Taken for granted?
Charities' role in our economic recovery

Third report in the Partners in Recovery series

August 2020

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 Center for Social Impact

The Centre for Social Impact (CSI) is a national research and education centre dedicated to catalysing social change for a better world. CSI is built on the foundation of three of Australia's leading universities: UNSW Sydney, The University of Western Australia, and Swinburne University of Technology. Our research develops and brings together knowledge to understand current social challenges and opportunities; our postgraduate and undergraduate education develops social impact leaders; and we aim to catalyse change by drawing on these foundations and translating knowledge, creating leaders, developing usable resources, and reaching across traditional divides to facilitate collaborations.

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Executive summary

We are all familiar with the critical role that charities play 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.

We don't talk as much about the critical role of charities in Australia's economy.

Charities' total economic contribution is equivalent to 8.5% of Australia's GDP, 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.

Right now, the Australian economy is in crisis. Unemployment and underemployment are high, GDP is falling, and government budgets are under pressure. The Commonwealth Government has been clear that it sees employment as the key to a return to economic growth. Government will need to make policy decisions that maintain existing jobs, stimulate growth, and provide financial support to those that will need it most. As a major employer, charities will be a key part of the solution.

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. Before the crisis, charities were operating on increasingly thin margins, and don't have a big buffer of reserves to draw on. They face many financial constraints specific to their regulatory, operational and cultural environment. We know that 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 and transition to a new normal.

The Commonwealth Government's JobKeeper wage subsidy has been supporting many charities and their employees. In July 2020, the Government announced that the subsidy would continue beyond September, but with a number of changes. This report models the impact of the revised JobKeeper arrangements on the financial viability of the charity sector, following on from our earlier report *Will Australian charities be COVID-19 casualties or partners in recovery? A financial health check.*

We modelled a fall in revenue over 18 months from the start of the crisis (a 20% fall for the first six months, then gradually recovering to a 10% fall), plus the impact of JobKeeper, and found that:

- 44% of charities would be making an operating loss in September 2021, compared to 83% without JobKeeper
- 8% would be at risk of being unviable by September 2020, compared to 17% without JobKeeper
- More than 100,000 jobs are at high risk by September 2020 as a result of cost-cutting and organisational closures, compared to more than 250,000 without JobKeeper.

While this is promising, it will not be enough to prevent significant damage. 14% of charities – employing more than 180,000 people – will still be at risk or at high risk of becoming unviable by September 2021 under the new JobKeeper arrangements. The economic consequences of job losses on this scale would be dramatic, especially in an ongoing recession.

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. These sectors also disproportionately employ women, who as a cohort have been hit hard by the crisis. Charities are also an important part of the social ecosystem that helps prevent future costs created by social dislocation.

We all need Australia's charities to make it through to the other side of this crisis in a financially viable position, and in the long run to be more financially sustainable than they came into it. Our economy and our communities depend on it. Governments, philanthropists and charities need to work in partnership to ensure that this happens.

This report shows that JobKeeper alone will not be enough to ensure the viability of the charity sector – in too many cases it is only delaying the inevitable. Now is the time to undertake the structural reform that the charity sector needs to thrive. It makes no sense to treat the sector that employs one in ten of the Australian workforce as an afterthought.

To combat the forces that pose a threat to charity viability, and seize the opportunity presented by the significant economic contribution of the charity sector, we recommend an integrated package of six reforms under three directions:

Ensure financial viability of charities so they can continue their contribution

- Monitor the impact of the JobKeeper ramp-down, and be prepared to extend and/or alter the policy settings if needed to provide ongoing support for charities, and minimise negative effects on the broader Australian community
- Maintain and, where needed, increase funding for government contracted services delivered by charities. Service funding for charities should reflect the true cost of delivering services for impact and meeting increased service demand
- Make fundraising and philanthropy simpler to encourage increased giving. Creating nationally consistent fundraising regulations would reduce the red tape burden on charities seeking to fundraise in a changed environment.

Build capability to improve impact

- Create a Charities Transformation Fund to transition organisations to the 'new normal'. 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. Setting up a one-off, time limited, Charities Transformation Fund could help aid this transition without requiring ongoing government outlays
- Support further research to better understand how to build back the charities sector so that they are funded for impact.

Decrease demand for charity crisis services

- Retain JobSeeker and other payments at a higher level (do not revert to previous Newstart amounts) to mitigate the increase in service demand on charities while also stimulating the broader economy.

About this report

In the context of the COVID-19 crisis, there has been great concern about the future of the Australian charity sector, and the people it supports, given the economic, health and social crises currently unfolding. Charities' capacity to respond to financial and operational shocks will vary drastically. It will be some time yet before there is sufficient data to be able to determine the full impact. However, decisions made now will strongly affect whether charities are COVID-19 casualties or partners in recovery, and those decisions need to be based on the best available information.

To support public and sector discussion as the sector seeks to transform in response to COVID-19, Social Ventures Australia and the Centre for Social Impact are undertaking the *Partners in Recovery* project.

This is the third publication from 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; 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, and shows that charities need tailored support from government that recognises their unique situation if we are to preserve jobs and services

This third 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.

The context for charities

Charities play a critical role in Australia's community and economy. There are over 57,000 charities registered with the Australian Charities and Not-for-profits Commission (ACNC). In 2018 charities employed more than one in ten employees in Australia - 1.3 million people. More than one in seven people in Australia (3.7 million people) volunteered with these charities.[1] Charities' total economic contribution is equivalent to 8.5% of Australia's GDP.[2]

Charities provide vital services right across the Australian community. For many years, Commonwealth, State and Territory governments have relied on charities to deliver services on their behalf – from disability services to aged care to early learning. Charities also fill in gaps in the system. Within the community sector, the top three reasons for accessing charity services, as identified by sector staff, are affordability and costs of living pressures (81%), housing pressures and homelessness (74%), and inadequacy of income support payments (69%).[3] This need is likely to be even greater during times of crisis and recovery, which will increase demands on charities.

Charities also provide services that people, communities and government rely on. They provide education, health care, sports and recreation, legal services, employment services, religious activities, arts and culture, animal protection, aged care services, environmental protection and many other services and supports. Almost half of the charities registered with the ACNC report that their main beneficiary is the general community in Australia.[4] Without charities, our quality of life would be much poorer on almost every dimension.

The financial sustainability of charities is critical for us all, but it is a means, not an end in itself. Being financially sustainable enables charities to maintain paid staff, support volunteers and fund activities (55% of total expenses are staff expenses)[5] so they can effectively deliver their purpose. A viable funding model enables them to innovate, and to invest in capacity building for the future. Sustainable charities strengthen the fabric and functioning of society, support those in need and respond to increases in need across the community.

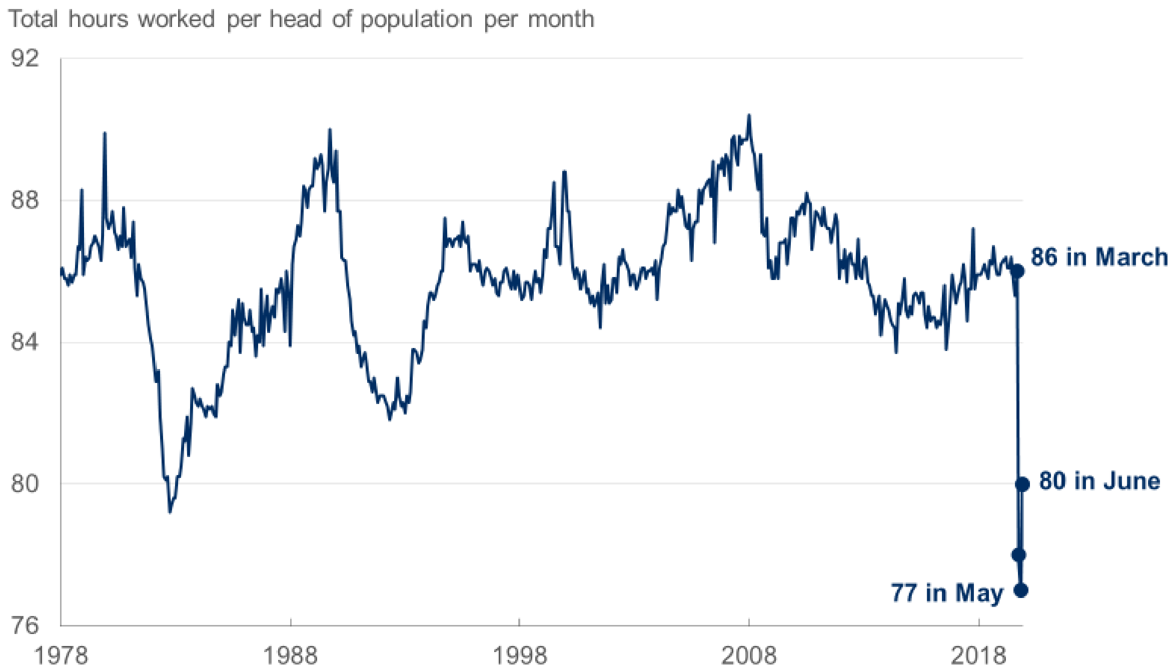
The current economic climate

The economy is in crisis. By June 2020, 992,300 people were unemployed (7.4%) and 1,555,593 people were underemployed (11.7%).[6] That equates to more than 2.5 million people looking for or wanting more work, but competing in a market with only 129,000 job vacancies.[7] That is only one job for every 19 people seeking work. This number does not account for people who have stopped looking for work altogether in this climate, who are not counted in the unemployment data. Furthermore, it is generally accepted that the JobKeeper wage subsidy, which is supporting around 3.5 million

[1] ACNC (2020) *Australian Charities Report 2018.*
[2] 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.
[3] Cortis, N. & Blaxland, M. (2020) *The profile and pulse of the sector: Findings from the 2019 Australian Community Sector Survey*. ACOSS.
[4] ACNC (2020) *Australian Charities Report 2018.* When charities report to the ACNC they must identify one or more groups of people as their 'main beneficiary'.
[5] ACNC (2020) *Australian Charities Report 2018.*
[6] ABS (2020) *6202.0 Labour Force, Australia, June 2020.* Seasonally adjusted data.
[7] ABS (2020) *6354.0 Job Vacancies Australia, May 2020.* Seasonally adjusted data.

employees,[8] is masking a much more serious jobs crisis.[9] As Figure 1 shows, the average number of hours worked per head of population was at its lowest level on record in May – this gives an indication of the scale of the employment collapse.

Figure 1: Total hours worked per head of population per month [10]



It is not just the employment data that presents a grim picture. The Commonwealth Government forecasts that real GDP will have fallen by 7% in the June quarter, its sharpest fall on record. It is forecast to fall by 2.5% in 2020-21.[11]

Other reports predict a downward spiral of consumer confidence and consumption. PwC estimates that the coronavirus pandemic could reduce household consumption by $37.9 billion over the coming year.[12] ANZ's consumer confidence index survey found only 7% of Australians expect 'good times' for the economy over the next 12 months, while 50% are preparing for 'bad times'.[13]

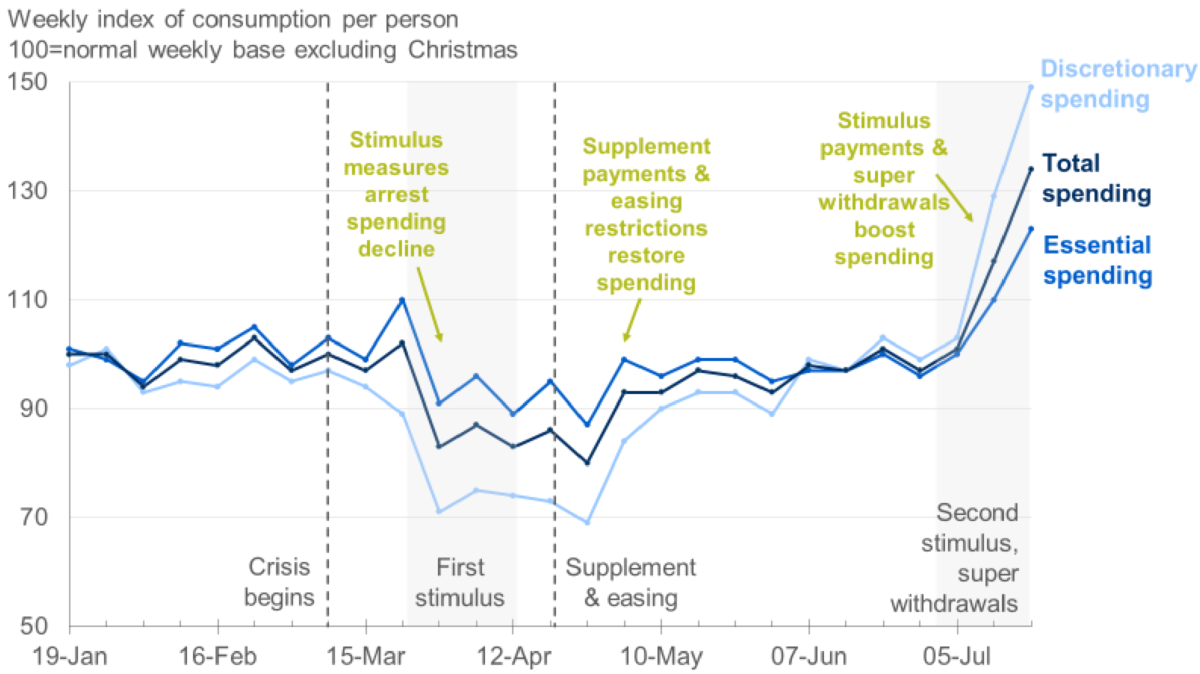
Inevitably, a downturn on this scale is placing severe pressure on government budgets. The Commonwealth Government is reporting an $86 billion deficit for 2019-20 and forecasting an $184 billion deficit in 2020-21, as a result of reduced tax receipts and increased spending via both automatic stabilisers and stimulus spending.[14] While these deficits are generally thought to be appropriate and

[8] Australian Government (2020) *The JobKeeper Payment: Three-month review.* The Treasury, July 2020.
[9] Treasurer Josh Frydenberg said on 23 July 2020: 'Without the Government's economic support, unemployment would have been five percentage points higher.' Quoted in Worthington, B (2020) 'Federal Government deficit hits record high of $86 billion as coronavirus devastates the economy.' *ABC News Online*, 23 July 2020.
[10] SVA and CSI analysis based on ABS (2020) *6202.0 Labour Force, Australia, June 2020,* Tables 1 & 19; and Cowgill, M. & Coates, B. (2020) 'The modest rise in unemployment hides a much grimmer picture' *Grattan Blog* 14 May 2020, Grattan Institute.
[11] Australian Government (2020) *Economic and Fiscal Update - July 2020.*
[12] PwC (2020) *Australia matters: the possible economic consequences of a novel coronavirus (COVID-19) pandemic.* March 2020.
[13] Roy Morgan (2020) *ANZ-Roy Morgan Australian Consumer Confidence – Weekly Results.* Unweighted averages of four weekly surveys in July 2020.
[14] Australian Government (2020) *Economic and Fiscal Update - July 2020.*

manageable given the scale of the crisis and Australia's current debt levels and interest rates,[15] they do place governments in an unfamiliar set of circumstances.

