

Where to from here? The outlook for philanthropy during COVID-19

By John McLeod

April 2020



Introduction

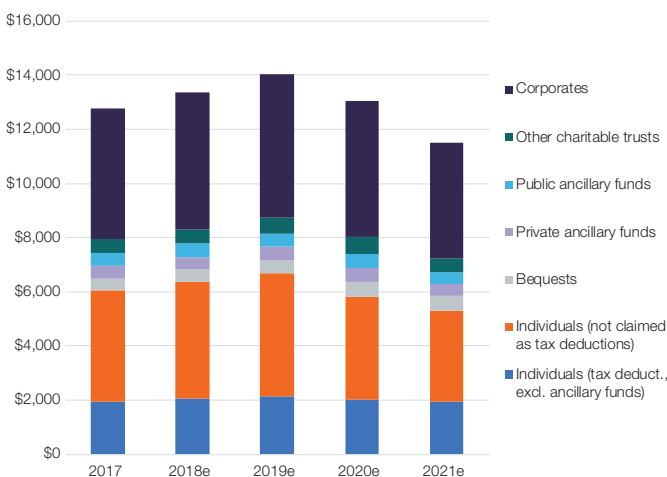
This report attempts to estimate the outlook for philanthropy and volunteering in Australia during the unprecedented combination of a major economic downturn and a significant global health crisis. We have looked at the past reactions of individuals, foundations and corporate donors during circumstances as close to rivalling this current situation as possible but, needless to say, a great deal of extrapolation is required.

In Australia, it is also complicated by the widespread and very generous support already given during the recent bushfires across most States only four months ago. While it would be easy and potentially prudent to assume a major fall in philanthropy is to occur, that would also ignore the main historical driver of rises in philanthropy in Australia: natural disasters. There are also some timing differences for structured philanthropy that is likely to see a delayed effect and smoothing of support. Corporate giving has been affected when profitability has fallen although the actual proportion of profits given has risen during these tough times. Volunteering on the other hand is being severely hampered by isolation requirements, regardless of how strong people's desires may be to help.

Australia last experienced a recession in 1991 when the Australian Taxation Office (ATO) weren't collecting donations data. The recession prior was in 1983 when giving actually grew strongly, although it fell by 4.5% in the following year.

Analysing each of the giving segments in Australia and looking at the main factors influencing their levels of support, we estimate total giving will fall by around 7.1% in 2020 after rising by almost 5% over each of the previous two years. The larger effect from the current crisis is likely to be felt in 2021 when giving is estimated to fall by a further 11.9%, back to levels not seen since 2012.

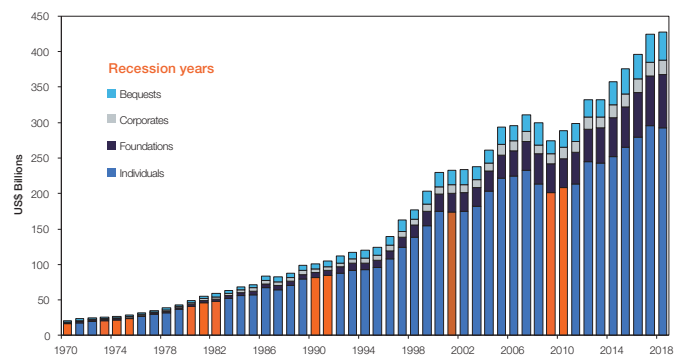
Australian Philanthropy outlook (\$m)



Source – JBWere Philanthropic Services

Analysis of the long run giving trends in the USA shows the slowdown (a fall in 2009 and 2010) in giving during recessions, mainly by individuals. From 2007 to 2009, giving in the USA fell by the largest amount on record, 12% over two years as Gross Domestic Product (GDP) fell 3.7% and corporate pre-tax profits fell over by 25%.

US Charitable Giving



Source – Giving USA, JBWere Philanthropic Services

We now turn to the different types of giving and share our outlook for each.

“Mass market” philanthropy

The factors affecting the level of donations from the broad public to charities between now and June 30, 2020 are dramatic.

