Submission to the Productivity Commission's Review of Philanthropy Draft Report

February 2024

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INTRODUCTION

The Smith Family welcomes the opportunity to provide a further submission to the Productivity Commission's Review of Philanthropy. As we identified in our initial submission to the Review, Australia is facing **increasing challenges and needs** across many dimensions of national wellbeing, including socially, economically, culturally and environmentally. It will take the **collective and enhanced efforts** of Governments, philanthropy, business, the not-for-profit sector and the wider community working together, to address this reality, now and into the future.

We note the considerable work to date of the Review, including the extensive consultations and data gathering processes which have been undertaken. These have provided new insights and a better understanding of philanthropy in Australia, in line with the Review's goal of 'understanding trends in philanthropic giving (and) the underlying drivers of these trends'.

Having better visibility of these trends, and how they may change over time, is a key input to achieving the Australian Government's broader goal of **'doubling philanthropic giving by 2030'**. Given the **ongoing need** to significantly grow philanthropy ***beyond*** the 2030 time horizon, which is only six years away, The Smith Family believes that the Review's recommendations need to both support the achievement of the 2030 goal *and* **ensure ongoing growth** in philanthropy beyond that timeframe.

While acknowledging the range of requests for further information and recommendations included in the draft report, and its particularly strong focus on reforming the DGR system, our **central concern** is whether what is currently proposed will support the achievement of both the 2030 goal and the longer-term need for significant ongoing growth in philanthropy. While the goals of greater fairness, simplicity and consistency in the DGR system are worthy, we are not convinced that they (alongside the other draft recommendations) will achieve the goal of doubling philanthropy. Our current assessment is that there is more that the Productivity Commission should recommend both to *grow* philanthropic giving and *maximise* the impact this giving makes, in line with the Government and the Inquiry's broad objectives.

OPPORTUNITIESTO LIFT GIVING IN AUSTRALIA

Superannuation

The funds that millions of Australians have in superannuation is unprecedented and this will only grow over time. It currently represents the second largest share of net household wealth for Australians aged 55 to 74.[1]

We note the objective of superannuation under the Superannuation (Objective) Bill 2023 (Cth) is 'to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way'. We also note data showing, that despite this objective, many Australians die with significant superannuation savings intact, with the Treasury's Retirement Income Review indicating this will grow in real terms to $130 billion by 2060. This highlights a very significant opportunity to increase philanthropic giving in Australia through **simplifying the transfer of unspent superannuation funds to a charity after an individual passes away**.

[1] *Charitable superannuation bequests: Making giving easy* (2023) Report prepared by Impact Economics and Policy for Philanthropy Australia

Given the above data and the size of the opportunity, The Smith Family strongly supports the **amendment of the laws on superannuation** to allow charities to be a **direct recipient** of a death benefit nomination. This change would **simplify current arrangements**, reduce the time and cost involved and likely significantly increase the quantum of funds flowing to charities from superannuation.

As part of the design and implementation of the proposed legislative amendment, we would urge that **consultations** with representatives of the superannuation industry, philanthropic and charitable organisations take place. Given the potential quantum of funds that could flow in the medium term, The Smith Family would **prioritise** these changes, in line with the Inquiry's broad objectives of increasing philanthropic giving.

Workplace Giving

Workplace Giving offers **multiple benefits** to employees, employers, charities, not-for-profits and the wider community. Relatively small percentage increases in employee participation, particularly when matched by employer contributions, can realise millions of dollars to address community needs. It is a **cost-effective** way to support charities, however currently its potential in Australia is **largely untapped**, despite the Australian Taxation Office introducing arrangements to simplify workplace giving in 2002. In 2020-21, only 207,000 employees participated in workplace giving in Australia, committing $53 million or just one percent of individual tax-deductible donations in that year.

