

## **Funding Commission Paper for Meeting 3**

### **Introduction and background**

The Funding Commission has been convened by NCVO to consider the future funding challenges and opportunities for voluntary and community organisations (VCOs) in the next decade. It has been looking at how VCOs can make best use of existing resources; what new skills, resources or mechanisms might be needed; and whether any new sources of funding can be developed. Priorities identified by the Commission thus far are the need to: boost local effectiveness; capitalise the sector; and modernise giving. This paper outlines proposals to address these themes for the Commission to discuss and agree which of these should form the basis for consultation with NCVO members and other voluntary and community organisations in the autumn.

The Commission's work is taking place at a critical time for the sector, as a sustained period of growth in income draws to a close. The total income of general charities has risen steadily since 1991, and particularly since the turn of the century<sup>1</sup>. Yet even before the current economic crisis it was apparent that the voluntary and community sector (VCS) would be facing a tighter funding climate; that it would be hard to maintain the relatively high levels of funding that the VCS has grown accustomed to over the last decade; and that it would be particularly difficult to raise funds for activity not connected to the delivery of public services.

This steady rise in income partly reflects the greater significance of government funding, particularly in the form of contracts to deliver public services: in 2006/7 general charities received £7.8 billion in contract funding from statutory sources, a 9.8% increase on the previous year. While this is a welcome recognition of the contribution that the VCS can and does make to public service delivery, it has 'unbalanced' the sector, drawing attention and resources away from its wider contribution to civil society.

The picture of income growth is also a partial one, as resources are concentrated in the largest charities: 411 charities control 42.8% of the sector's resources. In recent years most organisations have experienced high levels of income volatility and uncertainty. This makes financial – and strategic – planning more difficult; it means that resources are used less effectively; and it creates problems of sustainability which has a detrimental impact on the people and communities these organisations work with and for. The economic recession intensifies these pressures and creates greater uncertainty and instability for the sector.

The Commission's focus is therefore on the sector's long term needs and not simply a response to the current situation. The recession sharpens the focus, but it also throws into greater relief why independent voluntary action is so essential to our society.

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<sup>1</sup> Between 2000-01 and 2006-07 the sector's income rose on average by 5.4%, equivalent to growth of almost £1.5 billion a year (The UK Civil Society Almanac, 2009)

The challenges that will face us in the coming decade, from climate change to community cohesion, will have a particular impact on the lives of the most vulnerable and disadvantaged. Responding to this will require a greater focus on local-level solutions to rebuild communities and institutions from the bottom-up. That is not a task for government or the market alone; it also requires an active and vibrant civil society; a financially secure and sustainable VCS is a key element of this. For this reason there is a real need to:

- rebalance the relationship between all three sectors, to ensure that there is space for civil society, and for independent voluntary action within it, to flourish;
- rebalance the VCS itself, providing support for a diversity of organisations and activities, particularly at a local level; and
- identify models of funding the VCS in ways that strengthen its independence; resilience and sustainability.

The financial security and sustainability of VCOs and other civil society organisations is essential to the health and resilience of the people and communities they work with and for. That is why the work of the Funding Commission is so important, not for the sector's sake, but because of the positive difference that it makes to people's lives. The proposals outlined below aim to give practical effect to these key principles. In doing so we seek to increase the scope for independent voluntary action, particularly at a local level, and to promote sustainable development in order to enhance the social, economic and environmental well-being of communities.

## **Boosting local effectiveness**

### **Current context**

The voluntary and community sector is facing a colder financial climate. Future public spending rounds will be much tighter, with high levels of competition between organisations and sectors for funds and greater emphasis given to short term efficiency gains and economies of scale. Income streams are likely to be more volatile, leading to even greater pressure to diversify sources of funding and to save costs as well as to generate income. Coming after the longest period of economic growth for many decades, and the more recent experience of relatively high levels of government support for and investment in the VCS, organisations may have little experience of, or expertise in managing such uncertainty.

The impact of this will be felt mostly keenly by small and medium sized organisations operating at a local level which are currently most dependent on government funding in the form of contracts and, to a much lesser extent, grants. These organisations are facing considerable challenges as they struggle to meet higher levels of demand for their services with diminishing resources.

### **Problems faced**

VCOs are reliant on turbulent sources of funding – statutory grant income is diminishing at the same time as strong growth is evidenced from statutory contracting. This is likely to be the main driver of growth over the next decade. This particularly affects medium-sized organisations which are most reliant on these sources of government funding. The shift from grants to contracts also decreases the scope for independent action and innovation and drives competitiveness.

The sector's lack of capital foundation in terms of fixed assets and reserves stems from the limited financial investments organisations make in themselves and the project-funded nature of much of the sector's work. This lack of foundation puts the sector in an increasingly precarious collective position. Investment from new sources both in the short and long term needs to be encouraged in order to shore up the sector and boost its resilience.

