

Productivity Commission’s Inquiry into Philanthropy 2023

Local Community Services Association (LCSA) Submission, 5 May 2023

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Introduction

Local Community Services Association (LCSA) is the peak body and membership organisation for Neighbourhood and Community Centres (NCCs) in NSW. Our purpose is to represent the interests of our diverse place-based, locally-governed member organisations with a particular emphasis on community development.

Our network of 175 NCCs are primarily small-medium organisations, and form part of the largest community-led infrastructure network in NSW. NCCs are uniquely placed to know and respond to the needs and aspirations of their communities. They facilitate community development projects, coordinate service delivery, and they are an integral part of frontline responses to, and recovery from, natural disasters.

LCSA is participating in this Inquiry on behalf of our members to address barriers and offer solutions to low rates of philanthropic funding to small-medium charitable organisations in Australia; and to propose the adoption of a new philanthropic funding framework that emphasises a collaborative and collective impact approach between funders and partners.

LCSA is open to attending Committee hearings.

Process of putting together LCSA's submission

Our submission largely reflects the needs and priorities of small-medium charitable organisations that form the majority of the LCSA membership. Many things have informed our unique perspective, including:

- Consultation with LCSA staff and the LCSA board
- Consultation with LCSA members – In April, LCSA consulted with 24 members in 30 minute breakout groups using key questions to inform our submission to this Inquiry. Their feedback is incorporated in our response to points 3.i, 3.iii, 5, and 6.iii in the Inquiry's Terms of Reference.
- LCSA's experience with philanthropy – LCSA has partnered with, and been funded by, philanthropic organisations, including the Paul Ramsay Foundation. We also represent LCSA members that are funded by philanthropic foundations
- Desktop research

LCSA's view on the role of philanthropic funding in the Not-for-Profit sector

LCSA is supportive of philanthropic funding as an additional form of funding to the Not-for-Profit (NFP) sector, including locally-led, locally governed organisations LCSA represents. Within a reformed system that makes funders and organisations more equal partners, there is great potential for philanthropic funding to fund innovative community development work that changes community life for the better.

LCSA is opposed to philanthropy replacing government funding streams and outsourcing government responsibilities to the NFP sector. While the current scope of this Inquiry is not proposing this, we caution against it after witnessing its failure in international contexts, such as the failure of the Big Society Network in the UK in 2014 (The Independent 2014). Philanthropic funding cannot provide the scale and security of funding that our sector requires and should be considered supplementary to government funding.

Australia's tax code should not encourage wealthy individuals to divert money otherwise spent on taxes to private foundations. This is significant to point out in the lead up to Australia's Stage 3 tax cuts. Philanthropy is **not** a substitute for a fair and progressive tax system. Any changes to Australia's tax code should further strengthen the system against tax avoidance.

Changes to philanthropy in Australia should not perpetuate existing systemic issues in the NFP sector, such as through a limited number of contracts, short contracts and tendering projects. Similarly, changes should not perpetuate the practice of awarding philanthropic funding primarily to large charitable organisations at the exclusion of small-medium organisations. Place-based organisations, which are generally small-medium in size, are best placed to work with communities to resolve complex social issues (Moore & Fry 2012, p.28). These organisations should be eligible and able to apply for more philanthropic funding than they currently receive.

There is certainly potential to increase the amount of philanthropic funding to NCCs. In LCSA's 2022 Members Census, 27 respondents indicated that they received funding from private or charitable foundations. Foundation funding to these organisations comprises a median of 3% of their overall annual funding. LCSA has identified barriers that NCCs face in receiving philanthropic funding, including lack of time and resources to complete funding applications and impact evaluations, an onerous regulatory framework, the perception of risk from funders, and competition with large, well-resourced organisations. We urge the Commission to work towards removing these barriers in their recommendations to Government.

LCSA recommends that the Productivity Commission adopt The Funders Roadmap, developed by The Harwood Institute in partnership with the ten20 Foundation and Opportunity Child, as a framework for philanthropic giving between philanthropists and small-medium organisations. Within this framework, philanthropists are called upon to invest in both the capacity for change as well as in specific programs to solve social issues.

Philanthropic funding should be funding activities that work. If funders and partners have not correctly identified the stage of community life their community is at, there is only a 1 in 5 chance that the funding has been targeted correctly.

While not in the Terms of Reference, LCSA wishes to point to an obvious reason that the Commission should consider for the decline in individual donations and volunteering – the rising

cost of living. This decline has heavily impacted volunteering in our sector. If individuals can hardly afford basic necessities, they do not have the disposable income to afford donations or to volunteer in lieu of paid work. If the Australian Government wishes to increase the donation and volunteer capacity of individual Australians, it must address the affordable housing crisis, below poverty-line social support payments, flat wages and the rising cost of living overall.

