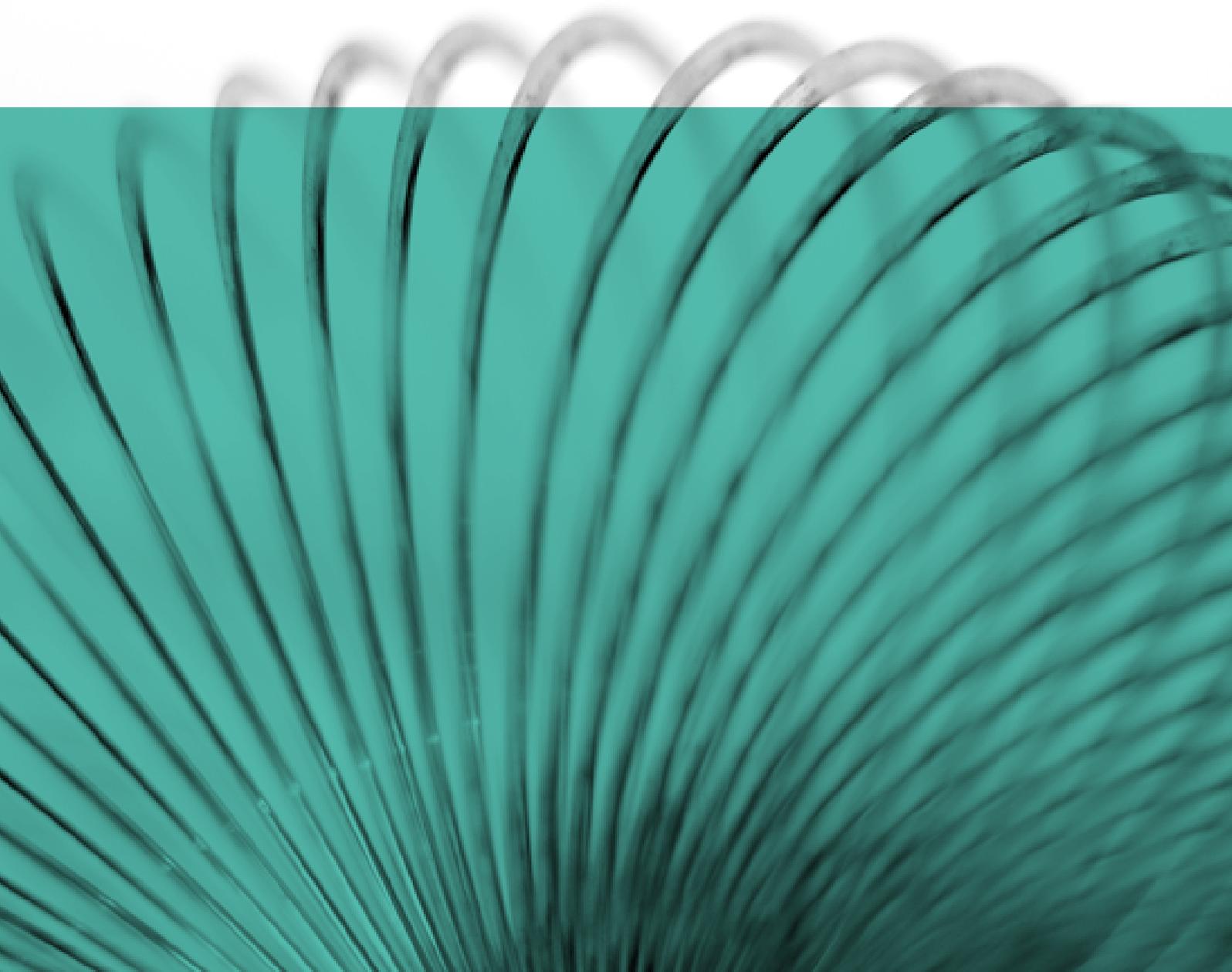


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# The Growing Importance of Community Foundations in the UK



Community foundations are non-political, independent philanthropic organisations. They raise money for local communities and build permanent resources that encourage non-profit infrastructures.

Appointed board members are responsible for maintaining the organisation and identifying its funding priorities. Foundations typically cover a specific geographic area, serving the needs of its residents, regardless of race, religion, or ethnic origin.

