SUSTAINABLE FUNDING PROJECT:
'AMAZING DAY' CONFERENCE – THE JOURNEY AHEAD:
WHAT'S IMPORTANT ON THE FUNDING HORIZON?

Introduction

My brief: What's Important on the Funding Horizon? and: Widescreen ideas in sharp practical focus

How best to set the scene for a day that will primarily be looking forward – examining how best to take or create opportunities for resourcing voluntary and community sector organisations and enterprises?

I'm conscious that – especially for those of you grafting away day by day to keep local projects and organisations financially afloat – the last thing you want is another bit of rhetoric about the virtues of loans, the case for exploiting the income potential of intellectual capital, the need to take on publicly funded contracts only if they come with full cost recovery – such exhortations are easily rejected as all just yet more theory put forward by someone who is not actually having to battle on day after day making the financials stack up… So, I'll try and stay clear of the rhetoric and theory.

Perhaps somewhat perversely – and not just because the conference blurb reminded me of my dinosaur status of 30 years experience of voluntary sector management – I thought I'd spend some of this presentation looking back instead of forward; I hope such perversity is acceptable – but the dinosaur tag promptd me to recall some of the entrepreneurial goings on within the voluntary sector in the 70's; maybe not widescreen – perhaps more the black and white movies of my youth!

Voluntary and Community Organisation (VCO) Finance

Nick also reminded me of a conversation he and I had when he was just beginning to establish the Sustainable Funding Project. In that conversation, I emphasised something that has always guided me both as a fund seeker and as a fund provider: that the financial circumstances and capacity of all voluntary and community organisations change and evolve over time; they are not static:

- They **Need** different types of finance and support at different stages of their development…
- They are **Capable of Using** different types of finance and support at different stages of their development…
- They can **Generate** different types of finance and support at different stages of their development

Yet, most of our funding systems (and the strategies of fund raisers) tend to have a much more static view of an organisation's finances – and a view which looks often almost exclusively outside the organisation to external sources for all funding; and usually then only in the form of:

- grants (from charities, statutory or lottery organisations)
- donations from individuals (alive or dead)
- possibly some sponsorship or gifts in kind from a corporate or two
- and (if the organisation is in the social care or similar arena) contract fee income (the latter usually insufficient to cover the full costs incurred by the organisation in providing the service).

In my discussion with Nick, I argued that we needed to encourage funding strategies and options which reflect that evolution and those changing circumstances: mixtures of different resources at different times for organisations at different stages of their development – always trying to concentrate grants and donations where they are likely to have the greatest impact and be the only possible form of finance; and to find ways of recycling funds or developing additional types of income generation wherever possible.

That way the total 'pot' – which is never going to be enough to pay for all that the Voluntary and Community Sector (VCS) aspires to do – could go further. I suggested that the financial and organisational planning of those who are seeking funds should be based on that analysis. I also think that the same analysis should inform the work of funders – those seeking to use their organisation's financial resources to support work within the VCS could do more to ensure that they make available different types of finance at different times to organisations at different stages of development.

A Dinosaur's Tale: NACRO Projects

Now I'm going to jump back 30 years – for some dinosaur tales. I was working at NACRO and was responsible, among other things – multi-tasking was all the rage even then except we hadn't invented the label – for their work on homelessness, their support services for local organisations providing housing and residential care for offenders, and for what was then the only national in-service training programme for people working in supported housing and day centre projects managed by voluntary organisations.

NACRO was unusually placed because the Home Office funding system which kept projects for homeless offenders going was one of the very few sources of central government revenue funding – it was never enough, ofcourse; and it was never guaranteed beyond a single year – and it was certainly not at all well equipped to cope with the double digit inflation of the late 70's.

For this part of my job I had to learn all about managing projects that were dependent on a diversity of different funding sources:

- from users, the project residents, ofcourse, with whom we had a contract – to pay rent for their accommodation – most from benefits, some from wages
- a mixture of grants from central and from local government
- some 'per capita' payments tied to specific individuals
- and some – usually life and death funds – from charitable sources:Trusts and Foundations – and a few exceptional individuals.

Juggling a 'jigsaw' of funding – all subject to different rules and timetables, was just part of life's rich pattern; the projects could not operate unless we succeeded.

