

Philanthropy Inquiry
Productivity Commission
GPO Box 1428
Canberra City ACT 2601

Submitted via online portal:

<https://www.pc.gov.au/inquiries/current/philanthropy/make-submission#lodge>

Submission to the Productivity Commission Review of Philanthropy

Introduction

The South Australian Council of Social Service (SACOSS) is the peak representative body for the non-government health and community services sector in South Australia, and aims to influence public policy in a way that promotes fair and just access to the goods and services required to live a decent life. We undertake research to help inform community service practice, advocacy and campaigning and have 75 years' experience of policy and advocacy work that addresses issues impacting people experiencing poverty and disadvantage.

SACOSS is also part of the national network of Councils of Social Service, including ACOSS at the national level and each state and territory Council. In that context, we are aware of the submission to this inquiry from the Australian Council of Social Service and endorse its broad directions and recommendations.

This submission adds our own observations about philanthropic funding based on our experience in South Australia, particularly in relation to the role of philanthropy and, in particular the impact of arbitrary application DGR status.

The Sector in South Australia

Although our sector is hard to define and measure because it does not fit the categories in the ACNC accounting, SACOSS estimates from the 2020 ACNC data that combined the sector comprises around 1,000 organisations registered in the state, with revenue of \$4.7bn per annum and employing more than 50,000 South Australians.

Of most relevance to the terms of the Productivity Commission inquiry, of the \$4.7bn in revenue, only \$129.5m or 2.7% was sourced from donations and bequests. Government funding was by far the largest source of revenue, accounting for over half of all sector revenue.

Information Request 2: Advantages and Disadvantages of Philanthropy as a Source of Revenue for NFPs

Based on the data above, the government's target to double philanthropic funding would see potentially as much as \$129m in real terms invested in South Australian health and community services, assuming it was distributed evenly across the various charitable sectors. For those receiving any new service this money would clearly be welcomed by the health and community services sector and we agree with the Productivity Commission paper (pg 11) that such funds can offer flexibility and the ability to trial approaches that government funding may not support.

However, there are also costs and disadvantages to philanthropic funding that we want to highlight.

The Cost of Tax Concessions

The first and most obvious cost of philanthropic funding is that the tax concessions available mean that any increase in philanthropy would come at some expense to the federal government's revenue base. Given the government's key (majority) role in funding social services, the *tax revenue forgone needs to be a crucial calculation of any proposal to increase philanthropy.*

Government needs to retain funding to continue to fund and expand health and community services. This is not just because it is currently the primary funder, but also because government funding is more transparent and more accountable.

Accountability

Unlike government funding which is based on decisions made in public processes with accountability ultimately back to parliament, private philanthropic funding has much less accountability. The expenditure reflects the preferences and ideological views of those with the disposable funds to make donations. This group, and particularly those with the largest sums to give, do not necessarily reflect the demographics, views or preferences of Australian society. Obviously, people and organisations are free to spend their money and donate as they wish, but tax deductibility inevitably shifts the responsibility for tax expenditures from the government (who would otherwise allocate expenditure of taxes collected) to private individuals who are not accountable to the broader public.

This lack of accountability is less of an issue when an organisation gets funding from a large range of small donors, as there is a broader demographic base. However, when funding is from large donors or big philanthropic trusts, there is a greater potential for donors to be influencing the direction of non-government organisations – or sector funding and work more broadly. Of course, there are nuances in this, even in relation to large foundations and donations. We have observed examples of philanthropic trusts both working alongside community organisations and adding value and resources to much-needed work, but also of philanthropy changing the shape of work done and impacting on community with their mandate based largely just on their resources.

Geographic Inequality

There is a particular geographical dimension to these issues which we also see play out in South Australia. For government funding there is a system of federation and a sharing of GST funding which ensures some geographic equity in where government funding is spent. However, there is no such requirement on philanthropic funding. Where people are giving to local charities, areas with less affluence are likely to have smaller philanthropic potential, regardless of need. Further, SACOSS' experience is that there are far fewer sources of major philanthropic funding in South Australia than in Sydney, Melbourne and Perth. This may mean that charities operating in those major cities have better networks and connections and have a greater chance of receiving philanthropic funding.

