Is it Seaworthy?

Assessing and Funding the Capacity of Voluntary and Community Organisations

ACF

governancehub

workforce hub

Association of Charitable Foundations (ACF)

The Association of Charitable Foundations (ACF) is the umbrella membership organisation for independent grant-making charitable trusts and foundations in the UK. ACF's priorities include encouraging philanthropy and enabling trusts and foundations to achieve good practice in grant-making. ACF's 300 members range in size from large foundations with paid staff disbursing over £20 million per annum to small volunteer-run trusts disbursing less than £100,000 each year.

Governance Hub

The Governance Hub aims to improve the quality of governance within the voluntary and community sector across England by:

- Increasing the supply of trustees and board members, with the range of profiles, skills and experience needed by voluntary and community organisations
- Enhancing the knowledge and skills of trustees, board members, senior managers and others involved in governance
- Enhancing the governance capacity of organisations to deliver their mission, engaging and involving their key stakeholders
- Promoting good governance in the voluntary and community sector.

The Governance Hub is a partnership of nine organisations that provide support to the voluntary and community sector: Association of Chief Executives of Voluntary Organisations (acevo), Black Training and Enterprise Group (BTEG), British Association of Settlements and Social Action Centres (bassac), Charity Trustee Networks (CTN), East Cornwall Council for Voluntary Services (ECCVS), National Association for Voluntary and Community Action (NACVA), National Council for Voluntary Organisations (NCVO), Social Enterprise Coalition (SEC) and Volunteering England. The accountable body for the Governance Hub is NCVO (charity number 225922).

UK Workforce Hub

The UK Workforce Hub offers guidance and advice to help voluntary and community organisations to attract, develop and retain the staff and volunteers they need.

The Hub promotes good employment practice in the voluntary and community sector by offering a one-stop-shop website and helpline for organisations and a variety of publications and networks.

The UK Workforce Hub is hosted in England by NCVO, in Northern Ireland by NIVCA, in Scotland by SCVO and in Wales by WCVA.

FUNDED

ChangeUp / Capacitybuilders

The Governance Hub and UK Workforce Hub are two of six national Hubs of expertise, developed as part of the ChangeUp programme to build capacity and improve the infrastructure of the voluntary and community sector. The other four Hubs are: Finance, ICT, Performance and Volunteering. The Hubs are funded by Capacitybuilders.

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By Ceri Hutton and Stephanie Sexton

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Glossary of terms and abbreviations

AGM: Annual general meeting.

Board: The governing structure for any **VCO**. See also **governance** and **trustees**.

Community foundation: A network of approximately 60 independent and 'cause-neutral' charities across the UK dedicated to strengthening local communities. Community foundations manage funds donated by individuals and organisations. They help donors target their funding and act as a link between donors and local needs.

CVS: Council for Voluntary Service. **Second-tier organisations** that support the development of the voluntary and community sector (**VCS**) in their local area.

FCR: Full cost recovery.

Fundee: Refers to a voluntary or community organisation that is funded by any type of **funder**.

Funder: Refers to any 'body' that gives funds to voluntary and/or community organisations (**VCOs**). This may be a charitable trust or foundation, statutory body (such as a local authority), private individual or other type of organisation.

Governance: The systems and processes concerned with ensuring the overall direction, effectiveness, supervision and accountability of an organisation. In practice for a **VCO** this means having a skilled, effective **board**, composed of an appropriate number of **trustees**, that is clear about its role, makes sure the organisation acts accountably and within the law, and gives the organisation a clear direction and vision. Often much staff time is expended ensuring that the board is serviced, advised, informed and supported in its work.

Second-tier organisation: An organisation that exists to promote and support other **VCOs**. Their users are organisations, compared to first-tier or frontline organisations, that deliver services to individuals.

Senior staff member: The paid member of staff within the organisation with lead responsibility for overseeing its management and operations. They may be the project manager, director, chief executive officer (CEO) or have another title.

Trustees: The group of people legally responsible for the organisation. They may be known as the **board**, company directors, management committee or another name.

Workforce development: The process of recruiting and developing a **VCO's** staff and volunteers and ensuring that they are motivated, sufficiently skilled and supported to deliver the core activities and services of the organisation.

VCO: Voluntary or community organisation.

VCS: Voluntary and community sector. Throughout this resource, when 'the sector' is used, it refers to the VCS.

Introduction

"As funders, we not only have to check that an organisation has a good project, but that the vessel carrying the project is seaworthy."

London-based funder

This quote provides a useful image to bring the notion of organisational capacity to life.

'Organisational capacity' refers to the ability of an organisation to plan and deliver its primary mission and objectives. It enables an organisation to perform well in all aspects of its operations. It is the core structure that underpins all activities, services and projects of an organisation. Capacity development aims to strengthen some or all of these core functions, which include governance, strategic planning, management and personnel, finance, fundraising – any function, in fact, that is central to the organisation's basic performance.

The projects and activities of an organisation can be thought of as the precious cargo that a ship will carry. We load the cargo on to the ship, but have we checked that the ship is seaworthy? How well have we checked – by glancing at it, or by checking below the plimsoll line? Will it weather storms? Are the crew skilled enough? Are there enough provisions on board? Does the crew have a compass and map?

The purpose of this resource

The purpose of this resource is to help those who are funding and supporting the voluntary and community sector (VCS) check the seaworthiness of the 'ships' they work with. It has been produced because recent research and consultation shows that, whilst some funders have thorough and systematic ways of assessing organisational capacity, others do not and may appreciate advice in this area.

Voluntary and community organisations (VCOs) and funders have different needs, and a 'one size fits all' approach is inadvisable and unattainable. VCOs will have different needs depending on their size, experience and complexity of function. Some are small boats, some seagoing ocean liners. In the same way, different funders, assessors and VCS advisers will also have different needs and capacity. Statutory funders may be required to carry out many rigorous checks, whilst small charitable foundations may not have the resources to do this. However, all those who support the sector share common goals – they want to see their funding used effectively and to see the organisations perform well.

This resource has been produced by the Governance Hub and UK Workforce Hub working in partnership with the Association of Charitable Foundations. It draws on ideas in numerous research publications (see references), as well as a variety of assessment frameworks currently in use. It provides a brief overview of issues, some real life case studies and suggests 'capacity assessment prompts', which can be used to help assess the organisational capacity of VCOs.

