DISCUSSION PAPER

IMPROVING SMALL SCALE GRANT FUNDING FOR LOCAL VOLUNTARY AND COMMUNITY ORGANISATIONS

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`Improving small scale grant funding for local voluntary and community organisations’ Discussion Paper

Please note

This discussion paper was written with support from the Office of the Third Sector. However, it represents solely the views of the authors. It is intended to stimulate consideration of these issues and debates. Please note that the ideas and analysis in this paper do not necessarily represent the views of the Office of the Third Sector or Government policy.
The role of small community organisations
Small community organisations play a crucial role in local areas through their contribution to social capital, community cohesion, empowerment and a range of economic benefits. But they generally find it hard to secure resources; they have lost out relative to larger voluntary organisations in recent years, both in terms of public donations and public contracts. Although some new sources of support have emerged these are often confusing and erratic.

Evidence from abroad
Our research on Denmark, France, Australia and Canada suggests that small community organisations in the UK are not alone in facing financial difficulties. These challenges include the lack or insufficiency of state funding, access to information about grants or the design and delivery of the grants available. These difficulties have served to hinder the sustainability, efficiency and development of small community organisations. The experience in Canada, Australia, Denmark and France highlights the importance of clear accountability structures, decentralising decision-making as far as possible, clear and transparent points of contact, ease of access to grants and information about grants and a coherent legal and tax framework which supports rather than stifles the activities of small community groups.

Evaluations of funding mechanisms
This paper also examines existing funding mechanisms for small grants, including government programmes, the Big Lottery Fund, community foundations, and local authority funding. The evaluations highlighted the many positive activities that were made possible by the funding, and revealed desirable impacts and outcomes in terms of social capital, community cohesion, empowerment and economic benefits.

One of the key messages from the evaluations was the importance of support and developmental work alongside financial support. This is vital for small community organisations who often require more than just money in order to facilitate their projects and activities.
Principles

This paper suggests that there are six guiding principles that should inform grant making.

- **Accessibility** – ensuring that all information about relevant grants is readily available and easy to use.

- **Decentralisation** - community organisations benefit from working with grant making bodies that are ‘close to the ground’ and have local knowledge and expertise.

- **Choice and competition** - retaining a mix of funding streams and options is important in order to meet the variety of needs and priorities on both sides of the funding relationship.

- **Capacity** - small community organisations benefit from support before, during and after the grant has been given to build their capacity and confidence to seek further, longer term funding from elsewhere.

- **Appropriate funding tools** – Government has a variety of funding tools at its disposal. It is vital that forms of funding are appropriate not only to the different types of organisations but also the different types of activities undertaken within the sector.

- **Accountability** - the grant making process should aim to be transparent and fair. This provides reassurance to small community organisations that they have an equal chance of receiving funding. There also needs to be both upwards and downwards accountability for intermediary bodies – to prevent the varied risks of capture and poor organisation.

Proposals

No single policy can transform the position of small community organisations. But steps can be taken which will fit funding better to their needs, and improve the prospects that central and local government priorities are also met more effectively:

- **Building up local independent funding organisations**: These should complement any funding that comes either from central government sources (which can continue to be tied to shifting government priorities which may range from encouraging participation in sports to bridging different communities) or from local authorities (linked to the strategic objectives of LSPs and LAAs) – although both should also be encouraged to use intermediary bodies as a conduit.

- **Links to elected bodies**: longer term independent local organisations and intermediary bodies could evolve a closer relationship to stronger community governance structures – including elected neighbourhood councils and parish councils levying precepts on the public and providing a more formal route of accountability to the public.

- **Links to local strategies**: we would expect that many LAAs would want to support
community organisations that are aligned to their goals. Where appropriate independent local funding organisations exist these should increasingly provide the vehicle for small local grant-making.

- **Better evaluation methods**: there is a need for further research on better ways of assessing how well community organisations are rooted in local communities, including the use of ‘community network analysis’ methods which provide a more objective way of determining the reach and inclusiveness of community organisations.

There is undoubtedly some scope for further rationalisation of the many funding streams providing small grants. However, the primary aim should be to provide better access points to the plethora of grant giving sources, in which case diversity needn’t be an insuperable problem.
PART 1: THE CONTRIBUTION OF SMALL COMMUNITY ORGANISATIONS – DISCUSSION PAPER

INTRODUCTION

The Government’s civil renewal agenda has placed an emphasis on strengthened communities, active citizenship and partnership in meeting public needs. Within this policy context, a primary aim is ‘a new shared sense of community’, where power and responsibility is fairly shared throughout society (Home Office, 2003b). The third sector is uniquely placed to contribute to this agenda, in terms of its sensitivity to community interests and ability to connect with communities in ways that statutory organisations may find more difficult (Botham & Setkova, 2004; Cantle, 2005).

Following a Treasury Review in 2002, government attention has been focussed on the role of third sector organisations in service delivery. This built on the establishment of the Compact setting out how the government and the sector should work together. However, there has also been a growing interest in advocacy and representational roles that small community organisations can play.

Small organisations can loosely be defined as groups with a turnover of less than £100,000 a year, and whose activities are largely focussed on mutual aid or mutual interest, for example support groups and sports clubs. These small organisations play an important role in bringing people together based on a common interest, providing a space where mutual needs can be addressed, strengthening associational life and linking people to decision making structures (Vyas, 2006).

This discussion paper draws evidence from statistical data, qualitative studies, specialist journals and case studies to explore the potential impact of small community organisations. The evidence from these studies suggests that the activities of small community organisations have the potential to generate and mobilise different types of social capital, to break down divisions in communities and empower individuals. The paper explores in particular the capacity of small community organisations to build trust and reciprocity, enable and strengthen civic participation, strengthen social networks and support, and build strong and positive
relationships. In addition, the economic benefits that accrue from involvement in community organisations are highlighted.

**MEASURING THE IMPACT AND OUTCOMES OF SMALL COMMUNITY ORGANISATIONS**

There are several issues relating to the measurement of social capital, community cohesion and empowerment that are worth bearing in mind when considering the outcomes and impacts of small community organisations.

**Social Capital**

Since Robert Putnam popularised the concept of social capital, defining it as ‘networks, norms and trusts that enable participants to act together more effectively to pursue shared objectives’ (Putnam, 1996), the concept has been employed by policy makers as a means of increasing economic gains and fostering improvements in the quality of people's lives[^1]. As Casey (2004) explains, social capital is often portrayed as an undersupplied tonic for a wide range of social ills. However, empirical evidence suggests that the positive impacts of social capital are economic growth, improved government effectiveness, higher levels of labour market participation, and at the micro level, better connected individuals are more likely to be healthy and happy (Jochum, 2003).

Social capital has been interpreted as defying measurement, and Jochum et al (2005) highlight the qualities of social capital as being autonomous, spontaneous, and unable to be engineered or controlled - although the conditions under which it may flourish can be influenced by government. Despite these difficulties, the Office of National Statistics have developed a harmonised set of questions for use in surveying social capital (Harper & Kelly, 2003). The UK Social Capital Measurement Framework measures social capital through social participation, civic participation, social networks and social support, reciprocity and trust, and views of the local area[^2].


