

March 2019



## Grattan Institute: The first 10 years

## Overview

Grattan Institute was formally incorporated in November 2008, and its first employee began in January 2009. It was established with an initial endowment of \$35 million, including contributions from the Commonwealth and Victorian Governments, BHP and NAB. The University of Melbourne has provided continuing support in kind. Many corporates, philanthropists, and donors have contributed over its lifetime. This report describes the return on these investments to improve Australian public policy.

Grattan has now completed a decade of operation dedicated to developing high-quality public policy for Australia's future. It is Australia's leading domestic policy think tank. It conducts independent and rigorous research into some of the country's most pressing problems, and advocates for practical solutions.

Ten years ago, in 2009, Grattan was a constitution and a business plan. It sounded good on paper, but whether such an institution could actually improve Australian public policy was untested.

After a decade of experience, Grattan has demonstrated that its model can make a big difference with relatively limited resources. An

institution of just 30 people has substantially shifted public debate and outcomes on important policy issues. The independence provided by an untied endowment has enabled Grattan to focus on the big issues, over the long term, for the public rather than sectoral interests.

Today, many involved in Australian public policy say that it would be hard to imagine Australian public life without Grattan.

Grattan's success depends on its independence. Independence depends on untied funding and a substantial endowment, so that Grattan can continue to afford to decline all commissioned work.

In 2009, \$35 million was enough to set up an independent Grattan Institute. In 2019 it costs more. Grattan needs more people to be part of the next stage of its journey. More annual support from individuals, foundations, and corporates is needed so that Grattan does not have to keep eating into its endowment.

Australian public policy is much better because of the work that Grattan has done over the last ten years. Grattan needs support to ensure that it will continue to produce its independent rigorous and practical work for future generations.

## 1 Grattan's values

Grattan Institute aims to improve public policy in Australia as a liberal democracy in a globalised economy.

Grattan is **independent**, taking the perspective of the Australian public interest rather than any interest group. To safeguard this independence, Grattan does not accept ongoing government funding or commissioned work. It is **rigorous** in conducting some of the country's most sophisticated public data analysis, and in building on the existing literature. And it is **practical** in articulating what governments should do to improve the lives of all Australians. All of Grattan's reports and events are free and can be viewed online.

Public policy can make an enormous difference in the long run. At Federation, income per person in Australia was roughly similar to that in Argentina. The countries had similar climates, geographical distance from major economies, and were economies focused on larger-scale agriculture. A century later, Australia is much more prosperous. The difference is that Australia has been better governed, and has implemented better policy.

The high-quality policy analysis that Grattan produces might not be the only way to improve policy, but it often helps. As articulated in Grattan's 2012 report, *Game-changers*, it's hard to implement reform, which is almost always politically difficult, unless the bulk of **policy experts** are convinced there is a sound rationale for change. Usually this is not enough: **public support** is also required. And ultimately **political leaders** need to implement change.

Grattan aims to provide the high-quality, detailed evidence that **experts** require. Many Grattan reports have shifted expert opinion, as demonstrated by the high number of citations to Grattan work in official publications such as the highly influential reports of the Productivity Commission, the Australian Competition and Consumer Commission, and the OECD. Expert opinion can be changed through research publications that are based on high-quality data analysis, a thorough synthesis of the existing literature from a range of relevant sources, and sophisticated communications that put the case logically, succinctly and clearly.

Grattan's advocacy to change **public** opinion is based on the conviction that Australia's democratic institutions can work. Grattan's activities on a range of issues (such as negative gearing and capital gains tax) show how think-tank public advocacy can shift public attitudes. These public communications need to be reasoned, clear, and often sustained over a number of years. The good news is that Grattan's experience shows how an advocate perceived as genuinely independent can substantially move public opinion even if it only has limited resources.

Ultimately **political** leadership is also needed. But arguably the point of democracy is that when expert and public opinion converge, the hearts and minds of our political leaders follow. Of course, direct communication with political leaders, and those who advise them, can also lead to policy change in the public interest.

## 2 Grattan's outcomes

### 2.1 Research

Over a decade, Grattan has published 113 major research reports. These are typically 50-100 pages that combine substantial original analysis, a synthesis of the existing literature, and a persuasive case for policy reform on an important issue. Grattan now publishes a report about once every 3 weeks.

