Directory of Social Change

Information and Training for the Voluntary Sector

DSC response to the Giving Green Paper

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Jay Kennedy
Head of Policy
Directory of Social Change
24 Stephenson Way
London
NW1 2DP
www.dsc.org.uk

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About the Directory of Social Change

The Directory of Social Change has a vision of a better society through independent voluntary action. We believe that the activities of charities and other voluntary organisations are crucial to the health of our society.

Through our publications, courses and conferences, we come in contact with thousands of organisations each year. The majority are small to medium-sized, rely on volunteers and are constantly struggling to maintain and improve the services they provide.

We are not a membership body. Our public commentary and the policy positions we take are based on clear principles, and are informed by the contact we have with these organisations. We also undertake campaigns on issues that affect them or which evolve out of our research.

We view our role as that of a 'concerned citizen', acting as a champion on behalf of the voluntary sector in its widest sense. We ask critical questions, challenge the prevailing view, and try to promote debate on issues we consider to be important.

1. Introduction and overview

The Giving green paper, released by the Office for Civil Society in January 2011, sets out the Government's emerging thinking about how to make our society more generous in terms of giving time, money and other resources.

DSC believes this is an important area of work and we broadly support the Government's aim to 'increase levels of giving and mutual support in our society and to catalyse a culture shift that makes social action a social norm.' We think this is particularly important mainly for the long-term viability and independence of the voluntary sector. There are also obvious short-term pressures on funding for many charities and voluntary organisations, particularly as a result of the recession and dramatic reductions in statutory spending; this debate is relevant to those problems but is not in our view likely to produce much in the way of immediate solutions.

In our view, any measures to improve giving can be supported or evaluated on their own merits, aside from the wider political debate about cuts. Austerity measures perhaps lend a renewed urgency to this agenda, but the two need not necessarily be connected or dependent upon one another; they are not opposite sides of the same coin. In fact, there is a risk that by making an explicit connection between the two – greater philanthropy as the replacement for government 'dependency' – support for positive proposals that improve philanthropy could be undermined.

The main perspective that DSC wishes to bring to this debate is that in the green paper and in the wider discussion to date, there is generally too much emphasis on giving *more*, and relatively little about how we can give *better* or give *well*. Nor is there a clear sense of where the generosity is weakest and why – i.e. what sectors or sources of potential philanthropy actually have the most potential for growth – and how efforts could be best focused.

DSC's perspective on giving is based on our belief that altruism is a valuable social principle in itself, which should be at the heart of all genuinely charitable endeavour. Sadly, this ideal seems to be eroded in a consumer society that increasingly views all relationships between people as transactional in some form. It has been further eroded by over a decade of government policy and practice which has viewed the voluntary sector mainly in terms of what it can deliver for the state, as opposed to what its inherent value to society and civic engagement is. Part of any Giving agenda should be about restoring the concept of altruism to our collective social consciousness.

2. Government's role and approach

As the *Giving* paper acknowledges, Government can play a number of important roles in this area, but there are clearly limits to its influence, because many if not most of the solutions will come from elsewhere. Most innovation and activity in fundraising, for example, is not the responsibility of the state, nor should it be. In fact, it can be argued that state intervention should be minimal as it can potentially distort the natural marketplace.

Still, we agree that seeking to encourage charitable giving in society is a good thing, and national government clearly has a number of roles to play, including:

- Responsibility for legislation and policy that affect giving, such as:
  - Tax concessions (Gift Aid, other tax concessions for philanthropy, rate relief)
  - Tax burdens on civil society organisations (irrecoverable VAT)
  - Regulations that affect volunteers (CRB, regulations on jobseekers)

- How it uses its own resources, such as:
  - The activities of civil servants (potential volunteers)
  - The public estate (public buildings, websites, forms and processes)
  - The way it gives money to civil society organisations (if indeed it will play a 'giving' role in future, rather than acting mainly as a purchaser or investor)

- As a facilitator / convener / leader
  - Bringing groups or shared interests together
  - Helping to disseminate ideas or information
  - Exerting influence – particularly over other organised institutions in society (we see a clear need to do so with business)
  - Raising the profile of issues and setting the agenda

The green paper focuses rather more on the last area than the first two. This is strange because the first two areas are where government can exert more direct control, whereas the last is more about ‘soft power’ and setting the tone and agenda. The paper also arguably devotes more attention to new and technological ways of donating from the public, and less on the role of improving existing (and perhaps less ‘exciting’) methods or resolving problems with those methods. The balance needs to be redressed in the final White Paper and subsequent policy.

What are the challenges to any future giving programme?

