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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](http://www.philanthropy.org.au) [www.philanthropywiki.org.au](http://www.philanthropywiki.org.au)  
[ppf.philanthropy.org.au](http://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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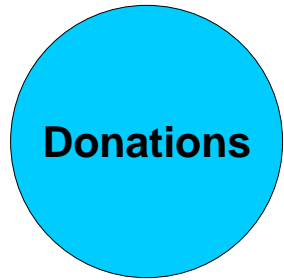
# Frumkin's 5 Purposes (or drivers) of Philanthropy

- **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



# Five Steps of Philanthropy



**Donations**

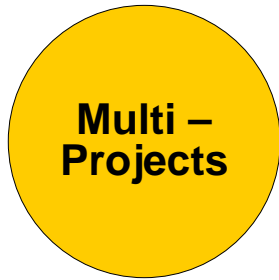
**1**

**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



**Multi –  
Projects**

**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



**Search for  
Focus**

**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**



**Strategic  
&  
Professional**

**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

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



**Social  
Innovation  
& Public  
Policy**

**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



**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





# 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> |
|--|--------------------------------|---|--|---|
| <b>Degree of complexity</b>                | Simple                         | Somewhat complicated                      | Fairly simple  | Fairly simple                                     |
| <b>Tax benefit</b>                         | Yes (to estate)                | Yes (to estate)                           | Yes  | Yes   |
| <b>Requires/allows donor involvement?</b>  | No                             | No  | No (although some CFs will encourage donor interest)                       | Yes, if desired                                   |
| <b>Control over how funds are spent?</b>   | 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                              |
| <b>Likely to be perpetual?</b>             | No (unless stipulated in will) | Yes                                       | Yes  | Yes   |
| <b>Size of sum required</b>                | Any                            | Large                                     | As little as \$5000  | Large   |
| <b>Ongoing costs involved in donation?</b> | No                             | Yes (they will be paid out of the estate) | Yes (usually a 1% administration fee)                                      | Yes   |



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



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# Family, Private and Independent Foundations

- During 20<sup>th</sup> 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 20<sup>th</sup> 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

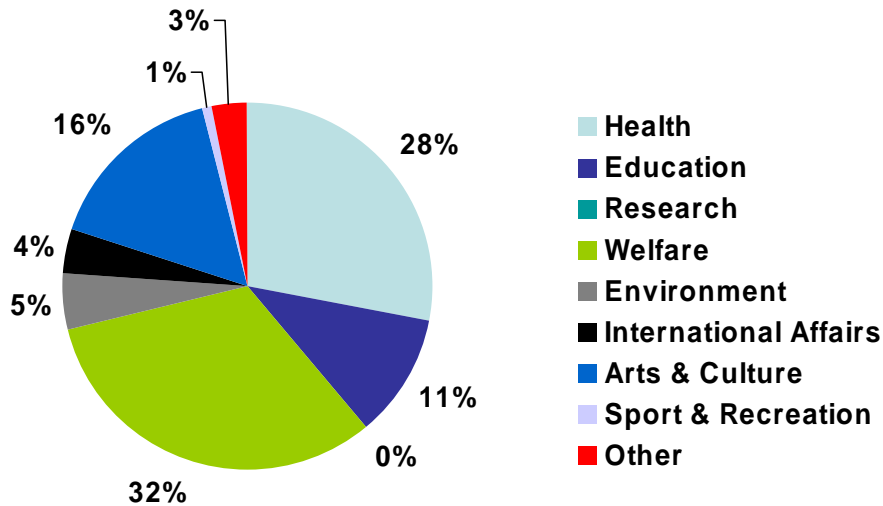
## Foundation Name Annual disbursement 2006/07 financial year

|  |                        |
|--|------------------------|
| • 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               |
| <b>TOTAL</b>                           | <b>\$78.52 million</b> |

