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**Submission to the Productivity Commission Review
Into the Contribution to the Not-for-Profit Sector**

by

Philanthropy Australia
29 May 2009



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Philanthropy Australia

What we do

Philanthropy Australia is the national peak body for philanthropy and is a non-profit membership organisation. Our members are trusts and foundations, organisations, families and individuals who want to make a difference through their own philanthropy and to encourage others to become philanthropists.

Our mission is to represent, grow and inspire an effective and robust philanthropic sector for the community.

www.philanthropy.org.au www.philanthropywiki.org.au
ppf.philanthropy.org.au

Philanthropy

The planned and structured giving of money, time, information, goods and services, voice and influence to improve the wellbeing of humanity and the community.



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Why is philanthropy important?

- **Indispensable to democracy:**
 - Growth of civil society; empowerment of society and the individual through giving of money, time, information, goods and services, voice and influence
 - Gives voice to the marginalised and disadvantaged
 - Critical for strong democracy and a fair inclusive society
- **Bridge between government and the market – tap private and personal / individual resources for public good through:**
 - Convening (get people together)
 - Collaboration (no one sector can do it alone)
- **Philanthropy can be the “venture capital of social change”**
 - Invest in research and development
 - Take risk
 - Invest in innovation
 - Fund for the long term
- **Link between people and people’s organisations globally:**
 - NFP sector supported by philanthropy can link people and societies through national and international giving



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Role of Philanthropy

- **Philanthropy provides unique resources, in partnership and through social innovation and investment, to create a more civil society**
- **Private investment for public good** – different from the government and the market
- **Not subject to the ballot box or to shareholders votes which allows it to:**
 - Fund unpopular, unusual projects
 - Take risks on new ideas, innovation and social change
 - Fund over the long term
- **Operates where markets and government don't, won't, can't and/or shouldn't operate**

Keys to Successful Philanthropy

- **Strong NFP sector**
- **Professional grant-making skills**
- **Passion**



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Philanthropy and Government have Complementary Characteristics

Philanthropy

- Entrepreneurial/High Risk Tolerance
- Independent/Trusted
- Start up capacity only
- Long term horizons
- Deep, bottom up knowledge
- Innovation focus

Government

- Cautious/Risk Averse
- Responsive to pressure from stakeholders
- Capacity for scale
- Often short term timeframe
- Top down perspective
- Efficiency focus



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Frumkin's 5 Purposes (or drivers) of Philanthropy

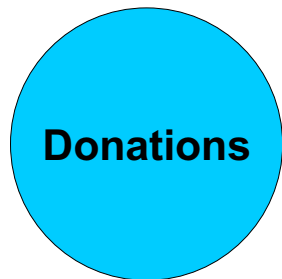
- Change:** Using private funds to create social and public policy change (from community empowerment and advocacy to the critical role of social inquisitor)
- Innovation:** Locating and supporting important social innovations through research or programmatic breakthroughs and the promotion of new thinking and programs
- Equity:** Striving for economic equity through re-distributive giving (where care is expressed for the disadvantaged in the community)
- Pluralism:** Supporting the civic virtue of pluralism, allowing a multiplicity of ideas, programs and voices to exist in the public domain
- Expression:** Supporting the self-actualization of donors (translating their values into action)

“Strategic Giving: The Art and Science of Philanthropy” by Peter Frumkin, Professor of Public Affairs and Director, RGK Center for Philanthropy and Community Service, Lyndon B Johnson School of Public Affairs, University of Texas



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Five Steps of Philanthropy



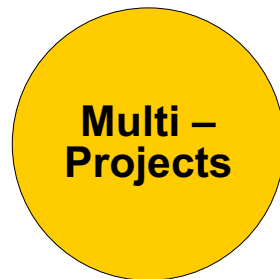
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Giving

- Responds to requests for assistance
- Funds for crisis relief
- Ad hoc donations

Assumes

- Acceptance of wealth
- Issues on passing wealth on and giving it away resolved
- Conscious decision to engage in social fabric and civil society issues



