

**Third meeting of the Funding Commission  
29<sup>th</sup> July 2009 10.30am-4:30pm, NCVO**

**Attendees**

Rachel Lomax	Commission (Chair)
Dawn Austwick	Commission
Michael Brophy	Commission
Dinah Cox	Commission
Claire Dove	Commission
Stephen Dunmore	Commission
Toby Eccles	Commission
Fiona Ellis	Commission
Brian Horner	Commission
John Low	Commission
Stuart Etherington	NCVO
Belinda Pratten	NCVO
Dan Hale	NCVO
Toby Ganley	NCVO

**Apologies**

Paul Amadi	Commission
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**1. Welcome and update**

Rachel welcomed all attendees and explained the aim of the meeting: to work through the suite of draft proposals and for each one assess whether to consult on it, leave it out, or do further work to develop a clear position on it, as well as identifying any proposals that should be included but have been overlooked.

**2. Minutes and matters arising**

The minutes of the last meeting were agreed. There were no matters arising.

**3. Proposals**

**3.1 Boosting Local Effectiveness**

*Policy context and objectives*

A focus of the Commission's work is the need to boost the effectiveness of local voluntary action, including the work of both 'grassroots' organisations and national VCOs working locally. The aim is to increase the financial independence of voluntary and community organisations and increase the scope for independent voluntary action, particularly at a local level, by identifying appropriate funding and finance tools.

The context for the work is partly the expected decline in public sector funding following a decade of steady growth; but it also arises from a concern that this growth has led to an over-reliance on government funding, which has to some extent distorted priorities within the sector. Therefore there is a need to look at new mechanisms that will rebalance the relationship between the government and the VCS and give wider scope to the full range of voluntary action within civil society.

Proposals

Each idea in the draft suite of proposals was discussed and assessed.

### *Grow locally held and accessed endowments*

Community Foundations can be ideal examples of generic grantmaking at the local level and could be relevant to all three themes – they could boost local effectiveness by building locally held endowments; promote local giving; and build relationships with high-end donors and businesses locally. In some areas this role is undertaken by Councils for Voluntary Service (CVSs).

The Commission agreed that Community Foundations (CFs) would be a key focus for its work. However, at present they are not as efficient as they could be due to their relatively small scale. Expanding the scope of their activities could help to take them to the scale needed to become more efficient and effective.

There was some discussion about the potential role of government funding in relation to CFs. There was a strong concern that too great an emphasis on government funding would be a disincentive to private giving. It was agreed that CFs should not be used as vehicles to pursue or implement short-term public policy goals, eg by creating endowments for work on specific themes, but could be used to distribute short term grants or funds. Other options identified include: matched funding challenges to incentivise giving, with government matching funds raised from voluntary donations; diverting inheritance tax into Community Foundations; and leveraging in other unused local funding pools (such as locked Parish funds).

The Secretariat will:

- identify good practice in the UK and abroad and make recommendations to replicate such practice more widely;
- assess the options discussed by the Commission; and
- consider what other changes could be made to enhance Community Foundations in consultation with the Community Foundation Network.

### *Increase local ownership or management of community assets*

Community ownership of public assets can boost local effectiveness by allowing VCOs to save money on rent that could be spent on furthering their mission, or using the asset to leverage in more funding (eg through loan finance or letting out space to other organisations), and can be facilitated through asset transfer. It was agreed that care must be taken to ensure that assets do not become liabilities: asset transfer works best when accompanied by a funding stream or financial support package (eg an endowment) to support maintenance or re-fit of the asset.

In the coming weeks the Secretariat will critically assess the steps taken so far to promote and implement asset transfer, in light of the recommendations of the Quirk Review and will contact Barry Quirk to get his views on progress. The aim will be to identify what is needed to ensure transferred assets can be a sustainable resource for local organisations, boosting their effectiveness and resilience in the longer term and to encourage greater implementation of best practice.

### *Develop co-operative models within the VCS*

This proposal considers the potential to promote efficiency through greater use of co-operative models, rather than promoting a particular legal form. The Commission discussed how these models can be used to effectively mutualise risks and benefits in relation to, for example: treasury management (eg pooling of reserves); shared ownership of back office services or community assets; raising equity capital through community share issue; or facilitating service users to collectively commission or run services in response to the personalisation agenda.

The Secretariat will assess what utility these models have to further other objectives (such as making smarter use of assets), with a view to raising awareness of the range of legal forms available and the advantages that each has for different types of community action.