[^2]: Social participation is defined as involvement in, and volunteering for, organised groups. Civic participation is defined as individual involvement in local and national affairs, and perceptions of ability to influence them. Social networks and social support are defined as contact with, and support from, family and friends. The number and types of exchanges between people within the network, and shared identities that develop, can influence the amount of support an individual has, as well as giving access to other sources of help. Reciprocity and trust measures the amount of trust individuals have in others, those they know and do not know, as well was trust in formal institutions. Reciprocity measures people’s willingness to co-operate for mutual benefit. Views of the local area measures individual perceptions of the area in which they live. This dimension is included as an aid for analysis and is not considered an aspect of social capital. Positive views of the local area are a good correlate for how happy, safe and secure people are within their environment (ONS Social Capital).
Community cohesion
Community cohesion is crucial for building trust, tackling insecurity and reducing crime (Jochum et al, 2005). There has been a recent emphasis on appreciating that differences in communities are not just about ‘race’ and ‘religion’, but include other aspects of people's lives – such as equality of opportunity (CDF, 2006). The Home Office, responsible for leading community cohesion policy until it was transferred to the Department for Communities and Local Government in 2006, developed a set of ten indicators to measure community cohesion, based around the proportion of people who feel that their local area is a place where people from different backgrounds can get on well together. This is measurable through questions that probe a common sense of belonging, the diversity of backgrounds being appreciated and valued, and evidence of strong and positive relationships being developed between people from different backgrounds (Home Office, 2003b).

Empowerment
Empowerment refers to the extent to which people feel that they have an influence over the decisions that affect their lives. The success of community engagement rests on citizens being willing and able to become involved, and public organisations and services being willing and able to make best use of active citizens (Rogers & Robinson, 2004). In order to measure levels of empowerment, the Neighbourhood Renewal Unit’s indicators of strong communities are based on trends that might show an increased capacity to participate in local decision making. These are: an increase in local participation in governance; an increase in community cohesion and inclusion; an increase in volunteering; the growth of the voluntary and community sector and an increase in public services delivered by the VCS (Chanan, 2004).

Problems of measurement
The sheer number of possible indicators for social capital, community cohesion and empowerment, reflect the difficulty in both measuring and articulating their impact. In compiling this review, a number of possible approaches have been considered:

- the number and density of small community organisations in an area as a potential source of social capital;
- membership levels of small community organisations as an indication of how many people are potentially enhancing their social capital through participation;
- statistics that draw correlations between participation in small community organisations and measurable evidence of improved social capital (for example, in higher feelings of trust and the formation of networks);
- evaluations of the impact and outcomes of small community organisations measured qualitatively by interviews with the groups involved.
None of these approaches are ideal. Numerical data on numbers and membership alone do not give an accurate sense of the impact and outcomes originating from small community organisations. For example, the availability of a wide range of volunteering opportunities does not necessarily reflect a willingness to get involved. Sampson has pointed out that the mere existence of local institutions does not ensure the interests of the neighbourhood are met – ‘there is good evidence, in fact, that local organisations often have as their primary goal organisation survival at the expense of the wider community’ (Sampson, 2004: 112). A low rate of volunteering does not mean social capital is absent – those involved with a small community organisation as ‘users’ would not count in surveys as volunteers, but would still be in a situation where there is the potential to develop new networks and voices. In addition, Botham and Setkova (2004) argue that ‘soft’ outcomes, such as an increase in self confidence, or improved social relationships are harder to gauge using quantitative tools.

By their very nature, social capital, community cohesion and empowerment are context specific, and heavily dependent on the local structures and opportunities that are in place. This further limits the ability to make generalised conclusions. Due to the fact that most qualitative studies of community organisations have not adopted a standardised framework of measurement, it is hard to compare these in a meaningful and rigorous way (Johnson, 2004: 9; Daly, 2006: 23). However, Jochum (2003) argues that social capital as a process needs to be understood, and qualitative methods can help to show how it is formed and how it operates. This understanding is useful in terms of helping voluntary organisations to work more effectively in their communities. Botham and Setkova (2004) suggest there is significant hard and anecdotal evidence from individuals and organisations indicating that there are long term community wide impacts.

Two further qualifications remain. Firstly, most of the social capital literature is based on evidence from medium sized organisations and larger associations, rather than small organisations. This issue reflects the fact that it is harder to research and gain access to smaller community organisations, and measure their reach and impacts. A 2005 study of different schemes run by Help the Aged focussed on developing a methodology that captured the ‘added value’ of the schemes – the developments over time and the unanticipated outcomes – by using an appreciative inquiry approach. This focussed on participants’ perspectives rather than an externally derived framework that may have missed the longer term impacts and unanticipated impacts (Reed et al, 2005). Such an approach is welcome, but relatively rare. One promising set of methods which could be important in the future use network analysis to survey which people and organisations are useful, or make things happen. These methods have been used in the past to survey the many people working in partnerships. They are now being piloted in communities using large representative samples of the general public, and will provide a much more objective map of who the local leaders are – and potentially a rather different picture from the self-appointed leaders. These methods can also show which organisations and people succeed in bridging ethnic or class divides.
Secondly, the definition of ‘small community organisations’ can vary across studies, and often involves setting an arbitrary number in terms of turnover and staffing. It is often the case that the benefits which are assumed from smallness are not about size itself, but about informality, flexibility and lack of bureaucracy – the associational activities which are identified as crucial in much of the social capital literature[3].

**SMALL COMMUNITY ORGANISATIONS WITHIN THE THIRD SECTOR**

The ‘landscape’ of small community organisations within the third sector is hard to capture accurately. Although there are estimates of the size of the charitable sector, these do not include the thousands of small community based groups that are under the radar beam of regulators. Nevertheless, small charities constitute the vast majority of the voluntary sector population and much of the growth since the 1990s. It is still the case that over half (56%) of the charitable sector has an annual income of less than £10,000.

<table>
<thead>
<tr>
<th>Year</th>
<th>Under £100,000</th>
<th>£100,000 - £1 million</th>
<th>£1 million - £10 million</th>
<th>over £10 million</th>
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<td>10,164</td>
<td>1,331</td>
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</tr>
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<td>1,701</td>
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<td>2,930</td>
<td>290</td>
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Richardson (forthcoming) estimates that there are between 180-360,000 community level organisations with small amounts of income, and not registered as a charity[4]. This equates to between three and six community level organisations per 1000 people. Kumar and Nunan (2002) provide another estimate, suggesting that there may be up to a million small community organisations in the UK.

**THE ROLE OF SMALL COMMUNITY ORGANISATIONS**

The research considered in this discussion paper does not enable a full picture of impacts and outcomes along the lines of all the available indicators for social capital, community cohesion and empowerment, but it is useful for capturing a sense of the community spirit, networks, support and opportunities that flow from small community organisations. Voluntary

[3] Based on a conversation with Dr Margaret Harris, Professor of Voluntary Sector Organisation, Ashton Business School.
[4] Based on figures for the number of organisations in the not for profit sector.
organisations are intended to involve people, and the nature of this participation facilitates social connections and cooperation. In time, trust, friendship and mutual aid is built up through repeated interactions (Anheier & Kendall, 2000, cited in Begum, 2003). However, as Richardson (forthcoming) explains it can be hard to show what impact small projects have, but taken together, the cumulative impact of this work has wider positive outcomes. She starts from the assumption that the activities of community groups are essentially good, but recognises that given the available evidence, it can be difficult to reconcile the claims made for the importance of community activity with the modest undertakings of small groups of committed individuals. Despite this, her study finds 450 concrete examples of successful work by community groups. There is also a growing body of research focussing on faith voluntary action, and this will be explored in some detail. Most studies do highlight the three dimensions of social capital – bonding, bridging and linking, thereby illustrating, to a degree, levels of community cohesion and empowerment[5].

