

CHAPTER 7: THE CONTEMPORARY SOCIAL AND ECONOMIC ENVIRONMENT

Many submissions to the Inquiry have pointed out that the current definitions and concepts relating to charitable and related organisations were developed for a very different social and economic environment to that which now prevails. According to The Benevolent Society:

They belong to a period where organisations were more readily defined and fitted into one rather limited 'category'; a time where the lines between different organisations were more absolute; and where the responsibility for 'the needy' was largely seen as the responsibility of 'welfare' organisations.

Since the enactment of the Statute of Elizabeth in 1601, there have been many changes in the way private charities have operated and in their relationship with the state. Chesterman argues that the emergence of the welfare state in the late 19th and early 20th centuries, and the subsequent significant growth in state funded welfare provision, had certain impacts on the operation of private philanthropic (charitable) organisations in England.

- Philanthropy shifted to new areas of activity, sought to establish new modes of collaboration with state welfare agencies and adopted a more prominent role as critic of inadequacies in the state welfare system.
- Philanthropic organisations became more consciously professional. In particular, they relied less on voluntary staff and established their own unofficial institutions for coordinating philanthropic activity.
- The composition of the income of philanthropic organisations altered in many respects. In particular, donations by private individuals became comparatively less significant, while grants and subsidies from central and local government and gifts by private enterprise (contributed directly or through the medium of large-scale foundations) made up an increasingly higher proportion.¹

These factors are also relevant to the charitable and related sector in Australia, and are reflected in submissions made to the Inquiry. The following discussion outlines the predominant features of the contemporary social and economic

1 Chesterman, M 1979, *Charities, Trusts and Social Welfare*, Weidenfeld and Nicolson, London, p 82.

environment in which the sector operates, and draws out the ways in which this has relevance to the development of definitional frameworks covering the sector.

Greater emphasis on prevention, early intervention and innovative approaches

There has been a strong trend over recent decades towards supporting prevention and early intervention strategies, rather than focusing attention on dealing with the consequences of poverty, ill health and other social problems.

As many submissions noted, prevention is better than cure, and the most effective means of addressing many of the problem areas being dealt with by the charitable and related sector is to focus on the causes rather than the symptoms of the problem. Many have also argued that the 'traditional' concept of charity can perpetuate a sense of dependency, and that it is better for people to take greater responsibility for helping to resolve their own problems and to re-engage with work and the community. The emergence of many community-based organisations with a 'self-help' focus is evidence of this change of approach.

A large number of government programs now provide funding for not-for-profit organisations to deliver prevention and early intervention initiatives at the community level, for example in family relationship support, youth homelessness prevention, and intervention strategies for children at risk. Generally these programs require the adoption of innovative and flexible approaches to dealing with problems.

Philanthropy Australia has noted that privately endowed philanthropic foundations have the flexibility to 'run ahead of popular public opinion', and are active in promoting innovative thinking about complex issues and creating and promoting social change. They argue, however, that current definitions are impeding their capacity for innovation.

Prevention and early intervention approaches also embrace the need for research and evaluation as critical elements. Some charitable and related organisations are very actively involved in the conduct of research activities aimed at enhancing the evidence base for the future development of policy. The Brotherhood of St Laurence noted that with a redefinition of the ethos of service delivery away from dependency and towards empowerment, the sector is finding new ways to deliver services in the 'empowerment' model. In this respect, the Brotherhood is finding itself increasingly involved in social action and research activities where the focus is on advocacy and empowerment.

The increasing emphasis on prevention and early intervention strategies is relevant to the question of whether to maintain the current requirement that public benevolent institutions (PBIs) must provide direct assistance. It is also relevant to the question of how organisations with a research or advocacy purpose and those with a focus on self-help approaches are defined.

Relationship with government

With the significant growth in state welfare in the 20th century, the charitable purposes set out in the Preamble to the Statute of Elizabeth are now largely accepted as a responsibility of the state, with governments contributing significant outlays in the areas of health, education, social welfare, provision of emergency services and support for beneficial community purposes.