### *Special Giving Zones*

This proposal builds on a similar model in the US and aims to use tax incentives to stimulate charitable giving in disadvantaged areas. However, it was agreed that it would not be possible to replicate this model in the UK because the tax system is very different to that in the US. Therefore this recommendation would not be taken further.

### *Mandate banks to engage in local community reinvestment*

Community Reinvestment requires banks to provide appropriate financial services to disadvantaged communities. Again, existing work in this area draws from the US Community Reinvestment Act. It was agreed that there is a need to improve the financial security of poor communities, but this is not directly within the remit of the Commission. However, there was strong support for NCVO doing work in this area outside of the Commission.

### *Develop giving in kind from the private sector*

This proposal sought to identify ways of increasing the amount of support private companies give to the VCS: currently only 5% of income comes from the private sector. However, it was recognised that absorbing volunteers or managing pro-bono services can be costly to the organisation concerned and may be of limited benefit.

It is also the case that the relationship between the two sectors is changing, with a growth in sub-contracting and the potential for more joint-ventures and similar models. Therefore, the sector needs to be more ambitious and think less of what the private sector can do for them and more what they can bring to this relationship. The Commission recognised that there is a need to re-balance this relationship to allow VCOs to work with businesses as equal partners.

The Secretariat will:

- identify what capacity or infrastructure is needed to enable VCOs to recognise and articulate the full value they bring to their relationships with business;
- consider how we might take forward or build on the recommendations recently made by the Building Stronger Communities Task Force; and
- consider a recommendation to the Compact Commission (or Charity Commission) to issue detailed guidance on the relationship between the private sector and the VCS.

### *Resolve issues around the sharing of back-office functions and liabilities*

Sharing back office services can boost local effectiveness by creating efficiencies through increasing economies of scale and sharing risk. Cheaper professional IT support, for example, can free up money that could be used to deliver a VCO's mission or be re-invested in the organisation itself. Commissioners were able to identify a number of examples of good practice in this area. However, there are some practical barriers that exist. Firstly, the financial precariousness of VCOs and the uncertainty of future funding streams can make it more difficult for them to commit to a joint venture. Secondly, there remain issues around the charging of VAT which can make it less financially viable for organisations to share functions.

To take this further the secretariat will

- examine the need for, and availability of, pump priming money needed to get such ventures off the ground;

- consider the impact of EU and UK VAT regulations and make recommendations about how these barriers might be overcome; and
- model best practice and identify the learning from successful examples of sharing back office functions.

#### *Develop protocols for rationalisation and/or insolvency*

There is potential to boost local effectiveness through rationalisation if efficiencies can be gained, for example where there are several VCOs with very similar missions and organisational cultures delivering similar services in a similar area. However, there are both cultural and technical barriers to this, including the potential loss of brand name and how best to manage the liabilities of the potential partners (eg staff pensions).

It was agreed that the Secretariat would review the legal and regulatory guidance produced by the Charity Commission, and good practice advice developed by the sector, to inform any recommendations the Commission might make in this area.

#### *Develop hybrid housing associations as enterprise/social developers*

The key issue here is how well-capitalised organisations can share their assets and expertise to promote community action. Although many housing associations hold significant capital assets they may not always be the right vehicle in any particular area (eg their performance varies greatly and they are narrowly regulated). Moreover, this proposal is likely to be most effective if it relates to the most suitable VCO in any particular area, rather than focusing on one particular type of organisation, for example in some areas this might be a CVS or Community Land Trust. There are some issues to be overcome, as CapacityBuilders learned, including the willingness of existing VCOs to perform this type of role.

The Secretariat will identify examples of good practice and how this might be replicated elsewhere and will seek the views of organisations such as the Peabody Trust and National Housing Federation to identify possible developments that could lead to effective change.

#### *Build relationships with professional service providers*

The Commission recognised that many VCOs do not get best value from professional service providers, such as lawyers or accountants, partly because they are unaware of which providers might be more specifically suited to, and priced for, the sector and partly because of their lack of experience as 'clients'. It was agreed that there is a need to give trustees and others the support they need to be more discriminating clients, but this was perhaps more of a role for NCVO than for the Funding Commission.

#### *Adopt expenditure benchmarking*

Expenditure benchmarking was proposed as a way to highlight good value providers and best practice, force suppliers to be more competitive, encourage transparency and lower operating costs overall (eg by identifying where sector's expenses are and, therefore, where the biggest savings might be made). However, the Commission felt that the sector is already over-audited and this would represent an additional burden to already over-stretched VCOs.