Community foundations are one of the fastest-growing forms of philanthropy. According to the UK's membership organisation, UK Community Foundations, in 2020, £98 million was awarded in grants across all 47 foundations<sup>1</sup>.

## The evolving shape of the charity sector

Today, the UK charity sector is considered essential to the functioning of a democratic system. The number of charities in the UK has remained stable in recent years, however the makeup of the sector is changing, with smaller charities starting to give way to larger organisations.

The National Council for Voluntary Organisations (NCVO) reports that in 2018, there were 166,592 voluntary organisations in the UK, with the majority being small and micro. Today, there are fewer charities in the UK with an income over £1 million and as of 2018, there were 56 super-major charitable organisations, up from 51 the previous year<sup>2</sup>.

The size, scale and type of activities carried out by charities across the UK continues to vary, with some organisations operating on a national scale, and others covering a specific area or region. This lack of uniformity presents a challenge to community foundations in regards to implementing grant making best practices and reaching local communities where policy players may be less visible.

**166,592**

voluntary organisations  
in the UK in 2018



**56** super-major  
charitable  
organisations

<sup>1</sup><https://www.ukcommunityfoundations.org>

<sup>2</sup><https://data.ncvo.org.uk/profile/size-and-scope/>

## The challenges facing small charities

Small charities in the UK face a number of challenges in today's landscape. For one, the shifting habits and behaviours of the general population make it difficult for charities to maintain engagement with donors and volunteers. According to the Charities Aid Foundation's UK Giving 2019 survey, the number of people giving money to charity has seen a steady decline from 69% in 2016 to 65% in 2018.

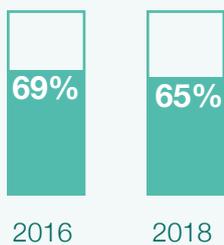
The number of people participating in charitable activities has also declined over the last three years<sup>3</sup>. The events of 2020/21 are also likely to have had a negative impact on donations and volunteering, with social distancing, cashflow instability and a struggling economy, creating even more barriers to giving.

Small charities and voluntary organisations are also faced with the challenge of embracing digital transformation. According to the Charity Digital Skills 2020 report, just over half (51%) of charities surveyed still don't have a strategy for digital<sup>4</sup>.

With social distancing likely to remain in the UK for some time, charities need to embrace the online world to continue receiving donations. According to market research firm Turquoise, in 2019, online charity donations grew year-on-year by 25%, but cash still represented more than 50% of all donations<sup>5</sup>.

With public events, door-to-door collections and office collections significantly reduced, digital transformation will become increasingly important to compensate for the shortfall in traditional fundraising methods.

Staying connected remains an ongoing challenge for the sector. Charities and voluntary organisations rely on personal relationships and frequent progress updates to maintain engagement with previous and prospective donors. With much of today's interactions taking place online via video conferencing and social media, many charities will find their reach is limited without an existing digital infrastructure in place.



**number of people giving money to charity**

Charities Aid Foundation's UK Giving 2019 survey



**just over half (51%) of charities surveyed still don't have a strategy for digital**

Charity Digital Skills 2020 report



**in 2019, cash still represented more than 50% of all donations**

Turquoise

<sup>3</sup><https://www.cafonline.org/about-us/publications/2019-publications/uk-giving-2019>

<sup>4</sup>[https://www.skillsplatform.org/uploads/charity\\_digital\\_skills\\_report\\_2020.pdf](https://www.skillsplatform.org/uploads/charity_digital_skills_report_2020.pdf)

<sup>5</sup><https://thinkturquoise.com/blog/charities/evolving-trends-in-the-charities-sector/>

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## The emergence of community foundations

The first community foundation originated in the U.S. in 1914. The Cleveland Foundation was founded by a local banker called Frederick H. Goff. He had the idea to consolidate several trusts into one single organisation that would be governed by local members. Banks handled the trusts and the board members assessed the needs of the local community.

Throughout the 1920s, the concept of community foundations spread across the U.S, but faced a challenging period during the Great Depression in the 1930s. After World War II, the number of foundations began to increase and continued to grow over the next two decades.

Corporate form foundations from this period came under scrutiny for their tax-exemption status, and so in the 1960s, tax legislation was changed so that community foundations had tax status as public charities to combat payment avoidance.

The 1970s saw an acceleration of community foundations in the U.S. and the advantages of public charities over private foundations came to include less government regulation, tax exemption and deductibility of gifts.

