

FUNDING COMMISSION

Paper 3 – Effectiveness – Findings and Emerging Recommendations

Between June and September 2010 the Commission published eight papers on its website on different aspects of its work. Comments were invited on these papers. The emerging recommendations in the papers have subsequently been amended as the Commission's thinking developed. However, the findings in the papers contain much of the evidence on which the final report is based. Details of all those consulted during the preparation of the papers are given in Annexe 2 of the main report.

This is the third paper to be published by the Commission (August 2010) – on Effectiveness.

1. Introduction

1.1 'Boosting Effectiveness' has been one of the main themes identified by the Commission from an early stage. Effectiveness in this paper is understood to cover a wide range of organisational qualities including impact, efficiencies, responsiveness, inclusiveness and resilience. By boosting effectiveness, the aim should be to enable civil society organisations (CSOs) to play a full part in civil society, including contributing to the Government's Big Society vision, whilst, at the same time, making optimum use of the resources available.

1.2 The paper uses the following framework for discussing this theme:

- Increasing the effectiveness of:
 - Civil society organisations (CSOs) in collaborating with each other
 - CSOs in securing and managing funding
 - Funders in managing and delivering funding
- Increasing the effectiveness of the infrastructure for
 - Developing and supporting CSOs
 - Developing and supporting funders and giving

1.3 The paper is not concerned with:

- Issues relating to the general management of CSOs, which are seen as outside the scope of the Funding Commission
- the policy issues relating to different types of funding; these are being discussed under the relevant theme for each funding stream

1.4 Details of interviewees and sources for this paper are given in Annexe 1.

2. Increasing the effectiveness of CSOs in collaborating

2.1 Background

- The former chair of the Charity Commission, Geraldine Peacock, frequently said 'there are too many charities'. She referred to the public's perception of duplication when considering which charities to support and potential confusion for service users as to who does what. Funders are often frustrated by the apparent inability of some charities to work together and are concerned about the loss of impact resulting from funds being spread too thinly. The current lack of collaboration is seen as wasteful and inefficient.
- At the same time, it is important to remember the motivations that lead people to set up or become involved in charities and voluntary groups in the first place. The desire to respond to a particular need, particularly at the local level, is an important dynamic in civil society and one which brings other benefits in terms of social capital and personal development.
- The sector has sought to address this issue in a number of ways including:

- Coalitions for campaigning on issues of shared concern
 - Sub-sector umbrella bodies for discussing common issues, representing common interests, providing support
 - Joint projects between organisations working in the same field
 - Consortia for bidding for contracts, e.g. Third Sector Consortium, developed by the Social Investment Business
 - National organisations working in partnership with local organisations
 - Sharing support services
 - Mergers between organisations working in the same field e.g. RNIB and Action for Blind People, involving different models, including group structures, take-overs and formation of new merged organisations.
- Merger will not always be the most appropriate option; formal forms of collaboration can often be the best way of achieving economies and efficiencies. However, there is an increasing view, e.g. from the Chair of the Charity Commission and the leadership of Capacitybuilders, that, whilst a number of these different forms of collaboration are important, and whilst there will often be a strong argument for a variety of different types of CSO at the grassroots, there are other situations, particularly when there is a shared purpose and set of activities, when merger is the big and growing, unavoidable issue, given the scale of the funding cuts to come. Not only should merger deliver efficiencies through economies of scale, but it should also result in increased impact and better market access.
 - At the same time, there is a continuing need to explore ways of reducing the costs of backroom services. New, more virtual, models for sharing these services are developing. Examples include:
 - The Tides Foundation in the US, which supports community groups and start up charities through what is known as ‘fiscal sponsorship’; this provides a formal governance structure under which advisory groups for new projects can sit; a charity number that can ensure tax relief for emerging groups: and a range of HR, finance and IT services which are charged for. A Housing Association in the East Midlands is planning to launch a fiscal sponsorship scheme for community groups in its area shortly. Fiscal sponsorship schemes need to be large enough to achieve the necessary economies of scale, but could be subject based (e.g. lots of groups working in the same field that might bid for a contract) or place based (see discussion of coalitions in Paper on Public Sector Funding).
 - Cloud computing, which delivers IT services over the web e.g. to run websites, store data or run business applications. Rather than CSOs having to install software on their own computers in their own premises, the ‘cloud’ provider does this for a fee (Google’s Gmail and Microsoft’s Hotmail are both examples of consumer cloud computer services).

Case Study – CAN Mezzanine

CAN is a registered charity working as a social enterprise, formerly known as Community Action Network. CAN Mezzanine is an award-winning, self sustaining social enterprise providing space in different office locations, services and products to CSOs. CAN believes that social enterprises create greater community cohesion building a sense of local pride and ownership. Encouraging a belief in positive action in the communities they serve, reaching the most vulnerable people in society in imaginative, entrepreneurial ways.

In addition to shared office space CAN provides a range of property services:

- CAN Advise, advises on all stages of leasing or buying a property.

- CAN Manage, uses the expertise from CAN Mezzanine, to provide bespoke facilities management packages, improving building efficiencies and providing practical solutions
- CAN Develop, helps CSOs plan, build and develop their own property.

CAN Mezzanine currently house over 100 organisations. Most of the space is intentionally open plan, encouraging collaboration and networking. CAN Mezzanine saved the sector more than £2.2 million a year at its London Bridge location alone, according to independent social impact research, with average savings of more than £5,000 for every desk space rented. Organisations at the three sites are promoted through a secure intranet system where they can advertise their work, ask for ideas or find partners on projects.