And using the 'evidence' of what the projects were achieving was a constant and crucial part of trying to make the various funding systems more effective and relevant to the needs of the clients of the projects – not just to the administrative convenience of the statutory organisations that provided them – and of campaigning for changes to the legislative and regulatory environment. Some of this probably sounds all too familiar – resonances with more recent times from the pre-Thatcher era!

A Dinosaur's Tale: NACRO Training

The sustainable funding example from this period to which I'd like to refer was the expansion of the in-service training programme that NACRO provided – to the staff and trustees of small projects throughout the country; these were almost without exception untrained staff, poorly paid and providing 24 hour cover; and committee members or trustees who had taken on the task not because they were keen to become landlords or project managers but because of their personal or professional commitment as volunteers to the rehabilitation of offenders within the community – or to the needs of people with mental health problems, or to drug or alcohol users or to street homeless people; we did not just take on straightforward challenges!

The training programme was paid for by a grant from the Home Office – which did not keep pace with inflation or allow for growth. So to develop the range, quality and scale of the programme meant developing income generating provision – but our primary customers did not have sufficient money to run their services, let alone pay for their staff to go on courses.

However this was a time when the probation services were beginning to develop hostels, day centres and other local projects, for which nothing in their very traditional social work training had prepared them; they were also required to provide liaison and other support to home office funded projects managed by voluntary organisations – again with no training in how best to do so.

This was a staff development and training market into which we moved with some alacrity – we could charge those probation services not only the full cost of the courses but also a mark up which helped to subsidise the expansion of the services we provided for voluntary organisations. Our ability to do so depended on our own trustees being willing to underwrite the risk of our developing the programmes – I'm not sure if they would have done so had they done a thorough risk analysis! They took a chance – and we achieved not only a 30% increase in the training programme at a time of decline in the real value of our central government grant – but also a significantly increased level of practical engagement and policy influence on the way local probation services worked with the voluntary sector and within the wider community.

We had a product that was needed and timely – that helped; but I think it is also worth commenting that to apply such a 'commercial enterprise' approach to developing our work did not seem curious; noone said "you are a charity how can you also operate like a business". To apply to our sector what would have been the standard practice of a private sector provider just seemed 'normal' – a sensible way of developing new and additional services that were of benefit to the new market but also helped us do more for our primary charitable target.

A Dinosaur's Tale: HACT Loans

10 years later I was at HACT, the Housing Associations Charitable Trust – a grant-making trust without an endowment; to make grants we had to raise the funds. HACT worked within a sector which developed tangible assets – housing for which the consumer pays a weekly charge, the rent.

Without, I suspect, great thought or long-term planning, HACT had found that it could use some of its limited funds to make loans – often small (£20,000 would be a big sum) to what at the time were fledgling housing associations, setting up some of their early schemes. The loans were very 'soft' – long term and at no interest; by the time they were due for repayment, the housing associations were thriving and increasingly asset rich – well able to pay back what was by then for them a trivial amount; indeed they were ripe targets for HACT to link the repayment to a request for a donation to help us to provide grants (and loans) to new fledgling organisations, for example the BME led housing organisations that were emerging in the late 80's.

Again, this use of loans to support new organisations to develop assets which – if they were successful – would in turn become financially self-sufficient and able to repay HACT's investment did not seem revolutionary; for a grant-maker without an endowment to provide income, it made sense as a way of supporting asset development – after all we borrowed to acquire assets in our domestic lives – why not do the same in our work? And it meant there was a reasonable prospect of the funds being reused and reused – as a charitable funder, we were making our own assets work harder and longer.

A Dinosaur's Tale: a Bank Loan

And reaching back further – to the late 60's and my first job in the voluntary sector – helping to run a project near Leeds for what we then called delinquent children and their families. The project was in a ramshackle building which had been a farm – indeed one half of the main building was still used by the farmer. To acquire the building, the charity for which I worked had raised the funds needed from donations, mainly from individuals; at that time we had to raise all the running costs (a huge £13,000 a year) from individuals, churches, rotary clubs etc. The project was working well and acquiring a growing reputation. We were ready to grow. To raise the funds we needed to extend and improve the building, however, we did something which did not at the time seem strange – we went to the see our local bank manager and persuaded him to loan the charity the funds. It did not seem a big deal – and, given all the other risks to which the shaky finances of the project were subjecting our trustees, it seemed a pretty safe way of getting the money.

