The Philanthropic Challenge in the Age of Austerity
Thursday 11 November 2010
A Report by *Cause4*

Introduction

On Thursday 11 November 2010 *Cause4* presented a Seminar in partnership with leading law firm Forsters to explore some of the challenges surrounding philanthropy in the current constrained financial climate.

The key note speech was given by the Secretary of State, the Rt. Hon. Jeremy Hunt MP who was subsequently interviewed by Charlotte Higgins, Chief Arts Writer of *The Guardian*

A panel discussion followed entitled '*Harnessing innovation - exploring motivations and opportunities for more effective philanthropy, enterprise and social business'.* Panellists included:

- Nigel Kershaw OBE - Chief Executive of Big Issue Invest
- Lesley King-Lewis - Director of Man Group Charitable Trust
- Gerald Ronson - Business tycoon and philanthropist
- Fred Turok - Chairman of LA Fitness, philanthropist and founder of TAG Charity for young people
- Baron Nat Wei of Shoreditch - Chief Advisor to the Government on the Big Society

Other attendees comprised established philanthropists from across the UK, together with Chairs, Trustees, CEOs and Directors from across the Charitable and Private Sector. These included representatives from: *Association of British Orchestras, Alzheimer's Society, Ambassador for Philanthropy, Art Fund, Audit Commission, Aviva, Cancer Research UK, Centrepoint, The Challenge, Charities Aid Foundation, Dance UK, DCMS, Deutsche Bank, Dilettante, HSBC Private Bank, The Goldsmiths' Company, The Golf Foundation, John S Cohen Foundation, Institute of Contemporary Art, Institute of Fundraising, John Ellerman Foundation, JTI, Local Giving, London Centre for Arts and Cultural Exchange, London Chamber Orchestra, London Music Masters, London Sinfonietta, Miller Philanthropy, Music First, National Gallery, National Theatre, New Philanthropy Capital, The Nuffield Trust, Reading Agency, Relate, Ronald McDonald Charities, RSA, RSPB, The Roundhouse, Salisbury International Arts Festival, Shell Foundation, Sound and Music, SPCK, Sport for Life, Voices Foundation, Voices Now, Wheelpower and ZK2.*

The following thoughts are drawn from ideas offered by speakers, panellists and others that attended, both publicly and privately, as well as from ideas that *Cause4* has been developing. It is anticipated that the Report might constructively inform Government thinking ahead of the launch of the DCMS's Philanthropy Strategy on 8 December 2010.

1,Stimulating Philanthropy

Leading a Culture of Philanthropy
Government's focus on encouraging philanthropy is much welcomed. However, there is a perception in some quarters that the current approach to philanthropy is politically motivated. Furthermore, there is an extent to which endeavours to stimulate a stronger culture of philanthropy must surely be led in an apolitical way by philanthropists themselves, engaging at peer-to-peer level. It sounds clichéd, but we should take into account what Gates and Buffet have achieved in America through *The Giving Pledge* and note the authority with which they are able to speak personally about philanthropy and its role within society.

In the words of Gerald Ronson at the *Cause4* Seminar, philanthropists need to *'lead from the front.'* According to *The Guardian* in August 2010, 'Britain is home to 40 billionaires but only one of them, Lord Sainsbury, has given enough away to qualify (by American expectations) to sign The Giving Pledge'. The top 1,000 richest people in the UK are worth £333.5 billion. *Cause4* suggests that if in the UK we were to obtain pledges amounting to 5% of this, the waves of philanthropy would begin to roll significantly.

Creating the habit of philanthropic giving
There is much to be done by way of encouraging a habit of philanthropy the moment young adults launch into their careers. We suggest consideration be given to incentivising participation in the Give as You Earn scheme. This could be achieved through a Government voucher available to every new employee that is redeemable in favour of the nominated charity or charities if and when a new employee activates GAYE. Making giving a habit amongst the

relatively young and encouraging research into charities at such a formative stage can only help to breed the next generation of philanthropists.

We also believe that the philanthropic lead within large corporations should come from Board members and senior executives who should be actively encouraged to share their own philanthropic experiences and insights with their employees. It is also suggested that charities should engage with senior executives of corporations with whom they establish sponsorship relationships and ensure representation on their Boards. This will give every best chance of achieving longer-term support. The National Theatre provides a case in point following their recent gift of £10m from Lloyd Dorfman. His company Travelex supported the National Theatre 'Tickets for £10' scheme; his subsequent role as a Trustee will have been a major factor in determining his personal donation.

We are also bold enough to suggest that there is an opportunity for the Cabinet as a collective to provide a demonstrable philanthropic lead. As such, *Cause4* is pleased to suggest that The Cabinet might establish a new fund through their own giving and fundraising to support projects that can transpose the Big Society concept into action. Furthermore, if The Cabinet were to respond, *Cause4* and others would simultaneously accept a challenge to leverage additional support seeking to double the fund within 12 months.

Tax-Relief
It is widely acknowledged that greater encouragement must be given to individuals and to corporations by way of tax-relief to make philanthropy more compelling. Aspiring to emulate levels of giving in America is unrealistic for as long as levels of taxation and tax-relief continue to bear no comparison.

