

# *philanthropy* 23

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***VALE SIR IAN POTTER***

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# Cover Note



## Sir Ian Potter (1902-1994)

The Potter Foundation has been a member of the Association since its inception. It is recognised as a leader in philanthropy and a significant contributor to social, cultural and environmental life in Australia.

*This edition of Philanthropy was provided through the assistance of JB Were Asset Management Limited which supports the Association of Philanthropy's objective to promote both strategic and effective private and corporate giving..*

## Disclaimer

Opinions expressed in this magazine do not necessarily reflect those of the Australian Association of Philanthropy Inc.

# Editorial

The recent conference convened by the Australian Association of Philanthropy Inc with the International Centre for Not-for-Profit Law and the Monash Graduate School of Government provided a comprehensive review of most of the issues raised by the preliminary report of the Australian Industry Commission Inquiry into Charity.

Much of the undertone of the Inquiry relates to public confidence in the funding and delivery of community services. Apart from queries raised about the appropriateness of the Industry Commission being the body to undertake such a review, it was seen as important to address the issues of transparency, accountability and standards of services as they relate to the community welfare sector.

As a result of increasing out-sourcing by government, there needs to be a vigorous effort to ensure that both a clear standard of delivery is determined and that a realistic level of remuneration is struck. This should be in the form of an agreement which serves public accountability, consumer needs and professionalism in delivery. The report addresses these issues from varying aspects.

An overall response from the conference was the benign way in which the commission had approached its task. Much of the concern about a group of economic rationalists running their tape measure over the sector, has been allayed.

In fact, a clear commitment to the importance of the sector was evidenced. So too was an emphasis on the importance of maintaining and nurturing the impulse to give, which goes well beyond the ambit of economics.

The Commission has underscored the need to maintain levels of incentive for private and charitable giving. No moves have been made to replace tax deductibility, with tax rebate and more significantly, no attempt to cap the levels of deduction.

The Association of Philanthropy noted that charitable trusts were generally excluded from those measures aimed at ensuring greater accountability. There was general approval for acceptance of the Associations submission that



Max Dumais, *Editor*

Australian trusts should be allowed to develop the size of their corpus by accumulation and the need to introduce universal provisions that remove the accidents of history which inhibited the dispersal of funds through out dated reference to probate provision and the like.

A major area of contention may well be the form of incorporation that charitable agencies are able to adopt. If transparency and accountability are paramount, there is some concern that the recommendation to move to registration of charities as companies limited by guarantee will not achieve the desired level of information for easy public scrutiny.

Strangely enough, the much touted concern over the commercial activities of Not-for-Profits as intended by the Kelloggs versus Sanitarium debate seemed to have fallen off the agenda altogether. Since Australia is one of the few countries which allow a commercial enterprise to donate to charity without restrictions, it hardly seems relevant to draw any distinction between Sanitarium as a not-for-profit, or as a company which donated 100% of its surplus to a charitable purpose.

Finally, what emerged was a challenging first stage which canvassed a range of important issues which should form the platform for an enlivened group of responses and additions towards the final report. The conference went some way towards starting this process, but it is important that the most is made of the remaining opportunities available before the report is finalised.

**Max Dumais**  
Editor

# Perpetual Trustees' Grant Assists Windermere to Face Growing Suicide Toll

**A report on steps being taken to reduce this disturbing phenomenon of Australian Life.**

Over the past 18 months to 2 years the media has aroused public recognition of the escalating statistics on suicide in Australia. This country's rate of youth suicide in particular, is one of the highest in the world, and the figures for all age groups are increasing.

In 1993, Windermere Child & Family Services, an independent, non denominational child and family support organisation in Melbourne's major growth corridor - Berwick/Pakenham/Cranbourne - began a series of workshops on suicide. These were open to the general public and to specialists in the mental health and welfare fields. Windermere's trained counsellors and social workers, who specialise in the well being of children and their families, had experienced a sharp increase in suicide-related case loads. However, they were unprepared for the intense interest and strong participation attracted by the workshops.

In the following months their suicide-related cases increased further it appeared that suicide had joined homelessness, financial crisis, sexual and physical abuse, and parenting difficulties as one of the major problems faced by families in an area enduring the consequences of unemployment and cutbacks to government services.

"At Windermere we see a major aftermath to the recession in terms of broken families, tension and conflict in homes that just won't go away," says Executive Director Phillip Anderson.

"Suicide is clearly increasing amongst older family breadwinners who are retrenched as well as amongst young school leavers who have never had a job. Therefore, we have a responsibility to the community. Windermere aims to be a pioneer in this State by establishing a proactive peer-based Prevention Program."

John Sullivan, Manager Charitable Trusts for Perpetual Trustees Victoria Ltd was approached for an initial grant to fund a four month research project based at Windermere Child & Family Services. The Trustees responded to the urgency of the problem with a \$10,000 research grant. This is to be followed by a further \$50,000 over 1995 and 1996 to support a fully focussed Suicide Prevention Program.

The objectives of the research are threefold:

- Establish the incidence of suicide in Victoria
- Define the most prevalent causes of suicide
- Define the most appropriate forms of service necessary to effectively reduce the numbers of suicides

"Windermere will be in a position to decide which type of services are needed when research material becomes available", says Phillip Anderson.

"From what we know at this stage, it seems certain that we will include services for family and friends of suicidal people - this will be a strong aspect of our approach to prevention."



Manager of Charitable Trusts, Perpetual Trustees.  
Philip Anderson, Exec Director Windermere, Marlene Polsa,  
Director of Development Windermere and John Sullivan,

John Sullivan says that Perpetual Trustees made an immediate decision on Windermere's request in view of the importance of the issue.

"There are important questions to be answered in the initial research. Quite simply, not enough is known about why suicide occurs," he comments.

"Perpetual Trustees manages a portfolio of over 100 trust funds, several of which focus especially on youth affairs and these were suited to Windermere's application.

"We came to a rapid agreement that this was a significant area, and money was channelled into it from the Diana Browne Trust, the Estate of Mrs M A Fardel and the E B Myer Charity Fund," he adds.

Perpetual Trustees' funding of the Windermere Suicide Research and Prevention Program is also, at another level, representative of a partnership approach within the community to a problem which can no longer remain masked by the complex feelings of grief and privacy which are experienced by growing numbers of people who become bereaved as a result of suicide.

Both Perpetual Trustees and Windermere are hopeful that other Trust Funds will see the need to support this essential new project and make substantial grants.

#### *For Information*

Marlene Polsa  
Windermere Child & Family Services  
(03) 213 1800

**AUSTRALIAN CHARITY AT THE CROSS ROADS  
CONFERENCE PROCEEDINGS NOW AVAILABLE  
FROM THE ASSOCIATION**

**OVER 40 MAINSTREAM SPEECHES FROM  
AUSTRALIAN AND INTERNATIONAL EXPERTS ON  
COMMUNITY SERVICE MANAGEMENT, TAX AND  
CHARITY AND OTHER ASPECTS OF THE INDUSTRY  
COMMISSION'S DRAFT REPORT ON CHARITABLE  
ORGANISATIONS IN AUSTRALIA**

**COST: \$30 POSTED.**

# Lord Mayor's Fund - A Melbourne Phenomenon

**Frank Paine, Executive Director, Lord Mayor's Fund, traces the growth and enduring purpose of the fund, for establishment in 1923 to the present time.**

The Lord Mayor's Fund for Metropolitan Hospitals and Charities was established in 1923 and may be seen as illustrating some of the more admirable characteristics of the Melbourne community - a serious concern for the welfare of the sick and disadvantaged and a practical, well-organised approach to dealing with the problem. It was hoped that through the Lord Mayor's Fund there would be raised "an income sufficient for the maintenance of our Charities". These words of the Fund's founder, Sir John Swanson, set an enormous task before the Fund, which pursued it with great vigour.

The key to raising the required funds was the establishment of wage and salary deduction schemes in as many factories, shops and offices as possible. By small individual weekly deductions a total income flow of substantial proportions was achieved and, apart from the initial cost of organising the groups, the expense was minimal. By 1927 it was reported that "1500 individual firms or groups are paying regularly into the Fund". This would probably have represented over 100,000 individual contributors at a time when the total population of Melbourne was barely one million.

Unfortunately the "Industrial Groups" plan failed to continue its expansion. The onset of the Depression, and particularly the introduction of an Unemployment Relief Tax, caused a decline in support, and the impact of the 1939-45 war further undermined this useful fundraising method.

Throughout the years there were, of course, many other great fundraising successes, as during the 20's and 30's virtually all fundraising for Melbourne's hospitals and charities was channelled through the Lord Mayor's Fund. In 1935 a Queen Carnival raised a total of £31,642, which would translate to more than \$2.5 million in 1994 terms. Such simple

pleasures as Community Singing and Massed Band Recitals were also sources of revenue. Another function of the Lord Mayor's Fund was to organise and control various annual street appeals - Wattle Day, Flag Day, Flower Day etc. These continued until the 1970's, when changing social conditions made it impossible to recruit enough volunteer collectors.

As the major hospitals and charities, together with many of the smaller ones, began to employ professional fundraising staff or consultants, the importance of the Fund to these bodies was reduced. Nevertheless, applications for grants continue to be received by the Fund from even the largest institutions down to very small charities. There is no question as to whether the Lord Mayor's Fund has a continuing role; it is appreciated not only by the recipients of its grants but also by donors who enjoy the convenience of being able to support a wide range of hospitals and charities by making a single donation. Many donors are especially glad to know that they are helping a number of smaller, but very worth-while organisations, to whom they would not otherwise give their support.

For most of its 70 year existence the Lord Mayor's Fund was closely directed in its grant making policies by the Victorian Government, through the Charities Board or the Hospitals and Charities Commission. Nowadays the Fund is controlled only by the provisions of the Lord Mayor's Fund Act 1930. Because it was originally established to help finance the operating costs of the hospitals and charities system, the Fund has usually been prepared to make grants to charities for their general use, rather than require the submission of a specific project. In framing its distribution policy the Fund is in a different position from that of many Charitable Funds, in that it must have some regard to the expressed or presumed wishes of the current donors who provide most of the distributable funds. From its earliest days the Fund has always distributed its grants to a wide range of organisations, and in 1993 a total of 158 hospitals and charities shared in the distribution of \$650,000 from the General Fund.

The Lord Mayor's Fund Act also makes provision for donations to the Fund to be specified for transmission to designated beneficiary organisations. Some donors, including philanthropic trusts, make use of this provision by sending one cheque to the Lord Mayor's Fund and directing that the amount be transmitted to a list of nominated hospitals and charities. Such amounts are transmitted in full without deduction, and the recipient organisation is advised of the name of the original donor. The only

limitation on this procedure is that the designated beneficiary must have tax deductible status under Section 78 (1)(a)(ii) of the Income Tax Assessment Act.

From time to time the Fund receives bequests and, unless directed otherwise by the terms of the bequest, these are placed in an Endowment Fund which is permanently invested. The income from this fund is more than sufficient to cover the whole of the operating expenses of the Lord Mayor's Fund and the balance is available to augment the fund distributed as grants. The growth of the Endowment Fund should in the long term provide a rising income stream to add substantially to the Fund's donation income and should ensure that the Lord Mayor's Fund continues as a valuable Melbourne asset into the 21st Century.

***For further information, contact***

Frank Paine  
Lord Mayor's Fund  
650 3939

**ANNUAL GENERAL MEETING**

Association of Philanthropy Inc will hold its Annual General Meeting on Tuesday, 14th March 1995 at the ANZ undercroft on the corner of Collins and Queen Sts.

The order of business will include a number of proposed changes to the Memorandum and Articles which provide for the Association in order to provide for trade, both in Victoria and in other States. It will also formalise the wind-up clause to state in specific terms that all assets would apply to another charitable agency.