The rise in foundations continued throughout the recession of the early 1980s when the U.S. government reduced the number of national social programs. Their growth continued throughout the economic boom of the 1990s and today, there are over 750 community foundations in the U.S. with foundation giving totalling \$75.69 billion in 2019<sup>6</sup>.

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## The U.S. influence on UK foundations

Taking a lead from the U.S., the first community foundation in the UK was established in 1975 in Wiltshire. As was the case in the U.S. at the time, foundations were slow to take off during the recession of the early 1980s.

By the 1990s, they became more widespread and by the 2000s, most foundations were developed as grant makers for statutory funds, relying more heavily on state funding.

Today, the 47 foundations in the UK all operate under the umbrella organisation, UK Community Foundations. Collectively, to date, over £1 billion in grants have been given to charities, community groups and individuals<sup>7</sup>.



<sup>6</sup><https://www.nptrust.org/philanthropic-resources/charitable-giving-statistics/>

<sup>7</sup><https://www.ukcommunityfoundations.org/about-us>



## Scrutiny and calls for regulation

As the concept of philanthropy continues to rise, community foundations have come to face increasing scrutiny from researchers and commentators with questions being raised over their compatibility with democracy.

There are calls for foundations to be subject to the same regulatory scrutiny as financial institutions, schools and hospitals, whether from government entities, or peer reviews.

It's argued that a lack of standardisation across foundations makes it difficult to implement best practices and to evaluate their performance against established standards.



## The growing responsibilities of trustees

As community foundations continue to evolve, the legal responsibilities of trustees have increased significantly. They need to operate in the best interests of the foundation, its beneficiaries, and in compliance with Environmental, Social and Governance (ESG) criteria.

Investment objectives that cover income needs, ethical restrictions and attitude to risk need to be set out in governance documents and reviewed regularly. As such, the expectations of trustees are growing and becoming akin to running a business.

In turn, it's becoming more challenging for community foundations to recruit trustees to their boards.

It's argued that a lack of standardisation across foundations makes it difficult to implement best practices and to evaluate their performance against established standards.



## The slowing down of grant making

With increased scrutiny and the growing expectations of trustees, the grant making process in general is slowing down. Calls for regulation means community foundations now have more social, political and environmental factors to consider when issuing grants to local communities.

As community foundations continue to derive funds from multiple sources, including governments, businesses and individuals, the need to attend to the management of donor interests and services increases.

As such, local interests may become neglected as bigger fundraising issues and the security of resources dominate the work of foundations.

# The role of community foundations

In addition to grant making and allocating resources, community foundations play an instrumental role in providing local communities with grass roots support and relief during times of emergency. Some of the broader roles foundations play in their communities include:

## Understanding local needs



One of the principal roles of community foundations is carrying out regular local need analyses to identify the evolving social needs of communities and address how they can be met. The Vital Signs initiative, which was started by Community Foundations of Canada, gathers funding data, statistics and first-hand interviews to build up a picture of the key issues that affect communities.

These reports inform discussions between potential partners and donors and lead to funding decisions. In conducting detailed research, foundations can be confident that their giving is contributing to important local causes.

For example, Cornwall Community Foundation's Vital Signs report<sup>8</sup> is published every year and provides a concise overview of what resources are needed in Cornwall.

## Promoting philanthropy



One of the principal roles of foundations is promoting philanthropy to improve local areas. By creating the infrastructure to enable charitable donations and through identifying key audiences, foundations are able to promote philanthropic principles.

Engaging with potential donor organisations and individuals enables foundations to raise awareness of local needs and provide the education required for people to make contributions.

Through providing advisory services and encouraging donors to be transparent in their giving, foundations also promote leadership and inspire people to follow by example. Publicising philanthropy through local media also raises awareness of its benefits to communities and provides good PR to local organisations.

<sup>8</sup><https://www.cornwallcommunityfoundation.com/about-us/vital-signs-2/>

<sup>9</sup><https://devoncf.com/news/latest-news/devon-community-foundation-launches-devon-flood-fund/>

<sup>10</sup><https://www.cornwallcommunityfoundation.com/news/emergency-storm-fund-raised-over-183000/>

<sup>11</sup><http://foundationsforpeace.com/the-community-foundation-for-northern-ireland/>

## Encouraging best practice in the non-profit sector



With the non-profit sector facing calls for increased regulation, many foundations now have a strong focus on ensuring accountability.