	2010	11	12	13	14	15	16	17	18
Reports published	7	7	13	15	13	14	18	12	16
Report downloads ('000)	14	20	42	39	59	40	52	40	51
Web page views ('000)	207	319	550	609	626	570	635	553	589

Some of the 113 reports that Grattan has published over the decade include:

- **Climate phoenix** and **Post Paris** outlined a way forward to reducing carbon emissions, adding to **Learning the hard way** and **Markets to reduce pollution**, which analysed the success or otherwise of previous programs to reduce emissions.
- **Powering through**, **Next generation**, and **Designing a more reliable National Electricity Market** described how to redesign the generation market for low-emissions pricing and technologies to both minimise cost and maintain reliability.
- **Questionable care** and **Controlling costly care** showed how hospital systems could save billions by reducing variability in costs and minimising operations that don't help much.

- **Mapping Australian higher education** report (now in its 5<sup>th</sup> edition) is the higher education bible, providing detailed analysis of each aspect of the sector.
- **Shared interest**, **HELP for the future**, and **Doubtful debt** argued that to remain sustainable, higher education funding needs lower repayment thresholds, a universal loan fee, and to collect from overseas graduates and deceased estates.
- **Targeted teaching** demonstrated that teachers need more support from education systems to target their teaching to the very different needs of individual students in the same classroom.
- **Widening gaps** analysed how students from less advantaged families tend to fall behind; **Measuring student progress** analysed how outcomes differ between states and sectors.
- **Roads to riches** calculated that Australian governments have spent disproportionately on infrastructure in regional areas and in marginal electorates, and **Unfreezing discount rates** showed how project evaluations over-weight projects with short-term paybacks.
- **Remarkably adaptive** showed how city travel patterns are much more adaptive to population growth than many imagine, and **Stuck in traffic?** diagnosed the magnitude, shape and causes of road congestion in major capital cities.
- **Budget pressures** and **The mining boom** predicted in 2013 the scale of future budget deficits, and **Balancing budgets** identified the relatively limited options for budget repair.

- **Property taxes, Super tax targeting, A better super system, A GST reform package, and Hot property: negative gearing and capital gains tax reform** outlined the rationale, shape, and impacts of a comprehensive overhaul of our tax system.
- **The wealth of generations** raised the possibility that the next generation may be worse off than its parents, in part due to increasing government transfers for older households.
- **Money in retirement** questioned the popular wisdom that people are not saving enough for their retirement.
- **A crisis of trust** showed that falling trust in government is leading to the rising minor party vote, and **Who's in the room** analysed where money wields disproportionate political influence and the procedural reforms that might redress the balance.

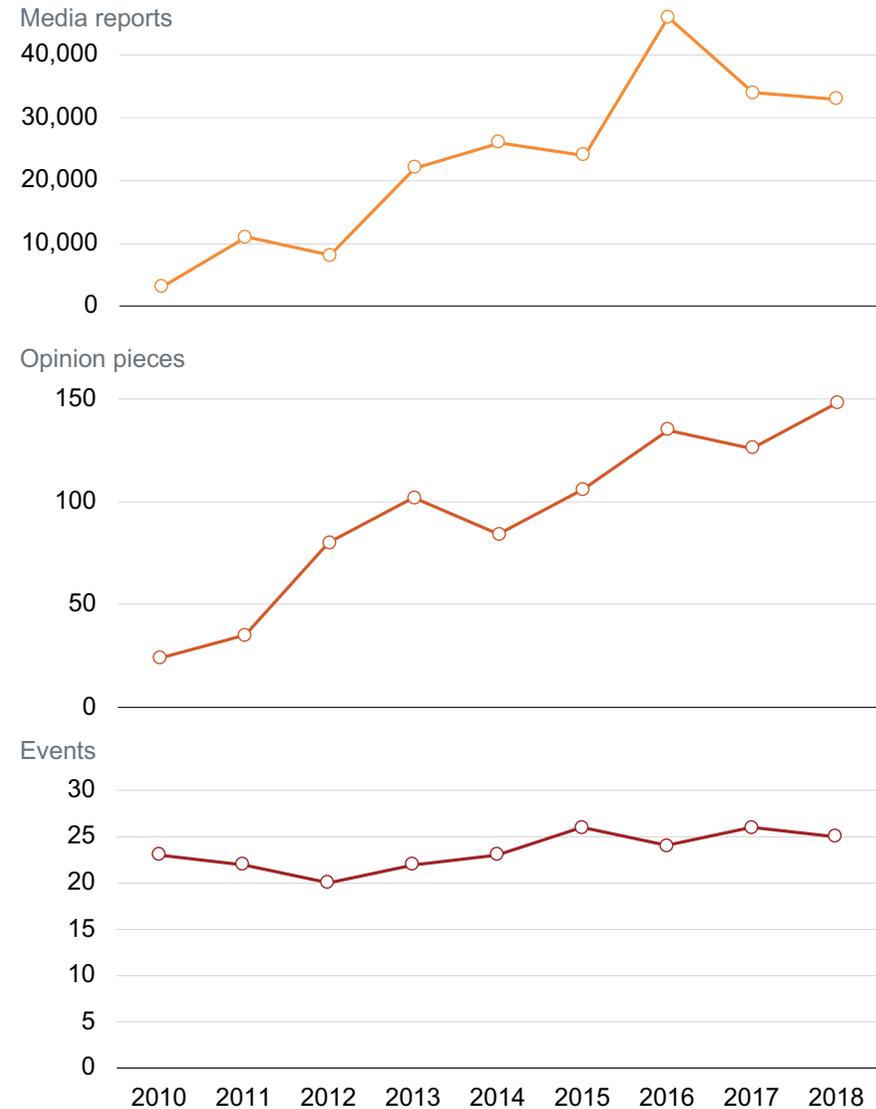
Overall, this is a substantial body of work. Many of these reports are still routinely cited, years after publication, because they are touchstones for policy thinking on their topic.

