
- charities that did not provide the data required for analysis to the ACNC, and for which we were not able to reasonably extrapolate from the data provided.

There is considerable overlap between these two excluded groups, as charities with very low income or expenses are unlikely to have many employees. The combined result left us with a cohort of 16,022 charities in 2018, 14,914 in the 2019 analyses, 14,832 in the 2020 analyses, and 11,204 in the 2021 analyses.

3. Reporting measures

While charities report many different aspects of their financial circumstances, we focussed on a few that we felt to be of particular use in informing us about their financial health. These were:

- **Net income ratio:** This shows the size of an organisation's operating surplus or deficit, as a percentage of their total income. It gives an indication of how 'close to the bone' an organisation's finances are.

Net income ratio = (Total income – Total expenses)

- **Total income:** A positive ratio indicates a surplus – the charity had more income than expenses. A higher ratio means a bigger surplus. A negative ratio indicates a deficit – the charity had more expenses than income. A lower ratio means a bigger deficit.
- **Months of expenses covered:** This is a measure of how well a charity can manage a financial shock. We look at how long charities would be able to cover any shortfall in their finances using their net current assets to fill the gap between their income and expenses.

Months of expenses covered = Net current assets / (Total monthly income – Total monthly expenses)

We estimated monthly income and expenses figures by dividing the reported annual totals by 12. This figure was then used to categorise organisations as 'surviving', 'vulnerable' or 'high risk', as discussed further below.

On their own, none of these measures are sufficient to fully assess the financial health of any individual organisation. The relationship between financial performance, financial position and sustainability varies widely between organisations. Understanding the financial health of a charity, just as for a for-profit business, necessitates understanding the nature of the organisation, their context, funding environment, accounting policies, their strategy, and in many cases, nuances of their financial performance and position. But in looking at a large number of charities collectively, we can identify general patterns of viability and risk.

4. Estimating missing data

4.1. Asset data

To report on 'months of expenses covered', we used data on net current assets.

An organisation's *net current assets* are their short-term assets (such as, cash, accounts receivable, and inventory on hand, for the next 12 months) less their short-term liabilities (such as, accounts payable, loans payable, employee entitlements and tax payable, for the next 12 months). It is sometimes thought of as an organisation's 'reserves' or 'working capital' – a measure of the assets that they have available use in the short term.

An organisation's *net total assets* are their total assets (current assets, plus assets that cannot immediately be accessed, such as real property), less their total liabilities (current liabilities, plus longer-term liabilities such as mortgages). It is a measure of the overall financial position of the organisation.

4.1.1. Reported net negative current assets

Net current assets are often used as an indicator of how much of a financial buffer for-profit organisations have – effectively a 'rainy day fund' that they can call on if they make a loss. However, many charities have negative net current assets for other reasons than financial ill-health. Two common reasons for this are *a)* counting any grant money not yet spent as a liability (as it needs to be spent specifically on a program), or *b)* recording liquid investments such as stocks as non-current assets.

To account for this, where charities had negative net current assets, we turned to their net total assets. If this was positive, then we used this as a more accurate representation of the charity's overall health. If this was also negative, we took this to mean that the net current assets calculation was accurate and used their net current assets.

4.1.2. No reported current assets

Not all charities report current assets and liabilities. Small charities (those with turnover of less than $250,000 per year) are not required to report them, although some choose to do so. Because we wanted to ensure that small charities could be included in our analysis, for organisations with revenue of below $250,000 and no net current assets reported we used net total assets instead.

In 2018, some organisations (n=657) with revenue of over $250,000 did not report net current assets in their AIS. We excluded them from further analysis as we assumed their data was incomplete. This left us with a dataset of 15,365 organisations. Continuing with the same process, 14,914 organisations were in the dataset in 2019, 14,832 in 2020, and 11,143 in 2021.

These are the datasets used for the calculation of the number of organisations we assess as 'surviving', 'vulnerable' and 'high Risk'. For clarity of communication, in the body of the report we use 'net current assets' to mean the net asset figures after these adjustments have been applied.

4.2. FTE and headcount estimates

Charities report their numbers of employees (full-time, part-time and casual) as well as giving a fulltime equivalent (FTE) total for their organisation. We tested the FTE and employee headcount data to ensure that it was reported accurately and was consistent with other data by:

- Calculating employee expenses divided by FTEs. A threshold was set at $150,000 per FTE as a maximum realistic average wage. Charities with a higher figure than this were flagged.
- Checking that FTEs were equal to or less than headcounts. Charities with higher FTEs than headcounts were flagged.

Once an organisation's data had been flagged as having potential issues, we used several methods to try to create a better approximation of the true figures:

- If employee counts appeared to be a more realistic assessment than the FTE figures (for example, they differed substantially from the FTE count and implied an average employee expense of less than $150,000), then employee counts were used. An estimated FTE was then calculated using the Australian averages of 18.4 hours per week for casual workers, and 21.4 hours per week for part-time.
- If both FTE and headcount data showed an average employee income over $150,000, or FTEs were greater than headcounts, we checked the previous years' data to see if it was more realistic. If so, the previous years' figure was used.

- If after the above calculations a realistic estimate of FTE or headcount could not be made, sector averages for salaries were calculated and used to determine an average FTE from the charities' employee expenses.