Individual and corporate giving is expected to increase the dominance of brand-name charities. But fundraising requires both time and resources to be invested. Smaller organisations often do not have the capacity in terms of time and skills to ensure that rather than losing out, they secure support and thrive.

The recession has intensified much of this uncertainty. The short-termism seen in the sector needs to give way to a norm of long-term thinking, of strategic planning, collaboration and development.

### **Proposals for change**

A central theme of the Commission's work is the need to boost the effectiveness of organisations working at a local level. This has been a consideration throughout our work, and runs through the other two main themes (capitalising the sector and modernising giving), which are examined in their own sections. This section, therefore, will also suggest proposals relating to the themes of capitalising and giving

with specific relevance to the local. It is important to realise that for proposals to gain real and lasting traction VCOs will need to develop practices and cultures which will help them to become competitive, modern and accountable.

The following proposals are designed to:

- increase the level of capital (financial and fixed) held at a local level
- create better Government incentives for community investment
- enhance private sector support for local voluntary action; and
- maximise effectiveness through better collaboration between VCOs.

## **Increasing the level of capital**

### ***Grow locally held and accessed endowments***

Models of locally held and accessed endowments exist in the form of **Community Foundations** which can be used to support local VCOs. Community Foundations are particularly good at raising money from local individuals and businesses: skills and capacity that can be in short supply in front-line organisations.

Taking Community Foundations to scale by building endowments of cash, land and property with ownership resting with community could be achieved by developing tax breaks for Community Foundations or a more general promotion of their work.

Another way to endow Community Foundations could be through the use of a voluntary percentage of Council Tax receipts. However, both tax breaks and Council Tax changes could be potentially difficult and there is variability within the 57 Community Foundations. Mandatory taxation and voluntary giving might not mix well.

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

Asset transfer refers to the transfer of fixed public assets (usually buildings) to VCOs. This can radically improve the strength, resilience, and sustainability of VCOs by allowing them to avoid paying expensive rent, generate income, and leverage more financial capital.

Since 2002, there has been a lot of attention paid to issues relating to the transfer of public assets to the VCS. This includes research and publications from DTA, JRF, DCLG, and the Quirk Review. Following the Quirk Review of 2007, it is important to recognise the costs of asset management and to ensure that any sale or transfer of public assets to community ownership can realise social or community benefits without risking wider public interest or being overly burdensome.

There are, of course, a variety of risks and other issues. Included among these are: poorly maintained assets becoming liabilities; high costs of asset management; high costs of re-fit to ensure buildings are fit for purpose; risk aversion from Local Authorities that are unwilling to release assets. However, while there are risks, they can be minimised and managed – a more business-like approach from the public and community sectors can help. The overall conclusion of the Quirk review was that there is no impediment to asset transfer that can't be managed.

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

Co-operative forms, which exist for either the benefit of their members or the community, are under-represented in the voluntary and community sector even though they provide a workable alternative to standard charitable constitution. Co-operative forms privilege a set of other values and principles as well as a democratic decision-making structure. Co-operative models of partnership may have a great deal of potential to translate well to the VCS.

Co-operatives, in their Industrial and Provident Society form, also allow individuals and groups to come together to offer share issues which can be used in conjunction with, for example, asset transfer programmes. Although only small numbers of societies have turned to community investment as a source of capital, renting capital in this way is more flexible than taking loans, especially if there are too few profits to repay conventional loans.

This "latent financial power of communities" has yet to reach its potential: the £2 million raised via community investment is poor compared to the £569 million raised via CDFIs more generally. Those organisations with reasonably clear income streams seem to dominate. Co-operation with other organisations locally may enhance self-determination and independence. Paradoxically, in order for small VCOs to maintain their scale, scaling up via partnership with likeminded organisations may become important as part of a new mutualism at community level. Issues around advice and taxation will need to be considered for these forms to achieve scale in the VCS.

### **Government incentives**

#### ***Develop Community Investment Zones***

Community Investment Zones are similar to other kinds of geographical areas which enjoy preferential taxation and public spending regimes. In this case, central government could delineate an area within which local community groups, locally-based charities and social enterprises would receive a variety of benefits as would those individuals and organisations investing and giving into them. An example of this exists in the US state-level "Neighborhood Assistance Act" which incentivises (via tax credits) charitable giving/ investment to low income communities. While tax breaks may be difficult to organise in the current climate, the Tories like this idea in principle.

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

Community Reinvestment is the term used to describe the process of banks coming back into underprivileged communities and offering services which are more appropriate to the circumstances of the people who live nearby. To make this work, central government and banks would have to work together to identify the circumstances under which a bank would reinvest and also in order to innovate the kinds of products necessary. The Urban Forum is spearheading the campaign in this area, drawing from Community Reinvestment Act in USA which addressed the emergence of banking deserts in poor areas. Problems exist, however, as Government has not used bailed out banks as a vehicle for macroeconomic policy so it seems unlikely that they will do so for public policy. The thriving credit union

movement exists in these areas and any moves by large banks to move into these tight markets might lead to a threat to established community financing.