2

First step to philanthropy

- Organised
- Keeps track of gifts
- Establishes mechanism structured giving
- Often wide small grants program
- Short term focus
- Often overwhelmed by large number of requests



3

Circuit Breaker

- Questioning – Are we Making a difference? What are others doing? Are we on the right path?
- Often employ a staff member for first time or get external advice
- Articulate strategy & mission
- Fund fewer specific issues
- Proactive in seeking projects & organisations that meet criteria
- **For new philanthropists, usually takes about 4-5 years from Step 2 to Step 3**



4

May operate at Steps 4 & 5 in one area & Step 1 & 2 in other areas

- Sophisticated & professional
- Often some large multi-year grants
- Engaged philanthropy
- Longer term focus on issues & results
- Help NFPOs grow
- May establish new programs or organisations that fill a gap in an important area
- Stewardship



5

- Sophisticated & Professional
- Building Scale
- Recasting issue for systemic change
- Seeks and fund ways to leverage own resources through research, advocacy, networks, collaboration and partnership cross-sector
- Stewardship

Philanthropy becomes the most important & satisfying part of who you are & what you do

Grant-making

primarily giving money & some time

Social Investment

giving money, time, information, skills, goods, services, voice & influence



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Scope of Philanthropy in Australia

- Pluralist and highly diverse sector
 - Different priorities, interests and geographic focus
 - Different foundation structures and operating models
 - Different risk profiles and timeframes

Planned and Structured Giving

- Private, Family and Independent Foundations
- Trustee Companies
- Corporate and Business Foundations
- Prescribed Private Foundations
- Community Foundations
- Government Backed Organisations eg Australia Council for the Arts; Foundation for Rural and Regional Renewal; Lotterywest



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The movement of philanthropic funds from donors to recipients