For this reason the Commission agreed that the need to reduce the burden of regulation on the sector, in order to reduce costs, is a greater priority. However, it was again felt that this was a role for NCVO rather than the Commission.

Commissioners also discussed whether there is scope for organisations to join together to bulk purchase goods and services. However it was agreed that the incentives to support this are not strong enough to make this viable.

### *Develop rigorous methods for demonstrating social impact*

There is a lot of interest at the moment in how VCOs articulate and demonstrate their impact and there is already much work underway in this area, including work by NCVO, New Economics Foundation, Charities Evaluation Service, New Philanthropy Capital, and others, including some grantmakers. It was suggested that some organisations are unclear about what they need to do to and seek to highlight the positive aspects of their work, rather than provide an honest assessment of their work and manage expectations.

The Secretariat will critically review existing work in this area and consider what VCOs will need to be able to engage with this agenda in the short, medium and longer term.

### ***New proposal: Develop a new pricing model***

Commissioners identified a need to develop a new pricing model that would allow VCOs to accumulate reserves. VCOs could become more financially resilient if they based their pricing (and grant applications) on the full value of the service/project rather than how much it cost them to deliver. Although the concept of full cost recovery was useful when it was first introduced, there is a need to move away from a model that focuses only on the costs of inputs to a more outcome-based model that focuses on results; takes account of the need for working capital, including loans and equity; and recognises and addresses risks associated with a particular contract or programme.

A focus on price, rather than cost would put VCOs on a level playing field with private sector providers. Lessons can be learned from business about how to do this. The Secretariat will identify and assess alternative pricing models, drawing on any existing examples of best practice.

### *Public sector funding*

Although the Commission is not looking at government funding *per se*, it was suggested that the report should acknowledge that a decline in public spending and policies such as the personalisation of public services are having an impact on VCOs now: we need to connect with their current concerns if we are to engage them in a broader discussion about their longer term funding needs. For this reason we should acknowledge that government funding should continue to be an important part of a sustainable funding mix and identify some key principles for this funding including:

- the need to recognise that different funding mechanisms (eg grants, contracts or investment) are required to achieve different types of outcomes and for statutory funders to use the mechanisms most appropriate to their objectives;
- the need to protect local grants, and to devolve administration of central government grants to the regional or local level where appropriate, in order to promote innovation and build sustainability;
- the importance of good procurement practice, with a focus on price, rather than cost;
- the need for support for VCOs to enable them to respond effectively in a rapidly changing environment, eg the move towards more personalised services; and
- the need for greater consistency for government incentives and programmes, including tax incentives to support individual giving, philanthropy and community investment.

## **3.2 Capitalising the sector**

### *Policy context and objectives*

Although not every organisations needs to be well-capitalised, in general a stronger balance sheet would give VCOs the security and stability they need to: deliver their mission more effectively; be able to withstand the impact of changes to their external environment, such as the loss of a contract or economic recession; and become more independent and more able to innovate. However, this requires both VCOs and funders to change their expectations to enable an appropriate level of reserves to be built up. People within the sector will also need to have a greater understanding of revenue and investment income to enable their organisation to become more resilient.

One aim of the Commission's work in this area is therefore to make the case for VCOs to be better capitalised in order to increase their financial resilience and their ability to innovate.

### *Social Investment*

The Commission discussed a number of proposals that aim to increase the availability and accessibility of social investment as a means of promoting financial resilience. It was recognised that social investment will not immediately be of direct relevance to much of the sector – initially this may be limited to organisations with a strong focus on social enterprise. Moreover, the VCS needs to be sufficiently capitalised and investment ready to benefit from this type of investment. However, as the social investment market is developed and matures, there is potential for it to become more widely relevant, and for the benefits of any new funding streams that are attracted to be shared more broadly throughout the sector. It was therefore agreed that developing a social investment market would be part of the Commission's longer term vision.

To take this forward the Secretariat will work with Toby Eccles to:

- explain the current context of social investment, how it might develop, and how it might effect the sector and its component parts; and
- develop and draft a vision for a well-developed, mature, social investment market: what problems it might address, how, and for whom; what mechanisms are needed, how they will help; and what changes this might precipitate in the sector over the next decade.

