Pinning the tail on the donkey

Clive Cutbill looks into community foundations and performance philanthropy

Over the last few years I have become increasingly aware of the importance to my clients of 'performance philanthropy' but, until recently, knew nothing of the role community foundations had to play in it. In discussion with others, I came to realise that I was not alone in my ignorance and, being charitably inclined, thought I should share what I had learned with my professional colleagues.

Relatively early on in my career, an American client decided to leave his UK estate to English charities, as this would be tax efficient both in the US and the UK. Because he did not know much about English charities, he asked me if I could give him some suggestions, so I lent him my copy of the *Law Society Gazette Appeals Digest*. I still remember his words as he gave it back to me a week or so later: 'I do not believe that I have enough money for each poor donkey in England to receive a pound.' He had nothing against donkeys, but he found the variety and number of charities on offer totally overwhelming. Even if he had been able to select the types of cause he wished to support, he did not feel that he had any way of choosing between individual charities. Eventually, however, I was able to help him focus on causes which appealed to him and to identify suitable recipients for his UK estate, although I cannot now recall whether any of them involved donkeys.

I expect that many trust and estate practitioners will have had similar experiences. Whilst our expertise is sought because of our understanding of trusts and estates, including the tax advantages of giving to (or establishing) a charity and the practical steps which have to be taken to do it properly, it is not just will draftsmen who are asked for advice on the selection of charitable beneficiaries. Those of us who establish charitable structures are sometimes asked not just to advise on the legal aspects of their operation but also to suggest how the funds which have been put into them should be distributed.

The reality is that while most philanthropists will want to structure their charitable giving in a tax-efficient way, no one gives money to charity simply to obtain tax benefits. It may be 'more blessed to give than to receive', but in order to be able to advise donors, it is helpful to understand what it is that actually provides their motivation for giving.

Motivation

Some donors may derive their 'feel-good factor' from having assuaged the guilt which they feel as a result of believing that their success may not be entirely deserved. Others may derive it from the networking opportunities and social status which can flow from what has been described as 'vanity philanthropy'. However, in the vast majority of cases, people give because they want to make a difference to society and to 'put something back', obtaining their personal satisfaction from believing that they are making a difference, even if they also enjoy collateral benefits such as the ability to use the giving process to educate their families about the world (from which their wealth might otherwise have sheltered them) and the values they consider important.

Tax efficiency is important in structuring charitable giving. By making charitable gifts tax-efficiently, donors can either reduce the cost of making a donation of a particular size, or increase the effective size of the gift derived from a particular donation. But what is the point of giving tax efficiently if the money given is not used efficiently to obtain the donor's objectives? With proper advice, GBP100,000 may pass to charity at a cost to the donor of GBP60,000 (or possibly considerably less), but if the good it does could have been achieved with a donation of GBP20,000, effectively, the tax efficiency has been negated.

Increasingly, donors, particularly those who have worked hard to make the money which is to be used for charitable purposes, are concerned to see that money work efficiently. Some have described their approach as not so much one of 'divestment' of funds *to* charity but one of 'investment' of funds *in* charity. This explains why resources such as Guidestar UK (which would have been of great help to my American client all those years ago) and 'performance philanthropy' advisers such as Rockefeller Philanthropy Advisers, Geneva Global and New Philanthropy Capital are now found in the UK, in many cases having started off in the US.

In the same way that an investor's portfolio is likely to include a variety of asset classes, many donors will have a variety of charitable interests. These may range from big international issues such as curbing global warming or alleviating the effects of HIV/AIDS, through national issues such as the provision of safe havens for neglected children (or donkeys), to particularly local issues affecting the areas in which they live or with which they have some other connection. In the same way that different asset managers may be selected to manage different asset classes, different approaches may be appropriate to find the most efficient use of funds intended to address different types of issue.

Community foundations

About two years ago, I received a letter from a former employee of a charity with which I was connected, telling me that he had become the director of the Community Foundation Network and asking whether he could talk to me about community foundations. After many years of advising on the establishment of charities and tax-efficient giving (often through the Charities Aid Foundation), I could not see what a community foundation, which appeared to be concerned only with a particular area of the country, had to offer. However, never being one to turn down a learning opportunity, particularly where a good lunch might also be involved, I invited him into the office.

Like much to do with 'performance philanthropy', community foundations originated in the US. There are now more than 1,100 worldwide (in more than 35 countries), of which over 50 are in the UK. As I learnt over our lunch, their real strength lies in their knowledge of the communities in which they operate and of the groups which are making a difference within them.

Although established for charitable purposes, most of these groups are too small to register with the Charity Commission. This has two consequences. First, although they can often achieve far more with small sums than larger, less focused, groups achieve with greater funding, they can prove invisible to potential funders. Secondly, they are rarely subject to official scrutiny, making it hard for potential donors to assess their performance. However, because of their specialised local knowledge, community foundations can identify which groups are, and which are not, well run. Also, in some cases, where a group has great potential but lacks the skills required to operate effectively, a community foundation will be able to provide the support needed to address organisational or governance shortcomings, enabling it to be funded with a degree of confidence.

Although many UK community foundations developed their expertise through delivering local government funding, half of the money they distribute across the UK comes from funds created by individual and corporate donors wishing to benefit their communities. By March 2006, UK community foundations were making annual grants of over GBP70 million and collectively held over GBP140 million in endowment funds.

Although the average size of grant made to local groups by community foundations is currently around GBP3,000, their local knowledge means that funds (and non-financial support) can be delivered in a way which really makes a difference, for example, by providing seed capital to enable hurdles to be overcome or self-sufficiency to be attained. This can make a small grant go a long way in terms of the 'gearing' it can achieve. For the donor who wishes to efficiently address a specific problem in a specific area, the appeal of this approach is self-evident. But community foundations can do more. Some donors wish to give not just their money but also their time and experience. Here, the 'hands on' approach of community foundations, coupled with their local knowledge, enables them to connect donors with projects in a way that can increase the benefit to the group and to the donor.

As a professional adviser, I became so convinced that community foundations were an important resource for charitably minded clients that, within six months of my lunch, I became a trustee of one. Whilst I would not seek to encourage every STEP member to follow my example in that regard, next time someone asks you about 'performance philanthropy' or benefitting a local area, I would encourage you to consider what a community foundation might be able to offer.

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