Donors **Intermediaries** **Recipients**

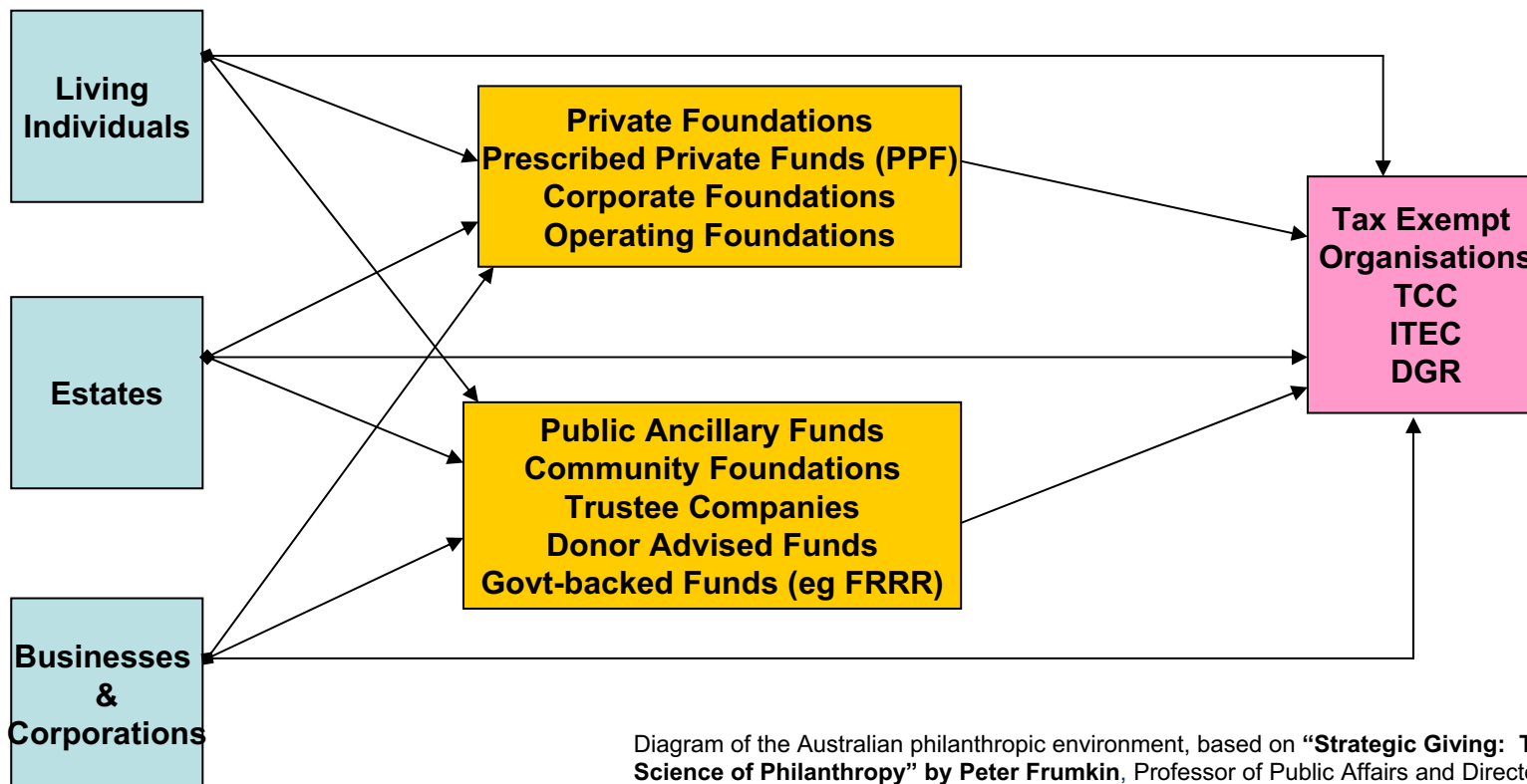


Diagram of the Australian philanthropic environment, based on “**Strategic Giving: The Art and Science of Philanthropy**” by Peter Frumkin, Professor of Public Affairs and Director, RGK Center for Philanthropy and Community Service, Lyndon B Johnson School of Public Affairs, University of Texas



Charitable Giving Options – Planned Giving

	<i>Bequest to charity</i>	<i>Foundation established by will</i>	<i>Sub-fund of community foundation</i>	<i>Foundation administered by trustee company</i>
Degree of complexity	Simple	Somewhat complicated	Fairly simple	Fairly simple
Tax benefit	Yes (to estate)	Yes (to estate)	Yes	Yes
Requires/allows donor involvement?	No	No	No (although some CFs will encourage donor interest)	Yes, if desired
Control over how funds are spent?	No (unless stipulated in will)	To limited extent, as stipulated in will	No legal control, but some CFs will take donor requests into consideration	Yes, partial control
Likely to be perpetual?	No (unless stipulated in will)	Yes	Yes	Yes
Size of sum required	Any	Large	As little as \$5000	Large
Ongoing costs involved in donation?	No	Yes (they will be paid out of the estate)	Yes (usually a 1% administration fee)	Yes

Source: "A Guide to Giving for Australians" Philanthropy Australia April 2006



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Charitable Giving Options – Planned Giving

	<i>Establish a charitable foundation (including PPF)</i>	<i>Payroll giving</i>	<i>Donate through an intermediary</i>	<i>Establish a giving circle</i>
Degree of complexity	Varies	Simple (for donor)	Simple	Simple
Tax benefit	Yes (in most cases)	Yes (provided recipient is a DGR)	Yes (in most cases)	Varies depending on structure and charities supported
Requires/allows donor involvement?	Yes, if desired	No	No	Yes
Control over how funds are spent?	Yes, partial control	No	No	Yes
Likely to be perpetual?	Yes	No	No	Varies
Size of sum required	Upwards of \$100,000	Any	Any	Varies according to circle
Ongoing costs involved in donation?	Yes	Paid by the employer	No	Possibly

Source: "A Guide to Giving for Australians" Philanthropy Australia April 2006



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Family, Private and Independent Foundations

