PHILANTHROPY AUSTRALIA

PA response to the PC draft report

PHILANTHROPY AUSTRALIA'S SUBMISSION TO THE PRODUCTIVITY COMMISSION
DRAFT ONLY

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Contents

Executive Summary

[To be included after engagement with members].

1. A note of appreciation

1.1 The open and consultative approach to the inquiry.

Philanthropy Australia (PA) would like to express our appreciation to the Productivity Commission (PC) for the open and consultative approach it took in developing its draft report, *Future Foundations For Giving*. The Commissioners and staff team have made themselves available to discuss policy reforms, and engaged widely across a range of sectors in bringing together its draft report.

1.2 Policy rigour on key reform items

We also appreciate the rigorous and thoughtful approach taken to the development of a number of the recommendations. Of particular note is the approach the PC has taken to recommending reform to the Deductible Gift Recipient (DGR) system – beginning with a principles-based approach aimed at delivering maximum community benefit – then recommending expansion of DGR in relevant fields. The reforms will benefit a suite of charities, including those with multiple purposes, undertaking advocacy, or working on animal welfare, injury prevention and public interest journalism. With modest revenue foregone, they also provide the government with a sound framework for reform and something practical it can implement. While this is different to the Philanthropy Australia view and the PC's previous view that DGR should be extended to all charities,[1] we respect the rigour and care taken by the PC in formulating its recommendations.

We are also delighted to see a number of other recommended reforms:

- Establishment of an independent philanthropic foundation controlled by – and for the benefit of – Aboriginal and Torres Strait Islander communities.
- More transparent reporting of corporate donations, which will increase corporate donations by helping to ensure corporations give and volunteer in ways consistent with the expectations of their staff, customers and the broader public.
- The ability to meet minimum distribution requirements over three years, creating more scope for structured giving to support larger, more transformative charitable projects.
- Improved data in fields such as bequests.

We are also encouraged that, while the PC does not support the removal of the tax penalty on super bequests, the choice to make bequests through superannuation is canvassed in the report and an information request made on the benefits and costs of implementing this important reform. Given the magnitude of the potential giving that would likely eventuate – and the fact that such bequests would be made with no tax break (and would indeed increase revenue) – we believe the case for this reform as a highly efficient way to lift giving is tremendously strong.

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[1] Philanthropy Australia has recommended expansion of DGR to all charities for a range of reasons. It reflects our view that all charities provide a positive public benefit. The PC has found the tax concession is an effective way to spur giving. It also broadly reflects the practice of nations that give more as a percentage of national income than Australia – the US, UK and New Zealand. It is also the position the PC recommended in its 2010 report on the not-for-profit sector.

2. A broader, more ambitious framework for the final report

PA respects the way the PC adopts a strategic economic framework for considering policy reforms – both in the aggregate sense (as outlined in the discussion in chapter two on market failure and the role of government) and in its approach to specific issues (such as the thoughtful approach to DGR reform in chapters 4-6).

PA agrees with much of the framework deployed by the PC, including the view that measures should not be recommended where they favour one sector of the economy (whether an industry sector, philanthropy or charity) but impose a net detriment to community-wide welfare (for instance because they produce large revenue losses relative to the benefits they create, impose significant economic distortions, or go beyond the appropriate role of government).

PA believes the PC could recommend a broader set of measures to lift giving that would also an improvement in community-wide welfare. For the final report to contain the best possible set of recommendations to lift giving, while also maximising the wellbeing of the Australian people as a whole, we believe there needs to be a shift in emphasis in three areas:

- The tremendous rigour and creativity deployed to develop DGR reforms or consider changes in minimum distribution rates for structured giving vehicles needs to be deployed to frame up additional policy options that can lift giving;
- For some of the key policy ideas being considered, the tremendous rigour deployed on why reforms might not be welfare enhancing needs to also be deployed to more strongly consider, develop and reflect the case for action and how risks with reform can be mitigated.
- The reform framework needs to go beyond the PC's focus on the DGR framework, stronger regulation and information if we are to consider all relevant options to lift giving. Below we outline a broader framework – encompassing culture and institutional economics, behavioural economics, red tape reduction, improved data, governance and capability enhancement for the charity sector. These additional areas provide additional policy levers to lift giving worthy of consideration.

2.1 Provide a suite of high impact policy options to significantly lift giving.

Recommendation

1. **Provide the Government with a suite of practical policy options that would deliver a step-change increase in the culture and practice of giving in Australia.**
2. **These should provide net benefits for the community as a whole.** Philanthropy Australia recognises and respects the PC view that government should not implement policies that provide special treatment for a particular sector (whether for a particular private industry sector or the philanthropic and charity sectors), where such policies deliver a net detriment to community welfare overall. As the PC highlights, there is no free lunch – policies providing support in one area can impose costs elsewhere and have an opportunity cost. Our point is that much more can be done to lift giving in ways that also deliver a net improvement in community welfare overall.

Rationale

1. **The Government's Terms of Reference indicate that the primary purpose of the inquiry is to identify opportunities to lift giving, to inform how the government can implement its election commitment to double giving to charity by 2030.**

- The Terms of Reference state:

  'The Government is committed to taking this opportunity [to expand the role of not-for-profits] and will collaborate with the philanthropic, not-for-profit and business sectors to double philanthropic giving by 2030. Identifying and assessing opportunities and obstacles to increasing philanthropic giving will provide a roadmap to achieving this objective.'

  'The purpose of the inquiry is to understand trends in philanthropic giving in Australia, the underlying drivers of these trends, and to identify opportunities and obstacles to increasing such giving. The inquiry should make recommendations to Government to address barriers to giving and harness opportunities to grow it further.'

This core purpose is repeatedly emphasised in the Terms of Reference. For instance:

> 'Point 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.
>
> ii. Successful public strategies in other jurisdictions — across business, not-for-profits and philanthropic sectors — that have enhanced the status of giving or the level of philanthropic activity.
>
> iii. The potential to increase philanthropy by enhancing the effectiveness and efficiency of the use of donations.'
>
> 'Point 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…'

2. **The Government gave further advice when the Treasurer released the Statement of Expectations for the PC on 10 November 2023.**

- The Statement of Expectations highlighted the Government is looking for the PC to do more to:
  - '…take account of the Government's … policy objectives and priorities as part of its research and work program.'
  - Provide practical policy advice – '…complement its policy insights with appropriate and effective recommendations on how to translate them into practice.'
  - Utilize 'a more diverse set of skills, experiences and backgrounds…' and 'more diverse data and frameworks and greater external input.'

3. **The draft report provides very few options to lift giving and concedes the options that are provided would do little to lift giving. The PC is indicating limited reform is needed, and the status quo largely suffices.**

- The draft report:
  - Provides few policy options to lift giving and collectively would do little to increase giving. Even

  in relation to the most substantive reform recommended – expanding DGR – the Commission notes '…the reforms are only likely to make a small addition to overall giving.'
  - Notes 'Keeping the status quo is also an option available to government, and it is likely that giving, particularly donations by individuals, will continue to grow under the status quo.' (p.68)
  - Highlights 'The Productivity Commission estimates that total giving to all registered charities will be about $26.5 billion in 2029-30 if the average nominal growth rate (7.9%) of this measure of giving continues [a doubling from $13 billion in 2021].'
- PA does not consider it helpful to point out that, during a period of high inflation, giving will double in nominal terms over a decade. The Government and the philanthropic sector aspire to Australia fulfilling its potential as a giving and generous nation. A more credible measure of doubling giving would be to do so in real terms, or to double giving as a percentage of GDP (which would still leave us short of the US and New Zealand). This would require that Australia increase its giving to in the vicinity of $35-40 billion by 2029-30.

4. This draft report has not fully recognised or responded to the intent of the Terms of Reference outlined by the Treasurer, nor the government's election commitment to double giving.

- While the double giving target is an important means of galvanizing action, the Government's election commitment was about more than reaching a particular number for the amount of giving in a particular year. In making its commitment to develop a Strategy to Double Giving to Charity by 2030, the Government was clearly expressing a desire to achieve a step-change increase in the culture and practice of giving in Australian society. The hope was to grasp the opportunity – available to us right now – to create a more generous and giving Australia, with greater support to address our biggest challenges, including more support for people in greatest need.
- In developing the double giving commitment, Charities Minister Dr Leigh had recognised:
  - Despite the rise in wealth in Australia (for example the rise among the Top 200 from $209 billion to $563 billion between 2016 and 2023), we lag behind comparable nations, with giving as a percentage of GDP around 0.81 per cent, compared to 1.84 per cent in New Zealand and 2.1 per cent in the United States. The percentage of Australians giving to charity is falling rapidly.
  - Through his book with *Reconnected* with Nick Terrell, Dr Leigh charted the significant decline in social capital and community engagement in recent decades (evidenced by a large suite of indices) and championed social entrepreneurs and philanthropists working to turn this around.
  - These facts suggest that, given our level of wealth, there is a tremendous opportunity to achieve a step-change increase in giving in Australia. The Government and the philanthropic sector are hoping to seize this historic opportunity to create a more giving society, with increased support for people in need.

5. Philanthropy Australia considers the goal should be to develop a suite of additional options to lift giving – consistent with maximising community-wide welfare – so we can reach the potential as a generous and giving nation.

- The benefits of philanthropy are substantial, as recognised by the PC.
- We have a rare opportunity to maximise these benefits. The opportunity should be seized.

6. In the final report, the PC could do more to develop practical recommendations to lift giving.

- The draft report does a tremendous job in conceiving a rigorous basis for DGR reform and considering changes to minimum distribution rates for structured giving.
- This approach needs to be deployed more broadly if the report is to reach its full potential.
- In a suite areas in the draft report, reform options are briefly mentioned, but not developed. See Box 1.