For example, out of \$10.9 billion spent on 'welfare services' in Australia in 1997-98, some 64 percent came from government sources.² In the same year, governments contributed 69 percent of the \$47 billion spent on health services in Australia.³ In 1998-99, the Commonwealth and State governments contributed 86 percent of the \$19.6 billion of capital and recurrent expenditure on school education in Australia.⁴

While governments have assumed a predominant funding responsibility for the provision of these services, the role of the non-government sector in the 'on the ground' delivery of such services remains significant, and is growing. The relationship between government funders of services and non-government providers of services is a key factor in defining the environment in which the charitable and related sector currently operates.

Over recent decades a number of developments have contributed to shaping the changing relationship between government and the sector.

- Governments have shown a preference for delivering new services and assistance through community-based organisations, rather than by government agencies. Community-based organisations are considered to have a good understanding of individual and community needs, and to be

2 Australian Institute of Health and Welfare 1999, *Australia's Welfare 1999: Services and Assistance*, AIHW, Canberra, p 13, Table 2.3. 'Welfare services' covered in these data includes services for families and children, the aged, people with a disability, and other services such as for homeless people, migrants and prisoners.

3 Australian Institute of Health and Welfare 2000, *Australia's Health 2000*, AIHW, Canberra, p 233.

4 Unpublished data provided by the Department of Education, Training and Youth Affairs; drawn from 1998 and 1999 Non Government Schools Financial Questionnaire and National Schools Statistical Collection, 1999.

able to deliver services in a more flexible, economical, and 'user-friendly' manner than government. Examples include the provision of refuges for the homeless, and Work for the Dole projects.

- Governments have devolved to the non-government sector a range of functions previously undertaken by government agencies. The most significant recent example of this is the Commonwealth's transfer of the former Commonwealth Employment Service functions to non-government service providers under the Job Network arrangements.
- The provision of government funded services in many areas is being opened up to competition between the not-for-profit sector and for-profit enterprises. Examples include the provision of child care and aged care services, and the delivery of employment assistance under the Job Network arrangements.

Governments recognise that non-government service providers are typically more open to innovation, more responsive to individual needs and less encumbered by bureaucracy than government services; they are also more likely to be mission-driven and better at inspiring staff commitment... Governments have a key interest in maintaining a viable and robust non-government sector.

(ACROD)

Lyons notes that the relationship between not-for-profit organisations and government can be characterised by the form of funding relationship between them, and suggests it is possible to distinguish five different models of the way governments provide financial support for not-for-profit organisations.⁵ These are:

- The *government as philanthropist* model, under which governments bestow financial support upon a particular project or organisation, generally on the basis of little planning and with little formal reporting required. This is commonly known as grant-in-aid funding.
- The *submission* model, under which a government appropriates funds for a particular type of service or activity and invites organisations to submit proposals for grants to help them provide those services. Under this approach, the service provider organisation has a good deal of

⁵ Lyons, M 2001, *Third Sector: The contribution of nonprofit and cooperative enterprises in Australia*, Allen & Unwin, Sydney, pp 183-190.

independence in terms of where particular services will be located and how they will be delivered. The level of funding support is negotiated on a case-by-case basis, and accountability requirements are more demanding than in the philanthropist model.

- The *planning* model, under which governments determine in advance the type, level and location of services required — frequently on the basis of consultation with peak organisations — and invite organisations to express interest in providing the prescribed services. Frequently the level of funding provided to organisations is determined in large part using a funding formula based on defined units of output. This approach usually carries a requirement for comprehensive reporting back to the funding body, including data on clients that is designed to assist in future planning.
- The *quasi-voucher* model, under which governments fund service providers with a predetermined amount according to the circumstances (such as income or degree of disability) of their clients. This approach is commonly used to enable clients to make their own choices between service providers.
- The *competitive tendering* model, under which a government agency specifies the type, level and location of services it wishes to purchase, including the price it is prepared to pay, and invites organisations, usually both for-profit and not-for-profit, to tender for provision of the service. The relationship between the purchaser (government) and provider is then set out in the form of a commercial contract for services, awarded for a fixed period, and new expressions of interest are called for at the end of the contract period.⁶

Charitable and related organisations may still receive funding from governments under any of the above models, but the current pattern is that the planning model and competitive tendering approaches are most prominent. The overall relationship between government and the non-government sector regarding the provision of services can be characterised as a 'purchaser-provider' relationship, with government as the purchaser exercising a high degree of authority over the way in which the non-government provider organisation makes use of the funds provided.

