

**Second meeting of the Funding Commission
18th May 2009 1.30-5pm, NCVO**

1. Attendees

Rachel Lomax	Commission (Chair)
Ann Blackmore	NCVO
Michael Brophy	Commission
Dinah Cox	Commission
Louisa Darian	NCVO
Stephen Dunmore	Commission
Toby Eccles	Commission
Stuart Etherington	NCVO
Fiona Ellis	Commission
Toby Ganley	NCVO
Daniel Hale	NCVO
Brian Horner	Commission
John Low	Commission

Apologies

Paul Amadi	Commission
Dawn Austwick	Commission
Claire Dove	Commission

Rachel welcomed Toby Ganley and Daniel Hale to the meeting. Toby will be taking over as secretary of the Commission when Louisa leaves at the end of June. Daniel will be providing research support to the Commission over the next six months.

2. Minutes and matters arising

The minutes of the last meeting were agreed.

3. Update from the first meeting

Rachel gave an update of activity since the first Commission meeting in February. She explained that this included:

- A futures meeting in March. This session highlighted just how difficult it is to predict the future. The recession is a reminder that the very unexpected can happen; it wasn't anticipated when Carnegie did their inquiry into the future in 2006.
- A piece of **desk research**, which demonstrates how much has been done to build the capacity of the VCS over the last ten years. The relationship between the VCS and government has changed dramatically.
- A **consultation** which showed that, despite the range of initiatives that have been developed in recent years, a number are yet to be bedded down.
- A think piece by David Carrington which highlighted three messages:
 - That the funding market is complicated and doesn't work well for everyone; an intelligent funding market is required
 - There is a lack of financial muscle in the VCS. The VCS does not think of its balance sheets and, because of this, is not resilient in hard times.
 - Innovation matters, this includes thinking about new technology, new forms of finance and new uses of finance.

- Some members of the Commission have met to discuss some initial work around social investment.

Rachel pointed out that the Commission should not re-invent the wheel and instead identify a couple of areas where they can usefully comment. The purpose of the meeting was to identify those areas.

4. Proposed themes

Louisa talked through the consultation findings. The Commission received approximately 40 questionnaire responses and ten formal written responses. A number of themes came out including issues relating to local funding, public service delivery, giving, funding practice, social investment and capacity building.

In choosing which themes the Commission should focus on, the following criteria were applied:

1) Is the issue viable in the economic context?

We are entering a period of high tax and low public spending. Budget 2009 stated that spending would grow by 0.7% in real terms over the next spending round. These are the deepest cuts to public spending since the 1970's. While public services will remain high on the Government's agenda, there will be an increasing need to explore new ways to co-finance services, through the pooling of public and private money.

2) Is there political support for the issue?

The political context means that there is an increasing possibility that we will see a Conservative government in power following the next election, one with a localist agenda keen to increase access to local services delivered by niche, local providers. This will mean ensuring that funds flow to the local VCS.

3) Is new policy or thinking required?

In order for the Commission to have most impact it is important to focus on areas where new thinking or policy is required.

4) Is it an area that has VCS support?

The themes need to be relevant and pertinent to the breadth of organisations across the VCS.

Louisa explained that applying these criteria to the themes led NCVO to dismiss a number of them for further consideration by the Commission. For example there has been a significant amount of policy work done on public service delivery and government funding through the Cross Cutting Review, 2008 Public Administration Select Committee Inquiry and the Compact. Many of these issues require policy implementation rather than policy development.

Louisa went through the themes that were proposed, and why, in more detail:

Social Investment

New thinking/ policy

The Commission received a number of consultation responses proposing new thinking in relation to social investment. For example, Venturesome called for further evolution of the market and greater collaboration among suppliers including, increased co-investment and pooled funds, greater sharing of information and knowledge and the development of a

common language. And in a recent article for the Smith Institute Paul Palmer¹, Professor of Voluntary Sector Management at CASS Business School, raises the need for more thinking on legal structures, tax incentives and business education for social entrepreneurs. There was also a call from Citylife for the application of a 3% rebate per annum on social investment bonds.