- During 20th century Victoria was the centre of much of Australia's philanthropic activity.
- The Victorian Administration and Probate Act 1907, which was adjusted in 1915 and 1951, provided the tax incentives that meant people leaving money to establish a charitable foundation for the benefit of Victoria received a reduction in death duties payable on their estate. This tax incentive was not available in other Australia states.
- These state tax laws were instrumental in the formation of many of Australia's oldest and largest philanthropic foundations.
- While there were some non-Victorian foundations set up, the overwhelming majority of 20th century philanthropic funds were Melbourne-based. And by the 1970s, these Melbourne foundations were starting to cooperate and encourage greater professionalism among grant-making bodies.
- In 1977 the Association of Philanthropy (later Philanthropy Australia) was established to encourage philanthropy and to provide a forum for philanthropic organisations to share information about 'the difficult art of giving'.
- In recent decades as the culture of philanthropy has grown and developed in Australia, the sector has become both stronger and more diverse.



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Australia's 10 Largest Reporting Foundations

Foundation Name Annual disbursement 2006/07 financial year

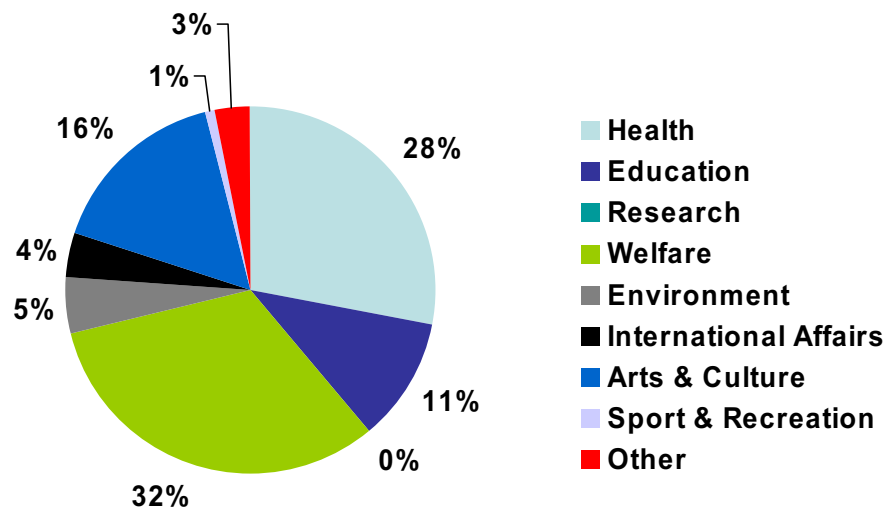
• Macquarie Group Foundation *	\$12.62 m
• The Ian Potter Foundation	\$12.13m
• The Myer Foundation/Sidney Myer Fund	\$ 9.54m
• Colonial Foundation	\$ 7.75m
• Geoffrey Gardiner Dairy Foundation	\$ 7.46m
• The William Buckland Foundation	\$ 5.87m
• The Foundation for Young Australians	\$ 5.28m
• The AMP Foundation	\$ 4.90m
• The Helen Macpherson Smith Trust	\$ 4.81m
• Telstra Foundation	\$ 4.26m
• The R.E. Ross Trust	\$ 3.90m
TOTAL	\$78.52 million



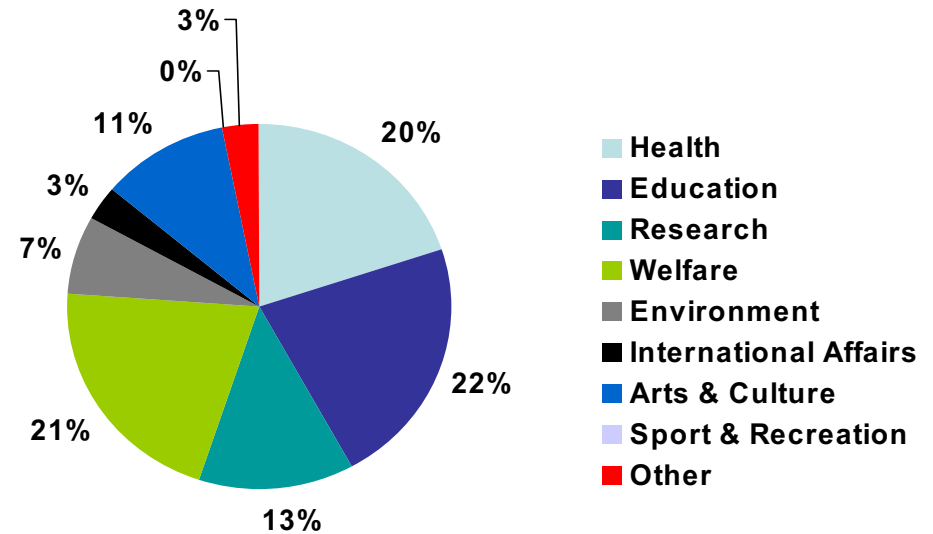
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Distributions Top Ten Foundations by category of recipient