Data from Workplace Giving Australia illustrates that having a **strong program** and enablement of workplace giving supports higher rates of participation, with rates of over 20 percent and up to 60 percent for organisations with these characteristics.[2] Thus there is benefit in including Workplace Giving as a priority in the proposed 'Campaign to promote giving' discussed below.

Consideration should also be given to removing potential barriers to easy adoption of Workplace Giving, including a shift to **opt-out for employees**, rather than the current opt-in arrangements. As with all proposed recommendations, communicating the rationale and benefits for such an approach will be essential, in order to ensure employees' confidence and trust.

Opportunity to donate some of an individual's tax return to charity

The Smith Family supports Philanthropy Australia's recommendation[3] that consideration be given to enabling Australians to **voluntarily choose** to return some or all of their **tax return** to a nominated charity. From a process perspective, this could simply involve a prompt appearing close to the completion of an individual's tax return which informs them of their estimated tax return and offering them the opportunity to provide some or all of their return to a nominated charity.

Clear communication around this change could be included as part of the proposed 'Campaign to promote giving' which is discussed further below. Ensuring that Australians were clear about the voluntary nature of such a decision would be paramount. We note with interest the research undertaken by Redbridge for Philanthropy Australia in late 2022[4] regarding this proposal, which showed **70 percent of Australians supported this proposed reform**, 21 percent were neutral or not sure, and only nine percent were opposed to it. Given the potential of this reform to generate significant funds and the support for it identified through the Redbridge research, we urge that it be included in the Inquiry's recommendations.

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[2] Workplace Giving Australia submission to the Productivity Commission Philanthropy Inquiry 2023
[3] Philanthropy Australia's submission to the Charity Blueprint process, November 2023
[4] Philanthropy Australia report November 2022 produced by Redbridge Group

Campaign to promote giving

The Smith Family notes the draft report's conclusion that "a public campaign, supported by government, could help broaden participation in giving but there is insufficient evidence to conclude that such an intervention would be effective or produce net benefits".

Australia has a **long history of public campaigns** in a range of areas, including but not limited to public health campaigns, which have sought to change the behaviour of individuals. These include around reducing the rates of smoking, the wearing of seatbelts and road safety more broadly, sun safe behaviour and child vaccinations. More recently there have been insights gained from behavioural economics which have been applied to a range of public policy issues. Alongside the **learnings** from such campaigns, are the lessons of many philanthropic and charitable organisations who are continually **trialling initiatives** – both large and small – to increase giving.

While noting the draft Report's assessment of 'insufficient evidence', The Smith Family would argue that there is much evidence to *build upon* in developing and implementing a campaign that would promote greater giving and there is merit in doing so. As with new program development generally where there is uncertainty regarding the outcome, such initiatives need to be well designed (as the Productivity Commission has recommended) and we would suggest take a '**try-test-learn'** approach, with ideally **rapid iterations** possible, along the lines The Smith Family (and others) pursue with diverse donor segments. **Evaluation** is a core part of a try-test-learn approach.

We believe there *is* merit in considering **Government funding** for such a campaign, given its potential to realise significantly more funding which would be applied to a range of community needs. Such a campaign should be designed and implemented in a highly **collaborative** way with the philanthropic and not-for-profit sectors. While there is significant **capability** within the sector to support such work, and the sector would undoubtedly do so, we would hold that there is a **funding and leadership role for Government** in this space. Relying only on the sector's resources – both financial and people – to develop and execute such a campaign, would necessitate the use of resources which would otherwise go to achieving the philanthropic **mission** of the sector.

ACCELERATING HARMONISATION

The Smith Family notes the Draft Report's acknowledgement of efforts regarding the harmonisation of fundraising rules across jurisdictions, including that "state and territory governments are developing implementation plans for reforms". As one of many national NFPs operating in more than one jurisdiction (we operate in all eight states/territories) we have long advocated for such reform given the current **lack of harmonisation** impacts on the **efficiency** of organisations – both large and small – to fundraise, expand services, and in turn maximise their impact.