### **Private sector support**

A **closer relationship with the private sector** will also help to build the resilience of locally based VCOs.

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

There is a wide-spread perception that corporates can't give away money because of obligations to their share-holders. One way around this, and to create a valuable norm of corporate giving, is to encourage corporates to give 'in kind'. This could include encouraging their staff to participate in highly-skilled volunteering, or providing an amount of pro-bono work for the sector. There are particularly strong examples where firms have engaged for a long time to the mutual advantage of them and the third sector/ local community. This can also form an important part of establishing or developing a fundraising relationship between a VCO and a private business. There are existing intermediaries (such as ProHelp, set up by BiTC) but these schemes have not found the scale needed to bring skills wholesale into the VCS.

### **What the sector can do**

Organisations in the sector must seek efficiencies wherever they can by renewing existing relationships and developing new ones. Freed from issues of commercial sensitivity, the sector must be up front about what it spends on services and ensure it uses its size and strength to get value for its money. Finally, the sector must invest in its own resilience and develop a mature attitude to levels of reserves and the uses to which they are put. The following proposals develop this thinking further:

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

Creating efficiencies by cutting down the amount of duplicated bureaucracy within smaller VCOs will enable more money to be spent on front-line work. Creating new organisations to provide a range of back office functions (e.g. pay-roll, IT support, HR) may not be the most effective way of proceeding, and enhancing the role of larger and/or infrastructure organisations may work better. There are models of best-practice to build on, especially where larger organisations provide these services e.g. BTCV providing back-office functions to smaller environmental charities. There will be some cultural attitudes to overcome within the VCS in order to promote this model of practice as well as some changes to VAT regulations and the need to support bigger organisations to help them to maximise the benefit they can provide to smaller VCOs.

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

Where organisations fulfil the same function locally or have reached the end of their lifespan it can be problematic to rationalise or cease operations. Changes in charity law to solve difficulties around gifts and legacies, pay, pensions and governance would make it easier for charities to rationalise or become insolvent. In these more challenging economic times, off-the-shelf protocols might be useful and provide savings. There are still issues around the attitude of VCO leadership which limit

these kinds of solutions, but recent examples of keeping brands and merging the operations of charities for mutual benefit show that these approaches can work, though there is anecdotal evidence that many organisations would prefer to wind up operations than merge.

***Develop 'hybrid Housing Associations' as enterprise/ social developers***

Housing Associations are well-capitalised third sector organisations which can be found at a neighbourhood level throughout England. Housing Associations could work more closely with community groups, micro and small VCOs, and social entrepreneurs to provide space at a local level that can help to support organisations which are at risk due to their size. Possibilities might include adapting co-operative models of shared ownership with associations as a major partner: Ealing has a good example. Problems exist around to how associations see their roles and a lack of clear revenue streams which could also make this difficult.

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

Auditors and others providing professional services to the sector can be both expensive and difficult to work with. One way to lift the performance of these (and other professional) service providers and ensure value for money would be to create a 'league table' of the best to be published annually in Charity Finance or Third Sector in the same way that there are annual 'best employers' lists in Sunday supplements. Demonstrating the size of the market from VCOs to these professions, recognising the specific needs the sector has, and 'naming and shaming' those that provide a poor service could build relationships between good providers and stop the sector being ripped off.

***Adopt expenditure benchmarking***

Getting VCOs of all sizes to 'go public' about the amounts they spend on essential outlays such as heating, light, travel, insurance etc. and who provides these services would highlight good value providers and could lower operating costs overall. Being more open about these costs could force suppliers to be more competitive and counter organisational inertia. Possibilities of host partners which already have infrastructure to build from include the online charity comparison website Intelligent Giving. There may be problems around revealing sensitive information and a poor level of donor or press education around what is acceptable for organisations to spend on essential services.

## **Capitalising the Sector**

### **Current context**

The sector is poorly balanced. One third of the sector's assets are held by just 54 organisations; four charities own 20% of the sector's assets. There has been significant growth in earned income over the last decade but there has not been comparable growth in the level of fixed or financial assets held by the sector. While there has been some recent growth in assets, liabilities of charities have also grown. Overcapitalisation can also carry risks.

Social investment broadly-writ has received significant attention over the last few years, e.g. the Social Investment Taskforce, set up in 2000; and the Commission on Unclaimed Assets, set up in 2005. While this attention is good news for some parts of the sector, the evolution of the market has been fairly limited and investment income has remained roughly static in absolute terms over the last six years. Social investment has received significant support from both of the main political parties, for example, the potential for using money from dormant bank and building society accounts to fund the development of a Social Investment Bank. Central government's current consultation on a Social Investment Wholesale Bank is evidence of its recognition of the under-capitalisation of the sector.