2005/2006 Distributions by Top Ten Foundations (from annual reports)
\$43,117,321



2006/2007 Distributions by Top Ten Foundations (from annual reports)
\$65,897,987*



Source: Philanthropy Australia
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* Excludes Macquarie Group Foundation as it does not provide a financial breakdown of its distributions



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Trustee Companies

- Nine (9) Trustee Companies
- Administer charitable trusts and foundations, including for general charitable purposes, the disadvantaged and poor, children and youth, medical research, the arts, and education
- Manage about 2,000 charitable trusts and foundations with assets of about \$3.9 billion.
- During 2006/07, trustee companies distributed about \$280 million to charities as grants from those trusts and foundations or directly as part of deceased estate administrations.



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Community Foundations

- **Community Foundation is an independent philanthropic organisation:**
 - Works in a specific geographic area to build up endowed funds from many donors in the community.
 - Provides services to the community and its donors, makes grants and undertakes community leadership and partnership activities to address a wide variety of needs in its service area.
 - A vehicle for local donors who wish to contribute their cash, trusts, bequests or real property to create permanent endowments that will benefit the community in perpetuity
- **There are 27 active Community Foundations in Australia.**
 - However, under the WA Community Foundation are some 12 funds (8 regional and 4 other local funds)
- **Community Foundations**
 - Strengthen communities and individuals
 - Build and improve community infrastructure



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Living Donors

Up until the late 1990s, most foundations and trusts in Australia were set up through wills and bequests – on the death of the donor.

Over the past ten years a number of new players have come to prominence:

- Prescribed Private Fund, a rapidly growing form of private foundation
- Donor advised funds eg Community Foundations, funds with financial services organisations
- Corporate Australia
- First generation of women who have made their own money
- Mass affluent (those earning \$250K p.a + giving tens of thousands of dollars per year)

These donors have a number of characteristics in common:

- They are business people and they understand the language of business
- They are used to the concept of doing business globally
- They are well informed, sophisticated and confident
- They don't want to write a cheque and rely on the recipient to know the best way in which to use the money – they want to be provided with measurable outcomes for their donations.

They will fund projects and programs that are :

- Well articulated
- Well thought-through
- Well researched
- With plenty of evidence to back up the ideas



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PPFs and Philanthropy

- **PPF** (Prescribed Private Fund) - **prescribed private foundation**
 - enables the donor to get a tax deduction and to retain a large degree of control over the investment decisions and the granting decisions.
- **Fastest growing form of philanthropy in Australia.**
- **Understandable convenient structure.**
 - relatively simple structure to establish, with guidelines and a model trust deed available from ATO.
- Can be used by **individuals, families or companies.**
- Trustees may manage their own investment decisions if they wish to
- Must have “**Responsible Person**” and **must be audited**
- Often established in the same year as a spike in income or realised capital gain
- Suggest a minimum of \$500K endowment