BOX 1: AREAS WHERE PROMISING REFORMS TO LIFT GIVING ARE MENTIONED, BUT NO POLICY PROPOSITION IS DEVELOPED

- **Super bequests:** Despite the massive potential of super bequests to lift giving – and do so while actually increasing revenue - a reform option to introduce super bequests was not developed, nor the benefits clearly explored, identified and detailed.
- **Community Foundations**: While the benefits of community foundations are briefly discussed, the report did not attempt to consider or develop policy reforms to strengthen and expand the national network, which is essential to building social capital and ensuring a more equitable distribution of philanthropic giving, particularly in communities experiencing place-based disadvantage.
- **A voluntary choice to donate as part of the tax return process**: This idea was summarily dismissed, with no attempt to consider how it might work and the benefits that would flow.
- **Measures to foster a more generous and giving culture, including a National Giving Campaign:** Culture is a key determinant of giving, which the PC recognises: 'There are good reasons to expect that social and cultural norms play an important role in attitudes towards expected giving and actual giving outcomes (p.96).' However, while the report did include thoughtful analysis on the evidence and success factors regarding a National Giving Campaign, it did not include any reforms that would create a more generous and giving culture, including none of the five reforms suggested by PA in our May submission.
- **A national giving and volunteering data set**: The PC has made some excellent recommendations to improve data collection in areas such as bequests and corporate giving. However, data would continue to be collected by multiple different agencies – including the ATO, ABS and ACNC – with no single comprehensive data set on giving and volunteering. The final report could identify how all the data could be organised into a single comprehensive national data set on total giving and its key components, led by a single agency and published annually to guide policy and philanthropic activity.
- **Governance arrangements for stronger cooperation between government and philanthropy:** Philanthropy and government play complementary roles, but we don't have governance arrangements that create scope for ongoing collaboration to drive stronger social innovation and impact per dollar expended. As such, successes have been ad hoc, when they could be a steady stream. The Investment Dialogue for Australia's Children is beginning to show what can be achieved when government and philanthropy work together. In the years ahead, this model could be adopted in social and environmental portfolios across government, with Ministers and/or senior officials meeting philanthropy 2-4 times a year work collectively to lift innovation and impact.
- **Strengthening the charity sector:** The draft report notes the importance of maintaining trust in the charity sector – which is important to spurring giving – and discusses how regulation can be strengthened accordingly. An alternative means to maintaining trust are positive measures to build capability and effectiveness in the charity sector – such as creating a stronger cadre of effective fundraisers and charity leaders – and creating a more favourable environment in which charities operate – such as by reducing red tape, providing longer contract lengths and full funding for provision of government services. These measures could be considered in the final report.
- **Living Legacy Trusts** – LLTs are briefly described in the report, but there is no analysis of the costs and benefits of implementing this reform, nor any attempt to design of a reform that might deliver a cost-effective increase in giving.

2.2 Apply as much rigour to developing and reflecting the case for reform as applied to the case for the status quo

Recommendation

1. **Identify, develop and reflect in the report the case for high-impact reforms and how they can be designed to overcome risks, work effectively and efficiently, and deliver a net community benefit (deploying equal rigour to this task as to why reforms should not occur).**

Rationale

1. **In a number of cases in the draft report – such as DGR reform – the case for reform is well articulated. On other occasions, the case for reform is missing or less than fully developed.**

- In considering a number of high-potential reforms, the draft report sometimes does not appear to consider, develop or fully reflect the case for action, or how risks might be overcome, while focusing extensively on why reform should not occur. See Box 2, 3 and 4 for examples. The risk is that reforms that could lift giving – and have a positive community-wide benefit – could be missed in the report, so Australia will miss the opportunities for economic, social and environmental progress. It has been rare that governments have given philanthropy such substantive consideration – and it may not happen again for a considerable period of time – so this might be the only opportunity to optimise policy settings for giving and volunteering in a generation or more.

2. **PC reports echo across time so reflecting both sides of the debate can aid future policymakers.**

- PC reports can influence policy through the immediate government response, but they can also be highly influential when governments reconsider issues years or decades in the future. Reflecting both sides of the debate could be helpful, even where the PC decides to support continuation of the status quo.

3. **In the final report, we would welcome stronger attention on the case for reform and demonstrating how risks identified can be mitigated, or collectively are less significant than the benefits that would flow from reform.**

BOX 2: WHERE'S THE YES CASE? – A VOLUNTARY CHOICE TO DONATE AS PART OF THE TAX RETURN

The case for action is not outlined in the discussion of this proposal (p.327-329).

None of the following benefits were outlined in the report.

- **The reform addresses clear policy problems.** Australia lacks a culture of giving present in leading philanthropic nations – this reform has the potential to become a valued national custom, and a regular reminder of the value of giving. Through simplicity, it also overcomes the effort and red tape often involved with giving, and facilitates choice for people to give to charities they value.
- **It could substantially lift giving.** Around $30 billion is returned each year in tax returns, or around $2,800 among those receiving returns. In a wealthy country, we might expect several billion in additional giving to occur each year, even after substitution effects, or tens of billions per decade.
- **It is likely to be welfare enhancing:** The PC has confirmed the tax concession for giving is welfare enhancing. It follows that if this reform is effective in increasing such giving – and does not have major downsides – it too is welfare enhancing.
- **Evidence from dozens of studies confirms behavioural nudges have been highly effective in increasing philanthropic giving.** More specifically, well timed prompts have radically increased giving. For instance, a trial by the UK Behavioural Economics Team showed that having lawyers ask clients making their wills whether they wished to make a philanthropic bequest as much as tripled the proportion of people giving, and doubled the average amount given.[2]

[2] UK Behavioural Insights Team, *Applying behavioural insights to charitable giving*, 2013, p.22,23.

Risks are highlighted, but with no attempt to identify means to mitigate them, despite clear options being available, or consider counter-perspectives. For instance:

- **Possible poor public reception:** The PC state 'It is possible that taxpayers may resent being asked to donate by a government body, particularly in the context of a compulsory interaction related to taxation, and a poor public reaction to this type of campaign could undermine other efforts to increase giving.' <u>Mitigation/response:</u> Redbridge national polling of more than 2,500 people showed 70 per cent supported the reform, 9 per cent were opposed, and 21 per cent were neutral or not sure. Redbridge focus groups show the risk of a negative reaction does need to be mitigated, but a communications campaign and appropriate messaging – including to be clear it is entirely voluntary – can mitigate the risk. Over time, it can become a positive and expected practice. As one participant said: "I think it's a great idea. It's not making anyone give anything they don't want to give. It's just a reminder, and it's an easy option."
- **Unethical:** PC: 'Use of nudges by the ATO to increase giving may also raise ethical issues. Some studies on the effects of nudges for giving, such as at supermarket checkouts, suggest they can cause feelings of anxiety or irritation for the people being asked to give. <u>Mitigation/response:</u> People are asked dozens of times a year for donations. It is unlikely one more voluntary ask would materially compromise mental health. On the other hand, it would be highly ethical to implement a reform to generate tens of billions to support people in greatest need.
- **Only the sector, not government, should implement behavioural nudges:** PC: '… the use of nudges among governments agencies, such as the Australian Taxation Office (ATO) for this purpose would be novel … [T]he sector itself – rather than government – is likely to be better placed to implement behavioural nudges most likely to increase overall giving. <u>Response:</u> No evidence is provided that government should not undertake nudges, or that it can't be effective. Indeed, the Government massively influences behaviour and culture in a ubiquitous fashion – for instance, welfare rules encourage people to seek work, and tax concessions administered by the ATO encourage research and development and business investment. Reform by its nature is often novel and the means by which we improve society. Only government can offer a choice to donate via the tax return.
- **Some people might not donate:** PC: 'offering an option for people to donate to charity when lodging their income tax return would mean the deduction would apply to the next financial year. This might not be attractive to people that cannot reliably predict their tax position a year in advance.' <u>Response:</u> The prompt is likely to be sufficient to ensure that millions people – especially those more fortunately placed – will consider giving. As the Commission has identified, there are a range of non-financial motivations that could drive such giving. For some, knowing their next tax return will include a return for charitable giving may be an additional financial incentive. The idea for the reform is that we create a national custom, where those in a position to give, consider giving at tax time, aiming to increase giving by several billion a year (from the $30 billion returned). Some people with low or uncertain incomes may decide not to give in a particular year to ensure they can adequately support their families, and this is a good thing. However, this does not invalidate the potential or net benefit of this policy reform.

No attempt is made to consider how the policy proposition could be made to work.

- For such a promising reform, we believe the PC should consider the 'yes case' for action, how risks identified could be mitigated, whether benefits are likely to outweigh costs, and how a scheme could be designed to lift giving and be welfare-enhancing.

BOX 3: WHERE'S THE YES CASE? REMOVING THE 17 CENT TAX ON SUPER BEQUESTS

The PC makes a strong case for the status quo (p.272-278)

While PA sees allowing people to bequest through their super arrangements as its number one priority, we will no longer seek to argue that the tax of typically 17 cents in the dollar should be removed as:

- The PC has undertaken considerable analysis and has made up its mind.
- It makes the case for allowing bequests through super extremely strong, notably because it has the potential to radically lift giving, with no revenue foregone. In fact, revenue would rise.

We also agree that the PC has made strong arguments in favour of no policy reform, including:

- While there would be limited foregone revenue over the forward estimates, there would be considerable foregone revenue over the longer term. This clearly has an opportunity cost.
- Removing the tax for donations to charity, while retaining it for adult dependents, is arguably unfair.
- Across the life cycle, people receive extensive tax concessions on their superannuation contributions, earnings and withdrawals.

However, strong arguments for removing the tax are not stated or are underplayed.

The PC concludes 'There is no case to change tax arrangements for superannuation bequests to charities.' Philanthropy Australia believes there are strong arguments for removing the tax that should have been reflected and engaged with, even if, on balance, the PC recommended the status quo:

- **Inconsistent tax treatment:** There is a strong argument for removing the tax penalty on super bequests. The Government offers tax deductibility on donations to charities with DGR status, recognising the public good achieved through such charitable giving. The PC concluded that the DGR framework increases giving and produces a community-wide benefit, even after accounting for revenue foregone. However, charitable giving through super bequests are taxed at up to 17 cents in the dollar. So the day before you die, charitable giving gets a tax break, but the day after you die, charitable giving is taxed. It is not consistent logic to state that in one context, charitable giving should be encouraged through a tax break and is welfare enhancing, but in another context, a tax penalty should be imposed on charitable giving to protect community welfare.

- **Encouraging charitable giving:** Evidence and reasoning suggests that removing the tax penalty on super bequests would likely increase charitable giving. When told that super bequests attract a tax penalty, with such money going to the government rather than the intended charity, some people would likely give less or not at all. This view is informed by what happens in nations that have inheritance taxes, which can be partially offset by charitable giving. A review of the evidence found 'An inheritance tax … provides greater incentive to give to charity. OECD analysis suggests charitable bequests decline by 12-20% when there is no inheritance tax in place.'[3] This evidence does not appear in the draft report and indeed the PC states 'it is not apparent that the current taxation arrangements create an additional barrier to giving from superannuation death benefits…'

- **Lower revenue foregone and a more efficient means to encourage giving:** The PC states '… the cost to government would likely be higher than for donations through other mechanisms.' This is false. Most giving is tax deductible, so people can deduct it at their top marginal tax rate of up to 45 cents. Removing the 17-cent tax on super bequests is likely a more efficient means to spur giving (including because components of bequests may displace money otherwise going to child dependents which are not taxed). The PC view that removing the tax on super bequests is relatively expensive appears to be based on counting in the cost not just the 17-cent reduction, but all the tax concessions provided to individuals for their super across their lifetime. These broader expenses happen in any case. A policy costing would only count the cost of the change from the status quo.

- **A fair assessment of revenue foregone?** We note the PC uses the figure of $3.6 billion in revenue foregone in 2060, using the most optimistic assumption for increased giving, and the extreme assumption that all bequests displaced funds otherwise going to adults rather than dependents.