1) Building trust and reciprocity
Putnam’s thesis suggests that individuals who belong to voluntary organisations are more likely to be trusting of others and engaged in the wider community. The Citizenship Survey 2005 (Kitchen et al, 2006) does display evidence of this connection:

- people who had engaged in civic activist activities were more likely to think that local people would intervene in different situations;
- there was a positive relationship between having a sense of belonging to a neighbourhood and volunteering within the community;
- higher rates in formal volunteering also related to trust in local people: 33% who said ‘many’ people in their neighbourhood could be trusted participated in formal activities at least once a month compared with 24% who said only ‘a few’ could be trusted.

Levels of social interaction and trust are often lowest among socially excluded groups, where it is needed most (Rogers & Robinson, 2004). Social capital can play a role in restoring trust, in terms of building relationships, and helping people to get by in day to day life. Trust lessens the hostility of everyday interactions, speeds up decision making and helps consolidate a range of norms of acceptable behaviour (Thake, 2001). Small community organisations can help achieve these aims by investing in individuals, particularly in situations where people have withdrawn, and may feel little inclination to participate. Bonding social capital can be increased through

[5] Bonding social capital can be described as the relationships and commitments between people – such as among friends, family and other tight groups. Bridging capital refers to the connections that are made between people or groups who have overlapping interests, for example between neighbours and colleagues. Linking social capital are the links between people or organisations that go beyond boundaries established through common interest, enabling people to exert influence and reach resources.
organisations that provide support for individuals, offer advice and assistance and help to improve people’s sense of self worth and confidence (Jochum, 2003).

Several studies have looked at the role of community organisations in situations where trust is found to be lacking. For example, Blakey et al (2006) conducted research with the South Asian community in Bradford, looking in particular at identity groups within the community that may have difficulty in participating in mainstream structures. They explored the role of a Lesbian, Gay, Bisexual and Transgender group for the Asian and Black communities, and the support offered to a group of people who were effectively isolated due to religious and cultural intolerance of homosexuality. The organisation provided an informal drop in centre, only open one afternoon a week. This provides a space for mutual solidarity. One user reported: “I feel absolutely great when I come to this group and we need more groups like this to make more people feel welcome no matter what you are or who you are” (Blakey et al, 2006: 49). As well as restoring trust, community organisations can help to create situations where reciprocity and trust can flourish between groups that might otherwise have diverging views.

Begum (2003) in a study of the relationship between the voluntary sector and social capital in Newham and Tower Hamlets, found that active involvement in local groups increased people’s sense of belonging, and in the two areas, levels of trust have changed as a result of residents’ involvement. This was linked to gaining a sense of ownership over the local environment.

A lack of trust in wider society is a particular issue affecting Black and Minority Ethnic (BME) communities, and research has been undertaken to show the value of culturally specific and politically appropriate community services in helping to increase confidence. It is estimated that there are 5500 BME organisations in England and Wales and that these tend to serve a particular BME community, originating from the network of cultural, religious and economic kinship ties that bind BME communities together (McLeod et al, 2001). Chouham and Lusane’s (2004) study of the BME voluntary sector found that the empathy and understanding in BME communities is important for building trust.
organisations was vital for self determination and local empowerment. Similarly, Davis & Cooke (2002) state that the value of black women’s organisations is in their ability to release benefits to black families, black communities and to black women. The authors looked at organisations from thirteen different local authority areas and concluded that the purpose behind the organisations were addressing inadequacies in mainstream provision and the needs of women in all aspects of their lives. The organisations provided a buffer against the isolation, exclusion, confusion and sense of injustice felt by the participants. There are a set of related issues around separate provision, which will be discussed later, but the focus here is on community organisations playing a vital role in providing a space where trust can be developed, away from hierarchies and divisions found in wider society.

2) Enabling and strengthening civic participation
Social capital is seen as making citizens more community orientated, and this is important in the context of declining membership of political parties and low voter turnout in elections. In America, Putnam found a decline in community based activity – in 1965 7% of Americans spent some time in a community organisation. By 1995, this figure had fallen to 3% (Putnam, 2000: 62). However, participation in the voluntary and community sector does not appear to be in decline in the UK. 20.2 million people formally volunteer at least once a year, and 13.2 million formally volunteer once at least once a month (NCVO, 2006). Research by Maloney et al (2000) in Birmingham found that not only were there more groups over the last thirty years, but that the groups were also more politically active, better connected and positive about associational life. Voluntary work can be taken as an indicator of people’s willingness to undertake activity that benefits others and the wider community. The Government Citizenship Survey 2005 highlights some of the positive benefits of participation:

- 58% of people involved in civic activism agreed they could influence decisions affecting the local area compared with 37% of people who were not involved;
- people engaged in civic participation activities were more likely to agree that they could influence decisions affecting the local area than those who did not – 44% compared to 35%;
- those involved in civic consultation were more likely than those not involved to say people in the neighbourhood would intervene in a number of situations. They were also more likely to say people in neighbourhood would participate to help solve community problems.

Civic participation helps to strengthen civil society and the building up of social capital – Begum (2003) highlights the importance of this in strengthening local communities, reducing social exclusion, increasing political participation and fostering innovative work towards ending poverty. Volunteering helps to build and consolidate shared norms and expectations – bringing people together as a community for shared purposes and common goals. However, Sampson
has drawn attention to the fact that trust and networks alone may not be enough to tackle problems in a neighbourhood. People need to feel that there is ‘collective efficacy’- a shared willingness to take action (cited in Muir, 2006).

**STARTING WITH PEOPLE – COMMUNITIES OF PARTICIPATION**

Skidmore and Craig (2005) have argued that a lot can be learnt from small community organisations in how participation can be mobilised and channelled, as they are uniquely placed to involve, engage and motivate people in communities of participation. One of the examples in their study was of Envision (http://www.envision.org.uk/), which involved young people in innovative practical projects, ranging from installing fair trade vending machines in schools, to campaigning about homelessness in the local area. The authors suggest that the success was in starting with people, and channelling their desire to make a difference in communities. The benefits of this approach is in ‘giving citizens the knowledge, capacity, confidence and motivation to act in whichever public or semi public spaces and in whatever ways have most meaning for them’ (ibid: 22).

The role of social capital in participation is also in linking communities to power, resources, ideas, and information within formal institutions (Skidmore et al, 2006). Community organisations can reinforce this vertical participation – influencing and making strategic connections upwards. Many small organisations will have their own campaigns and projects, and use these to achieve wider representation, for example, in local policy forums.

However, in terms of community participation in governance, a JRF study on participation found that linking social capital has to be combined with other kinds of social capital in the right way (ibid). The study was based on case studies of two areas – one in Ely in Western Cardiff and the other in Benchill, Manchester. The study found that evidence of linking social capital was uneven, and that those who were involved in key governance roles were relatively few - community participation was dominated by a small number of insiders. These participants were then in a position to make contact and build relationships, and as a result become more involved in other governance opportunities. The study concluded that the goal of policy should not be to invent more structures of participation, but instead to grow and diversify the pool of people involved.

Civic participation has again been a focus within the BME sector. As Chouham & Lusane (2004) point out, without the BME sector, many individuals would not have moved into other areas of civic engagement in Britain. This study looked at 57 BME organisations in Leicester and London, and found evidence of community organisation participants gaining experience as management committee members. This served as an important springboard for encouraging other forms of community participation. Members from the organisations interviewed were also involved in police consultative committees, crime and disorder committees, mental
health organisations, drama groups, refugee groups, or serving as school governors and/or magistrates.

