The changing relationship between philanthropic money and mission

Kenneth McDowell CA *(www.saffery.com)*

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What is philanthropy?

The term philanthropy, as many readers will recognise, means 'love of humanity' typically in the sense of caring, nourishing, developing and enhancing a cause identified by the philanthropist. Such activities promote public good and focus on quality of life fusing social and humanistic tradition and delivering non-profit outcomes. This contrasts with business or private enterprise whose principal objective is private gain with the primary focus on material prosperity and profit.

Philanthropy, as a behaviour, attempts to resolve society ills at their root cause, as opposed to charitable objectives which seek to relieve, through charitable activities, the pain of the problems identified. Therefore, notwithstanding the common linkage of philanthropy with charitable activities, the philanthropist attempts to cure rather than purely to relieve the pain.

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Whether attempting to cure or relieve the pain of identified social ills, there is a growing trend for measuring the return of funding deployed in social and charitable activities. This paper attempts to explore some of the causes of this and some of the predictable funding trends which might be more prevalent in future social and charitable funding frameworks.

Changing social funding patterns?

As is often said, we live in interesting times. This has never been more profound than in its relevance to the charitable and third sector and its current funding dynamics and developments.

The third sector has recently faced, and continues to face, funding cuts from hitherto predictable sources. Funding sources from central government or local authorities through the UK have witnessed dramatic change in recent years often in front-line service areas. In addition to reductions in overall funding, the structure of the funding has also changed to outcome-based service level agreements thus moving away from the operating grant awards of the past. This has affected welfare, housing and care, and many non front-line activities such as arts and culture have also felt the wind of change.

Such a sustained trend of funding cuts and uncertainty has placed untold pressure on the number of applications for funding to established foundations and trusts to bridge identified gaps in social activities. This comes hot on the heels of further emerging cost issues including mounting pension costs and auto enrolment obligations, minimum wage, sleep over rates and the state of the general economy.

Certain sector commentators have also questioned the efficiency of the third sector and its activities and to what extent the tax regime over-subsidises a potentially overlapping structure of third sector entities and activities. It is reported that there are over 200,000 charities in the UK and a question undoubtedly exists about why the country or indeed a region needs a number of third sector organisations delivering similar outcomes, with their own infrastructure costs, to a similar beneficiary constituency.

Against this developing funding landscape and commentator view, a question also arises over whether each Board of Trustees is aware of the need to measure and monitor the effectiveness of their charity's delivery of outcome and its efficiency. Or, put another way, is their charity deploying the maximum income resource percentage into charitable activities and in turn outcomes?

There is an undoubted conflict that the third sector faces between maximising beneficiary outcomes and servicing ongoing cost obligations. A truly troubling challenge exists for those charities which need to fund past deficits on defined benefit schemes using current funding resources. This is compounded further by the fact that many of these schemes have 'last man standing' characteristics.

The third sector, therefore, faces funding issues and efficiency questions. As a consequence, as with all market forces, new and emerging solutions blossom to potentially address this developing need.

The rise of philanthropic foundations, modern charities and social enterprises

Philanthropic foundations

In recent times, there has been a rise in the prominence of foundation charities which facilitate the activities of modern philanthropists or grant givers. Such charities often provide the administration and management support services which removes the requirement for separate trust and family foundations to be set up. Such a professional and flexible service provides an umbrella of legal and charitable activities which can allow the philanthropist to focus on outcomes and impact.

This can provide a centralised solution for many philanthropists without the legal and regulatory burden and value-for-money challenges of running their own charity, thereby addressing some of the commentator views on efficiency noted above.

Modern charities

Modern charities need to be more business-like in their activities. Income shortfalls and cost pressures have already resulted in more collaborative behaviour between sector charities whether through shared facilities, procurement groups or driving best practice in areas of benefit to all. There is sector momentum on such commercial initiatives, and increasingly 'forced marriage' behaviour from key funding stakeholders has become more apparent with recent examples in care and housing. Again with more funder focus on outcomes and efficiency and the perceived and actual number of charities carrying out activities for common beneficiaries, a prospective merger and acquisition landscape would not be a surprise.

