2nd May, 2023

Philanthropy Inquiry
Productivity Commission,
GPO Box 1428 ,
Canberra City. ACT. 2601,

Dear Karen Godfrey,

RE: Productivity Commission Review of Philanthropy

Southern Youth and Family Services (SYFS) welcomes the opportunity to contribute to the Productivity Commission's review of philanthropy in Australia. SYFS is a not-for-profit charity that supports children, young people, adults, and families who are disadvantaged, including those who are homeless, or at risk of homelessness. While we welcome efforts to increase the level of funding available to support disadvantaged people in our communities, we have concerns about some of the issues raised in the 'Call for submissions' document. The Review's Terms of Reference (Items 5 & 6) include an examination of the tax expenditure framework applying to charities. The tax concessions that apply to charities operate as an incentive for philanthropic donations (DGR) as well as maximising the funds available to a charity to deliver on its purpose (FBT exemption and other tax concessions). Both are critical in securing the necessary funding to support the activities of charities. Below, we outline our concerns as follows:

1. The role of philanthropy in funding social services
2. Deductible Gift Recipient (DGR) framework
3. Other forms of government tax support for Not-For-Profits

About Southern Youth and Family Services
Southern Youth and Family Services (SYFS) provides services to children, young people, adults, and families in the Illawarra Shoalhaven and Southern districts of New South Wales. The organisation was established in 1977 when a group of people in Wollongong who were concerned about homelessness and young people came together to establish a youth refuge. It opened its first service in January 1979 and has since grown to over 200 employees and 50 services. These services include supported accommodation, housing, outreach, early intervention, financial and material assistance, skill development, psycho-social support, advocacy, information and referral, health and personal care, education, training, and pre-employment support, a mobile preschool, and a multicultural playgroup. In 2021/22 SYFS provided substantial support to 5,373 young people and 2,486 families. We also provided 16,548 instances of one off or casual support. Our programs are funded through a number of Commonwealth and State funding agreements. We also obtain grant funding from governmental and private funding bodies and receive philanthropic donations from individuals and organisations in the communities in which we operate. Southern Youth and Family Services is endorsed as a Deductible Gift Recipient and as a Public Benevolent Institution is eligible for the GST Concession, FBT Exemption, and Income Tax Exemption. As such, the subject of the Review is of significance to the organisation.

The role of philanthropy in funding social services

In recent times, demand for support from people experiencing disadvantage has increased significantly. In 2019-20, one in eight people (including one in six children) lived below the poverty line.[1] In 2020-21, Specialist Homelessness Services supported over 70,000 people experiencing homelessness, providing support to 27% more clients than they were funded. 36% of SHS providers reported rarely or never being able to meet demand.[2] This increase in demand has occurred at the same time as the cost to providers like SYFS of delivering these services has risen substantially.

Philanthropic donations are a welcome part of our funding. However, we have concerns about the framing of the current push to increase philanthropic giving. The disadvantage of the children, young people, adults, and families with whom we work is a product of structural inequality. As Thomas Picketty's detailed research on inequality has shown, the ratio of wealth to income is rising in all developed countries, where returns to capital consistently exceed economic growth.[3] State funding of social services paid for through taxation is not just a funding mechanisms. Rather, taxation serves to reduce inequality by reducing the accumulation of excessive wealth by individuals and corporations and redistributing social wealth more equally within society.[4] The danger in promoting philanthropy as a funding option for essential social services is that owners of wealth can use philanthropic giving as a way of avoiding taxation and maintaining their excessive wealth. As Glucksberg and Russell-Prywata point out, 'corporate and financial interests often drive the very inequality that their philanthropy is designed to ameliorate' because 'the ecosystem of elite philanthropy appears to facilitate and help elites retain their advantaged positions by legitimising the system producing the inequalities they benefit from in the first place'.[5]

