

FUNDING COMMISSION

Paper 6 – Trusts and Foundations – 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 sixth paper to be published by the Commission (August; revised September 2010) – on Trusts and Foundations.

1. Introduction

1.1 The paper uses the following framework:

- Dimensions of trusts and foundations
 - Descriptions: types, growth, variety
 - Funding: levels, significance, size
 - Investing and Spending: capital endowment, spending, impact investing
 - Strategising: approaches, causes, priorities, implications of financial position
 - Collaborating: ACF, Intelligent Funding Forum, Woburn Place Collaborative, joint funding
 - Grant making: outcome funding, monitoring, evaluation, learning
 - Managing and governing : staff turnover, performance, role of trustees, composition of boards, strategic reviews
 - Ending: spending out
- Special cases
 - Community Foundations
 - Benevolent Societies.

2. Descriptions

2.1 The Association of Charitable Foundations (ACF) uses the following classification:

- General independent foundation: national/UK
- General independent foundation: local, regional or parochial trust
- Family foundation
- Company foundation
- Community foundation
- Fundraising grant-maker or broadcast appeal trust
- Benevolent fund and similar
- City livery company foundation and associated trusts
- Membership funded grant-maker

2.2 The world of trusts and foundations is sometimes described as a series of cottage industries – each fiercely independent and idiosyncratic. They therefore do not like to be told what to do, although increasingly there seems to be interest in discussing and sharing good practice and strategy, particularly under the auspices of the Association of Charitable Foundations (ACF), as well as more specialist groupings, such as the Environmental Funders Network. This independence is also valued by the sector itself; in the words of one interviewee: ‘thank the lord for trusts and foundations’.

- 2.3 The importance of this income source to the sector cannot be stressed too much. In particular it provides funding which is:
- independent
 - potentially long term
 - more free than government or Lottery funding from pressures of public and media scrutiny
 - therefore, able to take more risks, support more innovation and fund work that may be unpopular
 - therefore, particularly important to those people that are furthest from mainstream concerns
 - responsive to the organisational needs of civil society organisations (CSOs); for example, funding for organisational development was pioneered within the trusts and foundations world.
- 2.4 Trusts and foundations can also use their independence to speak to government, drawing on the experience of their grantees, as well as reflecting their own perspective on issues of concern to them. At the same time, it is a diverse sector that can sometimes be resistant to change.
- 2.5 Some trusts and foundations are more constrained by their origins – for example, those established to distribute money raised through TV appeals are dependent on the broadcaster (and in turn on their own financial and regulatory position) and corporate foundations may be dependent on the continuing profitability and/or support of the company. Recent events at the Northern Rock Foundation and the four Lloyds TSB Foundations are evidence of this. Fundraising trusts and foundations, such as community foundations and others above, also have to have regard to how their donors want their funds to be spent (donor advised funds), as well as how their funding decisions are perceived more generally by those they are seeking funding from; this can mean they are less likely to fund ‘unpopular causes’ than the more independent trusts and foundations.
- 2.6 Some argue that there are too many small trusts and foundations, which are both ineffective (because their grants cannot impact sufficiently on their cause) and inefficient (because their management and administrative costs are disproportionately high or they are run in an unprofessional way). One ‘solution’ put forward to address this is to establish umbrella donor advised foundations for particular areas of interest, such as women (on the lines of ROSA) or climate change (European Climate Foundation) i.e. using the same model as a community foundation, but for a community of interest, rather than for a geographical area.¹
- 2.7 On the other hand, trusts and foundations are an important vehicle through which philanthropists give tax effectively, and can become engaged in their giving; what is important is that people in this position are aware of the options they have for giving and have access to information and advice on what constitutes effective and efficient grant making, so they can choose the approach which is most appropriate for them.

2.8 Issues.

- Is it desirable for more trusts and foundations to be formed or should more philanthropists follow Warren Buffet’s example of giving through an existing foundation? This question links to the papers on Individual Giving and on Commercial Support.
- How aware are people about the ease with which a personal trust can be established through Charities Aid Foundation (CAF) or how donor directed funds can be managed through a community foundation or, less commonly, through an umbrella trust?
- If the costs of investment management rise, could there be economies of scale to be achieved through having more funds pooled?

¹ Lindsay Driscoll and Peter Grant, ‘Philanthropy in the 21st Century- a discussion paper prepared for the Honorary Treasurers Forum, published by Cass Business school, City University, 2010.