Political and economic context

The political and economic contexts are both conducive to focussing on the social investment market. Both political parties support the development of a Social Investment Bank. And a tighter economic climate suggests that limited funds will result in:

- A need for government to explore ways to pool public and private money;
- an increasing desire by funders to explore ways to recycle funds to make scarce resources go further.

Support from VCS

In their response, Venturesome argue that they have experienced additional calls for social investment in recent years, and that there is a significant amount of latent demand i.e. demand that is not realised. Guidestar data also show that charities are borrowing. There are 7,000 charitable organisations that have bank loans in total of £5.2 billion².

However, the consultation response also identified some caution in relation to social investment, particularly from those that have championed the role of grant funding. For example, in their consultation response NAVCA referred to the 'limitations of loan finance'.

Local funding (including asset transfer and endowments)

Political and economic context

Both of the main political parties have focussed on the needs of local groups. For example, within the 2007 Third Sector Review, the Government identified a key role for the VCS in strengthening communities and committed to supporting this. In addition to this, the Government has devolved a lot of statutory VCS funding to the local level. This is a trend that is set to continue under a Conservative Government.

The economic context also suggests that there may be a number of opportunities to further develop certain initiatives. For example, there may be potential to increase asset transfer as the value of local authority buildings decreases and businesses are forced to vacate their premises.

Support from VCS

The importance of local grass roots funding came out heavily from the consultation and the need for endowments of cash, land and property to protect the long-term sustainability of the local VCS. Volunteering England called for local infrastructure to support volunteering opportunities locally, and a case was made for local social investment opportunities. Respondents referred to the difficulties they experience accessing buildings and there was significant support for the role of Community Foundations. A number of respondents also mentioned the opportunities and challenges presented by the devolution of statutory funding.

New thinking

A number of interesting ideas to improve local funding were proposed by questionnaire respondents. These included proposals to divert a percentage of Council Tax to create

¹ Ibid.

² Palmer, P (2009) 'Banking on the third sector', in '*Social enterprise for public service: how does the third sector deliver?*', The Smith Institute: London

community local endowments, Neighbourhood Funding Panels operating through a combination of Business Improvement Districts tax and National Lottery income and proposals for proceeds from local crime to be returned to the local area for endowment.

Philanthropy (including corporate social responsibility and tax effective measures)

Political and economic context

Increasing the amount of giving/philanthropy is supported by both of the main political parties. The Government published a strategy to increase charitable giving in 2005 and the Prime Minister has recently appointed Dame Stephanie Shirley as the Government's ambassador for giving and philanthropy.

Louisa also said that the research does not suggest that giving will fall as a result of the downturn, and there are some potential to increase it. For example, Legacy Foresight have predicted that legacy giving will rocket in 2025 with the rise of single affluent women and this year's Rich List demonstrates that there are a significant number of very wealthy people who give a fraction of their wealth to charity.

New policy/ thinking

A range of proposals have been suggested to help increase income from donations, in particular changes to tax effective measures. For example, parts of the VCS are lobbying for an opt-out scheme for Gift Aid, changes to the rules around higher rate tax payers so that charities can claim back the full rebate, and the development of lifetime legacies.

There are also lessons that could be learnt from abroad. For example, countries in Eastern Europe have experienced a boost in giving following a policy which allows citizens to forgo 2% of their tax to direct toward an approved charity of their choice.

Support from the VCS

Charitable donations provide a independent unrestricted form of income for the VCS. In the consultation, there was significant support to explore how to increase the amount of corporate social responsibility. Some VCOs said that they needed skills in how to fundraise from corporates and support to manage the relationship effectively.

5. Discussion of proposed themes

A discussion followed on each of the proposed themes.

Social investment

Commissioners agreed that social investment is a means to an end rather than a subject in its own right. The real issue is the lack of capital within the VCS. A lack of unrestricted income makes it difficult for charities to raise capital and charities are often frowned upon if they do build up reserves because it is considered 'hoarding'. Charities also struggle to borrow money because they do not have enough capital.

There were also concerns that many organisations within the VCS do not consider social investment to be relevant to them, whereas the majority will be able to relate to the challenges presented by lack of capital.