### **Problems faced**

The VCS is chronically under capitalised. Nearly 1 in 4 micro and small organisations have recently experienced significant volatility problems. 57% of general charities do not have enough funds to cover twelve months of expenditure. This includes tangible fixed assets (free reserve levels will be lower, so this figure underestimates the proportion of organisations with insufficient resources to cover a fall in income).

It is difficult for VCOs to build endowments and grow investments and assets. Difficulties faced include expensive rent, the impact high rent has on the ability to expand, difficulties accessing capital funding for building maintenance and refurbishment, assets that become liabilities, and perceptions (of funders, beneficiaries and organisations themselves) about building reserves.

Cultural issues in the sector also stymie the development of innovative ways to overcome the lack of capital assets: financial risk aversion, with VCOs/ trustees apprehensive of borrowing money for fear of personal liability; suppliers perceiving VCOs to be higher risk than they actually are; and under-developed financial literacy, with VCOs unable to identify their financial needs or understand solutions presented by different products are all factors.

Having poor access to both fixed and financial capital leaves the sector vulnerable to changes in economic and social circumstances, and changes in government policy; means a limited ability for many VCOs to respond to staff absences, changes to contracts, increased demand for their services; and, ultimately, threatens the sector's ability to achieve social impact.

## **Proposals for change**

Previous proposals that aim to increase the level of capital available to, and investment in communities are part of a wider set of proposals to capitalise the VCS.

In addition there is a need to:

- create and embed sustainable financial instruments at the service of the sector; and
- enhance relationships with financial suppliers

These need to promote the resilience and independence of the sector. The sector itself needs to be ready to receive this kind of money which brings with it the need for culture change and the need to think differently about what organisations' missions are and the best way to carry them out. To this end, the following proposals are made.

### **Creating and embedding sustainable social investment**

#### ***Pursue Italian banking model for nationalised banks***

Rather than selling shares on the open market, create legislation providing for the banks to be 'owned' by foundations (see paper by Fiona Ellis). Broadly this proposal requires consideration to be given to any lessons that can be learned from the Italian/Spanish/New Zealand contexts, and developed to work in the UK context. This would, of course, require action from government. Given that government has not used bailed out banks as a vehicle for macroeconomic policy it may be unlikely that they would do so for public policy.

#### ***Create social stock exchange***

A stock market for social enterprise could improve access to finance, particularly equity capital. It would provide an avenue to link social enterprises with ethical investors. There has been work done, particularly research by CAF/nef in relation to this proposal. For this proposal to be implemented it would require FSA and regulatory approval. This proposal obviously has limited appeal/applicability for much of the sector. Even those VCOs for which it was relevant would need to be investment ready to be able to take advantage of such a development. Further, the Social Investment Wholesale Bank that OTS is currently consulting on may fill the gap.

#### ***Reconsider legal structures and tax incentives***

There is potential for development of legal structures and tax incentives, such as enterprise investment schemes, venture capital trust structures and inheritance tax relief. Such developments could form part of a broader programme to enhance investment readiness in the sector, which could allow some VCOs to take greater advantage of other proposals or developments such as the government's proposed Social Investment Wholesale Bank. Any developments in this direction would require activity from government. Given ongoing issues with the new Charitable Incorporated Organisation structure, there may be little appetite (particularly from government) to consider developing any new structures.

### ***Increase/mainstream/normalise/incentivise social investment bonds***

Social Investment Bonds allow capital to be used for social benefit in a tax efficient and secure way. Existing models (such as Citylife) create social bond offers in which once closed, 80% is loaned at a commercial rate and 20% is given as tax exempt grant funding to charities. After a set period of time (often 5 years) the loan is repaid with interest, allowing bond holders to cash in their bonds if they choose. Although investors do not receive a financial return on their investment, they keep the asset on their books, and get the investment back. Rather than an alternative to investing, these vehicles can be considered an alternative to donating, whereby a business, for example, can demonstrate CSR and do real good in the community with a zero-sum fiscal impact.

To achieve any progress in this direction would require activity from government to provide similar tax incentives as those available for other funding mechanisms, like tax rebates on investments of 3% per annum bringing them in line with the 5% CITR adjusted for risk. Again, this proposal will only be relevant to a particular sub-section of the sector, and even those organisations that can benefit will need to be investment ready.

### ***Government support for CDFIs***

Community Development Finance Institutions (CDFIs) exist to provide financial instruments for social, economic and physical renewal in under-invested communities. They lend and invest in deprived areas and underserved markets that cannot access mainstream finance. They aspire to be sustainable, independent organisations that provide financial services with two aims: to generate social and financial returns. There is potential for CDFIs to strengthen the sector and contribute to its fiscal resilience, with the right support. Work would need to be undertaken to identify the gaps in the market and what can be done to fill them.