Among the positive factors are

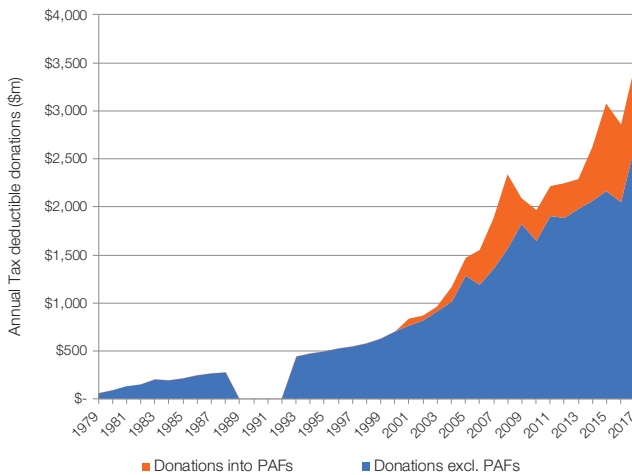
- that Australians have always responded very generously to natural disasters in their own country (various bushfires and floods) and in other places where they have a connection (2005 Asian tsunami);
- there is extremely widespread media coverage of the evolving crisis;
- while private incomes will be uncertain and under pressure, the level of discretionary spending will also be lower; and
- many people's ability to help through volunteering will be severely curtailed, potentially increasing their desire to aid financially.

Among the negative factors are

- that we've just had a very generous level of donations for the recent fires across the country in the same financial year;
- this “natural disaster” is accompanied by a likely very severe global economic downturn;
- the timing and ultimate health and economic/employment effects may not be known for many months;
- while people are often donating to another smaller subset of the population, there may be a feeling that this time, they are in fact the beneficiaries in need of assistance; and
- many larger fundraising events are already, or will be, cancelled.

The following chart shows tax deductible giving in Australia both including and excluding donations into Private Ancillary Funds (PAFs). Apart from the spikes seen during natural disasters in 2005, 2009 and 2011, there has been a consistent rise in donations not including donations into PAFs.

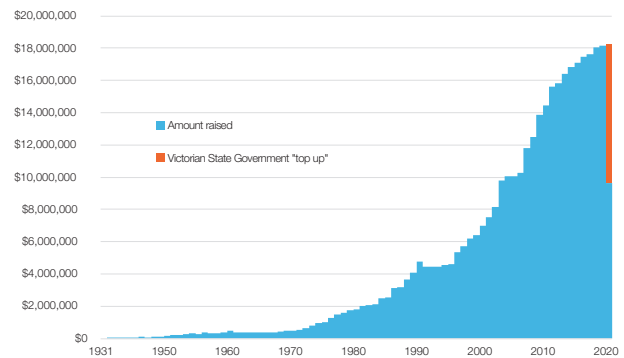
Australian tax deductible giving 1979 -2017



Source – ATO, JBWere Philanthropic Services

In the first significant test of fundraising during COVID-19 which usually involves a high level of community involvement across a whole State, the Good Friday Appeal for the Melbourne Royal Children’s Hospital was forced to cancel a multitude of fundraising activities including the Kids Day Out, Run for the Kids, Cadbury Easter Egg Hunt, AFL Kick for the Kids match and many State wide “tin rattling’ events. Even the usual all day telethon was reduced to one hour. The annual event, conceived in 1931, concluded with just over half of the previous years total being raised. In a welcome development, also mirroring that being seen in many other areas of the economy, the State Government stepped in to provide the balance to match the previous years total. While we don’t expect all fundraising to drop by this extent, it is an indication of the current difficulty facing broad community event based activities.

Good Friday Appeal – Melbourne Royal Children’s Hospital

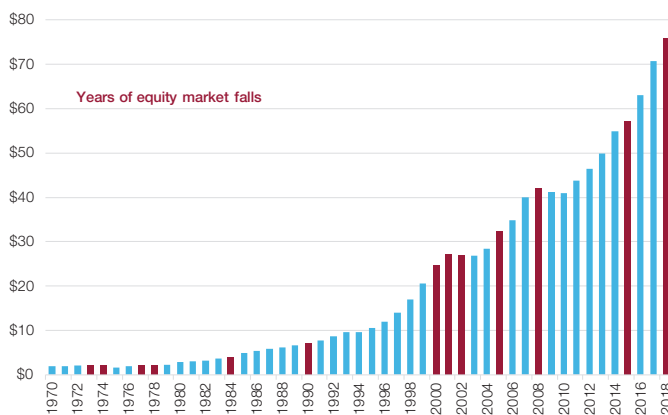


Source – <http://www.goodfridayappeal.com.au>, <http://www.premier.vic.gov.au>, JBWere Philanthropic Services

Foundations and other structured philanthropy

There has been a lag between economic and equity market falls and the levels of foundation granting. This is due to the payout requirements being based on previous year asset or income balances. In the USA, where payout rules are similar to PAFs in Australia, it can clearly be seen that giving from foundations held up well during years of equity market falls with any declines or slowdowns often not seen until the following year. While obviously trustees will remain cautious, this is also the time for them to help and utilize the assets that have accumulated due to their original foresight in establishing a foundation in better times.

