

# Proposal: Charities Transformation Fund

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## Summary

The Australian Government should establish a one-off, time-limited \$200m Charity Transformation Fund. The Fund would support charities to undertake strategic and operational transformation so they can continue to strengthen Australia's economy and society through and beyond the COVID-19 crisis.

The Fund would provide a combination of cash and capability support to enable charities to undertake transformative activity across a range of areas, including technology and cyber-security; new business and operational models; strategic direction; leadership development and workforce capability; and outcomes management. Charities would be encouraged to make joint bids for funding to maximise collaboration, reduce duplication and generate transformational change across sub-sectors.

Charities will need this investment to drive sector transformation. Unlike commercial businesses, they cannot raise equity and in most cases debt, to transform their organisations. Also, unlike most business, many charities are experiencing increased demand while revenues are falling. Their unique situation requires tailored support.

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## Rationale

### **Charities are critical to Australia's economic and social recovery**

Charities will be critical for a successful economic and social recovery from the COVID-19 crisis.

Charities play a key role in supporting and strengthening Australia's communities. They provide vital services that people, communities and government rely on. Sustainable charities strengthen the fabric and functioning of society, support those in need and respond to increases in need across the community.

Charities are also major economic contributors. Their total economic contribution is equivalent to 8.5% of Australia's GDP,<sup>1</sup> and they employ more than one in ten employees in Australia - 1.3 million people. That's around the same number of people as retail trade (10.0% of people employed, our second largest employing industry after health care and social assistance), and more people than the construction (9.2%), professional, scientific and technical services (8.6%) and manufacturing (7.2%) industries.<sup>2</sup>

Right now, the Australian economy is in trouble. Unemployment and underemployment are high, GDP is falling, and government budgets are under pressure. As a major employer, charities will be a key part of the economic recovery. The types of jobs that charities offer are also going to be critical to economic recovery. Sectors with high concentrations of charities – health care and social assistance, and education and training – are two of the three sectors expected to contribute the most to jobs growth in the next five years.<sup>3</sup> The current crisis is demonstrating the need for improved workforce capacity and capability in the disability and aged care sectors in particular. The health care, social assistance and education sectors also disproportionately employ women, who as a cohort have been hit hard by the crisis.<sup>4</sup>

### **The challenge facing charities**

The COVID-19 crisis has shaken the charities sector and the livelihood of many beneficiaries, clients, employees and volunteers. Charities are managing the confluence of service disruption, falling income, rising demand and higher operating costs.<sup>5</sup>

The Australian Government's JobKeeper wage subsidy and other support such as the Cashflow Boost are buying charities some time, but they face major structural challenges. Without support to reform, many will struggle to survive. Recent modelling by SVA and the Centre for Social Impact suggests that over 180,000 jobs are at risk by September 2021.<sup>6</sup>

Charities face a unique set of challenges and constraints when compared to for-profit businesses, which have led them to their current position and will be barriers to their successful recovery. Before the crisis, charities were operating on increasingly thin margins, and don't have a big buffer of reserves to draw on. Even when well-managed, they face financial constraints specific to their regulatory, operational and cultural environment. Most charities do not have much financial margin or flexible untied funding, and so are unable to invest in capacity building and organisational transformation to prepare themselves for the post-crisis world. They also cannot easily access capital to invest in their own future success.<sup>7</sup>

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<sup>1</sup> Deloitte Access Economics (2017) *Economic contribution of the Australian charity sector*. This comprises direct value add (4.8%) and indirect value add of the charity sector. Analysis of 2014-15 data.

<sup>2</sup> Analysis of Vandenbroek, P. (2019) Snapshot of employment by industry, 2019 *FlagPost Blog*, 10 April 2019, Parliamentary Library of Australia; and ACNC (2020) *Australian Charities Report 2018*.

<sup>3</sup> Analysis of Australian Government (2019) *Australian Jobs: Jobs by Industry* Department of Education, Skills and Employment.

<sup>4</sup> Analysis of Vandenbroek, P. (2019) *op. cit.*

<sup>5</sup> SVA & CSI (2020) *Will charities be COVID-19 casualties or partners in recovery: A financial health check*.

<sup>6</sup> SVA & CSI (2020) *Taken for granted? Charities' role in our economic recovery*.