- The Government has provided funding to assist with collaborative working e.g. the Modernisation Fund and some trusts and foundations have prioritised this area e.g. the Baring Foundation and Lloyds TSB Foundation
- The public expenditure cuts are likely to provide an added impetus to mergers. There is a danger that national and local government could approach the cuts in expenditure by salami slicing budgets and that infrastructure agencies could engage in fire fighting and become inward looking, instead of putting forward more positive views of the best role they need to be playing – and the best way of playing it. There is also a danger that unless the sector takes a proactive approach on this issue, it will find funders effectively making decisions for them, which may not always be in the best interests of the sector or its beneficiaries.

2.2 Issues

- Collaborative working requires time and therefore resources, and often requires independent facilitation and support. All those who have been involved in mergers know that there are a number of barriers which need to be overcome, including values, policy, cultural, personal and financial barriers – any one of which could prove to be a deal breaker further down the line. Mergers can involve a number of one off costs, which can be difficult to finance when reserves are low or non-existent.
- The Modernisation Fund has met some of these costs in the past, but has now ended. The future of Capacitybuilders itself is uncertain and is now the subject of a Cabinet Office review.
- Funders can play a key role in encouraging collaborative working, including mergers, but there is still a need for the partners to develop the skills to work together effectively.
- VAT is currently chargeable on the provision of support services by one organisation to another and this can often be a barrier to developing shared arrangements. There is an initiative by the Charity Tax Group to secure an exemption for this allowable under the EU VAT Directive.
- The rules and regulations around mergers are perceived as quite complex by some of the Commission's interviewees, who feel they could be helpfully simplified
- Many CSOs have experienced difficulties when sub-contracting to main providers (both in the private and civil society sectors). This is a two way street; prime contractors can lack the skills to work well with smaller local partners, whilst front line groups lack the skills and capacity to take on sub-contracts. There is a real risk of market failure, as commissioning aggregates up and subcontracting becomes the norm in many areas. One possibility to explore would be to extend the Merlin Standard code of conduct introduced by DWP for contractors to ensure good practice towards their sub-contractors.

- There are also a set of challenges involved in preparing for the greater personalisation of services and the introduction of individual budgets, which can also offer particular opportunities for broad consortia of smaller providers, who are often well placed to provide flexible responses to individuals' needs. There are also threats involved, particularly through the loss of block contracts and the corresponding need to secure payments from individuals
- As well as collaborating with other CSOs, there is an increased need for CSOs to collaborate with public sector and private sector agencies in delivering local social impact. These arrangements involve complex governance issues, which are likely to become more and more challenging.

3. Increasing the effectiveness of CSOs in securing and managing funding

3.1 Background

- The Commission's findings on Capitalisation and Social Investment have already identified 'lack of financial literacy' as an issue for the sector, which can affect the way they use their existing funds and the type of funding they seek. However, there are a number of other dimensions to the business and financial skills required, as was highlighted in the 2007 Skills Survey undertaken by the UK Workforce Hub (see box on next page which shows that eight of the 20 skills gaps identified fell into this category; the survey also appears to have missed a possible ninth issue of risk management, which needs to underpin many of these skills).
- Having moved from the practice of only asking for, or only being given, marginal project costs to a system of full cost recovery, which recognises all the overhead costs involved in project delivery, there is now a need, having done a full cost analysis, to decide what price to charge; depending on market circumstances, this could be higher or lower than the actual cost involved.
- A broader issue for the sector is the need to get better at influencing commissioning and at bidding for and negotiating contracts through tendering processes. These processes are often very complex and time consuming; this is an area where many CSOs (and many commissioners) are still very inexperienced.
- The Commission also recommends (see paper on Public Sector Funding) that a new approach to commissioning is now required, which is driven by user and social outcomes, not by current patterns of services, and which is based on trust, rather than 80 page contracts.
- 'Demonstrating value' is also highlighted in the survey, as well as in submissions to the Commission e.g. from New Philanthropy Capital (NPC), as an area where the sector needs to improve. A wide range of different methodologies have been developed for measuring and reporting on impact, notably by Charity Evaluation Services and NPC. No one-size-fits-all evaluation system will suit the huge diversity of the sector. A recent report by Demos 'Measuring Social Value: the gap between policy and practice' suggests that CSOs do not have the data or the expertise to measure their outcomes in the depth required by techniques like Social Return on Investment (SROI) and that, to start with, more proportionate approaches should be developed. What is important is that all CSOs give serious thought to the best system for their particular circumstances and then apply this consistently.
- CSOs should work with funders to develop a much stronger mutual understanding of the sector's impact and how to communicate this. Wherever possible, there should be a budget line for this type of work. Hal Williams, author of 'Outcome Funding', is

developing a process in the US for having impacts audited by auditors as part of CSOs' annual reports and accounts, in order to increase transparency and accountability

- Outcome frameworks for different sub-sectors have been/are being developed e.g. for homelessness (through the work of Triangle Consulting, particularly in the context of Supporting People funded projects) and for children and young people's well-being and for prison visiting (through the work of NPC). However, there is still a tendency for charities to try and start from scratch and develop their own outcome frameworks rather than build on the work already done. An initiative to bring together a set of common outcome frameworks across all the different parts of the sector would not only stop people reinventing wheels, but would also have huge potential for shared learning and knowledge management. Over time, it should then also be possible to develop sets of costed outcomes for particular types of interventions.