3) Strengthening social networks and social support

Networks are particularly important in marginalised communities and can overcome obstacles to participation in society. However, poorer communities tend to have less extensive networks, and across society as a whole, there is a trend towards individualism. For example, according to the General Household Survey for 2000/01, only 47% of people reported knowing ‘most’ or ‘many’ of the people in their neighbourhood.[6]

Community organisations play a role in facilitating horizontal participation - the social ties and interactions that connect people with overlapping interests (Jochum et al, 2005). Bassac’s research with their membership organisations revealed that a wider set of connections within communities, leads to a greater set of choices, information and abilities to achieve collective and individual goals (Johnson, 2004). These forms of bridging social capital are desirable in public policy terms, as they play a role in building the confidence of people outside their network of family and friends, and therefore potentially enabling greater cross cultural understanding. An example that is given in the Bassac study is Forum@Greenwich where there is space for 90 community organisations, and a permanent base for 12 voluntary organisations. The Forum provides a wide range of services for the community. The diversity of members and users ensure that useful relationships are built and ideas can be shared.

In his study of social exclusion in three disadvantaged communities in Wakefield, York and Lewisham, Page (2006) found that the housing estates were strong in bonding social capital, but weak in bridging social capital. This was hindering people in developing personally and professionally (Page, 2006: 42). One of the examples he gives is of a youth arts project on the Airdale Estate in Wakefield. Residents were concerned about young people's behaviour, and in response a participatory arts project was set up. The project had a specific mission to engage directly with disaffected youth. Page concludes that the legacy of the project is that it enhanced the ability of those involved to participate socially, beyond the immediate networks of family and friends on the estate. The project helped to raise aspirations, in a wider social context where educational achievement has not been traditionally valued. Crime rates on the estate fell by nearly half by the end of the project. Although this was large scale and funded by the JRF, National Lottery and Wakefield Council, it demonstrates the role of organisations in opening up new experiences and developing new skills. In a similar vein, Kapasi's (2006) study of community groups developing local play areas showed how participants improved their skills and knowledge, working together to form partnerships for a common, beneficial goal.

Begum (2003) highlights that where the voluntary and community sector is weak, social capital is likely to be in networks of sociability that are hard to measure. However, social capital can grow from this level, if interaction and exchanges are facilitated. The studies considered in this discussion paper highlighted the positive benefits of bridging social capital. Richardson's (forthcoming) examples of successful work by small groups highlighted the attempt to tackle social disorganisation in their communities by bringing people together, and therefore increasing the opportunities for the creation of social capital. The groups' positions in their localities meant they were able to directly influence the development of friendships, and the creation of a communal space meant that social relationships were formed and strengthened. In addition, the literature on social capital links access to supportive networks in the community with better physical and mental health, and a decreased likelihood of behaviour that harms the wider community (Muir, 2006).
4) Valuing diversity and building strong and positive relationships

Community cohesion is threatened by discrimination and fear of victimisation, resentments originating from competition, declining opportunities, and communities being in isolation from one another (Runnymede, 2002: 33). Within the context of community cohesion strategies, voluntary organisations can play a role in facilitating debate and discussion, and involvement with an organisation can help create a sense of equal legitimacy for all citizens. For example, the organisations in Begum’s (2003) study helped to break down barriers between different social groups. Fostering greater community cohesion is often about changing attitudes and the methods to do this often have to be interesting and attention grabbing – a challenge that small community organisations can often meet (Home Office, 2005). The social capital that organisations help to foster is also vital from a community cohesion perspective – without a strong base from which people can develop relationships, barriers are unlikely to be broken down (Cantle, 2006).

COMMUNITY COHESION ACROSS GENERATIONAL AND RACIAL DIVIDES

On the Camden North estate in Southwark, a local resident held separate meetings with the elderly white residents, and the young, predominantly Asian residents. She took the opinions of both groups across to each other, before eventually bringing the two together in a joint meeting. The group worked to identify activities that could bring together different generations and cultures, and successfully started projects on the estate based around sport, gardening and day trips out of Southwark. The outcome of this intervention was that people felt the estate had improved – vandalism was at a minimum, the young people were more respectful of how their noise might affect the older residents.

Example from Southwark Alliance (2005) How to build community cohesion in Southwark
London: Southwark Alliance

Although there is a lot of evidence from local authorities and in practitioner guidance on the kind of activities that foster community cohesion, it is again the case that the studies considered in this discussion paper tended to focus more on larger, well funded interventions by community organisations. However, some of these studies have drawn attention to the potential pitfalls in the field. Lemos (2005) looked at programmes that sought to build community cohesion amongst young people. He cites the example of the Jubilee Football Tournament in Rochdale which was run by two housing associations. The tournament aimed to strengthen relationships between white and Asian young people – who were living side by side, but without any evidence of mixing between the two communities. Although there were positive outcomes from the tournament in that the discussions that followed revealed the tensions between the groups and provided a forum for these to be explored, the extent of mixing was limited, and bridge building did not continue after the tournament. Lemos concludes that the failure is

partly attributable to the project lacking a specific anti racist purpose.

In terms of improving community cohesion, small community organisations can play a role in providing a space for initial contact, and enabling interaction to take place that seeks to move away from previous divides. Jarman et al (2004) examined projects focussing on cross community contact in Northern Ireland – a situation where segregation, polarisation and inter communal violence has been a key feature of society for many years. In this context, many community organisations are trying to build better relationships and understanding between communities. One case study that was explored was the Mount Multi Sports Zone project which involved regenerating a piece of land that was overlooked by a paramilitary mural. Local activists were keen to improve the site to develop resources for young people in the area, and to facilitate the ongoing work to reduce tensions in the community. The mural was removed, but the project did not involve any dialogue with neighbouring Catholic communities. However, the value of the project was in serving as a platform for further forms of engagement, which have the potential to develop into more significant forms of relationship building.

5) Economic benefits

The literature on social capital suggests that high levels of social capital amongst communities may have a range of potential economic benefits (PIU 2002).

An Office of the Deputy Prime Minister (2003) report highlights two types of economic value produced by community activity:

- value in the cash economy by job creation, and small business development
- direct (non cash) value in the reciprocal economy – for example by mutual aid and volunteering.

Two ‘hidden’ economic effects of community activity are that it:

- pre-empt greater demand on statutory services (ODPM, 2003)
- an estimated 1.1 million F/T UK workers would be needed to replace formal volunteers – well over twice the number of full-time equivalents/paid employees in the voluntary section. This would cost £25.4 billion (based on NMW). (NCVO, 2006).

One of the most important economic contributions by small community organisations is helping to fulfil employment aspirations – providing a space where skills and abilities can be developed and routes into the labour market are encouraged (Walker et al, 2000; Botham and Setkova, 2004; Furbey, 2006). In cases where communities are able to develop their own training programmes, career advice centres and small businesses, the effect on local prosperity
is often far greater than when job creation or skills development schemes are imposed from above. Local Exchange Trading Schemes (LETS) are a good model for boosting employment – an evaluation of LETS found that they helped to build networks and bridges, and also were seedbeds for self-employed business ventures (Rogers & Robinson, 2004).

Social capital theory would suggest that areas with higher levels of social capital will have higher levels of trust, thereby reducing risk and spurring entrepreneurial activity, technological advance and economic growth. The most comprehensive test of the relationship between social capital and regional economies in the UK was undertaken by Casey (2004).

However, results from his analysis were mixed: some aspects of social capital correlate with economic performance, whereas others show no association or a negative relationship.