VCO Funding – Invest and Risk

I use these examples to make two points – about practice, not theory:

1. first that the VCS has always been inventive and entrepreneurial in the ways it has tried to look beyond grants, donations or contract fees for ways of undertaking the setting up or expansion of its work
2. and that investing scarce resources in expansion that, if it works, may generate a financial as well as a social return is a long established – and honourable tradition!

These days, I've no doubt we would have been far more diligent in examining and managing the risks and in preparing our business plan – I hope we have not frightened off ourselves or our trustees from making such investments, from taking the risk.

Pre-History – Resonance with Today

While I am trampling through history (selectively – things were invariably a lot tougher and more fraught than these examples suggest; the memories of trying to keep projects functioning at a time of 25% inflation and frozen grant levels still brings me out in a cold sweat), some other resonances with the present strike me:

Relationships with Government

We were much preoccupied with the relationship between government – centrally and locally – and the VCS; with issues of underfunding and undercapitalistion, of insecure and clumsily managed statutory grant schemes, of independence and of a weak second tier infrastructure. In 1977 the Report on the *Future of Voluntary Organisations* was produced by The Wolfenden Committee on Voluntary Services (funded by the Joseph Rowntree Memorial Trust – now the JRF – and the Carnegie United Kingdom Trust). The report identified the informal and voluntary sectors as being vitally important and argued that:

> "In the space between the loosely structured informal system and the more strictly organised statutory system, people can use the medium of the voluntary organisation to join with others in devising means to meet their own needs or those of others they wish to help".

Wolfenden criticised the statutory sector for its "monopolistic bureaucracy and diminished accountability" and, as those of you from Councils for Voluntary Service will no doubt have engraved on your hearts, advocated coordination of the voluntary sector through the direct funding of local developmental agencies.

Sounds a bit like aspects of last year's report of the Treasury's Cross-Cutting Review of the *The Role Of The Voluntary Sector In Public Service Delivery*!

Outcomes and Impact

We also had our versions of the 'outcomes' and 'performance measurement' debates. I recall still the challenge of a questioner at a Rotary Club in Pudsey to which I had gone to try to raise a few hundred pounds for that project for young offenders for which I worked in the late 60's. (This was a tough audience, notorious for the time when the request from the chairman for a vote of thanks to a speaker was rejected!).

I'd been describing, I hope vividly, all the activities that we provided for these kids and their families, expecting that the outline of these – our 'outputs' – would trigger their generosity, when one said:

> "OK that's all well and good, but show me the evidence that that what you do actually helps ensure that those children do not get taken into an enormously expensive and probably unproductive residential or secure centre"

– preventing that happening was a key outcome objective for our project. We got the £100 so I must have been able to drag some outcome evidence up from somewhere; but we did not usually have to do so – articles of faith and an appeal to sentiment and altruism were what we normally relied on, as have most fundraisers ever since. Until today? Things are changing as funders (Trusts and Foundations, central, regional and local Government, Lottery distributors) focus increasingly more firmly on outcomes – on what works and why. Fund seekers are going to have to become able to articulate more clearly the outcomes that their work is intended to achieve and to provide evidence of progress towards those outcomes.

future builders - capital investment

Jumping back into dinosaur mode, 30 years ago we had our version of ***future* builders** - the Treasury's current initiative to create a special capital investment fund to strengthen the prospects of voluntary and community organisations taking on the management of publicly funded services. In 1974 the Government (interestingly a Conservative Government initiative that the incoming Labour Government took forward) decided to invest substantially in Housing Associations as an alternative delivery mechanism for developing rented social housing – Associations were regarded as flexible, fleet of foot and consumer focused; this was the beginning of the eventual transfer to the voluntary housing sector of all social housing new build developments. Interesting, too, that the legislation was also prompted by the need to introduce a new regulatory regime, the revamped Housing Corporation, to deal with the problems of private benefit that certain Associations were being used to generate for estate agents and other property professionals.

Relevance to Today's Agenda?

Some preoccupations, then, from a previous era with perhaps some resonance for today; do they provide any lessons which might help us look out to the contemporary 'funding horizon'? It's obviously important to emphasise and to acknowledge how different things now are – not least that the intervening Thatcher years changed the landscape and the policy and political cultures so hugely. Things are also infinitely more complex now than then – not least the massively increased regulatory burden and the 'hoops' organisations have to jump through; but there also now exists a formidably larger range of funding schemes that are accessible by VCOs.