At the launch of the *Giving* paper, we pointed out a number of challenges to making progress in this area. We think it is important to acknowledge these at the outset so we can be clear about how to progress. These include:

- The perception from some quarters that driving up charitable giving is just a second-rate and ultimately insufficient way of plugging the social gaps left by spending cuts
- Finesse is required if Government is getting into the business of ‘creating social norms’; people can react defensively if they feel they are being ordered around
- Being realistic about people’s capacity to give more – and acknowledging that the real barriers may be more systematic than we recognise (for example, low pay, overwork, apathy)
- Finding the right balance between innovation, and improving what is already in place
- Measuring the success, impact, effectiveness of any interventions – there is much talk about the need for charities do to so, but plenty of government policy contains little evidence or measurements of success at all

A new approach to giving – behavior change – nudge theory

Nudge theory offers an influential new tool, but one that needs to be used carefully – and it has to be viewed as an additional strategy rather than the only strategy. Supporting giving and making it easier is obviously a positive intention for charities and their beneficiaries, but any intervention by the state needs to be careful to maintain that balance between individual free will and civic responsibility – shoving people too hard or being too ‘in their faces’ could lead to people reacting negatively or even rebelling against government ‘authority’.

That said, the approach and many of the ideas outlined in the *Giving* green paper are positive. Economic psychology and behavioural economics have a lot to offer in terms of understanding human behavior of all kinds, including giving to charity. The lack of progress made by various previous initiatives should not discourage us from trying, but it should inform how we try. Government should not be the driver but the supporter, and its support must not be too overbearing or directive, but not too distant or intangible either.

DSC has considered the behavioural economic approach to encouraging giving in some depth and makes the following points about how we think any nudges/behaviour change should be implemented:

- **Government should not be the messenger** - charities are more ideally placed to be the messengers for individual giving ‘nudges’; however government can convene, facilitate or help support (with resources) any coordinated activity
- **Nudges must accompany other strategies** – they should not be viewed as a silver bullet, they are not a replacement strategy but an additional one
- **The effect of the majority of nudges is modest** – it is important to track their effectiveness and learn which approaches work best
- **Most nudges need to be repeated over time to remain effective**; tying them in with cyclical events or activities may make the effect more sustained
- **Opt-in schemes appear to have greater effects** on people, but setting a one-size-fits-all amount to opt-in to may bring down total giving by curbing more generous individuals;
- **Suspicion about nudge theory needs to be handled sensitively** and having government at one remove may help with this so long as the suspicion does not then revert to the charity messenger

3. The potential to increase individual giving

Individual giving accounts for around one third of the total income of fundraising charities in the UK, although this proportion obviously varies amongst different charities, some of whom rely solely on individual donations for their funding. Besides being an important source of income individual charitable giving is also an important measure of the health of civil society and is concomitant with personal and national wellbeing.

There are no silver bullets when it comes to increasing giving. The UK has a remarkably stable individual giving environment which has proved resistant to all manner of positive and negative influences. A policy programme which takes into account a number of factors which have been proven to have some effect on some people may be the best way forward.

The risk that another government Giving Campaign won’t work

There is now a mass of evidence that various policy initiatives to increase giving in recent years have had little major or lasting effect on giving. There is also growing evidence that behavioural change solutions, such as ‘nudging’, espoused in the *Giving* green paper and elsewhere, may have only marginal effects. That said, we should not do nothing! Previous experience points toward the need for another way of working and a strategic approach which has several prongs.

To make progress it is vital that we start with what we know, and learn from past mistakes and successes. It’s clear that the Giving Campaign 2001-2004 – the main product of which was Gift Aid – failed to raise giving in a “major, sustainable” way, with Gift Aided contributions now thought to be levelling off and the mechanism itself in need of reform and a new digital overhaul.

New research just published by CGAP/CMPO shows that trends in amounts given are remarkably stable over time and quite resistant to efforts aimed at achieving great change. Within this picture there have been some peaks, most notably at the millennium and to a lesser degree at the time of the Asian tsunami disaster of 2004/05. Other disaster appeals have had a short-lived positive effect on giving but have not provided any step changes.

The key to sustained increase in donor population may lie in understanding the 'millennium effect'

This evidence of a material change since the millennium is not only clear in the recent CGAP/CMPO study of household giving but can also be observed in the surveys of individual giving published by CAF and NCVO, which show that some longstanding trends in giving which were holding back the growth of civil society are now showing signs of a reversal.

An analysis of the individual giving surveys shows that the percentage of the UK adult population who give to charity each month has traditionally been falling by very small amounts year on year while the average amount given per person has risen, meaning that private giving to charities has been increasingly propped up by a shrinking group of more generous givers. Since the millennium and particularly over the last few years the proportion of people giving and the average amount given appear to have levelled out, indicating a slight move towards greater democratisation of giving (although there is still an increasing dependence on the larger donations from the most well-off).