- people in more prosperous regions are more likely to participate in civic organisations and show higher levels of trust.

| South East | level of social trust in 1998 = 50.3% |
|           | membership of community groups = 33.4% |

| Yorkshire & Humber | level of social trust = 41.9% |
|                    | membership of community groups = 23.2% |

- economic associations were not positively connected to growth

- social capital may well be positively correlated with economic performance but only explains a small percentage of variance.

Casey concludes that ‘the validity of social capital as an explanation for economic performance must stand as ‘not proven’ (2004: 113).

6) Faith Groups
The research that has been carried out on the nature and contribution of faith groups suggests that they can contribute to their communities by acting as a catalyst for the formation of the networks that underpin formal and informal mutual aid; as welfare service providers; as participants in partnership structures; and as a basis for community organising around a particular issue (Farnett and Sarkis, 1999, in Daly, 2006).

There are clearly a significant number of faith organisations engaged in voluntary projects for the wider community. A report by the Northwest Development Agency looked at 2300 faith communities and identified more than 5000 significant non-worship projects involving 45000 volunteers, which provides evidence of the potential reach of faith projects. Many of these
organisations were actively involved in delivering care in their local communities. In Greater London there are an estimated 2000 faith-based social action projects, employing 3,000 people, supported by 13,500 volunteers, with 120,000 beneficiaries. Total figures are likely to be far higher, given that the response rate from worshipping communities was just under 30 per cent (Lowndes, 2005: 4).

Furbey (2001) examined a number of faith based community action projects that illustrate or embody social capital including those organised by the Gujurat Hindu Society in Preston; St Mary’s Anglican Church in Sheffield; and St Peter’s Church in Coventry. He found that these organisations can bridge and link, and at the micro level form ‘a dense network of friendship arrangements across faith communities through informal associations for discussion, dialogue and action’ (ibid: 16). In addition, the buildings were used for services that provided a range of benefits to the neighbourhood. For example, at St Mary’s there was an ethnically diverse youth group that brought together people from different backgrounds to develop skills and confidence. Buildings can give faith communities visibility and a platform for wider engagement, working across boundaries in the public domain.

Cairns et al in a CVAR study of 12 churches in Birmingham found that those who were involved in the projects reported raised self esteem and confidence. The projects acted as a springboard for the development of other initiatives, and participants felt successful in reaching some of the more marginalised community members. The authors felt that the findings demonstrated that church organised projects can contribute to the establishment of more cohesive communities. A study of schemes in Bristol, Merseyside and the Black Country found that faith groups provided extensive networks of mutual aid, and work in Leicester drew attention to faith groups having a holistic commitment to communities, and a good reputation for practical action (Smith, 2004). However, the reach of bridging and linking social capital does need consideration when looking at the role of faith organisations. The profile of those who are involved often tends to be a small minority, and many communities have specific roles for men and women, leading to clearly demarcated areas of activity (Lukka et al, 2003). In a report based on interviews with leaders and active members of faith communities in Leicester, Liverpool and Luton, Lukka et al also found few external links of any kind, either with local or national government or with the voluntary sector, although there was widespread evidence of support in the informal or associational groupings of people who share a faith or ethnic identity. Despite the positive role that faith organisations can play, there is obviously scope for further development of bridging across different groups.

THE NEGATIVE SIDE OF SOCIAL CAPITAL

The research considered in this discussion paper shows that voluntary organisations have the ability to generate and mobilise different kinds of social capital. However, the ability to
'bridge' and 'link' successfully is dependent on organisational processes and practices, and with some organisations, there may be questions about representation and the legitimacy of organisations.

The studies in this paper drew attention to the problem of organisations that are closed or homogenous in their culture, as this limits their ability to 'bridge' (Johnson, 2004). Social capital can have a negative side, and bonding can reinforce exclusivity, encouraging destructive in group loyalties. This can undermine the development of cross cutting ties and networks, in favour of narrow self interest and rejection of outsiders (Jochum, 2003). In addition it means there is the potential for social capital to reproduce rather than tackle inequalities, as those with access within organisations improve their position, and exclude other members (NCVO, 2003).

Cantle (2006) is vocal in his opposition to groups that only serve the interests of one particular community – as these may accentuate differences with others in defence of the group's boundaries. The recent report of the independent Commission on Integration and Cohesion also expressed some concerns. This is something that BME organisations have to address – balancing their vital role in helping members of their communities increase their confidence and skills, with an awareness of their relation to the wider community. Their legitimacy can come under question. For example, McLeod's study of BME organisations involved interviews with the public in Handsworth and Brent. Half of the respondents expressed doubts as to the efficacy and effectiveness of the BME organisations being considered, and felt that they needed to be more accessible in their location.

**CONCLUSION**

The key assets of the voluntary and community sector are summarised by Jochum et al (2005) as: providing services that are based on and adapted to people's needs; offering an environment where people feel safe and supported; promoting a sense of ownership and belonging; responding to people's need for conviviality; bringing people together and breaking down barriers.

There is a challenge in evaluating this work, particularly with small community organisations. Although the evidence of impact and outcomes is not comprehensive, it is apparent that small community organisations have distinctive features in terms of flexibility and innovation and are valuable in recognising that local people can and should be active in improving their lives and local conditions (Botham and Setkova, 2004). Richardson (forthcoming) contends that community groups' activity at a very small scale is not by itself going to combat the effects of poverty and social exclusion, but shows the importance of work small organisations do in helping people in very direct and practical ways. She suggest that hypotheses about the value of involvement are worth being tested further.
Begum (2003) questioned the beneficial effect of social capital as a ‘public good’ and found that success was dependent on the local context, as there were variations in the role of voluntary and community organisations in the case studies she looked at. However, Begum identifies two normative roles for the voluntary sector – voluntary organisations as stepping stones for individuals to become involved in voluntary action, and voluntary organisations providing a route into decision making structures. On the basis of this, the author recommends the value of voluntary and community organisations in providing a vehicle for the creation and expression of social capital, and that government needs to endorse the value of some components of social capital such as voluntary activity, regardless of whether this activity meets specific government objectives such as public service delivery (ibid: 4).

It would also be wrong to assume that creating more organisations will automatically lead to a massive surge in trust and community engagement (PIU 2002). In addition, the work of small community organisations takes time – engaging with the most excluded groups in communities is a slow and challenging process (NCVO, 2003). However, there is a need to ensure adequate support for those that do exist, so they can continue their vital role in social capital, community cohesion and empowerment – acting as facilitators of participation and community involvement (Daly, 2006).
PART 2: LESSONS FROM ABROAD

This section explores evidence from Denmark, Australia, Canada, France, Norway and the USA to provide an international perspective on the relationship between central government and small community and voluntary organisations.

There are a number of common challenges facing the voluntary and community sectors in these countries. In examining the various government responses to these challenges, there are useful lessons which are relevant to the UK context.

1. DENMARK

CONTEXT

The third sector in Denmark is characterised by a relatively high level of volunteerism, a large number of local community and voluntary associations and self-governing institutions. Research suggests that there are roughly 65,000 local associations in Denmark – or, about one association for every 82 citizens. Research undertaken by the Danish National Institute of Social Research shows that 35% of the adult Danish population carried out some kind of voluntary work in 2004-2005[^8].

Ibsen analysed the organisational share of community, voluntary, cultural and social associations in sixteen Danish municipalities. Sport, leisure time and culture organisations dominated with a share of 61%. Children and youth organisations – which included scouts, recreation and youth clubs as well as religious organisations for children and adolescents – also proved significant with a share of 12%. Patient organisations, social self-help groups, international humanitarian organisations and clubs for old people had a share of 13% while political organisations and associations had a share of 13%. Ibsen concluded that this rich structure of local associations helped to create a landscape of specialised interest organisations and strong feelings of local community[^9].