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[3] Flatau, P., Lester, L., Brown, J.T., Kyron, M., Callis, Z., & Muir, K. (2022). '*High Net Wealth Giving in Australia: A Review of the Evidence*', Centre for Social Impact: UNSW and UWA. DOI, p.15: https://doi.org/10.25916/ranq-n886

BOX 4: WHERE'S THE YES CASE? ALLOWING THE CHOICE TO BEQUEST THROUGH SUPER

The PC underplays benefits and highlights but does not address multiple risks (p.268-272)

We are delighted that the PC has left open the possibility of recommending super bequests but note:

- The PC expresses the benefits of reform as: 'The argument for change is to make the process simpler and easier by reducing any unnecessary regulatory barriers – and that this would enable more superannuation death benefits to be directed to charities upon death compared with the status quo.'
- A key section is headed 'There should be a high threshold for changes to superannuation arrangements.' This appears to suggest the case for the status quo should be given more weight than the case for policy reform. We disagree. As with any policy endeavour, careful judgement should be made, based on evidence and reasoning, fairly weighing the case for and against change.
- Multiple risks are then outlined, with no assessment of the gravity of the risk and no suggested mitigation.

1. Unintended consequences.
2. Giving may fall now and rise in the future.
3. The Government may reduce spending on charities.
4. The need for safeguards for members and dependents.
5. Implications for superannuation trustees, including potential costs from legal challenges or managing scenarios where the charity has wound up.
6. Alignment with the current policy objectives of superannuation.
7. Implications for the death nomination process.

- Stakeholders, with special emphasis on super funds, are then asked for their views, without the substantial benefits of reform having been identified and reflected.

PA believes the PC could usefully:

(i) Further consider, develop and reflect the strong case for super bequest reform – both in consultations with stakeholders and in the final report. In addition to removing unnecessary regulatory barriers, super bequest reform would:

- Deliver a very large net rise in giving over the long term;
- Ensure Australia's large super asset base is not effectively excluded from potential national giving;
- Provide a highly efficient means of giving, as bequests do not attract a tax concession;
- Deliver a significant increase in government revenue from a relatively non-distortionary source;
- Foster greater social equity – creating a powerful lever for more equitable sharing of wealth and opportunity.

PC analysis on these issues – particularly the increases in giving and revenue – would be welcome. Our evidence and detail on these points is provided at 3.1 below.

(ii) Proactively consider and detail how implementation challenges/risks can be mitigated.

PA agrees there are implementation challenges. We identified challenges and mitigation strategies in our May submission and asked Impact Economics to do further work in their report. We provide further advice in Box 5: Addressing Implementation Challenges in 3.1 below.

(iii) *Assess the likely benefits against the costs and risks.*

PA believes the benefits are very substantial and the costs and risks – even taken as a whole – are limited and can be addressed, making the case to recommend super bequest to the Federal Government very strong. As an additional safeguard, we recommend further engagement with the industry on how best to implement the reform, prior to implementation.

2.3 Broaden the economic framework and policy tools to lift giving.

Recommendation

1. **Philanthropy Australia recommends the PC broaden the scope of the framework it has used in the draft report** – the personal income tax deduction, stronger regulation of charities and information – to encompass additional areas of legitimate economic inquiry, which would then open up more possibilities to consider reforms to lift giving and achieve a community wide improvement in wellbeing.

2. **We suggest consideration be given to**:

(i) Institutional economics, which focuses on how culture and social norms affect economic outcomes.

- The PC noted 'There are good reasons to expect that social and cultural norms play an important role in attitudes towards expected giving and actual giving outcomes (p.96).' However, the report then did not explore culture in any detail or recommend any measures to address this crucial driver of giving outcomes. Government incentives can only fulfil their potential where people see it as part of their role and identity to contribute to the community, where they are in a position to do so. The proportion of Australians giving to charity is rapidly falling and the proportion of wealthy Australians significantly embracing philanthropy is radically lower than in leading philanthropic nations such as the United States.

- Philanthropy Australia made five recommendations in its May submission aimed at creating a more generous and giving culture – a modest national program to give all school children an experience of philanthropy; a National Giving Campaign; and each of the philanthropic, business and charity sectors making contributions to the 'double giving' mission, formalised in regular compacts with the Federal Government. Changing the behaviour of key actors in the national giving endeavour is a clearly defined and practical means of shifting our giving culture (See pages 42-57 of PA's main submission in May and our Supplementary Submission: Is there a role for government in supporting a National Giving Campaign, which discusses culture and the role of government).

(ii) Behavioural economics – Research confirms that behavioural nudges have been effective in increasing philanthropic giving. The PC could consider this evidence in its final report and the potential of high value options to lift giving, such as a voluntary choice to donate as part of the tax return process.

(iii) Governance – The PC could consider recommending simple governance reforms that would create stronger impact from collective investments by government and the philanthropic sector. By collaborating to solve key national challenges, rather than working in isolation, we'd expect stronger outcomes per dollar invested. Each could play to their strengths, such as philanthropy investing in social innovation, and government expanding service provision where evaluations show new models deliver stronger impact. The announcement of the Investment Dialogue for Australia's Children (IDAC) in the May 2023 Budget, and its launch in December by the Treasurer, Minister for Social Services and Minister for Indigenous Australians together with leaders in the philanthropic community, shows there is momentum for greater cooperation. In time, the IDAC approach could be deployed in other portfolios, with Ministers and or/senior officials in each portfolio engaging with the philanthropic sector 2-4 times per year to consider how to collaborate and innovate to drive impact.

(iv) Creating a sound environment for charities, with red tape reduction and measures to build capacity. The report notes the importance of maintaining trust in the charity sector – which is important to spurring giving – and discusses how regulation can be strengthened accordingly. An alternative means to maintaining trust are positive measures to build capability and effectiveness in the charity sector – such as creating a stronger cadre of effective fundraisers and charity leaders – and creating a more favourable environment in which charities operate – such as by reducing red tape, providing longer contract lengths and full funding for provision of government services. These measures could be considered in the final report.

Rationale

1. The PC adopted a narrow framework to consider measures to lift giving in its draft report.

- The PC summarised its framework at page 10 of the report:

  'There are three main areas where policy changes to encourage philanthropy are likely to increase the wellbeing of the Australian community – the personal income tax deduction to incentivise giving, the regulatory framework for charities and public information for donors.'

The PC's Framework		
The personal tax deduction	Regulation	Public information for donors

2. A wider framework is needed to capture all the key policy drivers of giving.

- The framework excludes key areas of economic inquiry and key drivers of giving.
- The broader framework suggested opens up additional potential policy options for lifting giving, while also ensuring net benefits to the community.

3. Reforms we'd like to see recommended in the final report

3.1 The choice to bequest through superannuation

Recommendation

1. **The PC recommend that the Federal Government:**

- **Announce its intention to give Australians the choice to make a bequest through super**: Allow Australians to bequest some of their unspent superannuation funds (funds remaining when people pass away) to a nominated charity, through an instruction to their superannuation fund (rather than having to follow a complicated legal process including the need to leave instructions in their will).
- **Proceed only after consultation with the superannuation industry to ensure implementation challenges are effectively addressed.** The Federal Government should engage the superannuation industry to discuss super bequest reform and seek their input prior to the reform being implemented. This is important because: the industry are the stewards of superannuation, a critical reform that means millions more people can live in retirement with dignity; and, the industry will have insights into how implementation challenges can best be addressed.

2. **In considering whether to recommend this reform we ask that the PC:**

- **Undertake greater analysis to identify and reflect the benefits of reform:** Most particularly, we think it important that the PC reflect a position on: 1) The likely broad magnitude of increased giving. While there is no way to predict the future with anything approaching specificity, our analysis indicates increases in giving are likely to be in the hundreds of billions by the end of the century. This is pertinent to whether the reform should proceed. 2) The revenue gains that would accrue, as these too could be very large (see below). As super bequests would not attract a tax deduction, they'd be a highly efficient form of giving. Avoiding revenue losses also avoids risks the PC identified if the 17-cent tax were to be removed, such that reduced revenue could mean less government funding for charities.
- **Proactively consider and detail how challenges/risks can be mitigated:** PA, in its May submission, identified a suite of risks and how they could be mitigated. At our request, Impact Economics outlined further mitigation of risks in its October report. To date, the PC has only outlined risks. Analysis of how they can be managed now needs to occur. We offer further advice in Box 5: Addressing Implementation Challenges.
- **Assess the benefits against the costs and risks:** PA believes the benefits are very substantial and the costs and risks – even taken as a whole – are limited and can be addressed, making the case to recommend super bequest to the Federal Government very strong. As an additional safeguard, we recommend further engagement with the super industry on how best to implement the reform, prior to implementation.

The Case for Reform

1. **Removing unnecessary regulatory barriers.**

- As the PC describe in the draft report, the process for bequesting through super is complicated and uncertain – requiring people to fill out a binding death nomination, together with a legal will, and hope that their wishes are respected.
- The process can be made simpler – directing your super fund to allocate an amount or proportion of your remaining funds to a nominated charity.

2. **It's the people's money. They should have the choice about where it goes, and that choice should be made as easy as possible.**

- Government legislation making it very challenging for people to give money to charity through super bequests is an excessive restriction on the ability of people to use their own money as they wish and, in particular, to contribute positively to society. In order to maximise choice and take up, this choice should be made as simple as possible, available through each person's super fund.

3. Hundreds of billions for charity to support Australians in greatest need.

The logic behind PA's position that the increase in bequests is likely to be very large is as follows:

- Treasury in its *Retirement Income Review* (July 2020) forecast superannuation balances at death will increase from $17 billion in 2019 to $130 billion by 2059 in 2018-19 dollars. Many trillions of death benefits will pass over the 21st century, so if just a modest proportion goes to charity, it will amount to hundreds of billions in increased giving.
- Giving would be relatively modest in the early years as the reform needs to be implemented, people need to become aware of the option, then nominate a charity, then die and then the money needs to flow to charity.
- We would expect giving to grow rapidly across the 21st century as:
  - The process can be very simple – making a request to your super fund by filling in a binding death nomination. Behavioural economics studies confirm giving is spurred significantly where the process is made simple.[4]
  - Giving to great causes through super bequests would be marketed by charities and super funds.
  - People would be prompted multiple times across their lifespan to consider the reform (including in young, idealistic years when joining super, and in later years when many people are in a financial position to give and considering leaving a legacy to society). Studies confirm prompts increase giving – for instance, prompting people developing their wills to consider philanthropy up to triples the percentage giving and up to doubles the average amount donated.[5]
- In order to seek to ensure these potential very large gains in giving were considered by the PC and Government, we commissioned Dr Angela Jackson and Dr Emily Millane from Impact Economics and Policy to make broad estimates of the possible magnitude of future giving, with two scenarios, both based on reasonable assumptions,[6] including that super bequests, having effectively been locked out by red tape, would grow in line with trends in broader bequesting. They found:
  - Over the period to 2060, the reform could generate between $64.6 and $260.3 billion in additional income for charities <u>in current dollars</u>.
  - Australians donated $13.4 billion to charity in 2021. The new modelling indicates that in the year 2060 alone, the reforms would yield between $4.8 and $21.9 billion for charity. For more detail, see their full report, *Charitable Superannuation Bequests: Making Giving Easy*.
  - The purpose of the Impact Economics report was not to pretend outcomes could be predicted with scientific accuracy – but to note that, given many trillions of dollars in death benefits will pass this century, capturing even a small percentage for charity would create a very large increase in giving.
- We believe the report by Dr Jackson and Dr Millane is a highly credible and proactive effort to identify the likely gains from a reform that could offer very substantial benefits, particularly for people in greatest need.
- The PC's response to date has been to include Box 8.6 in the draft report providing a critique of the Impact Economics work. We think it is important that the PC now turn its attention to actively considering the potential large increase in giving and coming to its own broad view,
- We note the good point raised by the PC that the Impact Economics report does not factor in substitution effects.
  - We believe substitution effects are likely to be limited as: such a simple means to bequest does not yet exist in Australia; the complicated option available – through wills – has low take up; and

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[4] Ideas 42, *Behaviour and Charitable Giving: 2019 Update*, p.13.