Who can use this resource?

It is hoped that this resource will be of use to all those assessing and supporting organisational capacity within the VCS, including:

- Charitable foundations or trusts assessing grants and making funding and other recommendations.
- Voluntary sector organisations assessing and distributing funding (for example small grants programmes based in a Council for Voluntary Service (CVS)).
- Public sector bodies assessing the distribution of funds (for example local authority grants schemes).
- Second-tier organisations providing non-financial support to the VCS (such as CVS advisers).
- Consultants and others supporting the voluntary sector (including private individuals, companies and some public sector bodies).

It is also hoped that the ideas and explanations will prompt debate and development amongst those determining funding policy and practice.

Overview of key issues

What is ‘organisational capacity’?

‘Organisational capacity’ refers to an organisation’s ability to deliver on its primary mission and objectives and to perform well across all of its operations. It is largely determined by whether there are sufficient experienced, skilled and supported people (staff, trustees and volunteers) to do the core work necessary, and the physical resources (overheads) needed to underpin this.

Tasks such as management support, fundraising, accounting, planning, board support, personnel issues, office administration and many others are some of the core operations necessary to ensure healthy organisational capacity. These can be overlooked or short-changed when voluntary and community organisations apply for funding. This is partly because VCOs do not adequately cost them, but also because funders can be keen to direct resources towards services, activities and projects that have more obvious external benefits and outcomes rather than towards the core work.

Most supporters of the sector recognise that they need the funded organisation to be ‘fit for purpose’ or ‘organisationally healthy’. This means the organisation will have a plan, will be anticipating resource needs and generating income, will have good organisational policies, will be supporting its staff – will be doing everything, in fact, that is sound organisational practice. In order to achieve this, an organisation needs organisational capacity i.e. the right people to do these tasks, with enough time and resources to carry them out effectively.

Many funders do support the core work of an organisation at least to some extent. The phrase ‘organisational development’ usually denotes that a funder is willing to support this type of activity. This will often encompass both governance and workforce development.

Funders and second-tier organisations can have their own organisational capacity issues. They too will need to plan and manage their core business. The Association of Charitable Foundations’ publication *Good Grant-Making Practice: A Quality Framework (2002)* sets out a useful framework to help trusts improve the quality of their grant-making. It covers key capacity areas from ‘Governance’ to ‘Personnel’ to ‘Communication’. These are all areas that charitable funders need to address to make their grant-making work effective, accountable and clear – core operations, which together form a foundation’s ‘organisational capacity’.

To meet even basic good practice standards, the framework shows that trusts and foundations have to put in thought, work and resources to develop the relevant policies, procedures and ‘keep a good ship’. This is much the same as the core work needed by VCOs, if they are to operate as effective and accountable organisations.

There is a growing body of research and opinion that stresses the importance of adequately funding core costs in the sector. *Who pays for core costs?* by Julia Unwin, published by ACENVO (now acevo) in 1999, marked a turning point in this debate by stressing the need to fund core costs and overheads in a transparent and sustainable way. Following the Cross Cutting Review, HM Treasury’s 2003 *Guidance to Funders* emphasised that “no activity can be undertaken without the need for support functions”. Sir Peter Gershon’s Efficiency Review in July 2004 then highlighted the need to fund the full costs of VCOs.

Since 2004, research by the Governance Hub and the UK Workforce Hub, New Philanthropy Capital, acevo, Charity Finance Directors’ Group, Big Lottery Fund, the Baring Foundation and many others has emphasised the need to fund organisational capacity as well as projects. Some key reports are listed in the references section. In summary, these reports have concluded that:

- Funding organisational capacity is not an 'optional extra'. It is a key part of ensuring that funding for a project or a service is put to best use.

- The sector cannot manage funding and deliver results unless it has a core capacity to do so.

- There is a direct link between the quality of the funded service or project and an organisation's core capacity to manage it. For example, if you just fund a project worker but do not fund any recruitment or training costs for them, the organisation will not be able to recruit widely to employ the best person, and is unlikely to be able to train and motivate that person once they are in post.

- There is an understandable focus by funders on the outcomes of the work they fund. However, an organisation cannot achieve outcomes unless it has the ability to manage, resource, support and set the direction for those 'on the frontline'. It also needs to be able to deal with unforeseen problems and difficulties in a way that does not destabilise the project. This ability can be viewed as its organisational capacity.

- The relationship between funder and fundee is not just about channelling money. Funders can bring much to the relationship in terms of helping organisations think through issues such as planning, risk management and good organisational practice. By doing so, their funding investment can be both more secure and is more likely to achieve results in the future.

What does 'good practice' in funding mean?

Giving out money is easy. Giving out money effectively is not. Over recent years there has been an increasing interest in the notion of effective funding. At policy level the ChangeUp initiative, now managed by Capacitybuilders, aims to provide a national impetus for funders to examine and improve their relationship with the sector.

Numerous publications have debated the issue of effective funding. For example, the Big Lottery Fund's *Investing in Our Programmes – Maximising the Impact of Grant Making (2006)* examines the area of 'intelligent funding'. New Philanthropy Capital's *Funding Success (2005)* examines how funders can diagnose the potential effectiveness of a charity. The Centre for Charity Effectiveness (based at CASS Business School) offers a postgraduate diploma/MSc in grant-making management. At an individual level, many funders have produced toolkits and guidance to help their assessors probe both the viability and effectiveness (the 'seaworthiness') of the applicant organisation.

Given the range and diversity of those funding the sector, a prescriptive 'one size fits all' good practice guide would be impossible to distill from all this work. However, some clear principles about good practice in funding emerge.

Full Cost Recovery

At national policy level there is an increasing acceptance that funders should be moving towards Full Cost Recovery (FCR). The Gershon Efficiency Review in 2003 highlighted the need to improve the funding relationship between the sector and funders and recommended that VCOs identify their core costs more fully in order to recover them better from funders. This recommendation aimed to ensure that organisations' core infrastructure and staffing were not squeezed to an unviable level in favour of a constant focus on service delivery.