Ongoing economic stimulus, via both direct cash transfers and targeted spending, will need to be part of the solution. Financial support to those who need it most is likely to contribute to essential spending, returning money into the economy.[16] We have already seen this during the current crisis, with consumer spending levels highly responsive to the receipt of additional income, as shown in Figure 2. For example, average spending per person has tracked at around normal levels in May and June 2020, but spiked in mid-July after the second tranche of stimulus payments to pension recipients and early access to superannuation. This aligns with Australia's experience of the effectiveness of fiscal stimulus as one measure that prevented greater economic damage during the Global Financial Crisis.[17]

Figure 2: Consumer spending trends, January – July 2020 [18]



The Commonwealth Government has been clear that it sees employment as the key to a return to economic growth. In delivering the July Economic and Fiscal Update on 23 July, the Treasurer said, 'What I can tell you is we'll be doing everything to get people back into jobs and ultimately grow the economy.'[19]

To achieve this economic growth, government will need to make policy decisions that maintain existing jobs, stimulate growth, and provide financial support to those that will need it most. As will be

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[15] See Lowe, P. (2020) 'COVID-19, the labour market and public sector balance sheets.' Address to the Anika Foundation, 21 July 2020; and Martin, P. (2020) 'Should the government keep running up debt to get us out of the crisis? Overwhelmingly, economists say yes' in *The Conversation*, 22 July 2020.
[16] The IMF finds that in the Australian context, increased transfers to liquidity constrained households have a higher fiscal multiplier than cuts to GST, corporate or personal income taxes, although a lower multiplier than government investment or consumption spending. IMF (2019) *Australia: Selected issues*. IMF Country Report No. 19/56, February 2019.
[17] See Kennedy, S. (2009) 'Australia's response to the Global Financial Crisis.' Speech to the Australia Israel Leadership Forum, 24 June 2009; and Debelle, G. (2018) 'Lessons and questions from the GFC.' Address to the Australian Business Economists Annual Dinner, 6 December 2018.
[18] Illion & AlphaBeta (2020) *COVID-19 economic impact real-time tracking: consumer spending.* Accessed 29 July 2020. Based on a weekly sample of the transactions of c.250,000 Australian consumers, weighted to the Australian census to account for population biases.
[19] Frydenberg, J. (2020) Press conference, Parliament House, Canberra, 23 July 2020.

shown later in this report, charities – which employ one in ten of Australia's workforce – are a key part of the solution.

Keeping people employed in the charities sector has broader benefits than those that flow to employees and their families, or even to those who use the charities' services. Keeping jobs and incomes buoyant is an important factor in stimulating the broader economy at a time when it is needed and when charities hold such a large share of jobs.

The challenges 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.[20]

While the full effect of COVID-19 is still to be understood, we know that many charities are facing difficulties in delivering their purpose because of: cancellation of services and events due to physical distancing requirements; pre-existing barriers and limited capacity to move activities online; loss of volunteers; or income shocks leaving them unable to pay their staff. As of late April 2020, 85% of charities indicated that social distancing laws affected their ability to carry on their work.[21] While this is easing in some parts of Australia as the health crisis recedes, the situation in Victoria shows that these challenges are far from over.

Most charities are experiencing losses of income. Declines in untied revenue, such as revenue from social enterprises (an average drop of 51%), were especially large. This is particularly concerning as flexible funding is what gives charities the capacity to meet existing needs and respond to crisis. Charities that raise funds from ticketed events, such as the arts, sporting and fundraising charities, have also seen major income drops as a result of social distancing restrictions.[22] Donations and bequests are also expected to decline. JBWere has estimated that total giving will fall by around 7.1% in 2020 and a further 11.9% in 2021.[23]

These revenue drops come at the same time as an increase in demand for many services provided by charities, due to the COVID-19 health crisis and the economic downturn arising from it. Community services organisations are reporting significant increases in demand, particularly for information, advice and referral services, food relief, housing and homelessness services, mental health, and financial counselling.[24] Searches on Ask Izzy, an information and referral platform for social services, were more than 120% higher in April 2020 than the same period last year.[25] We would expect demand for charity services to increase even further as the Coronavirus Supplement to JobSeeker, Parenting Payment and other payments is ramped down from October. We know the Supplement has made a material difference to ability of people to provide for their basic needs such as fresh food and medical care.[26]

At the same time, the costs of service delivery such as buying personal protective equipment for staff and volunteers, transitioning to remote service delivery, or sourcing relief supplies has increased

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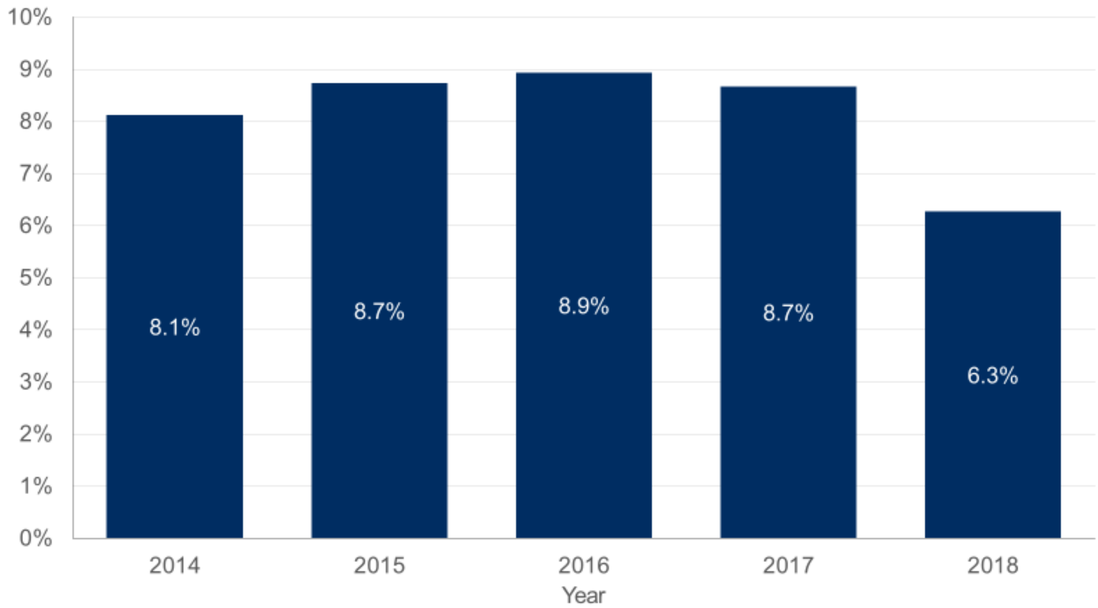
[20] These trends are discussed more extensively in our previous report – see SVA & CSI (2020) *Will charities be COVID-19 casualties or partners in recovery: A financial health check.* Social Ventures Australia.
[21] Our Community (2020) *COVID-19 Community Sector Impact Survey.* Survey conducted in late April 2020, with 366 respondents.
[22] Our Community (2020) *COVID-19 Community Sector Impact Survey.*
[23] McLeod, J. (2020) *Where to from here? The outlook for philanthropy during COVID-19*. JBWere.
[24] ACOSS (2020) Unpublished survey data. Survey of ACOSS members conducted in mid-April 2020, with 170 respondents.
[25] Infoxchange (2020) *How COVID-19 is affecting Ask Izzy usage.*
[26] ACOSS (2020) *'I Can Finally Eat Fresh Fruit And Vegetables': Survey Of 955 People Receiving The New Rate Of JobSeeker And Other Allowances*. Survey conducted in May 2020.

significantly for some charities. For example, demand for Foodbank services shot up 50% in April, while the charity's traditional supply lines shrunk by 27%.[27]

Before the COVID-19 crisis, most charities were already in a lean financial position. 64% of charities in our analysis had an operating surplus (indicated by a positive net income ratio) in 2018. This overall picture is very similar to previous analyses of ACNC-registered charities.[28] However, the 65% of charities in operating surplus include a large group (25% of charities) with an operating surplus of less than 5%, which provides very little buffer in the case of a shock or increased demand. When we add this group to the 35% of charities operating in deficit, 60% of charities included in the analysis are in a precarious financial position, with a deficit or very low level of surplus.

Charities have been operating on increasingly thin margins. As Figure 3 shows, their net income ratio fell to 6.3% in 2018 from 8.7% in 2017. On average, charities who employ people are even leaner – their 2018 aggregate net income ratio was only 4.9%.[29] We expect that the situation in early 2020 would have become even worse for many charities, as charitable giving was diverted to support people and communities affected by the 2019-20 summer bushfires. The Australian economy was also already contracting before the crisis, adding to pressure on charities.[30]

Figure 3: Aggregate net income ratio of Australia's charities, 2014-2018[31]



Most charities don't have a big buffer of reserves to draw on immediately in times of crisis. An organisation's current asset ratio[32] (which considers assets and liabilities likely to be realised or fall due in the next 12 months) can provide a measure of their ability to respond quickly to a change in financial circumstances. The charities in our analysis had an aggregate current asset ratio of 1.2,

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[27] Foodbank chief executive Brianna Casey, quoted in Schneiders B., and Millar, R. (2020) 'Demand for emergency food skyrockets' *Sydney Morning Herald,* 2 May 2020.
[28] Cortis, N., Young, A., Powell, A., Reeve, R., Simnett, R., Ho, K., & Ramia, I. (2016) *Australian Charities Report 2015.* Centre for Social Impact and Social Policy Research Centre, UNSW Australia. 65.6% of charities made a surplus and 32.5% a deficit.
[29] SVA & CSI (2020) *Will Australia's charities be casualties or partners in recovery after COVID-19? A financial health check*. Social Ventures Australia.
[30] The Australian economy contracted by 0.3% between December 2019 and March 2020. ABS (2020) *5206.0 Australian National Accounts: National Income, Expenditure and Product, March 2020*. Seasonally adjusted chain volume terms.
[31] ACNC (2020) *Australian Charities Report 2018* and previous years. For consistency, we have re-calculated this figure from reported income and expenses data in the ACNC's *Australian Charities Report*, as the ACNC does not report an aggregate net income ratio every year. Aggregate net income ratio is calculated as ((total income – total expenses)/total income).
[32] Current asset ratio is a charity's short-term assets (such as cash, accounts receivable, and inventory on hand, for the next 12 months) divided by their short term liabilities (such as accounts payable, loans payable, employee entitlements and tax payable, for the next 12 months).

which is generally consistent with the most recent data showing an aggregate current asset ratio for all charities of 1.3.[33] For reference, a current ratio of 1.5 or above is considered a good benchmark for a financially healthy organisation.[34] Fifty-nine per cent of the charities in our analysis have net current assets on hand to cover less than six months of expenses.[35] The viability of these charities is at risk.

Before COVID-19, these thin margins were already having a real impact on the services that charities could provide. In a survey of the community sector in October 2019, only 5% of staff said their service was completely able to meet demand, and one third of organisations had stopped delivering one of their services or programs due to financial constraints in the past year.[36]

Most charities balance their books every year, but, as this report will show, they have little in reserve to fall back on in a crisis. Charities do an impressive job in managing their resources efficiently and creatively. While charities operate differently from for-profit businesses[37], the market-driven environment in which they operate is forcing them to adopt a business-like approach to survive.[38] However, they face many financial constraints specific to their regulatory, and cultural environment.[39] Charities' financial and operational flexibility is restricted by the conditions placed on many of their funding streams, including those from government.[40]

Government funding processes which prioritise low prices over sector viability erode margins, as does a lack of funding indexation. Charities regularly report that payments for at least some government-funded services, especially those delivered by competitive tender processes and similar market structures, don't fully cover the cost of delivering such services at the quality required to achieve desired outcomes. Charities must use other funding sources to cross-subsidise them. Further research is needed to understand this phenomenon.

Some philanthropic funders and retail donors do not appreciate the true cost of delivering high quality outcomes and impact, and assume that lower overheads are always desirable. This misunderstanding results in insufficient funding to cover overhead and administrative costs (capacity building, compliance, training, IT infrastructure, utility bills, leadership and governance etc).[41] This manifests in concrete outcomes; for example, only 34% of charities have an online presence,[42] 43% are 'in the cloud', and 55% report that funding and costs are the major barriers to making better use of technology.[43] Community expectations that funding goes to direct service delivery mean charities are often unable to maintain buffers for crisis, or invest in organisational capacity necessary for a resilient response to a crisis.[44] Charities have significant motivation to under-report their overheads, creating a

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[33] ACNC (2019) *Australian Charities Report 2017*.
[34] Azoor Hughes, D. (2014) *Financial Fundamentals for Directors,* AICD, p14. This is a general benchmark, not specific to not-for-profit organisations or charities.
[35] This is broadly consistent with analysis of previous years, although differences in methodology make this figure not precisely comparable with figures previously published.
[36] Cortis, N. & Blaxland, M. (2020) *The profile and pulse of the sector: Findings from the 2019 Australian Community Sector Survey*. ACOSS.
[37] This issue is discussed more extensively in our previous report – see SVA & CSI (2020) *Partners in recovery: why charities need tailored support*. Social Ventures Australia.
[38] Lu, J., Shon, J., & Zhang, P. (2020). 'Understanding the Dissolution of Nonprofit Organizations: A Financial Management Perspective.' *Nonprofit and Voluntary Sector Quarterly*, 49(1), 29–52.
[39] See Cortis, N., Lee, I., Powell, A., Simnett, R. & Reeve, R. (2015) *Australian Charities Report 2014*. Centre for Social Impact and Social Policy Research Centre, UNSW Australia for a more detailed discussion of this issue.
[40] Williams, W. (2020) ''Flexibility and certainty' – what the charity sector needs from government,' *ProBono News* 16 July 2020.
[41] See Gregory A.G. & Howard D. (2009) 'The Non-profit Starvation Cycle'. *Stanford Social Innovation Review;* Eckhart-Queenan, J., Etzel, M. and Prasad, S. (2016) 'Pay-what-it-takes Philanthropy'. *Stanford Social Innovation Review;* and More Strategic (2020) *Public Attitudes to Bushfire Fundraising: Insights from national opinion poll*. Fundraising Institute Australia.
[42] ACNC (2020) *Australian Charities Report 2018.*
[43] Infoxchange (2019) *Digital technology in the not-for-profit sector.*
[44] More Strategic (2020) *Public Attitudes to Bushfire Fundraising: Insights from national opinion poll*. Fundraising Institute Australia.