- Philanthropy UK has developed a simple form for setting up a charitable trust with the help of Bates Wells Braithwaite and the support of the Charity Commission, should this could be reactivated and promoted?
- Should CAF, Community Foundation Network (CFN) and ACF simply be encouraged to promote these options more widely?

3. **Funding**

3.1 Statistics about funding of CSOs by trusts and foundations are complicated by the fact that not all trust and foundation grants are to charities (some are to individuals or statutory bodies and some are to other CSOs e.g. universities or hospitals) and not all grants to charities are from trusts and foundations (a small proportion are from other charities, such as the British Heart Foundation and Macmillan Cancer Support). The NCVO Almanac (2010)² estimates that trust and foundations and grant giving charities gave £1.7bn to charities in 2007/08, with by far the major part coming from trusts and foundations. However, overall, trusts and foundations made grants of £5bn.³

3.2 The £1.7bn went to almost 27,000 charities and breaks down as follows:

- Micro (less than £10k turnover) £13.4m (0.8%)
- Small (£10k to £100k) £92.9m (5.4%)
- Medium (£100k to £1m) £443.7m (26%)
- Large (£1m to £10m) £570.6m (33.5%)
- Major (more than £10m) £583.9m (34.3%)
- Total £1,704.0m (100%)

3.3 Significance as a funding source.⁴ In terms of causes, no single cause (or sub-sector) receives a majority of its income from this source, although this may not be the case for specific organisations:

- The causes or sub-sectors most dependent on this source of income are:
 - Community development (19% of total income) and international (18%)
 - Umbrella bodies (18%)
- Conversely, those that are least dependent are:
 - Employment and training (4% of total income)
 - Health (5%)

In overall terms, trusts and foundations contributed 4.8% of the sector's income in 2007/08. Over the last seven years this proportion has remained fairly constant ranging from 4.8% to 6.7%. However, the importance of this income source to the sector is far greater, since it represents an independent source of funding. For trusts and foundations themselves, it is income which they can use as they wish to respond to changing circumstances and needs.

3.4 Assets. NCVO estimates that UK charities holds net total assets valued at £96.6bn and free reserves are worth £46.7bn. Two thirds of these assets (£62.9bn) are held by grant making

² NCVO Almanac data, in the main, relates to charities, excluding housing associations, faith groups, trade associations, independent schools and those charities that are not independent of government, such as NHS charities.

³ Of the remaining £3.3bn, £2bn went to statutory organisations and individuals and £1.3bn to other parts of civil society e.g. universities

⁴ Analysis of total income from 'voluntary sector' funding gives an indication of which parts of the sector benefit most from trusts and foundations. The analysis includes income from other charities; NCVO has no reason to believe that this pattern is fundamentally different from that of grants from trusts and foundations.

organisations (including those that make grants to individuals, such as benevolent societies) and the sector held endowments totalling £23.8bn in 2007/08, much of which are held by trusts and foundations. These assets are concentrated in the largest organisations, such as Wellcome Trust (£14.8bn), Garfield Weston Foundation (£3.7bn) and Leverhulme Trust (£1.6bn); the top 10 grant makers hold 31% of the assets of grant makers and the biggest 105 grant makers hold 50% of the assets.

3.5 Definitions. The terms ‘trust’ and ‘foundation’ tend to be used interchangeably, although there is a legal distinction between the two, which means that whereas all foundations are trusts, the reverse is not the case. A more important distinction to make when considering issues relating to investment and spending (see Section 4), is between:

- Endowed foundations, whose endowments may be:
 - Permanent i.e. trustees are required in law to maintain the value of their capital asset ‘in perpetuity’
 - Expendable (= the majority) i.e. trustees have discretion as to whether to maintain value, use part of their capital for particular projects or ‘spend out’ (see Section 9).
- Non-endowed foundations, which depend on a revenue stream to make grants e.g. from a company as an annual donation or dividend, TV appeal, public fundraising or, in the case of a specialist intermediary, like the Housing Association Charitable Trust, from other trusts and foundations.

3.6 Another important feature of trusts and foundations to bear in mind is that relatively few of the 8800 trusts and foundations have paid staff and that the majority rely on one or two part-time employees or voluntary work by trustees. Furthermore, the top 500 foundations (5.7%) spent £2bn pa on charitable causes in 2008/09 (= 40% of all grant making)⁵. When making recommendations about trusts and foundations, it is therefore important to distinguish between those that might only be relevant to the larger trusts and foundations and those that might be relevant to them all.