Summary of LCSA's recommendations

Recommendation 1: That the Australian Government alleviate barriers that deter philanthropists from funding small-medium charitable organisations to enable more funding to flow to these organisations.

Recommendation 2: That the Australian Government facilitate formal pathways to enable philanthropic funders and small-medium organisations to find each other and match funding aims, priorities and ways of working.

Recommendation 3: That the Australian Government implement a consolidated regulatory framework for NFPs as outlined in the Productivity Commission's 2010 research report, 'Contribution of the Not-for-Profit Sector' to simplify reporting and reduce compliance costs.

Recommendation 4: That the Australian Government fund LCSA and other NGO peak bodies/membership organisations to assist small-medium charitable organisations with conducting evaluations.

Recommendation 5: That the Australian Government adopt The Funders Roadmap, developed by The Harwood Institute in partnership with the ten20 Foundation and Opportunity Child, as a framework to enable effective philanthropic giving between philanthropists and small-medium organisations.

LCSA's response to the Inquiry's Terms of Reference

3. Examine current barriers to philanthropic giving, including:

i. The burden imposed on donors, volunteers and not-for-profits by the current regulatory framework for giving and how this affects their philanthropic decisions.

There are barriers to philanthropists donating to small-medium organisations, including place-based organisations that are connected with, and accountable to, their local communities.

These include:

An onerous regulatory framework

In 2010, The Productivity Commission published the 'Contribution of the Not-for-Profit Sector Research Report'. The report recommended a consolidated regulatory framework that provided a one-stop-shop for Commonwealth registration and tax endorsement for NFPs. The principles of proportionality and 'report once, use often' should underpin all reporting requirements. It recommended the establishment of a Centre for Community Service Effectiveness to guide NFPs in evaluations. However, this recommendation was never implemented. LCSA urges the Commission to implement a consolidated regulatory framework as described above.

In lieu of the establishment of a Centre for Community Service Effectiveness to guide NFPs in evaluations, LCSA and other relevant peak bodies should receive additional dedicated government funding to guide and assist our membership with evaluations.

Less philanthropic funding for organisations running generalist services

Philanthropic giving tends to favour specific work areas, such as disability services or domestic and family violence services. NCCs tend to offer generalist services, which includes specific services like disability services, domestic and family violence services and more. As a result, NCCs attract less philanthropic funding despite delivering specific, necessary and locally relevant services.

New organisations are also being created in the disaster recovery space with a specific disaster-related purpose. Such organisations are looked upon more favourably by governments and philanthropists than existing organisations, even though existing organisations may be far more embedded within their local community and in touch with community needs and aspirations. The barrier seems to be that it is easier for philanthropists (and governments) to give to a large or new organisation rather than dealing with an existing network.

Perception of risk

There may be a perception of higher risk among philanthropic funders in giving to small and medium organisations that do not have funding streams as secure as larger organisations.

iii. The ability of donors to assess and compare charities based on evidence of effectiveness, including through impact evaluations and making comparisons across charities. In doing so, the Commission should consider the work of overseas impact evaluation comparison sites.

There are barriers that small-medium organisations face in producing evidence and effectiveness at the scale of large organisations, making it less likely they will receive philanthropic funding. The reasons for this and their impacts are below.

Limited capacity and resources

Small-medium organisation have limited capacity and resources to undertake evaluations. This is because most program funding that NCCs receive do not include a staffing component to deliver that program, let alone to evaluate it. As a result, good programs fall by the wayside. The systemic underfunding of NFPs by government was acknowledged in the Productivity Commission's 2010 report (p. XXXVI) and has only become more relevant since:

'With respect to the NFP workforce, governments should recognise the effect of not paying the full costs of service delivery. Part funding can make it difficult for NFPs to pay competitive wages to attract and retain workers, with the cumulative effects of underinvestment in workers, technology, and planning putting pressure on the quality and sustainability of service delivery. Full funding may be one of the most important steps to address the workforce issues in the relevant human services sectors.'

In current circumstances, an NCC may be able to conduct some impact evaluations but would find it challenging to evaluate multiple programs. One LCSA member reported that, to complete a philanthropic funding application for a wellbeing program, the EO spent unpaid nights writing the application. This is a common story across our membership. To build organisational capacity to undertake evaluations would require a lot of unpaid overtime on staff that already work a lot of unpaid overtime in their day-to-day duties.

'We do not have capacity to tell the story of our impact, larger charities have dedicated staff (eg grant writers) and the skills that come with that – and we if we have the skills in existing staff we do not have the time.' - LCSA member

Short application timeframes a barrier for small-medium organisations

Quick turnaround timeframes for philanthropic funding are often not possible for understaffed NCCs. In one instance, an NCC had to produce program information to an ethics committee before making a funding application all within a month. This was not possible for the small NCC and therefore they missed out on submitting an application.