‘starvation cycle’ in which underinvesting in indirect costs perpetuates a perception that they are unnecessary.[45]

Why charities are different

In our recent COVID-19 policy snapshot *Partners in recovery: why charities need tailored support*[46], we identified three factors that mean that charities will not recover from the current crisis in the same way as for-profit businesses:

- As described above, their financial position was precarious going into the crisis, with decreasing margins and limited reserves, due to their unique position as charities
- Charity revenues don’t recover from downturns the same way that business revenues do. History tells us that charity revenues will not bounce back quickly.[47] JBWere has estimated that total giving will fall by around 7.1% in 2020 and a further 11.9% in 2021.[48] Charities also rely on governments for a large proportion of their revenue. If governments seek to reduce debt and rebalance budgets quickly, as they did following the Global Financial Crisis, charities are very likely to be affected. Furthermore, demand for critical services run by charities – not just emergency services but many different early intervention services and points of community connection – goes up when our community faces challenges, even as revenue is falling. Unlike commercial businesses, they are counter-cyclical, and increased demand does not necessarily translate into increased revenue. Past experience shows that unemployment takes much longer to fall in recovery than it took to rise during a recession, so we may see higher than usual rates of joblessness for many years.[49] Charities will face increased demand to support people over that time, at the same time that their revenues remain low.
- Charities can’t easily access the resources they need to rebuild and transition to a new normal. Unlike businesses, charities can’t raise equity from shareholders. Most aren’t in a position to take on debt to help them smooth their income, adapt their business model or invest in rebuilding. Many charities will also be starting their transition from a with-COVID to a post-COVID world without the capacity and capabilities they need to rebuild successfully. As described above, community expectations and funder requirements impose constraints on charities’ spending. As a result, charities have little flexibility to invest in capability building, organisational and staff development, or investments in technology (e.g. only 43% of surveyed not-for-profits use cloud-based systems[50]). This has impeded the ability of charities to develop the capacity and capabilities they need to survive the crisis, and to transform to operate successfully in the post-COVID world.

For each of these reasons, charities will need tailored support to survive and thrive and support individuals, families and communities in the coming years.

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[45] See Gregory A.G. & Howard D. (2009) ‘The Non-profit Starvation Cycle’. *Stanford Social Innovation Review;* and Wing, K., Gordon, T., Hager, M., Pollak, T. & Rooney P. (2006) ‘Functional Expense Reporting for Nonprofits: The Accounting Profession’s Next Scandal?’ *The CPA Journal*. 76(8):14.
[46] SVA & CSI (2020) *Partners in recovery: why charities need tailored support.* Social Ventures Australia.
[47] See PriceWaterhouseCoopers, Fundraising Institute Australia and the Centre for Social Impact (2009) *Managing in a downturn: the impact of economic downturn on not-for-profit organisations;* and The Centre for Corporate Public Affairs (2009) *Impact of the economic downturn on corporate community investment.*
[48] McLeod, J. (2020) *Where to from here? The outlook for philanthropy during COVID-19* JBWere.
[49] Daley, J., Wood, D., Coates, B., Duckett, S., Sonnemann, J., Terrill, M., Wood, T. and Griffiths, K. (2020). *The Recovery Book: What Australian governments should do now*. Grattan Institute.
[50] Infoxchange (2019) *Digital technology in the not-for-profit sector.*

Revised JobKeeper policy settings

Governments across Australia have made a rapid series of policy decisions and announcements to attempt to mitigate the economic and social impact of the COVID-19 crisis.

Most recently, in July 2020 the Commonwealth Government announced that the JobKeeper wage subsidy would continue beyond September, but with a number of changes. Organisations will have to re-test their eligibility for the payment, the per-employee payment rate will drop, and there will be different payment rates for full-time and part-time employees. The thresholds for eligibility remain the same – ACNC-registered charities must report a 15% turnover decline over the relevant period, and can choose to exclude government income from their turnover calculation. The new policy parameters are summarised in Table 1.

Table 1: JobKeeper policy parameters for ACNC-registered charities[51]

<table>
<tr><th rowspan="2">Phase</th><th rowspan="2">Duration</th><th rowspan="2">Eligibility test (vs same period in 2019)[52]</th><th rowspan="2">Eligibility threshold</th><th rowspan="2">Eligibility restrictions</th><th colspan="2">Payment rate[53]</th></tr>
<tr><th>FT</th><th>PT</th></tr>
<tr><td>Phase 1</td><td>30 Mar – 28 Sept 2020</td><td>Predicted turnover decline over either the April-June 2020 quarter, or any month from April-Sept 2020</td><td rowspan="3">15% (either total turnover or total excluding government)</td><td rowspan="3">Schools and universities must have 30% turnover decline. Universities face additional criteria. Childcare excluded from 20 July.</td><td colspan="2">$1500</td></tr>
<tr><td>Phase 2</td><td>27 Sept 2020 – 3 Jan 2021</td><td>Actual turnover decline in BOTH the April-June 2020 quarter and the July-Sept 2020 quarter</td><td>$1200</td><td>$750</td></tr>
<tr><td>Phase 3</td><td>4 Jan – 28 Mar 2021</td><td>Actual turnover decline in ALL of the April-June 2020 quarter, the July-Sept 2020 quarter, and Oct-Dec 2020 quarter</td><td>$1000</td><td>$650</td></tr>
<tr><td>Phase 4</td><td>29 Mar 2021 onwards</td><td>None</td><td>None</td><td>None</td><td>None</td><td>None</td></tr>
</table>

Creating a 'ramp' not a 'cliff' for JobKeeper after October 2020 was a major recommendation of our previous *Charities financial health check* report, and we welcome the extension announced by the Treasurer. We are also pleased to see that the Government has recognised the unique financial position of charities in maintaining the lower eligibility thresholds that it initially put in place. This report explores the potential impact of the revised JobKeeper policy on the financial health of charities, and considers what additional measures are needed to enable charities to be partners in Australia's economic and social recovery.

[51] See Australian Government (2020) *Extension of the JobKeeper payment.*
[52] Alternate turnover tests are available in some circumstances.
[53] Rates are per fortnight. Full-time rate applies to all eligible employees who, in the four weeks of pay periods before 1 March 2020, were working in the business or not-for-profit for 20 hours or more a week on average. Anyone who worked fewer hours gets the part-time rate.

Our approach

As with our previous charity sector modelling, this analysis uses data from the 2018 Annual Information Statement (AIS) submitted by over 48,000 charities on the ACNC website.[54] This is the most recent comprehensive data available. The sample for this analysis includes 16,022 charities, approximately 33% of this dataset, and 28% of all charities in Australia.[55] Collectively, the charities in our analysis employ more than 1.22 million people, 93% of the 1.31 million people employed by charities in Australia.[56]

Unless otherwise noted, we have followed the approach used in our June 2020 *Charities financial health check* report. Our methodology is described in further detail in that report, and in the Appendix to this report.

The primary purpose of this new analysis is to model the impact of the revised JobKeeper arrangements announced by the Commonwealth Government in July 2020, as described in the previous section.

Our analysis is based on charities' 2018 reported data and our projections of their financial position over the 18-month period from the start of the crisis (i.e. from March 2020 to September 2021.) We have selected that timeframe (referred to as the 'projection period') because it provides an indication of what may happen after the currently scheduled end of JobKeeper in March 2021.

We have modelled four scenarios:

- **Baseline** – to simulate the starting point of charities pre-crisis, we used each organisation's 2018 AIS data, modified as described in the Appendix
- **Crisis** – to simulate the impact of the current economic crisis, we began with the Baseline scenario, and reduced each organisation's income by the amount shown in Table 2 for each phase of the projection period. We have modelled a 20% income drop from all sources for the first six months of the crisis. This is in line with available survey evidence, and with the Commonwealth Government's threshold for JobKeeper eligibility for charities at 15% reduction in turnover. To reflect the expectation that the economic situation will gradually improve that is implicit in government policy announcements, we have modelled progressively smaller income drops over the following 12 months (16% drop from baseline for October – December 2020, 12% for January – March 2021, and 10% for April – September 2021).[57] There are no JobKeeper payments in this scenario
- **Original JobKeeper** – to simulate the impact of the original JobKeeper wage subsidy announced in March 2020 (a flat per-employee payment for six months), we reduced each organisation's income as in the Crisis scenario. We then calculated a JobKeeper payment based on their estimated number of eligible employees and their usual wages bill, and added this to their income until September 2020
- **Revised JobKeeper** - to simulate the impact of the revised JobKeeper wage subsidy during the current economic crisis, we reduced each organisation's income as in the Crisis scenario. We then calculated a JobKeeper payment based on their estimated number of eligible employees and their

[54] Some charity types, such as Basic Religious Charities, are not required to submit financial information in their Annual Information Statements and so some are not included in the dataset.
[55] ACNC (2020) *Australian Charities Report 2018.*
[56] ACNC (2020) *Australian Charities Report 2018.*
[57] See Appendix for further information on estimated revenue drops.

usual wages bill, and added this to their income until March 2021, i.e. for 12 months since the start of the crisis.

Further information about how these scenarios were designed is in the Appendix.

Table 2: Modelling assumptions for each phase of the projection period

Phase	Timeframe	Modelled drop in turnover for Crisis and both JobKeeper scenarios	JobKeeper payments in Original JobKeeper scenario	JobKeeper payments in Revised JobKeeper scenario
Phase 1	Mar-Sept 2020	20%	Yes	Yes
Phase 2	Oct-Dec 2020	16%	No	Yes
Phase 3	Jan-Mar 2021	12%	No	Yes
Phase 4	April-Sept 2021	10%	No	No

To reflect the new policy settings, we have revised the way we describe the financial health of charities in this report.

Firstly, we model the operating result of charities at the end of September 2021 (our projection period) and put them into one of four categories (also summarised in Table 3) based on their operating result and level of net current assets:

- **Surviving** - the organisation has an operating surplus at the end of the projection period in September 2021
- **Vulnerable** - the organisation has an operating deficit at the end of the projection period in September 2021. They have enough net current assets to cover their projected deficits for the full projection period of March 2020 to September 2021
- **Viability risk** - the organisation has an operating deficit at the end of the projection period in September 2021. They have enough net current assets to cover their projected deficits for at least 6 months (until September 2020) but not enough to cover them for the full 18 months until September 2021
- **High viability risk** - the organisation has an operating deficit at the end of the projection period in September 2021. They do not have enough net current assets to cover their reported deficits for six months from the start of the crisis. Without a change in circumstances or behaviour, such an organisation would be likely to become unviable by September 2020

Table 3: Criteria used to categorise charities in our analysis

Category	Operating balance in September 2021	Sufficient net current assets to cover deficits until September 2020	Sufficient net current assets to cover deficits until September 2021
Surviving	Surplus	Not applicable	Not applicable
Vulnerable	Deficit	Yes	Yes
Viability risk	Deficit	Yes	No
High viability risk	Deficit	No	No

Secondly, we look at how many charities have positive net current assets each month, based on their reported net income and remaining net current assets. This enables us to draw a 'survival curve' showing the number of organisations that use up their entire financial buffer each month.

We also changed two other parameters in our model, compared to our previous report:

- In our previous report, we applied JobKeeper payments to 80% of the workforce outside schools and universities, to simulate the impact of not all organisations participating in JobKeeper, and not all employees being eligible. In late May 2020, the Commonwealth Government announced that the take-up rate of JobKeeper for Phase 1 was significantly lower than anticipated, and that it would apply to many fewer workers than previously estimated.[58] This has been backed by other recent data.[59] While at the time of writing we do not have access to data on the total number of charities who have applied for or received JobKeeper payments, the available data we do have suggests that 80% was an overestimate.[60] This report applies JobKeeper payments to 60% of the workforce outside schools and universities (who are not eligible) in all phases of both the original and revised JobKeeper scenarios[61]
- The revised JobKeeper arrangements for Phases 2-4 have differing payment rates for part-time and full-time workers. Based on ACNC data on the share of full-time and part-time workers in the charity sector, and on ABS data on the number of hours worked by part-time workers in the Australian workforce, we have estimated that 75% of the workforce in our analysis will be eligible for the full time rate, and 25% for the part time rate

Further detail about these estimates is in the Appendix.

Because we have adjusted the projected revenue drop and JobKeeper take-up rate, and are using different categories across a longer timeframe to assess the financial health of charities, the modelled findings in this report differ somewhat from the findings in our previous report.

As with our previous report, none of the measures we report on their own 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.[62] But in looking at a large number of charities collectively, we can identify general patterns of viability and risk.

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[58] Australian Government (2020) *JobKeeper update.* Treasury and Australian Tax Office joint media release, 22 May 2020.
[59] Australian Government (2020) *The JobKeeper Payment: Three-month review.* The Treasury, July 2020.
[60] Australian Government (2020) *Answers to Questions on Notice No. 86,* Senate Select Committee on COVID-19: Public Hearing 7 May 2020, Question 5, Response from Australian Tax Office.
[61] A recent survey of charities indicated that 60% of respondents had received JobKeeper support. See Williams, W. (2020) ''Flexibility and certainty' – what the charity sector needs from government,' *ProBono News* 16 July 2020.
[62] For a more extensive discussion of this issue, see Cortis, N., et. al. (2016) *Australian Charities Report 2015*.