Major philanthropists invariably regard themselves as investors. The view was expressed forcefully at the Seminar that tax incentives needed not only to encourage philanthropic giving *per se* but additionally encourage philanthropists to take risks in supporting charities and social enterprises whose undertakings might either be 'unfashionable' or 'untested' *(see below match funding).*

We also propose that new models be developed through which givers can recover 'dividends' on the back of their gift if the project they support becomes profitable, i.e. opportunities to turn gifts into investments. By way of illustration, the recent success of the National Theatre's *War Horse* production was a huge commercial success (grossing £13.2m at the box office just in the last financial year). We suggest that a return could be made to ACE on its investment, one that would enable it to extend support to smaller regional theatres - or indeed to individual donors likely to be minded to re-invest in the Theatre's success. This sort of pact between donor and recipient could lead to increased trust, engagement and investment.

A simple step that is needed across Government departments is to improve the current literature about tax reliefs – simplicity and intelligibility is key, coupled with an enthusiasm that philanthropists should be positively helped to capitalise fully upon relief available.

Gift-Aid
A view expressed by the Secretary of State that there was no compelling reason for changing the Gift-Aid scheme was not roundly shared. The £750m that the Charities Aid Foundation reports is unclaimed annually might be regarded as a 'result' in The Treasury; on the other hand it speaks of a cumbersome and impractical process. There is support for the idea of transferring a greater percentage of the benefits back to donors on gifts over a specified level. We speculate that this would lead to greater levels of giving.

If it is true that £750m is unclaimed annually, then we propose that this sum should not be lost to charitable good causes. Instead of its being retained for undesignated purposes within The Treasury, we propose it finds its way into a new fund ringfenced to support charities and social enterprise – perhaps those contending with greater challenges in generating income on account of their location, the relatively 'unfashionable' nature of their work or because the work is new, untested and 'risky' *(see later).*

Legacy Giving
There is wide-scale support for promotion of Legacy Giving within an expectation that 10% of one's legacy (the traditional tithe) is given to charitable causes. However, there is also enthusiasm for developing 'Give While You Live' schemes that are tax-efficient and which enable donors not only to enjoy their philanthropy while they are alive but, additionally, to become actively engaged – with their families – in the organisations to whom support is offered.

We are aware of work being undertaken by the European Association for Philanthropy and Giving (EAPG), the Charities Aid Foundation and the Charity Tax Group in this area. Under proposals being developed, donors will be able to support charities, whilst being entitled to benefit from tax-breaks during their lifetime. The establishment of such a mechanism will create greater tax exemption and flexibility in asset management for the donor. The charity receives a clear, irrevocable commitment from the philanthropist, as well as the eventual receipt of a lump sum from his or her estate. Meanwhile, the philanthropist receives a guaranteed income from the asset.

However, *Cause4* would take these proposals a step further. We suppose that ways could be found for advancing the gift by releasing capital directly to beneficiary charities prior to death and final settlement of the estate – perhaps, for example, at the age of 70. This would, we suggest, prove a very significant incentive to increase Legacy Giving. We imagine that there are banks that would be happy to facilitate such a scheme.

Government matched-funding
Whilst it is understood that the current economic climate has required Government spending to be urgently rationalised, we are of the view that, notwithstanding the need to effect immediate cuts, the principle of Government support in matched funding is an inherently good one, one ultimately that might cost the tax-payer less to achieve a great deal more.

Whilst not all of those organisations whose income has been largely or exclusively dependent upon Government might agree – and we know that quite a few don't - , we believe that over-reliance on Government not only compromises the independence of charities, but has also created unacceptable levels of complacency. There is a compelling case, we suggest, for Government's supporting charities in direct proportion to the sums they successfully generate from the private sector – with the caveat that this should be up to clearly specified levels. Not only would this incentivise charities and supporters alike, but it would also provide good value to the tax-payer.

We also believe that a system of match-funding for the regions would protect and enhance smaller organisations that are struggling to survive as national sponsors re-trench in risk-averse, safe, London-based institutions. For example, the match to be provided might factor in the degree of difficulty (rather like a diving tariff) to which an organisation operating in the regions might be subjected, i.e instead of a standard ratio say of 50:50, in the regions the ratio might be 60:40.

Building endowments
The Government recognises the importance of building endowments and that prudent financial management should not lead to organisations of comparative wealth being penalised in terms of Government support.

It was recognised by the Secretary of State that it could take some 100 years to build endowments of a significant level. Those attending the Seminar felt that endowment fundraising would need to be made considerably more attractive to donors if it were to be achievable. The majority view was that donors prefer to give to active projects and to see their investment 'work' to effect immediate change. Indeed, with interest rates at current levels, the incentive to invest is negligible.

While we can look to organisations such as The Metropolitan Opera in New York as good examples in terms of endowment fundraising, we should not overlook organisations that suffer when interest rates plummet or when returns on endowments are lower than predicted.

We suggest that the immediate priority in this parliamentary term is for Government and its funding organisations to support the building up of reserves rather than endowments.