### Proposals

It was agreed that the following proposals would be considered in this context:

- Create social stock exchange
- Reconsider legal structures and tax incentives
- Increase/mainstream/normalise/incentivise new financial instruments
- Government support for CDFIs
- Promote access to longer-term investments
- Encourage collaboration among financial suppliers
- Enhance appropriate and fit for purpose financial advice
- Promote investment readiness in the sector

Toby Eccles and Toby Ganley will meet on 14 August to begin work towards drafting a long term vision for social investment. They will also consider the relevance of social investment to the various parts of the sector (ie direct and follow-on effects of the development of a social investment market), and the importance of carefully communicating any social investment recommendations made by the Commission to ensure they are well-received by the sector.

### *Italian Banking Model for Nationalised Banks*

This proposal sought to lever a new source of funding into the sector as a way of increasing capital. However, the Commission agreed that this model was not directly relevant to the UK context and therefore this proposal would not be taken forward.

#### *Establish a School for Voluntary Sector Leadership*

The Commission agreed that there is a need to develop financial knowledge and skills within the sector, but a school for leadership is not the right vehicle for this. Any recommendations on capacity building need to take account of the lessons learned from the experience of ChangeUp and focus on influencing existing training and support, rather than establishing something new. There is a particular need to ensure that senior managers and trustees have a good understanding of finance. There was some discussion about how best to reach trustees and provide them with the support they need, for example, by working with groups such as the Charity Trustee Network.

It was recognised that generic infrastructure providers are often not good at providing the specific training on finance and funding that is needed: there is considerable variability in the quality of provision on the ground, particularly at a local level. However, there is considerable similarity between the needs of small businesses and the needs of VCOs in this area and therefore encouraging local CVSs to work more closely with Business Link could be an effective way of building skills within, and offering specific advice to the VCS.

The Secretariat will:

- work with NCVO's Sustainable Funding Team to identify potential tools and training at the national level; and
- work with NAVCA to identify existing local level tools and training and explore the potential for further collaboration with Business Link.

#### *Pursue mission-related investment (MRI)*

MRI could increase the capital held by the sector by diverting investments that are made outside the sector back into it. At present there is a lack of clarity about what MRI means, and a poor understanding of what the Charity Commission does and does not allow in terms of investment. Ultimately, the question of investment should be considered in relation to each organisation's mission – can your mission be better delivered by investing (in one way or another) or spending?

The Charity Commission is currently reviewing its guidance on mission related investment and social investment and there may be some scope for influencing this. The Secretariat will follow this up. A more robust social investment market may also increase opportunities for MRI.

### **Grantmaking**

#### *Launch a Chartered Institute of Grantmakers; Roll out London Funders-style funder fora*

Both proposals had been suggested as ways of enhancing relationships between grantmakers and recipients. It was agreed that good practice in this area should include: funding the full range of costs of projects (such as staff redundancies at the end of a 3-year project); basing funding decisions on the full value of the outcomes of a project rather than the cost to deliver it; and allowing recipients to keep any unspent funds at the end of a project to reward efficiency. However, there are few levers available to change the attitude and behaviour of independent grant makers.

### 3.3 Modernising giving

#### *Policy context and objectives*

Charitable donations are the main source of unrestricted income in the sector and are therefore crucial to the independence and resilience of VCOs. Yet levels of giving have not increased significantly in recent years. Currently it is regular donors making relatively modest donations that make up the overwhelming majority of people who give to charitable causes. Therefore increasing participation in giving, for example by establishing a social norm would bring significant benefits. Evidence from UK Giving 2008 suggests that there is also scope to increase giving amongst wealthy donors. The aims of the Commission's work in this area are to increase voluntary income to the sector, both by widening participation in giving and encouraging higher earners to give more; and to make giving more effective, for example by encouraging planned methods of giving and ensuring better take-up of tax reliefs.

#### Proposals

##### *Widen participation in and support for giving circles*

Encouraging participation in giving circles (community groups which exist to pool their charitable donations, research causes and organisations to target their investments) can modernise giving by leading donors to give more, to be more strategic in their giving, and to become more engaged in and knowledgeable about their communities. Evidence also suggests that donations from giving circles are more likely to be made to less popular causes and to local organisations.

The Commission identified tax as the biggest issue faced by giving circles in the UK – each participant needs to make their own tax arrangements even when they are all contributing to a single donation, which poses a significant administrative deterrent.

The Secretariat will investigate possible tax incentives, or ways to overcome existing disincentives, and how to best promote and support giving circles, including what infrastructure support might be required.

