LONDON FUNDERS

An 'after-dinner' talk given at the Away-Day of the London Funders' Group

The brief for me: "Issues, trends and new policy directions in the external environment which will or should impact on the work of the various funders"…..and all that between courses!

Help – what to focus on? At a time what's more, when it seems to me that there is more change and opportunity in the funding air than for a long time – but also more questioning and criticism of funder practice:
External environment – just take a few:

- Reorganisation and reprioritising government and EU funding – not good for healthy digestion
- Arrival on the scene not only of new Big Lottery Fund but also government supported funders like Futurebuilders, Capacity Builders, Adventure Capital Fund, Russell Commission…
- Implementation of properly priced work – real full cost recovery in grants as well as contracts
- New types of individual philanthropist – with different expectations and aspirations than most of their predecessors
- Impact of Olympics demands sucking in huge amounts of public, lottery and corporate funds
- Transformations likely to result from future developments in IT

A long list – I've only got time to pick at a few – so I'll go for some which seem to me to provide special opportunities and challenges for you and other funders over the next half decade – and which, if tackled effectively, could make a big difference to the organisations and communities you seek to support, the needs you seek to address, the opportunities you seek to help create

I'll also focus a bit on the demand side of the funding relationship, too – a lot of the changes that are going on are funder led – I think funders face an as yet not fully addressed challenge as to how to ensure that the market side, the applicants and beneficiaries, are best placed to make the most of these changes.

Given it's dinner time, I'll also try and avoid too much semantic pin dancing – get funders together, however, and it does tend to be one of the chosen leisure occupations.

I was at the European Foundation Centre conference in Brussels a few days ago – a session on whether foundations should be reactive or strategic funders – thoroughly irritated me as speaker after speaker contorted themselves round what they insisted was a choice – my closing rant was that a strategic funder can be reactive – and also 'proactive' or whatever the correct 'vica versa' is – what was critical was that they should be effective and high quality funders; there are too many bad reactive and lousy strategic funders cluttering the landscape.

Anyway – start with some nostalgia – forgive the self indulgence but I think it's all part of being 2 months away from being eligible for a Freedom Pass – no more breakfast meetings for me after August!

And nostalgia can sometimes be a helpful reality check on contemporary 'new' issues.

First Job
My first job when I left university was at a project in Yorkshire for what were then called 'delinquent youth.' The organisation employed 4 people and cost just £14,000 a year to run – we did not get paid much and it was a very long time ago! We raised that money from all sorts of sources – I reckon we were reasonably enterprising:

- from individuals – who sent us donations or covenanted annual contributions;
- from churches and rotary clubs
- by getting gifts in kind from local firms
- by selling Christmas cards designed by the children
- by earning fees for speaking at seminars and conferences
- from 'per capita' payments made by children's departments and probation services to pay for the costs of our service for specific individual children.

Our only tradeable asset was the number plate of the mini-bus we used to cart the children around: 1 ALF (those of you who are alert to football history will know that the England football manager when we last won the World Cup was Alf Ramsey – at that time the 1 ALF number plate had value! Also confirms how old I am!).

When we needed a few thousand £'s in a hurry to extend the beaten up old farmhouse (itself a gift) which was our base, we did something that seemed entirely ordinary and normal at the time – we went to see our local bank manager and borrowed the money.

At no time in the three years I worked there did we ask for or get a grant from any organisation, charitable or otherwise, which would now be classified by the auditors as restricted in purpose. We did have some grants from trusts and foundations – but they were contributions to the general work of the organisation – they liked the idea of what we were doing so they backed the organisation. The restricted grants culture that has become so dominant among funders of all kinds in the last couple of decades was not a major problem – then.

Generalisation
Another preface (you must be wondering when I might finally get to the topic – I am too!). I generalise too much – so a health warning to treat any generalisations about the world within we work with extreme caution.