Members are invited to advise Council of any other matters which they feel should be addressed in the present constitution prior to their meeting on Tuesday, February 7th 1995.

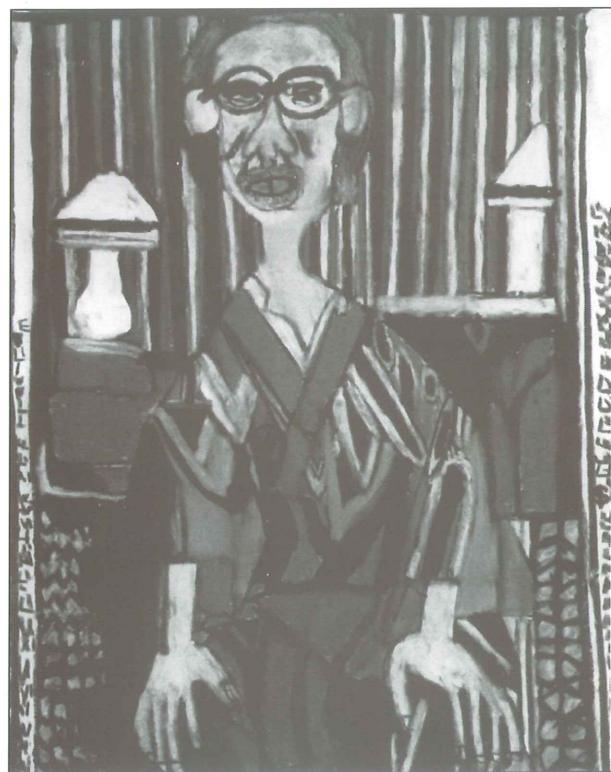
In the following seminar, Tracey Geary will be a guest speaker from the United States. Tracey has specialised in the issues pertaining to women who inherit wealth and is a source of information on the development of private philanthropy.

# Arts Project Australia: Celebrating Twenty Years 1974 - 1994

**This report celebrates contributions which people with a disability are making to the cultural life of our community.**

Arts Project Australia's anniversary has provided a special opportunity to celebrate two decades of achievement and growth with a series of major exhibitions and a forum at the National Gallery.

For the past two decades, Arts Project Australia has played a pioneering role in developing opportunities for people with an intellectual disability to participate and gain recognition in the visual arts. From the Project's beginnings, with the first classes held in a stable, an innovative and sophisticated visual arts program now operates from Northcote Victoria with full-time Studio Workshop classes staffed by practicing artists. An ambitious program now runs in two shopfront galleries attached to the Studio Workshop, in addition to numerous other external exhibitions and activities. These and other achievements have amply demonstrated that the dreams of the founders were justified.



Valerio Ciccone: *Untitled - Sogyal Rinpoche*, 1992

The Sidney Myer Fund Permanent Collection is one of the only collections of artwork by people with intellectual disability in Australia, and in 1989, Arts Project Australia was supported by the Fund to conserve, catalogue and permanently store this unique resource. The collection is comprised of four hundred paintings and drawings from two early landmark exhibitions: the "Minus/Plus Exhibition" in 1975 and the later exhibition, "Tommy's World" in 1980. As part of the 1994 anniversary activities, it was decided a major retrospective exhibition should be staged, 'The Sidney Myer Fund Permanent Collection Twentieth Anniversary Exhibition' to recognise the importance of this collection. In order to recognise this significant event, the Sidney Myer Fund again generously provided support to produce a new promotional brochure and a series of 20th anniversary greeting cards which were launched during this Exhibition.

Six artists work have been reproduced for the cards: Alan Constable, Cheryl (last name not recorded), Paul Kelly, John Bates, Gavin McVey and Bob Markham. The selected work shows an immense variety of themes and styles. Cheryl's 'Still Life', from the permanent collection, balances a backdrop of rainbow-hued colours and bold designs have ensured the work's popular appeal. All of the artist's work, chosen for reproduction, share a freshness of gesture and vitality.

The cards and brochure have proven to be important tools to help market the organisation this year. Arts Project Australia was represented at the 1994 Contemporary Art Fair in Melbourne and the high demand for the cards and the brochure has ensured that a new print run is already being planned. Arts Project Australia continues to seek avenues for further promoting the artists and their work in order to ensure the broadest audience for their activities. Initiatives like the brochure and cards will continue to play an important role in assisting the organisation to promote the valuable contribution which people with an intellectual disability are able to make to the cultural life of the community.

Arts Project Australia's close relationships with other leading organisations in the field of arts and disability contribute to its continuing success. CREAHM in Belgium, a leading European organisation in the area of creativity and disability, is providing a model of excellence in its development of innovative programs for people with disabilities.

With the generous support of The Estate of the Percy William Haddy and the ANZ Trustees, Martine Gernay, who had an early involvement in the establishment of CREAHM, was assisted to

promoted as part of the visual arts component of the Melbourne International Festival and were an exciting 'first' as artwork by people with intellectual disabilities had never before been included in a Festival program. Martine Gernay's contribution at the forum and the CREAHM exhibition were considered highlights of a very exciting year.

Celebrating the past, innovation in the present and moving towards the future, Arts Project Australia is a unique organisation. The exciting activities and events over the past year are the culmination of two decades of effort and commitment on the part of artists, staff and volunteers. Arts Project



*Portrait of Stelio Costa, Art Project*

*Australia with an example of his work.*

travel to Australia to participate in a major forum about the role of visual arts and creativity in the lives and careers of individuals with intellectual disability. The forum was staged at the National Gallery of Victoria and was in association with another major Arts Project Australia exhibition 'Beyond Words' staged at the VicHealth Access Gallery of Victoria. The panel included: Martine Gernay, the Director of Arts Project Australia, Cheryl Daye, artist, Mark Chapman and was chaired by University of Melbourne, arts lecturer, Chris McAuliffe. It was a great success and attracted an audience from all over Victoria. These events were staged to run concurrently with CREAHM at the Arts Project Australia Gallery entitled, 'Shared Visions'. Both exhibitions were

Australia's achievements have provided an inspiration for numerous other organisations working in the area of visual arts and disability in this country. With its many successes, Arts Project Australia has never lost sight of its first commitment to the individuals which it serves; the organisation continues to ensure that the artists integrity and authentic engagement with the creative process are what is most highly valued.

#### ***For Information***

Joyce Agee  
Arts Project Australia  
(03) 482 4484

# Project Recycle

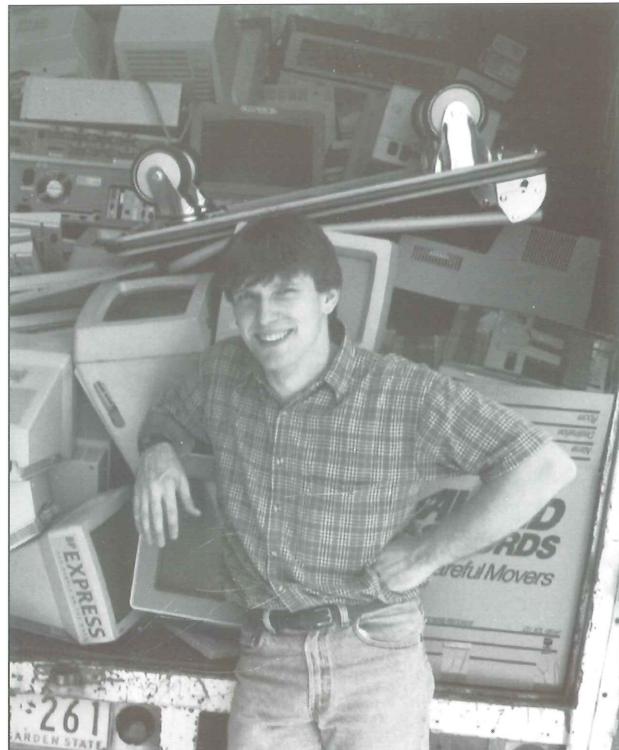
## A unique project which marries technology and philanthropy - a sign of the future.

Finding a practical focus for a sharpened understanding of community leadership has lead to the establishment of a project to distribute used computers to community organisations. "Project Recycle" is an acknowledgment of the demand for greater community access to information technologies. "Project Recycle" is an initiative of the Ross House Association and the Williamson Community Leadership Group and is supported by the Sidney Myer and Lance Reichstein Foundations.

Like the telephone, computers have become a technological tool we take for granted. We expect the routine information of business, employment and education to be work processes, spread sheeted and database. "In a society where poverty may be defined in terms of information rich and information poor, making more computers available to non-profit organisations is an important step towards greater equality," comments Peter Green, manager of the a community and small business technology company.

The cost of new technologies is a significant issue for non-profit organisation. Genevieve Timmons adds, "It is estimated that the philanthropic trusts and foundations in Melbourne receive around 1000 applications each year to fund the purchase of a computer. It's a demand that stretches the Foundations financially and administratively, many requests cannot be met." Technology training professional, Peter Coman adds "Effective computer training is often limited by the availability of equipment to practice and develop skills."

After consideration by working groups drawn from the Williamson Community Leadership Program, development proceeded with the appointment of a committee of management including: Peter Green - Mac Advice, Scott Anderson - Ian Potter Foundation, Genevieve Timmons - Lance Reichstein Foundation, Tim Budge - Westgate Human Resources, Peter Coman-Inner Metro ITEC, Sue Healy-Ross House. "The depth of experience in the committee is an indication of the relevance and significance of Project Recycle to the community sector".



Vince (BP Aust) and computers to be recycled

The committee sought funding and appointed a manager in mid-September. The Project Manager, Peter Horsley, has straight forward goals, "In our first six months we want to establish the foundation of an active organisation to get unused computers and give them to community organisation who need them."

Project Recycle is not without precedent. An organisation in the United States assembles working computers from scavenged components before shipping them in bulk to Africa. In the past, fledgling operations in Sydney and Melbourne faltered while the Melbourne PC User Group has been operating a 'Community Outreach' programme.

Project Recycle has had immediate success. A truck load of computers from an automobile manufacturer and a single computer from a Melbourne restaurant are among the surplus computers to have been passed on to a range of organisations.

Potential recipients cover a broad range of interests. Community media, resident and tenancy groups, selfhelp organisations and neighbourhood centres are just a few organisations which can benefit from greater access to computers. Project Recycle will offer equipment only. Recipient organisations will need either existing knowledge of computers or have access to support from people with appropriate expertise.

"Project Recycles links with the computing, community and philanthropic sectors give it a broad, firm foundation" says Peter Horsley. "While the Project's early targets are to link modest numbers of computers and recipient organisations our goal is to make a significant impact on the diffusion of technology through the community."

Philanthropic organisations can benefit too. Project Recycle invites referral of applicants for computers. Where a trust or foundation refuses an application for funding for a computer purchase, Project Recycle may be able to offer suitable computing resources to the applicant.



Computer Screens for 'Recycling'



Gianna and Norma from Prahran Neighbourhood House with their computers thanks to Project Recycle.

**For more information**  
Peter Horsley  
Project Recycle  
(03) 650 6624

# “Breaking Ground: Institute for Child Health Research”

The first thing you notice when you meet Professor Fiona Stanley, Director of Institute for Child Health Research, is her extraordinary energy. No less extraordinary is her aim: to eradicate childhood disease.

Fiona Stanley is widely recognised as one of Australia's most successful scientists. After graduating from medicine at UWA in the early 1970s she worked with Aboriginal children at the Children's Hospital in Perth. She soon became disheartened as children would pour in, receive treatment only to return to the conditions and environment that was causing the illnesses. So she left for England where 'social medicine' was making headlines.