3.7 The current financial context presents important challenges to those trusts and foundations that have experienced a drop in returns on their own investments. The scale of public expenditure cuts, and the dependency of so many charities on public sector contracts, also raises important questions about the role of trusts and foundations over the next few years. For example, the Wolfson Foundation has recently announced a major grant towards the upkeep of cathedrals, as a direct response to cutbacks in public funding for this cause; others, however, would be resistant to substituting for government funding in this way.

3.8 Issues

- The quality of financial and other data about trusts and foundations is very poor. ACF is planning to expand its own survey of members to address this, but should ACF and NCVO explore ways of improving the quality and quantity of data about this type of funding?

4. Investing and Spending

4.1 The income which trusts and foundations receive on their investments is tax free – and the original endowment would have been paid out of pre tax income; there is therefore an important issue about the degree of public accountability they should have in return for this benefit.

4.2 Under the Charities Act, the trustees of a trust or foundation have a duty to ensure that the funds entrusted to them are invested well and spent well, in order to promote public benefit. There is considerable debate about what ‘well’ means in this context. As the Heron

⁵ Grant making by UK Trusts and Charities, ACF and CAF, Jan 2007. NB This figure excludes the Big Lottery Fund, but includes all forms of voluntary sector grant making (see 3.1 above)

Foundation in the US has stated: ‘The issue is not whether private philanthropy has done well but whether it can do better.’ The two main issues for endowed foundations are:

- What proportion of the capital endowment should be spent on grants (or loans) each year?
- How far should the capital endowment be invested to maximise financial return, as opposed to social return?

In practice, the two issues need to be considered together, not only because they need to be viewed in the context of overall strategy (see Section 5), but also because there are potential trade offs between the two, if the approach taken to investment generates a lower financial return and therefore reduces the amount available for grants.

- 4.3 The issue of how much to spend each year on grants is sometimes presented as a choice between the interests of future generations of potential beneficiaries and the interests of the present generation. Some argue that the gravity of many of the problems society faces, such as climate change, mean that we owe it to future generations to take action now; whereas others argue that other issues, such as peace in Northern Ireland, have only been progressed through having a sustained approach over 30 years.
- 4.4 Nevertheless, there is a view that trusts and foundations could and should be spending more of their income. Lindsay Driscoll and Peter Grant’s survey of 21 foundations concluded that whereas the average pay out was 5.42% over five years, the mean pay out was 3.5%. If the mean pay out was increased to 5% (= the required pay out rate in the US) and applied across all endowed foundations, they estimate this would increase charitable funding by 31.5% (=£1bn pa). However, they recognise the arguments against this approach and, therefore, conclude that the issue should be further looked at by government.⁶
- 4.5 Diana Leat, on the other hand, argues that the imposition of a fixed percentage on the US model would not be acceptable or desirable in this country. In her paper for ACF on this issue⁷, she makes the point that, on the available evidence, it is not at all clear that a required 5% payout rate on the US model would make any major difference to foundation average spending in the UK. If there are foundations ‘hoarding’ funds unnecessarily, then the issue is one of regulation by the Charity Commission rather than new regulation. The paper concludes that ‘rather than force foundations into a ‘one size fits all’ required pay out rate, if there is to be a requirement imposed, it should be for foundations to think about how much they spend relative to their mission, and then to provide a clear rationale for their decision.’
- 4.6 Another important aspect of the spending debate is whether to provide some funding in the form of loan or quasi-equity finance (assuming your governing document permits it) , rather than grant; as discussed in the Capitalisation and Social Investment paper, this can not only help CSOs build up their capital, but also enables a foundation to recycle its funds.
- 4.7 On the issue of investment, Margaret Bolton⁸ discusses a number of different terms used in the US and UK (sometimes in different ways) to describe different approaches to ‘social’ investment. Some of the approaches she discusses include investing capital in ways that:
- support the common good i.e. avoiding ‘sin stocks’ (negative screening)
 - are consistent with your charitable purposes i.e. avoiding investments which are counter to your mission and finding investments which help promote your mission (positive screening)
 - directly support the work of CSOs that promote your charitable mission
- 4.8 The critical issue for foundations, particularly those with permanent endowments, is how confident they can be of achieving sufficient financial return to maintain the value of the endowment i.e. what level of risk they are prepared to take. Flexibility can be another issue, as some ‘social’ investments may not be so easy to realise as listed investments. In practice,

⁶ Lindsay Driscoll and Peter Grant *ibid*

⁷ Red Herrings and Real Issues; maximising public benefit, not (mandating) payout, Dr Diana Leat, ACF paper 2010

⁸ Foundations and Social Investment by Margaret Bolton, 2006

most foundations that invest directly in CSOs will only invest part of their capital in this way, perhaps only 5%, so the issue of risk and flexibility will not be so significant. What is important is that all trusts and foundations should have an investment strategy that clearly sets out their approach to these issues.