But it is always worth emphasising the diversity of both the funder and the funded worlds. Trusts and foundations, for example. In the UK, Trusts & Foundations distribute perhaps £2 Billion a year – of that just one, the Wellcome Trust, distributes 20% of the total. There are reckoned to be about 8,500 charitable trusts and foundations giving away money in the UK – but probably only about 35 hand out more than £5 million each year – and perhaps only 400 give away over £100,000.

The overwhelming majority are small – individual or family donors or the charitable arms of companies.

The demand side, the applicants, the voluntary and community sector – even more diverse. There are, inevitably, all sorts of data problems to grapple with, but if we take what are described as 'general charities'– that's about 150,000 not-for-profit organisations in the UK with an annual income of about £25 Billion:

- Just 14 of them consume 10% of that income
- 87% share just 8% of that income
- – indeed 57% of all those organisations survive on just 1.1% of the money.

Perverse Funding

I'll also spare you my rant about the perversity of much funding – by all types of funders; funding that weakens the organisations or communities that it is intended to support. Well – maybe a bit of a rant – if only to encourage all funders to subject the way they go about their business to the 'Do No Harm' test – to ensure that no funder, claiming that it wants to help tackle complex and/or intractable social challenges, then:

- makes insufficient funds available to the brave organisation, individual or community that is trying to take on that challenge
- ties its money to restricted purposes and short term projects
- imposes high transaction costs and over zealous compliance monitoring requirements.

Instead, I hope it will be the sort of funder:

- that is flexible and creative, prepared to take risks, and to help build community assets
- that is making sure that lessons are learnt from what it funds, and that those lessons are applied to its own future practice (and that it is as willing to have its own effectiveness subjected to monitoring and evaluation as it is to insist on the appraisal of the work and organisations it supports)
- that rewards success and provides incentives for a funded organisation to out-perform
- that ensures that in all that it does it helps build the funded organisation's strengths and capital resources over the long term.

Enough of that rant!

I'll concentrate now on 2 things:

1. Solicit support for my 'Grants are OK' campaign
2. Explore how we can help the people involved in fund-raising get to grips with how much more creative and adventurous they could be if they just acquired some basic financial literacy and got their heads out of the amazingly short menu of financing dishes they currently select from.

First 'Grants are OK'

There has been what I think is a rather dreary tendency for commentators to assert that the Voluntary and Community Sector is grant dependent and that this is some awful disease. Not so – my "Grants are OK" campaign is needed to argue that grants are a legitimate – and, for many organisations in many situations, the only – form of funding that can ensure an organisation can achieve its purpose. But my campaign will also assert that, as organisations grow and mature, their funding needs and opportunities change – they can use different types of funding at different stages of development; they can generate and earn funds in different ways at different times, too.

Grants/full subsidy will be the only form of funding that can deliver the goods at some points in an organisation's life – and for certain types of activity – but it is important that they are only used when no other form of finance (earned, borrowed or self-generated) can be more (or as) effectively used to deliver a specific public benefit. There is a rich diversity of potential financing possibilities that organisations in the voluntary and community sector can deploy in addition to grants – for different purposes and at different stages of their development.

To justify full subsidy in a world where there will always be a shortage of funds, therefore, I believe an organisation needs to be able to demonstrate that it has thoroughly investigated and, where appropriate and feasible, built up:

1. a range of income generating activity (from customers and service users, from appropriate marketing opportunities, from work done under properly priced contracts with statutory organisations) without exposure to excessive risk or mission distortion
2. a loyalty among supporters and its community that is reflected in a regular and unrestricted income stream from committed donors
3. a financial strategy to maintain and further develop its work that makes intelligent use of recyclable funds – recyclable from its own reserves and/or from borrowing.

If all three of these are in place, then the case for grant income and subsidy to meet the rest of the price of delivering the mission can be made without apology or defensiveness, but strongly, legitimately and with confidence. Grants are 'OK'!