The biggest increases in post-millennium giving have been among younger households, although we don't yet know what might have caused this shift. Simply assuming that young people 'give because they expect something in return', or 'will only give using social media' is not backed up by evidence. Still, the highest participation rates in giving remain amongst the older age groups and especially in the oldest age group, the over 65s, on whom the brunt of giving dependency currently rests. Clearly giving and fundraising behaviour and habits need to adapt to social change and changing expectations of donors – but we need to understand what these are.

A number of initiatives and campaigns may have contributed to the spike in giving at the millennium – the 'millennium effect' – besides its inherent features:

- *Advertising*: "A steep increase in advertising in 1999 and 2000 coincided with a pick up in giving, probably as the Millennium was used as a factor to strengthen the case in many charitable appeals." (source: Donations Foresight)
- *Specific Millennium appeals*, such as the Children's Promise scheme;
- *Significant reform to Gift Aid* which meant that all donations made by tax-payers were in theory eligible for tax relief (abolishing the minimum eligibility threshold).

Whatever the millennium effect was, it provided a step change in the participation rates for giving which have since been sustained, and a spike in giving amounts which has not had a long-lasting effect. However, it also seemed to usher in an age of greater volatility and uncertainty in giving participation, which may be linked to the ways in which younger givers dip in and out of traditional giving methods, and may signal the need to approach giving participation in more innovative ways.

We need to be clear about what are we trying to achieve

From the start the goals of any policy initiatives need to be clear – are we looking for greater participation rates or greater amounts given? Both? The evidence is clear that the drivers behind these two goals are different and therefore to achieve both would take a greater and more varied effort than concentrating on one or the other. The *Giving* green paper offers no discussion on how the success of any potential initiatives would be demonstrated – surely a key requirement for any investment of public money. This needs to be addressed in the forthcoming White Paper.

4. Volunteering: the need for a practical understanding

Thinking of volunteering as 'an exchange' or in terms of 'reciprocity', as the Giving paper outlines, might attract some people but overall it threatens to do more harm than good because it undermines the idea of altruism. We believe people should be inspired to give because it is the right thing to do – even if this means many different things to many different people. Even if you all you get from giving is 'a good feeling', the fact that you 'get something out of it' is not why you should do it. You should do it because it is part of positively contributing to your society and your community, and caring for fellow human beings.

But the ideal of altruism needs to be set in the context of the practical reality of volunteering. The idea that 'more volunteers' is inherently a good thing runs through the green paper and current discussion. Much time, effort and money has been spent trying to measure how many volunteers there are and whether any particular volunteering initiatives have had an impact. Ultimately much of this amounts to a lot of statistical smoke and mirrors – and by focusing on numbers and measurement, we risk ignoring a bigger problem; which is the relevance and quality of what volunteers can contribute, and the capacity of charities to make use of them.

Many charities need volunteers, but not all can use them. Still more organisations want volunteers but lack the resources (often money) to manage them effectively, or to manage greater numbers effectively. And sometimes, believe it or not, volunteers are actually not wanted because they do not have the right skills or are offering something the charity doesn't need. There can be a perception that any charity should be grateful to receive any help offered by any volunteer, which is not necessarily constructive for either party. From the volunteer's perspective, the main issue is often not about needing to give more time, but about how to find the right opportunity to give that time (which the green paper does discuss), how that time can be best used, and how to best negotiate between the two schedules and two sets of priorities.

Arguably the single most important type or category of volunteering for the charitable sector is voluntary trusteeship – there are estimated to be 650,000 trustees, out of a total volunteer population calculated to be between 13.5 and 20.4 million (depending on how it is counted). These are the people who make the bulk of the voluntary sector function. In fact, people who are trustees are often involved in many other aspects of the community, whether it be business, government, or with other charities – and they bring those important skills to the table in governing the charity.

But trusteeship can be demanding in terms of time, the skills that are needed, and the legal and moral responsibility that the role requires. Again, here, our point about giving *better* is just as relevant – we do need more trustees, but we need them to have the relevant skills that charities need. There is little point making the board bigger by filling it with people who aren't able to fully contribute, unless it is done with a view to giving them experience. Arguably we need to focus on ways not to involve young people on boards just for the sake of it, but to make sure that significant numbers of them can develop their skills over time to help maintain the supply of experienced trustees in the future.

5. Government as a 'giver'

Government grantmaking practice

Julia Unwin, in *The Grantmaking Tango*, talks about how grantmaking can involve three different functions: giving, shopping (in other words, purchasing) and investing. Although she was writing from the perspective of a charitable grantmaker, and the thinking does not perfectly translate across to the approach government takes, it is nevertheless an idea that is worth thinking about in terms of how various government agencies provide funding to charities.