Top 20 Skills gaps in the four priority areas, by size of organisation (%)¹

Skills	Micro	Small	Medium/Large	All
Governance and leadership skills				
Strategic use of IT	26	30	23	27
Strategic planning and forward thinking	23	24	25	23
Leadership	18	22	27	20
HR/Personnel	15	19	17	16
Management of paid staff	14	16	19	16
Business and financial skills				
Fundraising	26	26	19	25
Marketing	22	22	18	22
Communication	19	22	26	21
Negotiating and influencing	17	21	20	19
Finance	20	18	13	18
Project management	4	17	17	15
Working in partnership with other orgs	14	16	14	15
Procurement/contract management	11	14	11	12
Volunteer management				
Management of volunteers	15	13	10	14

¹ UK Workforce Hub Skills Survey 2007 of charities, community and voluntary groups

Skills	Micro	Small	Medium/Large	All
Evidence of impact/effectiveness				
Monitoring and evaluation	17	23	20	19

- NPC would also like to see the Charities Act amended to require charities to publish all available evaluation reports on their work. However, rather than adding further to the burden of regulation on charities, charities should be encouraged, as a matter of good practice, to be doing this – for example, in their Summary Information Returns to the Charity Commission and on their websites. The more this type of information becomes available, the more the potential of ‘open data’ for increasing transparency and accountability will be realised – and the more opportunities there will be for sharing learning.
- Some interviewees have also suggested that it should be made much easier to fundraise globally (e.g. in Europe and the US), rather than fundraising usually being limited to the UK. At present there are a number of ways of working around the barriers to cross border giving, such as through intermediaries, but new developments taking place in the EU should eventually simplify things further. At the same time, HMRC are putting up new barriers, such as the ‘Fit and Proper Person’ test, which could adversely affect global fundraising (see Individual Giving paper).

3.2 Issues

- The main issue is how best to develop the sector’s skills in the different areas identified above. The Voluntary Sector National Skills Strategy, developed by Skills- Third Sector, has four priority skills areas based on the survey above. Skills- Third Sector is currently consulting on these with a view to identifying the best delivery partners to work with.
- One of these areas, volunteer management, is facing particular challenges linked to the continued viability of the traditional volunteer involvement and management model. Where volunteers are only working two or three hours a week, CSOs like WRVS are reporting that it would now be cheaper for them to employ full time, low wage employees, than to pay the costs of volunteer management. At the same time, WRVS recognise that the value of involving volunteers is much wider than this analysis suggests; there are social benefits to the volunteers and to the people they work with, as well as wider benefits in terms of building social capital. However, the issue is who should bear the costs of these wider benefits?

4. Increasing the effectiveness of funders

4.1 Background

- Increasing emphasis is now being given to good practice in funding. The Government and the National Audit Office have produced numerous guidelines as to how government should commission and fund in line with the principles in the Compact. Equally, trusts and foundations and the Lottery distribution bodies have been reviewing and improving their approaches to funding over the past few years. Much of this good practice has been branded as ‘intelligent funding’ and the Big Lottery Fund and the Association of Charitable Foundations (ACF) now convene a forum of funders under this heading.

- At the same time, a number of commentators, such as NPC, are still critical of many funders' (and charities') practices e.g. in relation to insufficient focus on outcomes and on ineffective monitoring.

4.2 Issues

- One particular issue which is causing CSOs difficulties is the introduction of payment by results by Government. Since CSOs are often working with the most difficult clients, it can take longer, and be more difficult, to achieve results and therefore get paid. This leads to severe cash flow problems since few CSOs have sufficient working capital to manage this (see case study of Refugee and Migrant Justice in Paper on Public Sector Funding)
- In his 'think piece' for the Commission, David Carrington highlighted the following examples of bad funding practice where funders:
 - expect the funded CSO to achieve complex project goals within a period of funded time which all involved know is not long enough for them to be attainable and/or to undertake a level of work so ambitious that both the applicant and the funder know it's not within the capacity of the applicant.
 - do not observe full cost recovery in grants or pay the correct price in contracts
 - talk in terms of their grantees being partners, then impose terms and conditions which are entirely one way, without any mutual expectations; terms and conditions which require the volunteer boards of recipient organisations to take on unwise risks – while funders adopt for themselves risk averse and over complex assessment or tendering-type procedures; and also apply conditions which “add burden – not value”, that are compliance fixated, focused on outputs and not on the quality of achievement.
 - impose transaction costs (on themselves as well as on those they fund) which are disproportionate to the scale of the funding and which use up an excessive amount of charitable or public funds
 - agree short term project funding in circumstances where they know long term operational and organisational underpinning finance is what the funded organisation needs – indeed, is essential if the funder's own objectives are to be realised
 - not help CSOs prepare for or build up the resources needed to survive effectively beyond the period of their funding.
- In his 'think piece' David Carrington proposed the following changes in funder behaviour:
 - Small changes to a funder's administrative procedures (e.g. making payments in advance, making payments in full without any report requiring retentions, imposing less compliance focused restrictions) may ease transaction management burdens, especially on smaller and financially weaker organisations, and will also be a tangible demonstration of greater trust by the funder in the funded.
 - Funders can also engage directly with funded organisations when reviewing their own practice – the consumer perspective is likely to provide especially important learning
 - Funded organisations can adopt ways of working and 'relationship building' with their funders (of all kinds) and of reporting to them which are more transparent and which will help with such transformation.
 - Both 'sides' can adopt a more patient and long-term approach to what they are trying to see achieved – and be more realistic about and mutually determined to identify and meet the capacity needs a CSO may have to address if it is to undertake a task which both aspire to see tackled.

- Funded organisations within a single funding programme can also collaborate with each other and with the common funder so that all learn from each other's experience.
- Organisations that provide information and guidance to CSOs seeking funds can help them develop ways of preparing and communicating financial and organisational plans that will assist funders that wish to follow Joseph Rowntree's entreaty that funders should always try to "strengthen the hands of those that do".
- A current issue for funders, such as the National Lottery, is the suggestion from the Government that their administrative costs should be limited to 5%. The concern expressed by Commission interviewees is that this could have perverse effects, such as reducing the number of small grants given or making funders less engaged. Proper engagement by funders ensures that grants are used to maximum effect and that they have an impact beyond the life of the grant. Costs are a means to an end and should always be related to what the funder is trying to achieve through their grant making, whilst at the same time remaining as low as possible.