##### *Establish lifetime legacies*

Lifetime Legacies have the potential to modernise giving by allowing donors to make irrevocable gifts of shares, property or cash, to charities during their lifetimes while retaining the benefit of the income or use of the gifts for the term of their lives. This would allow VCOs to use promised gifts as part of their working capital or as security against finance for capital projects. It was agreed that there is broad political support for lifetime legacies. However, there are tax barriers that are limiting their up-take. The capital gains tax treatment of Charitable Remainder Trusts (the current vehicle for lifetime legacies in the UK) penalises their use as compared with a legacy.

The Secretariat will review existing work on lifetime legacies and identify whether the tax disincentive can be overcome.

##### *Promote salary sacrifice; payroll giving; uptake of Gift Aid*

The Commission recognised the existing campaign to reform Gift Aid and discussed the effectiveness of these three existing mechanisms (for both the donor and the recipient). It was agreed that they are effective but are not currently being used as much as they could. Barriers to greater uptake were identified, such as salary sacrifice and payroll giving not being transferable between employers; employers not being compelled to offer these to their staff; and Gift Aid being administratively burdensome.

It was agreed that the best way to take these proposals forward is to support existing work in the sector. NCVO is working with others to further these issues and will continue to do so. However, the Secretariat will review any existing research about payroll giving and salary sacrifice to identify any possible ways to increase uptake of these methods of regular, planned giving.

#### *Build giving into life events*

Building giving into life events is a way to normalise and mainstream charitable giving. Innovative ways to implement this proposal need to be based on a sound understanding of why people do and do not make charitable donations. It may be possible to link this to the previous proposal by building payroll giving into people's first full-time job, or building giving into the receipt of annual dividends or performance bonuses.

The Secretariat will review existing examples in consultation with CASS/CGAP and Beth Breeze, and consider whether any models can be developed or built on.

#### *Establish gifting accounts*

Gifting accounts represent a tax effective way to encourage and normalise charitable giving. This could link into building giving into life events, for example, if every student was given a free gifting account when they open their first student account. There are existing models that could be built on (eg CAF accounts). Issues faced include how to encourage high street banks to establish gifting accounts.

The Secretariat will review the product CAF currently offers and assess possible ways to encourage high street banks to develop similar products.

#### *Maximise the benefits of technology*

There is great potential to modernise giving and reduce the transaction costs by maximising the benefits of technology (eg e-bay's mission fish, pennies from heaven, and Kiva). Commissioners discussed a number of ways of using technology, ideas include: a competition to develop new mechanisms; encouraging technology businesses to develop or adopt systems as part of their corporate social responsibility; and developing a system to allow gifting from Oyster Cards (although this would only be an option in London). However, potential benefits need to be weighed against the costs, particularly capital costs to develop or adapt technologies.

The Secretariat will assess whether any of these ideas could be taken forward by the Funding Commission.

#### *Work with professional advisors to increase fundraising abilities*

The Commission decided not to take this proposal forward, but agreed that lowering the cost of fundraising has potential as a way to increase the value of charitable donations. There are links to maximising the benefits of technology, and developing tax effective means of giving (to reduce transaction costs).

The Secretariat will identify ways that other proposals might help to reduce the cost of fundraising.

#### **4. Next steps**

The next step in the project plan is to consult on the proposals that the Commission has identified. It is important to note that 'consultation' needs to be Compact-compliant (ie needs to run for three months). There is work to do on all the proposals before they could be taken

out for formal consultation. However, some of the proposals are close to ready to be consulted on. Therefore, the Commission agreed to a staged consultation approach, where proposals can be presented on the NCVO website for feedback as they are ready, while targeted consultation takes place via meetings with experts on particular proposals and presentations at events to encourage feedback and buy-in.

During this phase of the Commission's work, Commissioners can act as ambassadors for the Commission and its draft proposals (including attending events on behalf of the Commission), provide quality assurance, and help to develop proposals where capacity allows.

The remaining scheduled meetings of the Commission were discussed, with the following results:

- 15 October: 4th Funding Commission meeting
  - agree draft proposals
  - walk through outline of the report
- 26 November: 5th Funding Commission meeting
  - discuss draft report

It was agreed that there would be a 6<sup>th</sup> meeting of the Commission in January to agree the final report

The aim is to issue the report in February 2010.

## **5. Action points**

The Secretariat will follow up the edited list of proposals as shown in the attached table. This action has been described throughout the minutes (at the end of the discussion of each proposal), and is summarised in the table attached.

Toby Ganley  
Policy Officer, NCVO  
toby.ganley@ncvo-vol.org.uk