## 2.2 Influence

This work has substantial influence. Grattan Institute engages with the public, primarily through the media, aiming to change public opinion, and thus what is politically possible. In the past five years, Grattan has averaged well over 500 media mentions per week. Grattan staff are often contacted by senior journalists, both for comment and as a reliable source for background information. In the typical week, Grattan generates three opinion pieces in leading newspapers and media outlets.

Grattan holds about 30 public events per year, most of which are presented in conjunction with the State Libraries of New South Wales, Queensland, and Victoria, and the National Library in Canberra.

### Grattan's public influence



Source: Grattan Institute.

Grattan also engages regularly and in depth with senior decision-makers and influencers, who regard the Institute as an important source of reliable advice. Grattan staff conduct more than 1,000 stakeholder meetings a year across political offices, the public service, private sector stakeholders, and not-for-profit bodies that are often providers of services to government. Grattan staff also give about four speeches a week to large groups.

Grattan reports are usually discussed with relevant Ministers, shadow Ministers, and Chiefs of Staff both before and after release. They are also usually discussed at Secretary or Deputy Secretary-level within relevant government departments. Grattan staff are often invited to speak to departmental leadership teams and conferences.

Grattan engages senior stakeholders from industry, not-for-profit and government sectors as reports are developed, and in generating discussion afterwards. These are typically group discussions involving 10 to 20 people in round-table Chatham House rule events that last from two hours to two days. Grattan holds about 50 of these forums each year.

Our annual two-day Grattan Gathering typically includes several deputy secretaries from both Commonwealth and state governments. A Grattan Gathering led to Grattan Institute’s *Game-Changers* report; others led to the *Budget pressures*, *Balancing budgets*, and *Wealth of generations* reports. We regularly receive feedback from senior public servants that these events provide a rare opportunity to consider strategic issues in a supportive setting. Unlike many conferences, all participants remain for the entire event; there are no speeches; and engagement is high.

Grattan routinely consults with all sides of politics, who often solicit advice from Grattan staff on important policy issues. The cross-party nature of Grattan’s influence is illustrated by numerous parliamentary reports where the work of the Institute is relied upon by both majority

and minority reports, even on controversial issues, such as the Senate Committee Inquiry into the Commission of Audit. We are reliably informed that Grattan work often features prominently in the “red and blue books” prepared by departments as a summary of key strategic issues for incoming governments.

Grattan’s advice is valued: its work is cited almost three times a week in ministerial and shadow minister speeches, and in official publications such as government and parliamentary reports. Grattan is routinely cited in landmark government documents such as:

- the *Reform of the Federation Discussion Paper* (estimates on the budget impact of health expenditure);
- the *Budget overview* (economic impact of higher education);
- *The State of Australian Cities* (economic effect of agglomeration on inner cities); and
- the second Gonski review *Through Growth to Achievement* (targeted teaching and education system design).

