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Productivity Commission
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By email: philanthropy@pc.gov.au

Dear Commissioners,

Save the Children Australia submission to the Productivity Commission Philanthropy Inquiry

Save the Children Australia (**SCA**) greatly appreciates the opportunity to the Productivity Commission's Philanthropy Inquiry (the **Inquiry**). This submission follows from a meeting between Save the Children and the Productivity Commission on 18 April 2023 to discuss the Inquiry.

This submission focuses on the following issues:

- Save the Children Australia's ambition to deliver for children's rights
- Risks to long-term giving for charities
- Opportunities provided by superannuation bequests and legacy giving
- Incentivising voluntary work in charities
- Proposed creation of a Charity Quality and Innovation Fund

SCA is a member of Philanthropy Australia and supports their priority recommendations for the Inquiry. That includes a National Giving Campaign, reducing fundraising red tape, and granting deductible gift recipient status to all charities, among other proposals outlined in their submission.

Save the Children's ambition to deliver for children's rights

As Australia's largest aid and development charity dedicated to helping children, our ambition for children is ambitious and transformative. We are aiming to increase our impact for children faster and on a larger scale than ever before. Driven by our Strategy 2024,¹ we are moving forward with determination to be fearless in achieving a better world for children.

SCA has significantly changed over the last decade to respond to strategic challenges. Over time we have diversified our donor base, working with a wider range of governments, multilaterals and foundations. Additionally, we have championed social enterprises through mergers and acquisitions, and investigating new forms of financing to deliver results for children. This process has brought

¹ Save the Children Australia, Strategy 2024: Fearless for Children, available at: <https://www.savethechildren.org.au/getmedia/042d1d97-0851-4c51-bad7-3efc29615329/2022-24-Strategy.pdf.aspx>.

with its risks and opportunities, as well as costs through back-end impacts. It has also provided us with a unique perspective on several of the issues raised in the Inquiry's Call for submissions paper.²

Risks to long-term giving for charities

SCA sees two primary challenges that are posing risks to long-term giving for charities in Australia.

Firstly, there is a sector wide skills shortage, which is leading to a lack of trained professionals. According to PwC's 3rd Annual Not-for-profit CEO Survey, released in 2022, 75% of CEOs indicate they are feeling the adverse impacts of widespread skills shortages.³ Additionally, a recent survey from NGO Recruitment surveying 100 not-for-profit organisations, found that 77% of organisations surveyed are finding it hard to recruit, and 41% are finding it tough to retain talent.⁴ While SCA, like many other charities is undergoing efforts to improve its employee value proposition, a significant challenge continues to be the lack of capacity for charities to invest in professional development opportunities and challenges in competing with corporations for key skills gaps. In particular, that includes the fields of technology support and digital marketing. In response, SCA recommends:

- *Increased support for targeted roles in charities where there are notable skills gaps, including financial and non-financial incentives. For example, that could include increased salary packaging to enable charities to offer more competitive packages for in demand roles identified as critical, with criteria to support application for expanded support.*

Secondly, SCA generally finds that government funding contracts do not cover the costs involved back-office support, ensuring quality governance or infrastructure technology development. This places additional burdens on untied fundraising. Funders in Australia are generally reluctant to fully fund overhead costs. In SCA's experience, low overhead rates are often paid when funding charities, regardless of their actual needs. This leaves a sector starved of basic infrastructure to support programs, help beneficiaries and deliver meaningful outcomes.

The benefits of funding indirect costs are highlighted well in the report from Social Ventures Australia, titled "*Paying what it takes*".⁵ The report showcases the reluctance from many charities in reluctantly underinvesting in indirect costs, where average indirect costs were at 33%.⁶ It also notes that the average costs for charities are also significantly lower than what businesses spend on indirect costs. Despite these challenges and the lower costs, grants are not filling the gap. Every organisation interviewed for the report said that their grant funding did not cover the full costs of running their programs. Indirect and shared costs that are often excluded by funders includes activities such as; business development, services establishment, governance and risk management, policy and advocacy, and decommissioning or exit costs. Setting caps on indirect costs, as many funders choose to do through set percentage rates, can lead to lower impact, increased risk and financial vulnerability. In response, SCA recommends:

- *Government funding to support a comprehensive communications and awareness campaign that calls upon philanthropists to support the infrastructure to run a charity*

² Productivity Commission, Review of Philanthropy – Call for submissions, March 2023, available at: <https://www.pc.gov.au/inquiries/current/philanthropy/call-for-submissions>.

³ PwC, 3rd Annual Not-for-profit CEO Survey, 2022, available at: <https://www.pwc.com.au/about-us/social-impact/not-for-profit-ceo-survey.html>.

⁴ Fundraising & Philanthropy, Fiona Atkinson, Severe skills shortages across the NFP sector putting pressure on salaries, 26 September 2022, available at: <https://fandp.com.au/nfp-skills-shortage-2022-385279/>.

⁵ Social Ventures Australia, Paying what it takes: Funding indirect costs to create long-term impact, March 2022, available at: <https://www.socialventures.com.au/assets/Paying-what-it-takes.pdf>.