Second – getting the demand side into gear

A key skill for the financial and fund-raising executive leadership of any organisation in the voluntary and community sector is to get to grips with – and be confident about – the use of as wide a range of the financing options on the funding spectrum as it is feasible and appropriate for their organisation to access at each phase of its growth and development.

It's a challenge. Many of the recent developments in funding have been 'supply side' led – and that's probably for the best as there would be nothing more frustrating or debilitating for fund seekers if they were trying to adopt these different combinations of funding, this extended menu of possibilities, and those with the funds were completely stuck in a narrower and more limited orthodoxy.

For the challenge to be met, however, the market has to engage with these developments and with the funders, to be willing to try out and test the appropriateness of the new forms of finance, to resist collusion with perverse grant systems, to challenge procurement and contracting practice that fails to pay the right price for a service.

At present we are in transition, but I have no doubt that in 5 years time the sort of diversity of funding to which I've referred will be well and widely established in the UK. Adventurous, intelligent and creative funding will the norm – but only if those seeking funds, the market, match, complement and build on the efforts being made by the 'supply' side – the providers of funds – to extend and strengthen these additional and enhanced forms of funding.

Little of this is new – none is 'rocket science'. But the orthodoxy is strong: among charity finance staff, tentative about looking beyond established forms of subsidy or earned income. I remember a meeting only four years ago when we tried to persuade the Finance Directors and Chief Fund Raisers of a number of the top 50 charities to consider how they could use programme related (or social) investment (i.e. loans) within their own organisations. No progress at all at that time. It seemed to be just too far outside their respective comfort zones.

Times change, however. Last year I met with the fund raisers for a charity which was about to launch a large appeal to raise capital funds to build a new special childrens' facility. This will replace and substantially extend an existing project which has already established that a market for the service exists and that local authorities will pay the full cost of the service provided.

You won't be surprised that I suggested they look again at their revenue projections since it seemed to me that minimal 'tweaking' should enable them to build a sufficient margin into their pricing projections to fund most of their capital needs with borrowed money – the fees they could charge were sufficient to include the repayment of the loan. They did not need to raise charitable, philanthropic funds for a lot of what was in their original draft appeal document.

Not only that, but financing a large chunk of their plans through debt would produce results quicker – and cheaper. Quicker and cheaper? Well, a loan (or combination of loans from commercial and charitable sources) would be secured a lot quicker than any capital appeal could achieve – so:

- they would not have to invest so much of their resources in the costs of fund raising; and
- they would be able to go on site within a few months so they would not need the considerable contingency they had built into their capital cost projections to allow for the two or three years that the capital appeal would take to raise the funds.

The possibility of using debt finance along these lines was not part of the 'culture' in that charity either of the fund raisers or the financial staff or trustees. It is now. They are making the charitable funds they raise

- work harder
- go further
- do more

I hope that some of all the currently fashionable capacity building funding will focus on equipping senior charity executives and fund raisers to approach their business development and resource raising tasks in ways which are in tune with my final quote; it's from *The Magic Roundabout – how charities can make their money go* *further,* a splendid booklet which I urge all of you to keep on your shelves – and to read! Among much else, it speculates about the future:

> "Who knows? Maybe in 20 years time a new age of individual giving will have dawned. Government grants will have expanded, lottery ticket sales will have recovered, all the UK's companies will donate 1% of pre-tax profits to social action and an ever expanding stock market in a period of unprecedented growth will sustain charity investments and boost the endowments of grant-making trusts. But right now would you bet your money on any one, let alone all, of those things actually happening?
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> "We can't control the future. But we can develop ourselves. We have the resources. Do we have the courage? It is clear from all available evidence that heavy reliance on time-limited grants and charitable donations is not a safe place to be. For the voluntary sector to flourish, new financial instruments are required to catalyse and enable enterprise and growth. Sensibly broadening investment approaches to allow exploitation of greater latitude is not risky for charities, however, the status quo is.
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> "So, if charity funding is in trouble, here's to the Noah effect: no more prizes for predicting rain – you only get a prize when you build an ark."

David Carrington
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