Lack of access to impact measurement and other relevant data

Small and medium organisations experience a lack of relevant data for their services and programs. Population level data is a particular issue. This leaves services in the position of having to create their own dataset or spend valuable time finding existing data.

Datasets that small organisations do have are generally for compliance purposes required for a government funding stream. Demonstrating impact for compliance purposes only justifies the funding an organisation is already receiving. In this context it is difficult to use this data or gather additional data to demonstrate broader impact.

Much of the work of NCCs reduce the time and resources that it currently takes to do fundraising activities and to ask for donations. As a result, it is hard to gauge impact outside of incidental attendance or interaction.

Competition with large, well-resourced organisations

Impact evaluations are looked upon favourably by philanthropic organisations. Large charitable organisations are at an advantage in undertaking impact evaluations and receiving philanthropic funding compared to small-medium organisations for a number of reasons.

Large charitable organisations:

- Can employ workers specifically to undertake impact evaluations and can afford to pay a worker with the necessary skills and experience (which often includes postgraduate qualifications)
- Have good marketing and branding and have the capacity to put together comprehensive funding applications
- Have greater resources for data input – for small to medium organisations this is often the task of a manager or a volunteer
- Can provide/offer the philanthropic organisation access to a greater market than small and medium sized organisations
- Can more easily absorb the costs of a lack of staffing component, which is commonplace in philanthropic funding.

As a result, large organisations receive more philanthropic funding which widens the capacity and resource gap between large and small-medium organisations.

The practice of large organisations sub-contracting philanthropically funded work

Many large organisations subcontract philanthropic-funded work to small organisations like NCCs. As a result, NCCs do not receive recognition of their work and are not provided with financial support or further contracts.

In one example, bushfire recovery funding was granted to an organisation in Manly, an area not affected by bushfires. The Manly organisation contracted small LCSA member organisations in bushfire affected areas to deliver their work. In practice, this renders the network of local community organisations invisible.

A benefit of removing barriers between philanthropists and small-medium organisations is that philanthropists can more effectively meet their goals through the relationships and local capabilities of NCCs to deliver on initiatives.

Relevance of impact evaluations in local contexts

Philanthropic funders often require impact evaluations as part of their funding application. For these evaluations to be relevant to local community there is a barrier because evaluations are often not available for local contexts (Moore & Fry 2012, p.35). Evaluations that are available are often embedded in academia, which is not an effective way to evaluate a program on a local level.

5.Examine the tax expenditure framework that applies to charities. In particular, assess the effectiveness and fairness of the deductible gift recipient framework and how it aligns with public policy objectives and the priorities of the broader community.

The Productivity Commission’s 2010 research report, ‘Contribution of the Not-for-Profit Sector’ recommended that DGR status be progressively expanded to all charitable institutions and funds endorsed by the Registrar. However, DGR status has not expanded and may have in fact become more cumbersome for organisations to navigate.

Small organisations and DGR

DGR status is usually an eligibility requirement to receive philanthropic funding. For small organisations that do not already have it, DGR status is difficult to obtain. In LCSA’s 2022 Member Census, of 104 respondents, 18% do not have their own DGR status and 6% have previously applied for DGR status and been refused (LCSA 2022). The process of gaining DGR status is long and tedious for many NCCs. As a result, small organisations are excluded from the financial benefits of DGR status. The current unfairness and inconsistency in DGR status eligibility creates inequality for smaller organisations to apply for or receive philanthropic funding.

DGR status also often requires organisations to be working in the emergency relief space. NCCs have a more holistic and long-term approach with working with communities through community development, information, education, prevention and early intervention, which does not directly align with DGR requirements.

DGR and auspiced organisations

Organisations with DGR status may auspice another organisation to apply for philanthropic funding. They have to add a management fee, however insurance groups do not always cover the auspicing organisation as they do not have full control over the project. Organisations that are in a position to auspice can face a financial risk which may act as a disincentive.

Some philanthropic funders do not favour organisations who are auspiced by another organisation as they apply under a different ABN to their own organisation. This means an organisation can go through a long application process of writing a submission, interview, etc, only to be rejected due to being auspiced for DGR.

2. Identify opportunities to increase philanthropic giving and the extent of their potential impact, including:

i. The role of, and effectiveness of, foundations in encouraging philanthropic giving and supporting the charitable sector.

There is a valuable role for foundations to play as funders that partner with place-based organisations in structured philanthropic giving that addresses social issues. LCSA has been fortunate to work with such foundations. Philanthropic foundations can work with partner organisations in a collaborative and impactful way, as detailed in The Funders Roadmap by The Harwood Institute (discussed further in 2.iii).