Impact of the crisis on charities

Key findings:

We modelled a fall in revenue over 18 months from the start of the crisis (a 20% fall from all sources for the first six months, then gradually recovering to a 10% fall), and found that:

- By September 2021, 83% of charities would be making an operating loss
- 17% of charities would be at risk of being unviable by September 2020

If government incomes are maintained at current levels but other revenue sources fall, 67% of charities would be making an operating loss by September 2021, and 12% could be unviable by September 2020

Indications so far are that charities are experiencing a significant drop in revenue due to the immediate effects of COVID-19, the government's response to its spread (such as physical distancing and enforced closures) and the consequent economic downturn. This is likely to continue for some time, as the economic impact of the crisis is expected to last far beyond the immediate health crisis.[63]

To simulate the impact of the crisis, we used the latest available complete data on charity finances to model a drop in income from all sources for all charities in our analysis. It is too early to precisely determine the scale of the income drop that charities are experiencing, and it will vary across types and sizes of charities. We have estimated a 20% income drop from all sources for the first six months of the crisis. This is in line with available survey evidence, and with the Commonwealth Government's threshold for JobKeeper eligibility for charities at 15% reduction in turnover. To reflect the expectation that the economic situation will gradually improve, we have modelled progressively smaller income drops over the following 12 months (16% drop from baseline for October-December 2020, 12% for January-March 2021, and 10% for April-September 2021).[64] 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.

[63] See, for example, Reserve Bank Governor Phillip Lowe's testimony in Commonwealth of Australia (2020) *Senate Select Committee on COVID-19: official Hansard* 28 May 2020; Reserve Bank of Australia (2020) *Statement on monetary policy – May 2020;* Daley, J., et. al. (2020). *The Recovery Book: What Australian governments should do now.* Grattan Institute; and Coates, B., Cowgill, M., Chen, T., and Mackey, W. (2020). *Shutdown: estimating the COVID-19 employment shock*. Grattan Institute.

[64] See Appendix for further information on this estimate.

Figure 4: Proportion of charities by financial viability, in two scenarios: baseline; and an income drop

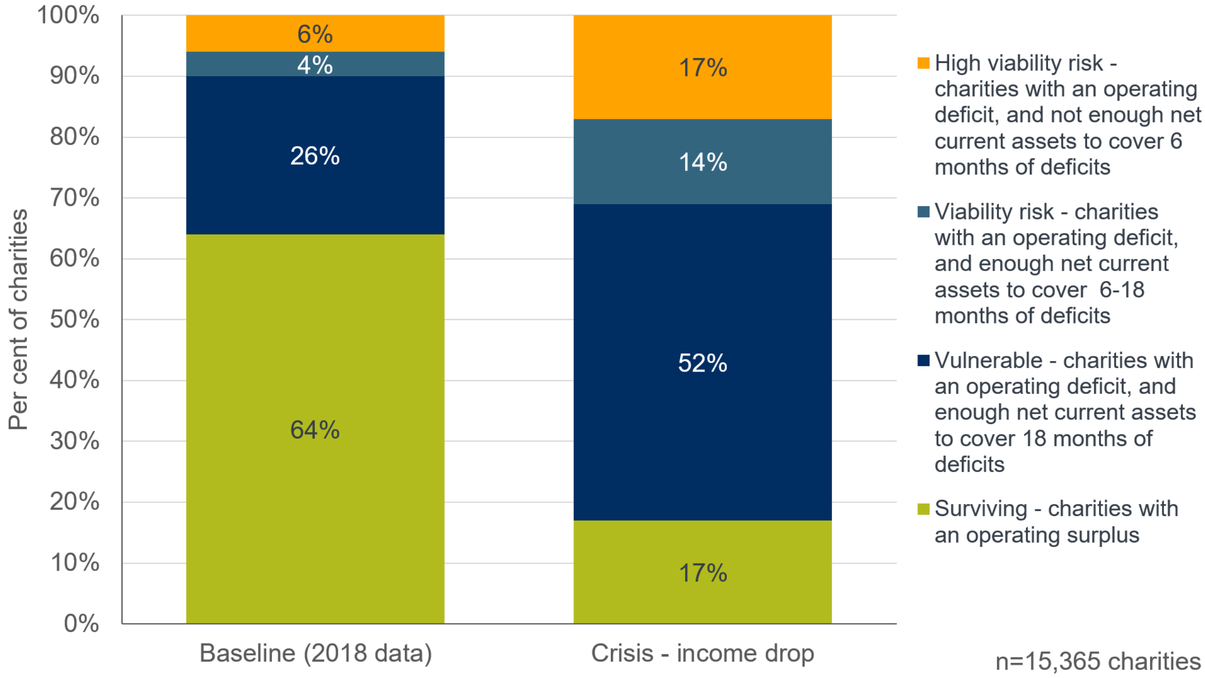


Figure 4 shows the impact of the crisis on charity finances. Before the crisis, almost two-thirds of charities were in the Surviving category – based on their 2018 financial position, they would remain in surplus for the next 18 months. Just over one quarter of charities were Vulnerable – they would not remain in surplus, but had enough net current assets to cover their deficits for at least 18 months. Only 10% of charities were a viability risk - they were in deficit and did not have net assets to cover their shortfall for 18 months.

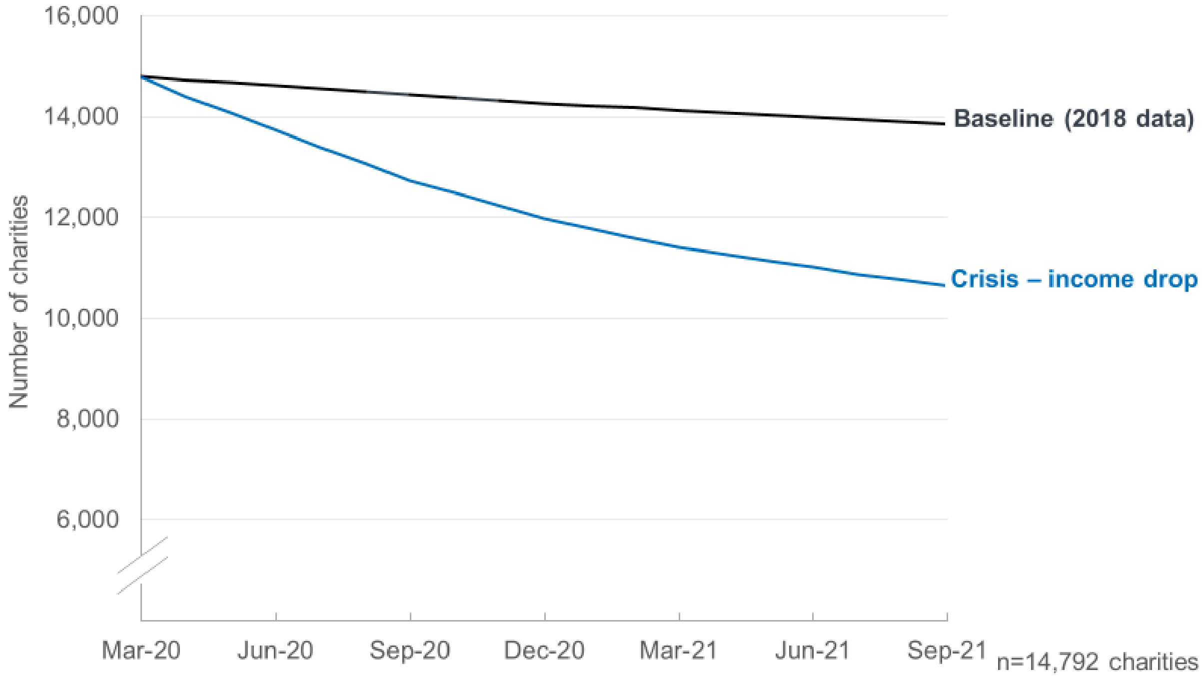
Modelling the impact of the scale of revenue drops we are seeing in the current crisis dramatically changes this picture.

Fewer than one in five charities remain in surplus – 83% are now making an operating loss.[65] More than half would be Vulnerable – running at a deficit but able to cover their shortfall with net current assets for at least 18 months. 14% would be a viability risk – they would not be in a position to cover their shortfall for 18 months. And a further 17% – more than 2,600 charities – would be a high viability risk. They have insufficient net current assets to cover their deficits for even six months.

Figure 5 below shows the severe impact this has on charity viability over time. Six months after the crisis, over 2,000 charities would have run out of net current assets to cover their ongoing deficits. After twelve months, over 3,300 charities – around a fifth of those in our analysis – would have no net current assets left.

[65] Our previous report found that the proportion of charities making an operating loss under the crisis scenario was 88%, vs the 83% shown here. This is because we have adjusted the way we assess the proportion of charities 'surviving' (i.e. making an operating surplus) in this report, by modifying some parameters and assessing results over a longer time period. See Appendix for details.

Figure 5: Number of charities in analysis with positive net current asset balance each month, after using income and net current assets to cover expenses, under two scenarios: baseline; and drop in income from all sources [66]

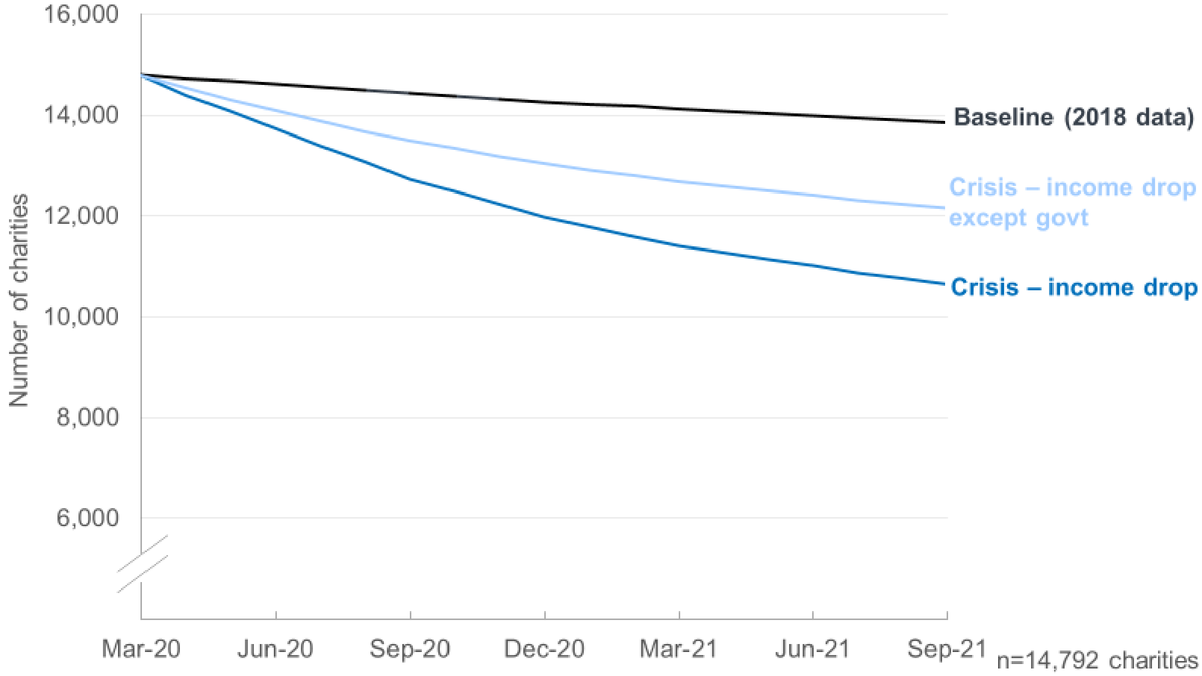


Some charities have reported that the drop in income so far has come mostly from sources other than government and the Commonwealth Government has acknowledged this issue in allowing charities to exclude government-sourced revenue from their eligibility test for JobKeeper.[67] Although government funding may not remain at the current level over time as governments seek to reduce deficits incurred during the crisis, we also modelled a scenario in which all sources of revenue except government fell.

We found that only 33% of charities would be able to maintain an operating surplus in this scenario (compared to 64% in pre-crisis times), and the share of charities at high risk of becoming non-viable jumps from 6% pre-crisis to 12%. While this is lower than the 17% seen if government revenue falls along with other sources, it is still a significant drop from baseline – the number of high-risk charities would double. Figure 6 below shows the impact this has on charity viability over time.

[66] The cohort size in this and subsequent 'survival curve' charts is smaller than for the overall analysis as it excludes 573 charities which reported negative net current assets and total assets – they would 'drop off' the curve at month 0. See Appendix for further detail.
[67] Frydenberg, J. (2020) *JobKeeper update* Media release, 24 April 2020.

Figure 6: Number of charities in analysis with positive net current asset balance each month, after using income and net current assets to cover expenses, under three scenarios: baseline, drop in income from all sources, and drop in income from all sources except government



This likely understates the impact of such a scenario in practice. Some charities are already cross-subsidising under-costed government contracts with other sources of revenue to be competitive in the market or meet their purpose as best as they can. A drop in other revenue sources – such as donations or sales of goods and services – could materially affect the ability of charities to deliver government-funded services even in the absence of a change in government funding.

Of course, charities could take a number of different actions to prolong their survival. As many have limited options to liquidate or leverage assets, they are likely to seek to cut expenses in response to these kind of revenue drops. We know that many are already doing so or planning to, for example by reducing the number of employees.[68] But this will have broader implications. It would mean increased joblessness, cuts to service delivery and charities not being able to meet their purpose in a time of increased demand and need. As discussed below, this is socially and economically costly during an economic crisis.

[68] See Our Community (2020) *COVID-19 Community Sector Impact Survey;* and Williams, W. (2020) ''Flexibility and certainty' – what the charity sector needs from government,' *ProBono News* 16 July 2020.

Impact of JobKeeper on charities

Key findings:

JobKeeper is keeping many charities viable in the short term. Based on our modelling:

- 44% of charities would be making an operating loss in September 2021 under the revised JobKeeper arrangements, compared to 83% without JobKeeper
- 8% would be at risk of being unviable by September 2020, compared to 17% without JobKeeper

But JobKeeper will not be enough to preserve all charities. 14% will still be at risk or at high risk of becoming unviable by September 2021 under the new JobKeeper arrangements.