While noting the efforts underway The Smith Family would urge the Productivity Commission to call for an **acceleration of such efforts** given the positive contribution they can make to the overall goals of NFPs and the philanthropic sector. Such efforts should be able to be **tracked publicly** with a clear **timetable for implementation**. As a charity focused on supporting children experiencing disadvantage to achieve educationally, we are all too aware of the very significant **gap** which can arise between a positive **policy intent** articulated by all jurisdictions and **implementation**. By way of example, we note that in 2010, the then Deputy Prime Minister and Minister for Education, the Honourable Julia Gillard indicated that following agreements with the states and territories, a **Unique Student Identifier** would be introduced for all Australian school students "as soon as possible". **Fourteen years** later, despite ongoing agreement from the states, territories and the Commonwealth, this key piece of the educational evidence infrastructure has <u>not</u> yet been achieved, though work continues.

MAXIMISING THE IMPACT OF PHILANTHROPIC FUNDING

Paying what it takes

Alongside the goal of doubling philanthropic giving by 2030, The Smith Family sees an important contribution of the Productivity Commission's Inquiry as **maximising the impact** of philanthropic funding, whatever that quantum is, now and into the future. In that context The Smith Family believes the Inquiry should both note as a finding and make a recommendation in line with the ***Paying what it takes*** report. This report was released in 2022 after careful research and analysis by the Centre for Social Impact, Philanthropy Australia and Social Ventures Australia.

As we noted in our original submission to this Inquiry **trust** in recipient organisations is an essential underpinning of philanthropic giving, and in growing that over time. We also noted that trust is driven by **transparency**, visible **outcomes** and **accountability**, and conversely distrust is caused by the "perception of money not going to the cause the not-for-profit is supporting or not going to where they're supposed to".[5] In some cases this perception can be the result of a limited understanding of the role that '**indirect costs**' (including human resources, IT, including those related to cyber security, finance and marketing) play in the effectiveness and efficiency of not-for-profits.

As the *Paying what it takes* report notes, 'funders have inaccurate expectations of how much overhead is needed to run a not-for-profit…This leads to a sector starved of the necessary core funding required to create **resilient** not-for-profits delivering **long-term impact** on social issues." Importantly the report found that indirect costs do not indicate the **efficiency** or **effectiveness** of a not-for-profit and that caps on indirect costs lead to **lower capability** and **effectiveness**.

The Smith Family believes that **effectiveness** and **efficiency** of the philanthropic/not-for-profit (NFP) sector **must** be a key consideration of this Inquiry. We therefore urge that consideration be given to the role **Government** can play - both as an exemplar in applying the principles of the *Paying what it takes* report in its own engagement with the not-for-profit sector and in educating the philanthropic community (including the broader Australian community) of the value of overhead costs to both the quality of delivery and long-term sustainability of the NFP sector.

To do otherwise would be **counter** to growing the **impact** of the sector alongside of growing the **income** it receives.

Encouraging investment in innovation

The draft report in describing the value of philanthropic contributions notes that "philanthropy can also **enable innovation** by providing 'patient capital' through long-term untied funding, which government often cannot do…Philanthropic funding also has a different **risk profile** from government funding and can have a greater tolerance for – and even expectation of – failure when trialling new models of service delivery, for example…Once philanthropy has funded initiatives that have demonstrated success, governments could provide funding on a larger **scale** and change policy settings more widely."

The Smith Family is cognisant of the *potential* of philanthropy to act in this way to support innovation. Our organisation has, over time, benefited from such philanthropic investment to support the development, implementation, evaluation and scaling of new initiatives, such as our early numeracy program, *Let's Count.* Such investment has been critical to allowing the development of impactful initiatives which have been previously untested and which by their nature bring a significant element of risk and the potential to 'fail'.

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[5] Research undertaken by Southern Cross Austereo, one of The Smith Family's corporate partners.