⁶ Ibid.

professionally, specifically focused on indirect costs, highlighting the true cost of program delivery with references to the findings of the “Paying what it takes” report.

Opportunities provided by superannuation bequests and legacy giving

With super balances at death set to reach at least \$130 billion by 2059 (in 2018-19 dollars),⁷ giving Australians the choice through their super arrangements to leave some money to charity when they die (and abolishing the tax penalty for doing so) would unleash tens of billions for charity. This reform is by far the most powerful lever to lift giving. It is highly cost-effective as such giving does not attract a tax deduction. SCA recommends:

- *Australians are provided the opportunity to leave superannuation to charities, without a tax penalty, to charities upon death.*

Additionally, while \$2.6 trillion is set to be passed between generations over 20 years to 2040 – a huge opportunity – at present only around 7 per cent of Australians are leaving bequests in their wills.⁸ An incentive to make a 'living' bequest, as exists in leading countries that donate more of their national income to charity, could make a huge difference. SCA recommends:

- *The Productivity Commission undertake policy design work aimed at delivering maximum benefit from establishing a Living Legacy Trust structure. This should draw on previous work and advice from interested philanthropists, and consider alternative means to encourage later-in-life giving and bequests.*

Incentivising voluntary work in charities

Volunteering broadens people's networks and professional skills, and serves as an indicator of wellbeing and social cohesion. It also has links to the economic and health status of a nation. By volunteering, people can become more outwardly focused, which may strengthen social interactions or even reduce anxiety.⁹ Greater consideration should be given to incentivise volunteer support towards meaningful pieces of work that are mutually beneficial.

Jobseeker 'points-based activation'

From 1 July 2022, a 'points-based activation system' was introduced, replacing the previous work for the dole requirements. These changes moved to jobseekers being required to accumulate 100 points a month by completing an expanded range of activities. Participants have choice and flexibility in tasks and activities they undertake to earn points towards their target. For example, work for the dole over 15 hours equals 20 points, while completing a job application equals 5 points. What this means is that instead of volunteering the participant can instead complete four job applications to receive the same number of points. SCA recommends:

- *Adjusting the points-based activation system to further encourage participants to select volunteering to gain points and have this rated higher in terms of the number of points received to remain complaint.*

⁷ Treasury, Retirement Income Review, Final Report, July 2020, available at:

<https://treasury.gov.au/sites/default/files/2020-11/p2020-100554-complete-report.pdf>.

⁸ Social Ventures Australia, Insights to grow philanthropic giving for not-for-profits, 30 June 2021, available at: https://www.socialventures.com.au/sva-quarterly/insights-to-grow-philanthropic-giving-for-not-for-profits/#_edn1.

⁹ Australian Institute of Health and Welfare, Volunteers Snapshot, 16 September 2021, available at: <https://www.aihw.gov.au/reports/australias-welfare/volunteers>.

Youth Volunteering Initiative

With a growing requirement to provide young people with practical training alongside academic post-secondary education, the third sector and voluntary organisations provide a unique opportunity to allow young people to gain real-world experience while avoiding the struggles of gaining traditional experience through work placements, while filling needed gaps in volunteering organisations. Evidence shows that young people want to volunteer in ways that help causes but that also help them benefit in the educational and employment sectors. Engaging young people in volunteering sooner is more likely to result in long-term volunteers. There is great scope to develop initiatives that allow young people the opportunity to volunteer as part of their professional development. SCA recommends:

- *Offering financial incentives to young people in lieu of paid employment such as reducing student HECS-HELP debt in exchange for volunteering undertaken in an academic year.*

Proposed creation of a Charity Quality and Innovation Fund

According to data from The Australian Centre for Philanthropy and Nonprofit Studies, as at 30 June 2020 there were 3,192 Public Ancillary Funds (PAF's), with combined net assets of \$10.33 billion. They received \$2.12 billion in donations in the 2019–20 year and distributed \$871 million in grants.¹⁰ There is a great opportunity to work with PAF's to support fundraising innovation at scale across the charity sector. At present, there is a lack of investment in new product development and solutions to develop fundraising models that are fit for purpose. Grants for innovation and technology investment would ensure a thriving and modern suite of charities able to continue to provide services in the future. SCA recommends:

- *The establishment of a Charity Quality and Innovation Fund, funded by a percentage of private ancillary funds distributions towards a centrally administered charity fund that distributes funding to charities to support improvements in efficiency and effectiveness with a particular emphasis on technology investment, governance, service delivery innovation, fundraising and revenue generating innovation.*

Contact

Please contact Simon Henderson, Head of Policy,
in the first instance, should you require further
information or clarification.

Yours sincerely,

Mat Tinkler
Chief Executive Officer

¹⁰ The Australian Centre for Philanthropy and Nonprofit Studies, Queensland University of Technology, Ancillary Funds 2000-2020, August 2022, available at: https://eprints.qut.edu.au/234642/7/Ancillary_Funds_2019_2020_Final.pdf.