Funding groups in crisis

A discussion in London funders' *Learning from Funders* series, hosted by Buzzacott LLP

Is there a crisis for funders?

Forty London funders came together on 25 January 2011 to talk about the growing crisis affecting voluntary and community groups as public expenditure cuts bite and other funding sources are under more pressure – is there demand from groups staring disaster (or just temporary cash challenges) in the face? Can funders assist? Are there legal and technical issues to understand? What non-financial support is effective?

Three presenters between them covered all the angles:

- Ciaran Rafferty, Principal Grants Officer, The City Bridge Trust, started discussion from his Trust's experience and a recent survey of other funders
- Amanda Tincknell, Chief Executive, The Cranfield Trust on the problems faced by voluntary organisations, identified by the Trust's volunteer consultants, and how they and funders together might support a stronger sector
- James Sinclair Taylor, partner in Russell-Cooke Solicitors, on legal and technical considerations in dealing with groups in crisis and areas where funders should be cautious.

For most funders application numbers dipped in early 2010 but later in the year they started rising and the rate of increase is speeding up. Demand is not yet unmanageable for most funders and there are relatively few requests for emergency support: all anticipate this is likely to change. Assessment will be tougher as funders look for financial stability, more informed forecasting and a tight fit with their criteria. City Bridge Trust recently surveyed funders (responses from 17 foundations and Big Lottery Fund). Funders were discussing policy in relation to the recession and its longer-term impact; few had made any recent changes in their funding criteria, though some reviews were under way along with consideration of the need for flexibility in decision-making.

Emergency support?

Some funders will consider it but normally only where they have funds already invested or where the work is strategically important to the sector. Others support only financially robust organisations. Even funders willing to consider crisis support may only help where they will be supporting longer term sustainability, not bailing out an organisation that might otherwise collapse.

Most foundations will not directly replace funding from a public-funded source though if that support has been short term project funding they may be willing to look at it. Funders with a clear policy of funding additionality to existing provision will have an increasingly difficult set of judgments to make in assessing applications.

Many funders are aware of the pressures on smaller groups from higher demand and tougher fundraising challenges, including the trend in many boroughs to lose grants pots in favour of commissioned contracts. Concern was voiced about the government's Work Programme which will pay by results and in arrears, and leave a three-month gap between the end of existing contracts and the awarding of new. United St Saviour's Charity is looking at how it as a local funder might help take the risk; Westminster City Council is promoting a transition fund, asking funders to support employment services in this gap.

One of the silver linings in the recessionary clouds lies in the way radical change facing the VCS might stimulate innovation in service delivery. Funding organisations to strengthen themselves or reduce costs is also a favoured approach: Cripplegate Foundation recently helped fund a group's move to new premises to reduce its future running costs. Funders are not naive about the costs of partnership working and collaboration between groups: some methods can add to costs and mergers need investment before they deliver savings.

Funders working together?

Given the significant social upheaval this government's policy shifts will create, demand for VCS services will change as well as increase. Funders recognise that their responsiveness to changed needs could be improved by sharing information, collaborating with each other, and considering joint pots of funding and new approaches to investing in the sector. Members of London Funders are looking at ways to develop these ideas.

At a very practical level, a funder may put an application "on hold" while an applicant waits for the outcome of other key funding decisions. Might this develop into more "joined up" thinking to align timing of decisions so organisations could have a coordinated response from several funders?

Ciaran challenged London Funders to promote a campaign to encourage all funders to recognise that cash flow is crucial to organisations and that they be "fair and reasonable" in the way they make payments, not protecting their own resources at the expense of funded groups by paying late, in arrears or in cumbersome steps.

Preparing for crisis – how can we support groups in difficult times?

Amanda explained that The Cranfield Trust works with 200+ small to medium groups a year, giving free management consultancy from 600 commercial sector volunteers. Current concerns are:

- **forward planning** – not enough organisations thinking about their strategies and business plans in the light of likely cuts. Business plans for trading activities are often unrealistic and forecasting over-optimistic, creating false security
- **low reserve levels** where fundraising has been hit by the recession, or late payments on contracts or other funding agreements cause cash flow problems
- **cash flow** forecasting is vital. The positive climate of the last decade has encouraged reliance on budget forecasting and now groups really need to know their cash position
- **operating environment** – there is often a lack of knowledge of the competition and of possible merger or collaboration partners: hard to make a successful match in a rush in times of crisis
- **governance skills** are under strain: organisations need skilled Board members able to navigate the choppy waters of commissioning, personalisation and other challenging initiatives. Chief Executives should be well supported and strongly advised on areas such as strategy and risk; but often the Trust's consultants see them struggling to bring their Boards with them.

Cranfield Trust volunteers focus on these issues, also providing support in updating HR policies in case of redundancies; evaluating trading plans; and mentoring Chief Executives. They report that more charities are leaving it too late to seek such help, and to apply to funders for support.

What crisis? Can it be averted/avoided?

James Sinclair Taylor looked at the risks for funders in helping the sector cope with hard times and what steps funders might take to manage those risks. "There is much that funders can do if the will is there", he said. Among his list of issues that must be got right if organisations are to survive are:

- encouraging the adoption of the right legal structures, especially ensuring limited liability
- analysis of the strategic risks, e.g. did any staff transferred to the organisation come with large redundancy liabilities or pension top ups under TUPE?
- whether the closure of one organisation affects services being delivered by others (e.g. services lost when a community transport service closes down
- knowing how the rules relating to insolvency operate
- helping an organisation understand the difference between a negative balance sheet which may not always lead to insolvency and the extreme dangers of an unsustainable cash flow.

The widespread closure of projects and voluntary organisations could create problems for funders, especially where, as so often, voluntary organisations freeze in the headlights of financial difficulty:

- loss of outcomes: to avoid this, a funder might help rescue a viable project from inside a failing organisation or help analyse whether merger or transfer of projects is the way to save valuable social outcomes.
- damage to reputation – funders value their reputation for delivering effective funding and will want to consider whether short term support will gain long term viability. Would a funder be well-advised to support an appropriate solvent wind-up rather than untimely collapse?
- loss of monies – funders have always used claw back provisions and mortgages and other forms of security. This may be a period where it is going to be necessary to extend their use.
- loss of assets created – a funder may have supported an organisation which has created or purchased assets, e.g. land, equipment, intellectual property. Can these be rescued from financial wreckage?
- liability for the funder, which needs to ensure that it does not appear to give guarantees which could make it liable for a funded organisation's debts.
- public bodies when terminating or reducing funding need to be very sure that this does not breach any contractual obligation nor leave room for litigation in the form of judicial review. They need to maintain a proper process despite a pressing need to cut back.

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A fuller report of this event will be published by Caritas magazine in March 2011: contact info@londonfunders.org.uk for more information.