### ***Promote access to longer-term investments***

Longer-term investments offer better financial security to the sector and, therefore, increase the ability of VCOs to deliver on their missions. There are some good examples of needs-led financing in the sector which offer ways forward (e.g. Triodos lending over a 25 year period). Modelling best practice is one way to encourage development in this direction. There may also be opportunities to mainstream/normalise this approach through the government's current round of consultation on the proposed Social Investment Wholesale Bank. Again, this is likely to only be relevant to those parts of the sector that consider loan finance relevant. However, in general, it would be fair to say that if the sector was more confident in its supply of funding over the long term, it would be able to put more energy into delivering the good that it exists to do, and less on finding ways to cope with lumpy funding streams.

### ***Encourage collaboration among financial suppliers***

There are efficiencies to be gained through greater collaboration among the suppliers of social finance, such as increased co-investment and pooled funds, information and knowledge, the development of a 'common language', and establishing and encouraging use of best practice. This could help the sector by embedding best practice and reducing onerous reporting etc. There are barriers to

achieving developments in this direction, particularly in a competitive market place. Levers may be hard to find.

***Enhance appropriate and fit for purpose financial advice***

The provision of business advice of high quality that is appropriate to the diverse needs of the sector could create efficiencies particularly for VCOs with limited financial capacity. This could include promoting 'investment readiness' in organisations via increased financial literacy; pro bono work; training; and encouraging high-skill volunteering. There are examples of these functions being provided, however, an overall increase in sector-specific advice could provide benefits. Interestingly, the government has included provision of advice as one of the possible functions a Social Investment Wholesale Bank could perform. This could go some way towards enhancing appropriate advice available to the sector.

**Promote investment-readiness in the sector.**

The sector must have appropriate governance structures, innovating new ones where necessary to reduce burdens but promote independence. The sector must invest in a new generation of forward-thinking and effective leadership; the professionalisation of the sector must work for the sector. Against a backdrop of tightening budgets and enhanced accountability, the sector must be able to demonstrate its effectiveness in new and novel ways. The following proposals develop this thinking further:

***Establish a school for voluntary sector leadership***

The idea for a school for voluntary sector leadership emerged from the NCVO member consultation. It responds to a perceived patchiness in support for VCOs and the need to upskill those running small organisations, overcoming the gulf between an individuals' baseline knowledge and the specialist Masters degree in voluntary sector management offered by Cass Business School and others. This lacuna could be overcome by establishing a low-cost distance-learning training institution that could provide skills in fundraising, grant writing, strategic planning and diversifying funding streams, finding corporate sponsorship and grants, audit trailing, governance and financial management. The possibilities exist to partner with an existing educational provider.

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

Voluntary and community sector organisations are under increasing pressure to demonstrate the outcomes they provide, not merely their outputs. There is a need to develop more rigorous reporting practices that are appropriate to the sector; stand up to scrutiny; and enable organisations to demonstrate and articulate their full value. In particular there is a need to focus on outcomes that are not solely based on market models or economic growth but which help to secure individual and social well-being. This will help to ensure continued investment by public, private and voluntary sector funders. Developing a rigorous methodology was highlighted in the final report of the External Evaluation of the Adventure Capital Fund as an area that requires further work and will become more important as competition for scarce resources heightens. Organisations working in this field include NCVO and nef.

### ***Pursue mission-related investment***

Mission-related investment can mean one of two things. Firstly, it can mean the investment of capital funds by a capitalised organisation into organisations which share the same aims. An example might be a trust which invests into a social enterprise for a defined period expecting its money back. A second meaning might just be a 'do no harm' investment strategy where a charity might invest in ethical pensions and savings which do not run counter to broader social objectives. The first option can be very costly for organisations and the second can inhibit the financial returns gained by organisations. The second type of mission-related investment is permitted by the Charity Commission, against the predominant understandings of the sector. Feedback suggests that, while MRI might release funds into the sector, this may be a red herring.

## **Modernising Giving**

### **Current context**

Charitable donations can be made by private individuals, businesses, and trusts and foundations. Charitable giving can create, and be demonstrative of, a relationship between the donor and the recipient. Evidence suggests that these relationships lead donors to become more engaged in their communities of interest. Income from charitable giving is also an important source of unrestricted income, which VCOs can use to finance their core business expenses, cover staff vacancies (maternity leave etc), and so on.

Research from the USA indicates that philanthropy is traditionally affected by economic conditions, but that donations do not tend to decline by as much as market contractions. However, more recent research indicates that most wealthy philanthropists have not reduced their giving to charity despite the recession, and while 23% of those surveyed had reined in giving, 26 % had given more. High-end donors (philanthropists) make a significant contribution to the sector, in gross terms. There were 193 charitable donations of £1 million or more in 2006/07, with a combined value of £1.618 billion, which accounts for 4.3% of total income of general charities. However, over half (56%) of these donations did not go directly to causes and beneficiaries, but were 'banked' in tax-efficient charitable trusts and foundations, for distribution at a later date. With rare exceptions, donors only give £1 million pounds or more if they are asked to do so. To this extent, million pound donations depend upon the 'demand' of charities, as much as the 'supply' of donors (which makes the growth of this type of giving an issue related to fundraising).