[5] UK Behavioural Insights Team, *Applying behavioural insights to charitable giving*, 2013, p.22,23.

[6] For more on the methodology, see Impact Economics and Policy, *Charitable Superannuation Bequests: Making Giving Easy*, 2023, p.19 and Appendix One. The conservative estimate accounted for a tiny behavioural response to the increased simplicity of the process, with the more optimistic scenario incorporating a stronger response; the more conservative estimate included a major response to the government's efforts to increase the spend-down in retirement; and both scenarios incorporated a response to removing the tax on super bequests.

people are unlikely to substantially reduce giving from their young adulthood onward on the basis that they may make a super bequest decades later when they die. This isn't how giving occurs across the lifecycle. People at any point can generally not predict their future economic circumstances. For this reason, people who are inclined to give tend to give incrementally across their lifetime, according to what they can afford at the time.
    - The report was not aiming for scientific precision. Rather it was attempting to demonstrate based on reasonable assumptions that the lift in giving from super bequest reform is likely to be very large.
- Some may highlight an additional reason why bequests could be lower than expected.
    - To date, significant funds have been passing at death as people have been dying with most of their super – typically 90 per cent – intact.
    - The Government, through the Retirement Income Covenant, is now encouraging super funds to work with people in their retirement phase to educate them about their super and encourage them to draw down more in retirement. This could mean less funds available for bequesting.
    - For this reason, the conservative estimate in the Impact Economics modelling assumed a 50 per cent draw down in retirement, a big drop from 90 per cent. Even accounting for this large drop, the conservative estimate was still $65 billion by 2060 in current dollars.
    - In considering this issue in coming to its own conclusions about the magnitude of death benefits to pass in the future, we suggest the PC take into consideration powerful forces that lead to people conserving their superannuation assets:
        - Super is concessionally taxed so people tend to draw down other sources of income before turning to super.
        - As people don't know how long they'll live, many spend conservatively to ensure they have funds available in their latter years.
        - Some Australians are motivated to bequest remaining funds to their families.

4. A highly efficient, cost-effective form of giving.

- Bequests are a particularly cost-effective means of charitable giving because donors do not receive a tax break in return for their bequest.

5. Revenue would increase significantly over the long-term from an efficient source.

- Money bequested through super is taxed at up to 17 cents in the dollar. Where such bequests partially displaced funds otherwise to be distributed to non-adult dependents (which are tax free), they would create a helpful addition to net government revenue.
    - Note that where such bequests displaced funds otherwise to be distributed to adult dependents, there would be no impact on revenue, as both are taxed at up to 17 cents.
- Without knowing the split between funds going to child versus adult dependents, we can't be clear about the magnitude, but, as the PC identifies in Box 8.6, very large sums could be involved.

6. Spreading wealth and opportunity to all Australians

- Australia has a large amount of its wealth in superannuation assets, which are north of $3 trillion and rising rapidly.
- Wealth among the Top 200 has increased from $209 billion in 2016 to $563 billion in 2023, or from an average of $1.05 billion in 2016 to $2.8 billion in 2021. Super bequests can be a crucial mechanism transferring funds from Australians fortunately placed to those in greatest need.

As a society, we need to make a clear choice: Do we wish to see all this wealth pass to future generations, maintaining wealth and privilege for those most fortunately placed, or do we wish to see some of this money used to support Australians in greatest need, so opportunity is more evenly shared in our country?

BOX 5: ADDRESSING IMPLEMENTATION CHALLENGES AND OPPORTUNITIES

1. **The mechanism for super bequesting.**

The mechanism can be simple – making an instruction to the super fund through a binding death nomination. The trustee's role would be to implement the wishes of their super member.

2. **How to create certainty and limit costs: Implications of super bequest reform for the binding death nomination process, the quantum of complaints, and costs for super funds and trustees.**

PA believes the PC makes important points here:

- The current system for handling remaining super funds is complex, for instance, including binding death nominations lasting three years, non-lapsing death benefit nominations, and even non-binding death benefit nominations.
- In 2022-23, there were 599 complaints related to death benefits from all sources.

The risk is that allowing charitable bequests in this system would lead to an increase in complaints and additional costs for super funds and trustees.

PA believes consultation with the super industry on reforms that would allow an easier binding death benefit nomination process that includes charities are required. However, we make the following observations in advance:

- Super funds could create certainty for trustees and significantly limit complaints and costs for super funds by allowing members to choose non-lapsing death benefit charity nominations.
- There is an argument for the whole system to shift to non-lapsing death benefit nominations to handle all funds remaining in super at death. This would give trustees certainty, radically reduce complaints, and place responsibility for bequesting where it belongs – with the super member. This is largely the framework operating for wills, where people decide what to do with their own money. Super funds would play a role in reminding members to update their nominations when their life circumstances change.
- Legislation could also make charity bequesting an option for super funds, so only those who consider it a net benefit would pursue the option.
- Even if the existing system were retained, the likely magnitude of any rise in complaints due to charity nominations would impose costs radically lower than the massive net benefits of the reform, in particular the large increase in giving to support Australians in greatest need.

3. **What if the nominated charity no longer exists?**

Again, the Government could consult the super industry and specialist lawyers on options here but PA notes:

- Super members could be asked to nominate a list of back up options in their order of preference – charities that would receive the funds should the nominated charity no longer exist.
- If all the charities ceased to exist, remaining funds could flow to nominated beneficiaries.

4. **Other implications for super funds and trustees**

Along with challenges for super funds and trustees, super bequests would provide benefits:

- **Competitive advantage for super funds through ESG and market positioning:** Some super funds are attracting market share with a business model that emphasises having positive impact in the community, such as through their ethical investment strategies. First movers in the sector would attract additional business from customers and attract talented staff who feel pride in supporting super funds committed to building a stronger society.
- **Increased community support for the sector as a whole:** The Australian community would warmly welcome the generous work of super funds, helping to strengthen their social licence.
- **Facilitating transformational change** for Australians in greatest need, through the tens of billions raised.

- **Democratising giving:** Super bequest reform would position all Australians to participate in the joy and pride of giving.

5. Safeguards for members and dependents

Super bequests do not impact a member's accumulation of funds or funds drawn down in retirement, as they involve bequesting funds after a person is dead.

Protecting dependents is clearly very important.

- We can expect bequests to largely occur in families with the means to support charity, as well as provide generous support to dependents, from remaining super and/or other assets.
- It is also important to address another critical equity risk – that the explosion of wealth at the top end of Australian society will simply be passed on to dependents, rather than shared to help create opportunity for all Australians, particularly those in greatest need. The ban on charity bequests makes this very difficult to achieve through super under current rules.
- There may be a need for considering extra safeguards, having regard to: on the one hand, the need to ensure minimum provision for dependents, and in particular children, from super and the broader estate; and on the other, the desirability to provide maximum freedom to give to charity, especially among those most fortunately placed.

6. Reception by superannuation fund members

The PC notes 'It would particularly welcome perspectives from superannuation fund members.' We can confirm that the reform would be well received. In a poll of more than 2,500 Australians conducted in November 2022, Redbridge found 75 per cent support for the reform, with just 5.8 per cent opposed and 19.2 per cent neutral or not sure. This was the highest support for any of the reforms tested in the polling. As evidenced by responses in six focus groups run by Redbridge, most people told of super bequests rapidly agree with the idea, seeing it as self-evidently sensible, as typified by these statements:

"Well, I actually thought [a super bequest] was something that you could easily do. I didn't realise it was so difficult. I think that making it more accessible is a great idea."

"I think it sounds great. More people would definitely do it if it was easier."

7. Alignment with the core purpose of super.

The Government's proposed objective for super is 'to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way.' PA strongly agrees superannuation is a crucial system, enabling people to live out their retirement with reasonable incomes. The super bequest proposal is not inconsistent with the core purpose of super: It has no impact on retirement incomes as funding would only pass to charity after the person has passed away. The reality is that people die with superannuation savings intact, so policy cannot simply consider the retirement phase. Enabling people to give some of their remaining funds to charity as simply as possible is a fair and socially positive thing to do.

8. Alignment with the Retirement Income Covenant

The Retirement Income Covenant places a positive obligation on superannuation fund trustees to assist members in or approaching retirement to improve their retirement outcomes, including by spending down their super. This is not inconsistent with the proposed super bequest reform. While it could lead to a larger percentage of funds being spent down, aggregate sums remaining at death will still be very large, and super members should still have a simple process available to them to donate remaining funds to charity.

3.2 A voluntary choice to donate as part of the tax return process

Recommendation

1. **The PC have another look at the potential of this reform.** As detailed in Box 2, the draft report did not appear to consider the strong case for this reform or how it could be designed to overcome risks and deliver a net benefit. We think it deserves fuller consideration, including through engagement with BETA in PM&C who developed a proposition some years ago.
2. **The PC recommend the Federal Government provide Australians a voluntary choice to return some or all of their tax return to a nominated charity, where they can afford to do so.**
   - **Simple and timely:** As people neared completion of their tax return, a prompt would appear informing them of their estimated tax return and inviting them to provide some or all of their return to a nominated charity from a drop-down menu in their tax return lodgement. It is critical that this can be accommodated with just a few clicks - behavioural economics has demonstrated that the take up of 'nudges', including to give, is crucially dependent on the process being simple and offered at the key decision point.[7]
   - **Communications to support implementation:** In time, this 'nudge' will become an accepted part of Australia's national culture – a valued annual national ritual where we consider extra giving at tax time. In the implementation phase, the reform would be a change to a long-accepted practice, so a communication strategy will need to ensure all Australians understand the process – notably that it is entirely a voluntary choice – and the goal – to help fellow Australians in greatest need.

The Case for Reform

1. **The reform addresses clear policy problems: the need for a stronger giving culture; and creating simplicity to overcome impediments to giving.**

Culture:

- The PC has correctly identified: 'There are good reasons to expect that social and cultural norms play an important role in attitudes towards expected giving and actual giving outcomes (p.96).' Reforms to create a culture and regular practice of giving are critical, as government incentives alone won't lead to a doubling in giving.
- Great incentives alone cannot work without complimentary initiatives to raise awareness and prompt a more generous culture, where people strongly value giving. Australia lacks a culture of giving present in leading philanthropic nations – the percentage of Australians giving is falling rapidly and the percentage of wealthy Australians who give is a little more than half that in the United States. This reform – and other suggested initiatives such as the National Giving Campaign – are essential to awakening the generosity of spirit that is an essential part of the Australian identity.