The rising trend towards commissioning and contractual relationships in recent years has meant that uttering the phrase 'government gives to charity' today seems almost heretical. The *Giving* green paper recognises this role only in brief passages and not in the context of giving money. The recent *Modernising Commissioning* green paper did not mention the word 'grant' even once. It appears that grants are viewed as 'un-modern' or outmoded, and that anything which remains nominally a grant will in the future not be given in order to help achieve charitable objectives but only if it can 'demonstrate return on investment' according to some complicated and largely artificial methodology. Still, both government rhetoric and practice in this area remains confused and unclear to charities and the general public. This is in itself problematic.

Much of current government funding behavior clearly involves investing and purchasing but apparently not giving. Payment by results contracts look set to be the future vehicle of choice for most public expenditure on 'external providers', together with 'social investment' provided by the Big Society Bank. Clearly neither qualifies as giving. The exception appears to be relatively small scale local grants programmes such as Communities First, which is a good idea that DSC supports. Local authority grants programmes which 'give' to smaller groups are increasingly under threat of being cut or of further drift into 'purchasing' or 'investing' functions, expressed by funding bureaucracy like excessive and onerous terms and conditions, Key Performance Indicators and Service Level Agreements.

Most public money has become bound up with so much risk aversion and lack of trust that the idea that taxpayers' money might be *given* back to them for their own use or to decide how to support their own needs in their own communities seems almost beyond the pale, for all but the smallest projects. There is a strange contradiction between this reality and the rhetoric around localism and empowerment. Even the proposed Right to Challenge to take over public services is mainly a right to express an interest in competing in a potential procurement exercise. Rather than being couched in terms of (the council) giving money and (citizens) taking responsibility and using that money, empowerment is framed in commercial terms. Utterly bizarre, and, sadly, ultimately disempowering.

There are structural problems to improving funding practice by the state – mainly annual budget cycles, frequent shifts in policy and changes in political leadership. But arguably the biggest problem has simply been the lack of will to invest the necessary resources and expertise to improve across the board. Commissioning has in part been conceived as a solution to the problem of government being a poor grantmaker – but broadly speaking it has just made the state an even worse funder of charity than it was before. Nor has it improved the fundamental structural problems at all – commissioned programmes remain just as vulnerable to short-term cancellation or revision. Poorly drafted contracts are as risky if not more risky for the funded charity than a grant that can be clawed back; mainly because of absurd terms that routinely impose nearly unlimited liability on the charity delivering the service, and which rule out redress for the charity if the public body breaches the contract.

DSC has made a detailed critique of government funding, together with proposed recommendations and solutions, in a previous paper *Towards a Fair Deal on Grants*.

Other ways that government can give

Giving money is of course only one way of giving. There are clearly other ways the state can give to charity, including by encouraging its employees to volunteer, and by making the public estate more accessible to charities and community groups.

- **Plans to facilitate greater volunteering by civil servants** are a positive development which is discussed briefly in the Giving paper. The success of this scheme, and its relevance to the organisations being supported, needs to be defined, monitored and evaluated.
- **The proposed Right to Buy in the Localism Bill** is potentially positive, but the impact is already being undermined by local authority cuts leading to asset disposal including buildings where charities are currently residing; plus the lack of a sufficient timeframe for local groups to put together the necessary funding.
- **A Right to Use could be more relevant to more organisations** which cannot or do not wish to take on the risk and cost of managing a building. Our country has a wealth of public infrastructure, from schools, to fire stations to government offices. Many groups already use such premises on an ad hoc basis – how could government could make this easier?

6. The role of independent charitable trusts and foundations

Current policy discussion, both in the *Giving* green paper and in the Government's Social Investment Strategy, demonstrates a worrying lack of understanding about how these organisations work, what their role is, what they are set up to do, what their characteristics are as a group, and the legal and regulatory environment in which they have to operate.

Trusts and foundations are independent charities – even if other charities tend to think of them as distinct simply because they give money away and therefore have different mechanisms for meeting their charitable objectives. Hundreds if not thousands of them engage in both operational and grantmaking activity. Thousands also give grants directly to individual beneficiaries, not to other organisations. These important facts seem to have been completely missed in recent debates, but they are absolutely vital to consider in any discussion about the proposed '5% payout of assets' idea (discussed in detail below).

We therefore think it would be constructive to provide some key facts about the nature of the trusts and foundations sector in the UK; this is an area in which DSC's experience, track-record, and independent perspective is unique. Researching trusts and foundations has been core to our work for decades and remains our single-most important activity as an organisation.