	2010	11	12	13	14	15	16	17	18
Stakeholder meetings	-	372*	700	1,069	804	1,084	1,060	1,087	1,012
Speeches	-	105*	155	171	163	174	209	258	224
Private forums	1	16	39	54	60	55	46	54	53
Official citations	-	20*	20	51	114	102	143	127	143

Note: \* From July 1.

## 2.3 Impact

All of Grattan's programs have had a substantial impact on Australian public policy. Selected highlights are described below.

The **Health** program's work has led to both public and private hospitals systems reducing the cost of operations, government paying lower prices for pharmaceutical benefits and pathology, and more focus on palliative care.

The **Energy** program has been at the forefront of trying to get a rational mechanism in place to reduce carbon emissions and to integrate that with broader changes in the electricity market. Although these efforts have not yet borne fruit, Grattan has been at the centre of efforts to build a consensus among state governments, companies, and not-for-profit groups. The Energy program has helped to convince governments and regulators to tighten electricity network pricing, to reduce incentives to overbuild, and to reduce the 'confuseopoly' of retail electricity pricing.

The **School Education** program was instrumental in getting both government and independent schools to ensure teachers got more useful and regular feedback based on what actually happens in the classroom. The Commonwealth Minister routinely cited the work of the program as he pushed through historic changes to school funding, while accepting cross-bench amendments based on the Grattan wish-list.

The **Transport** program is leading a growing chorus to finally put some more robust processes in place to reduce the politicisation of transport project decisions.

The **Higher Education** program has waged a tireless effort to reduce the cost of HELP subsidies so that the demand-driven system can continue to get the best possible alignment between what students want and what universities deliver.

The **Productivity** program's work, picked up by the Australian Perspectives program, has been crucial to a slow but now remorseless process to reduce the absurdly high amount that Australians pay to have their superannuation managed and administered.

The **Cities** program's work, also picked up by the Australian Perspectives Program, has been vital to building the case for more housing in the inner and middle suburbs of our major cities – and when we wrote our *Housing affordability* report, we were surprised to find how much of this has actually happened over the past few years.

The **Budget Policy and Institutional Reform program** has defined a substantial tax reform agenda. The current Commonwealth government implemented many of the superannuation tax reforms in 2016. The Federal Opposition, explicitly citing Grattan's work, is planning to implement substantial reforms to capital gains tax and negative gearing, if elected.

A more detailed summary of Grattan's impact to date on over 70 different policy areas is available, backed by a 72-page analysis that systematically investigates the impact of every Grattan report published over its first 10 years.

## 2.4 Grattan's platform

As well as producing an important body of work, and influencing substantial policy change, Grattan has continued to improve its platform for the future. Its systems today enable it to have much more impact than in the past.

The choice of topics is now better informed by previous work identifying where the problems lie. Data analysis is much more sophisticated, producing much more original analysis, often based on unit record files. Recommendations are more mature, with better understanding of what might work, and more disciplined analysis of the alternatives. Quality assurance is much more thorough. Communications are more focused and use many more outlets. Stakeholders are engaged more systematically, at more senior levels. Grattan's established reputation results in higher-quality employees, more media coverage (from both solicited and unsolicited contacts), more interest from experts, and easier access to decision-makers. Grattan's unique scope and size enables it to produce the only substantial and relatively comprehensive guide to policy issues ahead of Commonwealth and state elections.

Internal support services are also much better. Hiring, performance metrics, performance management, and other HR processes are better thought through, documented, and managed, producing happier staff, and more output, with less effort. About 30 policies are in place and used, covering everything from authorship to parental leave, to corporate credit cards. Finances are managed with fewer resources to produce more transparent and robust information.

## 2.5 Grattan's finances

Policy analysis and influence costs money. Grattan's cash costs are about \$5.5 million a year. As the University of Melbourne contributes premises and IT support in kind, more than 90 per cent of Grattan's costs are staff. It is a lean ship: of Grattan's 30 staff, 25 are researchers and writers. Corporate and philanthropic supporters, and smaller income sources, contribute about \$1.2 million a year.

Grattan began with a substantial endowment of about \$35 million. Despite substantial contributions to Grattan's operating costs of \$32 million, unusually high returns and unusually low wage inflation over the decade increased the nominal value of the endowment to \$37 million by July 2018, although its real value had fallen by \$9 million over the decade.