Simplicity

- Research shows a key impediment to giving is where the process is not simple, but instead involves red tape or effort beyond what people would like to provide. As one study found:

  'Even minor inconveniences can depress giving. In a door-to-door fundraising campaign (n = 1,536), volunteers asked households to support a local charity that provides blankets to families in need. Solicitors explained that holiday cards would accompany the blankets funded by donors. They told the control group that cards had been pre-written, but gave the treatment group the option of writing messages. Contrary to the researchers' hypothesis, households in the treatment group were 20% less likely to donate. They conclude that the opportunity to write a card may drive up the cost of giving in multiple ways: 1) more social pressure to

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[7] See: https://www.gov.uk/government/publications/applying-behavioural-insights-to-charitable-giving

accompany the personal gesture with a larger gift amount, 2) increased time to complete a transaction, and/or 3) additional need to make two decisions—whether to give, and whether to write a card—rather than one (Chuan and Samak 2014).'[8]

- By providing simplicity, the reform also overcomes the red tape involved with giving, and facilitates choice for people to give to charities they value. Studies show that making it easier to donate encourages participation. For instance, in one study (n = 25,000), researchers added pre-filled bank transfer forms to some solicitation letters and gave people the option to donate with a credit card over the phone. People who received these additional tools were 26% more likely to respond, compared to those who received only a solicitation letter (Rasul and Huck 2010).[9]

2. **A prompt to consider donating at tax time would - over time - embed a valued national custom, where we consider providing extra support for people in need, where we can afford to do so.**

- Many Australians could afford to give some or all of their tax return back to charity. This reform would prompt more people to give, particularly if it could be achieved simply and quickly.
- Behavioural insights literature shows people are more inclined to give away something they haven't yet pocketed – 'a windfall' – than if they have to give anew, where giving is more likely to perceived as 'a loss'. Particularly for those more fortunately placed, a healthy tax return could be perceived in this light.
- Of course, for many Australians, the tax return is needed for essential living costs, so the return will be seen as a critical legal entitlement, not a windfall, and they will not be in a position to give.

3. **The reform is likely to substantially lift giving.**

- Over 14 million people lodge a tax return each year in Australia. The average refund is just over $2,800 each (among the two-thirds who get a return), resulting in a collective refund of more than $30 billion.[10] In a wealthy country, we might expect several billion in additional net giving to occur each year, even after substitution effects, or tens of billions per decade.

4. **The reform is likely to be welfare-enhancing for the community as a whole.**

- The PC has indicated it views the tax concession for giving as being welfare enhancing. It follows that if this reform is effective in increasing such giving – and does not have major downsides – it too is welfare enhancing. Over time, the prompt, particularly if well promoted, would foster a more generous and giving culture and create billions of additional funds for Australians in greatest need.

5. **A major body of evidence confirms behavioural nudges have been highly effective in increasing philanthropic giving.** More specifically, prompts to give at a favourable point in time have been shown to lift giving.

- As part of the The Alaskan 'Pick.Click.Give' campaign, tailored messaging on a postcard led to a treatment group being 4.5 per cent more likely to donate some of their annual dividend from the state's oil production each year and give a 20 per cent larger donation than the control group (PC Draft Report, p.323).
- The UK Behavioural Insights Team tested options to lift bequests in wills. In the baseline group, will writers did not discuss philanthropic bequests. In the first treatment group, individuals were asked: "would you like to leave any money to charity in your will?" (the 'Plain Ask' intervention). In the second treatment group, they were asked: "many of our customers like to leave money to charity in their will. Are there any causes you're passionate about?" (the 'Social Norm' intervention). The 'Plain Ask' more than doubled the percentage donating and the 'Social Norm intervention more than tripled the percentage donating and doubled the average donation.[11]

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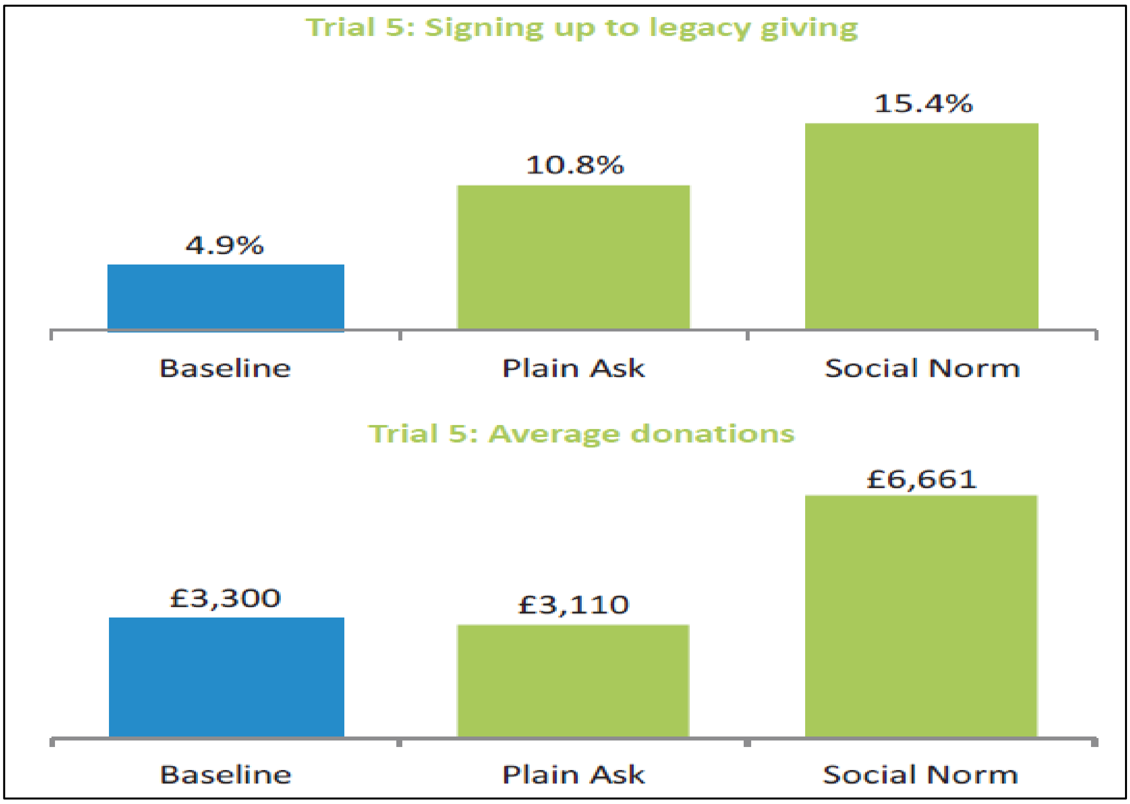
[8] Ideas 42, *Behaviour and Charitable Giving: 2019 Update*, p.13.

[9] Ideas 42, *Behaviour and Charitable Giving: 2019 Update*, p.13.

[10] See: https://www.hrblock.com.au/tax-academy/bigger-tax-refund

[11] UK Behavioural Insights Team, *Applying behavioural insights to charitable giving*, 2013, p.22,23.



6. Provided it is well communicated, the reform would be popular with the Australian people.

- Polling of more than 2,500 Australians by Redbridge in November 2022 found 70 per cent supported the reform, 9 per cent were opposed, and 20.9 per cent were neutral or not sure.
- While this level of support is strong, focus groups by Redbridge identified the need to frame and communicate the reform effectively to the Australian people.
  - It is important people understand the option to donate at tax time is completely voluntary and the choice of every Australian.

    "I think it's a great idea. It's not making anyone give anything they don't want to give. It's just a reminder, and it's an easy option."
  - People did not respond favourably to the behavioural economics terminology – 'a tax return nudge' – or where they perceived the reform as the government taking away their agency to decide for themselves what to do.

    "That's the government getting involved in charity. That's the government advising me what to do. That's the government wanting to take personal choice away from me."

3.3 A strategy to grow Australia's Community Foundation network

Recommendation

1. **The PC recommend that the Federal Government work with the Community Foundation and broader philanthropic sectors in a dedicated policy process to Develop a Strategy to Strengthen and Grow Australia's Community Foundation Network**, which could include:

- Articulating the roles for government and philanthropy in growing the sector.
- Considering the potential role of the Community Foundation network in contributing to a more giving Australia (such as by facilitating community-led giving and reform, restoring social capital, delivering greater equity across Australia in philanthropic giving, and complementing the government's agenda to address place-based disadvantage).
- Better understanding the evidence on the impact of community foundations.
- Better understanding the international evidence and practice from nations where Community Foundations play a more substantial role.
- Considering potential co-investment opportunities and priority reforms to grow the sector, such as those specifically developed for the PC by PA and Community Foundations Australia (CFA) with support from Social Ventures Australia in ***The opportunity to grow Australia's community foundation network: A strategic roadmap***.

The Case for Reform

1. **The PC has not given attention to new reforms to grow the Community Foundation network in its draft report.**

- The new policy initiatives recommended by PA and CFA – as well as individual community foundations – are not given attention in the draft report by the PC.

2. **An alternative approach would be to 'take a step back' - taking time to develop a strategic policy framework for Community Foundations, working from first principles.**

- Australia's Community Foundation network has made an important contribution over many decades. However, its contribution is still well below its vast potential and what has been achieved in leading nations such as Canada.
- At the same time, the sector has considerable momentum and a palpable sense of possibility. The Government is in the process of granting DGR 1 status to all the foundations in the network. The peak body – Community Foundations Australia – has been strengthened, including through the appointment of new CEO, Ian Bird, who led the growth of Community Foundations in Canada. Giving is growing rapidly, at around 14 per cent per annum. There is too much momentum to simply let the opportunity slip to further investigate how Community Foundations can play a stronger role as critical, local social infrastructure in communities across Australia.
- Rather than immediately recommending initiatives to grow the sector, now might be the right time to develop a strategic policy framework for growing the sector, identifying the roles for government, philanthropy and the sector, examining the evidence on impact and how to grow the sector, and learning from international evidence and practice.

3. **A recommendation for a discrete and dedicated policy process on Community Foundations is justified because they address key policy issues.**

<u>The decline in community participation and social capital.</u>

- Andrew Leigh and Nick Terrell in *Reconnected* (2020) chart the decline in social capital and community participation in Australia in recent decades. We are much less likely to participate in community groups, pursue volunteering, we have less friends (down from an average of 9 trusted friends to 5 between 1984 and 2018), we are less likely to volunteer and less likely to know our neighbours. Participation in religion is falling, which impacts the social fabric as people with religiously based social connections are two to three times more civically engaged and generous.

Less people are engaged with politics, which has led to a sharp decline in trust in government and satisfaction with politics. Participation rates in sport are falling, including among children, and 67 per cent of Australians are now overweight or obese. There has been a steep rise in loneliness – almost 30 per cent of the population report they hardly ever or never catch up with friends, while half report feeling lonely at least one day a week. In sum, the connections and social capital that give us meaning, bind us to each other and ensure people are not left behind, are in decline.