As part of its response to the crisis, the Commonwealth Government is providing a wage subsidy known as JobKeeper to employing organisations who meet certain criteria.

Charities that have experienced a drop of 15% either in their total income, or in their non-government income, are eligible for JobKeeper. The exceptions are schools and universities. Even though universities and non-government schools are charities, the Commonwealth Government decided that they must show a 30% turnover drop (the same rule as non-charity not-for-profits and for-profit businesses with turnover under $1 billion), and universities face additional eligibility conditions.[69] From 20 July, the Government has also excluded child care providers from JobKeeper.[70]

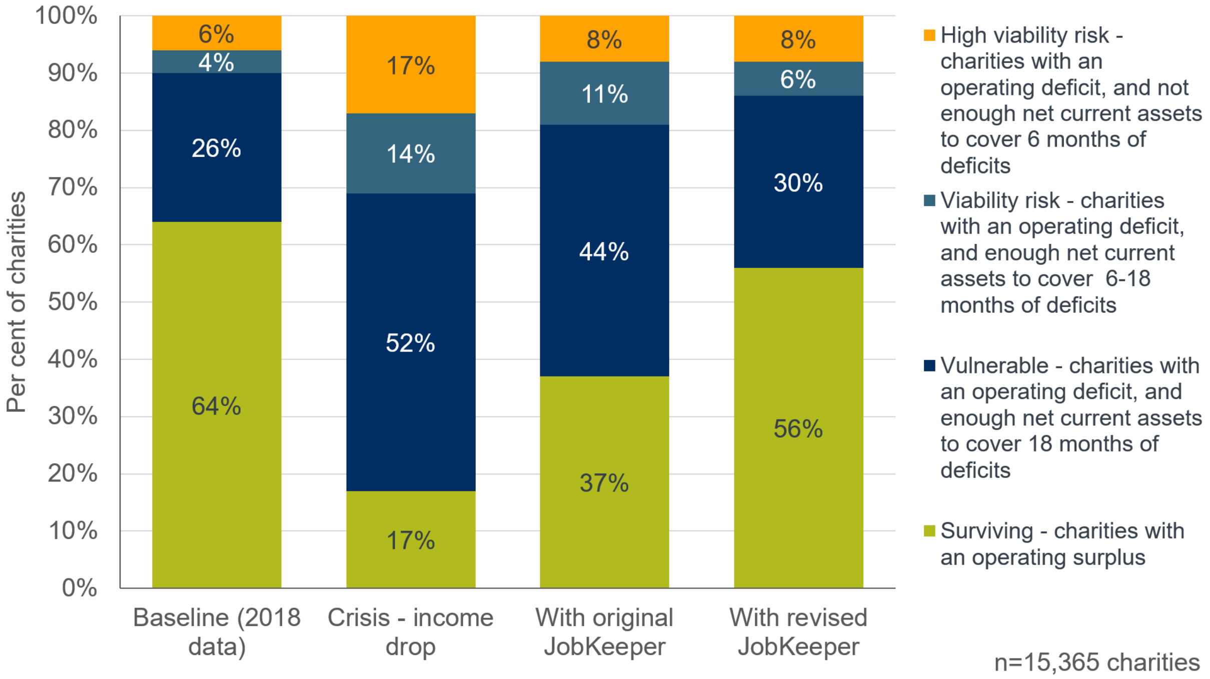
The initial phase of JobKeeper provided eligible organisations with $1,500 per fortnight per eligible employee for six months from April to September 2020, which must be passed on to the employee. In July 2020, the Commonwealth announced that JobKeeper would be extended to March 2021, but with a number of changes to conditions, including gradually decreasing payment rates.

To assess the impact of the JobKeeper wage subsidy, we modelled the effect of a fall in income as in the Crisis scenario, but added in JobKeeper payments. We applied the payment to all charities except schools and universities, as the assumptions we have made regarding revenue drops mean that all charities other than schools and universities will pass the eligibility tests for the full period. Recognising that not all organisations are participating in JobKeeper, and not all employees are eligible, we applied JobKeeper to 60% of the workforce outside schools and universities.[71]

Figure 7 shows the impact of JobKeeper on the financial viability of charities, both in its original form and with the changes announced in late July.

[69] See Australian Government (2020) *JobKeeper payment: eligible employers*. Australian Tax Office.
[70] See Australian Government (2020) *JobKeeper rule changes for child care providers.* Australian Tax Office. Child care providers remain in the analysis in this report, as removing them from the data set was not feasible.
[71] See Appendix for further detail on our approach and assumptions regarding take-up rates for JobKeeper.

Figure 7: Proportion of charity by financial viability, in four scenarios: baseline; crisis (income drop); crisis with original JobKeeper (6 month duration) and revised JobKeeper (12 months progressively ramped-down)

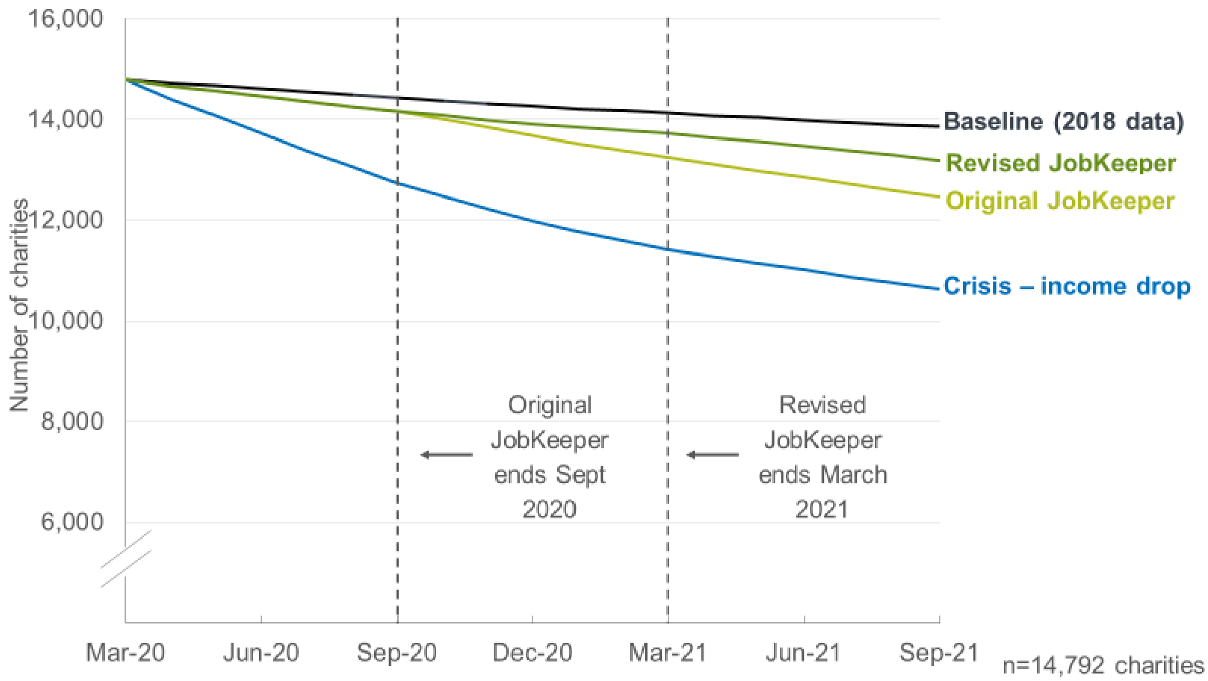


The impact is dramatic (although findings are still concerning) – 44% of charities would be making an operating loss in September 2021 under the revised JobKeeper arrangement, compared with 83% without JobKeeper. 14% would be at risk or at high risk of becoming unviable (i.e. they have an operating deficit based on their income and expenses, and insufficient net current assets to cover deficits through to September 2021) compared to 31% without JobKeeper.[72]

Figure 8 shows the impact JobKeeper is having on charity viability over time. By September 2020, over 1,400 charities who would otherwise have been under threat have potentially had their viability maintained by JobKeeper. By March 2021, over 2,300 of the more than 3,300 charities under threat (approximately 70%) have potentially had their viability maintained under the new JobKeeper arrangements, compared to around 1,800 under the original JobKeeper arrangements.

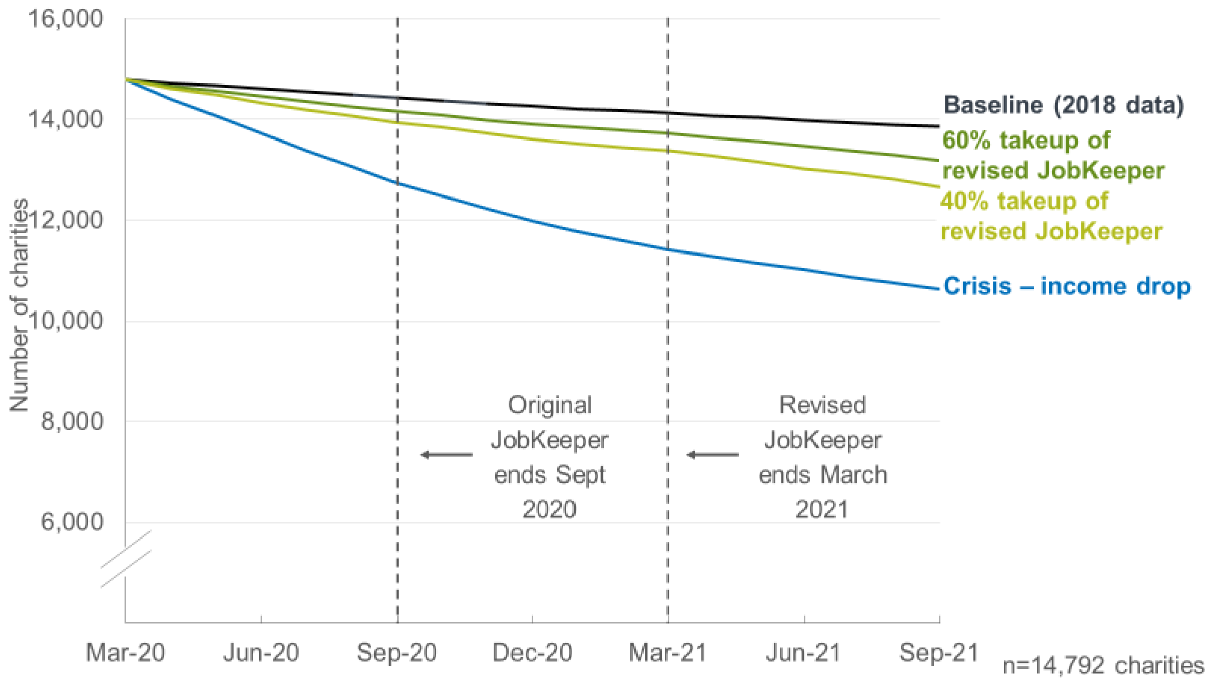
[72] Because schools and universities are not eligible for JobKeeper with the modelled drop in turnover, they remain in the same category in the 'JobKeeper' scenario as they were in the 'Crisis' scenario. If they are excluded from the analysis, we see that JobKeeper has a larger impact on the parts of the sector eligible for it, and a slightly lower share of organisations would making an operating loss.

Figure 8: 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; crisis (income drop); crisis with original JobKeeper (6 month duration); and crisis with revised JobKeeper (12 months progressively ramped-down)



As noted earlier in this report, we still do not have accurate data on the take-up rate of JobKeeper by charities and their employees. Figure 9 shows the impact of JobKeeper applied to 40% of the workforce in the analysis, rather than the 60% used above. As expected, this results in a lower number of organisations being temporarily sustained by JobKeeper.

Figure 9: 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; crisis (income drop); crisis with revised JobKeeper (12 months progressively ramped-down) applied to 60% of the workforce; and crisis with revised JobKeeper applied to 40% of the workforce.



Impact of JobKeeper on charity sector employment

Key findings:

Before the crisis, 75% of charity sector employees worked in organisations with an operating surplus, while only 3% were in organisations at high risk to their viability.

In our Crisis scenario, a fifth of the workforce would be in organisations we categorise as at high viability risk, with only 6% of people working in organisations with an operating surplus.

Even with revised JobKeeper arrangements, more than 110,000 people are employed in organisations at high risk of becoming unviable by September 2020, and a further 73,000 by September 2021.

The economic consequences of job losses on this scale would be dramatic, especially in an ongoing recession.

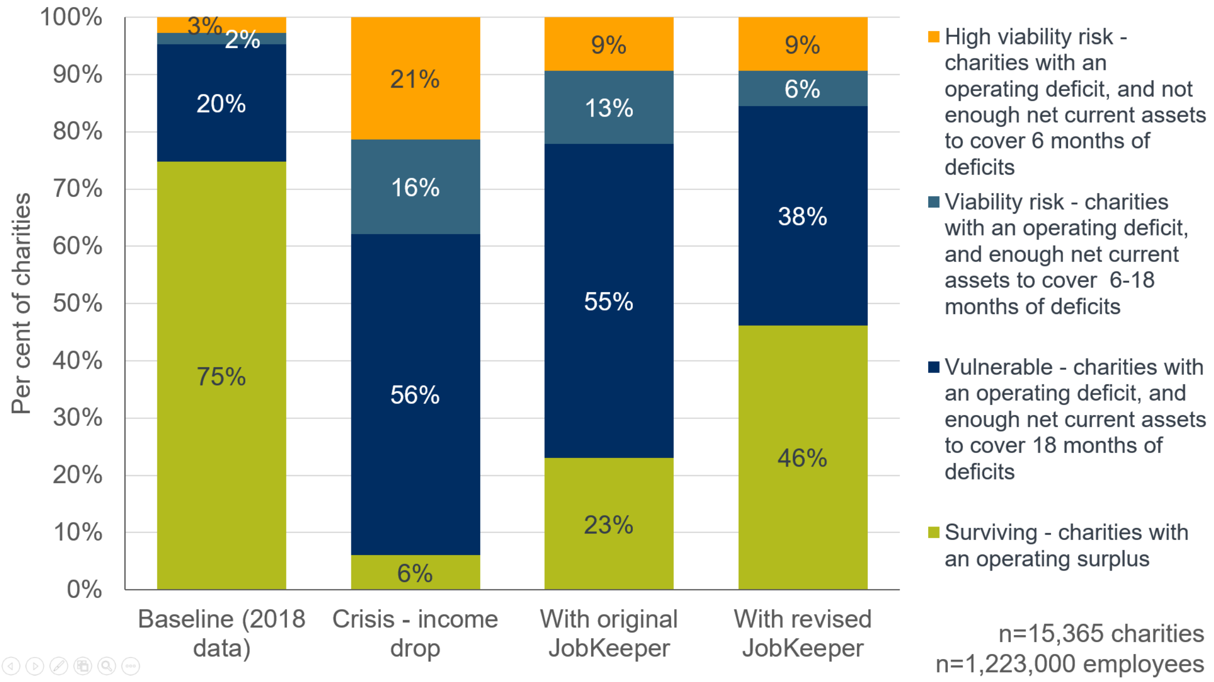
The charities in our analysis employ over 1.2 million people, almost 10% of the Australian workforce. Compared to the workforce as a whole, they are disproportionately female, work part-time or casually, and are lower paid.[73]

Before the crisis, 75% of these employees worked in organisations with an operating surplus, while only 3% were in organisations at high risk to their viability (i.e. with an operating deficit and less than six months of net current assets). While work in the sector is often somewhat precarious, due to the lean financial position of many organisations and the proliferation of short-term grant contracts that fund many positions, in general the precarity was not coming from organisations being financially unviable but rather from the type of funding that organisations can secure.