Social medicine is the study of how diseases affect communities at large, and use population study techniques to establish the risk factors, and to try to eliminate the problem.

Fiona Stanley returned to Perth in 1977 to put these techniques into effect here, and with a group of scientists, founded the Institute for Child Health Research in 1990. She is supported by another well known scientist, Patrick Holt, who is the Assistant Director of the Institute, and senior principal research fellow.

There are several divisions researching asthma, cancer, meningitis, cerebral palsy, leukaemia,

sudden infant death syndrome, youth suicide and problems associated with premature birth.

The Institute has enjoyed great success, especially with the discovery of Folate in the prevention of Spina Bifida. Spina Bifida is a birth defect in which the backbone and spinal do not form properly. Many children die from this and associated conditions. The scientists at the Institute have found that if women take folate, a vitamin found in green leafy vegetables, vegemite and strawberries, before and during pregnancy, the risk of giving birth to a child with Spina Bifida is significantly reduced. The discovery is remarkably simple, and will potentially save millions of dollars currently spent on treatment. As well it will avoid anguish and pain in children and their families.

It is the remarkable achievements such as this one, and the international recognition of the Institute that promoted the Prince of Wales to request a tour of the Institute when he visited Western Australia early this year.

The survey seeks to describe the health status of young Western Australians in the 1990s and to identify key factors which promote emotional, social, vocational and academic competency. It involves over 2,000 families and is already being copied by research centres in Canada and elsewhere overseas.



Prince Charles talks to staff at the Institute



Prof Fiona Stanley

Also collaborating with North America is the Institute's Cancer Division. Headed by Principal Research Fellow, Ursula Kees PhD., this division is seeking to understand the genetic features present in childhood tumours, and the team works very closely with Princess Margaret Hospital for Children in Perth in order to integrate the latest scientific advances into the hospital's treatment programs for children with cancer.

The Institute has managed to attract brilliant minds from all over the world. One of the most exciting additions to the team is Professor Colin Sanderson from Oxford University. He has been awarded the first NH&MRC Macfarlene Burnett Fellowship to return to Australia. Professor Sanderson is important to the Institute not only because he is so well known internationally, but because he recognised the benefits of joining the Institute to establish fruitful scientific collaborations. His arrival here in WA has cemented the Institute's reputation as one of the leading centres of research into asthma and allergy.

The visit of the Prince Charles certainly helped increase awareness of the Institute and its goals, but it is the international groundbreaking research going on here that has made it one of the foremost child health institutions in Australia.

Only four years old, the Institute is responsible for helping reverse the 'brain drain', and boasts over

forty PhD students who are supervised by its staff. The Institute's staff's highest praise comes from their Director, Fiona Stanley who believes:

"Their dedication and commitment to the fight against childhood disease is second to none. I am proud to be their leader, and am thrilled at the expectation of increasing our research capabilities. We have the talent and the ability to make a significant difference to the quality of life of children all over the world.'

The Institute for Child Health Research has set itself seemingly impossible goals. However, what seems to be a few small steps in Perth, Western Australia, is turning out to be giant leaps in improving the health of children across the world.

#### ***For Information***

Tina Merrifield  
Institute for Child Health Research  
(09) 340 8823

# “Where will the Jobs Come From ?

**Address to the Rotary International Foundation Celebratory Luncheon for district 9800.**

**By Sir Arvi Parbo, Chairman Western Mining Corporation Holdings Ltd, members of the Australian Association of Philanthropy Inc**

I have been asked to express views on future employment: where will all the jobs come from to provide employment to all those who want to work?

This question is being asked throughout the world today. My comments will be with particular reference to Australia, but the questions and the answers are very similar in all the countries which have, or are trying to establish, free market economies. For the first time in history, this is now virtually the whole world.

## Predicting the Future

Predicting the future is fraught with pitfalls. The track record of even the wisest and the most expert amongst us shows that our predictions can be a long way from what will actually happen. Let me give you a few examples:

**Sir William Preece**, the Chief Engineer of the British Post Office, said in 1876:

“The Americans have need of the telephone, but we do not. We have plenty of messenger boys.”

**Charles K. Duell**, Director of the U.S. Patent Office, in 1899 urged President McKinley to abolish the office, because;

“Everything that can be invented has been invented.” This must be the only known instance in history where a public servant has proposed the abolition of his office.

**Wilbur Wright** told brother Orville after a disappointing flying experiment in 1901:

“Man won’t fly for a thousand years.”

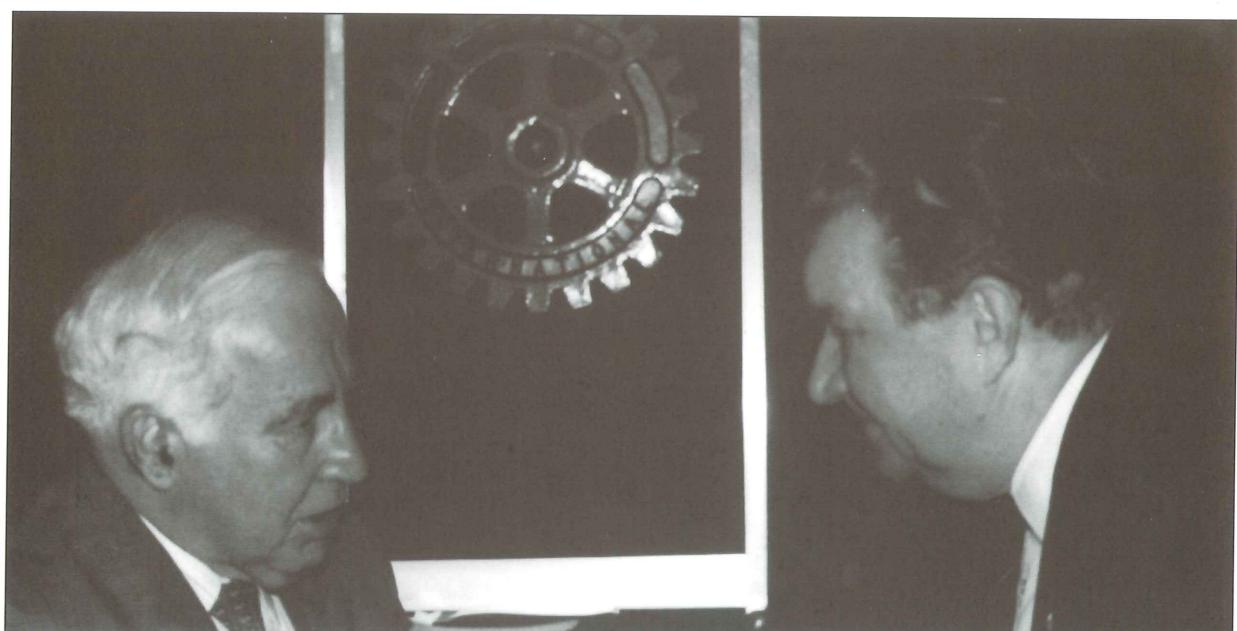
**Robert Millikan**, Nobel Prize winner in physics in 1923, said:

“There is no likelihood man can ever tap the power of the atom.”

**Harry M. Warner**, head of Warner Bros. Silent Pictures, is on record in 1927 asking:

“Who the hell wants to hear actors talk?”

**Thomas J. Watson**, the head of IBM, forecast confidently in 1958:



*Sir Zelman Cowen and Sir Arvi Parbo share thoughts at the Rotary International Foundation lunch*

"I think there is a world market for about five computers."

Forecasters of the future certainly should avoid being paid by results, but at the same time we must we keep trying.

### **The Free Market System**

In attempting to answer the question on future employment I must first say something about the economy. This can be a dull subject but please bear with me, because it is the key to the answer we are seeking.

Attempts this century to find alternatives to the free market system of economy have all failed.

Not all successful countries have embraced our kind of Western liberal democratic system of government; modifications of it, such as, for example, in Singapore, have worked well in some countries. There are those who argue that our kind of democracy is, in fact, not an appropriate system of government in countries with very different cultural and historical backgrounds. There is, however, very strong evidence and general agreement that the free market system is the only economic system capable of generating high living standards while also permitting a high degree of individual freedom - personal liberty, if you like.

### **The Importance of a Strong Economy**

The high living standards resulting from a strong economy are not just the material standards. Without a strong economy we cannot achieve any of the other community aims and expectations: in employment, welfare, health, education, environmental care, arts, cultural pursuits, science, sport, recreation, defence, and so on. Those active in these areas all have extensive needs, wants and demands. Progress in all these requires substantial economic resources and can only be paid for by the means generated through the production and sale of goods and services.

The economy is not a goal in itself, but the means by which we can achieve our ambitions in other areas. So all our actions and policies must be aimed at establishing a strong and growing economy if we want Australia to be the kind of country we would like to live in and would be proud to leave to our successors.

Importantly for the topic of this talk, a strong economy is also essential to provide employment for all those who want to work.

### **Variability in Employment**

Unemployment in free market economies occurs at times of downturns in economic activity; the extreme example of this was the Great Depression in the 1930s. At other times there is over-employment: when I came to Australia from Europe after World War II, the Australian Government was scouring the refugee camps for immigrants to relieve the acute shortage of workers. During the massive mineral developments in the 1960s which lifted Australia to a new level of prosperity, companies had to send recruiting teams overseas to attract skilled people who were in very short supply. School leavers with no work experience were able to pick and choose from numerous opportunities available to them.

After the election of the Whitlam government at the end of 1972 the then strong and vibrant Australian economy started on a downhill slide, from which we have been trying to recover ever since. Unemployment, 1.7% in the 1960s, became an increasingly serious issue in the late 1970s and the 1980s, until it peaked at 11.2% not long ago.

Variability in employment opportunities in the free market system is directly related to the growth rate of the economy. In a strongly growing economy there are jobs for everyone; when the growth falls below a certain level, unemployment results.

#### **What Rate of Growth is Necessary?**

A growing population means that after allowing for those who retire, new jobs are necessary every year to employ the people coming into the workforce. In Australia in recent years this has included, in addition to young people and immigrants, an increasing number of women seeking employment. A recent estimate is that some 100,000 new jobs must be created every year to take up this growth in the Australian workforce. An additional 100,000 new jobs every year are necessary to reduce the present rate of unemployment of just over 9% to 5% by the year 2000.

At the same time improved technology and better work practices, which are vital if Australia is to be competitive in world markets, can be expected to improve productivity by something like 2% per year. It can be shown that therefore the economy will need to grow by 4.5% to 5% every year to reduce unemployment to 5% by the year 2000.

These are not numbers that I have made up; they are from the Federal Government's recent Working Nation Statement.

### Is Such Growth Achievable?

It will be a real challenge to achieve rates of growth of this order over an extended period, but it should not be beyond us. Much of East Asia is growing now at about 6% per annum.

A big plus for us is our growing involvement in the dynamic markets of South East Asia and elsewhere in Asia. If we can continually improve our competitiveness, we can look forward to rapid growth of our exports. By and large, we have held our market share in East Asia; the challenge is to increase it.

But achieving sustained high rates of economic growth will not just happen to us while we wait to be pulled along by our trading partners. We must take positive action ourselves. The kind of approach required is spelt out in some detail in the Business Council of Australia report *Australia 2010*, released last year.

Key elements in achieving growth rates of 4.5 to 5% per annum are:

- high rates of growth of private sector investment
- improved international competitiveness through micro-economic reform
- low inflation and moderate rates of increase in wages justified by improved enterprise productivity
- higher national savings (both public and private) to ensure the growth of investment can be financed without adding to our international debt
- the continued internationalisation of the Australian economy.