USA Foundation giving versus equity market falls (US\$ Billion)

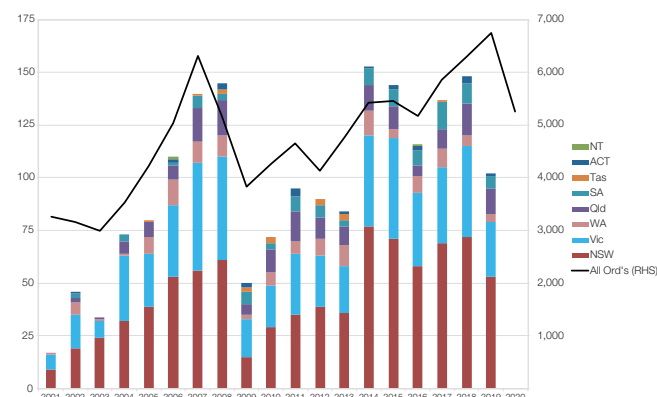


Source – Giving USA, JBWere Philanthropic Services

There is also potential at this time to bring forward plans to offer opportunities to foundations to use their balance sheets as well as their granting. The ATOs PAF guidelines offer many ways to do this including offering or guaranteeing loans for Deductible Gift Recipient (DGR) type 1's and including interest foregone as part of annual granting requirements.

One of the effects of COVID-19's economic impact is likely to be the rate of establishment of new PAFs which may slow considerably in 2020 and 2021. During the GFC we saw the number of new PAFs established fall considerably and although this was also influenced by the uncertainty surrounding the new PAF guidelines, we can see the strong relationship to equity market in other years in the following chart.

Annual PAF establishment by year and State versus equity markets



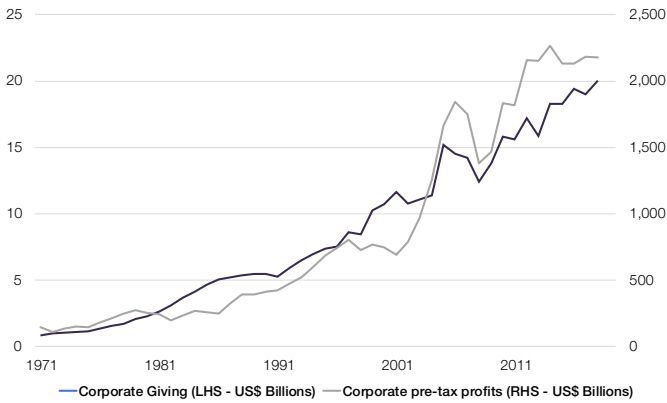
Source – ATO, JBWere Philanthropic Services

Corporate giving

Corporate community investment is gradually being better understood as an important part of the overall level of support provided by private individuals and organisations to the for-purpose sector. The Support Report estimated that corporates provide over one third of total support. The level of corporate support is highly correlated to their profitability and is estimated to be under pressure over the next few years. The recent Australian Financial Review (AFR) corporate philanthropy 50, research co-ordinated by JBWere, showed a total of \$1.25 Billion from the 50 largest corporate supporters and is a significant proportion of the total \$4.5 Billion provided by corporates in Australia. How this is affected by the probable large downturn in corporate profitability in Australia might be informed by previous economic downturns.

In the US, the following chart shows the relationship between corporate community investment and profitability from 1971 to 2018. The proportion of giving compared to pre-tax profitability has averaged 1.1% over almost 40 years but interestingly has risen in tougher economic times when profits fell, although the dollars given fell. In the earlier 1980's economic downturns the proportion rose to over 1.6% and in 2001 to 1.7%. However, in the most recent significant economic downturn in 2008 it remained reasonably steady.

USA Corporate Giving - 1971 - 2018



Source – Giving USA, JBWere Philanthropic Services

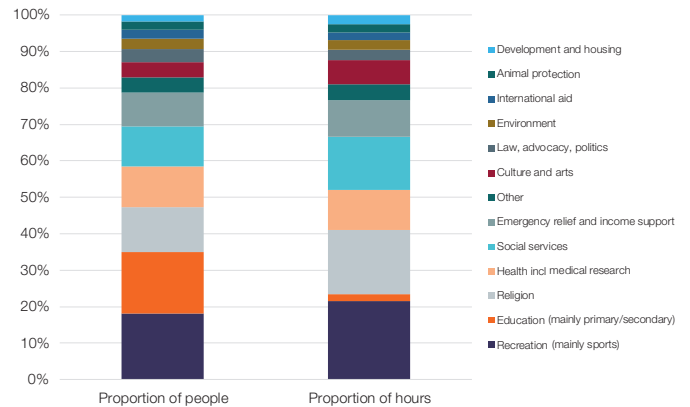
Volunteering

The for-purpose sector is an extremely important part of overall employment in Australia. With around 1.2 million employees, split between full time, part time and casual, it represents almost 10% of the total workforce. The sector's cost base is also heavily affected by this large workforce with around 50% of total costs used for employee wages.