In the event of a revenue drop on the scale modelled here many more people would find themselves at risk of joblessness. As Figure 10 shows, a fifth of the workforce would be in organisations we categorise as at high viability risk, with only 6% of people working in organisations with an operating surplus.

[73] See YWCA, WomenOnBoards and ACOSS (2012) *Reflecting gender diversity: An analysis of gender diversity in the leadership of the community sector: Inaugural survey results*; AIGroup (2018) *Casual work and part-time work in Australia in 2018*; Australian Government (2019) *A statistical snapshot of women in the Australian workforce*. Department of Education, Skills and Employment.

Figure 10: Proportion of workforce by level of financial viability of employing charity



As is to be expected, the revised JobKeeper arrangements potentially reduce the proportion of people working in organisations at high viability risk – down to 9%, with a further 6% working in organisations at risk of becoming unviable by September 2021.[74] It is also clear that the new JobKeeper arrangements will do more to support organisations than previously – 46% of people will be in jobs in operating surplus, compared to 23% under the old policy settings. But that still leaves more than half of people working in organisations that are in operating deficit.

In the event of a revenue drop, and in the absence of straightforward access to new capital through liquidation or leverage of assets, we would expect to see two effects. Some organisations would become financially unviable and the people employed by them would lose their jobs. Alternatively, some charities may attempt to reduce expenditure to match their reduced revenue. The charities in this analysis, similar to all other charities in the sector, spend more than half of their expenses on employment, so they would likely need to cut staff to achieve this kind of reduction. In practice, we would expect to see a combination of both.

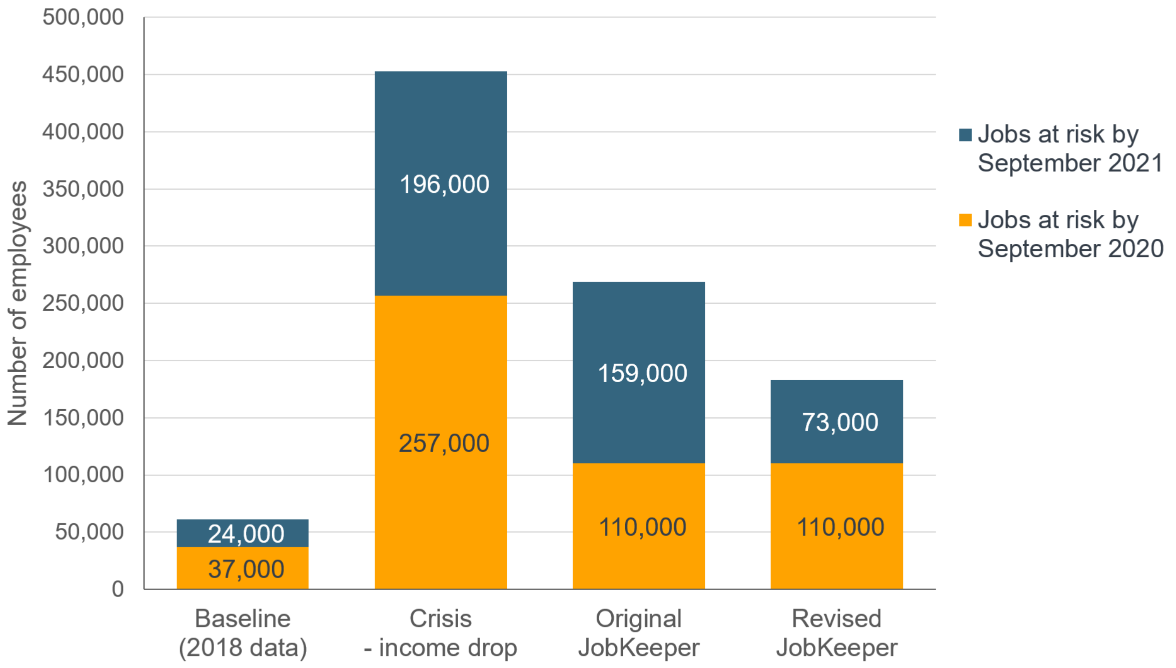
As our previous report also demonstrated, the charities whose viability is at high risk in a crisis employ over 250,000 people – this gives an indication of the potential scale of job losses if the sector is not supported. As Figure 11 shows, even with JobKeeper, more than 110,000 people are employed in organisations at high risk of becoming unviable by September 2020 – the extended JobKeeper arrangements will be too late for them. The revised JobKeeper arrangements could help protect around 86,000 jobs at risk by September 2021. However, in addition to the 110,000 jobs at risk by September 2020, a further 73,000 people's employment will still be at risk by September 2021. The economic consequences of job losses on this scale would be dramatic, especially in an ongoing recession.

This estimate is of course sensitive to the assumptions we have made about a progressive improvement in the financial circumstances of charities over the coming year. If the economy does not improve – whether due to the extension of the health crisis or other factors – then job losses could be

[74] As in the previous section, the inclusion of schools and universities in the data weakens the apparent impact of JobKeeper on eligible parts of the sector.

higher. It also assumes that government will not extend JobKeeper further or provide additional support to affected charities – in other words, action can be taken to reduce the scale of the damage.

Figure 11: Potential job losses in the charity sector in four scenarios: baseline; crisis (income drop); crisis with original JobKeeper (6 month duration); and crisis with revised JobKeeper (12 months progressively ramped-down)



Economic recovery relies on charities as a strong industry

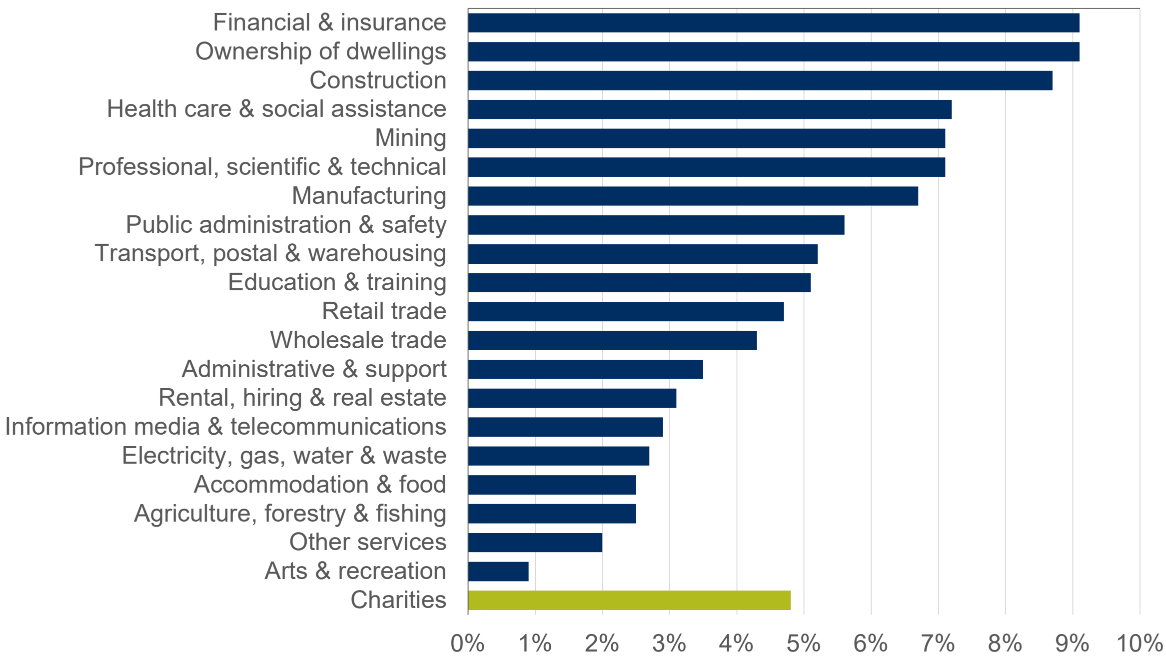
Charities add around the same value to Australia's economy as retail trade, and employ more people than mining and manufacturing combined. The sector is an essential contributor to the Australian economy. Charities closing their doors and shedding staff will damage our economy and our labour market at a time when we can least afford it. Charities who are able to keep their staff will not only be able to meet increased need for services that we expect to see during bad economic times, but also ensure employment for a significant fraction of the Australian labour force.

Economic contribution

The direct economic contribution of charities is equivalent to 4.8% of Australia's gross value added ($71.8 billion in 2014-15).[75]

While charities are dispersed throughout various industries, comparing the charities sector's size to key industry categories gives an indication of its relative importance to our economy. As Figure 12 shows, the charity sector's direct value add is approximately equivalent to that of the retail trade industry (4.7%), and more than nine other industries.

Figure 12: Direct economic contribution of charity sector compared to Australian industries, as % of Australia's gross value add, 2014-15 [76]



[75] Deloitte Access Economics (2017) *Economic contribution of the Australian charity sector*.
[76] Industry data is percentage of GVA at basic prices, current prices, June 2015, from ABS (2019) *5204.0 Australian System of National Accounts, 2018-19*. Table 5. Charity sector data from Deloitte Access Economics (2017) *Economic contribution of the Australian charity sector*, direct economic contribution of the charity sector as equivalent share of Australia's GVA, 2014-15.

If their indirect value add is also factored in, the total economic contribution of the charity sector in 2014-15 was equivalent to 8.5% of Australia's GDP.[77]

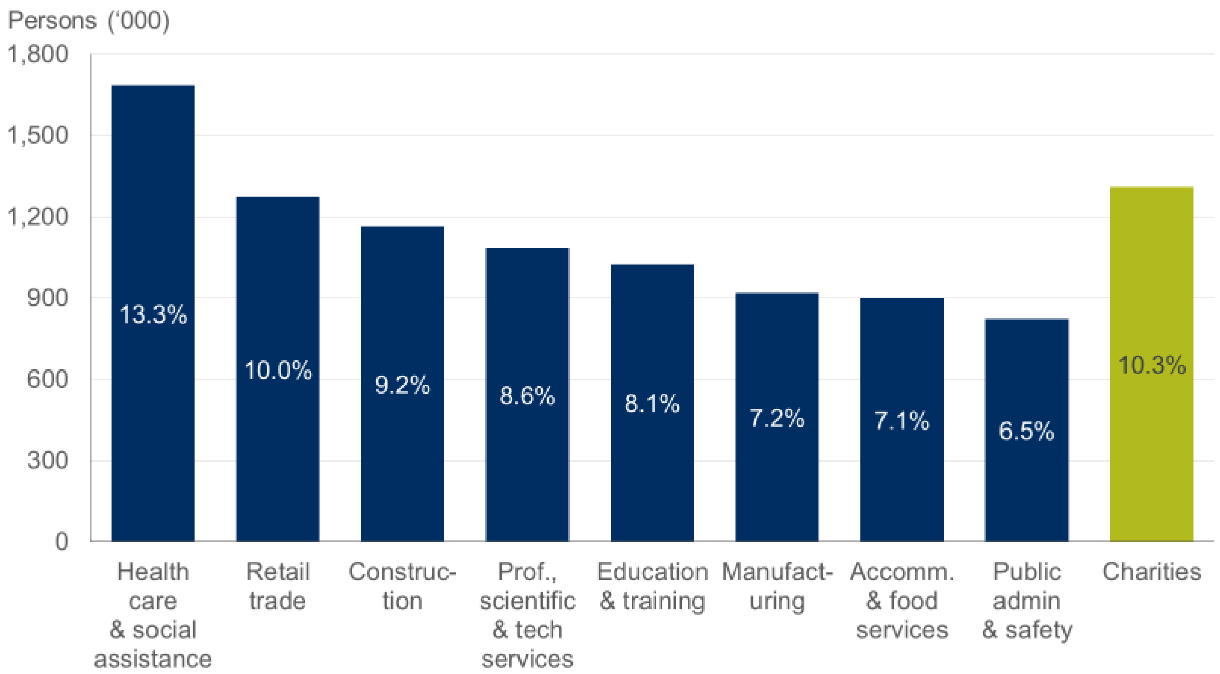
The economic contribution of charities is in effect higher than this data suggests, because unlike many other industries, charities also leverage the time and effort of volunteers. In 2018, 3.7 million people volunteered in registered charities across the country.[78] In 2014-15, the value of volunteer labour to the charities sector was estimated as $12.8 billion in terms of their cost in wages to hire, if paid.[79]

Labour force engagement

Beyond their general economic contribution, the role of charities as employers is critical in the current economic climate. The charity sector employs 1.31 million people – or 1 in 10 workers in Australia.[80]

Again, mapping the employment share of the charities sector as a whole against Australia's largest employing industries, as shown in Figure 13, demonstrates the scale of its contribution. The charity sector employs around the same number of people as our second-largest employing industry – retail trade (10.0% of people employed). It employs more people than the construction (9.2%), professional, scientific and technical services (8.6%) and manufacturing (7.2%) industries. Charities employ five times as many people as the mining (2%) industry.[81]

Figure 13: People employed in the charity sector compared to Australia's largest employing industries, as count of people employed and proportion of people employed. [82]



Even looking at the largest employing industries shows the importance of charities as employers. Health care and social assistance is the largest industry in Australia by share of people employed (13.3%), and education and training is the fourth largest (8.1%). Many of these employees will be employed by a charity.