4.9 A number of examples of these approaches have been tried in the US and a few trusts and foundations in the UK, e.g. Esmée Fairbairn Foundation and Tudor Trust, have been pioneering investment in CSOs, but they are still very much the exception.

4.10 Issues.

- Decisions about investing and spending need to be taken as part of a trust or foundation's overall strategy for pursuing its mission, not least because a decision to do more social investment could increase or decrease the amount of funding available to make grants, as well as potentially increasing impact. Engagement with these issues is an important part of the governance of the organisation, but is not always fully discussed. Is there a need for more information as to why these different forms of investment have not taken off in the UK? The Commission's Paper on Capitalisation and Social Investment already contains a recommendation on this issue (see box below)
- Do most trustees still believe that their primary responsibility is to maximise financial return, despite the guidance from the Charity Commission, which recognises the scope for a 'blended value' approach?
- Most trustees outsource the management of their investment portfolio to investment managers, working to an agreed asset management strategy. In the UK, at present, most investment managers are unwilling to investigate social venture capital and other forms of unlisted investment. Do trustees engage sufficiently in investment performance? Some argue that incorporating social, environmental and governance issues into investment decisions has been shown to help reduce risk and may even lead to better investments, which outperform non-ethical investments.⁹ Are trustees reluctant to change investment managers or to engage in these issues, which are perceived as too complex?

Recommendation 1 in Capitalisation and Social Investment paper – Using existing funding to help capitalise the sector

Background

- Most CSOs are under capitalised; income and expenditure are very closely matched, leaving them vulnerable to changes in public policy or financial down turns, and their reserves for development or working capital are much lower than the commercial sector, making it difficult for them to compete or to withstand late payment regimes
- Trusts and Foundations are an important source of donated capital for CSOs and, by funding the full costs of projects, providing core grants for capacity building and funding on a longer term basis, can help capitalise the sector, particularly where the provision of debt finance in isolation is not viable
- Trusts and Foundations are in a position to complement debt finance, funding those aspects of the investment where there is no financial return; some are also in a position to take higher risks with their own investments, than commercial investors – and a few are now doing this as a way of furthering their mission.

Proposal

- ACF should secure funds to carry out a survey of current trust and foundations' grant making practice and use the results to help develop the grant making and social investment initiatives and approaches outlined above

⁹ 'A Legal framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment', Freshfields Bruckners Deringer for UNEP Finance Initiative, 2005

Target beneficiaries: all civil society organisations with resources (apart from micro organisations (< £10k) reliant on low levels of individual donations).

5. Strategising

5.1 There are key decisions that any trust or foundation has to make about both its approach to, and the focus of, its grant making. Further details of the questions that have to be addressed are given in the Annexe.

5.2 These choices and decisions will require considerable debate and heart searching by the trustees and staff, especially in the current financial environment. In order to steer through them all, they are likely to need the following:

- An agreed set of values
- A shared view and interpretation of the common good which they are seeking to serve
- Agreement about how far they want to achieve a lasting impact
- Good information, e.g. what has been learned from previous grants, on which to base their decisions
- Recognition that desperate times may call for desperate measures, but also to be realistic about what impact can reasonably be achieved.

5.3 The few, larger, trusts and foundations (see 3.6) could be encouraged to adopt the following type of framework for a funding strategy:

- What is the trust or foundation in business to do? Which cause(s) and types of CSOs should it fund?
- How best to deploy assets to accomplish the mission in the most effective and efficient way?
- Types and extent of funding to be provided to individual CSOs
- Degree of support for building the capacity of the sub-sector(s) in which the CSOs operate
- Degree of support for helping develop the financial sustainability of the sub-sector(s)
- Degree of support for campaigning and advocacy work to address the causes rather than the symptoms of social and other problems.

5.4 Issues.

- There is no right answer to all the questions in the Annexe, but there are effective and less effective ways of addressing them. The key issue is how best to encourage trusts and foundations to grapple with them in a considered way i.e. to choose rather than to drift and how best to encourage the larger ones to take a strategic view of the way they fund their bit of the sector?
- Should ACF develop a set of questions which all the larger trusts and foundations could answer as part of a strategic review, building on the quality standards work it has already done? Given the current financial position, could ACF be more actively promoting the importance of trusts and foundations funding capacity building/infrastructure, investing in ways of helping generate income and supporting campaigning work?