GOVERNMENT SUPPORT

Public subsidies for small community and voluntary organisations are divided among the three levels of public administration that exist in Denmark: the central government, county councils and municipal councils. Small community and voluntary organisations are typically financed by municipal resources and profits from the national lottery and football pools.

Principles for support

Support for third sector organisations is based on a number of values, including independence, decentralisation, cultural democracy and the ‘arm’s length’ principle.

‘Cultural democracy’ means that the state supports amateur and local associations as well as professional and national organisations and activities. More broadly, it means that the state supports diverse cultural groups, thereby maintaining civil society as a necessary counterpart to the state and the market.

Danish state support for third sector organisations is also based on the ‘arm’s length’ principle which supports the separation of politics from decisions on who is eligible for subsidy. Thus, in Denmark, neither politicians nor civil servants are responsible for distributing state grants to voluntary, community and/or not-for-profit organisations. While Parliament and local government authorities are responsible for setting out the overarching framework for determining which cultural areas should be supported, they do not distribute funds directly. This responsibility falls to independent peer groups composed of experts and professionals in the particular field who are selected by relevant professional bodies, institutes and government departments. Council and board members are usually replaced every third or fourth year[^10].

One such board is the Danish Youth Council which is an umbrella organisation for more than 70 organisations working with children and young people. In 2006, the DUF handed out DKK 115 million (£10 million) to over 80 nation-wide children’s and young people’s organisations and several hundred smaller projects seeking to support new initiatives that involve children and young people[^11].

The key feature of the Danish approach to supporting small community and voluntary organisations is its loose accountability structures. The overwhelming majority of grants are paid to associations and organisations for operational support and are not conditional on specific objectives or outcomes being met. In addition, grants do not affect the independence of or status of small voluntary and community organisations.

The lottery
The Danish lottery is an important source of revenue for voluntary and community organisations. Shareholders in the Danish lottery (the Tipstjeneste Group) are the Danish state (80%), the Danish Sports Federation – an umbrella organisation for the country’s 56 specialised sporting associations (DIF) (10%), and the Danish Gymnastics and Sports Association (DGI) (10%). The Tipstjeneste Group has a monopoly on gambling in Denmark.

Profits accrued from the football pools, lottery and betting games (roughly DKK 1.5 billion in 2005) are distributed according to rules laid down by the Danish Parliament for sporting, cultural, and other not-for-profit purposes. Funds are directed towards: sporting and general cultural activities; the National Federation of Danish Organisations for Disabled Persons; national charity organisations; national organisations for combating diseases; youth activities; non-profit organisations; Team Denmark and Denmark’s Olympic Committee; the Premises and Fixed Assets Fund; support for outdoor activities and national educational associations. The Danish Youth Council (DUF) manages lottery and gaming revenues for youth purposes[12].

LESSONS FOR THE UK

The real strength of the Danish system is the clarity of funding streams and the transparency of grant-giving boards and councils. This facilitates access to information, provides an obvious point of contact and simplifies the process of acquiring funds. Another notable point is the arm’s length principle which ensures that politicians and civil servants are not responsible for distributing funds. In addition, the distribution of funds from lottery and gaming profits is particularly instructive in the UK context.

The emphasis on independence and separation of powers in Denmark has significant implications for the accountability of the voluntary sector. This can give rise to considerable risks, including mismanagement, lack of effectiveness and value for money. Indeed, there are few impact assessments and evaluations of whether government funds provide value for money. It is important that the UK government strikes the right balance in the way in which grants are awarded; supporting a system which is accountable, transparent and easy to administer whilst providing space for creativity and innovation.

2. AUSTRALIA

CONTEXT

A recent snapshot of the third sector shows that there are roughly 700,000 not-for-profit organisations in Australia, most of which are small community organisations, entirely dependent on the voluntary commitment of members. Of these, roughly 380,000 organisations have incorporated status and therefore have a legal identity independent of their members. Approximately 35,000 employ staff. In 1999/2000, 30% of sector income was derived from government grants and contracts. Revenue was also generated by the sale of goods and services (58%) and household transfers (9%)\(^{[13]}\).

The third sector in Australia is also characterised by very high levels of volunteering and membership. In 2004, 6.3 million Australians (41% of the adult population) volunteered a total of 750 million hours for not-for-profit organisations. These man hours translate into an additional $13.3 billion donated to the not-for-profit sector. In 2003, over 13 million Australians (86% of the adult population) belonged to at least one not-for-profit organisation or association and just under a million held some position in a not-for-profit organisation\(^{[14]}\).

Despite the economic, cultural and social importance of not-for-profit organisations in Australia, there is no clearly defined or demarcated ‘not-for-profit sector’. That is to say that social and


sports clubs, trade unions, professional associations, community groups, self-help groups etc are not perceived as belonging to a single sector[15].

This perception explains in part the often piecemeal, conflicting and contradictory government policies towards the not-for-profit sector in Australia. The challenges facing the third sector in Australia are particularly acute for small community and voluntary organisations.

GOVERNMENT SUPPORT

There are a multitude of grants available for small community and voluntary organisations. Grants can be distributed by national and federal governments, often through boards and councils (such as The Australia Council for the Arts). Each grant giver is able to dictate the terms of the grant – as a result, grants vary enormously in terms of size; selection and eligibility criteria; their dependence on specific outcomes and objectives being met; how complicated they are to administer; whether they are operational or capital grants; and so on.

In order to enable organisations to find information about grants and programmes, the Commonwealth government has developed a website portal, www.grantslink.gov.au, which breaks down the information into policy areas, including ‘community and society’ and ‘culture and heritage’. This site then redirects the user to the appropriate grant giving organisation or board.

The tax and legal frameworks are another challenge facing many small and community voluntary groups. Tax laws are particularly incoherent, having developed in a piecemeal fashion and often serving to hinder the progress towards a sustainable voluntary and community sector. For example, not-for-profit organisations do not receive particular tax exemptions or deductions as a result of their status – rather, it is the purpose of the organisation which determines their tax liability.

In addition, the government has been particularly slow to address the difficulties faced by small and micro community businesses in accessing finance. These problems are far more pronounced in disadvantaged areas where high levels of unemployment and low asset values continue cycles of poverty.

CHALLENGES FACING THE SECTOR: [16]

- There is a lack of stable and sustainable funds.

- The majority of grants are short term in nature and directed away from operational costs


– making long term planning immensely difficult. This has resulted in poor organisational efficiency and effectiveness.

- The cost associated with securing funds is high, with senior management focusing on obtaining funds and spending less time on managing their organisations.

- Smaller voluntary and community organisations are paying disproportionately high prices for their basic services and overheads.

**RECENT DEVELOPMENTS**

The government has undertaken research to analyse the state of the third sector in Australia. Unfortunately this seems to focus on the most suitable framework to encourage both individual and corporate philanthropy – rather than how government can ensure that small and community organisations are adequately funded.

However, various developments within the sector itself are quite interesting. As we have already mentioned, micro and small social enterprises, community and voluntary organisations face particular problems in accessing finance and there are few Australian institutions that provide capital and finance to disadvantaged communities and under-served markets. Increasingly, however, a number of credit unions, friendly societies, community foundations and other more specialised institutions are trying to serve the unmet financial needs of disadvantaged communities. For example, these organisations are increasingly providing services including mentoring, technical advice and direct assistance. Examples include the Maleny Credit Union (MCU), the Foresters ANA Friendly Society (Foresters ANA) and the Traditional Credit Union (TC)\(^{[17]}\).