5. Increasing the effectiveness of the infrastructure for CSOs

5.1 Background

- There is currently a complex set of infrastructure arrangements for the sector at national, regional and local level, which is not always easy to navigate, variably funded and with somewhat uneven quality and coverage. The Office for Civil Society has announced that, as from April 2011, it will only have a maximum of 15 'Strategic Partners', in place of its current 40; funding will be reduced accordingly from £12.1m to £7.5m, with no organisation receiving more than £0.5m and/or more than 25% of its income through the programme. It is also planning to consult on improving the effectiveness of infrastructure to front line organisations.
- The Annexe lists 75 different national infrastructure organisations (or similar), most of which currently receive government funding, under the following headings:
 - Generalist
 - Generic
 - Community sector
 - Social enterprise
 - Professional associations
 - Volunteering
 - Funding
 - Specialist
 - Volunteering
 - Sub-sector
 - Client group
 - Technical support
 - International
- Some of these bodies have only formed over the past 10 years, but some have already begun to merge. For example, Volunteering England is the product of a merger between the National Centre for Volunteering, Volunteer Development England and the Consortium on Opportunities of Volunteering in 2004 and between Student Volunteering England in 2007.

- There are also a range of regional infrastructure bodies, including regional forums for each of the English regions, and sub-regional bodies, e.g. for city regions like Greater Manchester and for London. Much of this regional infrastructure is focussed on the ‘voice’ role, rather than the support and development roles and has been largely developed in response to the emergent regional public sector tier (e.g. strategic health authorities and regional development agencies) which wanted ways to engage with the sector.
- There are also a range of local (county, district, unitary) infrastructure bodies, now described collectively by the National Association for Voluntary and Community Action (NAVCA) as Local Support and Development Organisations (LSDOs). These include Councils for Voluntary Service, Volunteer Bureaux/Centres, Rural Community Councils, community hubs, resource centres and many other types of more specialist agencies.
- The roles of all these different agencies include one or more (or all) of the following:
 - Voice – representing the views of their local members to government and others
 - Development– helping new initiatives develop and new organisations form
 - Support – providing advice and information on the local policy environment and on all aspects of running and managing the kinds of CSO they work with, including recruiting volunteers and accessing funding
 - Coordinating – enabling local members to work together
- These roles have an important contribution to make in developing the effectiveness of the sector, but, historically, infrastructure bodies have struggled to produce evidence of their outcomes and impact on front line organisations (see 5.2 below).
- A number of LSDOs have begun to merge or collaborate more formally, with a view to increasing their effectiveness, achieving economies of scale and increasing their resilience. The most recent survey carried out by Capacitybuilders found that over half of those LSDOs responding were considering or taking action in relation to a merger or partnership and that many commissioners are supportive of these developments.

Case study of collaboration – Volunteer Centres Derbyshire (VCD)

Volunteer Centres Derbyshire is the network of independent organisations that provide volunteer management support to front line groups in Derbyshire. Coordinated by a countywide focussed staff team that are hosted by member volunteer centres, VCD shows how an informal network structure can meet the needs of county and cross-district organisations, as well as delivering a high standard of volunteering focussed project work meeting both local and national agendas.

Initially funded by Capacitybuilders, VCD has been able to strengthen volunteering support, raise the profile of volunteer centres locally and county-wide and secure additional resources for a number of volunteering infrastructure projects.

Successes include:

- Securing countywide funding to deliver projects to support volunteering
- Promoting the Volunteer Centre Brand across the county
- Raising the profile of Volunteer Centres locally
- Promoted a consistent approach to service delivery across the county
- Provided greater representation of volunteering on countywide bodies
- Joined up delivery of services to ensure effective use of resources
- Gathered more robust data on the value of volunteering, including the development

of case studies

- Offered a single point of contact to statutory partners for advice and support around volunteering
- Reached into different sectors, e.g. sport, environment, children's services
- Improved influence at a national and regional level

Retaining the independence of individual VCD members has ensured that local knowledge and expertise has been retained, whilst at the same time delivered in a more consistent and coordinated way.

Source: Volunteering England UK submission to the Funding Commission, July 2010

- Most local infrastructure organisations receive government funding, as well as raising funds from other sources and generating income through membership fees and services. Where there has been a history of consistent investment by local government and the local NHS, Nava's research shows that effective LSDOs have resulted and high scores for the relevant national indicators have been achieved.

Case Studies of Integration

Worcester

A good example of how integration need not mean loss of identity of the volunteer centre into the generic brand is Worcester Volunteer Centre (annual income £247,845 in 2009). It was originally established in 1989 as a volunteer bureau to recruit and coordinate volunteers. Over the years it continued to develop and promote good practice in volunteer management and support and later extended its role by becoming a Council for Voluntary Service to promote and support the voluntary sector itself.

Islington

Islington Voluntary Action Council (IVAC) and Islington Volunteer Centre (IVC) merged into one organisation to become stronger and to enable greater effectiveness and support for the work they do. IVAC and IVC decided that it would be in the best interests of both organisations and the people they serve to join together. Ivan's mission was to promote a thriving, effective and influential third sector that is working to improve the quality of life and the life chances of people in Islington. It was agreed that Ivan's work complements this.

The merger took effect on 1st April 2009. In December 2009 Islington Voluntary Action Council (IVAC) became Voluntary Action Islington. They believe that the new name and visual identity tells people what we are about – promoting and supporting action by individuals, groups and organisations in Islington. They say that the move to new premises has resulted in new ways of working for the organisation. They are much more visible, with a shop front, and premises that are accessible to people in the borough. The new premises are much larger, with meeting rooms and desk spaces that can be used by other organisations and volunteers too.