Assuming normal returns, the endowment can sustainably contribute about \$1.6 million a year to Grattan's operating costs. Given current costs and recurrent revenue, operations are expected to draw about \$4.0 million a year from the endowment. Consequently, the *real* value of the endowment is expected to fall by about \$2.4 million a year, while the *nominal* value of the endowment is expected to fall by about \$0.8 million a year. At the current rate, the endowment will be exhausted in 2033.

## Grattan's operating results

\$'000	2009	10	11	12	13	14	15	16	17	18
Program funding	-	-	-	500	500	850	400	-	-	-
Affiliate support	-	9	134	260	350	211	300	322	495	490
Philanthropic support	-	-	33	33	33	50	100	250	400	450
Public donations	-	-	-	-	-	23	33	40	84	141
Melb Uni in-kind contribution	350	316	333	340	340	349	359	368	375	384
Other revenue	-	5	11	203	220	356	152	116	181	89
<b>Total revenue</b>	<b>350</b>	<b>330</b>	<b>511</b>	<b>1,336</b>	<b>1,443</b>	<b>1,839</b>	<b>1,344</b>	<b>1,096</b>	<b>1,535</b>	<b>1,554</b>
Direct operating costs	876	2,326	2,926	3,715	4,434	4,484	4,666	4,902	5,008	5,133
Melb Uni in-kind costs	350	316	333	340	340	349	359	368	375	384
<b>Total costs</b>	<b>1,226</b>	<b>2,642</b>	<b>3,259</b>	<b>4,055</b>	<b>4,774</b>	<b>4,833</b>	<b>5,025</b>	<b>5,270</b>	<b>5,383</b>	<b>5,517</b>
<b>Operating surplus (deficit)</b>	<b>(876)</b>	<b>(2,312)</b>	<b>(2,748)</b>	<b>(2,719)</b>	<b>(3,331)</b>	<b>(2,994)</b>	<b>(3,681)</b>	<b>(4,174)</b>	<b>(3,848)</b>	<b>(3,963)</b>

## Grattan's endowment financials

\$'000	2009	10	11	12	13	14	15	16	17	18
Contribution to endowment	30,200	2,200	2,200	200	200	-	-	-	-	-
Return on endowment	1,565	2,103	3,281	(583)	6,968	6,131	4,751	(27)	4,399	4,537
Operating surplus (deficit)	(876)	(2,312)	(2,748)	(2,719)	(3,331)	(2,994)	(3,681)	(4,174)	(3,848)	(3,963)
<b>Surplus (deficit)</b>	<b>30,889</b>	<b>1,991</b>	<b>2,733</b>	<b>(3,102)</b>	<b>3,837</b>	<b>3,137</b>	<b>1,070</b>	<b>(4,201)</b>	<b>551</b>	<b>574</b>
Value of endowment	<b>30,889</b>	<b>32,880</b>	<b>35,613</b>	<b>32,511</b>	<b>36,348</b>	<b>39,485</b>	<b>40,555</b>	<b>36,354</b>	<b>36,905</b>	<b>37,479</b>

### 3 Grattan's return on investment

#### 3.1 Grattan's supporters

The Commonwealth of Australia, the State of Victoria, BHP and the National Australia Bank, through their contributions to Grattan's endowment, provided initial financial support. The University of Melbourne has provided in-kind support over ten years through the provision of accommodation and support services. Today, the endowment can sustainably support about 35 per cent of Grattan's running costs.

Grattan's corporate affiliates contribute about 15 per cent of its running costs. Over the decade, these have included:

- Australian corporates: **Jemena**, Lend Lease, **Medibank Private**, Mercy Health, **Silverchain**, Stockland, **Wesfarmers**, **Westpac**, **Woodside**.
- Professional services firms: Arup, **Ashurst, Corrs**, Deloitte, EY, **Maddocks**, **McKinsey & Co**, **PwC**, Sinclair Knight Merz, **Urbis**.
- Multinationals: GE, **Google**.

*Current affiliates are shown in **bold**.*

Philanthropy and individual donors contribute about another 15 per cent of Grattan's running costs. Over a decade, this philanthropic support has been substantial:

- The **Myer Foundation** provided almost \$2 million over four years to support the Higher Education program. This was one of the Foundation's largest single programs. The Foundation has just agreed to provide \$50,000 for each of the next three years as untied support for core operations.