The key resource about FCR is *Full Cost Recovery: A Guide and Toolkit on Cost Allocation (2004)*, published by acevo and New Philanthropy Capital. It sets out a way of apportioning core costs across all funders of a particular organisation. In theory, if followed, this method would ensure that an organisation has the capacity to support all its funded projects, and that no funder would be expected to contribute more towards core costs (proportionately speaking) than others.

However, for FCR to work all funders need to understand the principle and 'buy into' it. In reality their approaches, knowledge and ability to do so vary widely. Most statutory funders will be at least 'FCR aware', particularly as the Treasury deadline for implementation was 2006. For charitable funders no such deadline exists, and, although some have looked at how they can respond to this practice, many have not; this results in a tricky economy for the sector.

If some funders do and others do not fund their 'share' of core costs, organisations still have to meet those outstanding costs from somewhere. As a result, organisations can run into difficulties and potentially reduce essential core operations to risky levels. There is a long way to go before FCR is implemented fully, but the principle is sound if the core capacity of VCOs is to be funded adequately.

Developing relationships, not just ticking boxes

Assessing the organisational capacity of an organisation can involve a checklist of due diligence evidence around, for example, an organisation's constitution, accountability and legality.

To do this well, however, requires more than a paper-based approach. Again and again, when funders have examined the difference between successful and unsuccessful funding programmes, the key difference has been the degree to which the funder encouraged open communication with the fundee. Critically, visits are an important factor in determining whether or not an organisation has the capacity to deliver on a proposed programme of activities. Such communication takes time and resources, but where it is possible it can reap dividends in terms of results.

Sending a message that the funder does not expect perfection

If a funder wants to encourage honesty amongst its applicants, it needs to send a message that it is not expecting perfection, and also that it is prepared to help an organisation develop its capacity to achieve the results it wants. Funders who do this are more likely to be alerted to potential difficulties, and to be able to help the fundee grow and develop its capacity to deliver now and into the future.

This is all the more important given that funders are seeking to support a sector that is often working in very difficult circumstances, piloting innovative projects, without any guarantees or security. In such circumstances perfection and freedom from risk are not realistic expectations.

Understanding that capacity influences outcomes

For most funders their focus is on the eventual outcomes of the project or service, not the organisation that is delivering this. In reality, however, it is not possible to separate the external achievements from a VCO's internal capacity. Key to the achievement of outcomes is an organisation's ability to support, manage and motivate the people who will be achieving them. This ability requires resources that are often defined as 'core' and thus dismissed by some funders as being peripheral to what they are interested in funding.

Being flexible

Life, circumstances and organisations change. This is inevitable. Where funders are able to accommodate change and encourage an open dialogue, a more productive relationship can be established. The important factor is that the funded organisation has the ability and resources to manage changes as they arise. This is partly about assessing and managing risk – a core function for trustees and staff, which can be under-funded.

Some challenges faced by funders

Funders are not a homogenous group. They range from statutory funders that are commissioning services to individual donors wanting to see their money make a difference. Charitable funders are themselves very diverse. Some are large, well-resourced trusts and foundations. Many more are small and mainly reliant on the voluntary effort of their trustee bodies and staff, if they have them.

However, all funders need to engage with the process of assessing the organisations they want to fund. This is often not an easy task. Some of the challenges funders face include:

- Organisational capacity constraints. Small trustee bodies of charitable trusts and foundations, for example, can struggle to cover all the ground necessary to assess and explore the organisational capacity of the applicant or funded organisation.

- VCOs are sometimes not good at diagnosing their own core capacity needs. They may not realise, for example, the importance of recruiting and training their staff and trustees – a process that takes time and effort. Sometimes it is only as a result of funders raising such issues that organisations will place them on their agenda as priorities.

- Linked to this, VCOs can presume – sometimes rightly – that funders will not be interested in funding their core organisational capacity. If funders state that they do not fund core work, this can mean that both players skirt around the issues of organisational capacity, which are then not addressed. This can affect the ability of the organisation to deliver the project being supported by the funder.

- Funders can find themselves stuck in patterns of funding the organisations they know. This is partly because it can feel safer, but it can also mean that organisational capacity issues are not discussed when funding is renewed, though capacity needs may in fact have changed.

- Funding attracts funding. Funders can inadvertently act as 'referees' for one another. There is much anecdotal evidence to suggest that funders feel reassured to know that others have invested money. As a result, they may not be as rigorous in their assessment of the organisational capacity of a known 'player'.

- There can be some reluctance, particularly amongst public sector funders, to ask questions around the skills and suitability of the VCO's staff and trustees. Some funders view such lines of questioning as intrusive and 'not their business', so they focus instead on task-related questions without exploring the skills, experience and competence of the individuals who will be doing the work. In fact, gaining an understanding of the people who will be overseeing, managing and delivering any activity is crucial. If there are difficulties, more funding may be necessary for recruitment or training for example.

- Quality frameworks or 'kitemarks' (such as Practical Quality Assurance System for Small Organisations (PQASSO) or Investors in People (IiP)) can provide a useful indication of organisational capacity. However, some funders report that they do not know whether to trust fully such quality standards. They recognise that VCOs may have used the kitemarks as a way of embedding best practice. However, they also fear that VCOs may gain a kitemark and then leave it as 'a certificate on the wall', with no discernible long-term improvement in quality. As a result, some funders have said they would appreciate guidance on how to interpret such quality standards and explore further what they mean in terms of practice.

- Full cost recovery is a fairly complex idea. Although funders may support it in theory, they may also be worried or confused about how it will be implemented in practice. In particular, funders may fear that if they contribute to the full costs of an organisation, this does not guarantee that others will.

- In some funding organisations there is a gap between those setting the policy for funding programmes and those in the field assessing the applicants and their projects. Funders may rely on the assessments made by relatively inexperienced staff who cannot diagnose and 'follow their nose' in the same way as those with more senior experience.

- Funders have to pitch their assessment according to a number of factors. These include the size and track record of the applicant organisation, the level of funding requested and the resources and capacity of the funder. Even for small grants, however, some discussion of organisational capacity can be useful.

- The power relationship between funder and applicant can distort communication. VCOs naturally want to appear in their best light. It is a challenge, but an ultimately rewarding one, for the funder to encourage a more open appraisal of organisational capacity in a way that provokes an honest and non-defensive response. This involves time as well as the skills of empathy, questioning and listening.