There are broadly three different types of individual giving: regular, small donations (eg pay-roll giving or 'embedded' giving); high-end philanthrocapital donations; and, one-off (non-high-end) donations to emergency appeals etc. Within this context, NCVO is to launch a giving campaign that will be focused on how to maximise the number of donors.

### **Problems faced**

Growth in income from the public sector, earned through the delivery of public services has led to unbalanced growth in the sector and a closeness to government that can threaten independence. However, evidence suggests that neither the number of individual donors, nor the amount given through charitable donations, have increased much in recent years. Latest available data suggests that just over half of adults in the UK give each month, the median gift is £11. Approximately 8% of adults in the UK give £100 or more per month, which accounts for more than half of the gifted income. Like incomes earned through the delivery of public services, gifted income is also very unevenly distributed – 2.2% of charities that have an annual income of more than £1 million receive 83% of individual donations and 91% of legacy income.

We also know that income from the private sector accounts for just 5% of VCS income. Therefore, there is great potential to both re-balance the sector and increase its fiscal resilience more generally through an increase in the culture of giving in the UK. For example, figures suggest that if people gave 1% of their income, £2-3bn would be raised.

## **Proposals for change**

To encourage an increase in charitable giving, it is useful to think about ways to 'normalise' or mainstream a culture of giving, as well as promote technical changes that may serve as incentives to encourage more donors/donations. We consider that there is potential to increase both the numbers of donors and the net worth of donations, and that this would contribute to the health and vitality of civil society by both increasing its fiscal security and the levels of social engagement of individuals and businesses in VCOs.

In developing these proposals the aim has been to build the resilience of VCOs, particularly at a local level, by creating strategies for sustainable giving and increasing the number and size of charitable donations that are made to local level groups. Outlined below are proposals that seek to:

- Maximise opportunities for giving, to widen and sustain support for VCOs;
- maximise effectiveness, eg through the use of new technologies;
- increase fundraising raising skills; and
- enhance giving from charitable foundations and trusts.

## **Maximising opportunity**

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

Giving circles can be understood as a variety of community philanthropy and are community groups which exist to pool their giving and research a number of organisations to which they target their investments. Popular in the US, giving circles are less common in the UK. Evidence from the United States suggests that participating in giving circles encourages donors to give more, to be more strategic, 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, which typically struggle to attract charitable donations (eg organisations serving women and girls, ethnic and minority groups, and for arts, culture and ethnic awareness), and that donations are more likely to be made to local groups. Support for giving circles could be provided by Community Foundations in terms of donor education and a central place to put funds. Building giving circles into the Giving Campaign might be an appropriate starting point for building their profile.

### ***Establish lifetime legacies***

Charitable Remainder Trusts (CRTs) or Lifetime Legacies are planned giving vehicles that allow a donor to make an irrevocable gift to a charity during their lifetime of shares, property or cash, while retaining the benefit of the income or use of the gift for the term of their life. Lifetime Legacies have the potential to enhance the fiscal resilience and independence of VCOs by allowing them to use the promised gifts as part of their working capital or as security against finance for capital projects.

While CRTs can be established in the UK at present, their tax treatment does not recognise the irrevocable commitment of resources to charity that they entail; nor is there any incentive. In particular, the capital gains tax treatment of CRTs penalises their use as compared with a legacy. Placing CRTs in the same position as legacies would materially enhance planned charitable giving without, over an extended period of time, resulting in a significant loss of revenue since it is merely bringing forward the capital gains tax relief rather than introducing a new relief. This could be further incentivised by a deduction against income tax. These changes would require some action from central government. Government interest is evident – HM Treasury currently hosts a working group on lifetime legacies, which we are trying to get information about.

### ***Promote salary sacrifice, payroll giving and uptake of Gift Aid***

There is a range of existing mechanisms that have been designed to facilitate individual charitable giving (eg payroll giving and Gift Aid), which for various reasons have not been fully effective. Equally, there are a number of suggestions that have already been developed and made to maximise the potential of these existing mechanisms, and there is already a number of groups working on a number of suggestions to enhance these (e.g. Gift Aid opt-out campaign).

Maximising the potential of these existing mechanisms could attract new donors and make existing donations go further, which would strengthen the resilience of the sector. The Funding Commission could potentially provide support or weight to existing groups or campaigns, which may help existing ideas to get leverage. There are considerations, particularly around any ideas that appear to carry a cost to government. It is also apparent that HM Treasury is doing some work towards making adjustments to Gift Aid.