- The **Susan McKinnon Foundation** has committed more than \$1 million, and the **Scanlon Foundation** and **Cuffe Foundation** provide significant ongoing support.
- The **Origin Foundation** provided substantial support for a number of projects conducted by Grattan's School Education program.

More than 200 individuals donated to Grattan in 2017–18.

#### 3.2 Benefits and costs

Grattan's achievements over a decade are substantial. It is a highly successful institution that is routinely held up as a model for others to emulate.

Grattan has provided very high returns relative to expenditure on its original endowment and subsequent contributions.

Even if the original endowment of \$35 million had been entirely spent, Grattan would have provided an outstanding return on investment. At a little over \$300,000 each, Grattan reports would be outstanding value for money given their rigour and clarity. Most would have cost far more – and might well have delivered inferior results – if they had been commissioned from independent consultants. And Grattan's advocacy in both public and private has led to much more policy change than simply publishing reports.

## 4 Grattan's future

### 4.1 Research directions

Grattan has ambitious plans to use its proven model, and increasingly robust platform, to deepen its influence, and expand it to a growing group of policy issues. Grattan has mapped out an important research program for the next few years, as shown in the adjacent table.

### 4.2 Future resourcing

Grattan will increasingly depend on funding from donations and philanthropy. The experience of think tanks overseas, and of Grattan itself, suggests that this is likely to be the main source of future funding. Grattan will also continue to pursue more corporate support, although the experience of other organisations suggests that increases are likely to be modest.

Increasing these revenue sources would slow the speed at which Grattan is eating into its endowment. This endowment has provided the independence that is key to Grattan's success. Without further support, within the next few years Grattan will be forced to curtail its activities, or accept more tied funding that would compromise its independence.

With support, and its established track record and platform for success, Grattan can continue its independent rigorous and practical work to improve public policy in Australia.

Program	First half 2019	Second half 2019	Possible 2020
<b>Australian perspectives</b>	<ul style="list-style-type: none"> <li>Low-income housing</li> <li>Commonwealth Orange Book</li> </ul>	<ul style="list-style-type: none"> <li>Institutional gridlock</li> <li>Drawdown in retirement</li> </ul>	<ul style="list-style-type: none"> <li>Game-changers update</li> <li>Retirement age</li> </ul>
<b>Budget policy &amp; institutional reform</b>	<ul style="list-style-type: none"> <li>Inter-generational inequality</li> </ul>	<ul style="list-style-type: none"> <li>Unearned income tax</li> <li>Confuseopoly</li> </ul>	<ul style="list-style-type: none"> <li>Fiscal rules</li> <li>Public sector industrial relations</li> </ul>
<b>Energy</b>	<ul style="list-style-type: none"> <li>Network reliability</li> <li>Network pricing</li> </ul>	<ul style="list-style-type: none"> <li>Role of government</li> </ul>	<ul style="list-style-type: none"> <li>Governance structures</li> <li>Retail pricing</li> <li>Hydrogen economy</li> </ul>
<b>Health</b>	<ul style="list-style-type: none"> <li>Dental care</li> </ul>	<ul style="list-style-type: none"> <li>Private health insurance</li> <li>Aged care</li> </ul>	<ul style="list-style-type: none"> <li>Out-of-pocket costs</li> <li>Activity-based funding</li> <li>Primary Health Networks 2.0</li> </ul>
<b>Higher education</b>	<ul style="list-style-type: none"> <li>VET/university overlap</li> </ul>	<ul style="list-style-type: none"> <li>Household-income HELP repayments</li> </ul>	<ul style="list-style-type: none"> <li>Demand-driven system</li> </ul>
<b>School education</b>	<ul style="list-style-type: none"> <li>Attracting teachers</li> </ul>	<ul style="list-style-type: none"> <li>Master teachers/workforce reform</li> <li>Pathway for early childhood reform</li> </ul>	<ul style="list-style-type: none"> <li>Early childhood workforce</li> </ul>
<b>Transport &amp; cities</b>	<ul style="list-style-type: none"> <li>Congestion pricing</li> </ul>	<ul style="list-style-type: none"> <li>Density, zoning &amp; housing</li> </ul>	<ul style="list-style-type: none"> <li>Online commerce &amp; freight</li> <li>Road funding &amp; finance</li> </ul>

Note: Reports in orange have been published as of March 2019.