6 Collaborating

6.1 As well as working through the ACF and its various interest groups, such as the one on Criminal Justice, some of the larger trusts and foundations are also involved in the Intelligent Funding Forum, convened by ACF and the BIG Lottery Fund (see National Lottery and Effectiveness papers), and in the Woburn Place Collaborative (WPC), which is committed to collaboration and to promoting social change.

- 6.2 Members of WPC have now developed, or are currently developing, over 50 different projects involving two or more funding partners on a range of different themes covering philanthropy, bridge building, civil society, environment, mental health, migration and refugees, mission connected investment, poverty, prison reform and criminal justice, rural communities, violence against women, young people and older people.
- 6.3 Examples include the Young Foundation's recent work on unmet need (Sinking and Swimming (2010)), which was funded by c15 foundations; the Corston initiative on Women in Prison; and Diana Leat's book 'Just Change – strategies for increasing philanthropic impact'. As well as providing joint funding, these networks also provide a valuable opportunity for sharing best practice and learning from each other's experience. Less commonly, they provide a mechanism for trying to influence public policy e.g. on criminal justice issues, where the combined experience derived from the trusts and foundations' grantees, provides a strong evidence base.
- 6.4 Groups like London Funders also promote cross sector working between trusts and foundations, public sector funders, National Lottery and others. This can be a valuable way of improving understanding and developing partnerships.
- 6.5 Issues.
- Should trusts and foundations collaborate more with government in the current financial climate? For example, are there ways in which they can help CSOs make the changes necessary to survive (mergers, greater use of technology, new systems for delivering personalised services)? Or should they focus more on non-government interests e.g. through funding more 'cuts watch' campaigns or alternative approaches to service provision?
 - Should they develop a joint working capital fund to help CSOs with the cash flow problems inherent in payment by results and late payments? (see case study below)
 - Where there is more than one funder involved can a 'lead' funder approach be developed to reduce transaction costs for the grantee?

Case Study: Refugee and Migrant Justice (RMJ)

Following a change in the Legal Services Commission funding model, whereby providers are only paid when cases are closed, RMJ experienced severe cash flow problems because of the nature of their complex and lengthy cases. This has recently contributed to their closure.

A group of foundations are in the early stages of exploring options for addressing the need for working capital which this funding model necessitates together – Baring Foundation, Diana Princess of Wales Memorial Fund, London Legal Support Trust and Trust for London along with Social Finance.

Three of the barriers to overcome are the need for a well developed business plan to put to potential investors when asking for working capital, the need for effective financial reporting and invoicing to support payment claims and the need to meet the interest payments involved. The trusts are clear that it is unfortunate to be put in the position of helping organisations deal with the consequences of funding arrangements put in place by government. By bringing expertise and some, limited, funding to the table in the short term, trusts and foundations can help CSOs find a way through these complex challenges.

However, in the medium term, the trusts involved here feel that the funder who is purchasing a service should be responsible for providing the necessary cash flow. The trusts are also, therefore, in discussions about this with the Ministry of Justice and the Legal Services Commission.

7 Grant making

7.1 Issues relating to grant making strategy are discussed in Section 5 above and the Annexe. Paper 3 on Effectiveness also covers a number of issues about bad and good practice in grant making raised by David Carrington and others, as well as the issue of administrative costs. Generally, the Commission's perception is that, as a result of mechanisms like the Intelligent Funding Forum and the wider work of ACF, the quality of grant making has improved considerably in recent years. There is more focus on outcomes, proportionate monitoring and learning from grantees' experience; there is also more 'engaged' funding where the funder takes a wider and more proactive approach to the various ways they can help the grantee succeed and more interest in sharing learning. Application processes are increasingly on line and better use is being made of new technology.

7.2 Issues.

- In the current financial climate, there are some specific issues to highlight including: funding redundancy, maternity and sick leave costs; rounding up grants and not always clawing back under spending; and providing working capital. Should ACF's set of questions suggested in Section 5 above embrace these points?
- As well as encouraging shared learning between trusts and foundations, is there also a need to extend this to other bodies, such as the Research Councils and different parts of government?

8 Managing and governing the organisation

8.1 Most trusts and foundations have small staff teams and many have very low staff turnover.¹⁰ This can make it difficult to get new blood into an organisation. Similarly, many of the trustees of trusts and foundations stay in their positions for a long time and trustee boards tend not to be very diverse or have user representation. Some of the Commission's interviewees also suggested the performance of both groups of people needed to be improved. Some trusts and foundations have found that one way of doing this is to recruit some new trustees; newly appointed CEOs have often helped with this process. ACF has been seeking to address these issues through trustee education programmes.