That so many of today's agenda items and funding dilemmas have direct parallels with the situation 30 years ago might lead some to suggest that we have achieved little; not so – but it may be an indication that we have not been as successful at information management and at sharing information about what works as we could have been – and as the people and communities with whom we work have a right to expect of us. Raising standards of information management – the signposting to useful experience and ideas is at the heart of the work of the Sustainable Funding Project – I wish we had had access to such a service when I was starting out.

Looking Forward

Enough of looking back – though there are aspects of the opportunities and challenges that this conference is addressing that I am the more confident can be tackled successfully because I think they can build on and learn from the past; these are not entirely uncharted waters and there is already plenty of effective practical and successful achievement out there from which other organisations can draw and take strength. And amidst all the centralising control-freakery within government, there is a raft of initiatives (and people within Government who have direct and long experience of the VCS) which are supportive and encouraging of the sort of strategies that the Sustainable Funding Project advocates.

Let me point to four areas about which I am optimistic – but where we need to take care if their full potential is to be realised; and also emphasise that not all these are directly about funding as such – the policy and organisational environment has to be right for even the most brilliantly conceived and administered funding system to work well.

1. Interaction with Government – much that is clumsy, many horrors and frustrations; but there has been some serious progress; for example:

- the recognition of social enterprise as a key aspect of VCS activity
- the cross cutter and the central place within the Government's subsequent commitments of the principle of full cost recovery
- Local Strategic Partnerships and the policy focus of the Neighbourhood Renewal Unit – in my view, clearly trying to apply lessons learnt from the failure of many previous regeneration programmes to engage local communities effectively
- the Compact and its Funding Code of Practice – and the other codes too.

All provide real opportunities for practical progress – but only if the VCS grabs those opportunities and does not collude with half hearted implementation.

2. Emphasis on Investment and longer term funding:

- the growing interest, for example, among Trusts and Foundations in forms of Programme Related (or Social) Investment – going beyond grants in the types of financial instrument they can use to support VCOs (an interest that I think will grow further as trusts and foundations experience the full impact of the simultaneous decline in value of all of their sources of income: from their equity holdings, from bonds, from interest on liquid funds, and from the full impact of the loss of tax relief on their dividend income).

- the setting up of the Charity Bank – an extraordinary achievement which few would have laid bets on happening even 5 years ago
- community finance initiatives like the development of CDFIs and the Investment Tax Relief that is linked to them
- CAF's Venturesome fund
- the Home Office's new Adventure Capital Fund and, hopefully, the Treasury's ***future*** **builders** fund, both demonstrating that Government recognises the importance of addressing the undercapitalisation of the sector – combined with the need to invest in increased skills and capacity if new forms of financial capital are to be well – and sustainably – used
- the demonstration – through share issues like those of the Ethical Property Company, Traidcraft and the London Rebuilding Society – that the spectrum of financing that can support community enterprise can be extended further to include yet more forms of investment – and new types of investor.

Again, however, these new 'supply side' initiatives will only really take off and be maintained if the VCS is able to get its own act together to frame financial plans in ways which encourage an investor response to their funding bids – alongside or instead of more traditional grant funding.

3. Recognition of the importance of an effective and skilled second tier infrastructure.

For those of you who are from Councils of Voluntary Service (CVSs) or other local development agencies that are battling to survive financially, optimism about this may seem misplaced and sound pretty hollow. But work is going on within the sector and in government to strengthen the second tier – the case for doing so has been energetically and persuasively argued. Moreover, there's some impressive indications from the Improvement and Development Agency that the Beacon local authorities are demonstrating that well planned and mutually supportive partnerships across traditionally high silo walls and between the statutory and voluntary sectors can make 2+2 = 5 and deliver better focused services that engage more effectively with users and local communities.

If the local VCS infrastructure is stronger and better connected, the prospects for a more intelligent approach to addressing the need for sustainable funding and for a more capable and confident VCS is enhanced.