Source: Future Local Infrastructure Scenarios – NAVCA report to the Funding Commission, August 2010

- National and regional infrastructure is often heavily reliant on central government support, whereas the majority of local infrastructure is largely funded by local government with Capacitybuilders and the Big Lottery Fund funding about 10% overall; earned income e.g. through fees from consultancies or services, play a relatively minor role in most cases. Currently, one of the big challenges for LSDOs is that they are facing major funding cuts.
- There are also a range of other agencies and individuals who support the sector, including accountants, banks, lawyers, consultants and community development workers, as well as different government agencies that provide support, such as Business Links and some local authority departments.

5.2 Issues

- The main two (related) issues relating to local infrastructure bodies are the quality and financing of their work and therefore the viability of the current arrangements
- Research into the effectiveness of infrastructure bodies has not been able to produce convincing evidence of outcomes and impact. A review of research into the effectiveness of LSDOs conducted by Sheffield Hallam University for the Commission concluded that there is not yet a coherent evidence base for measuring their impact and effectiveness, although they are hopeful that the National Survey of Third Sector Organisations (NSTSO) will help address this. Indeed, Nava's own analysis of the relevant parts of this survey shows a good correlation between the effectiveness and organisational strength of front line organisations and the support they receive from LSDOs.
- In a speech on the future of capacity building (Sept 2009), Stephen Bubby, CEO of ACEVO, suggested three principles should underpin the debate about the support the sector needs in the future:
 - Clarity about the difference between capacity building (which can be delivered in a variety of ways and on a variety of different scales) and voice (which needs to happen at the scale at which decisions affecting the sector will be made)
 - Capacity building should be more targeted and demand led to make better use of tighter resources
 - The need to get better at demonstrating the difference which capacity building makes to the effectiveness of the sector and promoting that to those whose continued investment is needed.
- Using these three principles, Stephen Bubby argued that capacity building can be delivered at a national level, whereas the voice function needs to operate at a number of different levels. Although there is clearly scope for delivering certain types of support through national, often web-based, services, such as NCOs' Funding Central website, it is very questionable as to whether the support which an emerging local community group needs can really be provided by a national organisation, as opposed to locally based community development workers. There is also great value in having the voice function informed by the day to day realities of capacity building work with front line organisations.
- In a recent speech (Jan 2010) to the Infrastructure National Partnership Conference, Stephen Dunmore, Chair of Capacitybuilders, argued that there are too many under-funded, under-capitalised, vulnerable infrastructure providers that are poorly placed to maintain services at a time when there will be increasing constraints on funding from the public purse – and suggested there was a need for further national investment to achieve more appropriate and more sustainable local support arrangements
- In a recent speech (March 2010), Kevin Curley, CEO of NAVCA has advocated the need for an extensive programme of mergers of LSDOs. In particular, he has suggested that at shire county level all CVS' and Rocs should consider merger and at metropolitan

district level Councils for Voluntary Service (CVS') and Volunteer Centres (VCs) should consider merger; he also does not think the case for independent specialist technical or client group support services is sustainable in the present financial climate.

- Justin Davis Smith, CEO of Volunteering England (VE), has been advocating the need for a modernised and rationalised VC network for a number of years. VE published its own strategy for volunteering infrastructure (2004-14), 'Building on Success', in 2004.

Building on Success

Volunteering England and Volunteer Centres have been leading on collaboration and merger since the publication of *Building on Success* – a ten year strategy for the development of the volunteering infrastructure – in 2004. This was subsequently adopted by government as the volunteering strand to Changeup.

Volunteering England's work to implement *Building on Success* over the last six years, much of which was supported and funded through Capacitybuilders and Changeup, has led to a number of specific outcomes:

- An evaluation by the Institute for Volunteering Research of the impact of the early stages of local and regional Changeup programmes on the volunteering infrastructure
- The development of a Funding Framework for the provision of effective volunteering support at a local level.
- The production of Check it Out, a resource for Volunteer Centres to assess their impact on volunteers, organisations and the wider community
- An online toolkit to specifically support collaboration and mergers with a range of different models. This was based on research amongst a range of Volunteer Centres at various stages of different kinds of merger and collaboration.
- The development of a robust Volunteer Centre Quality Accreditation programme with associated branding.
- Many case studies of successful and varied models of merger and collaboration at local, sub-regional and regional level.

The strengthening of the evidence base on Volunteer Centres, principally via the Institute for Volunteering Research's Annual Return of Volunteer Centres.

Source: Volunteering England UK submission to the Funding Commission, July 2010

- Building on Success proposes core functions for volunteering infrastructure, which could be delivered through a number of different organisational arrangements, one of which might be through a CVS, but others might be through merging with local V teams or local branches of Business in the Community or through sub-regional or regional consortia of VCs. The strategy also suggests that in some areas, rather than having mergers, memoranda of understanding and partnership agreements could be put in place to ensure there is no duplication of functions. This would allow local infrastructure to be tailored to local demand and needs.
- The Government's Change Up programme, which commenced in 2004 and is now run by Capacitybuilders, has been the main funding initiative for addressing these issues. After a difficult start and after a change of leadership, more recently it has been making better progress. Matt Leach, CEO of Capacitybuilders, highlights the following achievements in particular:

- Development of local consortia for nearly all counties and metropolitan areas means that instead of destructive competition there is now more joint assessment of needs and joint planning. In some areas, such as Cumbria and Buckinghamshire, this has led to structural change
- The local consortia have provided a base from which newer government funded programmes could be delivered quickly and effectively. This has been successfully used for the Modernisation Fund voucher-based programme and for the (geographically) targeted Volunteer Management programme and could be used further in the future
- At the same time, Matt Leach is concerned about the resilience of LSDOs and the need to consider how support might best be provided to achieve consolidation and more sustainable arrangements.
- The Government’s plans for the Big Society and for public sector employees running services themselves appear to recognise that there will be a need for different types of support if the ambition of local people and employees taking on bigger roles in providing local services and promoting civic activity are going to be realised. There are two main schools of thought as to how best to provide and finance this support:
 - A supply led approach (as at present) whereby infrastructure bodies provide a range of support services, largely paid for by national or local government and other funders. The main problem with this approach, apart from cost, is that the services provided may not always be tuned to the particular needs of the CSO wanting support. For example, business advice can often be at too general a level
 - A demand led approach whereby individual CSOs purchase services to meet their particular needs. The main problem with this approach is that those CSOs who most need support are least likely to have the resources to pay for it. However, the voucher system used by Capacitybuilders for the Modernisation Fund (see above) provides one way of addressing this, although the number of CSOs that can be provided with vouchers in this way is going to be necessarily limited and there needs to be a diagnostic process for establishing what kind of support is actually needed, particularly for more inexperienced CSOs. At the same time, the evidence is that the support might be well targeted and therefore more likely to be effective.