Some challenges faced by VCOs

As with funders, VCOs come in a variety of shapes and sizes. There are some common challenges they can face, however, when trying to engage with funders:

- VCOs can find themselves trying to fit funder priorities that do not necessarily match their experience or current delivery. This can pull organisations out of shape as they bend to fit their activity around what the funder wants.

- The reality of full cost recovery for many VCOs is that it is applied selectively by funders. Many funders have created a glass ceiling of around 10-15% beyond which they will not fund core costs. The organisation may then have to deliver projects from a weakened core capacity. Interestingly, in *'Funding Success'*, New Philanthropy Capital makes the point that they do not use administrative and fundraising costs as an indicator of organisational effectiveness. They accept that in some organisations these will be higher and that some projects require more 'back up' than others.

- VCOs report that they include governance and workforce development costs in funding applications (such as planning time, risk management assessments and staff training) only to have these stripped out by funders that do not want to pay for such costs. They do, however, still need to be paid for somehow if quality and good practice are not to be compromised.

- Linked to this, project costs can sometimes be scaled down to a level that renders a project unviable. A VCO is then left with a stark choice – refuse funding that it sorely needs or take the funding and risk delivering a product or service with reduced quality.

- VCOs can feel that if they were honest about the true costs of their core operations, funders may view them negatively and in some way wasteful. Whilst there may be a few organisations that could cut back on core costs, in the vast majority of cases costs have already been pared down to a minimum and supplemented by long working hours and volunteer time.

- Finding, keeping and supporting the people needed for the board and staff teams of a VCO can prove very challenging. Boards are often being asked to manage and oversee complex organisations whilst staff are responding to multiple demands. To perform their roles well takes time and a variety of skills – some of which will need to be developed by training and other support.

- The costs of governance and workforce development are often associated with the core staff of a VCO (often the senior staff member). VCOs can find it difficult to present these costs in a way that makes it clear how core staff support the delivery of projects and services.

Summary of rationale for funding organisational capacity

In spite of the challenges, there are powerful reasons why funders can and must play a vital role in developing the organisational capacity of the sector. These include:

Protecting your investment

No funder wants to fund a project that threatens to collapse because the organisation delivering it is not 'fit for purpose'. The implication of this is not that a funder looks for organisations with no core costs – such organisations don't exist – but rather that the assessment and support of core organisational capacity is integrated into all relevant funding and support programmes. Only by assessing and supporting organisational capacity can you better guarantee the effective and secure use of your funding.

Driving up the quality of VCS projects and services

There is a direct link between the ability of an organisation to deliver quality projects and services and its core organisational capacity. If the VCO stints on planning, staff recruitment, training and development, governance and all other core activities, it will also undermine its ability to deliver good quality work 'in the field'.

Ensuring that outcomes are delivered and are sustainable

VCOs with a weak core capacity cannot sustain activity, improve delivery or report and analyse outcomes well. If the VCO and others are to learn from the project or service and track and report on outcomes, core resources are needed to help do this.

Investing in organisational capacity can help ensure its future

"Give a man a fish, feed him for a day. Teach a man to fish, feed him for a lifetime" goes the saying attributed to the ancient Chinese philosopher Lao Tzu. Accordingly, if you fund a project without supporting core organisational capacity, the VCO will be able to deliver for a short period. If you support and develop its core organisational capacity as well, the VCO will stand a much better chance of performing well, attracting future funding and delivering effective services in the future.

Real potential to add value to the sector

The skill, perspective and guidance of funders, advisers and assessors can help transform a weak organisation into a strong one. Insights offered during the assessment process, coupled with a genuine preparedness by funders to be flexible, can make all the difference between short and longer-term success and viability.

It fits with national priorities and good practice wisdom

Organisational capacity is increasingly highlighted in national and international policy agendas, such as ChangeUp. A considerable amount of research confirms the value of improving assessment and funding practice. A move towards full cost recovery promotes the notion that funders need to consider and contribute to core costs if the organisations they are funding are to survive and thrive. There is plenty of evidence and encouragement to show that this is a productive area to consider and develop.

Anticipating problems before they arise can save you time

Dealing with changes and difficulties within VCOs is time-consuming for those funding and supporting them. Discussing and supporting organisational capacity, even to relatively low or even unfunded levels, can help anticipate problems, manage risk and ultimately save funder resources.

Building long-term relationships

Some funders may distribute funding simply to deliver their own priorities. However, many do not and wish to develop long-term relationships with those they fund, as well as an in-depth understanding about what they are achieving. Engaging in honest discussion about organisational capacity can help with that. An understanding and flexible approach can produce relationships of trust that help anticipate problems and forge more satisfying relationships for all concerned.

Case studies

The following five case studies are all real, although the names of the organisations have been changed. They illustrate the importance of assessing and supporting organisational capacity.

Making It!

Making It! is a social enterprise that encourages children and young people to become entrepreneurs. The local authority helped set up *Making It!* and gave it a building where it could run training courses. *Making It!* was also working with children to encourage them to think beyond the standard ambitions of becoming "a footballer or a footballer's wife!"

A private donor was keen to support *Making It!* and had identified significant levels of funding for capital expenditure. All the donor wanted to know was: "Is the organisation OK? Does it have the core organisational capacity to deliver on its promises?"

The grants manager from the local community foundation talked with the organisation. They identified some concerns with its business plan, as well as some of the structures and operations in place. *Making It!* was keen to rectify the difficulties, once they had been pointed out, and to accept any help that was available to do so.

A small grant of £1,000 was provided to engage a consultant to help *Making It!* cost their project properly and take another look at their planning and organisational development. The consultant gave them tasks, which they completed and learned from. Not only were the concerns addressed, but the organisation learned from the experience. The consultant charged by the hour, which made the best use of this relatively small amount of money.

"Even though the grant was for capital expenditure, everybody knew, including the donor, that investment in the core organisation was important," said one of the staff at *Making It!*

The result was that the donor made the award and *Making It!* learnt valuable lessons. There is now a credible business plan and structure in place that will help *Making It!* develop in the future.