[77] Deloitte Access Economics (2017) *Economic contribution of the Australian charity sector*.
[78] ACNC (2020) *Australian Charities Report 2018.*
[79] Deloitte Access Economics (2017) *Economic contribution of the Australian charity sector*.
[80] ACNC (2020) *Australian Charities Report 2018*.
[81] The mining industry employs around 245,000 people, or 1.9% of all employed persons.
[82] Industry data is 4-quarter average ending February 2019, from Vandenbroek, P. (2019) Snapshot of employment by industry, 2019 *FlagPost Blog*, 10 April 2019, Parliamentary Library of Australia. Chart shows all industries employing more than 6% of the workforce. Charity sector data is AIS 2018, from ACNC (2020) *Australian Charities Report 2018.*

Emerging evidence suggests that women have been disproportionately affected by the current crisis across many dimensions, including employment.[83] This impact could be even worse if charities are forced to shed workers. Looking at the ten largest employing industries in Australia (Table 4), the two that employ a much larger share of women are both sectors in which charities are large employers. 22.2% of all employed women work in health care and social assistance, compared to only 5.4% of employed men. Education and training employs 12.4% of all employed women, compared to 4.3% of all employed men. In contrast, the three sectors with a disproportionately large share of male workers – construction; manufacturing; and transport, postal and warehousing – do not have many charity sector employees.

Table 4: Australia's ten largest employing industries, by sex [84]

Industry	% of all men employed	% of all women employed	% of all people employed
Health Care and Social Assistance	5.4	22.2	13.3
Retail Trade	8.4	11.9	10.0
Construction	15.3	2.3	9.2
Professional, Scientific and Technical Services	9.2	7.9	8.6
Education and Training	4.3	12.4	8.1
Manufacturing	9.8	4.3	7.2
Accommodation and Food Services	6.2	8.1	7.1
Public Administration and Safety	6.1	6.9	6.5
Transport, Postal and Warehousing	7.6	2.3	5.1
Other Services	4	3.8	3.9
Other industries not listed	23.7	17.9	21
Total	**100**	**100**	**100**

Key:	Industries that disproportionately employ men	Industries that disproportionately employ women

Charities are also major employers in many areas where we expect growth in service demand in coming years, such as aged care, disability services, education and health. As Table 5 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. Growing labour market demand in these sectors could be a major force for job creation for those who need it most, if charities are thriving.

[83] See, for example, Riberio, C. (2020) ''Pink collar recession': how the Covid-19 crisis could set back a generation of women' *The Guardian,* 24 May 2020; and Wright, S. & Duke, J. (2020) 'COVID-19 to cost Australia $170 billion and women will bear the brunt' *Sydney Morning Herald,* 25 June 2020.
[84] SVA & CSI analysis of Vandenbroek, P. (2019) Snapshot of employment by industry, 2019 *FlagPost Blog*, 10 April 2019, Parliamentary Library of Australia. Highlighted industries are those with a greater than 5 percentage point difference between their share of male employment and share of female employment. Data is 4-quarter average ending February 2019.

Table 5: Industries projected to add the largest number of jobs by May 2023 [85]

Industry	Projected % employment change (5 years from Nov 2018)	Projected total employment (May 2023) '000	Projected new employment (May 2023) '000
Health Care and Social Assistance	14.9	1,936.2	251.1
Construction	10.0	1,283.6	116.7
Education and Training	11.2	1,151.4	116.0
Professional, Scientific and Technical Services	10.2	1,192.5	110.4
Accommodation and Food Services	9.1	982.0	81.9
Retail Trade	3.7	1,319.4	47.1
Public Administration and Safety	5.0	880.4	41.9

The cost of unresolved social issues

The increase in demand for services and lack of capacity of charities to answer demand will further increase the financial stress for governments.

The risk that so many charities either decrease, stop services or fully close their doors begs the question, at what cost? The costs of social dislocation and not intervening early are already staggering.

Australia spends $15.2 billion each year because children and young people experience serious issues that require crisis services.[86] This figure includes annual costs of late intervention in Australia of $5.9 billion for child protection, $2.7 billion for youth crime, $2 billion for youth unemployment, $1.5 billion for youth and adult justice, $1.4 billion for youth homelessness, $1.3 billion for mental health, $1.1 billion for physical health, $0.3 billion family violence. The average person who is experiencing homelessness costs the government $25,615 per year, totalling to almost $3bn per year (based on 116,000 people experiencing homelessness on census night in 2016).[87] Mental health services already cost Australia $9.9 billion a year.[88] And poor educational performance and educational inequity directly affects long-term GDP growth. The fall in school performance in the 2009-2015 period in Australia was estimated to have cost us $118.6 billion[89], of which $20.3 billion was due to the increase in inequality (students in the bottom fall more than those at the top).

Add to these costs the social dislocation because of the implications of COVID-19. A recent study using Household, Income and Labour Dynamics in Australia (HILDA) found that approximately 3.5 million Australians (or 28% of all workers) are employed in hard-hit industries such as store-based retail, tertiary education, mechanics and motor vehicle retailing, and accommodation. Additionally, 17% of people aged 15-66 live in a household in which the main earner works in one of these industries. Women are also more affected, representing 53% of people working in primarily affected industries. Young people, people who rent, live in poverty, experience financial stress, or experiencing

[85] SVA & CSI analysis of Australian Government (2019) *Australian Jobs: Jobs by Industry* Department of Education, Skills and Employment. Table shows all industries projected to add more than 40,000 new jobs between Nov 2018 and May 2023.
[86] Teager, W., Fox, S. & Stafford, N. (2019) *How Australia can invest early and return more: A new look at the $15b cost and opportunity*. Early Intervention Foundation, The Front Project and CoLab at the Telethon Kids Institute.
[87] Stayner, G. (2017) 'Cost of homelessness: Governments will save money by spending on accommodation services, study finds' *ABC News Online*, 16 March 2017.
[88] Australian Institute of Health and Welfare (2020) *Mental health services in Australia.*
[89] Hetherington, D. (2018) *What price the gap? Education and inequality in Australia*. Public Education Foundation.

mental ill-health are more likely to work in these industries and be affected.[90] These individuals are likely to turn to charities for support. Indeed, demand for charity services has increased dramatically since March 2020.[91]

The government is already incurring large costs of unresolved social issues and these costs are on the rise. Since before COVID-19 charities were struggling to meet the needs across communities. There is an opportunity to ensure charities are critical in rebuilding Australia's economy and society with a dual purpose of playing an important role in the economic rebuild and the social infrastructure and supports the country needs to survive and thrive.

[90] Wilkins, R (2020) *Who's hit the hardest by the economic effects of COVID-19?* Melbourne Institute Research Insight: 10/20, May 2020. https://melbourneinstitute.unimelb.edu.au/__data/assets/pdf_file/0006/3387039/ri2020n10.pdf
[91] Our Community (2020) *COVID-19 Community Sector Impact Survey;* Infoxchange (2020) *How COVID-19 is affecting Ask Izzy usage;* ACOSS (2020) Unpublished survey data.

Implications

Even if the health crisis recedes in coming months, the Australian economy will take a long time to return to its previous position.[92] The impact on individuals who have lost jobs, and on their families and communities, will be devastating and has the potential to cause long-term scarring.[93] A thriving charitable sector is essential to our recovery from the COVID-19 crisis. It will help improve the economic productivity of the country as well as the wellbeing of communities and individuals.

We are pleased that the Commonwealth Government recognised that the JobKeeper wage subsidy needs to be a 'ramp' not a 'cliff' following its initially scheduled end in September 2020. The extension announced in July 2020 will help many people stay attached to their employer, reducing demand on charities for support. It will also directly support many charities to remain viable and keep their staff. It buys everyone some time to plan the next stage of transformation.

But the analysis in this report shows that JobKeeper alone will not be enough to ensure the viability of the charity sector – in too many cases it is only delaying the inevitable. Now is the time to undertake the structural reform that the charity sector needs to thrive. If we don't, we're missing a major opportunity to maintain and create employment in fast-growing sectors of the economy.

Charities are a major force in the Australia economy. Their total economic contribution is equivalent to 8.5% of GDP.[94] They employ one in ten of the Australian workforce – on the same scale as retail trade (10.0%) and construction (9.2%). The type of jobs that charities offer are 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. These sectors also disproportionately employ women, who as a cohort have been hit hard by the crisis. In aggregate, charities spend 55% of their expenses on employee expenses,[95] so support for charities translates very directly into money in the pockets of workers, which will be spent in a recovering economy.

Charities are responsible for delivering many essential services on behalf of Commonwealth, State and Territory governments. People and communities rely on these services, which would be compromised if charities are no longer viable. Charities are also a critical source of support for vulnerable members of our community, and we are already seeing larger numbers of people requiring such support as a result of the crisis. The demand for support is likely to remain high while the economy is recovering.

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[92] See, for example, Reserve Bank Governor Phillip Lowe's testimony in Commonwealth of Australia (2020) *Senate Select Committee on COVID-19: official Hansard* 28 May 2020; Coates, B. et. al. (2020). *Shutdown: estimating the COVID-19 employment shock.* Grattan Institute.

[93] De Fontenay, C., Lampe, B., Nugent, J., & Jomini, P. (2020) *Climbing the jobs ladder slower: Young people in a weak labour market.* Productivity Commission Staff Working Paper, July 2020; Frydenberg, J. & Cormann, M. (2020) *Economic and Fiscal Update - July 2020.*

[94] Deloitte Access Economics (2017) *Economic contribution of the Australian charity sector*. This comprises direct value add (equivalent of 4.8% of Australia's GVA) and indirect value add of the charity sector. Analysis of 2014-15 data.

[95] ACNC (2020) *Australian Charities Report 2018.* While directly comparable figures are not available for other industry sectors, the ABS reports that the average labour income share of key market sector industries is 57%; of the largest industries, average labour income share of financial services at 33%, mining is 23% and construction is 70%. ABS (2018) *5260.0.55.002 - Estimates of Industry Multifactor Productivity, 2016-17: Trends in the labour income share in Australia.*

Because of the forces described in this report, charities were already in a financially vulnerable situation before the crisis, operating on thin margins that were getting thinner.[96] Since the beginning of the crisis, many charities have suffered losses of income and increased demand for services.[97]

Many charities are drawing on impressive innovation and creativity to transform themselves in the face of changed circumstances. But with their limited reserves, we cannot expect them to do this alone, or to do it indefinitely. They need stronger funding models that will allow them to sustainably deliver their purpose, or a significant number of charities will be forced to close their doors. As a society, we cannot afford for charities to be focused inward on their own survival – we need them as a partner in recovery.

If JobKeeper ends without investment in the long-term viability of charities, the sector will face a situation much like the Crisis scenario outlined above, where the majority of charities are in operating deficit with limited assets to draw on. The job losses that would result as charities either cut costs to survive, or shut down altogether, would be in the tens of thousands. Comprehensive reform is required to prevent this from happening.

This is not a problem that will resolve itself quickly. The economy will not be back to normal any time soon, and nor will the financial position of charities. Even if the health crisis recedes relatively soon, it is plausible that we will see long-lasting economic effects, including structural changes in the economy.[98] The experience of previous recessions suggests that unemployment rates take much longer to fall than they do to rise, and that recessions have highly persistent effects on economic growth over the long term.[99] We also know that support for the not-for-profit sector does not rebound for some time even after the broader economy has improved.[100]

Even before the COVID-19 crisis, the charity sector was working with an operating model that was on the brink. It has been constrained by rising costs, increased demand, a lack of financial flexibility, and chronic underfunding of services. Charities have been innovative and efficient, but financial pressures and community expectations have limited their ability to invest in the organisational capacity necessary for a resilient response if their own organisation is in crisis. We have the chance to reverse this, and to see the charity sector become a source of employment growth rather than job losses.

Charities face unique constraints, but also present unique opportunities. They are not the same as for-profit businesses and should not be treated as such.

We all need Australia's charities to make it through to the other side of this crisis in a financially viable position, and in the long run to be more financially sustainable than they came into it. Our economy and our communities depend on it. Governments, philanthropists and charities need to work in partnership to ensure that this happens.

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[96] SVA & CSI (2020) *Will Australia's charities be casualties or partners in recovery after COVID-19? A financial health check*. Social Ventures Australia.
[97] Our Community (2020) *COVID-19 Community Sector Impact Survey;* Infoxchange (2020) *How COVID-19 is affecting Ask Izzy usage;* ACOSS (2020) Unpublished survey data.
[98] Reserve Bank of Australia (2020) *Statement on monetary policy – May 2020.*
[99] Daley, J., et. al. (2020). *The Recovery Book: What Australian governments should do now.* Grattan Institute.
[100] See PriceWaterhouseCoopers, Fundraising Institute Australia and the Centre for Social Impact (2009) *Managing in a downturn: the impact of economic downturn on not-for-profit organisations;* The Centre for Corporate Public Affairs (2009) *Impact of the economic downturn on corporate community investment.*

Recommendations

To combat the forces that pose a threat to charity viability, and seize the opportunity presented by the significant economic contribution of the charity sector, we recommend an integrated package of six reforms under three directions.

Ensure financial viability of charities so they can continue their contribution

- **Monitor the impact of the JobKeeper ramp-down**, and be prepared to extend and/or alter the policy settings if needed to provide ongoing support for charities, and minimise negative effects on the broader Australian community. Charities, along with other affected sectors, need enough time to either recover their lost revenue, and/or to develop new operating models that are better suited to the new environment.
- **Maintain and, where needed, increase funding for government contracted services delivered by charities**. Service funding for charities should reflect the true cost of delivering services for impact and meeting increased service demand, particularly given the sensitivity of the sector to changes in government funding. Funding should take into account changes to charity cost structures, including compliance, regulation and Fair Work Decisions on wage entitlements that affect service delivery charities. It should be sufficiently flexible to enable charities to respond to changing community needs without being constrained by arbitrary funding restrictions.
- **Make fundraising and philanthropy simpler to encourage increased giving.** Creating nationally consistent fundraising regulations would reduce the red tape burden on charities seeking to fundraise in a changed environment. There are also opportunities to provide better incentives for philanthropy to support the charity sector.