- Creating a national network of Community Foundations can help restore this critical national social infrastructure, helping to spur community giving and local volunteering, to better ensure people are not left behind.

<u>Place-based disadvantage and inequities in philanthropic giving across Australia.</u>

- Community Foundations can play a role in addressing place-based disadvantage in Australia.
  - Studies confirm disadvantage in Australia is highly concentrated in particular locations, notably outer metropolitan, rural and remote areas.[12]
  - This has led the Federal Government to invest in programs such as *Stronger Places, Stronger People* program, which aim to create greater opportunity for people from Australia's most disadvantaged communities. A major emphasis in these programs is community empowerment – ensuring communities have a major say in designing solutions to support their development.
  - Establishing Community Foundations in such locations could assist to galvanise local leadership, creating a strong community partner to government in addressing place-based disadvantage.
- Community Foundations can play a helpful role in ensuring philanthropic giving is more evenly spread across the nation.
  - In 2016, the largest 10% of charities (by annual revenue) received 94% of all donations.
  - Having Community Foundations operating in communities across Australia could give some, albeit modest impetus, to a fairer sharing of charitable giving across the nation.
- More detail on how Community Foundations address these policy challenges is provided below.

4. Community Foundations allow local people to donate to a permanent endowment – and lead and participate in activities - focused on improving the lives of people in their region.

- Many Australians develop strong ties with their local community or region, understand what makes it tick, care about its people, and want to see it thrive.
- Community Foundations are a great way for people from all walks of life to get involved in donating, volunteering, and participating in projects to help their region thrive. They galvanise the community to drive place-based change in a myriad of ways.
  - Local people establish, manage and govern the CFs to meet local needs.
  - They identify local challenges and engage the community in finding solutions.
  - They raise and attract funds from many donors with diverse interests.
  - They provide grants to community-based organisations to do critical work.
  - They harness untapped local capacity and leadership by giving local people voice and agency in decisions that matter to them.
  - They create a virtuous cycle, with local participation driving successful projects, showing what can be achieved. This builds social capital and confidence, galvanizing communities to continue positive place-based change.

5. Community Foundations deliver significant direct impact, and a more generous society, with more social capital, trust and participation in local communities.

- Community Foundations are run by people with detailed knowledge of their local community, so

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[12] Jesuit Social Services, *Dropping Off the Edge 2021*; and Australian Bureau of Statistics, *Socio-Economic Indexes for Areas (SEIFA), Australia*.

they are well placed to know where to invest – and how to galvanise local leadership – to drive maximum impact.

- This work can help shift the culture in communities and across Australia, creating a more generous and giving community, with more social connection and social capital.

6. **Emerging from the pandemic and a series of natural disasters, Australians are living and working more locally and increasingly keen to engage to strengthen local communities.**

- Polling and focus groups commissioned by PA and undertaken by Redbridge found 61 per cent of Australians agree they'd like the opportunity to donate or get involved with a local Community foundation, while 9 per cent disagree.

7. **Ensuring almost all Australians can participate in a local Community Foundation is a great way to grow giving and volunteering.**

- Even with limited national coverage, Australians are increasing giving to community foundations at a greater rate than Australians overall tax-deductible giving (growing at an average of 14% vs 8.4% respectively, from 2016 to 2021). They are attractive to donors as they are trusted, community-governed institutions, delivering cost-effective impact.
- Community foundations are well placed to capture a share of Australia's unprecedented intergenerational wealth transfer. $2.6 trillion of wealth will transfer from 2021 to 2040, a third of which will be outside our cities.

8. **A national network of Community Foundations can support the Federal Government's work to address place-based disadvantage.**

- The Federal Government is showing an increased interest in place-based initiatives to address complex social challenges, including entrenched disadvantage. There are at least six Commonwealth place-based initiatives operating in over 130 locations. The Federal Government announced a suite of additional initiatives in the recent budget, including development of a whole-of-government Framework to Address Community Disadvantage, and more funding for the Stronger Places, Stronger People program that addresses place-based disadvantage in communities such as Logan and Burnie.

> 'I know from my own community in Logan, south of Brisbane, how unjust it is that people who live on the outskirts of capital cities and in some regional areas experience much more inequality than other citizens. But this injustice presents an opportunity: to focus our attention on place-based initiatives where communities have the genuine input, local leadership, resources and authority to define a new and better future especially for kids.'
>
> *— Treasurer Jim Chalmers, 'Capitalism after the crises', The Monthly, February 2023.*

- Establishing Community Foundations in areas of high need can amplify what government can achieve alone, build community buy-in and expand opportunity to more Australians in low-income communities. In the longer term, as the network approaches full national coverage, government will have the capacity to collaborate with a powerful network of Community Foundations to strengthen local communities in a whole suite of policy areas, as has become routine practice in nations such as Canada.

BOX 6: REFORMS OUTLINED IN THE OPPORTUNITY TO GROW AUSTRALIA'S COMMUNITY FOUNDATION NETWORK: A STRATEGIC ROADMAP

PA and Community Foundations Australia (CFA) with support from Social Ventures Australia, set out a broad strategy and policy agenda to strengthen and grow the Community Foundation network in ***The opportunity to grow Australia's community foundation network: A strategic roadmap***. Key elements included:

1. **An overall aspiration:** Between 2021 and 2030, increasing: funds under management from $500 million to $1 billion; annual grantmaking from $40 million to $100 million; and the proportion of Australians covered by Community Foundations from 60 to 90%.
2. **Reforms to strengthen the existing network of Community Foundations, including:**

- **Time-limited operational and matched funding for the existing national network of 40 Community Foundations:** Support to help all Community Foundations grow to a minimum sustainable size of around $5 million can ensure all foundations have paid staff, provide a suite of high impact initiatives, and are positioned to drive long term, sustainable growth. Catalytic matched funding can support foundations to reach this benchmark size, while incentivising the network to promote their work, engage the community and fundraise locally.
- **Time-limited funding to strengthen the peak body, Community Foundations Australia (CFA).** $3 million over six years and DGR 1 status would position CFA to: work with government on the roll out of this package of reforms; and support the network – particularly new foundations – to achieve sustainable growth.

3. **Reforms to catalyse new foundations, including:**

- **Streamlined access to DGR 1 for any new Community Foundations:** The Government's current work to provide access to DGR 1 for existing Community Foundations should also ensure streamlined access is provided to new foundations in the future.
- **Seed and matched funding to create 20 new Community Foundations in priority locations.** Matched funding 'challenge grants' have been instrumental to the growth of community foundations globally and in Australia. Challenge grants incentivise community foundations to match the grant from community giving and galvanise the community and its leadership to drive community-led change. They help foundations to rapidly build sustainable assets, establish committed donor bases, build fundraising capability, and set the foundations for long term sustainability and impact. They could be located in places that complement the Government's work to address place-based disadvantage.

3.4 A National Giving Campaign

Recommendation

- **The PC recommend that the Federal Government and the philanthropic sector collaborate to develop, fund, trial and evaluate a National Giving Campaign**, drawing on the sound program design principles outlined in the PC's draft report.

The Case for Reform

1. **Creating a more aware and generous culture is critical to increasing national giving.**

- The PC and PA agree that culture – in particular the strong cultural expectation that people, particularly those with wealth, will give to charity – is an important factor driving national giving levels. It is clear Australia faces a challenge in this area – the proportion of Australians giving and volunteering is declining, and the proportion of wealthy Australians strongly embracing philanthropy substantially lags that of leading nations such as the US.

2. **National campaigns can be an effective way to shift national culture and behaviour.**

- The PC and PA also agree that in principle, a government-funded public campaign could help broaden participation in giving, and that such campaigns have been successful in a suite of contexts, such as the reduction of smoking.
  - PA set out its views on the economic case for a National Giving Campaign in ***Philanthropy Australia Supplementary Submission: Is there a role for Government in supporting a National Giving Campaign?***
- The PC also points out that not all campaigns have been successful and careful design is needed to ensure benefits outweigh the costs. Few major national campaigns targeting giving have been undertaken and there has been a lack of rigorous evaluation.

3. **The Campaign would be a social innovation, so careful design, trialling and testing makes sense.**

- As the PC notes, a key role of philanthropy is to drive social innovation, while government is the key entity that can fund effective practices over the longer-term. Collaboration to trial the effectiveness of a National Giving Campaign makes sense.

4. **A National Giving Campaign can be designed to meet the effective program design principles outlined by the PC.**

- There is a market failure warranting government intervention – without more information, awareness, prompting and a culture of giving, contributions to charitable organisations and social capital are likely to be underprovided.
- A public campaign can, in-principle, be highly effective, leading to a significant number of additional Australians, including wealthy Australians, taking up giving, leading to a rise in giving massively exceeding the cost of the campaign.
- As the PC notes, the big challenge is to design a campaign in a way that increases giving and achieves net community benefits.
- Philanthropy Australia has done preliminary work with: Redbridge, to better understand community attitudes to giving; Sayers, to inform high level campaign strategy; and The Shannon Group, to test creative concepts. We recognise that considerable additional design work is needed to develop a robust campaign, but our work to date suggests a successful campaign can be achieved. To date, our approach has centred around:
  - A Masterbrand, 'Australia Gives', with the Shannon Group testing national marketing and communications approaches that would inspire Australians with stories of impact and encourage them to give.

- National communications would encourage people to visit the campaign website, where people would be triaged into key target markets, each with substantial potential to give more. Each market would have tailored evidence-based messaging likely to appeal, a specific call to action on giving and information to support them taking the action.

- A campaign can be designed to meet each of the Commission's design principles, which are similar to those PA has been using in its preliminary work to design a campaign.

PC design principle	How the principle is addressed (high level)			
A clear target audience	Wealthy individuals	Volunteers	Business	Financial advisers
A clear message on desired action	Set up a PAF or sub-fund	Volunteer at favourite charity	Pledge 1%	Engage clients on giving
A credible messenger	Peers who have embraced giving are likely to be the most effective communicators.			
Sustained effort	If the pilot is successful, the program can be sustained over time.			
Coordination with on the ground policies	Donors get a tax deduction. Not-for-profit organisations – Volunteering Australia, PA, Workplace Giving Australia - could provide back-end advice and support.			
Tailored communication	These not-for-profit organisations have experience dealing with their target markets. Market testing of messaging would be undertaken to ensure effective tailoring.			
Effective channels	Each NFP has considerable insight here too, but further research would be undertaken to ensure messaging for each target market utilises channels they prefer.			