### Are We Making Satisfactory Progress?

Last week the Business Council of Australia issued what they call a "Scorecard", assessing the progress we have been making towards these aims. The score is mixed; fair to good in some areas and poor in others. Clearly we must overcome what the Business Council calls "reform fatigue" if we are to reach the goals set in the *Australia 2010* report, amongst which is reducing unemployment to not more than 5%.

The problem with these reforms is that it is all hard slog and there are no short term political kudos in it;

sometimes quite the opposite. But get on with it we must if we do not want a deteriorating standard of living and permanently high unemployment. Politicians are often wonderfully inventive in rousing support at election time. Some of this resourcefulness is also much needed in pursuing the reforms which have slowed down or come to a halt.

There are many different ways of achieving a desired result. I am reminded of the story about a skinny chap who came up to a large burly character in a blue singlet and said "Do you own a Great Dane?" The big fellow said, "Yes, what about it?" The little chap said, "I'm sorry, but my dog just killed your dog", and the big fellow said, "He killed my Great Dane? You've got to be kidding! What sort of dog is yours, and how did he do it?" ... "Well", this skinny fellow said, "It was a silky terrier, and it got stuck in his throat".

There are many ways of getting things done.

### The Pace Not Fast Enough

One of the problems we have is that while there have been improvements, the rate of progress is just not fast enough. As Professor Fred Hilmer, reporting to the Business Council, put it: "While we improve, so do our competitors. Given our current situation, where the typical Australian enterprise is achieving productivity of 70 per cent

of best practice, the required rate of improvement is 11 per cent per annum for an enterprise wishing to "catch up" by the year 2000. Four, 5, or even 6 per cent per annum improvement is not enough because our best competitors achieve this themselves."

Gradualism, while easier to accept than sudden change, is simply not good enough.

### The Source of Jobs

The experience in the last decade or so is that the main growth in employment in the future will be in different areas from those in the past.

Manufacturing industry's role has changed dramatically from the high immigration days of the 1950s and 1960s when it was expected to provide jobs for the newly arrived. This it did under very high protection, which enabled it to replace imports in the local market. The textiles, clothing and footwear, and motor vehicle industries were then especially important in generating employment.

The experience of recent years is that employment has fallen in both the primary (agricultural and mining) and manufacturing industry sectors, which now account for less than 20% of all jobs.

Rapidly increasing automation and the amazing revolution in computers and information technology has greatly increased the productivity of people in these industries. A happy consequence of this is that much of the hard physical work and downright drudgery which was there not so long ago has been eliminated. The not so happy result is that many of the jobs have become redundant.

The 200 tonne trucks in open cut mines have each replaced thousands of people with wheelbarrows a century ago, and mechanical ditch-diggers for laying water pipes in the suburbs have now taken the place of many men with shovels. Robots and other machinery in modern manufacturing do many of the hazardous and monotonous jobs of yesteryear.

While we can expect jobs to increase in manufacturing in the short term as the recovery from the 1990/92 recession continues - the latest statistics show an increase of 60,000 in the past year compared to the 150,000 jobs lost in the recession - manufacturing, like agriculture and mining before it, is becoming more and more a wealth creating rather than a job creating sector.

I am sure that no-one would seriously suggest that we should go back to the back-breaking work methods of earlier times just to provide more jobs. In any case, we could not do so because these industries must compete in world markets where our competitors have been and are undergoing a similar change. The problem of providing work for people has to be resolved in a different way.

All the recent growth in employment has been in service industries which covers a huge range of activities such as information processing and communications, finance, wholesale and retail trade, tourism, the hospitality industry, and community services. The primary and secondary industries are creating much of the wealth which is then spent in these tertiary areas.

In the last eighteen months, the services sector in Australia has contributed most of the 321,000 jobs created; more than half of these were in shops, restaurants and business services. This trend is likely to continue.

I recently came across some interesting figures on employment growth in Australia in the 10 years from 1981 to 1991<sup>1)</sup>. The growth in various locations was as follows:

In Sydney	= 8%
In Melbourne	= 8%
In Hobart	= 8%
In Adelaide	= 13%
In Darwin	= 20%
In Perth	= 24%
In Brisbane	= 29%
In Canberra	= 80%
On the Gold Coast	= 103%

One can only speculate on the reasons for the 80% growth in Canberra. Recent statistics from the United States show that the staff of the House of Representatives has grown from 1,425 in 1930 to 10,739 in 1970 and to 20,000 plus in 1990; the comment in the document I saw was "too many to count". I have no figures for Canberra, but would be very surprised if the trend was any different.

On the Gold Coast the massive growth has been clearly in tourism and the hospitality industry.

Occasionally one still hears voices calling for a return to high protection for manufacturing industry so that it can create more employment. In my view this would be a dead end for Australia. Our future lies not in erecting barriers around us, but in joining the world and excelling in activities in which we can be the best, or at least among the best.

The best prospects for employment growth lie in services such as tourism, hospitality, and business services. International visitors have now reached 3 million per annum and could double by the year 2000. Changing social trends as well as tourism development suggest strong prospects for the hospitality industry.

Business services growth, partly driven by the increasing practice of contracting out by large public and private organisations, can be expected to at least reflect the general growth of the economy.

Experts who follow social trends in Australia also expect domestic services to be a major job provider in the future.

Further, there are strong growth prospects for the export of services. The recent LEK study, *Intelligent*

*Exports*, projects that from 1993 to 1998 Australia's service exports will more than double. By the turn of the century, 10% of Australia's services could be exported.

#### **The Role of Small Business**

In recent times large and medium sized enterprises have concentrated on their core businesses, introduced new technology, and adopted lean management practices. Employment by such firms has fallen appreciably over the last five years.

At the same time, employment by small firms - those with less than 20 employees - has risen. The number of small firms has also grown. We have currently around three quarters of a million small businesses in Australia, one third of them, incidentally, run by women. Many small businesses have developed in recent years as larger businesses have spun off a part of their non-core business activities and contracted out services previously provided in-house. Two thirds of small business employment is now in services.

It seems likely that with the increasing opening up of the Australian economy to international competition and the consequent need to adopt world's best practices, large and medium sized firms will continue to operate as lean enterprises. Productivity growth in these companies is likely to be well above the national average and their relative contribution to jobs will probably fall further.

This does not mean that big companies are unimportant; they have a very important part in the economy. They make a much greater contribution to Gross Domestic Product than small businesses. They will continue to be at the leading edge of the globalisation of Australian business and provide markets, and often vital technology and know-how, for smaller businesses. They also supply goods and services to small businesses.

Big businesses are moving fast with the times and changing in ways almost unknown only a few years ago. They have to do so to meet competition and to survive in the tough world market place. Nevertheless, small to medium businesses are the main source of employment. It is of crucial importance that the economic, regulatory and business environment in Australia is such that it encourages small and medium businesses to flourish.

#### **The Role of Business In Creating Employment**

One sometimes hears exhortations that business is responsible for providing employment, and that it should get out there and get on with it.

The first responsibility of businesses is to be successful in their business. If they fail in this, they cannot make any contribution to the community.

Business does contribute to the society in many ways besides providing good returns to its shareholders; it is an irreplaceable basis of a free market economy. Amongst these contributions, importantly, is the creation of employment and the provision of career opportunities. But the order of things is that business must be successful for all these benefits to become available: it cannot set out to create employment artificially just for the sake of it and still stay in business.

#### **The Role of Governments in Creating Employment**

From time to time one also hears of schemes for government to provide employment - usually by imposing additional taxes, which would then be spent on employing people in various ways.

I am afraid that I am not a believer in this. In my view, the main role of governments in this area is to create the conditions in which the economy is encouraged to develop and grow, and thus generate employment.

There was no unemployment in Hitler's Germany or Stalin's Soviet Union, but I am sure no-one would want to live under such systems just to enjoy the employment. The famous Swedish experiment of a high taxing paternalistic government looking after people from cradle to grave has been a failure; Sweden has just voted to join the European Community after nearly half a century of attempting to go its own separate way. I do not have any reason to believe that our government would be wiser or more successful in this.

Government does have an important role in setting the scene and guiding the economy.

I am reminded of a story about a destroyer making its way to the port and, to the annoyance of the captain, steering a rather erratic course. In the end the captain shouted down the voice-pipe, enquiring who the damn fool at the other end was. After a silence for about half a minute back came the enquiry, "Which end, Sir?"

One important way in which government can help business, particularly small business, and thus encourage the creation of employment, is to reduce the complexity of the regulatory environment which, regrettably, is fast becoming almost impossible to manage.

It would take a two-day seminar to deal with this topic adequately, but let me give you just one example. The point was made recently that the Lord's Prayer contains 55 words, the Gettysburg Address 500 words, and the European Community Directive on fish canning 35,000 words. Need I say more?

**The Message**

The message I would like to leave with you is, that we can only create more real employment by encouraging the growth of the economy. There are no easy snake-oil remedies to achieve this; it is all hard slog which must be maintained year after year for many years. But it can be done, and it must be done, because it is intolerable that many of our fellow Australians must suffer the hardship and human indignity of not being able to provide for themselves and their families in the way in which they would wish. The welfare system is no substitute for this. The best social welfare policy is the availability of good quality, well-paying, interesting, and stable jobs for all.

For us to succeed in creating more employment, the whole community must understand what is necessary to achieve it and support the sustained effort towards it year after year. I hope that I have been able to assist in clarifying some of the issues, and that you as Rotarians will use your great influence and prestige in the community to pass on the message.

<sup>1</sup> McKinsey & Co., Lead Local Compete Global, July 1994.

**JOINT FOUNDATION SUPPORT**

Joint Foundation Support is a non-profit administrative and research secretariat, designed for individuals and organisations wishing to contribute money for philanthropic purposes.

The Secretariat provides a range of services for planning and managing the distribution of funds. Services are tailored to meet the specific priorities and interests of individual Donors and Donor organisations.

Work can be completed by the Secretariat in relation to the following:

- Board Management and Trusteeship
- Policy Development
- Grant making
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Short term and locum work can be undertaken, as well as on-going responsibilities under direction of Donors and Trustees.

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5th Floor, 165 Flinders Lane  
Melbourne, 3000  
Tel (03) 650 4400  
Fax (03) 650 7501

Joint Foundation support is an initiative of the Lance Reichstein Foundation, designed to professionalise and promote progressive philanthropy in Australia, and to assure quality grant making in Australia.

# Tribute to The Late Sir Ian Potter 1902-1994

## William Ian Potter 1902 - 1994

This article is taken from the Tribute to Sir Ian Potter by Professor Derek Denton.

It was delivered at the service of Thanksgiving held in St Paul's Cathedral, 22nd November 1994 at 11.30am.

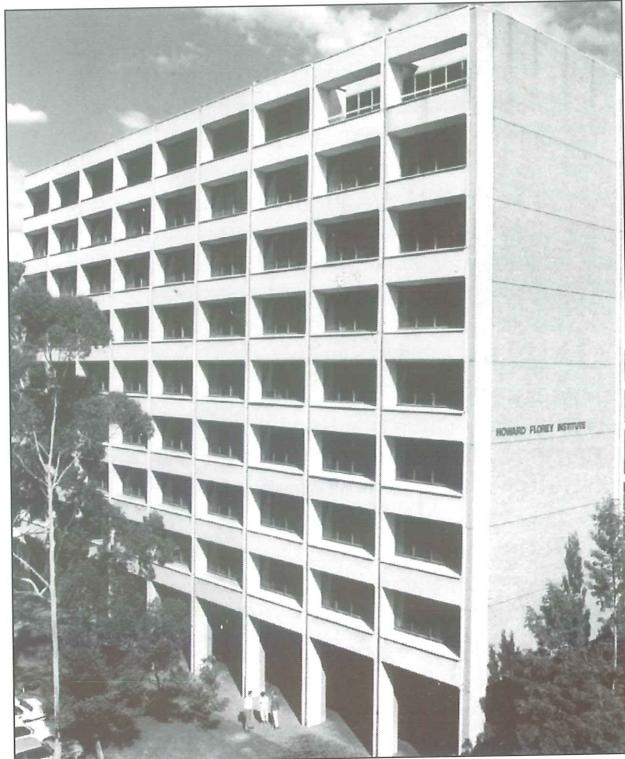
William Ian Potter - 1902 - 1994 - four score and a little over ten years of a happy and wonderful life.