A portrait of the trusts and foundations sector

There are around 9000 grantmaking trusts and foundations in the UK. Less than a third of them give away money on any considerable scale. The majority are extremely small and will give away less than £25,000 each year. Collectively, these organisations give away around £3.6bn each year, mostly in grants for charitable activity. Money is overwhelmingly concentrated in the largest 500 or so organisations, with size being defined in terms of income, amounts made in grants, and asset value.

The sub-sector is characterised by relatively weak networking and collaboration, with organisations such as ACF, London Funders, the Intelligent Funders' Forum and the 'Woburn Collective' being the main exceptions. From an external and different perspective DSC, CAF, and more recently NPC have sought to research, analyse and influence the activities of these organisations in different ways. The number of individual trusts that are willing to engage actively in debates about developing best practice is not high.

There are good reasons for this; many trusts are focused by quite specific charitable objectives, work in small geographical areas, and have limited amounts of money. Even fairly large ones may not employ many staff to administer programmes, and most decision-making is done by voluntary trustees. Historically they seek to spend as little as possible on administration and this translates into little scope to reach beyond their own operations. They are mainly focused on the activities of beneficiary organisations or individuals – not each other.

Change in the trusts and foundations world does not happen quickly. DSC knows this from its own experience – we were pioneers in trying to open up the practices of these organisations to greater scrutiny, and encouraging greater transparency about their activities remains core to our work. To give an illustration, only approximately 1,500 of the 4,400 trusts and foundations in DSC's database of the most significant trusts even have an email address. This reflects the rest of the process and approach for most of them, where a formal letter of enquiry is the predominant way that fundraisers are instructed to make their approach.

Whilst the overall conservatism of the trusts and foundations world can be a frustration, it is also a strength – it safeguards an important part of the broader funding environment for charities against short term fads and trends. In fact, the sensible long-term management of assets and endowments also acts as a counterweight to precisely the kind of financial turbulence experienced recently. Many grantmakers increased their giving in response to the recession, even though their assets had been negatively affected. However, they were only in a position to do so because those investments had been well-managed in the past. If they had been fully expended in previous crises they would not be available now.

Further, the diversity of grantmakers and the ability to freely set them up also offers scope to innovate and develop new approaches within the existing charitable framework. The sector also accommodates a myriad of different causes and origins, from ancient to Victorian to clearly modern. New organisations reflecting new trends and ideas can be created which then may gain influence over time. Venture philanthropy and 'mission-directed investment', currently hot topics for policymakers and government, have already been a growing feature of this innovation over the last 15 or 20 years. There is no need for Government to interfere to try and accelerate this process as part of a policy agenda; it needs to develop naturally in response to the needs of beneficiary organisations, the aspirations and ideas of founders and settlors, and the normal fundraising 'market'.

The main point for the purpose of this discussion is that the assets and income of trusts and foundations are not spare cash sitting around waiting to be raided for the latest government policy initiative. They are already being put to use serving charitable purposes. In fact many trusts and foundations explicitly exclude in their eligibility criteria funding those activities that are understood to be a statutory responsibility, or replacing funds for activities where state funds have been cut. Whether to maintain or adapt these policies in light of the current crisis will be a far greater concern (and a more pressing management problem) for most of them than whether to invest in a Social Impact Bond, for example.

Whilst there is massive potential to build greater networking, sharing of learning and information, and funding practice in the sector, and between the sector and other grantmakers such as the Lottery or government agencies, current policy discussion appears relatively uninterested in those issues. This is an important area – involving giving *better* – that DSC is working to try and change, based on its past work, its research, and as part of our Great Giving campaign (www.dsc.org.uk/greatgiving), which focuses on some ways to improve giving by organisations that make grants.

Grantmaking trusts and foundations are a key element of a sustainable voluntary sector

The term 'sustainability' is increasingly bandied about in policy and discussion about the voluntary sector, usually twinned with support for a shift from grants towards income generation and 'enterprise'. The Government's austerity programme has lent it a new urgency – rapid and poorly planned reductions in statutory funding are leading to a rushing forward of anything branded 'sustainable', as part of a last-ditch effort to prevent state-funded charities from closing down.

What is seldom recognised is that the UK's trusts and foundations are the embodiment of a sustainable funding system. By investing capital wisely and prudently, returns are used to provide charitable grants. Financial risk and the burden of accumulating and managing capital is not directly loaded on to the beneficiary, it is on the grantmaking charity. The system already supports charities by investing in the private marketplace – connecting business and charitable sectors – and this has sustained it in various forms for hundreds of years.