### ***Build giving into life events***

At present death is the only 'life event' that has a clear link to giving via legacies. There is potential to link giving to a range of other life events (births, marriages, etc). For example, people could be encouraged to begin to donate when they get their first full-time job, or when their income first takes them into the highest tax bracket. Linking giving to life events like this would help to normalise giving, and encourage more people to make charitable donations, thus increasing the level of unrestricted funding to the sector.

## **Maximising Effectiveness**

### ***Establish gifting accounts***

Gifting accounts are like savings accounts but for making charitable donations. Once set up they can simplify issues around Gift Aid and tax for donors. Gifting accounts would make it more attractive to give and make donations go further (by simplifying tax/Gift Aid etc). In addition, if each new customer of a high street bank was given a free gifting account it would help to mainstream giving in the UK. There are some similar models (e.g. CAF) to work/learn from, but ultimately the highest impact would be achieved if high street banks offered such accounts.

### ***Maximise benefits of technology***

There are various ways that VCOs might be able to leverage more charitable donations through innovative uptake and use of new technologies. One way that we see as carrying great potential is a technological advance to allow 'micro-donations' (e.g. £1) to be made from Oyster cards. Fixed card readers could be located at various locations throughout the city (e.g. outside charity shops), or be carried by mobile fundraisers much as they currently carry buckets for people to donate their loose change. Collecting small donations via Oyster card readers could attract people who are not currently giving (e.g. because they don't carry cash).

Increasing the number of people who give can both increase the funding available to the sector and increase the levels of engagement individuals have with civil society. There may be interest from government – DCMS recently proposed a 'gift aid card', which was compared to an Oyster card. Barclays would be a potential partner as they are producing credit cards that are also Oyster cards. There are other models of 'embedded philanthropy' such as EBay for charities and Community Foundations giving micro organisations an opportunity to collect funds online.

### **Upskilling the sector's fundraising abilities**

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

The sector's ability to attract donations is related fundamentally to its capacity to seek funds. We know, for example, that with few exceptions people only donate £1 million or more if they are asked to do so. Therefore, there is great potential for the sector to attract more funds (and larger donations) if there were an increase in fundraising capacity. Fundraising capacity could be increased through closer working relationships with professionals who provide services to the sector. This could be implemented in a number of ways including secondments or reciprocal skill sharing arrangements. There are few levers to give this proposal teeth. However, there may be opportunities to start by modelling CSR best practice and building relationships with leading companies or social enterprises.

### **An enhanced role for grant makers**

#### ***Promote Lead Funder model***

Grant recipients often complain about what they perceive as onerous reporting requirements. This can be exacerbated when they are receiving funds from multiple sources for what they perceive as the same project. The reporting itself can be costly and limit an organisation's ability to deliver its mission, as can the frustration that is felt. The lead funder model would use a pre-agreed framework to allow organisations that receive funding from multiple sources for one project to report back to just one organisation in relation to that project. This would create efficiencies at the VCO end, which would allow them to use those energies in pursuit of their mission, rather than reporting to funders. This would require modelling and promotion of appropriate reporting frameworks, or the promotion of greater meaningful collaboration between grant makers so they could agree a model that suits all parties. Some guidelines could be helpful. Variations of this proposal have been made for a long time by various parties (e.g. NPC). There may be an extent to which if there was a solution it would have been found and implemented/taken-up by now.

### ***Launch a Chartered Institute of Grantmakers***

Establish a professional qualification in grantmaking and a Chartered Institute of Grantmakers. This could help to develop and disseminate models of good practice, assist in co-ordination and communication between grantmakers, and generally exercise level of control over foundations and trusts. This proposal could increase efficiencies for both grantmakers and recipients (by enhancing accepted best practice), and enhance the relationships between grantmakers and recipients. Both of these developments would strengthen the sector and its independence. Existing organisations (such as the School for Social Entrepreneurs and the Institute of Fundraising) are likely to be interested and/or be able to contribute to developing/implementing this recommendation.

### ***Roll out London Funders-style forums***

The London Funders network, a diverse grouping of voluntary sector funders in the London region, brings together trusts, foundations and statutory funders to identify social needs and share good practice. London Funders is predominantly funded by membership subscriptions and the London Development Agency. There are no equivalent organisations elsewhere. This is significant because trusts and foundations can adopt any practice they feel necessary, even if it is not considered good practice.

There are few levers available to bring trusts and foundations to a common level, or quicken the pace of change. Bringing organisations together builds the social capital, trust and skills needed to finance a thriving third sector. While London is the current locus of attention, it is the North West, North East and Midlands which are the regions most supported by these kinds of organisations and recent data from NCVO suggests that Yorkshire and the Humber, Wales and the South West attract a disproportionate amount of statutory funding – the market for a rolled-out London Funders model is large.