- PA's work with Redbridge also provided an additional insight. Focus Groups provided a strong message that such a campaign would be poorly received if presented as a glossy, government-led campaign, seen as telling citizens what to do. By contrast, there was strong support for a campaign led by not-for-profits to give people information on why and how to give, empowering them to make their own choices. Polling of more than 2,500 Australians by Redbridge in November 2022 indicates a grassroots campaign led by not-for-profits would be popular, with: 65 per cent supporting the proposal; 7.1 per cent opposed; and 27.8 per cent neutral or not sure.[13]

5. The campaign would successfully create a stronger giving culture and lift giving and volunteering.

The campaign would target a key challenge for Australia – the lack of a giving culture demonstrated by the low proportion of people giving and volunteering. By targeting lucrative markets with extensive capacity to give more, it could yield an increase in giving many-fold the expenditure by government and philanthropy needed to design and run the campaign. For instance:

- **Wealthy Australians:** Wealth is rising rapidly at the top end of Australian society – for instance, wealth among 'The Top 200' has risen from $209 billion to $563 billion between 2016 and 2023. There are over 20,800 ultra-high net worth individuals ($30m plus net wealth), and hundreds of thousands more with substantial wealth. Some give substantially, but most do not. Creating a culture where all high-net-worth individuals are expected to give substantially could yield billions in additional giving.

- **Business and workplace giving:** With business profits running at around $500 billion annually – and corporate giving at 0.78 per cent of profit among our Top 50 corporates running behind some comparable countries – lifting business and workplace giving is another key avenue to increasing national giving.

- **Financial and legal advisers:** Financial advisers and accountants advise Australians, including wealthy Australians, on how best to use trillions in wealth, but relatively few raise the option of philanthropy. We believe a campaign can encourage many it is in their interest and the national interest to engage their clients on the potential of giving.

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[13] Redbridge, *Philanthropy Australia Community Case*, December 2022 – available here.

3.5 Strengthening the Charity Sector

Recommendation

1. **The PC recommend the Federal Government implement a package of reforms to strengthen the charity sector,** This agenda can be informed by previous reports such as the PC's 2010 report, *Contribution of the Not-for-Profit Sector*, which outlined a powerful agenda for reform, much of which is yet to be implemented.
2. **An Office of Not-For-Profit Reform**[14] could be established within a central agency such as Treasury to partner with the sector on reforms to strengthen charities across a sector, with a focus on:

Building capabilities, including:

- **Leadership –** Working with institutions such as the Centre for Social Impact and ANZSOG to produce: larger cohorts of high calibre charity leaders, with skills across governance, business planning, strategy, people management, workforce planning, technology uptake and evaluation.
- **Fundraising -** Continuing to build a stronger cadre of fundraisers in the charity sector (which is critical to growing giving).
- **Evaluation –** with just 38 per cent of the not-for-profit sector collecting outcomes data, more support to assist with evaluation and continuous improvement would help to lift impact. The PC in 2010 recommended that the Australian Government should provide funding for the establishment of a Centre for Community Service Effectiveness to promote 'best practice' approaches to evaluation. (Rec 5.4).
- **Social Innovation** – In 2010 the PC recommended that major programs include a Social Innovation Fund to trial, test, evaluate, and if successful, expand new approaches (Rec 9.5).

A better operating environment for charities, including a stronger, more equal partnership, including:

- **Completing the Fix Fundraising agenda.** Creating a single national fundraising regulation regime – to replace the seven different State and Territory sets of rules – would cut costly and time-consuming red tape and enable more funds to go where they are needed most – helping people in need. Now is the time to capitalise on recent momentum for reform, ending what has been government failure lasting decades that costs charity $15 million a year - money which should be going to support people in need.
- **Reducing red tape:** The PC found in 2010 there was too much 'command and control' by government officials, rather than recognising charities have expertise in how to deliver impact and should be partners in driving change. This practice remains prevalent today. The PC recommended: 'Australian governments should urgently review and streamline their tendering, contracting, reporting and acquittal requirements in the provision of services to reduce compliance costs. This should seek to ensure that the compliance burden associated with these requirements is proportionate to the funding provided and risk involved.' (Rec 12.7)
- **Full funding** The PC recommended the government provide full funding to charities for services they would otherwise provide (Rec 11.1) and fully factor in market wage rates, the skills required and appropriate indexation (10.2). The *Pay What it Takes* campaign has highlighted this issue remains unaddressed. In 2010, the PC noted: '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.'

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[14] An Office of NFP Engagement was recommended by the PC In 2010 and briefly established, but abolished by the Abbott Government.

- **Improving funding certainty:** Too many contracts are for 1-2 years without a clear policy rationale, making it difficult for charities to attract and retain talented staff and plan for the long term. Resources that could go into service delivery are needlessly wasted on government relations and administration. As the PC recommended in 2010: 'The length of service agreements and contracts should reflect the length of the period required to achieve agreed outcomes rather than having arbitrary or standard contract periods.' (Rec 12.5).

The Case for Reform

1. **Measures to strengthen the charity sector are within the Terms of Reference, and can improve trust in the sector, encourage more giving and lift the effectiveness of giving.**

- Point two of the Terms of Reference asks the PC to: 'Identify opportunities to increase philanthropic giving and the extent of their potential impact, including … [sub-point (iii)] The potential to increase philanthropy by enhancing the effectiveness and efficiency of the use of donations.'
- The draft report spends considerable time identifying how to strengthen regulation or its application on the charity sector, noting this is important to maintaining trust in the charity sector – an important component of encouraging giving and ensuring it is effective.
- Other means likely to be at least as effective as stronger regulation in achieving the same goals are:
  - Positive measures to build capability and effectiveness in the charity sector – such as creating a stronger cadre of charity leaders and effective fundraisers – research confirms effective fundraising is a key lever to drive increased giving;[15] and
  - Creating a more favourable environment in which charities operate – such as by reducing red tape, providing longer contract lengths and full funding for provision of government services.
- As recognized by the PC in 2010, these measures are properly the role of government as they address areas subject to market failure – such as education and training to build capability – and government failure – excessive red tape and unproductive approaches to partnering and contracting with charities.

2. **Stronger capability and impact will lift national giving by giving donors confidence their donations will make a difference.**

- Polling and focus groups conducted by Redbridge in late 2022 showed that while there is substantial support for the work of charities, including a view that they can spend money more flexibly and effectively than government, there remains some caution about the transparency of donations.

> "For financial donations, how do we know where it's going? How do we know how it's helping?"
>
> "I like to donate to an organisation that has a good profile and reputation and to be able to see where the money is going,"
>
> "Knowing the organisation or the cause [is important]. I like to have confidence in the organisation, a brand I can trust."

- A stronger charity sector will give donors increased confidence to give, knowing their donation will deliver impact.

3. **The charity sector plays a massive role creating a stronger, more equal society and a more sustainable environment.**

- Our charities big and small – like the Royal Flying Doctor Service, Smith Family, Fred Hollows and Foodbank - help millions of people in need every year and work across every area of social policy.

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[15] For instance, Dr Aurélie Lemmens and Dr Bram Van den Bergh, and Dr Emilie Esterzon, '***Enhancing Donor Agency to Improve Charitable Giving: Strategies and Heterogeneity***' in *Journal of Marketing,* 23 December 2022 outlined their large-scale field experiment involving more than 40,000 prospective donors finds that enhancing donor agency – such as by allowing donors to choose the charitable project to which their gifts will be dedicated - boosts fundraising revenue by 42%

Charities like the Australian Conservation Foundation and The Wilderness Society help preserve our natural environment. Where would we be without our great Australian charities?

4. Lifting productivity and impact.

- The charity sector includes around 60,000 organisations and employs more than 11 per cent of the Australian workforce, more than either retail or construction. Enhancing the capability of the sector can enhance its critical impact and make a meaningful contribution to national productivity, the key driver of our living standards.

5. It's time for government to be a better partner with charities.

- As numerous reports have shown, for too long governments have not been the best possible partners to Australia's charities. There has been too much 'command and control', rather than partnering in ways that recognise charities know a lot about how to have impact. Inconsistent fundraising regimes across states have persisted for decades, costing charities dearly, without being resolved. Governments continue to issue contracts without paying full costs for service provision, and regularly provide short-term contract extensions, leaving charities in constant fear of being closed down, unable to retain great staff and plan for the future. These issues can readily be fixed. The time for action is long past due.

3.6 A national giving and volunteering data set

Recommendation

1. **The PC identify and recommend a single comprehensive national data set on total giving and volunteering and its key components, led by a single agency and published annually.**
   Philanthropy Australia was delighted to see the PC recognise the benefits of improved data and its recommendations to expand data collection in areas including: the ACNC publishing data on bequests; companies and the ATO publishing information on corporate giving; and the ABS publishing expanded data on volunteering. However, this still leaves multiple agencies reporting on components of data at different times, with no comprehensive 'single source of truth' on total national giving and volunteering and its key components. The next step is to recommend a coherent system for collecting and disseminating consistent comprehensive data and on giving and volunteering, to be published annually. The PC could:

- Identify the key components that would be included in the initial national data set, such as a time series of total giving and volunteering, international comparisons, and key components such as individual giving, structured giving (PAFs, PuAFs – Commercial and Community Foundations, and Charitable Trusts), corporate giving, and bequests.
- Identify which of the numerous agencies involved in collecting such data will take the lead in bringing all the data components together, ensuring methods and categories are consistent, and a comprehensive, up-to-date National Giving and Volunteering data set is published annually.
- The lead agency could be charged with further filling data gaps over time where cost effective, which could include consideration of: giving by broad cause areas; giving at State and Territory and community levels; giving by level of wealth; and other areas potentially missed in the data such as total individual giving (including estimates of donations where a tax deduction has not been claimed), giving from international sources, giving to for-purpose organisations that are not registered as charities at Federal level, sponsorships, charitable gaming income, fines collected by courts and given to charity, and in-kind giving.

The Case for Reform

1. **Australia does not have a coherent system for collecting and disseminating consistent, comprehensive data on giving and volunteering.**

- National philanthropy data is poor, incomplete and out of date.
- No single organisation is responsible for bringing together and publishing comprehensive, consistently collected, up-to-date data on philanthropy. We have numerous reports by numerous public, for-purpose and private organisations on components of philanthropic giving, each using their own methods and classification standards. As a result, we don't have a clear, consistent overall picture of philanthropic giving or its components in Australia.
  - The ACNC compiles its annual Charities Report from mandatory annual information statements provided by registered charities.
  - The Australian Taxation Office collects data on donations claimed as tax-deductions, such as by individuals, Private Ancillary Funds and Public Ancillary Funds.
  - Private organisations occasionally step in to provide their own estimates, such as JBWere's *Support Report* and *Corporate Support Report*, or the JBWere-NAB *Charitable Giving Index*.
  - Sector reports are often commissioned, such as reports by Creative Partnerships Australia on giving trends in the arts.
  - Significant government publications are periodically commissioned, such as the *Giving Australia* reports of 2005 and 2016.
  - As each organisation is using its own methods and classification structures, the data does not combine into a consistent, comprehensive National Philanthropy Data Set.

2. **The Treasurer in the Terms of Reference asked for recommendations for an improved data base on philanthropic giving.**

- Point 4 of the Terms of Reference for the inquiry is to: 'Consider the appropriateness of current sources of data related to philanthropic giving, and how databases could be enhanced in a cost-effective manner.'