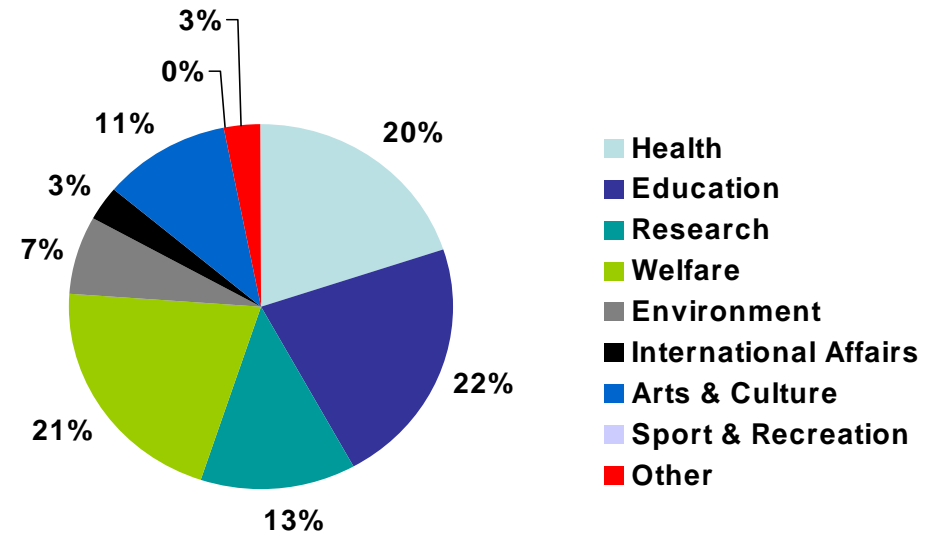


# Distributions Top Ten Foundations by category of recipient

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\*





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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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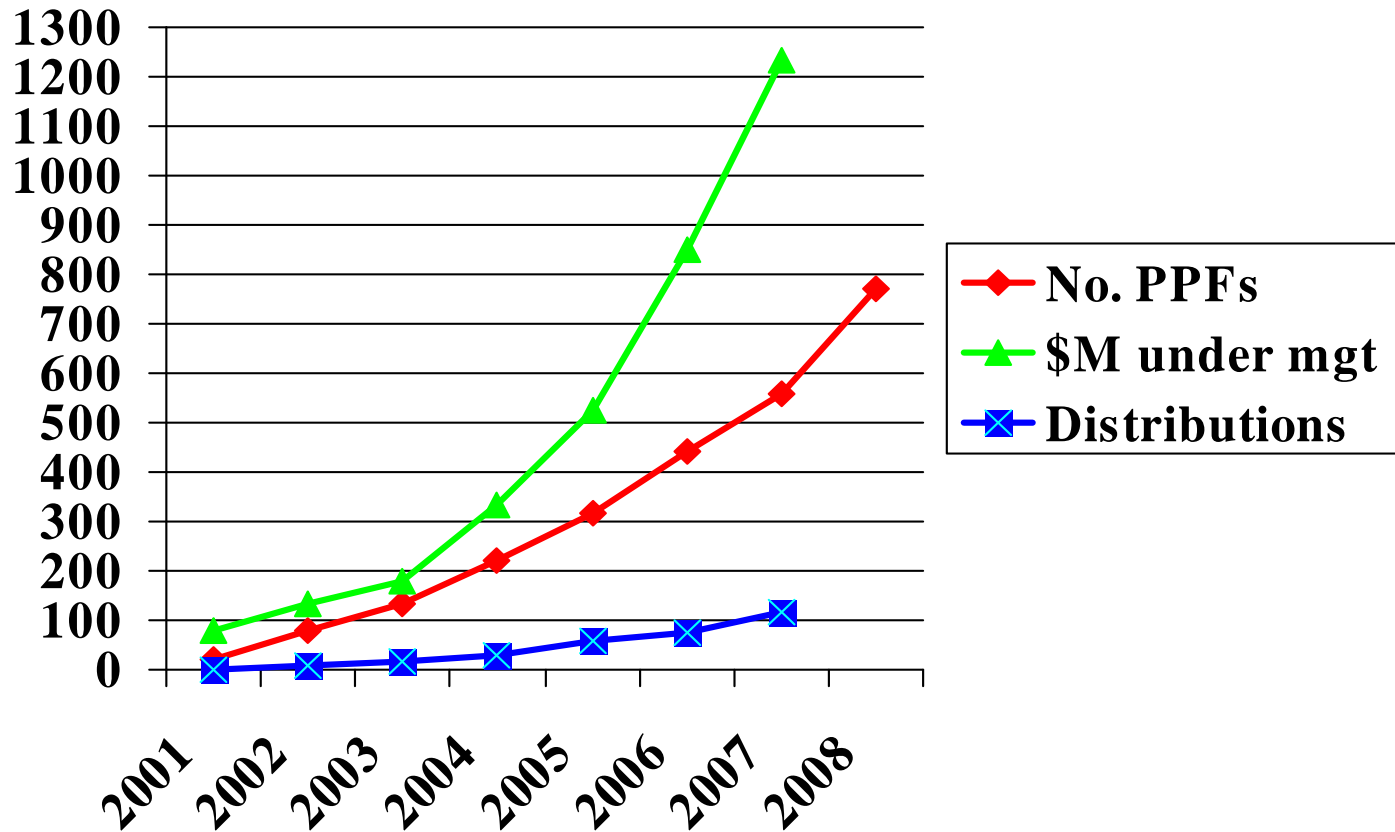
# Growth of PPFs

- 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

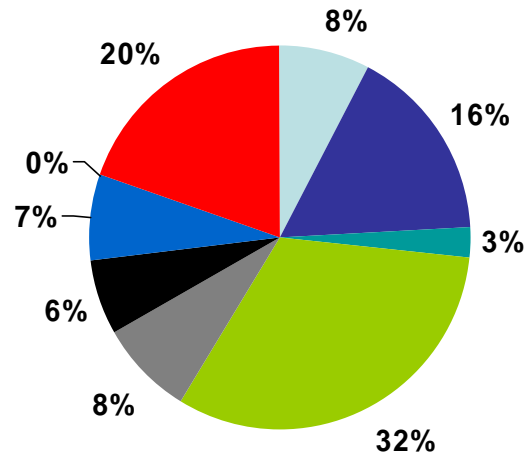


Source: Professor Myles McGregor-Lowndes, Centre for Philanthropy & Nonprofit Studies, Queensland University of Technology



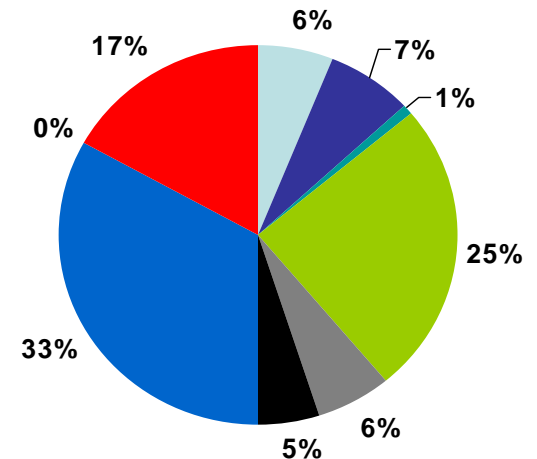
# Distributions by PPFs by Category of Recipient

**2006 Distributions by 440 PPFs**  
**\$74.2 m**



- Health
- Education
- Research
- Welfare
- Environment
- International Affairs
- Culture
- Sport & Rec
- Other

**2007 Distributions by 599 PPFs**  
**\$117.0 m**





# 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.



# 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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