Case Study – Warwickshire

Warwickshire Community and Voluntary Action (WCAVA) were formed in April 2008 from a merger of three district and borough based CVS and two volunteer centres, with an additional CVS joining in March 2009. The merger, part-funded by Capacitybuilders, has created an organisation that is more financially sustainable than the separate CVS and volunteer centre structure it replaced.

They believe it has brought efficiencies without losing local presence. These are described in the case study:

“The merger brought efficiency savings by centralizing back office functions, which has reduced duplication of roles in administration and management. This has allowed WCAVA to shift staff resources from back office to frontline services.

Administrative staff freed up by the merger was recruited internally to more frontline posts, receiving training to ensure they had the skills to provide support to CSOs. In some CVS the balance between frontline and back office staff had been 40:60 prior

to the merger; in WCAVA the balance is now 80:20. As a result, some districts have benefited from an increase in the numbers of frontline staff based in their district.”

“At least two of the district CVS were facing serious financial instability if they didn’t merge, and all of the CVS had faced long-term risks to their core grant funding. The merger has helped these CVS stabilize their finances. One of the CVS in particular was running a £50,000 deficit on entering WCAVA, which they were covering using ring-fenced reserves. The merger has helped this CVS reduce its overheads and increase its income, and in just 18 months it has gone from running a £50,000 deficit to having ‘balanced books’.

Source: Future Local Infrastructure Scenarios – NAVCA report to the Funding Commission, August 2010

- The likelihood is that some form of mixed economy, combining these two approaches is going to be the most appropriate whereby:
 - LSDOs provide basic support for smaller CSOs, including signposting to relevant sources of funds and help, assisting with specifying consultancy briefs and then either helping select the right consultant or providing the support themselves, as well as voice, development and coordination functions
 - Government targets support direct to those organisations that have the potential to play the bigger role envisaged for them
 - LSDOs also act as delivery agents for ensuring government funds, like the Modernisation Fund, get straight to the front line organisations that need them and for signposting to local consultants who can provide high quality support
 - LSDOs merge into more viable units within the framework of the consortia that now exist. This does not necessarily mean that all existing consortia should merge into one organisation; this may be appropriate in some areas, but in others there may be a need for more than one LSDO. In most cases, the consortia provide an initial framework within which plans can be developed.
 - LSDOs may also wish to develop a group structure within which there is still the scope for separate LSDOs to be based in different areas, but under one CEO and working to one strategic plan, with shared support services. This structure could also enable specialist LSDOs, e.g. for particular client groups in the equalities sub-sector, to be part of the consortium, whilst retaining independent governance arrangements and enabling their voices to get heard independently.
 - National CSOs, regional and sub-regional CSOs also consider how they might best support local groups working in the same field as them. One model could involve, for example, a national children’s charity commissioning all the children’s services for a particular locality, contracting with local groups that can reach particular client groups, helping build their capacity where appropriate and providing some services itself.
- Although statutory agencies, such as Business Links, may occasionally prove to be a useful source of advice for LSDOs, there is a strong consensus that, despite different government initiatives over the years, they do not understand or meet the needs of CSOs. The planned closure of Business Links now provides an opportunity to develop a voucher based approach to providing business support (see paper on Trading).

Future Local Infrastructure Scenarios

Background

- NAVCA was commissioned by the Funding Commission to estimate the potential savings that might result from some of the scenarios in Kevin Curley's March 2010 speech (see above)

Nava's conclusions

- There is significant merit in action being taken to encourage discussion about mergers and collaborations in four key areas:
 - Within two-tier authorities, especially where there are a lot of small, poorly funded organisations
 - Between county organisation and rural community councils
 - Between independent volunteer centres and generic organisations serving the same area
 - Between organisations in unitary authorities created in 2009.
- Further work should be undertaken to map the potential for the integration of specialist organisations into more generic bodies.

Source: Future Local Infrastructure Scenarios – NAVCA report to the Funding Commission, August 2010

- At the national level, similar thought needs to be given as to which of the national infrastructure organisations might most usefully collaborate or merge.
- The future of regional organisations also needs to be considered, particularly bearing in mind the future regional government arrangements envisaged by the Coalition Government. It seems unlikely that this tier of infrastructure will survive apart from in the most deprived regions and in the big cities. On the other hand, regional agencies play an important role in helping centralised national government departments and CSOs develop relationships with local CSOs; it may prove very difficult for national bodies to do this direct. The most likely model in many areas will be for the LSDOs to collaborate to provide a regional perspective and, where appropriate, to act as a regional intermediary
- The linkages between national, regional and local infrastructure also need to be better developed, making full use of new technology
- The future of Capacitybuilders is uncertain. However, it is likely that, if it does not survive, responsibility for its ongoing work will be vested in another public body or, less likely, in a national infrastructure body
- This restructuring will require investment. In particular, funding will be required to help trustees develop merger plans; provide independent advice and meet one off implementation costs. Over time, these plans should enable services to be developed and savings to be achieved.