**LESSONS FOR THE UK**

The evidence from Australia highlights the importance of secure and sustainable funding for small community and voluntary organisations. The challenges facing such organisations also points to the importance of a coherent strategy, encompassing not only access to finance, but also the legal and tax frameworks.

The new online grants portal is an interesting development and has clearly improved access to information. Early indications suggests that this has particularly benefited small community and voluntary organisations.

\(^{[17]}\) Lyons, M., and Parker, K., (2003), ‘Community Development Finance Institutions: Evidence from Overseas and Australia’, the Australian Centre for Co-operative Research and Development (ACCORD), University of Technology, Sydney.
3. CANADA

CONTEXT

Canada’s third sector is the second largest in the world employing roughly 12% of its economically active population. The sector as a whole employs 2 million people and depends on 19 million volunteer positions which are filled by over 6.5 million individuals\textsuperscript{[18]}. The overwhelming majority (74%) of those employed by or volunteering for voluntary and not-for-profit organisations are engaged in service delivery\textsuperscript{[19]}.

Approximately two-thirds of Canada’s 161,000 organisations (of which half are registered charities) work within the local community, delivering services and supporting “expressive” activities such as the arts, culture, religion, sports and recreation. 54% of these organisations are run entirely by volunteers and nearly two thirds have revenues of under $100,000\textsuperscript{[20]}. These smaller community based organisations are less likely than larger organisations to receive funding from at least one of the 700 different government grant and contribution programmes, and rely more on earned income from non-governmental sources, gifts and donations. Indeed, community based organisations (excluding hospitals, universities and colleges) only derive 36% of their revenues from government funds: 22% in the form of grants and contributions and 15% from contracts for service provision\textsuperscript{[21]}.

CHALLENGES FACING THE SECTOR

Research undertaken in 2002 showed that of the 48% of organisations that rely on external funding from government, businesses and grant-giving foundations, many reported “substantial difficulties” with over 60% of these organisations reporting problems due to reductions in government funding and a tendency amongst funders to direct monies away from core-costs and operational activities to direct project and programme costs[22].

Apart from concerns that funding has become more short-term, more competitive and less predictable, small community and voluntary organisations have also cited increased financial risk management and other administrative burdens associated with applying for and reporting on grants as serious issues[23]. The lack of a coherent policy framework to guide relations between community and voluntary organisations and the federal government has also been identified as a serious constraint to the sector’s future development.

RECENT DEVELOPMENTS

In 2000 the Voluntary Sector Initiative (VSI), a joint undertaking between the federal government and the voluntary sector, was established. The VSI has sought to create a more favourable legislative and regulatory framework for voluntary and charitable organisations. The government has invested $94.6 in the programme. Between 2000 and 2005 the VSI has:

- developed a comprehensive framework to guide relations between the federal government and the voluntary sector underpinned by the Accord Between the Government of Canada and the Voluntary Sector (2001) and the accompanying 2002 Codes of Good Practice on Funding and Policy Dialogue – based in part on the UK Compact;
- introduced a series of regulatory reforms for registered charities;
- established the Canada Volunteerism Initiative, an ongoing program to encourage volunteerism, improve the capacity of organisations to benefit from the contributions of volunteers, and increase their understanding of volunteerism;

[22] Ibid.
undertaken a variety of research initiatives to map the size and scope of the sector, its economic contributions and the giving and volunteering of Canadians; and developed a variety of research and policy initiatives in such areas as human resource development, information technology and information management and policy development, including a review of existing and potential funding mechanisms to support community based initiatives\textsuperscript{[24]}.

In conjunction with the Voluntary Sector Forum (the successor to the VSI), the Canadian government has sponsored research looking into how the funding process can be streamlined and simplified. The focus is on collaboration and ‘joined-up’ approaches to funding voluntary and community based organisations\textsuperscript{[25]}. However, the accountability procedures that accompany government funding, have led many in the sector to feel overburdened, and that this approach is in conflict with the VSI.

Even though these developments do mark a new role for federal government in supporting small voluntary and community organisations, constitutional responsibility for such organisations still lies with the provincial governments.

**BEST PRACTICE**

A number of provinces, most notably Newfoundland and Labrador, Quebec, Saskatchewan and Manitoba, have launched initiatives with the objective of improving relations with the not-for-profit and voluntary sector.

Quebec stands out for the cohesiveness of its community action strategy. The provincial government has clearly defined the scope of the sector (by excluding professional associations, unions, and religious organisations from its definition of the voluntary sector), outlined explicit government funding practices and is committed to providing support for training and professional development. Most importantly, more than half the funding provided covers operational activities and core-costs enabling small community and voluntary organisations to develop and implement programmes and services that support their communities. The Government of Quebec also publishes information on the scale and type of its investment in the not-for-profit sector.


\textsuperscript{[25]} Areas under discussion and particularly relevant in a UK context include: how greater coherence in the design of funding programmes can be achieved across government; the types of audits and evaluations used in managing funding programmes and; how to develop a common government wide investment management system for all grants and contracts to provide the Canadian government with a more coherent picture of its investment practices. See Canadian Council on Social Development (2006) ‘Pan-Canadian Funding Practice in Communities: Challenges and Opportunities for the Government of Canada’.
LESSONS FOR THE UK
The Canadian government has recognised that ineffective funding is undermining the performance of small community and voluntary organisations and are committed to creating an effective funding framework to ensure that such organisations are able to function efficiently, effectively and sustainably to the benefit of local communities.

The government has undertaken a comprehensive and holistic review of their relationship with the sector and has sought to move toward a new model of governance which emphasises collaboration and interdependence (although to an extent this has come under strain from a perceived increase in the administrative burdens associated with some forms of government funding). Experience in Canada highlights the importance of open and continued dialogue between the sector and government.

GOOD PRACTICE FUNDING, NEW ZEALAND
The Office for the Community and the Voluntary Sector has constructed a website designed to help public servants follow good practice in funding community, voluntary and Maori organisations. The good practice funding website outlines some key principles for good funding relationships. These principles are:

Lawfulness – Have activities, resourcing and accountability requirements been undertaken within the authority granted by Parliament?

Accountability – Have public entities given full and accurate accounts of their activities? Are governance and management arrangements suitable to address any concerns?

Openness – Is the nature of the funding arrangement, and the way in which it was entered into, clear to all parties?

Value for money – Are resources used effectively and efficiently, without waste, and in a way that optimises the public benefit?

Fairness and Integrity – Are public entities and NGOs that are involved in funding arrangements together meeting Parliament’s and the public’s expectations of an appropriate standard of behaviour in the public sector?

www.goodpracticefunding.govt.nz/about-this-site/index.htm

4. FRANCE

CONTEXT

Research suggests that there are approximately 1 million associations\(^{[27]}\) in France with roughly 70,000 forming every year\(^{[28]}\). Looking at the organisational share of the sector: cultural, sporting and leisure activities dominate with a share of roughly 40%; health and social action has a share of 8% and is the largest employer with 560,000 paid staff; education and training (7%) and housing (8%) occupy a relatively small share of the sector. The sector employs approximately 1.6 million people or 8% of the adult working population in France. There are roughly 12 million volunteers, and research undertaken in 2002 by INSEE suggests that 21 million people aged 15 and over are members of at least one association.