SACOSS' analysis of the 2020 ACNC revenue data (obtained through [the interactive portal](#)) shows donations and bequests accounted for 2.7% of the total revenue of SA registered charities in our sector, but 6.9% of the revenue of all charities in our sector nationally. Donations and bequests made to SA charities in our sector made up just 2.3% of the national total of donations and bequests, well below our population share of around 8%.

This data is based on where charities are registered, rather than where they spend their money, but the point remains that an increased reliance on philanthropic funding of community and health sector services may contribute to inequality between different parts of Australia.

Summary re Information Request 2

The issues of influence and accountability, and the revenue costs of charitable tax concessions, are acknowledged at page 11 of the Productivity Commission's paper calling for submissions – although there is no mention of the geographic dimensions. However, the short mention in the paper is largely a side-bar to the terms of reference which are focused on expanding philanthropic donations. This is SACOSS' major concern given that the goal of doubling of philanthropic funding is not without risks and costs. To be clear, SACOSS is not opposed to philanthropy or the expansion of philanthropy, but *any recommendations the Productivity Commission makes in relation to increasing philanthropic giving should include a consideration of costs to government revenue, accountability and geographic equity.*

Information Request 3: Role of Government in Philanthropy

It should be clear from the above that *philanthropy should not be a substitute to government provision of services* – either directly, or via direct funding of NFPs. However, we acknowledge that philanthropy offers an important supplementary source of funding, and when it is a supplement or where the donor base is small donations from community members, the issues of accountability don't arise to the same extent as they do with major philanthropic endeavours.

Information Request 4: The DGR Framework

Again, our comments here are simply an addition to the broader comments in the ACROSS submission, but SACOSS has particular experience of the "inequities, inefficiencies or perverse outcomes" of the DGR framework (dot point 3 of the information request). We take it as a given that the existence of some charities with DGR status and others without that status influences donors' choice of charities. This is inefficient in an economic sense,

but may be justified for other policy reasons (including limiting the impact on government revenue). In this case, the reasons for whether a charity has DGR status should be clear and equitable. However, the current framework is complex as some charities are required to be on a sector-specific register, some coming under a broad definition in the *Income Tax Assessment Act (1997)*, and some individual charities are named explicitly in the Act as being deductible gift recipients.

This framework is confusing, and in SACOSS case produces a particular anomaly. SACOSS has been advised that, as a research and advocacy organisation, we are not eligible for DGR status as we do not provide welfare services directly to the people in need. This seems at odds with advocacy for charitable ends being seen as a charitable purpose, but more immediately, it is at odds with our national organisation, the Australian Council of Social Service being listed as a DGR entity at Income Tax Assessment Act (s30.45, Item 4.2.15). Obviously we believe ACOSS does work of great benefit to the public and in providing relief to the poor by way of important research and advocacy, but the point is that SACOSS' purpose and activities are almost identical at the state level to ACOSS' at the national level. The differing DGR statuses are a perverse outcome from a system which is not transparent, and the result is that SACOSS' ability to raise private funding is limited - including because many philanthropic grants require DGR status.

Conclusion

We leave the response to other information requests in the call for submissions and other recommendations to the ACOSS submission and to the Stronger Charities Alliance submission which we have also had a chance to view. Our main concern here has been to highlight some particular SACOSS concerns and issues arising from our experience.

Should you require further information or comment, please contact SACOSS Senior Policy and Research Analyst, Dr Greg Ogle, via the details in the submission portal.

We thank you for your attention to our submission.

Yours

A handwritten signature in black ink, appearing to read 'RWomersley', written in a cursive style.

Ross Womersley
CEO, SACOSS