This shows how, by investing time and a small amount of funding to develop organisational capacity during assessment, a funder can help an organisation reap long-term rewards.

DAWO – Disadvantaged Asian Women's Organisation

A group of Asian women living in one of the most deprived areas in England had noted that many women from their communities were isolated and depressed. This was often a result of being alone for prolonged periods when their husbands were out at work. These women came together informally through a small BME-led organisation and decided to set up another organisation to address this problem. They called this *DAWO – Disadvantaged Asian Women's Organisation*.

DAWO wanted to tackle the isolation and distress they had witnessed. It held cultural events, worked with schools and set up a range of activities including Asian cooking and keep fit. It also started a more complex project on self-harm.

At this stage *DAWO* only had one paid worker, funded by the local council and other small project based funding. It was otherwise using volunteers to deliver its work. *DAWO* began to apply for funding to cover the costs of its new projects and put in an application to a major funder.

The funder commented on the application's complexity: "It had lots of bits that reflected the range of their activities and included hidden work on board development and organisational planning."

The funder was keen to support *DAWO's* core development. They could see that the organisation was at a crossroads. The activities were fine, but *DAWO* needed to focus on strengthening its core capacity, particularly its board. Though *DAWO* was initially reluctant to accept organisational development funding on the grounds that "it will make us look incompetent," the funder persisted.

The funder was supportive of *DAWO's* work, and also appreciated their approach: "What impressed us was that they recognised the need to strengthen their board, which was still highly dependent on the founder, who was still the chair. It needed to develop as a group if it was to manage our grant and future funding, and importantly plan and prioritise for the future."

Funding was allocated for recruiting, training and planning activities for the board. As a result, *DAWO* has grown in strength and individual members of the board have gained confidence and skills. The board is now cohesive. A strategic plan has been developed and the organisation as a whole knows what it wants to prioritise. *DAWO* has become much more attractive to other funders, gained more funding, and continues to enjoy the support of the local community.

As a result of the funder being patient and supporting the organisation to develop its board and business plan, *DAWO's* prospects for success in the long-term have dramatically improved. By making an early investment in *DAWO's* organisational capacity, the funder has ensured that far more activities are likely in the future.

Here to Hear

Here to Hear is a small counselling and mentoring organisation for young people. It was set up by a nurse who was worried by what she saw in the course of her work. Initially supported by enthusiastic volunteers, *Here to Hear* was first funded by small contracts from schools. It then applied to a medium-sized funder for support for a project manager post, and was successful. It received other small pots of funding, and gained premises.

All appeared to be going well. The funder was, therefore, surprised to receive a letter alleging malpractice within *Here to Hear*. Other funders, it seemed, had received the same letter.

Rather than go in with 'all guns blazing', the funder decided to visit the project. They asked questions about staffing and resourcing that they had not previously explored. As they talked with *Here to Hear*, various difficulties emerged that they had not known about.

Here to Hear explained that there had been significant difficulties with one member of staff being off sick and an administrator being dismissed. As the funder asked further questions, a picture emerged of an organisation that had tried to do too much too quickly without having the proper recruitment or staff support systems in place. Staff had been promoted beyond their ability and experience and without any support or training to help them grow into their roles. As a result they were tired and stressed.

The letter, it appeared, had probably been sent by a disgruntled member of staff who did not like the rapid pace of change. The allegations were dismissed by the funder, but as a result of talking with them, the funder also realised that the organisation had seriously underestimated its core organisational needs.

The funder did not panic. Recognising that *Here to Hear* had done good work, but had tried to grow and manage staff beyond its capacity, the funder decided to invest £5,000 in employing a local freelancer to work with the project. The freelancer worked with the organisation to strengthen the board and develop the organisation's management and support structures (including recruitment). They also helped the organisation with external communications to develop better relationships outside the organisation and restore confidence amongst funders.

By accepting that an organisation can have teething troubles, and by being patient and supportive in the way they approached an apparent crisis, the funder helped *Here to Hear* understand and diagnose where they were going off course at an early stage. As a result, the funder not only protected their investment, but also prevented the organisation from losing staff, confidence and future funding.

On the Job

On the Job works with disadvantaged and troubled young people who find more traditional training environments difficult. The organisation works with 20 young people at any one time and takes them through to NVQ Level 2, even though it may take up to a year longer than other schemes. Its approach has been shown to be successful for their target group.

On the Job's first funding application was to cover the costs of a construction supervisor for one year. Although this was needed, it was not going to help with *On the Job's* long-term plans. Worse, if funding for year two and beyond was not forthcoming, the whole programme could have been in jeopardy.

The local community foundation liaised with the funder to encourage them to consider longer-term funding, which they had not provided in the past. But, before the funder committed to this, they wanted to know that the organisation was stable and 'in good health'.

The community foundation therefore decided that they would provide £1,000 for a consultant to carry out a 'health check' for *On the Job*. In the event, the full sum was not necessary – only £270 was used as the organisation was deemed to have a good structure, clear leadership and sound operational policies and procedures.

Importantly, however, this small investment meant that the funder was reassured. As a result, they are now providing ongoing funding for the construction supervisor's role, and will consider further funding applications from *On the Job*.

By funding a small external health check to prove to this and other funders that *On the Job* was viable, the community foundation has helped reassure the funder and enabled *On the Job* to reach greater funding security.

Inside Art

Inside Art is a small arts project working with prisoners. Initially it managed with minimal funding, volunteers and a part-time worker, and progressed well for a year. It evaluated its work, forged relationships and came up with some good publicity materials. It decided to try to expand its programme.

Inside Art fitted a number of national funding priorities and appealed to several funders. "It is really exciting and makes such a difference," one funder observed. "Funders were falling over themselves to support us, and the money flooded in. Suddenly we had £500,000 and could do so much," said one member of *Inside Art's* management committee.

With higher levels of funding came a big cultural shift. The informal ways of working, which had been appropriate up until then, needed to be placed on a much more formal footing. The board and committee structure needed strengthening. Staff and volunteers, who had previously been helping on an 'all hands on deck' basis, needed to be recruited formally and take on new responsibilities for which they had no previous experience. Difficult issues of recruitment, management and supervision, and managing considerable change surfaced. The management committee began to feel overwhelmed by the amount of core organisational business they needed to take forward.