2. Supporting charities

Strengthening fundraising capacity – training fundraisers
It is widely recognised that there is a dearth of good fundraisers across the sector and that there is a need to identify, recruit and train new fundraisers. Good fundraisers are a rarity and good training opportunities are few and far between. Countless trustees of charities confirm that they are unable easily to identify people of the right calibre to lead their fundraising - those with good instincts and natural judgment; strong communicators capable of developing and sustaining good relationships with donors; strategic thinkers equipped with a broad and practical understanding of the full range of fundraising opportunities. Furthermore, the need for good fundraisers has never been more acute. With expectations that charities and social enterprises assume more defining roles as front-line deliverers of services, the importance of generating new income is considerable. There is a need for a new generation of entrepreneurial fundraisers equipped for the challenges ahead.

Cause4 has developed an *Alchemists Programme* for those entirely new to the world of development and fundraising. Talented, resourceful and highly-motivated, our Alchemists work alongside us for at least a year. They are given intensive fundraising training from *Cause4* Directors (with additional support from other experts); they are required to develop and deliver their own community enterprise project with support from The School of Social Entrepreneurs; they undertake placements within other charities, funding organisations and CSR departments of major corporations and they study for the Institute of Fundraising's Certificate in Fundraising.

This model is highly replicable nationally. If it were supported by Government and the relevant governing bodies of arts and sport, etc. replication could happen easily and quickly. We believe that there is a low-cost funding model to be developed - with a third of the training costs paid for by the charity into which the trainee is placed, a third paid for by Government or by the relevant governing body and a third paid for by the private sector.

New Forums
There is also a recognisable need to facilitate debate and discussion between organisations providing best practice in this area, for example, the new Institute of Fundraising training academy. Structured mentoring activity is also important to develop fundraising – not only for those directly delivering fundraising, but also for Trustees and other leaders of organisations for whom fundraising is a clear responsibility.

Other ideas include Government supporting smaller organisations to develop consortia to share experienced and skilled fundraisers, to build infrastructure and to share expertise.

Support for regional organisations, smaller organisations and those with 'unfashionable' causes
It seems undeniably the case that large, well-established charities - those with a national brand - find it considerably easier to generate income than new, smaller organisations, especially those that are situated in the regions and whose causes are considered 'unfashionable' (for example refugees and debt).

The large, well-established charities are not only attractive to commercial sponsors concerned about their own brand and market-reach, but they invariably have an army of fundraisers at their disposal. *Cause4* advocates the exploration of twinning relationships whereby larger, well-resourced charities adopt a smaller charity with whose charitable objects they are closely aligned and find ways of offering practical fundraising support. Besides, Corporate Social Responsibility is arguably as much the preserve of large charities as it is of multi-national banks.

Supporting transition to operate like well-run businesses
It is widely recognised that charities and social enterprises are at vastly different stages in their evolution towards organisations that are business-like and entrepreneurial in their thinking and practices. The philosophy underpinning the Big Society offers potentially many new opportunities, whilst current thinking around social enterprise and social investment offers possibilities of new streams of sustainable funding. The gap between the most 'professional' and the least 'professional' charities needs closing if all of these opportunities are to be roundly exploited.

It is recognised that social enterprises have considerable potential to generate new, sustainable income streams, as well as helping to address worklessness by engaging those that would be otherwise unemployed. There is also recognition that not all organisations are equally well-placed to develop social enterprise, both on account of the nature of their work and the lack of business acumen available to them to develop commercial products. Means need to be found to bring broad business expertise to the operation of charities' Boards and specific help in understanding new models of investment.

A number of corporate organisations, including Deutsche Bank, Man Group and Aviva, have recognised the role they can play in sharing skills - and in developing this as a particular aspect of CSR and policy development. Encouraging corporations to work in partnership with Government in enhancing business-skills and developing understanding of the place of charities within the commercial landscape could be hugely beneficial to charities and social enterprises.

Mergers and Partnerships
Similarly it is recognised that, while mergers and acquisitions might be costly and culturally difficult to implement, partnerships are essential – and that in the long-term these might lead to successful mergers. Many organisations are improving efficiency by combining back-office resources – the Barbican Centre and the Guildhall School of Music and Drama, for example. However, there is much to be done to encourage collaboration to support the delivery of services and activities. Funders such as Man Group referenced their enthusiasm for joint funding applications and it is suggested that Government might also actively encourage - even incentivise - new collaborations. There is also much to be said for cross-sector working, for example, the new partnership between the London Chamber Orchestra and national Children's Charity Barnardo's.

Social Enterprise and new types of investment
The new world of social enterprise and social investment is exciting but also makes many nervous – a step into the unknown. Tax incentives to support more social investment and support to foster greater entrepreneurial thinking are broadly welcomed. However, charity Trustees feel that their duty to ensure prudency and risk-aversion is at odds with risk-taking inherent within social enterprise. More support and training is needed for trustees to help them understand and embrace new opportunities without compromising prudentcy. It is widely recognised that there is an inherent danger in jumping on the bandwagon without the adequate skills and understanding to bring success.