As grant makers, foundations have responsibilities to ensure the decisions they make are democratic and best serve the communities they work with.

This responsibility extends to the non-profit organisations they fund. In ensuring that best practices are followed within charities and voluntary organisations, operating standards improve overall, as accountability becomes a high agenda item.

## Providing relief during times of emergency



Community foundations have been instrumental in providing support to local communities during times of emergency.

For example, in 2014, Devon Community Foundation launched the Devon Flood Fund to help local communities affected by flooding across the county<sup>9</sup>. Similarly, the Cornwall Community Foundation raised £183,000 in Cornwall to support people affected by storms<sup>10</sup>.

The foundation worked closely with agencies, encouraging people to make donations to raise £50,000. The funds were used to provide emergency relief grants, to help those who faced additional financial burdens, to ensure the survival of micro-businesses and to support counselling services.

## Promoting social justice



Most community foundations support a broad range of charitable interests. In some cases, boards will take a more focused role in regards to social justice. The most active foundation in promoting social justice is the Community Foundation for Northern Ireland (CFNI)<sup>11</sup>.

Established in 1979, the Northern Ireland Voluntary Trust, as it was then known, helped bridge the sectarian divide in Northern Ireland through its grant making.

Since its inception, CFNI has been involved in supporting various social justice projects, including peace building projects with politically-motivated ex-prisoners and setting up a social justice fund for the victims and survivors of bombing incidents.

## Promoting community leadership and development



Community foundations are in the unique position of having a clear overview of the needs of communities. As well-connected organisations, they can assemble local decision makers, government officials and the wider business community to develop coordinated programmes.

In working together towards a common goal, a coordinated programme can have a greater impact than individuals working on their own.

Gathering external resources ensures that community needs are met more effectively. Local leaders, who are sensitive to the needs of their community, are able to set the development agenda, to the benefit of residents.

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## The distribution of community foundations across the UK

The distribution of foundations across the UK shows marked national differences. Whereas several foundations exist in England, in Scotland, Northern Ireland and Wales, each have only a single accredited foundation.

Foundation Scotland was established in 1996, and to date, it has helped distribute more than £100 million to charities and community groups through its funding programmes<sup>10</sup>. Scotland faces a broad set of socioeconomic challenges, particularly in relation to rural areas, where access to funding and resources can be limited.

Community Foundation Wales was established in 1999 and awards grants of over £2.6 million each year. The foundation works with over 30,000 community groups and charities to improve their communities and meet local needs. The Community Foundation for Northern Ireland has awarded over £100 million in grants to individuals and local communities since its inception<sup>11</sup>. Historically, the foundation played an important role in bridging political and economic divisions in Northern Ireland, and today, it aims to drive social change and change lives through impactful grant making and innovative programmes.

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## Developing strategic partnerships

By developing strategic partnerships, community foundations ensure that best practices and insights are shared to improve the overall impact of initiatives.

For example, in 2020, the London Community Foundation partnered with the Muslim Charities Forum to work towards sharing best practice, collaboration and to respond to the COVID-19 pandemic<sup>12</sup>.

Through virtual events, application and funding support, roundtables and ongoing consultations, the partnership ensures that grant making reflects the needs of all of London's communities.



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## How COVID-19 is driving change

More recently, community foundations have demonstrated the value of their agility by supporting local areas throughout the COVID-19 pandemic. Many new and pre-existing issues were brought to light during the pandemic, including food poverty, social isolation and digital exclusion.

With the UK in lockdown, many people were in desperate need of support. By the end of 2020, over £25 million had been raised through local community foundation appeals, with an average grant size of £5,000.

The speed at which funds were mobilised was the result of years of investing in communities and engaging with partners. COVID-19 has highlighted the increasing importance of foundations and the value of their local intelligence and experience of what works at local level.

<sup>10</sup><https://www.foundationscotland.org.uk/>

<sup>11</sup><https://communityfoundationni.org/>

<sup>12</sup><https://londoncf.org.uk/blog/new-partnership-launched-with-muslim-charities-forum>

# The challenges facing community foundations

Today, community foundations face a number of challenges, particularly in regards to their mission and purpose. There's an ongoing need to adhere to public policy, while maintaining independence to act in the best interests of local communities. Some of the pressures facing community foundations include:



## Competition for public donations



There are approximately 166,000 charities in the UK, with an annual turnover of around £48bn<sup>13</sup>.