Though some funders acknowledged the need to spend time developing internally, the time and effort required to set up such systems and manage such change was underestimated both by *Inside Art* itself, which did not apply for sufficient core resources, and by funders, who did not encourage *Inside Art* to realistically assess its core funding needs. As one member of the management committee commented: "Funders were dazzled by our activities – the exhibitions and so on – so they wanted more and more of them. But in order to carry on and make it sustainable, we needed money to be directed towards core organisational matters, particularly in the first year. Eventually we realised this ourselves, but it took time."

The crunch point came when several board members left, as well as a staff member. At this point the remaining board decided they needed help and employed a consultant to conduct an organisational review. As a result of this review, new systems were introduced, staff recruited and policies and procedures introduced.

Focusing on internal development was a difficult decision, as one board member points out: "It was a struggle – funders really wanted to talk about the events and the projects, not the difficulty we were having becoming an accountable and sustainable organisation managing a budget of half a million pounds. For a while we were terrified we weren't going to make it and that it would crash. It would have really helped to have a more sympathetic funder to talk with and advise us."

***Inside Art* risked becoming destabilised because funders wanted to focus on their activity rather than recognise their need to develop their core organisational capacity. For a while it seemed as if the rapid pace of change, which new funding had caused, might destroy rather than consolidate the organisation. Although there is a happy ending, funders could have better supported the organisation if they had recognised this need earlier on.**

Capacity assessment prompts

Many funders will have their own 'due diligence' checklist (written or not) to confirm the legality and financial probity of an organisation and probably other aspects besides. This will be appropriate to the needs of the funder and the type of organisation being assessed for funding.

The following is a series of questions to help those assessing and advising the sector to dig a bit deeper when exploring capacity issues. It is hoped that funders, advisers and assessors could then help organisations address these issues by, for example:

- Having a conversation about the issue and providing some advice.
- Helping the organisation think through and address the issue more thoroughly, perhaps by funding a small piece of support or consultancy to help them do this.
- Providing additional funding to meet identified capacity gaps.
- Encouraging an organisation to think about the true costs of its services and projects, if these have been underestimated.
- Providing pre-assessment advice and guidance, itself a form of 'mini consultancy', if resources allow.
- Signposting to a trusted second-tier organisation or consultant.

It is important to note that a 'one size fits all' approach is inadvisable. Funders, advisers and assessors will have to make a judgement about the level of probing needed to uncover potential capacity gaps. The support needs of a large and established organisation will differ greatly from those of a small, volunteer-led group that is just starting up.

How does this section work?

Six key areas have been identified where funders, advisers and assessors could help prompt a discussion and possibly uncover capacity gaps. In each of these areas the following is provided:

- A list of standard checks and evidence most commonly collected by funders to check performance in this area.
- A series of questions that are designed to go beyond the basic 'due diligence' assessment, and help dig a little deeper. Used selectively, these may help provide a more thorough assessment of the organisation, its approach and its core capacity needs.

It is important to note that there are **no right and wrong answers to these questions**. They are provided simply to prompt discussion and 'take the temperature' of how an organisation works and some of the risks or difficulties it may face.

Finally, it is important to note that the following has not been provided as a checklist. Instead it is expected that funders, advisers and assessors will select what is useful from the prompt list, rather than working through each of the points methodically.

Area 1: Is the organisation clear about its vision and direction?

Funders, advisers and assessors will want to make sure not only that the organisation is operating legally, but also that its board and staff are clear about what it is in business for (its vision, mission and values). If it is not clear, the organisation runs a variety of risks, including potentially being pulled in different directions by funders and not having a clear plan that it can use to manage performance and use as a fundraising platform. A clear direction is also a sign of a robust and functioning board and good communications both internally and externally.

Some standard checks and evidence used by assessors

- Is the constitution adequate for the size and purpose of the organisation?
- Is it registered as a charity? Check the Charity Commission's online Register of Charities for details.
- Is it working within its legal charitable objects?
- What is the size and composition of the board like?
- What procedures are there for trustee induction and training?
- Are there equal opportunities/diversity policies and procedures in place?
- Are there clear vision, mission and values statements?
- Is there a strategic plan – with clear and measurable aims, objectives and goals?
- Does it undertake regular strategic reviews of its activity?

Some prompts to help you dig a bit deeper

1. How were the vision/mission/values statements created? When were they last revisited or refreshed?
2. Are there any other organisations doing similar work? If so, what is the implication for your organisation?
3. If I asked your trustees and your staff to describe what you are here to do, would I hear the same answer? What about your users?
4. How do you consult your users and stakeholders about your direction and services?
5. How are board members and staff recruited? How do you know that they are able to fulfil their role?
6. Why is diversity an issue for your board and staff? What do you do about this (other than have a policy/procedure)?
7. Can you describe communication between the board and staff, e.g. how does it happen, how frequently, and how are decisions communicated to staff/volunteers?
8. How is the strategic or business plan created? How long does the process take?
9. How is the strategic or business plan used in managing performance in the organisation?
10. Does everybody in the organisation know what the plan says? How do they know?
11. How does your current application for funding to us help further any of the aims or objectives in your strategic or business plan?
12. How do you publicise what you do? Are people outside the organisation (e.g. public sector bodies, other VCOs, funders, actual and potential users) clear about what you do?

Area 2: How will your investment be accounted for and protected?

All funders, advisers and assessors have a legitimate interest in ensuring that their funding is spent well and not prone to loss or misuse through poor internal procedures. This area is often where funders make the most rigorous evidential checks, but these may not necessarily reveal all. It is useful to know about how the organisation is handling and managing its finances – hence some of the 'softer' prompts below.

Some standard checks and evidence used by assessors

- Does the organisation have written financial procedures? Are these followed?
- What are the bank and cheque controls?
- Are any of the cheque signatories related?
- When are trustees involved in expenditure authorisation?
- Who manages and has authority for the payroll?
- What level of debt is the organisation carrying?
- Does the organisation owe money to the Inland Revenue?
- Are all salary payments on the books (no cash in hand)?
- How often does the board receive and review financial information?
- Does the board receive payments (the answer should be 'No', unless their constitution and Charity Commission allow it)?
- Is there a budget and how often are variances monitored?
- Are there up-to-date accounts, and do they comply with SORP 2005?
- Is there a conflict of interest policy?