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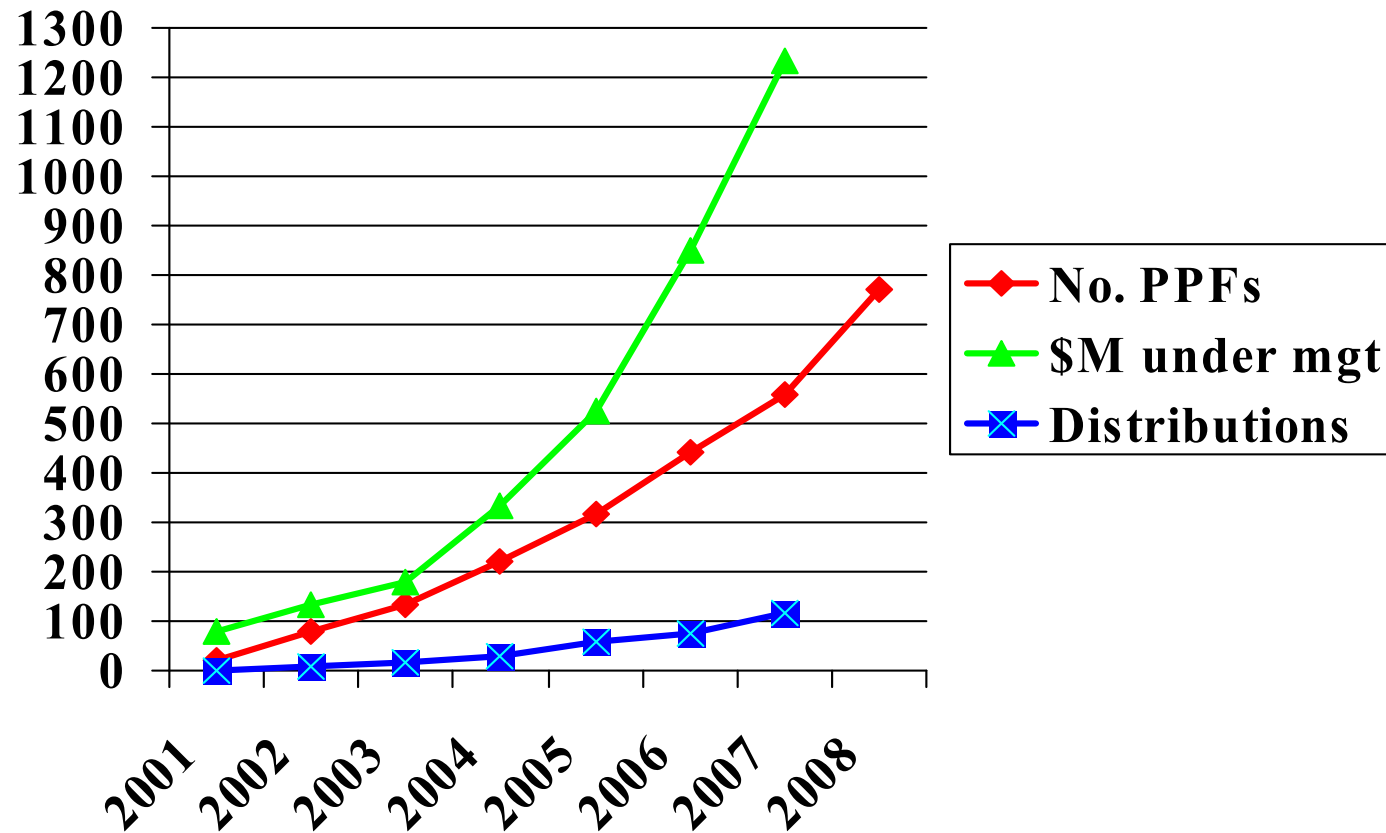
Growth of PPFs

- Prescribed Private Funds are the fastest growing form of philanthropy in Australia
- In 2001 legislation introduced for PPFs :
 - 22 PPFs approved
 - \$78.6m under management
- In 2007:
 - 559 PPFs
 - \$1,234m under management
 - PPFs distributed \$117m to NFP organisations
- By December 2008:
 - 775 PPFs



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Growth of PPFs: 769 at July 08