Uniquely, the sector relies on volunteers to supplement its activities and they represent around 25% of the total Full Time Equivalent (FTE) workforce. Although various causes have a different reliance on these unpaid supporters, without them the sector's overall surplus would quickly disappear. Undoubtedly, both the desire and ability of people to volunteer in the coming months will be severely curtailed.

The following chart shows the reliance on volunteering for selected cause areas.

Volunteering by cause



Source – Giving Australia 2016, JBWere Support Report

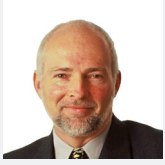
Concluding thoughts

To state the obvious, these are uncharted waters for all parts of society. What we do know is that the confluence of factors leads us to conclude that many for-purpose organisations funding models will be under significant pressure. This pressure may manifest in weeks for some, and over many months for others. For those organisations reliant on philanthropy, we ask the Board, executive and fundraising staff to consider the following as they develop their tactical moves.

- reassure, if possible, the ability of your organisation to survive and be in a position to provide support;
- clearly highlight the ways that your charity is able to help in the current situation;
- be aware of what others are doing and where possible be part of the broader solution in the areas where you operate;
- if attempting something new and/or innovative, reassure that you have the skills needed and demonstrate why a change from your normal practices are needed and for those supporting your past work, will you continue those operations in the shorter term;
- if reaching out to the mass market, simple, clear messages are needed among the saturation of COVID-19 news and views;
- foundations will differ in their minimum payout requirements from 5% of June 2019 assets (PAFs) to more income based (charitable trusts). Either way it is likely that the larger effects on minimum payouts will be seen in the 2021 year. Given the widespread affect across multiple charitable cause areas from health and education to arts and sport or welfare, mental health, and international aid, all foundations will see need grow from their preferred causes. There will even be a bring forward of spending from some foundations and hopefully a growing usage of their balance sheet. This offers for-purpose organisations the opportunity for different approaches to those normally just seeking annual grants;
- corporate support will still be available, but their own operations will likely have dramatically changed and the ways they may be able to support could look quite different. Are there opportunities to utilize any spare capacity they may now have (for either goods or services), rather than simply asking for cash which may currently be more difficult; and
- volunteering has been gradually moving towards having a smaller proportion of people available and for fewer hours. Does the current crisis offer the opportunity to move faster towards that “re-engineering of volunteering” that some for-purpose organisations were commencing.

We will be working closely with our clients during the coming months to help them understand the potential impact of that the current pandemic (and response) will have on their organisation; and guide them in developing strategies for the world post COVID-19.

About the author



John co-founded JBWere's Philanthropic Services team in 2001 after 15 years as a financial analyst and manager of Resource Research within the firm's top ranking strategy team. He researches and produces widely read reports on philanthropy and the operation of the for-purpose sector. He co-authored the Impact

– Australia report in 2013 highlighting the practice and growth potential for Impact Investing and more recently co-authored Growing Impact in New Zealand, released at the Social Enterprise World Forum held in Christchurch in 2017. He also authored The Cause Report examining the evolution of the NFP sector in Australia over the last 20 years. He compiles the list of Australia's major philanthropists for the Australian Financial Review's annual special, Philanthropy 50. In 2018 John authored The Support Report which focused on the dramatic trends occurring in Australian giving. In 2019 he co-authored and coordinated the inaugural list of community investment by Australia's 50 largest corporate donors. He also sits on the Board of several charities including education and disability housing causes and on the Board of Philanthropy Australia.

About JBWere Philanthropic Services

The mission of the JBWere Philanthropic Services team is 'to inspire, educate and support of clients in delivering sustainable impact'. We are the leading provider of services in Australia and New Zealand and serve a broad range of purpose-driven organisations, institutions, corporations, families and individuals (currently entrusted with more than \$8bn across Australia and New Zealand).

We partner with our clients to support them in delivering on their mission, and fulfil our own, through:

- Best Practice Governance;
- Research, Education and Insight; and
- Tailored Strategic Advice.

To discuss how we might be able to work with you, please contact us on 1300 263 166 or Philanthropic.Services@jbwere.com

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