Fundraising

Submissions to the Inquiry have highlighted that, irrespective of the level of government funding made available for the provision of services, there is a

6 See also House of Representatives Standing Committee on Family and Community Affairs June 1998, *What Price Competition? A Report on Competitive Tendering of Welfare Service Delivery*, p 11.

strong need for charitable and related organisations to raise additional funding to help them fulfil their tasks.

Many submissions attributed this, in part, to the continuing growth in demand for the types of services provided by the sector. While governments contribute significantly towards the funding of such services, it is recognised that this is not an open-ended commitment. Reflecting its role as a purchaser of services, governments generally direct their funding towards the delivery of specifically defined outputs and the achievement of desired outcomes for individuals, families and communities.

It is claimed that governments' funding policies are also aimed at minimising the extent of dependence by not-for-profit organisations on government funding. For example, ACROD has indicated that the expectation that it will become increasingly less reliant on government funding is explicitly written into its funding and service agreement with the Commonwealth.

A large number of submissions noted that the pressure to raise additional funds has led to a high level of competition for the 'charity dollar', and that this has raised concerns about some of the fundraising activities currently being employed. There is particular concern that the public image of charity, and public support for charities, may suffer. Although not directly related to its terms of reference, the Committee notes some concern within the sector about the need for stronger regulatory arrangements, and presents a more detailed consideration of these issues in Chapter 32.

There is a high degree of competition for funding from philanthropic trusts and foundations. Many submissions have noted that philanthropic bodies are constrained to distribute their funds only to other entities that have deductible gift recipient (DGR) status, and that current definitions, particularly those relating to PBIs, can be an impediment to the use of philanthropic funds, particularly for preventative purposes.

The charitable and related sector is encouraged to engage actively in raising considerable funds through its own efforts, either through fundraising or commercial activities. This factor is relevant in considering whether the nature and extent of an organisation's commercial activities should have a bearing on its charitable status.

Greater diversity

Another emerging phenomenon is that charitable and related organisations are becoming more diverse in the range of purposes and activities they pursue.

In large part this is an evolutionary trend as organisations within the sector broaden their mission in response to the changing needs of the community. It may also be attributable, in part, to the way in which governments make funding available. Governments typically structure their funding arrangements on the basis of specifically focused programs. In order to provide a range of services to meet the changing community needs it is common for organisations to seek funding under a variety of programs, often from different government agencies.

The trend towards increased diversity of purpose may also be attributable to strategic decisions taken by charitable and related organisations aimed at enhancing their financial viability and their capacity to deliver more effective services for individuals and communities.

As an example, the Active Foundation in Western Australia commenced in 1951 as a self-help group formed by parents to provide a range of services for intellectually disabled children. Since then, the organisation has broadened its coverage to include other forms of disability and other age groups, and now provides a wide range of services for adults and children, including accommodation, employment, family support, recreation and education.⁷

Liddell and Murphy note that having a diversity of mission — including service provision, education and advocacy — is an important element in the capacity of not-for-profit organisations to survive and prosper in the prevailing environment which is heavily reliant on government funding for services. They add that organisations which have a narrow mission, or are largely dependent on one funding source, can be vulnerable in this environment.⁸

A number of submissions noted that in terms of attracting various taxation concessions, the larger organisations with a range of purposes have an advantage over smaller single purpose organisations. They referred in particular to the fact that larger organisations are more likely to qualify as a PBI, and therefore attract deductible gift recipient status, by virtue of the fact that a major part of their activities is focused on delivering direct assistance to people in distress.

7 Further details are provided in Encel, S 1999, *Welfare Services and the Private Sector*, Committee for Economic Development of Australia.

8 Liddell, M and Murphy, J 1999, 'Voluntary or Involuntary? Non-government agencies in the contracting state', in *Social Policy for the 21st Century: Justice and Responsibility* (Proceedings of the National Social Policy conference, Sydney, July 1999), Volume 1, Social Policy Research Centre.

These factors are relevant to consideration of whether an organisation's charitable status should be determined on the basis of the range of activities it undertakes, or on the basis of the purposes it is pursuing.