3. **The PC has recognized the benefits of improving data on giving and volunteering.**

- It can guide policy, tracking whether Australia is trending to a more generous and giving nation, and helping to inform whether particular policy measures have been effective in lifting net giving.
- Frequent publication of credible data – and the media and public discourse it would produce – would be a low cost, high yield nudge to the Australian community to lift their giving.
  - Public information on trends in corporate giving would place a spotlight on giving by business and encourage the sector to lift its philanthropic contribution.
  - Information on giving trends would position philanthropists to focus their giving to support Australians in greatest need.
  - Charities may be better positioned to attract support for their high impact initiatives.

4. **The PC has made some excellent recommendations to improve data collection.**

- For instance:
  - Companies publicly reporting itemised information on their donations of money, goods and time to entities with deductible gift recipient status (Rec 9.3).
  - The ATO collecting and publicly reporting public information on corporate giving (Rec 9.3);
  - The ACNC collecting and publishing information on bequests (Rec 9.4);
  - The ABS collecting and publishing more information on volunteering, including to capture informal volunteering and the number of hours spent volunteering (Rec 9.5).
- The PC has also sought data on instances where people make donations, but do not claim a tax deduction for reasons including they: do not have taxable income; choose not to claim the deduction; or donate to entities that do not have deductible gift recipient status (Information Request 4.1).

5. **The final step needed is to bring all the data together to create a single source of truth – a National Giving and Volunteering Data Set, published annually.**

- The PC's recommendations are very welcome, but alone, would leave the publication of data spread across numerous different organisations – all providing only partial data – without a single source of comprehensive information on giving and volunteering in Australia.
- Philanthropy Australia would like to see the PC recommend one of the key agencies involved be charged with bringing all the data together into a National Giving and Volunteering Data Set, to be published annually.

6. **Developing an overarching, coherent, consistent National Philanthropy Data Set could provide all the data we need more cost effectively.**

- The current system has multiple public and private organisations spending substantial collective amounts to produce partial, incoherent, generally out of date information on philanthropy.
- An overarching system would likely deliver the data we need at a lower total national cost.

3.7 Governance arrangements to drive stronger impact

Recommendation

1. **The PC recommend governance arrangements that facilitate regular engagement between government and philanthropy to drive greater social and environmental impact.**
2. **As PA suggested in its May Submission, p.59-61, this could include:**

- **High level engagement by sector leaders:** For instance, a Prime Minister's (and/or Treasurer's) Giving Council could include 2-3 representatives from the four key sectors – government, business, philanthropy and charity – to meet annually to discuss progress with the double giving agenda, and outline plans for the coming year.
- **Portfolio level engagement:** Responsible Ministers and/or senior officials could engage with philanthropy 2-4 times per year to determine how all parts of society can collaborate on shared agendas, thereby magnifying what government can achieve through its actions alone. In particular, philanthropic funders could: co-invest in Flagship initiatives; and fund social innovations, which, if successful, could be adopted by government system wide.
- **Carefully staged implementation, drawing on lessons from the Investment Dialogue for Australia's Children (IDAC):** IDAC was launched in the May 2023 Budget and involves the Federal Government collaborating closely with philanthropy leaders, aiming to ensure young Australians get the best start in life. It has a particular focus on addressing place-based disadvantage. The first national roundtable was held in the Parliament on 4 December where philanthropy leaders engaged with Treasurer Jim Chalmers, Social Services Minister Amanda Rishworth, Indigenous Affairs Minister Linda Burney and senior officials from portfolios across government. Participants signed the Working Together Agreement – outlining a shared commitment to a long-term collaboration to improve the wellbeing of children, young people, and their families – and agreed to governance and working party arrangements to propel the initiative forwards in the years ahead.
    - It would make sense to implement other Ministerial portfolio arrangements – such as in the arts, environment or First Nations justice – in carefully calibrated stages, with lessons learned from the operation of the IDAC applied to subsequent arrangements. It is better that expanded arrangements work effectively and efficiently, rather than be rushed.

The Case for Reform

1. **Australia has never established sustainable, effective governance arrangements for government-civil society collaboration to drive impact through philanthropy.**

- While there have been periods of positive cooperation and achievement, such as through the Community-Business Partnership, powerful governance arrangements to create genuine cooperation and extract maximum impact have never been established and sustained in Australia's history.

2. **This means a massive source of social change is being left untapped. Collaboration could help propel a shared agenda, delivering greater impact per dollar expended.**

- As the PC note in its draft report, government and philanthropy have complementary strengths. Philanthropy has more flexibility to trial social innovations. Government is better positioned to pick up and adopt effective practices system-wide.
- Unfortunately, a lack of collaborative structures has sometimes meant powerful social innovations have been tested and proven, only for government to fail to then back the initiatives or take many years to do so. Minister's collaborating with civil society would find ways to magnify impact in their portfolios beyond what they can achieve through government investment alone.

3. **Simple, efficient, non-onerous collaboration structures could deliver much stronger social impact through better cooperation.**

- There have been a suite of important examples where philanthropy and government have each played a role in creating impact, such as the development of the bionic ear or the cervical cancer vaccine, development of a world class arts precinct at Southbank, Victoria, or philanthropic support for Orgyen, which spawned headspace, a pioneering national system of mental health support for young Australians.

- The challenge now is to find ways to make this more frequent and systemic, so more substantial impact is achieved from the collective investment. Social innovation could 'roll off the production line' more consistently through structured collaboration, rather than emerge in an ad hoc manner through serendipity.

4. **Governance is within the PC's Terms of Reference.**

- Point 2 asks the PC to 'Identify opportunities to increase philanthropic giving and the extent of their potential impact.'

5. **There is momentum within Government for collaborating with civil society to drive innovation and impact.**

- For instance, the Treasurer, Minister for Social Services, Minister for Indigenous Australians and senior officials from departments across government are collaborating systematically with philanthropy on the IDAC. The Treasurer is engaging business, super funds and philanthropy through investor roundtables aiming to jointly address issues such as affordable housing.
- The Prime Minister and Treasurer are championing this approach to governing.

"We must rediscover the spirit of consensus that former Labor prime minister Bob Hawke used to bring together governments, trade unions, businesses and civil society around their shared aims…"

— ***Prime Minister Anthony Albanese in his speech to the AFR Business Summit, 2022***

'How do we build this more inclusive and resilient economy…? By strengthening our institutions and our capacity, with a focus on the intersection of prosperity and wellbeing, on evidence, on place and community, on collaboration and cooperation. By reimagining and redesigning markets – seeking value and impact… And with coordination and co-investment – recognising that government, business, philanthropic and investor interests and objectives are increasingly aligned and intertwined.

With a new, values-based capitalism for Australia, we can understand something the old thinking neglected: that the problems of government – of whole societies – don't and shouldn't permit one simple solution set. Single frameworks tend to close thinking down when what we need is to open our thinking up – to new approaches and new participants. That's how Prime Minister Anthony Albanese has led since taking office: deliberate, open, drawing in not only all the talents of government but also those of our society as a whole.'

—***Treasurer Jim Chalmers, Capitalism after the crises', The Monthly***

6. **There is value in learning from the Investment Dialogue for Australia's Children – expected to be announced shortly - in order to inform robust arrangements for other sectors.**

- IDAC has been developed over a couple of years through goodwill and sustained effort from government and philanthropy, overcoming impediments that have hampered previous attempts, and codifying the terms of engagement through the Working Together Agreement.

4. Responses on Key Issues

4.1 Changing the minimum distribution rates

Question for PA members

- Do you support an increase in minimum distribution rates for PAFs and/or PuAFs?
- If so, why? What rate should apply?
- If not, what are the policy reasons for not increasing minimum distribution rates, having regard to the Commission's analysis outlined below.

The Commission's analysis on minimum distribution rates

The Commission recognises the important role of structured giving, noting it has been a key driver of rising national giving.

- Giving into private and public ancillary funds has grown both in value (from $692 million in 2011-12 to $2.4 billion in 2020-21) and as a share of giving by individuals (donations to private ancillary funds have grown from 15% to 27% of individual giving). As a result, ancillary funds have accumulated a pool of net assets that has grown from $4.6 billion in 2011-12 to $16.4 billion in 2020-21.

In Information Request 8.1 on page 260 of the draft report, the Commission seeks views from stakeholders on whether to change the minimum distribution rate for PAFs and PuAFs. It appears from the analysis in the report that the Commission is considering an increase in the rate. However, the report notes that optimising the settings for minimum distribution rates – currently 5 per cent for PAFs and 4 per cent for PuAFs – involves a trade off:

- A higher rate would mean more money going to charity faster. They note, for instance, that increasing the PAF minimum rate to 6 per cent would mean another $60 million per year for charity and 7 per cent would mean another $120 million per year. The report also highlights there is a gap between when philanthropists receive their tax break, and when funds flow to charity. Speeding up the flow of funds could speed up the time by which the government makes a net return on its investment.
- On the other hand, the Commission notes that increasing the minimum rate could have negative impacts, notably that fewer people might choose to use structured giving vehicles. In addition, if the minimum rate was raised too high, it could impede the ability of people to operate structured giving vehicles in perpetuity.

4.2 Removing DGR status for school building funds

Question for Members

- Do you support the removal of DGR status for school building funds?
- If opposed, what policy arguments support the retention of school building funds, noting the Commission is concerned that such donations are primarily private benefits to the donor, rather than providing community-wide benefits.
- If the Government were to remove DGR status for school building funds, what transition arrangements might we recommend? – See PC questions on transition arrangements below.

The Commission's recommendation and analysis

The PC states: 'School building funds for primary and secondary schools … would no longer be eligible for DGR status under the Commission's proposals. There are currently about 5,000 DGR endorsements for school building funds.' (p.18). In support of its recommendation, the Commission notes:

- It is seeking to focus DGR eligibility in areas where there is the greatest community-wide benefit.
- 'The Commission has observed the practice of schools including voluntary contributions to school building funds on fee invoices, alongside tuition fees. Such direct solicitation for donations from the people who are also charged fees is strongly indicative that the main beneficiaries from an organisation's service are likely to be the individual recipients of the service and that any broader community-wide benefits are likely to be incidental.'
- DGR status for school buildings was introduced at a time when Federal Government funding for private schools was limited. Today, Federal funding for private schools is significant.

The Commission indicates it is considering transition arrangements – of say 3-5 years – for the implementation of the reform – but has included an information request on how these arrangements might operate.

?

Information request 6.3
Transition arrangements for reforming the deductible gift recipient (DGR) system

The Commission's proposed reforms seek to simplify the DGR system and help donors direct support to where there is likely to be the greatest net benefits to the community as a whole, but there would be transition costs. The Commission invites feedback on transition arrangements to minimise the costs of reforming the DGR system.

- The Commission is considering how long the transition period should be for the proposed arrangements to come into force. What are the pros and cons of a transition period for activities where existing eligibility for DGR status is withdrawn? How long should the transition period be?
- Is there a case for other transition arrangements, such as grandfathering, or a gradual reduction of tax deductibility that would provide a glide path from current arrangements to the new arrangements? If so, in what circumstances and how would the complexities of two different DGR systems be managed?
- Are there likely to be any consequences for the operation of ancillary funds that should be considered in implementing the proposed reforms?
- Are there any other factors that should be considered in designing and implementing transition arrangements?