Despite a drop in the number of charities following the financial recession in the late 2000s, since 2011, their numbers have recovered to levels prior to the financial crash<sup>14</sup>.

Given the size of the sector, community foundations are increasingly facing competition from a variety of initiatives for public donations. Coupled with a reduction in individual donations, foundations need to consistently come up with new ways of diversifying their fundraising income.

## Increased demand for support



Increased demand for support following the COVID-19 pandemic has been an ongoing challenge for community foundations and has further highlighted the wealth divide in the UK.

Foundation Scotland, for example, reported a doubling in the number of requests to their Response, Recovery and Resilience Fund<sup>15</sup>. Likewise, the National Emergencies Trust reported that one in six UK adults have sought charitable help in recent months as a direct result of the pandemic<sup>16</sup>.

With an increase in demand for support, comes the challenge of deciding where to allocate funding and how to prioritise initiatives.

## Establishing public trust



Public trust is instrumental in securing public donations. With increasing calls for regulation of community foundations, establishing trust is an ongoing challenge.

In recent years, public polling for the Charity Commission has shown a drop in the level of trust in the charity sector, with numbers below pre-2016 levels. With increasing volumes of data and commentary, amplified by social media, it has become more difficult for the public to know which organisations to trust.

In today's digital age, community foundations need to balance the need for clear communication with the need to remain independent, while acting in the interests of democracy and the needs of local communities.

## Managing growth and competing priorities



As competition for public donations grow, so does the challenge of managing growth and competing priorities.

Systems and structures need to be constantly adapted to manage capacity and ensure that decisions are being made in the fairest way possible.

Board members need to uphold their responsibilities and foundations in general, need to increasingly seek insights and expertise to ensure effective decision making.

<sup>13</sup><https://howcharitieswork.com/about-charities/how-many-charities>

<sup>14</sup><https://www.statista.com/topics/3781/charities-in-the-uk/>

<sup>15</sup><https://theedinburghreporter.co.uk/2020/09/foundation-scotland-reports-doubling-of-demand/>

<sup>16</sup><https://nationalemergenciestrust.org.uk/seven-million-expect-to-seek-charity-support-in-the-next-year-due-to-pandemic/>

<sup>17</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/897204/Public\\_Trust\\_in](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/897204/Public_Trust_in)

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# Future developments

The role of community foundations is evolving from traditional grant making to community leadership. By gathering individuals and organisations with local influence under the one umbrella, foundations can provide a singular voice for local and national change. Today, community foundations are helping to solve some of society's most difficult challenges. Some developments we may expect to see in the future, include:



## An increasing role in social issues

Traditionally, community foundations have been most active in sectors such as education, the arts, and the environment. In the coming years, we might expect to see foundations take more of an active role in social issues, such as homelessness, property and mental health.

In recent times, UK Community Foundations has created initiatives such as the Transformation & Growth Fund, which tackled issues around housing and homelessness.

Likewise, Cheshire Community Foundation launched the Young Minds Matter Programme, with a focus on combatting mental health issues.



## Continued growth of community engagement

Following the COVID-19 pandemic, it's highly likely that the work of community foundations will continue to focus around community engagement.

The agility demonstrated by local organisations during the pandemic is testament to the importance of having pre-existing infrastructures in place and strong relationships with local communities.

As important as money is in developing communities, without established relationships and access to relevant skills, charitable initiatives can't be launched at speed, nor at scale.



## More strategic engagement with relevant bodies

Through strategic engagement, foundations are able to gather the resources required to build relationships that drive change and create the best possible outcomes for local communities.

In the future, we'd expect to see more strategic engagement with relevant bodies in order to shape government policy and the lives of local residents.

Whether influencing small changes in local policy, or shaping public opinion, engaging at a strategic level will enable community foundations to affect change more directly and advance, or critique, specific public policies.

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We manage approximately £1.5 billion of investments and have over 20 years' experience of investment performance. Over the years, we've developed strong relationships with several community foundations and have been shortlisted for a Charity Times Award in 2018 and 2020.

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Find out more about how Church House can manage your investments. Call us on **01935 382620**, or email **[enquiries@church-house.co.uk](mailto:enquiries@church-house.co.uk)**.



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