FTE data was only used for defining the cohort of charities (see 'The financial health of Australian charities' section of this report) – all other calculations used headcount data.

5. Scenarios

To model the impact of the crisis and response on charities, we developed three scenarios.

5.1. Baseline

This scenario uses reported 2018, 2019, 2020 and 2021 data, with the adjusted net current assets applied above.

5.2. Crisis

To simulate the impact of an economic crisis, we began with the baseline scenario and reduced each organisation's 2021 income by 5%, 10% and 20%. We modelled a uniform percentage drop across all income sources and for all types and sizes of charities. We did not have sufficient data available to make more precise estimates, although we expect that in practice the variation will not be uniform. As noted in the report, charities' income sources interact in various ways via cross-subsidisation, so in practice there is not a straightforward effect of a reduction in any one source. In this scenario we have not modelled changes in expenses or non-current assets, as we are seeking to understand the scale of the impact, and consequent action that may be needed.

6. Conducting analysis

6.1. Risk categories

To assess the overall position of the sector, we classified 2021 charities into one of three categories:

- 'Surviving': The organisation has an operating surplus, based on their income and expenses.
- 'Vulnerable': The organisation has an operating deficit, based on their income and expenses. They have enough net current assets to cover their reported deficits for at least six months.
- 'High risk': The organisation has an operating deficit, based on their income and expenses. They do not have enough net current assets to cover their reported deficit for six months.

This is a single point in time assessment, based on their 2021 reported data plus the changes described above for each scenario. We assess:

- Does the organisation have an operating surplus?
    - – If YES: It is classed as 'surviving'. We do not consider assets here
    - – If NO: Go to next step.
- What is the organisation's monthly operating deficit (for example, divide annual figure by 12)? Then divide the organisation's net current assets by the monthly operating deficit, to determine how many months the net current assets would cover the operating deficit.
    - – If >6 months – it is classed as 'vulnerable'
    - – If <6 months – it is classed as 'high risk'.

6.2. Survival curve

To assess impact over time, we look at how many 2021 charities have positive net current assets each month, based on their reported net income and remaining net current assets in each scenario. This enables us to draw a 'survival curve' showing the number of organisations that still have a financial buffer. Each month, those organisations who have no net current assets left 'drop off' the curve. There are some 2021 charities (n=400) that reported negative net current assets and negative net total assets. These were excluded from the survival curve – either their reporting is inaccurate, or they are in substantial financial ill-health already and so would 'drop off' the curve at month zero. This means the dataset for this analysis is 14,432 charities.

7. Employment effects

Because of the large number of part-time and casual employees in the sector, total FTE employment is lower than total employee headcount. We followed the approach of the ACNC in reporting employment in terms of headcount, as it more accurately represents the number of people affected by the changes.

To assess the effects on employment, we used the approach described in the risk analysis section above but reported the number of employees working in the organisations in each category, for each scenario. The number of employees working in charities categorised as high risk is reported as an indication of the number of jobs that could be lost in each scenario.

Because we expect that some charities would shed staff to cut costs rather than closing altogether, we also calculated the direct effect of a 20% drop in employee headcount (as may arise from a 20% drop in income).

Data on employment is reported rounded to the nearest 1,000 to avoid implying false precision.

8. Matched data

Data was matched by ABN for 2019–2020 charities and for 2020–2021 charities. In the first matched data analyses for 2019–2020 charities, a comparison was made to determine any differences that may exist in organisational size, overall financial position and revenue sources between charities reported in 2019 and not reporting in 2020. It was presumed charities not reporting in 2020 were no longer operational. This analysis found charity size and net income ratio may be factors in the survival of charities, with twice as many charities that ceased operation determined to be at high risk (as described in section '6.1 Risk categories') ceasing operating in 2019 compared to all charities operating.

In the second matched data analyses for 2020–2021 charities, a comparison was made of overall income, income sources, staff and volunteers for these two. This analysis showed the two years were comparable and use of the smaller data set in 2021 would have minimal impact when making cross sectional comparisons.

9. Longitudinal data

Data was matched by ABN for charities within the 2018, 2019, 2020 and 2021 datasets, for example charities that had survived for four years. Longitudinal data enabled the analysis of net income ratios (as described in 'Charities, jobs, gender and the "care economy"' section of the report) of charities that survived for four years versus charities that did not survive for four years, and to determine changes in real total income and expenses over time. Income and expenditure were adjusted to 2021 Consumer Price Index.

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Endnotes

Executive Summary

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[2] This figure was reached by combined the total projected number of jobs in health care and social assistance (301,000) with the those in education and training (149,000) using data from the National Skills Commission, Labour Market Insights sector overviews.

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[3] Australian Charities and Not-for-profits Commission (ACNC), *Data integrity: review of the quality of charities' reporting*, ACNC, 16 March 2020, accessed 14 September 2022.

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[5] ALP National Platform 2021, as adopted at the 2021 Special Platform Committee.

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[220] See for example, W Teager, S Fox and N Stafford, *How Australia can invest early and return more: a new look at the $15b cost and opportunity* [PDF], Early Intervention Foundation, The Front Project and CoLab at the Telethon Kids Institute, 2019, accessed 16 September 2022.

[221] There is approximately 25% less data available in the 2021 period (as collected as at 7 July 2022) compared to previous periods, meaning these results may be less comparable. This appears to be primarily due to AIS reports being provided late by charities.

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