We would suggest though, that the **proportion of philanthropic investment in innovation** is **small**. Given the increasing complexity of intractable issues facing Australia, there is an increased need for innovation at a time when the pool of available funds is not only small but possibly diminishing. In light of this, The Smith Family believes there is value in considering a role for Government in supporting philanthropy to have a **greater focus on innovation**.

As part of its data collecting work, the Inquiry could try to **quantify** what philanthropic funds are currently spent on innovation. Alongside of this, philanthropy – particularly in the major donor, trusts and foundations and corporate space – could be encouraged by the Inquiry and subsequently Government, to bring a **stronger learning** and **innovation mindset** to their investments, as understanding both what *does* and *doesn't* work and for whom, is a very valuable contribution to making the necessary progress across all domains in which philanthropy operates.

Use of funds in government schools

The Smith Family notes the Inquiry's draft recommendation 6.1 to:

- extend eligibility for DGR status to most classes of charitable activities, drawing on the charity subtype classification in the Australian Charities and Not-for-profits Commission Act 2012 (Cth) to classify which charitable activities are eligible for DGR status and which are not
- expressly exclude the following classes of charitable activities or subtypes: – primary, secondary, religious and other informal education activities, with an exception for activities that have a specific equity objective (such as activities undertaken by a public benevolent institution.

While we do not offer any specific commentary regarding the exclusion of DGR status to school building funds, any changes in this space **must ensure** that initiatives that support the educational participation and achievement of children and young people experiencing disadvantage, such as scholarships and the provision of additional resources to them (such as laptops) are **not** included in such changes.

Our expectation is that these **are** not included in the recommendation, given their **equity** focus, but given the clear educational equity challenge in Australia and the importance of such scholarships and resources to addressing this, we believe there would be value in explicitly identifying in the final report of the Inquiry, examples of initiatives such as scholarships that would be exempt from this recommendation.

CONCLUSION

The Smith Family sees this Productivity Inquiry as very significant, given the current and future challenges facing Australia and the role we believe that philanthropy can and should play in addressing them. Alongside of the increasing and more complex issues facing Australia is the context of significant opportunities to grow giving, including but not limited to superannuation, enabling Australians to donate part or all of their tax return to a charity prior to the return being finalised, accelerating harmonisation and growing the relatively untapped opportunity of Workplace Giving.

The Smith Family urges the Inquiry to take advantage of this opportunity to significantly add to its recommendations, both in order to ***grow*** philanthropic giving and to ***maximise*** the impact this giving can make, in line with the Government and the Inquiry's broad objectives.

APPENDIX: THE SMITH FAMILY

The Smith Family is a **national** charity working in over 90 low SES communities across every state and territory. We have been supporting children and families experiencing disadvantage for over 100 years. Our **vision** is a world where every child has the opportunity to change their future. Our **belief** is that education is one of the most powerful change agents and our **purpose** is to overcome educational inequality caused by poverty.

Our work focuses on Australian children in families and communities where we know it is harder for them to fully participate in their education without some help. Our approach is an **early intervention** one, providing support to children and families who are likely to struggle without additional support. This includes children and families living in financial disadvantage, Aboriginal and Torres Strait Islander children and families, and those living in communities experiencing disadvantage.

In FY23, **200,000** children and young people, their parents/carers, and educators and community professionals participated in our programs. This includes around 63,000 children and young people experiencing disadvantage who are on our long-term educational scholarship program, ***Learning for Life***.

In FY23 our income was $157.4 million and was comprised of:

- $127.7 m from fundraising and bequests, this includes from individual donors, Trusts and Foundations and corporations
- $18.9 m from Governments
- $5.1 m from VIEW Clubs Australia. Established by The Smith Family in 1960, VIEW (Voice, Interests and Education of Women) is a national women's organisation and support network
- $5.0 m from investment and other income
- $0.7 m from the Children's Future Education Endowment.