Philanthropic contributions are an important supplementary form of funding for charities like SYFS that provide essential social services, however, we do not support philanthropy as a solution to difficult social problems that are positioned as beyond the capacity of government funding or funding models. Securing philanthropic funding depends largely on a charities capacity to market their charity, or cause, to a diverse set of philanthropic donors. This has given rise to an increased use of platforms for charities to 'pitch' their projects to donors and ultimately involves charities demonstrating their merit over others. This largely benefits larger, high-profile providers as demonstrated in the Commission's 'Call for submissions', which identifies that the 10 largest charities account for 17% of donations.[6] Item 3 of the Terms of Reference on 'barriers to philanthropic giving' suggests that the Commission examine 'The ability of donors to assess and compare charities based on evidence of effectiveness, including through impact evaluations and making comparisons across charities'. While advocates of corporate philanthropy advocate these market-like mechanisms, in which charities 'compete' to demonstrate effectiveness and attract funding, the nature of the services we deliver is not amenable to market-based mechanisms. There is little evidence to support the idea that current service models are inadequate. Rather, all the evidence points to the fact that lack of adequate government funding is hampering our ability to deliver what are already high-quality, evidence-based services.

Reliance on philanthropy also exposes service providers to unnecessary risk. The Australian Council of Social Services' recent survey of the community sector found that organisations that depend on philanthropy or commercial income as their most important source of funding were the most financially vulnerable, with 53% reporting a worsening of their finances in 2022.[7] On the other hand, 77% of organisations reported that government funding was their most important source of funding, reflecting the importance of secure

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[1] Peter Davidson, Bruce Bradbury, and Melisa Wong, *Poverty in Australia 2023: Who is Affected?* Poverty and Inequality Partnership Report no 20. Australian Council of Social Service and University of New South Wales, 2023.

[2] Homelessness NSW, *Ending Homelessness Together* (October 2022).

[3] Thomas Picketty, *Capital in the Twenty-First Century* (Cambridge: Belknap Press of Harvard University Press, 2014).

[4] Martin-Brehm Christensen, Christian Hallum, Alex Maitland, Quentin Parrinello, and Chiara Putatoro, *Survival of the Richest: How we Must Tax The Super-Rich Now to Fight Inequality* (Oxford: Oxfam, 2023), pp. 9-12.

[5] Luna Glucksberg and Louise Russell-Prywata, 'Why Philanthropy is No Substitute for Taxation: A Case Study of Plutocratic Philanthropy in the UK', *LSE Public Policy Review*, vol 2, no 4, 2022, p.2.

[6] Productivity Commission, *Review of Philanthropy: Call for submissions*, March 2023, p. 5.

[7] Natasha Cortis and Megan Blaxland, *At the Precipice: Australia's Community Sector Through the Cost-of-Living Crisis, Findings from the Australian Community Sector Survey* (Sydney: ACOSS, 2023), p. 11.

government funding to stable service delivery.[8] There is a real threat that an over-reliance on philanthropic sources of funding, an area dominated by corporations and high wealth individuals, will result in questions of cause, worthiness, or need being shaped by the fuel of philanthropic giving. Government has primary responsibility for ensuring that there is sufficient funding for the services provided to support disadvantage people and communities. Any additional philanthropic funding derived through the outcomes of this review should be regarded as supplementary funding and not a substitute for government funding of these important support services.

Deductible Gift Recipient framework

As an eligible Deductible Gift Recipient, Southern Youth and Family Services conducts two major fundraising drives each financial year in addition to other ad hoc fundraising activity from time to time. The income we derive from these fundraising activities is an important supplement. We believe that the ability of donors to access a tax deduction does act as an incentive for them to give generously.

In the ‘Call for submissions’ to the Review of Philanthropy, the Commission states that it will consider how the DGR framework affects giving behaviour and look at alternative models currently operating in other countries. With regard to Information request 4 in the ‘Call for submissions’, we believe that the existing DGR framework is efficient, effective, and equitable in its operation and that it works to promote the welfare and priorities of the Australian community. In terms of the costs of the DGR framework, the cost to Treasury of $1.9 billion mentioned in the ‘Call for submissions’ (p. 16) ought to be regarded as a very minimal imposition on the Budget when compared with the enormous value that charities contribute to the community. This represents a very small sum that could easily be recovered from increased taxation on wealth, such as through a super-profits tax or resource rent tax increase that would have the added advantage of helping to de-concentrate wealth. There is no evidence to suggest that the DGR framework results in inequities, inefficiencies, or perverse outcomes in its application to community-based service providers such as SYFS.