The sadness of the loss has not waned, but now is the moment to celebrate the creative spirit of a great man who changed the path of this nation in a clear and discernible fashion. It is the time for a ringing tribute to Sir Ian Potter. He embodied a most happy union of a particular financial genius with a visionary spirit. He had a most generous intent, and superbly executed resolve, to help all Australians - be they in the arts, sciences, academia, be they intent on preserving our natural heritage, or be they disadvantaged. The philanthropy has and will be very great indeed, and in the hands of his trusted friends, likely to grow and endure long into the future.

It is a great legacy to this country.

Ian was an elegant, distinguished, indeed a very handsome man, which favoured him in many aspects of life. He was courteous to an extreme, and his charm was such, that as the chronicler of his financial ascendancy, Leon Glezer, remarked, with understatement, "It greatly magnified the impact of his considerable talents." He was very warm though intrinsically a private person, and the friendships he chose to have, endured. His early life was partitioned between England, Australia and Scotland. He did economics at Sydney University. Naturally for him, he topped the course. After a short sojourn in Melbourne with Stockbroker E.C. Dyason, he joined R.J. Casey in Canberra as a Treasury economist.

Two years of negotiating financial matters for the Government helped build the networks which gave him a flying start when he returned to Melbourne to set up his own stockbroking firm. There was some interruption because of the war, during which he served in the Navy.



*Howard Florey Institute of experimental physiology and Medicine - A major investment by Sir Ian Potter*

The remarkable meld of intellect and talent, resulted in his breaking through the extant Melbourne networks and emerging fairly rapidly to become the major figure in Australian finance.

A crucial element in this was his imagination in going quite beyond the usual underwriting by his innovation of merchant banking techniques. Initial exercises involved the Australianization of companies like Email and McIlwraith McEachran. His negotiating skills, and ability to translate practices and instruments used in major overseas capital markets to the Australian context, made him a great innovator, and he was a powerhouse of ideas. Ian Potter and Company and his merchant bank, Australian United Corporation, were involved in the genesis of - or financing and growth, - of some of the great Australian resource, industrial and commercial companies - amongst others :- Hamersley Iron, BHP, Bass Strait Oil, Con-Zinc Rio Tinto, CSR and CUB, Anthony Horden, Boral, and major financing with the media publisher, Sir Frank Packer's Consolidated Press and John Fairfax occurred. He and Sir Cecil Looker were

principal forces in Australia in the establishment of the short term money market. Not everyone of his floats was a success - some were a little risky, but for the great part they were very successful, and Potter was seen as a sound and imaginative financier operating within accepted traditions.

Concurrent with his Australian success, Ian became a very substantial figure in international finance - and with the linking of overseas groups to Australia. He served on international Boards, including the Chemical Bank of New York and Time Life International. A major alliance was with the Wallenberg Banking family in Sweden, and through this he became chairman of the Board of Swedish and Swiss companies in Australia. He had a particular empathy with Sweden and Marcus Wallenberg, and the Ian Potter Foundation initiated and joined with the Wallenberg and Wenner Gren Foundations in supporting Swedish - Australian scientific conferences in neuroscience, circulation, botany, and connective tissue biology. It was apposite that he was a signatory in Stockholm of the scientific exchange agreement between the Royal Swedish Academy of Science and The Australian Academy. He was made a Knight of the Polar Star, First class, by the King of Sweden, and treated with honour at the 250th Anniversary of the Founding of the Swedish Academy of Science - an initiative of the great botanist Linnaeus. The Ian Potter House of the Australian Academy is a testament to his support of Australian science.

Von der Malsburg has said - "In order to understand the value of money we shouldn't stare at dollar bills. We should rather try to understand the system of belief and habits that make money do what it does."

Probably few have understood the power of money as Ian did. But his quiet modesty, indeed, sometimes seemingly shy behaviour, was revealing in the face of the aphorism "you only really understand someone's character when they are given power."

The principal and overwhelming matter to highlight in terms of our contemporary history, and some melancholy elements thereto, is that Ian was a creative force. His cascade of ideas was the engine in starting or amplifying enterprises. His venue was not the "take over" culture. Thus, above all, he created wealth for Australia, and, of course, for many Australians, perhaps tens of thousands, great employment opportunities. He was knighted in 1962.

Contemporaneous with all this, his friendship with R.G. Menzies made him a major force in the Councils of the Liberal Party, of which he was a Founding Trustee. His close relationship with the Party continued over years, and with other leaders, including Harold Holt and William MacMahon. Earlier, he resisted Menzies suggestion to enter politics. However, there was nothing monocular about Ian's political associations, as witnessed by those he had with Ben Chifley and Arthur Caldwell during this era.

Ian's dedication to the public good began early in his professional life, and he was a major figure in the building of the National Gallery of Victoria and subsequently the whole Arts Theatre complex, which has progressed as a bipartisan triumph under successive Premiers from Sir Henry Bolte onwards.

Dr. H.C. Coombs invited him to succeed him as Chairman of the Australian Elizabethan Trust in 1968.

Many cogent aspects of Ian emerge in recounting the history of the founding of the Howard Florey Laboratories of Experimental Physiology and Medicine - his first really major act of philanthropy.

In the course of a friendship of several years, Ian, Kenneth and Baillieu Myer and Dr. Coombs, had visited the old Department of Physiology at Melbourne University and had been very interested in the work. The physical conditions in



*The Potter Farmland Plan was a project which brought together farmers, private enterprise and government, to tackle land degradation and improve productive capacity.*

the century old building were dismal.

Ken suggested to Ian that maybe he would like to join the newly formed Myer Foundation, in the idea of the laboratories. With a view to building an international top rank laboratory for physiological research on large animal.

Ian's immediate response was "Yes", and we'll go halves in the major sum", and after a short pause, no doubt related a little to his professional bent - "and furthermore we'll underwrite the total so the scientists can go now and get an architect." By Friday night, the architect, Barry Patten, was chosen, and I rather suspect that the 4 days from the germ to committed construction of what was to become a nine floor international centre of scholarship and medical research, is something of an Australian record, if not close to an international one.

At about the same time, in the light of our discovery of the existence of a new hormone bearing on the control of salt balance, the National Heart Institute of the U.S. by virtue of its Congressional terms of reference, decided to give us a very large grant for the work. The grant was then blocked at the higher administrative levels of the National Institute of Health, on stated grounds that it was much too large and would disturb the ecology of research support there in Australia. In this area of ecology, Ian was no conservationist, and using his connections with the World Bank - he was Australian representative - together with Dr. Coombs, managed to unravel this very rapidly and gained the Rockefeller Foundation support along with a federal grant for the structure. As the Australian, Sir Henry Harris, who succeeded to Lord Florey's Chair at Oxford, has reflected in a recent book there is much to be said for old-fashioned patronage, with its subjective, indeed personal and intuitive element, against the Committee peer review system of disbursement used with public funds. His inherent modesty plus an intent to creatively stimulate many fields, science, art and social, probably melded to the decision that the Ian Potter Foundation should be a Board of Governors, and he would be simply one of a group in decisions.

He devolved this responsibility amongst a number of his trusted and gifted friends, and a great success has been consequent thereto. Many of them are here - some sadly missing. It is not hard to imagine the pleasure, indeed, at times, exhilaration, they have had working with him, - as would have his loyal staff, who worked with him for decades.

One thing is certain. Ian had a great affection for, and pride in, that eminent institution - The University of Melbourne, giving long service on the University Council. It is vividly etched on my memory that when, as a founder, in 1970 we went to him to recount with enthusiasm Sir Ernest Coates' suggestion that the solution to the issue of the long term future of the Howard Florey Laboratories was Incorporation by Act of Parliament, as an independent, self-governing Institute, affiliated with the University, and Ernest thought Sir Henry would do that, Ian responded immediately - "Yes - we don't want any University sherry party committee - We want responsibility."

Ian had great delight from his family. His wife, Primrose, made his last few years serene and comfortable, though his health was failing. The milieu was one of great affection and care. His daughters, Robyn and Carolyn, his grand children, Sam and Luke Parker-Bowles, his step-daughter Primrose, and her daughter Zophia, gave him very great pleasure.

Life with Ian was great fun. He liked parties, he made merry, and laughter was dominant. But, as a matter of truth, every now and again, he revelled in having, with his intimates, what was known in the Potter household as the "blazing debate". He might lean across the dinner table and remark casually - "The problem with theatricals and artists is they have no sense of financial responsibility - no managerial judgement. They would go bankrupt without good financial people to control them."

It was calculated to produce uproar - It did. Ian liked, just occasionally, needling, and it cheered him



Ian Potter House - Aust. Academy of Science, Canberra

up no end.

One of his great joys in life was his Lodge in\* amongst the trees above the shining waters of Lake Eucumbene. He'd designed and built it himself, and it mirrored him well. Somewhat austere - wood panelling, a few carpets on wooden floors - but a wide open blazing fire, candlelight at night, with snow and the lake outside - a little serenity.

He loved the place and also fishing, though in truth, he was not too good at it, trolling a spinner, with a piece of fruit cake in his other hand, seeing what turned up.

The spirit of Ian Potter will be with the new generation of Australians of diverse calling, which his Foundation will send forth to the wide, wide world, where they will learn a great deal, and sometimes make the perennial discovery that some aspects of the arts, theatre, scholarship and science of the country from whence they came, are pre-eminent in the world, and thus they return home rejoicing.

That spirit will be there to enable much of the creative surge which we expect for the future of this nation.

He has made a monumental gift to Australia, and we accord him great honour.

Ian loved the sea and ships -  
So I give the last words to the great poet of ancient China, Li Po -

*"The moon reflects the wide blank sky,  
Clouds rise into terraces and towers -  
Good-bye.  
You ride the waters of our home - though  
you sail ten thousand miles"*

### ***CHARITY AT THE CROSSROADS - CONFERENCE PAPERS***

The papers delivered at the Charity at the Crossroads Conference in November are now available in print form. In light of the closing date of January 31st, 1995, set by the Industry Commission for response to the Preliminary Report, these papers have been collated in their entirety, into book form for ready use. Summary documents of some of the proceedings, which draw together some of the common threads emerging from the conference, are also included.

The papers are available at a cost of \$30 including postage.

*For further information  
please contact*

The Australian Association  
of Philanthropy Inc  
on (03) 614 1491

# Shares in an Investment Portfolio

by Peter Burrowes, Director - Manager  
J B Were Asset Management Limited

## Why Invest in Shares

As discussed in the investment strategy commentaries in recent issues of "Philanthropy", a diversified portfolio of Australian shares is highly likely to produce higher average annual returns than a portfolio of government bonds and cash over the medium to long term (5 years plus). Share returns come from generally rising dividend payouts and rising share prices.

However, the higher expected average annual returns for shares is only half the story.

This article aims to demonstrate the risk and return effects on portfolios with different proportions of shares.

## The Ups and Downs of Share Returns

The higher returns for shares over the long term are accompanied by a high level of variation in annual returns. The volatility of share prices has resulted in returns for the broad Australian sharemarket to generally be in the range of -20% to +45% per year over the past 20 years. The sharemarket's total return in 1993 (dividends plus increase in share prices) was close to the upper end of this range; and 1994 looks like producing a total return closer to the lower end of the range.