A greater role in policy development

The charitable and related sector is recognised as having a role in providing information and advice to government to assist in formulating government policy initiatives and developing strategies for the implementation of programs.

The Commonwealth Government's promotion of the concept of a 'social coalition' is a strong manifestation of this role. Under the social coalition concept government, business, charities and other community groups work together — each contributing their own particular expertise and resources — to tackle more effectively the social problems that directly and indirectly affect all members of our society in one way or another.⁹

Representatives from the charitable and related sector are invited to join committees and task forces to review various areas of government policy and participate in consultative committees and advisory councils with an ongoing role in monitoring the delivery of a large number of programs. In these roles, the sector contributes on the basis of its direct experience with the delivery of services and the operation of the sector, as well as on the basis of research and evaluation studies undertaken by the sector.

The sector's role in policy development is frequently exercised by peak sector organisations, which are often funded by government agencies for the express purpose of informing government on issues of relevance to the sector and disseminating information from government to the sector. As the principal representatives of individuals and organisations in their particular sector, peak bodies generally see themselves as having a responsibility to advocate on behalf of their constituency, not only on an individual basis but also to press for systemic change where necessary. Advocacy and lobbying purposes of charities need to be considered against this background.

⁹ Prime Minister's address to the 'Australia Unlimited Roundtable', May 1999.

A more business-like approach

The Committee notes that a major consequence of the changing environmental factors impacting on the sector is the trend for charitable and related organisations to adopt a strong business-like approach to their administration.

This reflects a number of factors. Charitable and related organisations need to be able to deal effectively with the contractual nature of current funding relationships with government, to engage in competitive tendering processes to secure contracts, and to be able to report comprehensively on their performance. It is also seen as important that organisations can present themselves to the public as competent providers of services and managers of public funds and thus maintain public confidence in the value of the sector.

The Australian Caption Centre commented that:

Many charities have to deal directly with for-profit organisations as intermediaries, sponsors and supporters and they all expect the charity to be business-like and efficient. Organisations that do not model themselves on for-profit businesses are less likely to have the credibility and systems to deal with the market.

The Uniting Church in Australia National Assembly noted however that the adoption of business models and practice, largely as a result of government moves towards competitive tendering, has served to blur the boundaries around the nature and purpose of activities carried out by church and charitable organisations in the health and welfare sectors.

Many organisations highlighted the importance of operating in a business-like manner, but emphasised that this must not be confused with operating with a business purpose.

Charities as social enterprises

In an extension of the trend towards prevention and early intervention approaches, a number of submissions pointed to the emergence of 'social entrepreneurs' and 'social enterprises' as a factor which needs to be recognised in developing definitions to cover the sector.

The Smith Family indicated that it now defines itself as a national, independent, social enterprise. It describes 'social enterprise' as any private activity conducted in the public interest, organised with an entrepreneurial strategy, the main purpose of which is the attainment of certain social and economic goals, rather than the maximisation of profit. It outlines some of the

key elements of the social enterprise model as including: an emphasis on societal or population based change; a focus on preventative and capacity building interventions to address disadvantage; the need to devise holistic responses addressing the interrelated elements of disadvantage; and the development of strategic alliances with government, business and research bodies to achieve outcomes. The Smith Family claims that the social enterprise approach is necessary to bring about a number of key outcomes in contemporary society, such as combating social exclusion, promoting social cohesiveness and unlocking opportunities for constructive participation.

The Benevolent Society stated that ‘many of the old ways of doing things are no longer effective in addressing the increasingly complex and interconnected issues facing society’ and that innovation is the key to achieving effective change in the social sector. It noted that ‘social innovation requires social entrepreneurs — pattern changing thinkers — who have visionary leadership, creative energy and practical skills to bring innovation all the way through to implementation’. It added that some of the approaches being adopted under the social enterprise model, including innovative approaches to fundraising, do not fit comfortably within the traditional concepts and definitions of charity and that there is a need for broader definitions, rather than more restrictive ones, to enable these concepts to be embraced.

The promotion of closer partnership arrangements between business and community organisations under the ‘social coalition’ concept — such as the Prime Minister’s Community Business Partnership — and the formation of strategic alliances between organisations inside and outside charity within the social enterprise model, have implications for the development of a contemporary definitional framework. It is important that definitions serve to enable and not constrain the further development of these partnerships.