The focus of the theme will be how to increase capital to the VCS. This will include consideration of what VCOs can do to build up reserves, for example through better income management, but also how funders and policy makers can assist the sector to build capital. For example, there is potential to increase capital to the VCS through asset transfer, providing it results in the transfer of an asset rather than a liability. And funders can also help

VCOs build reserves through allowing organisations to maintain a degree of their funding for capitalisation purposes.

The Commission were also interested to explore the sector's role in providing capital to individuals, for example through increasing the role of mutuals and credit unions. The economic crisis has presented an opportunity here for the VCS as the public are seeking alternatives to high street banking.

Local Funding

The Commission agreed that the local funding theme needs to include exploration of the barriers to funding for emerging as well as existing local groups. It was also agreed that the theme should be broadened out to consider volunteering, which will become more and more critical for charities in coming years, and public service delivery. A lot of the public service delivery debate is about VCOs demonstrating what they do, which is central to access to any funding.

The focus of the theme will be to consider how organisations can make better use of the resources that are available to them. This will include thinking through ways that the VCS can use money more efficiently, how funders can fund in ways that maximise the potential of the VCS, how to connect local investors with local organisations and the support/ infrastructure needs of charities.

Philanthropy

Commissioners agreed that the theme should not focus exclusively on higher end givers, as implied by the term philanthropy. Commissioners also thought that the theme should include consideration of all non-statutory voluntary income i.e. funding from trusts and foundations, corporates and individuals.

The theme will consider ways to increase giving, for example through the creation of a 1% norm or the development of lifetime legacies. It will also consider ways to make giving more effective, for example through increasing take up of tax reliefs or reducing fundraising costs. The capacity building needs of the VCS will also be considered, for example fundraising skills, as well as any changes to funding practice. This might include educating donors about the importance of unrestricted income or the value of support what can be deemed unpopular causes.

6. Agreement of key themes

The following questions/ themes were agreed on:

Modernising giving

- How to increase voluntary income? How to make giving more effective?

Capitalising the VCS

- How to increase the capital in the VCS?

Local action

- How can VCOs make better use of the funding available?

The following cross-cutting questions were agreed:

- What changes to funding practice are required i.e. the relationship between funder and funded and the way they interact?
- What instruments or structures are needed?
- What capacity building is required i.e. what skills are needed?

- Is it relevant to the diversity of organisations that make up the VCS? This will include consideration of the needs of equalities groups, which were identified as experiencing particular challenges accessing funding.

A matrix was produced to map out the themes, questions and emerging issues.

6. Work plan

Commissioners outlined the support they could offer over the next few months. It was agreed that much of the work to address these questions would need to be done by NCVO staff.

Instead of forming formal sub-groups, as originally proposed by NCVO, Commissioners will contribute to any areas where they have special interest or expertise. NCVO staff will identify the best ways of tapping into the support available. Some Commissioners may be able to look over various pieces of work or respond to questions by phone or email. Others may be able to attend meetings or offer input from their own organisations.

The following initial indications of expertise/ interest were suggested. These may be subject to change.

Commissioner	Expertise/ interest
Paul Amadi	Giving
Dawn Austwick	Giving
Michael Brophy	Capitalising the VCS/ social investment
Dinah Cox	Giving, local action and equalities
Claire Dove	Capitalising the market
Stephen Dunmore	Local action
Toby Eccles	Capitalising the market/ social investment
Fiona Ellis	Giving/ social investment
Brian Horner	Local action and consultation events
John Low	Giving/Capitalising the market

The social investment sub-group will continue the work they have begun. This can feed into the 'capitalising the market' theme, but will also help when considering the instruments that are necessary to increase giving or make local funding more effective.

Commissioners discussed whether a second think piece or some new research was needed. It was agreed to hold off for now. It could be reconsidered at the next meeting.

7. Next steps

The next meeting of the Commission will be a whole day meeting on **29th July**. Please note that this is a change of date.

At this meeting Commissioners will consider the proposals presented by NCVO in relation to each of the themes. The aim of the meeting will be to agree draft proposals for further consultation.