However, precautions must be considered in this area. Australia's tax code should not encourage wealthy individuals to divert money otherwise spent on taxes to private foundations. Additionally, small-medium charitable organisations should not be forced into "mission drift" by philanthropic funding that comes with stipulations that do not align with place-based organisation missions, which are informed by strong connections to communities. Mission drift is particularly prevalent in the United States.

iii. The potential to increase philanthropy by enhancing the effectiveness and efficiency of the use of donations.

There is enormous potential to increase philanthropic funding and enhance the effectiveness and efficiency of donations. The Funders Roadmap was developed in 2016 by the Harwood Institute in partnership with the ten20 Foundation and Opportunity Child.

The Funders Roadmap is for funders and their partners that seek to build stronger alignment, trust and impact in their work together in communities through collaborative and collective impact approaches.

Critically, it calls for philanthropic funding to invest in both the capacity for change as well as in specific programs. To do this, philanthropists must align their approaches with communities to solve social problems. This is a departure from the dominant approach of philanthropy in Australia, which is to fund programs and issues a philanthropist cares about. This can result in programs that do not match community's primary concerns and aspirations.

The Roadmap is based on The Harwood Institute for Public Innovation's framework, Community Rhythms: The Five Stages of Community Life, which comes from nearly 30 years of research and on-the-ground work in communities. In essence, philanthropic (and government) funding is often targeted at where funders think a community should be, rather than where they actually are. Without identifying which stage of community life a community is at, there is only a 1 in 5 chance of targeting a program, initiative or funding correctly.

The Funders Roadmap suggests that the starting point for philanthropists should be asking questions like:

1. What are your aspirations for working with communities?
2. What's been your experience in working with communities?
3. Where are you making progress? What's been difficult?
4. What pressures do you feel? From who? Why?

6. Identify reforms to address barriers or harness opportunities to increase philanthropy, and assess benefits, costs, risks, practicalities and implementation considerations. In doing so, the Commission should advise on priority areas for reform, having regard to: The benefits that would flow from increased philanthropic giving.

Recommendation 1: That the Australian Government alleviate barriers that deter philanthropists from funding small-medium charitable organisations to enable more funding to flow to these organisations.

This includes changes to the regulatory framework, including barriers to obtaining DGR status.

A formal process should also be put in place to allow established small-medium organisations, including those running generalist services, a realistic chance at philanthropic funding. This

includes funding targeted to specific programs and at specific geographical areas, particularly in the area of disaster recovery.

Part of this recommendation includes a reduction in the practice of large organisations sub-contracting philanthropy-funded work to small organisations. As a requirement, consideration should be given to place-based organisations, which are usually small-medium organisations, before large organisations that do not directly working in the area.

Recommendation 2: That the Australian Government facilitate formal pathways to enable philanthropic funders and small-medium organisations to find each other and match funding aims, priorities and ways of working.

This recommendation could be implemented through a national database that philanthropists and small-medium organisations can use to find each other and match purposes, goals and ways of working.

Recommendation 3: That the Australian Government implement a consolidated regulatory framework for NFPs as outlined in the Productivity Commission's 2010 research report, 'Contribution of the Not-for-Profit Sector' to simplify reporting and reduce compliance costs.

The principles of proportionality and 'report once, use often' should underpin all reporting requirements. This recommendation includes the establishment of a Centre for Community Service Effectiveness to guide NFPs in evaluations.

Small-medium organisations would gain much more philanthropic funding if given assistance through a Centre for Community Service Effectiveness. This would free up NCCs from certain aspects of service delivery and fund innovative programs that governments are unwilling to fund without substantial bodies of evidence.

Recommendation 4: That the Australian Government fund LCSA and other NGO peak bodies/membership organisations to assist small-medium charitable organisations with conducting evaluations.

In lieu of the establishment of a Centre for Community Service Effectiveness to guide NFPs in evaluations, LCSA and other relevant peak bodies should receive additional dedicated government funding to guide and assist our membership with evaluations. The ability for small-medium organisations to conduct impact evaluations more regularly would free up NCCs from certain aspects of service delivery and fund innovative programs that governments are unwilling to fund without substantial bodies of evidence.

Recommendation 5: That the Australian Government adopt The Funders Roadmap, developed by The Harwood Institute in partnership with the ten20 Foundation and Opportunity Child, as a framework to enable effective philanthropic giving between philanthropists and small-medium organisations.

The Funders Roadmap provides funders and partners a deeper understanding of community and where community is at any given point of time, giving philanthropists a better chance for their investment to achieve its outcomes. Leaning on NCCs, the practice of community development, and trusted relationships in local community will increase the likelihood of funding going to the right place, at the right time, for the right community.

Using The Funders Roadmap increases the chances of getting the most out of philanthropic funding. If funders and partners have not correctly identified the stage of community life their community is at, there is only a 1 in 5 chance that the funding has been targeted correctly. Any process changes to philanthropic funding should increase the effective targeting of that funding.

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