<sup>7</sup> SVA & CSI (2020) *Partners in recovery: why charities need tailored support*.

For charities to operate in the new world, they need tailored support that recognises the needs and challenges they face, as well as the opportunities they present. A Charities Transformation Fund, focused on structural reform and collaboration, is a targeted initiative that would support Australia's society and economy.

## Proposal

The purpose of the fund is to drive charity sector reform by providing incentives and support for charities to develop more impactful and efficient ways to operate in a 'with-COVID' and 'post-COVID' environment.

The Fund would complement, rather than duplicate, existing government support for charities. Current Government support is focused on maintaining cashflow (e.g. Cashflow Boost), employment (JobKeeper wage subsidy), and managing immediate COVID-related demand increases (e.g. additional funding for emergency relief and mental health services).

There are currently only very limited incentives for charities to genuinely collaborate to drive structural change across the sector, as current funding arrangements often place them in direct competition. This means that even when charities pursue transformative approaches, they may do so in 'silos'. To mitigate this challenge, charities would be encouraged to make joint bids for funding to maximise collaboration, reduce duplication and generate transformational change across sub-sectors.

### Priority areas for transformation

The Fund would be open to a range of types of transformation and industry restructuring that the charity sector may need to undertake. These could include combinations of:

- *Technology and cyber security* - Technology provides a particularly striking example of an investment that would support charity efficiency and effectiveness, but which charities do not have the up-front resources to undertake. For example, as of late 2019 only 43% of surveyed not-for-profits were using cloud-based systems, which posed major barriers to shifting to remote work during the crisis. In the same survey, 55% of not-for-profit organisations report that funding and costs are the major barriers to making better use of technology.<sup>8</sup> Supporting charities to transform their use of technology could make them more efficient and effective in supporting our communities and delivering services on behalf of government. It would also help them manage security risks, better balance service demand and capacity, and support digital inclusion.
- *New business and operational models* - Many charities are identifying that their business and operational models are no longer sustainable in a with-COVID and post-COVID world, as well as in response to other forces such as an increased requirement for client-centric service delivery. Developing new models, and implementing the resulting changes to organisational capability, takes time and capacity that charities may struggle to access. They may also need support to identify and source new revenue streams and/or sources of capital, and improve financial management capability. Support from the Fund will help charities to serve their community more effectively and sustainably.
- *Governance and collaboration* - Some charities will need to review their overall approach to pursuing their charitable purpose in the wake of the crisis. This may require structural change to their legal and governance arrangements, including mergers and other consolidation options where appropriate, as well as opportunities for collaboration with organisations within and outside the charity sector. Such changes may require considerable up-front investment, which the Fund could support.
- *Leadership development and workforce capability* - Leadership and workforce capability has a direct impact on organisational performance, outcomes and impact. The sector often does not

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<sup>8</sup> Infoxchange (2019) *Digital technology in the not-for-profit sector*.

have the resources to access the kinds of leadership development that the for-profit sector takes for granted, even though building leadership capacity is a highly leveraged investment because it impacts the whole organisation. Support from the Fund would enable Boards, executive leaders and staff to be prepared to undertake the kinds of transformational change outlined above, as well as develop the workforce capability needed for future service provision.

- *Outcomes measurement and data analytics capability* - There is interest from government, philanthropy, and the social sector in improving the way that we measure outcomes and impact from social programs. A barrier to progress in this area is limited capability and resources for data collection and analysis, as well as the lack of comprehensive outcomes frameworks. Improving this capacity would provide an ongoing benefit to funders, including government, as well as service providers who would be able to better understand the impact of their work, and direct resources towards 'what works'.

### **Nature of support**

The Charities Transformation Fund would offer an integrated package of support to charities who can demonstrate a need for organisational transformation. Support would be provided as a combination of:

- *Capability support* – the Fund would use a voucher model to enable charities to access professional support aligned to the transformation need of the charity. This support will enable them to generate the maximum possible value from the funds provided.
  - Vouchers could be redeemed from an approved panel of suppliers.
  - The approved panel of suppliers should be composed of entities with specialist knowledge of supporting charities that are transitioning; priority should go to organisations oriented towards community benefit (e.g. charities, not-for-profit organisations, social enterprises, B-Corporations). For-profit service providers with demonstrated sector expertise could be considered for participation, especially if they are willing to provide support on a pro-bono or low-bono basis.
  - In many cases, those best-positioned to provide tailored support to a charity will be sector advisory organisations, many of which are charities themselves. These organisations should be prioritised for inclusion in the supplier panel. This will support building sector-wide capability.
- *Cash* – direct grants to implement the change identified via the capability support. This might be required for investments in technology (including technology that can be shared by multiple charities) and other capital expenditure; for enabling staff time and capacity to implement reform; or to cover the up-front costs of change in governance or operational approaches.