4. IT

Fourth is IT. I know it's easy to over hype – and that some of the funding websites are crap or horrendously out of date; but no glance to the funding horizon could ignore the certainty of there being further dramatic technological changes over the next 5 years which will impact substantially on the relationship between funder and funded

Just look at the bit of the funding world that I know best, that of Trusts and Foundations:

- 10 years ago the majority of Trusts and Foundations did not have grant processing data bases – now they are a standard item
- 5 years ago, only a handful had websites – now it is exceptional to find one of the top 300 Trusts and Foundations without one.
- 3 years ago, electronic applications were almost non-existent; they are still a minority but the number is growing by the day and at least one foundation will only accept applications electronically
- 5 years hence – I anticipate all communications with staffed Trusts and Foundations will be via the web; there will be common portals for accessing groups of Trusts and Foundations with common programmes who will also share processing, assessment and admin functions; eligibility will be sorted automatically and ineligible applicants will not be able to proceed beyond that point; much decision making will be by 'virtual' committee meeting; organisations that are being funded within the same programme will be able to access their part of the funder's website and share information with each other and with the funder, ask questions about what has worked and what hasn't, alert each other to new opportunities; reporting to and engagement with funders will be a wholly different experience – both for the funder and the funded.

My first grant application was written in long hand with a carbon copy for my files; my second was on a golfball typewriter with corrections by snopake – dinosaur times! Now? The whole funding process is going through a fantastically fast transition – I've no idea how far and fast it will go but I am certain that the outcome will be a significant transformation in the ways that information providers like the Sustainability Project work as well as to the relationship between the organisations that are seeking funds and the organisations that provide resources. The potential gain in the management and use of information is huge – a growing number of foundations in the USA – and some over here – are already investing in specialist information management to ensure that the lessons learnt (for good and bad) by the organisations they support are applied back within the foundation's own operation and across a wider world.

Independence, Distinctiveness and Sustainability

One final issue to end with: the continuing vital importance for VCOs to assert and protect their independence and distinctiveness (the former to ensure that they can continue to assist their beneficiaries – their users and the communities within which they work; the latter to ensure that they can always demonstrate why only a VCO can deliver a specific activity or programme – that neither a public or private sector organisation could do it that particular way) and to work towards a viable sustainability.

If finances are desperate it is all too easy to be tugged along by shifts in the interests or priorities of a funder; too often to my mind, fundraisers score points for redefining one activity for which funding is running out in ways which enable it to be got over a new funding scheme's criteria hurdles. The history of the VCS is littered with organisations that have chased the funder and come off the rails – so beware 'mission drift' or mission distortion'.

Putting on my dinosaur hat again (for the last time!), I remind the more weather-beaten among you of the havoc wreaked among VCOs in the 80's when the Manpower Service Commission (MSC) rules were changed – for several years VCOs had benefited immensely from MSC grants and done all sorts of things with MSC funds – much that was amazing and of high quality, much that was not. But the MSC did not exist to fund the VCS; its job was to implement the government's wish to get people off the unemployment register – and it used whatever organisations were around that were willing to help it do so. When the rules changed, the fact that many VCOs had become dependent on MSC funding was of no real significance to the MSC or to Government; the VCOs were just agents of the implementation of the MSC programme – they were not partners to whom the Government had accepted any obligations Those MSC funded projects were not sustainable enterprises – their trustees and staff had either been ignorant of – or had chosen to ignore – the risks that they were taking (and to which they were subjecting their charities) by getting so deeply entwined within the MSC schemes. In retrospect it is easy to be critical; at the time the availability of the funds and the positive rhetoric of the government about the role of the VCS in implementing their efforts to assist and train unemployed people were understandably seductive. Another lesson from the past that may have some resonance today.

"The Future Ain't What It Used To Be"

I hope some of these snapshots from history – and cautionary tales – have been 'in sharp practical focus' – and relevant to your efforts during the rest of today to look forward towards the funding horizon.

As some of you may know, I have become something of a bore in my delight in what are called 'yogi-isms' – the splendidly mangled one liners of Yogi Berra, the US baseball star of the 40's and 50's (another indication, perhaps, of my dinosaur status!). Examples include:

- 'if you come to a fork in the road, take it'
- 'never answer an anonymous letter' – and the rather rueful
- 'if the world were perfect, it wouldn't be'

One 'yogi-ism'that might be a theme of my contribution this morning is 'the future ain't what it used to be' – fair enough, but there may be some experience from which we can draw lessons – and confidence!

David Carrington
March 2003