Build capability to improve impact

- **Create a Charities Transformation Fund to transition organisations to the 'new normal'.** 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 – such as the ability to work and deliver services online, develop a new business strategy, invest in staff capability, bring back volunteers, or support mergers of multiple charities. Setting up a one-off, time limited, Charities Transformation Fund could help aid this transition without requiring ongoing government outlays. Charities could apply for support as a mixture of funding and capability building support.
- **Support further research to better understand how to build back the charities sector so that they are funded for impact.** Understanding the financial viability and business models of charities and how this might be reshaped in the future to ensure charities don't just survive but are able to deliver the public good purpose for which they exist. There is also an opportunity to invest in systems to enable charities to measure outcomes more effectively, which will help governments, philanthropists and charities prioritise more impactful approaches.

Decrease demand for charity crisis services

- **Retain JobSeeker and other payments at a higher level** (do not revert to previous Newstart amounts) to mitigate the increase in service demand on charities while also stimulating the broader economy. While the extension of the Coronavirus Supplement until December 2020 is welcome, the lower rate represents a real drop in incomes for the people who are unemployed and the short timeframe increases uncertainty and anxiety for those receiving the payment. A higher rate of payment must be made permanent. Individuals on low incomes are more likely to spend additional income and hence reinvest in the economy rather than save the money. Immediate financial support has also been identified as the most pressing need for individuals approaching charities; the previous Newstart payment was inadequate to meet basic living costs.

Appendix: Methodology

Unless otherwise noted, we have followed the approach used in our June 2020 report *Will charities be COVID-19 casualties or partners in recovery: A financial health check*.

As with the previous report, this analysis uses data from charities' 2018 Annual Information Statements (AIS), as published on the Australian Charities and Not-for-profits Commission (ACNC) website. This is 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.

The primary purpose of this new analysis is to model the impact of the revised JobKeeper arrangements announced by the Commonwealth Government in July 2020. The government announced that the JobKeeper wage subsidy would continue beyond September, but with a number of changes. Organisations will have to re-test their eligibility for the payment, the per-employee payment rate will drop, and there will be different payment rates for full-time and part-time employees. The thresholds for eligibility remain the same – ACNC-registered charities must report a 15% turnover decline over the relevant period, and can choose to exclude government income from their turnover calculation. The new policy parameters are summarised in Table 1 on page 13.

Our analysis is based on charities' 2018 reported data and our projections of their financial position over the 18-month period from the start of the crisis (i.e. from March 2020 to September 2021.) We have selected that timeframe (referred to as the 'projection period') because it provides an indication of what may happen after the currently scheduled end of JobKeeper in March 2021.

As we have used the same dataset as the previous report, the first stages outlined in the previous report methodology (cleaning the data, defining the cohort for analysis, reporting measures, and estimating missing data) also apply to this report.

1. Scenarios

To model the impact of the crisis and response on charities, we developed four scenarios across four phases:

Phase	Timeframe	Modelled drop in turnover for Crisis and both JobKeeper scenarios	JobKeeper payments in Original JobKeeper scenario	JobKeeper payments in Revised JobKeeper scenario
Phase 1	Mar-Sept 2020	20%	Yes	Yes
Phase 2	Oct-Dec 2020	16%	No	Yes
Phase 3	Jan-Mar 2021	12%	No	Yes
Phase 4	April-Sept 2021	10%	No	No

1.1. Baseline

This scenario uses reported 2018 data, with data cleaned and net current assets adjusted as per the previous report. While this data will not perfectly represent the situation of charities immediately pre-crisis, it is the most recent available. Although some individual charities may have had their financial situation improve or worsen since then, we have not identified any trends that would put the sector as a whole in a materially different position.

1.2. Crisis

To simulate the impact of the current economic crisis, we began with a Baseline scenario, and reduced each organisation's income by the amount shown in the table above for each phase of the projection period.

We have modelled a 20% income drop from all sources for the first six months of the crisis. It is too early to precisely determine the scale of the income drop that charities are experiencing, and it will vary across types and sizes of charities. However, the 20% estimation is in line with available survey evidence detailed in the report, and with the Commonwealth Government's threshold for JobKeeper eligibility for charities at 15% reduction in turnover.

In our previous report, we maintained the 20% revenue drop for the entire projection period. In this report, to reflect the expectation that as social distancing recedes the economic situation will gradually improve (as is implicit in government policy announcements), we have modelled progressively smaller income drops over the following 12 months (16% drop from baseline for October-December 2020, 12% for January-March 2021, and 10% for April-September 2021).

We modelled a uniform 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 income changes 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.

1.3. Original JobKeeper

To simulate the impact of the original JobKeeper wage subsidy announced in March 2020 (a flat per-employee payment for six months), we reduced each organisation's 2018 income as in the Crisis scenario. We then calculated a JobKeeper payment based on their estimated number of eligible employees and their usual wages bill, and added this to their income until September 2020. No JobKeeper payments were applied after September 2020 in this scenario.

1.4. Revised JobKeeper

To simulate the impact of the revised JobKeeper wage subsidy (a ramped-down per employee payment for 12 months) during the current economic crisis, we reduced each organisation's income as in the Crisis scenario. We then calculated a JobKeeper payment based on their estimated number of eligible employees, applicable payment rates, and their usual wages bill, and added this to their income until March 2021.

2. JobKeeper eligibility

Charities that have experienced a drop of 15% either in their total income, or in their non-government revenue/income, are eligible for JobKeeper. Given the income drop assumptions in our Crisis scenario, and limiting our analysis to organisations who have paid staff, all would meet this requirement. They would remain eligible over the entire period of JobKeeper payments (to March 2021) – the eligibility test for payments in January to March 2021 is the income drop in the three quarters to December 2020. Our modelled income drops keep charities above the threshold for that full period.

The exceptions are schools and universities. Even though universities and non-government schools are charities, the Commonwealth Government decided that they must show a 30% turnover drop (the same rule as non-charity not-for-profits and for-profit businesses with turnover under $1 billion), and universities face additional eligibility conditions.[101]

To accommodate this, we did not apply the JobKeeper subsidy to schools and universities in our dataset. We identified and excluded universities manually. For schools, we excluded charities who listed their main activity as 'Primary and Secondary Education' – a review of the organisations in this category who met our initial size and employment criteria showed that the vast majority were non-government schools.

From 20 July, the Government has also excluded child care providers from JobKeeper.[102] It was not feasible to remove child care providers from the data set, so child care providers who are charities remain in the analysis.

Outside schools and universities, not all charity employees will receive JobKeeper even if their organisation hits the turnover threshold. This may be because:

- The charity chooses not to participate in JobKeeper. Employers must have sufficient cashflow to pay all their eligible employees the full JobKeeper amount per fortnight (i.e. $1,500 per fortnight for the first six months) and wait to be reimbursed by government. For organisations with large numbers of part-time and casual staff, as is the case in many charities (only 37% of employees of charities are full-time), this may be prohibitive. There is also some reporting that the application process may be challenging for small organisations to navigate.[103]
- The individual is not eligible. Reasons for this may include:
    - They are a casual employed for less than 12 months. 27% of charity employees are casuals, and in some charity sub-sectors (e.g. the arts) short-term contracts are the norm
    - They have multiple employers. JobKeeper can only be claimed once per person, so if a person has two jobs, one employer will not be able to receive JobKeeper for them. Given the number of part-time and casual employees in the charity workforce, we expect this would exclude some people
    - They are on a temporary work visa. People with these visas are an important part of the workforce for some sub-sectors that are also large employers e.g. health, aged care, disability services

In our initial model, and in the absence of any data on take-up, we applied JobKeeper to 80% of the workforce outside schools and universities to approximate the effect of these exclusions.

In late May 2020, the Commonwealth Government announced that the take-up rate of JobKeeper for Phase 1 was significantly lower than anticipated, and that it would apply to many fewer workers than previously estimated.[104] This has been backed by other recent data.[105] While at the time of writing we do not have access to accurate data on the total number of charities who have applied for or received

[101] See Australian Government (2020) *JobKeeper payment: eligible employers*. Australian Tax Office.
[102] See Australian Government (2020) *JobKeeper rule changes for child care providers*. Australian Tax Office.
[103] See Ziffer, D. (2020) 'JobKeeper payments start next week, but hundreds of thousands of businesses hit by coronavirus aren't signed up' *ABC News* 29 April 2020.
[104] Australian Government (2020) *JobKeeper update*. Treasury and Australian Tax Office joint media release 22 May 2020.
[105] Australian Government (2020) *The JobKeeper Payment: Three-month review*. The Treasury, July 2020.

JobKeeper payments, the available data we do have suggests that 80% was an overestimate at both an individual and organisational level.[106]

It is not feasible within the scope of our model to apply JobKeeper to only some organisations, as we do not have any insight into which types or sizes of charities may or may not be taking up JobKeeper. Given the different circumstances faced by different charities, random application would not be a robust approach. We have therefore continued to apply JobKeeper to all charities in the dataset (outside schools and universities), in all phases of both the original and revised JobKeeper scenarios.

To offset the effect of this, we have only applied JobKeeper payments to 60% of the workforce within each charity (compared to 80% in our previous model) in all phases of both the original and revised JobKeeper scenarios. We tested the effect of changing this assumption. The effect is straightforward – a decrease in JobKeeper take-up results in a lower proportion of organisations being temporarily sustained by JobKeeper.

The way these two assumptions (organisational-level application and individual-level application) interact means that, while neither is a fully accurate reflection of the 'real world', they would be expected to offset each other directionally at a sector-wide level:

- Organisations who in practice don't participate in JobKeeper will look *better* in the model than in practice – they will get 60% of their potential JobKeeper revenue in the model, vs 0% in practice. This may be partially offset if their reason for not participating is that they have not had a revenue drop – this will make them look *worse* in the model because we will be underestimating their revenue.
- Organisations who in practice do participate in JobKeeper will look *worse* in the model than in real life – they will get 60% of their potential JobKeeper revenue in the model, vs closer to 100% (depending on individual eligibility) in practice. This may be partially offset if they have had a very large revenue drop in the real world – this will make them look *better* in the model because we will be overestimating their revenue.

2.1. Calculating JobKeeper payments

Organisations who enrol in the JobKeeper program must provide the full payment amount to all their eligible employees. For the first phase (March-September 2020), the same payment applied to all eligible employees regardless of their usual hours or wages. From October 2020, the program has differing payment rates for part-time and full-time workers, based on whether they worked more or less than 20 hours per week in February 2020. Payments must still be made in full to all eligible employees in a participating organisation, regardless of their usual wages.

We have estimated that 75% of the workforce in our analysis will be eligible for the full-time rate, and 25% for the part-time rate, based on the following:

- The ACNC dataset shows that 38% of the charity sector workforce is full-time, and the remaining 62% are part-time or casual
- ABS labour force data shows that 53% of part-time workers (whether on part-time or casual contracts) worked more than 20 hours in February 2020[107]
- This suggests that approximately 71% of the sector workforce would be eligible for the full-time rate. Because casual and part-time workers are more likely to be excluded from JobKeeper

[106] Australian Government (2020) *Answers to Questions on Notice No. 86,* Senate Select Committee on COVID-19: Public Hearing 7 May 2020, Question 5, Response from Australian Tax Office; Williams, W. (2020) ''Flexibility and certainty' – what the charity sector needs from government,' *ProBono News* 16 July 2020.
[107] ABS (2020) *6291.0.55.003 Labour Force, Australia, Detailed, Quarterly, May 2020*

altogether by eligibility conditions outlined above (though we do not know how many), we have raised this to 75%.

We calculated the JobKeeper payment applying to an organisation each month as follows:

- Multiply the number of employees by 0.6 (to apply the 60% take-up assumption)
- Multiply this number by the amount each employee would receive, based on the payment rate applicable for that month weighted by the share of workers on the part-time and full-time rate
- If this number was lower than 60% of their reported employee expenses for the period, we applied it to the organisation's income
- If this number was higher than 60% of their reported employees expenses for the period, we used the reported employee expenses figure instead, to account for the fact that employers must pass the full payment amount onto employees.

While this does not completely account for variations in wages within an organisation, it is a reasonable approximation of impact.

3. Conducting analysis

3.1. Risk categories

In our previous report, we categorised organisations based on a static analysis of the number of months expenses that could be covered by net current assets, based on their 2018 reported data plus the relevant changes for each scenario.

Because in this model the situation of charities changes on a quarterly basis (as revenue drops and JobKeeper payments vary), we have instead modelled the cumulative impact of the changes over time (calculating the charity's position at the end of each month and then feeding it into the next month), and assessed the position of each organisation at the end of the 18-month projection period.

Based on this, we classified each charity into one of four categories:

- **Surviving** - the organisation has an operating surplus at the end of the projection period in September 2021
- **Vulnerable** - the organisation has an operating deficit at the end of the projection period in September 2021. They have enough net current assets to cover their projected deficits for the full projection period of March 2020 to September 2021
- **Viability risk** - the organisation has an operating deficit at the end of the projection period in September 2021. They have enough net current assets to cover their projected deficits for at least 6 months (until September 2020) but not enough to cover them for the full 18 months until September 2021
- **High viability risk** - The organisation has an operating deficit at the end of the projection period in September 2021. They do not have enough net current assets to cover their reported deficits for six months from the start of the crisis. Without a change in circumstances or behaviour, such an organisation would be likely to become unviable by September 2020.

Category	Operating balance in September 2021	Sufficient net current assets to cover deficits until September 2020	Sufficient net current assets to cover deficits until September 2021
Surviving	Surplus	Not applicable	Not applicable
Vulnerable	Deficit	Yes	Yes
Viability risk	Deficit	Yes	No
High viability risk	Deficit	No	No

Because we have adjusted the modelled revenue drop and JobKeeper take-up rate, and are using different categories across a longer timeframe to assess the financial health of charities, the modelled findings in this report differ somewhat from the findings in our previous report, even for the Crisis and Original JobKeeper scenarios.

3.2. Survival curve

To assess impact over time, we look at how many 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 charities (n=573) 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 14,792 charities.

4. 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 Viability Risk or High Viability Risk is reported as an indication of the number of jobs that could be lost in each scenario across different timeframes.

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

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