8.2 The role of being a trustee of a trust or foundation is very different to that of an operating charity. There is, usually, no fundraising to be done and there are relatively few employer responsibilities. A particularly important dimension is that of ensuring the organisation's capital, on which it depends, is well invested. Yet, it appears this is one role which tends to be neglected, since trustees prefer to get involved in the detail of grant making instead of holding those responsible for investments to account.

8.3 According to ACF, all too often, most of the trustees are only too happy to leave investment issues to the one or two trustees with experience in the area. Yet if the organisation is considering social investment, it is even more important that the trustees as a whole engage in the debate about how best to approach it, particularly since it may be necessary to change investment managers in order to bring about a different approach (see 4.8). In fact, one of the main reasons why boards are often reluctant to explore social investment is because of a lack of confidence, and consequently a tendency to be risk averse in this area¹¹. ACF has issued guidance notes and has been running seminars with CCLA on Effective Endowment Management in order to begin to address this issue. There is also a need for trusts and foundations to recruit more trustees willing to engage critically with investment strategy.

¹⁰ See article on interviews with 10 CEOs of leading foundations by Richard Gutch in Trust and Foundations News, Autumn 2008

¹¹ The issue of risk averse trustees is highlighted in Beth Breeze's report 'Investment Matters' on charity asset management for the Institute of Philanthropy (2008)

8.4 The other main role of the trustees is to set the overall strategy. As indicated in Section 5, this is becoming ever more important and should be a major focus of board discussions.

8.5 Issues.

- The main issue identified is how best to increase the financial literacy of trustees, so they are more confident in engaging in discussions about investment (see Recommendation on this issue in Paper 1 on Capitalisation and Social Investment). This is all part of the more general issue of what governance means in a foundation.

9 Ending

9.1 There can be a tendency for trustees to preoccupy themselves with how to keep the trust or foundation going, whereas it may be more appropriate for it to spend out its capital. This could be because the trust was formed in the memory of a particular individual and with the passing of time memories of that individual and what they stood for has faded e.g. the Princess Diana Memorial Fund, or it could be a decision the trustees make, like the Tubney Trust, following the death of their founders, to maximise their impact over a fixed period of time. It may simply be a sign of success – the needs have been reduced. ACF has issued guidance on ‘Spending Out: learning lessons from time-limited grant-making’.

9.2 Issues.

- It is still relatively rare for a trust or foundation to ask itself this question, although some, like the Joseph Rowntree Charitable Trust ask themselves this question every 10 years as a matter of course. Should this become standard practice for all trusts and foundations, as part of the set of questions in their strategic review? (see Section 5)

10 Special Case 1 – Community Foundations

10.1 Community foundations are a particular category of trusts and foundations, which, because they raise their own funds and have a specific local, geographical focus, give rise to a different set of issues. In 2008/09 there were 57 community foundations, which between them invested £66m in 20,000 community organisations and covered over 90% of the country. At the same time, community foundations supported locally over 1400 philanthropists with their giving strategies in the UK. As at March 2008, these individuals and companies had committed £220m of long term charitable giving to community foundations and around 50% of the community foundations’ overall grant making was on behalf of these fund holders. Both grant making and charitable assets management have doubled in the last five years and community foundations are now one of the leading funders in the community sector (Community Foundation Network (CFN) submission to the Funding Commission (2009)).

10.2 Following CAF’s negotiation of the original funding challenge by the US Charles Stewart Mott Foundation to community foundations in Tyne and Wear and Northumberland, Cleveland and Bristol, the network has steadily developed. In the early 2000s, community foundations perhaps became too involved in managing government and lottery funds, rather than generating new funds, but more recently, particularly with the Esmée Fairbairn Foundation’s ‘Time for Growth’ initiative in 2002-05 and the Government’s endowment challenge fund in 2006- 2009, they have started growing their charitable funding significantly. The Esmée Fairbairn Foundation initiative targeted £1m over three years at 10 of the smaller community foundations, particularly in rural areas, which had struggled to grow. The (then) Office for the Third Sector Endowment Challenge Fund (part of the

Grassroots Grant initiative) provided £50m matching funding for the development of endowment funds.