Some prompts to help you dig a bit deeper

1. Who manages the finances on a day-to-day basis? What experience or training have they had to help them do this?
2. What financial policies and procedures do you have? How were these developed?
3. How does the board scrutinise the finances? How is the treasurer involved in controlling finances?
4. Does the board have a dedicated finance and audit committee or similar?
5. How are salaries and expenses paid? Who authorises them and deals with the paperwork?
6. How do you set and review your budget?
7. What proportion of the income in your budget is guaranteed?
8. How do you use your conflict of interest policy?

Area 3: What is the organisation's approach to risk?

Risk is inevitable for all organisations, however stable they may seem. Other than the risk of financial mismanagement, there are also much broader risks that every organisation has to carry and manage. The important points here are to accept that risk is inevitable, and to see if the organisation has thought about the key risks that it faces and has put in place practical provisions for dealing with these. Many organisations do not because they feel they are simply too busy. Funders can help by posing such questions and being sympathetic to changing circumstances.

Some standard checks and evidence used by assessors

- Are the terms and conditions of employment realistic?
- Is there a disciplinary and grievance policy/procedure?
- Do they have a risk assessment policy and procedure?
- Are clear financial controls in place?
- Are the organisation's key board and staff members up-to-date with and acting on relevant legislation?
- Is there a contingency budget?
- Have Criminal Records Bureau (CRB) checks been carried out (if appropriate)?
- Do they have a health and safety policy?
- Do they have a complaints procedures and whistle-blowing policy?
- Do they have a crisis management policy?

Some prompts to help you dig a bit deeper

1. How do your salaries and terms and conditions compare to similar jobs in other organisations? How do you keep your members of staff motivated?
2. What would happen if, for example, a key member of staff left?
3. If required, how would you pay for recruitment costs, maternity/paternity cover, and sickness cover? How many staff absences could you afford to cover at present and for how long?
4. (If they have a contingency budget) How did you set the amount for your contingency budget? What would it cover?
5. Are you aware of any major challenges to your work (from competitors, funders, other stakeholders etc.)? Have you considered how you will handle such challenges?
6. What would you do if somebody in the organisation was suspected of fraud? Do you have policies and procedures?
7. How many trustees do you have? What plans are in place to replace them when they move on or leave?
8. How does the organisation recruit suitable trustees? How have you recruited them before, and how easy or difficult was this?
9. Do you think you could benefit from any specialist advice (legal, financial, business, management?) If yes, on what?
10. What other funding do you need in order to be able to fulfil the goals in your strategic or business plan? Where will this funding come from?
11. What would you do if you faced a crisis? Do you have any emergency procedures for dealing with a crisis?
12. What happens when our (and other) funding stops?

Area 4: How does the organisation value and support its people?

The major resource of any VCO is its people. Unless it has the core capacity to recruit, manage, supervise and motivate its trustees, staff and volunteers, it lays itself open to poor performance, a demotivated team and even litigation. This will have a knock on effect to the services and activities it delivers. It is vital to understand how the organisation values its people and to understand the real commitment and resources – many of them core – that will be dedicated to this.

Some standard checks and evidence used by assessors

- Are trustee and staff recruitment, induction, development and appraisal policies in place and implemented?
- Is there a regular review of board skills and competencies?
- Are there sound recruitment procedures in place in line with equal opportunities/ diversity policy?
- What management procedures are in place to support and monitor staff/ volunteer performance?
- Is there a supervision policy and procedure?
- Do volunteers receive written agreements and appropriate expenses?

Some prompts to help you dig a bit deeper

1. How are new trustees recruited? How is their expertise utilised and developed?
2. How often do trustees or staff go on training or development programmes? How do you identify the need for these?
3. How rewarding do you think your trustees find the experience of being on your board?
4. Do staff understand what the trustees do, and vice versa?
5. Have you had any difficulties recruiting suitable trustees?
6. Have you had any difficulties recruiting staff with the necessary skills and experience?
7. How do you keep staff and volunteers in the organisation skilled and motivated?
8. How does your turnover rate of trustees, staff and volunteers compare with other similar organisations?
9. Do you have any succession planning in place for trustees and staff?
10. How do you, or would you, tackle any difficulty around trustee or staff performance?
11. How do you supervise, appraise and develop staff in your organisation?
12. What role do volunteers play in your organisation? How do you find and support them?
13. How much of your budget have you set aside for staff and board training? Can you give some examples of training that staff and board members have received over the last year?
14. How do you know that your staff and trustees are learning?
15. You have applied to us for funding for X (project, activity, service). What core functions are needed to support this work? How will these be funded?

Area 5: How will the organisation manage change and develop?

Increased funding brings opportunities for organisations whether they are new or established, small or large. It also brings risks and potential pitfalls. If the organisation is growing significantly as a result of a funding investment that you may make, how will it manage this change? If it has been used to an informal way of working, how will it manage an expanded and more formal staff structure? How will new roles fit into the existing structure? Has it thought through the implications of managing and accounting for work and the core capacity issues inevitably associated with this? In essence, is it being realistic?

Some standard checks and evidence used by assessors

- What is the current structure of the organisation?
- How do you plan and manage new developments?
- What are the current reporting arrangements to the board?
- Are the current staffing procedures and policies appropriate for the expanding organisation?

Some prompts to help you dig a bit deeper

1. (If the funding is new, or a significant increase from current levels) What changes in the culture and management of the organisation do you foresee? How are you going to manage these?
2. (If they have core staff) Are your core staff going to take on new responsibilities as a result of the newly funded activities? How will these be incorporated into their existing work? How will you identify and support any development needs?
3. Why have you decided to expand in this way?
4. What other developments are you keen to pursue? Are you actively seeking funding for them?
5. What new skills do you think you may need on your board to effectively oversee these developments?
6. You will need to manage, monitor and report on any new funding arrangements. Have you thought about how this will affect your core capacity and how you are going to cover this work?
7. Who is working to implement these new developments? How much time are they likely to spend doing this?
8. What new systems and procedures will you develop to ensure you can manage this new project or activity?
9. How will you recruit the staff and volunteers you need to do this work? If you don't recruit, what will you do?
10. (If substantial change is implied) How long do you think it would take you to make the necessary internal changes to manage this new project? Who is going to contribute to supporting the work? How will their costs be covered?
11. Do you think you could use any external help in managing change and creating new systems and procedures? If yes, in what areas?