Current discussions of what is considered 'sustainable' are myopic; they assume that the main problem with charities (and by extension, charitable grantmakers) is that they do not focus enough on 'enterprise', 'business approaches', 'investment' and 'demonstrating social return'. The policy discourse is now being flooded with market-esque terminology and thinking, largely driven by people with a background in private sector finance who have migrated into government, top echelons of the voluntary sector, and think tanks. Mostly it is not growing from the bottom-up, it is filtering from the top-down.

This whole line of thinking largely fails to recognise that a wealth of expertise about how to achieve social change (and how to fund it) already exists in the charitable sector, and that appropriate adaptations of investment approaches, which are sensitive to the way charities function and are based on trying to find out what works best, are already happening in individual cases.

In this context, the important problem to address from DSC's point of view is absolutely not about how to revolutionise a venerable system of philanthropic giving to make it sound and function more like the stock market. The scope for giving *better* is really about how to develop and expound the art of grantmaking, and to make it more effective (not the same as efficient) and engaged in meeting the needs of beneficiaries, by making grants work better for organisations.

Addressing specific current debates that affect the trusts and foundations sector

There are two main issues of contention at the moment with respect to the *Giving* green paper and the role of charitable trusts and foundations. Both of them appear ill-defined and unworkable or unrealistic for different reasons. Namely:

1) **Proposals to introduce a 5% payout rule for trusts and foundations; that is a requirement that they should pay out a least 5% of the value of their assets in grants each year.**

Problems with this proposal:

- It has been insufficiently explained - where is the detail? Would this apply to all grantmaking charities, or just family foundations? Is it about total assets or just endowments? Who would track it and enforce it, especially now that the Charity Commission has had its budget cut so severely?

- Estimates of the additional income that could be yielded for fundraising charities by such a proposal (£500-600m) are wildly optimistic and are not derived from rigorous analysis; the overall effect of the policy would be to encourage short-term expenditure over long-term sustainability

- It fails to recognise the full extent and diversity of trusts and foundations; proponents seem to be using specific, unrepresentative examples of wealthier family foundations, and extrapolating these potentially to all charitable grantmakers

- Basing the percentage on ‘asset value’ as a measure of whether the trust is meeting its charitable obligations is flawed on a number of counts:
  - it ignores the fact that significant numbers of trusts and foundations meet their charitable objectives through direct use of their assets, not just by making grants
  - it ignores the fact that there are a whole complex set of factors that determine the value of the assets, which changes over time; that assets are not always or predominantly cash, and are not necessarily liquid
  - it reduces the trustees’ ability to react to external conditions and perform their duty of care appropriately – for example if asset values drop, there may be less income to distribute, but an arbitrary percentage could force assets to be sold to fund expenditure at a time when they were undervalued
  - it generally takes the discretion about how to manage assets for long-term viability and strategic objectives away from trustees, where it should properly reside
  - rigorous examples of asset ‘hoarding’ have not yet been provided – it should be for the Charity Commission to intervene if such cases exist. In the US and Canada, which have % payout rules, there is no comparable regulatory body
  - ironically, a minimum payout requirement could inhibit longer term ‘investment’ by the grantmaker – for example, saving up income over a period of time to make a large grant for a capital project

- A better way to judge the activity of a charitable grantmaker is to look at the amount made in grants versus the income in a given year, not the asset value. However, it must be remembered that many trusts and foundations which make grants may devote much of their income to meeting charitable objectives in other ways.

2) **The Government's stated ambition to 'unlock a slice of the assets of trusts and foundations to build the social investment market', as part of its Social Investment Strategy and the Big Society Bank.**

Problems with this 'proposal', or more accurately, with this 'ambition':

- It's not completely clear that the assets are necessarily even 'locked' – the current portrayal of CC14 as an obstacle to greater social investment and subsequent 'pressure' on the Charity Commission to change its guidance looks like a red herring. Existing guidance and law does not appear to preclude mission-related, ethical, or social investment. New guidance appears to be mainly a clarification and redrafting.
- A number of trusts and foundations are already experimenting with various forms of social investment, often in addition to not instead of their core grantmaking activity. Any growth in this market should be organic and driven by beneficiary need and the funder's objectives and required outcomes, not by state influence or intervention.
- The grant funding provided by charitable trusts and foundations is valuable and relatively accessible, but increasingly over-subscribed; risking the assets which generate income to support those grants could threaten the long-term sustainability of grant funding.
- There is limited consciousness within the voluntary sector, let alone amongst the general public, about what 'social investment' is, let alone consensus about why such an approach should be adopted.
- There is huge scope to encourage trusts and foundations to use their assets for positive social change by investing them in traditional ways but according to ethical criteria, as opposed to going for new and complicated products such as Social Investment Bonds which do not have a proven track record.