The main risk for investors with a relatively high proportion of shares in their portfolios is that the sharemarket may fall substantially and result in short term capital losses (and reduced dividend payments if companies are finding the business environment tough going at the same time) just when positive returns are needed to meet specific funding requirements.



Andrew Macmillan, Director-Portfolio Management, Peter Burrowes, Director-Manager and John Francis, Director-Administration

## What level of Shares is Appropriate in a Portfolio

For some investors, the answer is zero, e.g. monies that are needed to pay the deposit on a house within 60-90 days should be in a stable investment such as a bank deposit.

Conversely, a person saving for retirement in 25 years time might be comfortable with a portfolio composed entirely of shares.

Generally speaking, the longer the time horizon of the investor, the higher the shares content can be to meet the investment return objectives of the investor.

The level of shares in a portfolio is a case of "horses for courses" and depends on:

- the level of income required;
- the amount of risk or volatility of returns that the investor is comfortable with; and
- restrictions placed on the portfolio by Trustee Acts, trust deeds, etc.

The "correct" level of shares is that which the Trustees feel most comfortable with given the particular requirements of their fund.

**Examples of Expected Returns for Portfolios**  
 J B Were Management has proposed the following total returns (i.e. income plus capital growth) for illustration purposes, for the next 10 years:

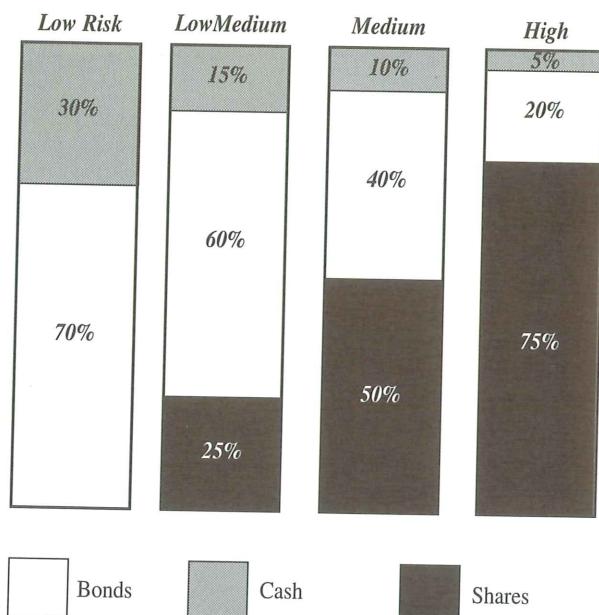
Asset Class	Average	Range of	Annual Return	Annual Returns (1995 - 2004)
	Annual Return	Annual Returns (1995 - 2004)		
Australian Shares	12%	-18% to +42%		
Australian Bonds	9%	-3% to +19 %		
Cash on Deposit	6%	+4% to +12%		
Inflation (CPI)	4%	+1% to +7%		

We believe there is about a 90% probability that the annual returns for each of the asset classes will be in the ranges shown.

Below, four sample portfolios have been constructed from shares, bonds and cash. We have calculated the expected average annual return for each portfolio and the maximum and minimum returns expected in any one year, i.e. the range of returns for each portfolio.

#### Sample Portfolios for Investors with Different Risk / Return Requirements

The shares content rises from 0% to 75% from left to right:



#### Expected Returns for the Sample Portfolios

	Low Risk	Low-Medium Risk	Medium Risk	High Risk
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**Expected Average Return** 8% 9% 10% 11%

**Expected Maximum Annual Return** 14% 21% 27% 34%

**Expected Minimum Annual Return** 1% -4% -8% -12%

The “Low Risk” portfolio should give an average return of 8% p.a. over 10 years, with a high probability of its annual returns being in the range of 1% to 14%.

As the shares content rises, the average annual return also rises; but so does the volatility of annual returns. The “High Risk” portfolio should return an average of 11% p.a., with annual returns in the range -12% to +34%.

The “High Risk” / high shares portfolio generates a much higher cumulative return over 10 years, as illustrated by:

\$1,000 invested at 8% p.a. with the annual interest reinvested would grow to \$2,158 at the end of 10 years.

\$1,000 invested similarly at 11% p.a. would grow to \$2,839.

#### Relevance to Charitable Trusts

An increased share content for trusts with a long term investment horizon clearly allows a greater investment return.

If charitable trusts are able to accumulate funds, and from time to time their trustees choose to do so, the trusts will be able to build up a larger long term corpus if they increase the shares content of their investment portfolio. The optimum level of shares depends on the investment objectives of each trust.

### JB Were's Asset Management Approach

JB Were Asset Management discusses each client's investment objectives and requirements prior to recommending a portfolio structure. For amounts in excess of \$3 million, we favour setting up individually managed investment portfolios for clients to match their specific needs rather than proposing a "one size fits all" pooled trust.

#### *For Further Information*

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# Australian Charity at the Crossroads - An International Perspective



*Prof Karla Simon*

**A paper delivered at the Australian Charity at the Crossroads Conference by Karla W. Simon, Professor of Law, Executive Director International Center for Not-for-profit Law**

On November 10 and 11, 1994, The Australian Association of Philanthropy, the Monash Graduate School of Government, and the International Center for Not-for-profit Law (ICNL) convened a conference entitled "Australian Charity at the Crossroads." The purpose of this conference was to discuss the Draft Report of the Australian Industry Commission "Charitable Organizations in Australia." Fifteen international guests participated in addition to the some 200 Australians

in attendance. The international guests had been invited to provide a strong comparative element for the conference, with participants from other common law countries and countries in the Asia-Pacific region adding experiences and observations from their own countries to Australian commentary on the Draft Report.

The significance of the Industry Commission study of charities in Australia (which the Commission calls Community Social Welfare Organizations or CSWOs) cannot be ignored. This was the first important and objective government inquiry into the not-for-profit sector since the Goodman and Filer Commissions in the 1960's and 1970's. Although its scope was not as broad as those earlier studies, that did not in any way diminish its importance. Coming as it did during the last decade of the twentieth century, when the social service-providing part of the not-for-profit sector is increasingly being asked to assume burdens borne previously by governments, the Industry Commission's analysis of the not-for-profit sector in Australia has world-wide relevance. In addition, the conference, with its comparative approach, was a unique event — it was the first time when discussions about a government inquiry of this sort have received the benefit of contemporaneous international input.

This paper briefly describes the inquiry itself and the contents of the Draft Report. It then discusses the report from an international perspective, reflecting ICNL's experiences in its work to foster a better legal environment for the not-for-profit sector in countries around the world.<sup>1</sup>

## **The Draft Report**

The Draft Report contains some 340 pages, 14 Appendices, and 25 Draft Recommendations, which makes it difficult to summarize. As the Industry Commission states, however, the Report addresses several core issues, including how the sector is and should be providing resources, improving the quality and performance of the sector in its provision of social services, developing mechanisms for better accountability, developing better support mechanisms, and developing a greater level of partnership between the state sector and CSWOs. The Report was developed

after a lengthy process of inquiry (beginning in December 1993 and ending with the publication of the Draft Report in October 1994), which involved soliciting submissions from CSWOs and their funders, visiting CSWOs around Australia, doing research into methods of resourcing and regulation developed in other countries, and a round of public hearings. The process will continue with another round of submissions and public hearings, concluding with a Final Report sometime in the spring. Although the conference was not a normal part of Industry Commission procedure, it provided a very good public forum in which views could be aired and input from foreign experts could be obtained.

Two principal themes can be distilled from the Report: defining the role of the state as the regulator of the sector and defining the role of the state as a provider of funds to the sector. These are themes that are relevant to the social service sector in all countries which, like Australia, are emerging from a strong social welfare state. They are also relevant in countries such as the United States, where the election of a Republican Congress suggests that more and more social welfare services will be expected from private providers. In essence, the Report focuses on the general question of how to redefine the relationship of the private CSWO world to the state, thereby focusing attention on individual freedoms and choices about social service provision as well as the issue of finding resources for work that is not done by the state.

In looking at the sector and the way in which it obtains resources, the Commission focused on several sources of funds — direct and indirect funding by the state, gifts from the community, client fees, and volunteer services. It recognized the need to continue to provide tax concessions to support the sector, although it recommended eliminating the fringe benefit tax exemption and replacing state level input tax exemptions with a revenue neutral package of federal assistance. Significantly, the Commission did not recommend taxing unrelated business income, having decided that failure to tax such income does not produce an unfair advantage to the CSWOs that engage in such activities. The Commission also favored reducing current barriers to private giving (e.g., it proposed extending tax deductibility to all CSWOs and recommended eliminating the \$2 lower limit for deductions) and opted for a deduction system (as opposed to a rebate), which gives greater incentives to wealthier individuals who are in higher tax brackets.

With respect to direct government funding, the Report clearly recognized that the government retains an obligation to support the sector. Its recommendations focus principally on developing a fair and open procedure for public tenders and in trying to obtain a better rating system for determining when public awards will be available. In addition, the Report suggests that public contracts should provide funds for real costs, including overheads and training.

The recommendations affecting the regulation of the sector stressed the need for greater accountability than presently exists in Australia. For example, the Report suggests that the Australian Tax Office should institute a process of reviewing the returns of CSWOs that receive tax deductible status, that certain CSWOs should be required to incorporate and register with the Australian Securities Commission, and that better accounting standards should be developed. The thrust of these recommendations was to find ways to make the sector more accountable to the state as the representative of the people. Although there were some objections voiced to the specific proposals (for example, many people did not think that the Australian Securities Commission would be the best regulatory body), most participants seemed to agree that the current lack of regulation in Australia is very bad for the sector.

#### **An International Perspective on Issues Affecting the Regulation of the Sector**

There are several principles regarding the regulation of the not-for-profit sector against which the recommendations contained in the Draft Report may be tested. In a brief discussion of each of them, the paper considers whether the Draft Report adequately addresses the issues raised.

**1. The laws regulating the not-for-profit sector should embody principles of clarity, simplicity, and administrability.** A well-regulated not-for-profit sector will be one that is governed by laws embodying the principles of clarity, simplicity, and administrability. The civil servants who administer the laws (tax officials, judges, independent agencies, local authorities, etc.) and the organizations that comply with the laws all must be able to understand them so that they can act appropriately to preserve the public trust. This means that there should be relatively few laws that regulate the sector. Such laws include general definitional provisions regulating the formation, functioning, and dissolution of the different types of not-for-profit organizations; tax laws; special licensing laws for organizations that engage in certain activities (e.g., education, health care); and

special laws regarding fund raising. Redundancy and overlap should be avoided.

The Draft Report makes several suggestions aimed at simplifying the laws affecting CSWOs (e.g., elimination of the \$2 lower limit for deductions), and these are in general quite thoughtful. However, it is unclear whether the Draft Recommendation 8.2, which would require incorporation of CSWOs with income over a certain threshold to be incorporated under the Corporations Law, would truly achieve a simplification. This requirement might possibly be extended to all CSWOs regardless of size, and charitable trusts might be encouraged to incorporate as well. One of the problems with the threshold is deciding how it should be calculated. It probably makes more sense to suggest incorporation for all CSWOs, regardless of size, and base fees on size or purpose. It should also be feasible to limit incorporation under Commonwealth legislation to those CSWOs that are operating nationally or in more than one state.

**2. The legal structure regulating not-for-profit organizations should recognize that such organizations play many different roles within the society.** The Industry Commission's Terms of Reference specifically limited its inquiry to the social service sector, which clearly provides many of the same types of services that are or have in the past been provided by the state. It thus clearly recognizes and analyzes with great clarity the fact that the roles of CSWOs in society are both social and economic, both public and private. As private organizations, they provide an outlet for individuals and groups to express their own needs and concerns. The Draft Report recognizes that they should not be too closely regulated so as to preserve freedom of association and social pluralism. However, it also recognizes that many CSWOs play a role in providing needed services to the society as a whole, thus functioning alongside government and private business as important economic and social actors. One of the major virtues of the Draft Report is its high sensitivity to these issues.