Agents of social capital and community capacity building

Winter provides a useful working definition of ‘social capital’ as being ‘social relations of mutual benefit, characterised by norms of trust and reciprocity’.¹⁰ Falk and Kilpatrick suggest that social capital can be defined as ‘the product of social interactions with the potential to contribute to the social, civic or economic wellbeing of a community-of-common-purpose’.¹¹

10 Winter, I (ed), 2000, *Social capital and public policy in Australia*; Australian Institute of Family Studies, Melbourne, p 29. Winter’s working definition draws on the views of well known analysts on the concept of social capital, namely Bourdieu, Coleman, and Putnam.

11 Falk, I and Kilpatrick, S 1999, *What is Social Capital? A study of interaction in a rural community*, CRLRA Discussion Paper D5/1999, University of Tasmania.

Charitable and related organisations are widely recognised by researchers and commentators as providing an environment which is conducive to the generation of social capital. The altruistic motivation behind the organisation and the role of volunteers, in particular, are seen as creating the energy, commitment and sense of community — all expressions of social capital — that are the essential means by which a charity gets its work done.

Charitable organisations have a strong community focus and as such have an important role to play in building social capital and promoting community self-reliance rather than dependency on government. This comes in many forms such as engaging with communities — including non English-speaking communities, encouraging donations and providing opportunities for volunteers.

(Aged and Community Services Australia)

Increasingly governments are recognising that a ‘one-size-fits-all’ approach is not appropriate in the resolution of many problems, and that it is essential for communities and community organisations to have a more direct involvement in devising solutions to their own problems. Thus a number of government funding initiatives are now being framed around the notion of facilitating ‘local solutions for local problems’. This approach is seen as having major benefits in terms of community capacity building, that is, helping communities to work together for the common good.

The time has certainly passed when local communities simply turn to outside assistance in times of trouble. We welcome calls for locals to assume greater responsibility for developing their own solutions, through an emphasis on community capacity building and development of social capital.

(Lumbu Indigenous Community Foundation)

The emergence of social capital and community capacity building as policy objectives behind a number of government initiatives has relevance for the Inquiry in terms of considering how the element of public benefit is satisfied. Public benefit can be perceived to exist in a range of intangible dimensions that had not previously been recognised. For example, studies have shown that

membership of a voluntary organisation has benefits in a number of areas such as increasing civic responsibility on the part of individuals.¹²

There is also the question of the extent to which initiatives that generate social capital may have a mutual benefit which sits alongside the broader public benefit. As noted in Winter's working definition, social capital implies mutual benefit but it is acknowledged that a wider community benefit is also generated. In this sense, the issues are similar to those associated with defining self-help groups, in which a personal benefit can be derived from acting for the good of others.

Conclusion

The Committee recognises that the contemporary social and economic environment in which charitable and related organisations operate has changed in a number of discernible ways over recent decades. Many of these changes have emerged through the adoption of various policy approaches by governments.

Some charities now undertake a wider range of activities and raise funds from many sources; they engage in commercial activities and conduct their operations in a business-like manner. At the same time, smaller community-based entities are established to deal with specific issues for a defined section of the community. Large and small entities engage closely with governments as the primary source of funding for their services, and have a role in developing and implementing public policy.

A number of issues need to be examined with a view to ensuring that definitions of charitable and related organisations are relevant to the environment in which they currently operate. These include:

- whether the activities of a charitable organisation should have a bearing on its charitable status and, in particular, whether the undertaking of commercial activities should affect charitable status;
- the continuing relevance of the requirement that PBIs must provide direct assistance;

¹² Lyons, M 'Non-profit organisations, social capital and social policy in Australia', in Winter (ed), pp 179-181.

- the extent to which charitable organisations are able to engage in advocacy and lobbying;
- the need to clarify the charitable status of organisations which utilise self-help approaches or have purposes with some element of mutual benefit; and
- the need to take account of the development of partnership relationships between government, business and the charitable and related sector.

The principles for defining charitable and related entities recommended by the Committee in this report are framed to enable the sector to operate effectively within the contemporary environment and are intended to be flexible enough to accommodate future changes in the environment.