7. Corporate Citizenship - the potential for greater and more meaningful giving from business

In the Giving green paper and elsewhere the Government has shown a renewed willingness to engage business in supporting civil society, and this is potentially a very positive development. There are many ways that this can happen, which are mentioned in the paper and in other documents such as *Every Business Commits* (which regrettably makes no clear mention of the role companies play in giving money to charity).

Corporate Citizenship or Corporate Social Responsibility involves many different aspects above and beyond the giving of time, money and expertise to charities, and the formation of partnership arrangements between them. This topic is too complex to fully cover here. The following discussion outlines DSC's decades of experience in researching and analysing cash and 'in-kind' giving from companies to charities in the UK, mainly based on research for our company giving products, including *The Guide to UK Company Giving*, now in its 8th edition.

DSC contends that companies have the capacity to put much more back into society, and that a core component of this can and should be giving to charity. Typically company donations to charities amount to less than 1% of pre-tax profits, and much of this is in-kind rather than cash, which charities usually prefer. In-kind donations range from extremely valuable and tailored support to relatively worthless and even unwelcome gifts. There is also little consistency or standards for how in-kind gifts are valued; for example pharmaceutical companies donating nearly expired medicines might seek to value them at the retail market price, when in fact their true worth is far lower than even the wholesale price. This can paint an artificial picture of a company's generosity. Where the CSR policy or community support programme is closely affiliated with the company's marketing or PR department, there is an obvious motivation for exaggerating the true value.

According to our latest research, giving from the top 600 company givers (an increased dataset from the last edition) currently totals around £762 million, of which £512 was in cash donations. This is a significant amount of money, but comparison to other types of funders, companies only provide around 5% of the total income for voluntary organisations (for example, 37% of income comes from individual donations). Company giving has remained relatively static over the last 10 years, both as a proportion of the voluntary sector's overall income, and as a percentage of pretax profits. In our recent research of the top 600 giving companies, the average given as a percentage of pretax profits (including gifts in kind) is only 0.43%. Over the past ten years the average is 0.4%.

The potential for those companies which give already to do more, and to do it more transparently, is obvious. But the even greater potential lies in those who currently give nothing or relatively little. There are around 4.7 million businesses in the UK, of which 6,000 have over 250 employees. Our research of the top corporate givers starts to tail off at giving totals of around £5,000 per annum, but we calculate that if 5000 or so of the biggest companies that don't currently give, started to give according to the average rate, it could represent in theory around £9.5 billion per annum. This would put company giving close to government and public donations from individuals in terms of voluntary sector income. Even limited progress towards this admittedly optimistic potential would mean hundreds of millions of pounds.

How could we convince more companies to give – to get even part of the way to the potential of £9.5 billion? How could we make regular and generous giving to charity a part of the wider corporate culture? Influencing company behavior is not easy and our experience of researching *The Guide* over many years shows that they are often unresponsive to inquiries and fail to provide clear and consistent information about their giving.

Simply finding the appropriate person to speak to at a company can be next to impossible for the fundraiser. And yet, according to Business in the Community, 'many [businesses] speak of being overwhelmed by a high volume of ad-hoc, competing demands purely for financial support, with a feeling that there are potentially too many small community groups doing the same thing at a local level.' There is no great mystery here. For one thing, charities prefer cash for obvious reasons – it is more flexible, puts the charity in control, and is always in short supply. And interestingly, companies are one of the few institutional sources of money which may be given with relatively few strings attached. But a huge part of the problem isn't about the charity's approach, it stems from companies' failure to communicate to charities and fundraisers what they are prepared to support. How else are charities supposed to know how to ask or what to ask for? Bizarrely, a customer service approach is not broadly applied by companies to providing information to prospective beneficiaries of community support.

We believe the nudging approach is one that has potential to deliver results here, especially because companies are under no obligation to give anything at all, and most will remain primarily motivated by profit. There would seem to be potential in an approach that publicly compares the relative generosity of different companies, particularly competitors. This could form a part of the Big Society awards, for example. That would use the natural competitive tendency between companies as a driver to greater and better giving; however, to be meaningful this approach would have to be based on rigorous and independent research, not company PR.

In general, we believe that if we are to achieve a step change in company giving, Government needs to do more than nudge; it needs to be willing to elbow or at least do some vigorous jostling. And it may need to regulate if real change is to be achieved – even if this is mainly to build and improve the 'choice architecture' for company decision-making on giving to charity.

What could companies do to improve their giving?