**3. Laws and regulations should ensure transparency and accountability of not-for-profit organizations and of the government regulating them.** The principles of transparency and accountability should be enshrined in all aspects of the laws regulating the sector. By suggesting increased accountability in various ways, the Industry Commission recognizes that only when such regulations exist and are complied with does the public have sufficient trust in the

sector. Australian law should require annual reporting of finances and activities (presumably to the Australian Securities Commission under Draft Recommendation No. 20), reporting on fund-raising activities, and annual tax filings. Draft Recommendation No. 19, which suggests that the Australian Tax Office should introduce a review process for CSWOs with tax exempt status is a long overdue change in Australian law. It is also clear that the development of better accounting standards will enhance the accountability of CSWOs (Draft Recommendation No. 21).

It is, however, important to remember that the regulatory structure that is put into place will only work well if there are trained personnel who can administer it. Thus, there is a need to focus on providing adequate resources for the new regulatory structures. It would be good to see that issue addressed in the Final Report.

**4. The choice of the appropriate regulatory bodies for not-for-profit organizations should take into account the competence of the bodies that are chosen to fulfill such roles.** It is easier to develop standardized and therefore fairer treatment of not-for-profit organizations throughout a country if national regulatory bodies are involved in certain issues.

The Draft Report recommends requiring incorporation of certain CSWOs and making them subject to supervision by the Australian Securities Commission (ASC). This may or may not be a good idea, and it will need to be analyzed in greater detail. The rationale behind the recommendation appears to be that the ASC has unused capacity, a good computer system, and well-trained staff. Assuming that to be true, there is no reason not to vest authority over CSWOs in the ASC, as opposed to creating a new body (similar to the Charity Commission) or vesting more responsibility in the tax authorities (as in the United States). What needs to be considered, however, is whether there should be a new branch of the ASC dedicated to the oversight of CSWOs (as there is in the IRS). That would be preferable to having CSWOs regulated just as ordinary for-profit entities are. It would also be helpful if the ASC could perform some of the functions of support for the sector performed by the Charity Commission.<sup>2</sup>

**5. Decisions regarding national tax exemption and tax deductible status should be made at the national level.** Various different structural models exist for making decisions about tax exempt status for not-for-profit entities, but it is generally recognized that such decisions should be made by a national body with the specialized knowledge and

expertise required to make the necessary determinations. Because tax benefits are very easily subject to abuse, the national decision-making body should be well-trained and capable of discernment. It must also have the trust of the sector and the public so that its decisions will be viewed as fair and principled. Clear rules must exist, so as to avoid undue discretion being given to the decision-maker. The Draft Report recommends that the Tax Office develop procedures to assure that this is done. It would also be a good idea to require the publication of a registry of tax exempt entities so that public will have good information about them.

Local and regional entities must obviously decide local and regional exemption issues, and these can be tied into the national level decisions. But the Draft Report recognizes the complexity and inefficiency of having the several states making decisions about and granting a variety of types of benefits to CSWOs, all of which vary from state to state. In the place of local input tax exemptions, the Report suggest that the Council of Australian Governments (COAG) should convene a working party to see if it can devise a revenue neutral package of support to be administered at the Commonwealth level to substitute for the local input tax exemptions (Draft Recommendation No. 9). This is a worthy proposal, but probably unworkable for several reasons (the laws are lacking in uniformity, it is very difficult to measure the value of input tax exemptions across sectors, etc.) It may be better to try to achieve greater uniformity (Draft Recommendation No. 10) than to attempt to achieve perfect economic efficiency. It is unlikely that the input tax exemption scheme of a particular state will induce CSWOs to relocate.

**6. Local regulation may be best for certain activities.** Like all organizations that provide social services, not-for-profit organizations are subject to state licensing and other controls that protect public health and safety. Such regulation is probably best accomplished at the local level because local officials have better access to information about what the organizations are actually doing. The choice between competent bodies for regulation should take into account the fact that local bodies have better knowledge of local circumstances, but they may be more easily corrupted and they may not have good knowledge of national trends.

It may be that fund raising should also be supervised at the local (state) level. But the Commission recognizes that the current situation in Australia is essentially unworkable and excessively confusing for CSWOs that operate national

campaigns. It thus has recommended that COAG should consider ways of achieving greater efficiency and effectiveness in the regulation of fund raising. This is a clearly important matter, where better analysis can lead to a reduction of complexity and more general awareness of standards. It would undoubtedly be best to have uniform legislation in all states if that could be achieved.

**7. There should be clearly defined general rules that regulate not-for-profit organizations, including rules about organization, registration, dissolution, governance, etc.** The general rules regulating the "life" of not-for-profit legal entities should be clearly defined in the legal code of any country. There should also be a recognition that not-for-profit entities are different from for-profit entities. For example, the law must clearly state the purposes for which a not-for-profit entity may be established. Other issues distinguishing not-for-profit entities from for-profits, which should be addressed in the law, include: 1) there should be absolute clarity that profits are not permitted to be distributed to founders, members, board members, etc.; 2) there should be special rules regarding dissolution, which are required by the non-distribution constraint; 3) membership organizations must have special rules about governance; and 4) there may be a need for special rules regarding who may initiate involuntary dissolution proceedings. Australian law for incorporated not-for-profit organizations generally deals with these issues in a fair and appropriate way. If some version of the incorporation requirement found in the Draft Report is followed, most CSWOs will be pulled into this system. What is most sensible about the proposal is the notion that this will be done at the Commonwealth level rather than making it subject to the varying rules of the seven states. It might be possible, however, to require only local incorporation for small, locally operating entities. Incorporation does give them benefits, which is why most lawyers are beginning to recommend it in any event.

**8. The state should recognize, and confirm in laws and regulations, the need for state support of the not-for-profit sector; it should provide clear rules for the ways in which such support will be made available.** The support of the government for the not-for-profit sector should be expressed by laws and rules permitting direct and indirect subsidies to be provided to such organizations. Indirect subsidies are ordinarily available through tax and other fiscal laws, where a range of different provisions can be found (exemption from income taxes, zero rating for

VAT, exemption from death duties for bequests, deductions for gifts, exemptions from local levies such as land taxes, etc.) The Draft Report is quite clear that this is an important method of support for the sector, and it recommends certain tax rules that will provide consistent and valuable incentives.

Direct subsidies should be made available by permitting not-for-profit organizations to bid for government grants and contracts. In the case of grants and contracts, awards should be made on a clearly defined competitive basis, and there should be standards and criteria for the awards, as well as standards for performance, all of which are well-defined in advance of the competition. The basis for the competition for state support should be fair and open. This principle is well and ably discussed by the Draft Report, which recommends a very helpful set of rules for open tenders in Draft Recommendation 4.

**9. The tax laws should differentiate between public benefit organizations and mutual benefit organizations, providing greater tax subsidies to the former and lesser ones to the latter.** In recognition of the greater public service role played by public benefit organizations, the subsidies embodied in a country's tax and other fiscal laws should allow the greatest indirect subsidies to go to those organizations.

Traditionally the laws provide tax exempt status for all organizations, including mutual benefit organizations, that are organized on a not-for-profit basis (in other words, those that do not permit a distribution of profits to any person, legal or natural). The greater benefit of tax deductible status (i.e., that legal and natural persons may make tax deductible contributions to the organization) is generally limited to the smaller universe of organizations that provide a public benefit. Because the Draft Report deals with only CSWOs (public benefit organizations), it does not consider this issue. But it does recommend a very important change in the tax laws, which would put all CSWOs on the same footing and entitle them all to tax deductible status. This is an important recommendation that recognizes the value of all such organizations to the society and does away with the discrimination in favor of the arcane PBI category.

**10. To the extent the government provides direct or indirect subsidies to not-for-profit organizations, the organizations naturally become subject to greater scrutiny by the government, but this scrutiny should not be so intrusive as to eliminate their independence.**

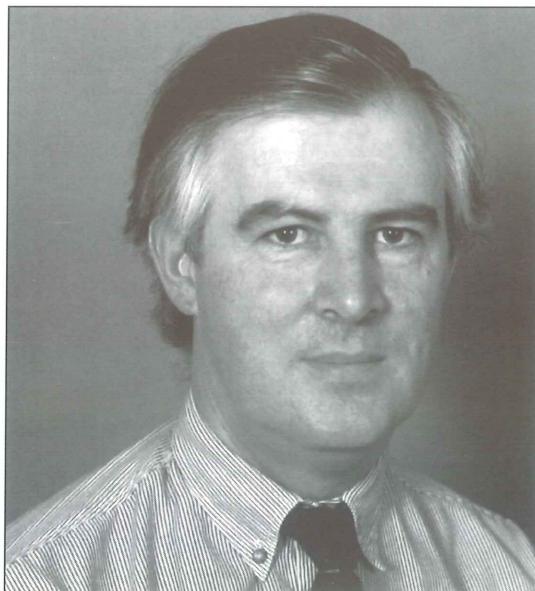
Public scrutiny of not-for-profit organizations exists largely to protect the entire public from possible fraud and abuse by not-for-profit organizations. Like government bodies and other entirely public organizations, not-for-profit organizations that receive government subsidies must themselves act to protect the "public trust," and a regulatory structure must exist to ensure that they do. This will require that the public bodies granting subsidies establish clear reporting rules that are not excessively burdensome but that permit the bodies to adequately oversee the expenditure of the public funds. The Draft Report certainly considers this issue and also recommends the development of greater partnerships between CSWOs and the state. While that may be a good result in some instances, it is also important to recognize the value placed by CSWOs on independence. It would be a shame if the Industry Commission's study led to a reduction of independence for the social services sector.

**11. Principles of self-regulation should go hand-in-hand with principles of regulation. It is important to recognize that the social service providing not-for-profit sector should be able to regulate itself so as to avoid greater and greater regulation by the state.** The Draft Report discusses in some detail issues regarding benchmarking the sector. These are good and useful inputs, and the recommended pilot program for benchmarking should clearly be established. It would be good, however, to place greater emphasis on these matters in the Final Report.

### Conclusion

All in all it seems as if the Draft Report of the Industry Commission looks at the sector in a way that is in close accord with accepted international norms. In fact the Report is quite a useful document to send to other countries that are currently discussing the same regulatory issues (e.g., South Africa, New Zealand) and the same broad general themes (e.g., Central and Eastern Europe, Latin America, and many countries in the Asia-Pacific region) that are presented in the Draft Report. The Commission has produced an excellent working document. With the help of further input during the remainder of the public review process, it can refine its recommendations and make additional suggestions that are in accord with perceived needs.

# Taxing Charity: Sting in the Tail ?



Terence M. Dwyer

The Industry Commission report on charities was, from a tax viewpoint, in some respects a pleasant surprise. As some of you will recall, last November at the Queensland University of Technology Conference and again in March at the Annual General Meeting of the Australian Association of Philanthropy I took issue with the idea that tax exemptions for charities and deductions for charitable donations were tax concessions or tax expenditures.

I am therefore pleased that the Commission has recognized that:

- the tax exemption of charities is not an advantage;
- the exemption of unrelated business income does not lead to unfair competition with commercial competitors, since it would not be rational for a charity not to maximize its profits for its charitable purposes;
- the restrictions on tax deductibility to, generally speaking, public benevolent institutions is discriminatory as regards other charities;

- tax deductibility should not be limited by monetary limits; and
- the capital gains tax on assets bequeathed to charity is irrational and should be repealed.