There may be scope for expanding the availability of DGR to more charities by lowering the barrier to obtain DGR status, particularly, as the Commission notes, for Aboriginal and Torres Strait Islander organisations that might experience difficulty in demonstrating eligibility for DGR status. We would also like to see eligibility for DGR status expanded to peak bodies and advocacy organisations that work closely with direct care services and to agencies involved in community development. We caution, however, against any recommendation that seeks to trade off increased access to DGR for other concessions available to the sector.

Other forms of government tax support for Not-For-Profits

In addition to Deductible Gift Recipient status, tax concessions play a crucial role in maximising the funds available to charities. We are concerned that the Commission has highlighted fringe benefits tax concessions as well as other concessions and exemptions such as payroll tax, land tax, rates, stamp duty and motor vehicle registration as causing ‘potential issues’ around competitive neutrality. Charities should not be narrowly depicted as competitors within a marketplace. In fact, the narrow application of ideological notions of ‘competitive neutrality’ to not-for-profit entities implies a false equivalence between community-based service providers and for-profit businesses. Far from delivering the efficient and effective welfare services promised, the application of competition policy to the welfare sector has placed unacceptable levels of pressure on the sector, seen a soaring in the costs of compliance, and produced a relationship of ‘market managerialism’ between government departments and the community and for-profit agencies that deliver many government welfare services.[9] We urge the Commission to abandon this unhelpful framework in its consideration of the role tax concessions play in the community sector, recognising instead that the sector’s ability to provide a public benefit is a result of its grounding in the community and of its difference from the for-profit sector.

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[8] Cortis and Blaxland, *At the Precipice*, p. 17.

[9] Anna Yeatman, ‘Competition Policy and the Destruction of the Welfare State’, in *The Triumph of Managerialism? New Technologies of Government and their Implications for Value* (Rowman & Littlefield, 2018), pp. 103-125.

Charities operate in many areas that are not financially attractive to profit making business and bring unique contributions within mixed economies, adding value and extending the services which can be offered. The Australian Charity and Not-for-profit Commission commissioned a report from Deloitte Economics in 2017 that estimated the economic contribution of the Australian charity sector at $129 billion and the direct employment rate of 840,500 FTE staff.[10] This did not include volunteers who, according to Volunteering Australia, contribute $290 billion to our economic and social good.[11] It is important that the charity sector remains a viable contributor and is not restricted in its ability to participate based on a simplistic view of competitive neutrality. We contend that the value returned to government and the community through providing charities with tax concessions far outweighs the revenue lost through not imposing those taxes. A major purpose of taxation is to ensure that governments have the resources to act to support those most vulnerable is society. Tax concessions for charities serves to increase the resources available for these purposes.

The community sector is facing serious challenges in recruiting and retaining staff. Only 62% of current staff surveyed in the Australian Community Sector Survey reported that they intend to remain in their current role in 12 months. Many are looking for higher pay. While community sector workers typically report high levels of intrinsic satisfaction in their work, the low wages available to workers in the community sector makes it difficult for workers to keep up with cost-of-living pressures.[12] One of the ways not-for-profit organisations compensate for the lower wages on offer in the sector, is through the use of salary packaging and other fringe benefits that are made possible by the fringe benefits tax exemption. In the absence of the significant increase in government funding that would enable charities to pay higher wages directly, this tax concession is invaluable in making community-sector employment more attractive. We urge the Commission to recognise the value of the fringe benefits tax exemption in retaining a skilled community sector workforce.

It is disappointing to see tax concessions framed in a negative light when they offer genuine benefits to the work of charities. Any reduction in the costs of delivering supports to disadvantaged people and communities should be viewed positively, because they enable the charity to do more work with the resources at hand. We ask that the Commission focus on the development of recommendations which increase the overall resourcing available to charities to pursue their purposes for the benefit of the communities they serve.

Yours sincerely

Narelle Clay, AM
CEO Southern Youth and Family Services

[10] Deloitte Access Economics, *Economic Contribution of the Australian Charity Sector* (Australian Charities and Not-for-profits Commission, 2017).
[11] Volunteering Australia, 'Volunteering – A Tower of Strength in Our Communites', https://www.volunteeringaustralia.org/policy/advocacy-campaigns/towerofstrength/ (2023).
[12] Cortis and Blaxland, *At the Precipice*, p. 7-8.