In short, plenty – here are just a few ideas:

- Involve shareholders in decision making about their giving – even if it is merely asking the question of shareholders about whether the company should adopt a policy, and what resources should be directed to it
- Seek customer participation and feedback about their giving – the Co-operative, which allows members to participate in how its giving is carried out, is an exemplar in this and its approach could be replicated more widely to other types of business
- Use guidance from the London Benchmarking Group about how to account for and report expenditure on Community Investment
- Refrain from accounting for money donated by customers (till tins) or raised exclusively by their staff (non-matched payroll giving) in their published corporate giving figures, as if it were giving from the company itself (it isn't).
- Commit to donating at least 1% of pre-tax profits to charity

- Adopt a customer service approach to how they provide information about their giving or community support programmes to interested charities
- Engage with other funders of charity, such as trusts and foundations, about how to fund
- Ask charities what they need and see how they can best support that need

8. Recommendations

Five things Government could do to improve giving to charity:

1) **Ensure more rigorous and transparent reporting of giving by companies,** including a review of the relevant laws and accounting regulations. The London Benchmarking Group have been developing sensible standards to measure Corporate Community Investment (CCI) for decades, but these are optional and relatively few UK companies are members. Government should seek out LBG's advice in this area. Developing consistent and accurate standards for valuation of in kind donations should be a priority.

2) **Support a campaign to 'create a social norm' that all for-profit companies should donate at least 1% of pretax profits to charity, and feature this as a prominent theme in the Big Society Awards**. Government could help create the 'choice architecture' for company giving by supporting rigorous and independently-produced evidence, which illustrates company generosity ranked overall and by subsector (a nudge which uses company competition and positive publicity to drive up their giving).

3) **Resist calls to implement an unworkable and undesirable 5% payout rule for trusts and foundations.** Properly resource the Charity Commission to regulate trusts and foundations effectively.

4) **Work with the voluntary sector and other institutions like the media to maximise individual giving around major public events,** such as the royal wedding, the 2012 Olympics, and the Queen's Diamond Jubilee. Support research into the 'millennium effect' and how that learning can be applied to make these campaigns successful; use learning from future events to develop the knowledge base and improve practice.

5) **Fundamentally and comprehensively consider its own direct role as a 'giver',** including:
    a) Clarity about how and whether the state will be a 'giver' of money to charity, at all levels of government, in the future – with a clear rationale about why or why not
    b) Providing comprehensive and accessible data about how much it gives to, invests in and purchases from charities; which organisations receive this money; in support of which causes/policy areas; in which geographical areas. This needs to be far above and beyond simply requiring public bodies to put accounts payable data into a public spreadsheet
    c) Developing a Fair Deal on Grants (see DSC's paper *Towards a Fair Deal on Grants*)

   d) Implementing civil service volunteering programmes
   e) Considering a 'right to use' – a mechanism that could facilitate the free use of spare capacity in public buildings by voluntary and community groups.

Five things the voluntary sector / individual charities could do to improve giving

1) **Individual trusts and foundations, their representative bodies, and other interested parties should work together to develop 'good grantmaking' –** this would not be a single approach, but a shared basket of terminology, principles, practices, processes, ideas, practical approaches for different scenarios, advice, peer support, networking opportunities, research and other literature which grantmakers could draw upon about how to make grants more effective. It would be aimed not just at established grantmakers, but new ones and those in a transitional phase (i.e. perhaps where there is recent board turnover). Information should be relevant and freely accessible to grantmakers of all sizes and types.

2) **Fundraisers, their representative bodies and trade associations, and other interested parties should improve the quality of fundraisers' 'ask' to funders, by:**
   a) Researching the criteria and requirements of funders to the fullest extent possible before applying
   b) Rooting out the practice of making speculative broadcast applications to multiple funders, which waste funders' time and make it harder for them to support genuine bids
   c) Conduct a study or examination of how fundraisers are managed in charities, including the prevalence of output-based target regimes that may reinforce poor fundraising practice

3) **Fundraising charities, their membership organisations, and self-regulatory bodies should lead a campaign to educate the public about the legitimate costs of fundraising and 'administration'.** Oxfam's recent 100% giving campaign – which explicitly claimed all donations went to the 'end cause' (because costs were subsidised by PayPal) – encapsulates what is wrong. Charities need to explain to donors what overheads are, demonstrate why they are reasonable, and why they are necessary to making the 'end cause' possible, rather than pandering to attitudes like 'I want my donation to go straight to the end cause and not be wasted on admin' just to beat the competition.

4) **Leading volunteering organisations should develop a volunteering code of best practice for company staff (or draw together relevant material if it already exists) and promote it to companies.** This would be for companies to take on board or sign up to – but it would be from the perspective of informing companies about what charities need, and how business can best help meet those needs, rather than what charities can do for business.

5) **Leading volunteering organisations should develop a 'Chairs of the future' programme for young trustees, to maintain the supply of future charity trustees.** This could draw together work from different organisations, and link in with existing initiatives and support for trustees more generally.

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