10.3 Some of the most important developments have been:

- Increasing numbers of philanthropists joining the boards of community foundations (as opposed to the 'good and the great')
- New staff with marketing, commercial and service sector experience becoming involved
- Less focus on managing in and out funds and more focus on building relationships with local philanthropists and companies
- Introduction of a quality assurance system which all members of CFN now have to obtain as a condition of membership
- Development of more partnerships and profile

10.4 An important new development has been the investment, by a philanthropist, in Localgiving.com, which is currently being piloted and will enable every community group in contact with its local community foundation to market itself, attract donations via its community foundation, and network with other organisations. CFN's vision is that, with the help of this new technology, community foundations will become centres for philanthropy, providing advice to donors and applicants alike, on where to give and how to get better at telling their story to potential donors. In this respect, they are particularly well placed to advise many of the smaller trusts and foundations referred to in Section 3 earlier about potential causes to support in their area.

10.5 One of the particular attractions of community foundations is that because they are charities themselves, they provide a mechanism for people to give to community groups that are not charities, in a tax efficient way. This is clearly very relevant to the Government's Big Society agenda.

10.6 Issues.

- How should community foundations (CFs) work with other parts of the sector locally (e.g. local support and development organisations (LSDOs) like councils for voluntary service)? The roles of community foundations and LSDOs are distinct, but there may be a case for closer, more formalised, collaboration (but recognising the potential conflicts of interest this would involve) (see Effectiveness paper).
- How can CFs best build relationships with business, and small and medium enterprises in particular, to benefit local communities and causes? (see Commercial Sector Support paper)
- What incentives could central and/or local government provide to enable community foundations to develop efficiently and effectively, e.g. providing tax breaks or initial running costs? (unlikely in the present financial climate, but see paper on Individual Giving)
- What funding could other trusts and foundations provide community foundations to help them develop, along the lines of the Esmée Fairbairn Foundation's Time for Growth initiative? (see 10.2 above).

11. Special Case 2 – Benevolent Societies

11.1 Benevolent Societies, as their name implies, are one of the oldest and more traditional types of trusts and foundations. In many cases, the characteristics of their beneficiary groups, and the circumstances surrounding them, have changed considerable, since the societies were first established. Through having independent income, they have developed in relative isolation from the rest of the sector and have therefore not always kept in touch with policy and organisational developments. As a result, they can sometimes appear old fashioned and paternalistic in their approach. However, as part of the charity sector and wider civil society, they raise important issues

concerning effectiveness, which, since benevolent societies are grant makers, are addressed in this paper rather than the Commission's separate paper on Effectiveness.

11.2 NCVO estimates there to be 2200 benevolent societies with assets of £2.05bn. In addition, there are a range of other non-profit or mutuals, such as friendly societies, operating in the pensions and life assurance areas with assets considerably higher. Although these organisations are grant makers and funders, their beneficiaries are individuals, rather than CSOs.

11.3 Some benevolent societies, such as Independent Age and the Teachers Benevolent Society, have modernised radically in the last few years. (see case study below). They have tried to ensure they focus their resources on the most needy in society, in line with the public benefit test (whilst recognising the limits imposed by their charitable objects), and have been pursuing equality and diversity policies in the way they extend support to potential beneficiaries.

Case study – Independent Age

Some of the key changes made by Independent Age have been:

- Analysing all the needs of their beneficiaries, not just their financial ones
- Deciding where they can add most value, rather than focussing only on financial support or 'doing a little bit of everything'
- Researching their beneficiaries' entitlements and helping them access benefits
- Working in partnership with other CSOs to provide non-grant services for their beneficiaries
- Involving volunteers more in their work and introducing a dedicated volunteering strategy
- Developing their staff to introduce a higher level of caseworker skills and knowledge of benefits and the social care system
- Using the experience of their beneficiaries to inform and influence government policy
- Reviewing eligibility criteria and the levels of financial assistance they provide in the light of these other changes and in line with public benefit requirements
- Strengthening their governance and expertise.

11.4 The two main umbrella bodies for these types of organisations are the Association of Charity Officers (ACO) (for benevolent societies) and the Association of Mutuals (for friendly societies). Both have tended to operate on very few resources and have consequently had a low profile. However, ACO now shares offices with ACF and, therefore, there could be opportunities for greater collaboration between the two.

11.5 A recent initiative, 'Benevolence Today', involving 35 benevolent societies under the auspices of ACO, began the process of 'bringing the benevolent sector closer to the charity and social sectors and away from its relative position of isolation.' In their report,¹² they highlighted the potential for improving signposting and referrals through more joint work, as well as the potential of new, non-grant, services. The Turn2us search engine developed by Elisabeth Finn Care is a good example of these developments. However, Benevolence Today is no longer being supported by ACO.