Area 6: Is the organisation committed to quality?

All funders want to know that the activities they fund are being delivered to a high standard. An organisation that devotes core resources to improving quality of, for example, staff management and training, is likely to deliver higher quality projects with more lasting outcomes. In addition, you may want to see some objective evidence of 'quality', such as a quality mark like PQASSO or Investors in People – this could provide a useful shortcut for you when assessing an organisation. However, how do you make sure that these are not just certificates on walls?

Some standard checks and evidence used by assessors

- Have they got any quality assurance 'kitemarks', e.g. Practical Quality Assurance System for Small Organisations (PQASSO) or Investors in People (IiP)?
- Do they comply with or use the Code of Governance?
- Do they have an internal code of conduct?
- Is there a customer care charter, or something similar?
- Is there a complaints procedure?
- Do they regularly monitor and evaluate all projects?
- How do they consult with users and other stakeholders?

Some prompts to help you dig a bit deeper

1. What are the core values around quality that inform your work? Are these written anywhere?
2. What was your experience of getting your quality assurance 'kitemark' e.g. PQASSO?
3. Who led on drafting the required paperwork? How did others in the organisation contribute?
4. Did you use a consultant to help you get this 'kitemark'? What was your experience of this?
5. When trustees or staff leave, how do you ensure new people are made aware of the quality framework?
6. How do you know that what you are delivering to your users is to a high standard?
7. Have you made any improvements to your service recently? If yes, why did you make these changes?
8. How do you gather views about both new developments and existing projects/activities?
9. Do you have a complaints policy? How do you promote, use, monitor and review it? What do you do with unresolved complaints?
10. What do you do with any user feedback or evaluation you collect?
11. Does your board carry out a regular governance review? Are trustees aware of the Code of Governance and how do they use it?

Further resources

The following research reports and frameworks were referred to in drawing up this resource.

Allies not Servants: Strengthening the Voluntary Sector Grants Programme. Matthew Smerdon, Baring Foundation, 2006.

A Matter of Common Sense: Funding for Governance and Workforce Development. Ceri Hutton and Stephanie Sexton for Governance Hub and UK Workforce Hub, June 2006.

ChangeUp: Capacity Building and Infrastructure Framework for the Voluntary and Community Sector. Home Office, 2004.

Good Governance: A Code for the Voluntary and Community Sector. Governance Hub, June 2005.

Code of Governance Toolkit: A Practical Guide to the Code of Governance for the Voluntary and Community Sector. Peter Dyer for Governance Hub, April 2006.

Foundations for Organisational Development: Practice in the UK and USA. Meg Abdy and Margaret Bolton, funded by Baring Foundation and Northern Rock Foundation, January 2007.

Funding Success: NPC's Approach to Analysing Charities. Tris Lumley, Cathy Langerman and Martin Brookes, New Philanthropy Capital, December 2005.

Full Cost Recovery: A Guide and Toolkit on Cost Allocation. acevo and New Philanthropy Capital, 2004.

Good Grant-Making Practice: A Quality Framework. Association of Charitable Foundations, 2002.

Grant-Making Programmes in the UK for the Purposes of Capacity Building. Report by Marketa Dolezel for Baring Foundation, 2005.

Investing in our Programmes – Maximising the Impact of Grant Making. Dr. Diana Leat and Dr. Sarabajaya Kumar for the Big Lottery Fund, October 2006.

Know Your Cost Base, Know Your Charity. Charity Finance Directors' Group, April 2007.

Living Values: A Pocket Guide for Trustees. Community Links, December 2006.

PQASSO and Investors in People: An Introductory Self-Assessment Tool. Learning and Skills Council/Charities Evaluation Service/Investors in People, August 2006.

Research Report on the Approach of Voluntary and Community Organisations to Planning and Budgeting for Workforce and Governance Development. CreatiVenesS for UK Workforce Hub and Governance Hub, July 2006.

The Due Diligence Tool for Use in Pre-Grant Assessment. Liza Culick, Kristen Godard and Natasha Terk for Grantmakers for Effective Organizations, 2004.

Who Pays for Core Costs? Neither Rhetoric nor Complaint – A Proposal for Modernisation. ACENVO (now acevo), 1999.

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Organisational capacity is the core structure of an organisation that underpins all its activities, services and projects. *Is it Seaworthy?* has been written to help those who are funding and supporting the voluntary and community sector check the organisational capacity of the bodies they work with. It draws on ideas in numerous research publications as well as a variety of assessment frameworks currently in use. It provides an overview of the issues, real life case studies and suggests 'capacity assessment prompts', which can be used to help assess organisational capacity.

ACF (Association of Charitable Foundations)
Central House
14 Upper Woburn Place
London WC1H 0AE
Tel: 020 7255 4499
www.acf.org.uk

Governance Hub
c/o NCVO, Regent's Wharf, 8 All Saints Street,
London N1 9RL
Helpline: 0800 652 4886 (9am-6pm Mon-Fri)
governance.hub@ncvo-vol.org.uk
www.governancehub.org.uk

UK Workforce Hub
UK Workforce Hub in England, Regent's Wharf,
8 All Saints Street, London N1 9RL
Helpline: 0800 652 5737 (9am-6pm, Mon-Fri)
workforcehub@ukworkforcehub.org.uk
www.ukworkforcehub.org.uk

The UK Workforce Hub is hosted in England
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Hosted in Northern Ireland by:
NICVA, 61 Duncairn Gardens, Belfast, BT15 2GB
Tel: 028 9087 7777
www.nicva.org

Hosted in Scotland by:
SCVO, The Mansfield Traquair Centre,
15 Mansfield Park, Edinburgh EH3 6BB
Tel: 0131 556 3882
www.scvo.org.uk

Hosted in Wales by:
WCVA, Baltic House, Mount Stuart Square,
Cardiff Bay CF10 5FH
Tel: 029 2043 1700
www.wcva.org.uk

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