Support from the Fund would not be intended to provide working capital or cashflow support, or to subsidise day-to-day operations. Instead, it recognises the legal and operational constraints that charities face in being able to invest their usual funding streams into capability development.

### **Leveraging additional sources of funds**

There is considerable interest from State governments, philanthropists and the business community in supporting the structural transformation of charities and not-for-profits. An Australian Government investment has the potential to leverage significant additional support from such sources, whether as a co-investment in the Fund, pro-bono provision of advisory and other services, options for matched support, or parallel funding structures that streamline the process for charities and not-for-profits. The fund should be established in a way that ensures these co-contributions can be easily facilitated to ensure maximum leverage of government funds.

## Operations and governance

All charities registered with the ACNC would be eligible to apply for support for the Fund. Government should not attempt to differentiate between charities by sector or category, as they have all qualified as charities on the basis of their charitable purpose in line with current legislation.

Assessment criteria would be established, and include recognition of different needs of charities of different types, sizes and sophistication. Charities would need to demonstrate that they are seeking support for strategic change in their organisation, not subsidising business-as-usual operations.

The Fund would be best administered at arms-length to government to ensure its independence, and to tap into relevant expertise across the philanthropic, business and not-for-profit sectors. There are a number of potential models that could be considered, including the establishment of a new entity or the outsourcing of administration to an appropriate external body.<sup>9</sup> Preliminary soundings indicate that a substantial level of independence would be required to leverage philanthropic and other external support for the Fund.

Additionally, the Fund administrators could be resourced to provide ‘match-making’ services and facilitate other forms of collaboration between charities and other organisations (not-for-profit, business and philanthropy). They could also provide early-stage support to help charities identify the kinds of transformation most suited to their circumstances, so funding is well-targeted.<sup>10</sup> This could generate additional efficiencies across the sector, and improve sector-wide capability and capacity.

## Aboriginal and Torres Strait Islander organisations and communities

In recognition of the importance of self-determination for Aboriginal and Torres Strait Islander communities, and the importance of supporting Aboriginal Community Controlled Organisations (ACCOs), a portion of the Fund should be dedicated to specifically supporting Aboriginal and Torres Strait Islander charities. The arrangements for these funds should be co-designed with Aboriginal and Torres Strait Islander communities, but would be expected to be in line with the following principles:

- ACCOs, and other organisations led by Aboriginal and Torres Strait Islander people, are seen as the first and natural service providers for Aboriginal people. Strengthening this sector should be an explicit goal of the Fund.
- The panel of service providers must include Aboriginal owned and operated organisations. Where other providers are providing service to Aboriginal organisations, they should seek to partner if there isn't an Aboriginal organisation on the panel with the appropriate skill set.

## Costings

A Fund of \$200m over two years would support 4,000 charities to transform their operations – around one quarter of the charities in Australia that employ people. It is conceivable that the Fund could be established as a new capacity-building organisation with an initial cash injection that is drawn down. Depending on the size and scope of the charity, they could receive between \$10,000 and \$200,000 in cash and capability support, with an average amount of \$50,000 each.

Charity size	Range of grant amounts	Average grant amount	Number of grants
Large	\$100-\$200K	\$140,000	600
Medium	\$50-\$100K	\$50,000	1150
Small	\$10-\$50K	\$25,000	2250

<sup>9</sup> For example, Impact Investing Australia currently administer the [Impact Investing Sector Readiness Fund](#) on behalf of the Australian Government Department of Social Services. Grant decisions are made by independent panels of experts.

<sup>10</sup> For example, the New Zealand Government's [Capability Investment Resource](#) funding, which aimed to increase sector collaboration to improve social outcomes, used a multi-stage funding process to maximise the value of investment.