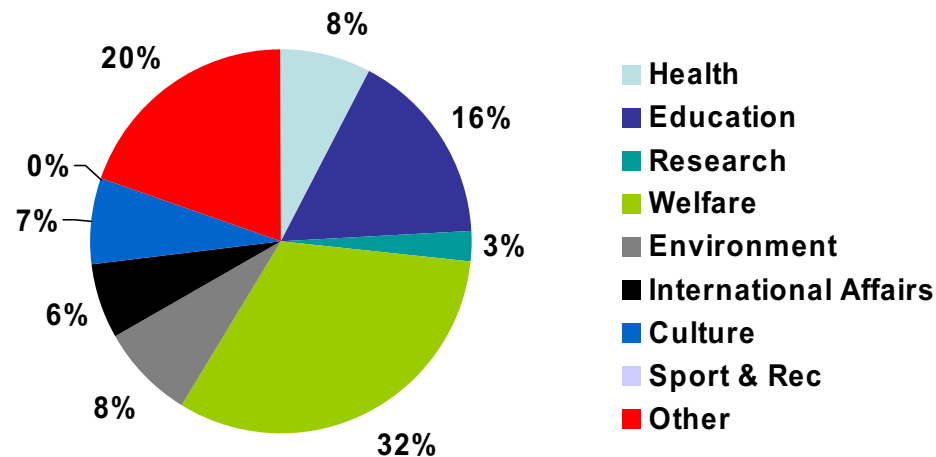
Source: Professor Myles McGregor-Lowndes, Centre for Philanthropy & Nonprofit Studies, Queensland University of Technology



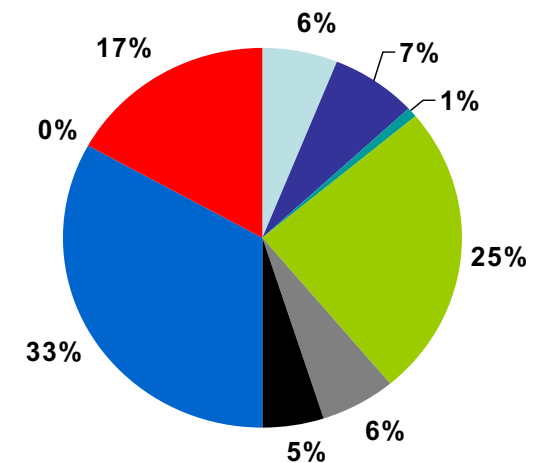
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Distributions by PPFs by Category of Recipient

2006 Distributions by 440 PPFs
\$74.2 m



2007 Distributions by 599 PPFs
\$117.0 m



Source: Professor Myles McGregor-Lowndes, Centre for Philanthropy & Nonprofit Studies, Queensland University of Technology
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Enormous Influence of PPFs

- **Understandable convenient structure**
- **Filled a gap in the structures which facilitated additional giving rather than redirection of existing activity.**
- **Catalyst for donors to become engaged with the community sector.**
 - Majority of PPF donors relatively new to structured giving
 - PPF is a substantial commitment to charitable giving and community engagement which donors had not been willing to make without an adequate structure.
 - Professional advisors more willing to talk about philanthropy with their HNW clients
- **PPF has become the “family glue”:**
 - Often forms the foundation for wealthy families to build an intergenerational commitment to the community
- **Big supporter of social innovation**
 - Social innovation, new ideas and different approaches lead to the formation of new innovative organisations. Without the short-term priorities of the ballot box or shareholders, philanthropy (particularly PPFs) encourages social entrepreneurs to try new things; to take risks for long term community benefits.
 - This is an important aspect of philanthropy and provides a dynamic and innovative source of change in the sector.



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PPFs build a culture of philanthropy

- Real Value of PPFs is not the money
 - you don't need a PPF to make a large donation and receive a tax deduction
- **Real Value of PPFs is their role in building a culture of philanthropy in Australia**
- Vast majority of those setting up PPFs are living donors
- Because those setting up a PPF are making a substantial contribution to the community for the long term, they bring their time, skills, intellectual rigour, focus and their voice and influence to the not-for-profit sector
- In doing so they also encourage their families, their friends and their peers to become involved in the not-for-profit sector.