## Appendix 1: Proposals and Impacts

Proposal	Impact	When
Grow locally held and accessed endowments	Enhance financial resilience and independence at local level.	Now
Increase local ownership or management of community assets	Enhance financial resilience and independence at local level, provides leverage to access financial capital.	Now
Develop co-operative models within the VCS	Increase efficiencies, leverage capital from communities, enhances democracy, meeting needs of communities.	Now
Develop community investment zones	Increase flow of funding to under-supplied areas.	Soon
Mandate banks to engage in local community reinvestment	Increase flow of funding to under-supplied areas and individuals.	Later
Develop giving in kind from the private sector	Upskill VCS, reduce expenditure, and develop relationships between sectors.	Now
Resolve issues around sharing of back-office functions and liabilities	Reduce expenditure.	Soon
Develop protocols for rationalisation and/or insolvency	Increase efficiencies.	Now
Develop hybrid Housing Associations as enterprise/social developers	Enhance financial resilience and independence, stability and support at local level.	Now
Build relationships with professional service providers	Upskill VCS, reduce expenditure, and develop relationships between sectors.	Now
Adopt expenditure benchmarking	Increase efficiencies, enhance financial literacy.	Now
Pursue Italian banking model for nationalised	Capitalise the VCS and provide a	Soon

banks	guaranteed flow of income.	
Create social stock exchange	Increase access to investment capital.	Soon
Reconsider legal structures and tax incentives	Increase efficiencies.	Later
Increase/mainstream/normalise/incentivise social investment bonds	Increase supply of grant funding through private investment.	Now
Government support for CDFIs	Increase flow of funding to under-supplied areas.	Soon
Promote access to longer-term investments	Enhance stability and resilience, and allow for long-term planning.	Now
Encourage collaboration among financial suppliers	Create efficiencies.	Now
Enhance appropriate and fit for purpose financial advice	Enhance resilience by creating efficiencies and developing financial literacy.	Now
Promote investment readiness in the sector	Create efficiencies, increase demand for diverse forms of funding.	Now
Establish a School for Voluntary Sector Leadership	Enhance capacity.	Soon
Develop rigorous methods for demonstrating social impact	Encourage supply of funding.	Now
Pursue mission-related investment	Make existing money go further within the sector.	Now
Widen participation in and support for giving circles	Increase supply of unrestricted funding.	Now
Establish lifetime legacies	Enhance financial resilience and independence, provides leverage to	Soon

	access financial capital or fixed assets.	
Promote salary sacrifice, payroll giving, and uptake of Gift Aid	Increase supply of unrestricted funding.	Now
Build giving into life events	Increase supply of unrestricted funding, normalise giving.	Now
Establish gifting accounts	Increase supply of unrestricted funding, normalise giving.	Soon
Maximise the benefits of technology	Increase supply of unrestricted funding, normalise giving.	Soon
Promote lead funder model	Create efficiencies.	Now
Launch a Chartered Institute of Grantmakers	Create efficiencies.	Now
Roll out London Funders-style funder forums	Create efficiencies.	Now

## Appendix 2: Next Steps – Targeted Consultation

Point of targeted consultation:

- gain buy-in
- test out/refine ideas
- identify technical hitches
- identify barriers or opportunities for implementation
- warm the sector up.

There will be two tranches to this phase of consultation:

1. elicit written responses
2. road test ideas through face-to-face interactions (eg events, interviews)

Elicit written responses

- publish draft proposals (hard copy, virtual, both?)
- circulate proposals (umbrella bodies networks, experts, FC policy group, advertise through networks – commissioners, networks?)
- request written responses
- follow-up with email/phone call
- collate & analyse responses

Road test ideas through face-to-face interactions

- attend numerous VCO events (Community Foundation Network event in Sept;
- CVS events; Regional Forum events – commissioners, who can attend any of these events? Do you have or know of any other events we could present at?)
- discussions with Ministers and civil servants (NCVO to arrange meetings – commissioners, who can/wants to attend these?)
  - Angela Smith
  - Tessa Jowell
  - Liam Byrne
  - Nick Hurd
  - Francis Maude
  - Jenny Willot
  - Jonathon Stephens
  - John Denham (CCd Jackie Westlake)
  - Ben Bradshaw
  - Dame Stephanie Shirley
  - Meetings with funders
  - Meetings with voluntary and community organisations

What Commissioners can do during this phase:

- act as ambassadors for the Commission & the draft proposals (including attending events on behalf of the Commission)
- provide quality assurance
- flesh out/further develop proposals if capacity allows

We will collate/analyse/write up responses, which will feed into papers for the next Funding Commission meeting (in October, where we hope to agree finalised proposals).

### **Key Dates**

These dates have been previously agreed with Commissioners,. However, we are concerned that it does not leave sufficient time to consult with NCVO members or the wider sector: we have been reminded that our consultation should be Compact compliant.

**15 October:** 4th Funding Commission meeting – agree finalised proposals

**26 November:** 5th Funding Commission meeting – agree draft report

**18 February 2010:** publish/launch/disseminate Report of Funding Commission