11.6 Issues

- Are the, very considerable, assets of benevolent societies and other similar organisations being used in the best interest of their beneficiaries or should more of these organisations be following the example of Independent Age and other members of the Benevolence Today initiative in considering whether there are more effective ways of assisting their beneficiaries?
- Would these organisations benefit from becoming closer members of the ACF 'family' and thus getting access to the range of support that ACF offers for increasing the effectiveness of

¹² 'Benevolence Today: help for people in need- Final report 2007-10', London 2010

its members or should they be considering themselves as social welfare charities and focussing their resources in that direction?

12. Emerging Recommendation

The role of trusts and foundations over the coming period is going to be more important than ever. It is therefore particularly important that they maintain a strong focus on how best to deliver public benefit. To do this, they need to ensure they have the right governance arrangements, as well as the right strategies for their particular beneficiaries.

EMERGING RECOMMENDATION – Making the most of the income and assets of trusts and foundations

Background

- **Trusts and foundations cover a wide range of different types of organisation, including endowed foundations, community foundations and benevolent societies, which between them hold around £63bn assets; most of these assets are concentrated in a relatively small number of organisations. The quality of data about trusts and foundations is very poor considering their importance as a funding source.**
- **All trusts and foundations, of whatever type, are required to demonstrate that they are using their funds to achieve public benefit and their trustees have a duty to report on how they do this**
- **Trusts and foundations represent a very important part of the ‘funding mix’ for the sector, especially in the current financial climate. Most, but not all, of the larger trusts and foundations have well developed strategies for both investing and spending their funds; however, there are a number of ways in which good practice could be further developed and disseminated.**

Proposal

- **Trustees should develop and publish strategies for determining how they invest and spend their funds and how they manage the relationship between investment and spending**
- **Their investment strategies should consider the potential for different types of social investment, whilst also taking account of issues of risk and flexibility**
- **Trustees should ensure they have appropriate oversight of their investments, so they can be satisfied they are being managed appropriately**
- **Boards of trusts and foundations should review whether they have the right range of skills and expertise for effective governance, including oversight of investment strategy**
- **The good practice developed by some benevolent societies in widening and modernising the way in which they assist their beneficiaries, should be disseminated to all benevolent societies and similar organisations**
- **All types of grant funders (including Research Councils) should share knowledge and information to identify and promote good practice.**
- **NCVO, CAF and ACF should work together to improve the quality of data about trusts and foundations.**

Benefits: Larger trusts and foundations

Annexe – Questions for a grant making strategy

1. Approach to grant making

Some of the questions to address are:

- Proactive or reactive?
- Spread widely or focus narrowly?
- Project funding or core funding?
- 100% of costs or just a contribution?
- Symptoms or causes? Prevention or cure?
- Longstanding needs or new needs?
- Ongoing approaches or innovative approaches?
- A few big grants or lots of small grants?
- Established CSOs or emerging CSOs?
- Long term programmes or time limited programmes?

In most cases the approach adopted will be some kind of compromise between these two extremes, but underpinning the choice of approach should be a strategic view of what the funder is trying to achieve.

2. Focus of grant making

Some of the questions to address are:

- Which beneficiary group(s)?
- Service delivery or other activities e.g. inquiries, campaigns?
- Direct activities or capacity building/training?
- Scaling up small organisations or backing more established ones?
- Front line organisations or infrastructure bodies?
- Funding activities or investing to help generate income?
- CSOs or statutory bodies? I.e. which is the best type of organisation for delivering the trust's mission? (it may not necessarily be a CSO – see Paul Hamlyn Foundation's work with schools and libraries and the Hunter Foundation's work with the Scottish Executive).

Again a combination of these is the most likely outcome.

3. Financial context

These choices become particularly challenging in the current financial context, when there will be reduced income and increased demand. Some of the choices to be made are:

- Focus on those who are hardest hit? e.g.
 - Geographical areas
 - People e.g. those on benefits or unemployed?
 - Types of CSO e.g. medium sized organisations that are being squeezed?
 - Types of activities likely to be hit hardest e.g. infrastructure bodies, arts?
 - Types of work that is likely to struggle to get funding e.g. campaigning?
- Help CSOs adapt to the new world e.g. through funding mergers, restructuring, investment in new technology?
- Provide working capital to assist with cash flow problems resulting from payment by results and late payments?
- Decide to spend more on grant making than usual (countercyclical funding)?
- Agree to fund non-statutory services if the state withdraws?
- Explore new ways of doing things, using resources more creatively?
- How far to adopt a campaigning role?