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International Comparisons

- World Wealth Report (Merrill Lynch/Capgemini, 2007) estimates that top 17% of ultra rich donors globally (assets of US\$30m+) give away 10% of assets annually
- Global high net worth donors give away between 3% and 11.8% of their portfolios annually
- Australia's gift levels increased in past decade to 2005 from 0.7% to 1.98% of their taxable incomes
- While no detailed figures exist, the wealthiest of Australia's affluent (\$1m+ in taxable income) do not appear to be engaging in philanthropy, as a group, to the extent indicated by global trends.
- Tax statistics indicated that making substantial donations still constitute an exception rather than a norm for the wealthy in Australia

Source: "Good Times and Philanthropy: Giving by Australia's Affluent"
K Madden & W Scaife, Centre for Philanthropy & Nonprofit
Studies, Queensland University of Technology



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Other Giving in Australia

- **Corporate Community Investment and Involvement**
 - Corporate Foundations
 - Corporate Community Investment
 - Workplace Giving
 - Sponsorship
- **Individual Giving**
 - Latest charity tax statistics from the ATO (20 March 2009) advise that in the 2006-07 financial year individuals claimed \$1,885 million in deductible gifts - a 21% increase on the 2005-06 financial year.



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Corporate Foundations

From: “*Corporate Community Investment in Australia 2007*”, report prepared by The Centre for Corporate Public Affairs and the Business Council of Australia

- 37% of respondent companies have a foundation, which includes the global foundations of overseas multinational companies as well as the Australian foundations of their local subsidiaries, and indigenous firms.
- Of those companies with a foundation, nearly half have been in existence for more than 10 years, a fifth have been in existence for 6-10 years. Most indigenous Australian companies that have foundations established them since 2000.
- Those companies with the longest standing foundations tend to be in the resources and the finance sectors, with some originally established as charitable trusts.
- Of those with a foundation, some organisations funnel a significant proportion of their community resources through the foundation, while in many cases it is only a small proportion:
 - 8% of companies do not channel any of their community resource through their foundation
 - 27% of companies estimate that between 1% and 19% of their community resources flows through their foundation
 - 4% of companies allocate 20-39% of their resources to their foundation
 - 23% of companies allocate 40-59%
 - 15% of companies allocate 60-79%; and
 - 23% of companies allocate 80-100% of their community resources through their foundation.



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Corporate Community Investment

From: “*Corporate Community Investment in Australia 2007*”, report prepared by The Centre for Corporate Public Affairs and the Business Council of Australia

The report has found:

- Most companies now see CCI as an ‘integral component to strategy and the corporate business model’, with a quarter of firms now requiring a business case with which to focus their investment and engagement in the community;
- Volunteering is now a major driver of CCI activity as companies seek to directly involve their employees – who are increasingly focused on the reputation and values of companies – in their CCI strategies and programs;
- More Boards and CEOs are now involved in setting overall strategic directions for their companies’ CCI activities;
- Companies are becoming more discerning in their CCI engagement, focusing on more rigorous identification and selection of potential community partners, NGOs and activities;
- Partnerships with community groups and NGOs are being established with clear, contractual agreements that specify mutual objectives and ensure clarity in roles and responsibilities; and
- Almost half of all companies now set aside a specific budget for CCI, although many companies still report difficulties around measurement of CCI outcomes.



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Summary

- Philanthropy is more than money – it includes the planned and structured giving of time, information, goods and services, voice and influence to improve the wellbeing of humanity and the community.
- Philanthropy is a vital and distinctive part of Not-For-Profit Sector
- Philanthropy has a unique role in a democratic society
- Innovative structures such as PPFs play a critical role in building a culture of philanthropy in Australia, not only today but for future generations
- The majority of those involved in the philanthropic sector also become actively engaged in other parts of the Not-For-Profit Sector
- Comparisons with other countries reveal that there is the opportunity to encourage an even greater contribution to wider community by building and reinforcing a culture of philanthropy in Australia



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Recommendations to the Productivity Commission

- That philanthropy be covered both separately and in conjunction with the Not-For-Profit sector
- That the opportunity for philanthropy to make an even greater contribution to the community be recognised and encouraged
- That the Productivity Commission work with Philanthropic Sector to identify initiatives to encourage the building of a culture of philanthropy for the greater good of the community



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