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Commercial activities are also more relevant to a sector needing to generate more self-funding. Utilisation of charitable assets remains a key priority but the sector must always be mindful of the corporate and legal trading structures required to ensure such activities are delivered without jeopardising charitable status.

Social enterprises

Social enterprise investment vehicles provide financial capital to third sector organisations such as charities, social enterprises and community groups. Their model takes investment from private business, private individuals, government and banks. Using a loan funding model, they can provide much needed capital to social activities and, in certain circumstances, can gradually move third sector entity funding models from heavily grant subsidised to heavily self-sustaining. These developing funding alternatives are providing a solution for enterprises that generates both financial and social return. Such activities have been provided, since 2013, with an additional boost through the introduction of Social Investment Tax relief (SITR), the world's first tax incentive of its kind targeting social investors. Tax incentives can potentially tap into a new type of philanthropic constituency which previously may not have been attracted to the third sector.

The consequential need to measure social impact

Due to the changing funding landscape, the competition for benefactors and grant givers and outcome-focused funding packages, there is a need to demonstrably measure the impact of funding.

Put simply, social impact is the outcome or effect that a social or charitable activity has on the community and the well-being of its people.

Measuring social impact can be difficult; however, over recent years principles have been developed. Many charities and social organisations need to grasp the modern concept of why it is important to measure social impact. Only by doing so can the entity understand, manage and communicate the outcomes and attach value to its stakeholders and in particular to its funders.

Having impact and agreed impact indicators provides information to enhance efficiency and an improved ability to deploy charitable resources to their best use. In addition such measures can allow targeting of activities that have proven to be particularly worthwhile. Conversely it may inform an orderly retreat from activities or investments where the return on investment or activity was not as expected.

Within the modern charity, these are expected operational key performance metrics. In addition, with the advent of social investment there is a business need to ensure that the social entity's activities become attractive to this new form of investment. Social investment with the attendant tax breaks for private individuals has become, and is set to remain, financially attractive for the modern high net worth individual with social aspirations. As a consequence, if social investment is to become as important as financial return the measurement of social impact must be simple to understand, measure and communicate.

Many charities involved in social activities find themselves in an increasingly competitive situation through service level agreement tenders. Against this background, it is vital for such organisations to advertise their offering in a coherent and intelligible way to award-making local authorities and other customers. Such needs are heightened when there is little difference between alternative service providers and where procurement is influenced by legislative development such as the Social Value Act.

Conclusion

It is clear that the funding climate for the third sector has changed. There is less centralised funding and that which remains is changing more to outcomes service arrangements and less to the revenue grant funding models of old. Efficiency in the third sector is now a key driver and necessary measure for modern philanthropists. Modern philanthropy can more often now be routed in return on investment which, to the new SITR investor will be both social and financial. In a less funded and more efficient future, it is undoubtedly the case that measuring the outcomes of funded activities will be the modern measure of philanthropy.

***Kenny McDowell** CA is a partner in Saffery Champness, Edinburgh with specialist experience in the not-for-profit sector.*

He brings a wealth of experience, having worked with a number of large Scottish charities as auditor and adviser, and has acted as trustee on a number of of charitable boards for many years.

With over 20 years' experience, Kenny provides assurance, advisory and consultancy services to Scottish charities in the theatre, arts, education and care sectors, as well as faith-based charities and grant-making organisations. Kenny is also a member of the Saffery Champness Not for Profit national Group and further specialises in financial reporting developments, more particularly, FRS 102, Charitable SORP and micro reporting developments through his membership of a number of national committees which are at the forefront of technical development in these areas.

Kenny is also a recognised speaker and sector commentator on financial reporting developments. Before joining Saffery Champness, Kenny was a partner in an Edinburgh accountancy practice for 12 years.