6. Increasing the effectiveness of the infrastructure for funders and for giving

6.1 Background

- The main national infrastructure bodies for supporting or advising funders are:
 - The Association of Charitable Foundations (ACF), which advises trusts and foundations generally
 - The Association of Charitable Officers (ACO), which advises benevolent societies
 - The Association of Financial Mutuals (AFM), which advises friendly societies
 - The Community Foundation Network (CFN), which advise community foundations

- Charities Aid Foundation (CAF), which advises individual trust holders
- New Philanthropy Capital (NPC), which advises high net worth donors.
- ACF and CFN were based in the same office subsequently explored the scope for the two organisations to merge; this was rejected. ACF and ACO now share offices; it is expected that this will lead to closer working between the two organisations
- The main infrastructure bodies for supporting fundraising and promoting giving are:
 - Philanthropy UK (part of ACF)
 - The Community Foundation Network (CFN)
 - The Institute for Philanthropy (Imp)
 - The Citizenship Foundation (CF)
 - The Institute for Fundraising (IoF)
 - The Charities Aid Foundation (CAF)
- The main infrastructure bodies for supporting funders and/or supporting fundraising and promoting giving at the local level are:
 - Community Foundations
 - Regional branches of the Institute of Fundraising
 - Regional Funder Forums
 - Range of different funding advice services
 - Local Support and Development Organisations, particularly Councils for Voluntary Service
- Can's vision for the sustainable funding of community organisations is to invest in the infrastructure that will allow community organisations to unlock the potential funding that exists in their local communities through developing Localgiving.com. This invites local groups to 'tell their story' on the Localgiving website and invites local people to support them. It thus provides an opportunity to learn by doing and to aggregate data about the different needs and CSOs in the locality.
- The Institute of Fundraising's mission is to support fundraisers, through leadership, representation, standard setting and education, to deliver excellent fundraising.
- The Intelligent Funding Forum, a network of voluntary and public sector funders of the sector, convened by the Big Lottery Fund and ACF, is one of the main mechanisms for promoting good practice in funding e.g. around outcome funding, impact measurement and monitoring

6.2 Issues

- See paper on Trust and Foundations and on Individual Giving for more discussion of the role of Community Foundations
- The issue of collaborative working or merger between the different infrastructure bodies for funders is likely to be raised again in the context of declining resources
- The Centre for Strategic Philanthropy and Civil Society at Duke University in the US has published a report on Technology and the Future of the Social Sector, which suggests that the increasing use of new technology and the greater sharing of data between donors and those seeking funding could have major implications for the future structures of foundations and the infrastructures which support them. One example is Philanthropedia in the US, which provides a web based low cost scaleable way of pooling experts' views on those CSOs making the greatest impact and, therefore, on those that should be supported.
- There are concerns that trustees and Coos are not sufficiently interested/engaged/aware of fundraising and that the skills of fundraisers, including volunteer fundraisers, need developing (see paper on Individual Giving)
- NPC recommend that the Commission concentrates its attention on three key issues:

- The allocation of funding across sectors based on the priority of needs and then how effectively the money can be used
- The development of outcomes-based funding, whilst ensuring that the risks involved in this type of funding are born by those with the capacity to bear it- namely funders
- More effective monitoring by both charities and funders, ensuring that the information is collected at reasonable cost and is helpful for charities to understand their work and for funders to evaluate their grants.

7. Emerging Recommendations

7.1 The Commission recognises the range of different work that is already taking place around the Effectiveness theme and, in particular, endorses and supports the work being done by :

- The Tax Reform Group on addressing the VAT and support services issue
- New Philanthropy Capital, Charity Evaluation Services and others on impact reporting. This work needs to be embedded into the day to day practice of CSOs
- Skills- Third Sector through its strategy for developing the sector’s skills in four priority areas
- Funders, through mechanisms like the Intelligent Funding Forum, in developing good practice in funding

7.2 The Commission would also highlight the need to develop mechanisms for providing CSOs with working capital to manage cash flow problems resulting from the payment by results regime (see emerging recommendations in Trusts and Foundations and Capitalisation and Social Investment papers). It also supports the need to introduce a code of conduct to cover subcontracting arrangements between commercial organisations and CSOs, perhaps by applying the Merlin Standard developed by DWP to ensure good practice in subcontracting arrangements.

7.3 The Commission also recommends that funders and CSO sub-sectors develop shared outcome frameworks, which can be used as the ‘industry standard’ for evaluation and reporting. This would:

- Avoid CSOs reinventing wheels
- Provide a common framework for knowledge management and shared learning
- Enable impact to be measured on a consistent basis

This also forms part of the Commission’s recommendation on commissioning, as part of its paper on Public Sector Funding

7.4 However, the Commission feels the two most urgent priorities for increasing Effectiveness are to stimulate the sector to ‘up its game’ in demonstrating, and increasing, impact and to provide further impetus to the collaborative working and merger process, both between individual CSOs, and between infrastructure bodies, nationally and locally.

RECOMMENDATION 1 – Demonstrating, and Increasing, Impact

Background

- **There has been much rhetoric about the importance of CSOs demonstrating their impact, but not enough good practice; impact measurement needs to become part of the natural way CSO do things, so that CSOs can then learn how best to increase their impact further**
- **CSOs know they should be measuring their impact, but they need help in doing it**
- **It is a mistake to seek to prescribe one particular approach to measurement, such as social return on investment; different approaches will suit different types of activity and different size CSOs.**

- **Rather than each CSO reinventing the wheel in defining outcomes for its work, there needs to be a shared approach to developing common outcomes, measuring their achievement (using a variety of approaches) and sharing learning through knowledge management – wherever possible building on work already done in the field.**