You will note I have used the term "charity" although, strictly speaking, the Commission's terms of reference limited it to charities in the social welfare field. I would simply observe that the Commission's recommendations cannot be so limited, given the close links between various kinds of charity. The historical origins of charity in religious conviction, and the continuing relevance of that belief in the activities of the Churches across a range of activities from schools, to hospitals, to welfare, to drug rehabilitation, to marriage counselling - across the whole range of human need - guarantee that charity must be dealt with consistently for tax purposes.

It was pleasing therefore that the Industry Commission steered away from any suggestions for restricting the tax exemption or tax deductibility of donations to charities. This is perhaps one of the few occasions I can remember where an inquiry within the Treasurer's portfolio has recommended maintenance or extension of what Treasury brands with the labels "tax concessions" or "tax expenditures". Mr Scales and his colleagues in the Inquiry deserve our thanks for showing independence of thought in this matter.

However, there is a rather large sting in the tax tail of the Industry Commission report. In my previous talks, I did not much address the so-called "input tax concessions". By input taxes, the Industry Commission means taxes on the use or consumption of land, labour, capital, goods or services - often described as "indirect" taxes.

Recommendations 9, 10 and 11 of the Industry Commission draft report on charities call for an end to input tax concessions and fringe benefits tax exemptions. What does this mean for charities?

Well, think about it. If these so-called concessions are to be removed from social welfare charities, they would be removed from all charities.

I concede that there is the suggestion in the report that the Council of Australian Governments look at a revenue neutral package of assistance to compensate for removal of the “input tax concessions.” However I put that to one side for the moment

Let’s list some of the taxes involved and their possible impact. Let’s remember that charities employ lots of people, own lots of land and purchase large quantities of goods and services. There would in fact be quite a few billions in inputs to the charity sector.

### **Rates**

The exemption of most charities from rates is very significant. Think of the sites occupied by schools, hospitals and churches. St Patrick’s in Sydney is cheek by jowl with Grosvenor Place. Rates at, for example, 1 per cent per annum would be many millions across Australia, I would have thought.

### **Land Tax**

At, say, 1.5% or more, land tax would add many more millions.

### **Payroll Tax**

Some charities are among Australia’s largest employers. They are labour intensive. I doubt whether charities could ask their employees to absorb the imposition of payroll tax, given that many employees in the sector are not exactly over-paid. Payroll tax at, say, 7% would cost an enormous amount. I note that the grouping provisions in the payroll tax would possibly catch all the activities of Church-sponsored charity in one employer net.

### **Fringe Benefits Tax**

Taxable fringe benefits could be significant for those charities currently exempt. You might wonder how the Tax Office would value the fringe benefit of living in a monastery or a convent bound to strict silence? Unfortunately, they have thought of that. The general rule for FBT is not the value of the benefit to the employee but the cost to the employer. So if a monastery or convent is in a nice suburb with a block ripe for redevelopment say, with Harbour views - a spot like Rose Bay

Convent in Sydney - one suspects the fiscal fiend would lay a heavy tax on those praying for our salvation.

### **Stamp Duty**

Stamp duty on sales or purchases of property or shares etc would add more millions to the score. At a rate of 4-5%, say, on all conveyances of property stamp duty would be hefty. I note at this point it is rather curious the Industry Commission has recommended abolition of the capital gains tax on bequest of property to charity but is suggesting that stamp duty be imposed on the same transaction. I must say I prefer the pure faith of abolitionism.

### **Sales tax**

Purchases of goods by charities would be very large across Australia. There is no question the sales tax bite would be large indeed.

### **Debits tax and financial institutions duties**

These would also be significant, given the scale of funds dealt with by charities as a whole.

### **Water and electricity rates and charges**

Already these concessions are being cut back in the interests of “efficiency” (even though government hospitals and schools are Budget-funded and thus reimbursed). Cuts in these “concessions” could cost more millions each year.

*The end result is that removal of input tax concessions would have enormous financial repercussions for charities.*

Returning to the Industry Commission’s suggestion that Governments adopt a revenue-neutral package on abolition of “input tax concessions”, with assistance to the sector to make up for the lost concessions, I wish to make some observations.

- What is the efficiency cost of abolishing a tax exemption in order to replace it with a cash payment?
- How does one compensate each charity for its particular losses? If one wishes to so compensate, why abolish the exemptions? If not, which charities will be winners and which losers?
- What about Constitutional prohibitions on

Commonwealth and Territory subsidies to religion? Can Churches lawfully be compensated?

- How do charities maintain independence when they are directly government-funded?
- How is expanding the tax and expenditure sides of Budgets this way consistent with a desire to show financial markets that governments are in fiscally responsible, low spending, modes?

Finally, and most importantly, indirect taxes are meant to be passed on to the end consumer. If the Industry Commission accepts that income tax exemption is legitimate because the benefit flows through to indigent beneficiaries, why not accept the same tax incidence assumption for indirect taxes? After all, input or consumption taxes are only an alternative to income tax. Suppose we replaced all income tax by a consumption tax, would it be logical to argue that the income tax exemptions were fine but consumption tax exemptions were not?

By way of a closing remark, I note that not all taxes are imposed as money dues. Obligations in kind are also to be thought of as taxes. Thus increased accountability can be thought of as a quasi tax burden on charities.

In this regard, there is another sting in the tail in the report's recommendation that charities be forced to incorporate under the *Corporations Law* and that their directors be exposed to the full liabilities imposed under the *Corporations Law*. I was somewhat startled by this proposition. As a consultant, I do advise directors and others standing in the path of the judicial and legislative tort law revolution on structuring their affairs with a view to asset protection. I think it more than a "bit rough" to impose the potentially draconian liabilities of the *Corporations Law* on directors of charities acting not for their own reward but of out civic mindedness.

In my view, the *Corporations Law* has no place in the law of charity. I regret that it is already intruding to the extent that one charity has already been forced to close by virtue of a negligence suit and that directors of charitable companies are already being forced to look to their own personal asset protection planning. This very recent development is, I think, a very sad reflection on the nature of law-making in this country.

### COMPUTERIZED TRUST ADMINISTRATION PACKAGE

The Australian Association of Philanthropy Inc with financial assistance of Myer, Schutt, Sunshine and McKay trusts, has commissioned the development of a computer package base on previous versions developed for Reichstein, Stegley and the Womens Trust to assist in the day to day management of trust affairs.

The program is presented in a user friendly windows environment for IBM compatible machines, and will be also available in Apple.

The program assists from the receipt of application through to Trustee consideration to financial decision and ongoing monitoring.

A database is developed on which the history, trends and patterns of giving for the trust can be determined. The aim is to ensure that the language employed across the sector becomes common enough to provide accurate and realistic information on the effects of trust activity in Australia.

The cost of the package is \$2,500, which includes three day installation, on-site tuition time and ongoing telephone advice from Karen Bingham and Associates, who have developed the program.

#### *For further information, contact:*

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Association of Philanthropy  
(03) 614 1491

# Philanthropy News

## CALENDAR 1995

### Annual General Meeting

March 14 - Guest Speaker : Tracy Geary

### Exec Meetings: Tuesdays at 9.30 am

February 28  
April 26  
June 27  
August 29  
October 31

### Council Meetings: Tuesdays at 9.30 am

January 31  
March 28  
May 30  
July 25  
Sept 26  
November 28

### Members luncheons: Fridays from 12.30 - 2.00pm

#### Melbourne:

February 10  
April 7  
June 9  
September 8  
November 10

#### Sydney:

February 22  
May 12  
June 22  
September 26

### Workshops - Grantseekers

March	23	Melbourne	basic
September	21	Melbourne	basic
June	1	Melbourne	advanced
November	2	Melbourne	advanced
April	24	Rural Victoria	
August	25	Rural Victoria	
February	23	New South Wales	
June	22	New South Wales	
May	1	Western Australia	
October	19	Queensland	

### Workshops - Trustees

March	29	Melbourne
May	11	Melbourne
July	20	Melbourne
Sept	27	Sydney

### Major Conference

October 25, 26, 27

### Annual Dinner

October 26

### Council Planning Day

December 12

## CAPITAL GAINS TAX EXEMPTION FOR

### CHARITIES

The Association supported an amendment by Senator Brian Harradine to exempt charities from capital gains tax on assets bequeathed in estates. The Industry Commission accepted this recommendation in the Association's submission and this amendment provided an opportunity to gauge the likely response from government and, in particular, Treasury. It is unfortunate that the amendment was not supported by the Opposition and failed, but the book is not closed on this issue yet.

### NEW MEMBERS IN 1994

In 1994 the Association has welcomed a number of new members including: Permanent Trustees, National Australia Trustees, Coca-Cola Amatil, Besen Charitable Foundation, Clean Up Australia Trust, RMIT, Ansell Opthamology Foundation, the Estate of the late George Adams (Tattersalls), Freehill Hollingdale and Page, the Jack Brockhoff Foundation.

### SPONSORS

Sponsors for 1994 included Arthur Andersen, Victorian University of Technology, Potter Warburg, J.B Were Asset Management, Radisson, Macquarie Bank, Trustee Corporations Association of Australia, Community Travel Network, Appeal Associates International, the Myer Foundation, the Ford and Asia Foundations, the Industry Commission and the Monash Graduate School of Government, as well over 40 of the members who contributed a special levy towards the success of the International Conference in November.



# The Australian Association of Philanthropy Inc

## The Mission

The Australian Association of Philanthropy Inc aims to promote more effective private and corporate giving in Australia. It was established to provide a strong, professional organisation to represent the interests of philanthropy. In particular, to represent large and small trusts and foundations from both the private and corporate sectors, as well as individual philanthropists.

## The Membership

Andrews Foundation  
Ansell Ophthalmology Foundation  
ANZ Executors & Trustee Co. Ltd.  
Australian Bicentennial Multicultural Foundation  
Australian Youth Foundation  
Besen Charitable Foundation  
Body Shop  
Brash Foundation  
C.R.A. Limited  
Clean Up Australia Trust  
Coca - Cola Amatil  
Coles Myer Pty Ltd  
Danks Trust  
Education Foundation  
Equity Trustees  
Ern Hartly Foundation  
Espirito Santo Trust  
Estate of the Late George Adams  
Everard Compton Charitable Trust  
Felton Bequest  
Flora & Frank Leith Charitable Trust  
Freehill, Hollingdale & Page  
G.M & E.J Jones Foundation  
George Alexander Foundation  
Gordon Darling Foundation  
Goulburn Valley Base Hospital Foundation  
Gualtieri Vaccari Foundation  
H.V McKay Charitable Trust  
Helen M Schutt Trust  
Hugh Williamson Foundation  
Ian Potter Foundation  
Jack Brockhoff Foundation  
Mr Robert Kerr  
L.E.W Carty Charitable Fund  
Lance Reichstein Charitable Foundation  
Law Foundation of New South Wales  
Law Foundation of S.A. Inc  
Lord Mayor's Fund

Lotteries Commission of WA  
Mayne Nickless Ltd  
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Myer Foundation  
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Queensland Community Foundation  
R.E Ross Trust  
R & J Uebergang Foundation  
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Rusden Foundation  
Sir Albert Sakzewski Foundation  
Sidney Myer Fund  
Fleur Spitzer  
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Sun Microsystems Foundation Inc  
Telematics Trust  
Tolhurst Druce & Emmerson  
Trescowthick Foundation Ltd.  
Trust Company of Australia  
University of Melbourne  
Victoria University of Technology Foundation  
Victorian Community Foundation  
Victorian Health Promotion Foundation  
Victorian Womens Trust Ltd.  
W.L Allen Foundry Co Pty Ltd  
Were & Son, JB  
Western Mining Corporation Ltd.  
William Buckland Foundation

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