Proposal

- **An Impact Measurement Fund, comprising £5m pa for three years, financed by BIG and other members of the Intelligent Funding Forum, should be established to:**
 - **Build on, develop and disseminate examples of different types of good practice**
 - **Help individual CSOs or groups of CSOs working in the same field, to develop the systems and expertise to measure their impact**
 - **Build up expertise across the sector as a whole**
- **One of the priorities of the Fund should be to develop a series of common frameworks comprising outcomes for each sub-sector of the civil society sector, working in conjunction with relevant CSOs, equalities groups and relevant umbrella bodies. Using this outcomes framework, priority should be given by all funders to:**
 - **Developing a shared evidence base**
 - **Encouraging shared learning**
 - **Stimulating the potential of open data to produce a virtual knowledge bank of those CSO interventions that deliver the most impact**
- **CSOs should also be encouraged to:**
 - **Publish impact assessments and evaluations in their Annual Reports and Summary Information Returns and on their websites**
 - **Share learning with other CSOs working in the same sub-sector**
 - **Inform supporters of all kinds about the impact their funding has had.**

Benefits: All CSOs, especially those without the capacity or the resources to invest in impact measurement.

RECOMMENDATION 2 – Development of Modernisation Fund Mark 2

Background

- **The first Modernisation Fund (£16.5m), managed by Capacitybuilders and Futurebuilders, provided valuable support to CSOs in exploring , facilitating and implementing collaborative working and merger. Evaluation of the Fund has been positive. Demand for this type of support, from all sizes of CSO is likely to increase**
- **The present configuration of infrastructure, at the national, regional and local level, is unsustainable and, in places, incomplete. A concerted programme of mergers and other forms of, formalised, collaborative working is required; this needs to take account of different local circumstances – one size will not fit all – as well as ensuring the linkages between different levels of infrastructure are more fully developed, taking full advantage of new technology.**
- **A managed market model of support provides the best way forward, comprising supply led support, available to those who most need it (including the smallest groups at the grass roots), with demand-led schemes providing grants to those in particular need of specialist support e.g. for business advice. This model should recognise the need for specialist bodies, like equality groups, to maintain an independent voice.**

Proposal

- **A Modernisation Fund Mark 2 should be established by Government**
- **The Fund should continue for three years and comprise at least £20m pa to fund one off support, legal costs and restructuring costs. £5m of the Fund should be earmarked for rationalising and/or restructuring national, regional and local infrastructure and, where necessary, bringing provision in certain areas up to minimum levels**
- **NCVO, NAVCA and other relevant national and regional/sub-regional infrastructure bodies should play a leadership role in helping reconfigure the present pattern of infrastructure through**
 - **working with relevant government bodies and other key funders like BIG, at the national, regional and local level, to develop an agreed infrastructure strategy**
 - **identifying areas where investment is required to bring provision up to desirable standards**
 - **encouraging infrastructure bodies to apply for support for developing merger or collaborative working (e.g. shared support services) proposals**

Benefits: All CSOs and all infrastructure bodies considering collaborative working or merger.

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Annexe – National Infrastructure Organisations

Generalist

1 Generic

National Council for Voluntary organisations (NCVO) *

National Association for Voluntary and Community Action (NAVCA) *

Action with Communities in Rural England (ACRE) *

Urban Forum *

Small Charities Coalition

Charity Trustee Network *

Directory of Social Change (DoSC)

2 Community Sector

British Association of Settlements and Social Action Centres (BASSAC) *

Community Matters *

Development Trust Association (DTA) *

Community Development Foundation (CDF) *

Community Development Exchange*

Community Foundation Network (CFN) *

3. Social Enterprise

Social Enterprise Coalition (SEC) *

School for Social Entrepreneurs *

Social Firms UK *

Cooperatives UK *

Community Action Network (CAN) *

Plunkett Foundation *

Charity Retail Association

Community Interest Companies Association

4. Professional Associations

Association of Chief Executives of Voluntary organisations (ACEVO) *

Charity Finance Directors Group (CFDG)

Institute of Fundraising (IoF) *

5. Volunteering

Timebank *

Volunteering. England *

V *

Citizenship Found. *

Reach

Primetimers

Pilotlight

6. Funding

Association of Charitable Foundations (ACF)

Association of Charity Officers (ACO)

Association of Financial Mutuals (AFM)

Institute of Fundraising (IoF) (see 4) *

Community Foundation Network (CFN) (see 2) *

Philanthropy UK (part of ACF) *

Institute for Philanthropy
Citizenship Foundation *
Charities Aid Foundation (CAF)
Foundation for Social Improvement
Community Development Finance Association (CDFA)
Social Investment Group (convened by CAF Venturesome)

Specialist

1. Volunteering

British Trust for Conservation Volunteers (BCTV) *
Community Service Volunteers (CSV) *

2. Sub Sector

Mentoring and Befriend Foundation *
CLINKS (work with offenders and their families)
Association of Medical Research Charities
Help the Hospices
Foyer Federation.
Advice Services Alliance
Voluntary Arts Network
National Federation of Housing Associations (NFHA).
National Centre for Independent Living (NCIL)
Law Centres Federation
Patients Alliance
Telephone Helplines Association

3. Client Group

Council for Ethnic Minority Voluntary organisations (CEMVO) *
Voice4Change *
Radar *
Lesbian, Gay, Bisexual and Transgendered Consortium (LGBT) *
Womens Resource Centre *
Children England
National Council for Voluntary Youth Services (NCVYS) *
YouthNet UK *
British Youth Council *
National Youth Agency *
Youth Action Net. *
Age UK

4. Technical Support

Charity Evaluation Services (CES) *
Directory of Social Change (DOSC) (see Generalist 1)
Association of Technical Aid Centres (ACTAC)
Business in the Community (BITC)
New Philanthropy Capital (NPC)
Charity Technology Trust (CTT)
Charities Aid Foundation (CAF) (see Generalist 6)
Skills- Third Sector
Media Trust

5. International

TS Europe Network *

British Overseas NGOs for Development (BOND) *

Key

* = organisations known to be in receipt of government funding

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