A distinguishing feature of the voluntary and community sector is the number of micro and small community based associations. Two-thirds of associations have a budget of less than 7,500€ and 92% of associations have a budget of less than 75,000€. Only 5% of associations, or 40,000 associations have a budget of more than 150,000€ and these tend to be associations focused on providing health and social services.

Only 168,600 of the estimated 1 million associations employ staff, of which 80% have fewer than 10 employees. These organisations derive roughly 60% of their income from the public purse. The remaining 84% of associations are entirely dependent on volunteers. These organisations derive most of their income from private sources in the form of donations, membership fees and from fundraising events. Moreover, the majority of associations (61.6%) are community based, focusing either on the ‘quartier’, commune or at an intra-communal level\(^{[29]}\).

In general, communes tend to support cultural, sporting and recreational activities, central government tends to fund associations engaged in delivering health and social services while the regions and Europe predominantly focus on education and training\(^{[30]}\).

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\(^{[27]}\) This is an umbrella terms for all community, voluntary and not-for-profit organisations and foundations.


\(^{[30]}\) Communes are the lowest level of administrative division in the French Republic.
RECENT DEVELOPMENTS

Two events brought issues surrounding the community and voluntary sector to the forefront of government thinking. In 1999 the National Associations Meeting brought together 20,000 association managers in 100 local forums, prompting thinking on the relationship between the state and associations. The second event was the celebration of the centenary of the law of 1901. The 1901 Act defined an association as ‘an agreement by which two or more people pool, on a permanent basis, their knowledge and their activity with an aim other than that of sharing out profits,’ thereby forming the framework within which the sector has developed. The centenary celebration consisted of hundreds of meetings, symposia and publications. Again, the relationship between the state and the associations was highlighted as a significant challenge, and the main issues appear to be over tax and funding for the voluntary sector. More broadly, these events provided an opportunity to reaffirm the importance of the associations sector in French society, its core values of liberty, disinterestedness, solidarity and voluntary service.

A number of developments have been achieved since 2001:

○ The Charter of Reciprocal Commitments between the State and the 400,000 associations represented by the Standing Conference of Associations Co-ordination (CPCA) was signed on 1 July 2001, codifying the status of associations and their relationship with the state – much like the Compact in the UK. The document emphasises the independence and legitimacy of associations.

○ In April 2004 the sector was officially recognised as the role of the Ministry for Sport and Culture was enlarged to cover associations.

○ The framework for partnership and collaboration between the sector and the government has been renewed and strengthened. In addition, the government has established a new Council for the Development of the Associational Sector.

○ The circular of 24th December 2002 regarding state funding for associations. This text brings together previous legislation simplifying and streamlining guidance and procedures for grant applications. It also confirms the circular of December 2002 which called for greater flexibility in the timescales of grants.

○ In 2005 the Minister for Youth, Sports and Associations organised the first national Conference on the associations sector where he announced the establishment of three working groups charged with the responsibility of examining the following themes: how to rationalise contractual ties between the state and associations; how to strengthen the role of associations in civil society and; how to support volunteering.
CHALLENGES FACING THE SECTOR

Despite the above reforms and initiatives, a number of challenges still face the sector. First, small and micro community and voluntary organisations, especially those engaged in sporting, cultural and recreational activities have little or no access to public funds. Meanwhile, those organisations in receipt of government funds face excessive regulation, financial insecurity and a lack of clear accountability structures. Despite the Jospin and Raffarin circulars of 2000 and 2002, which outlined new conventions on longer-term contracts between associations and the government, the majority of government funds are still provided on a yearly basis which limits associations’ ability to undertake long term strategic planning. In addition, associations often incur costs due to the delay between grants, contracts and contributions being agreed to, and actually delivered and received. In order to cover these additional costs, associations tend to increase the overall size of their budgets by up to 7%. This has created inflationary pressures within the system.

LESSONS FOR THE UK

The development of the third sector in France has followed a rather different trajectory than that in the UK. Associations have flourished, by and large without the support of the state, as a result of socio-cultural factors. As a result, the experience in France provides limited lessons for the UK.

What is interesting however, is the fact that despite being overwhelmingly financed by private sources, associations in les quartiers and communes have played an important part in supporting social cohesion, community empowerment and social capital.

In March 2006, the Agence Nationale pour la Cohésion Sociale et L’égalité des Chances (ANCSEC) was created, replacing the Fonds d’Action et de Soutien à l’intégration et de Lutte contre les Discriminations (FASILD), a publicly funded but independent organisation which had previously been responsible for distributing grants to associations specifically focused on the social and economic integration of BME and immigrant groups. ANCSEC scope has been widened and it is now responsible for tackling illiteracy and discrimination, and promoting social cohesion, racial equality and voluntary civil service. ANCSEC supports both local and national associations. Funds are focused on four main themes:

- Equal access to employment for immigrants and BMEs.
- Equal access to social and private housing for immigrants and BMEs.
- Teaching and learning French as an additional language to improve social integration.
- Promoting equality of opportunity.

ANCSEC has a dedicated annual budget of roughly 6.5m euros for supporting voluntary and community associations.
CONCLUSION

These case studies serve to illustrate the fact that small community organisations around the world have been or are facing similar challenges. These difficulties often relate to funding – either the lack or insufficiency of state funding, access to information about grants or the design and delivery of the grants available. These difficulties have served to hinder the sustainability, efficiency and development of small community organisations.

With the exception of Denmark, all the countries considered in this paper have recently undertaken a review of the third sector, focusing especially on the relationship between the government and community, voluntary and not-for-profit organisations. The experience in Canada, Australia, Denmark and France highlights the importance of clear accountability structures, decentralising decision-making as far as possible, clear and transparent points of contact and a coherent legal and tax framework which supports rather than stifles the activities of small community groups.

The international evidence also highlights the importance of ease of access to grants and comprehensive information about grants. While the UK website www.govinfofunding.org does provide an online portal for applicants, there seems to be little information sharing across government or information for public servants designing and delivering grants to small community organisations. The portal www.goodpracticefunding.govt.nz constructed by the government of New Zealand does provide an excellent model for promoting good practice across government and, if developed in the UK, could encourage a joined-up and coherent approach to supporting small community organisations.
PART 3: KEY EVIDENCE ABOUT DIFFERENT MECHANISMS FOR PROVIDING FUNDING TO SMALL COMMUNITY ORGANISATIONS

INTRODUCTION
This section briefly sets out the challenges that small community organisations face in securing funding, and outlines where most of their funding comes from at present. Based on evaluations of existing funding mechanisms, we bring together key evidence of what works in funding relationships, and highlight some of the problems with the way that money has been distributed to small community organisations in the past. Finally, we suggest a number of principles and options to guide thinking on how government can best ensure that community organisations are adequately funded.

The main tensions that emerged in the evaluations were focussed on the accessibility of grants, and the need for support and developmental work in the funding process. This is vital for small community organisations who often require more than just money in order to facilitate their projects and activities. One major issue in the evaluations was that they tended to draw on evidence from grant recipients rather than beneficiaries.

FUNDING OF COMMUNITY ORGANISATIONS - OVERVIEW
The Home Office estimated that central government funding of third sector organisations in 2001/02, excluding housing associations, was £2.03 billion[31]. In addition to central government funding, other public funders also provide significant support to voluntary organisations – 2001/02 figures suggest that £1.87 billion came from local authorities; £904 million from the NHS, and £274 million from the EU. Recent research by the NCVO estimates statutory income sources at £10 billion for 2003/04. This includes lottery distributors and overseas governments. Revenue from the state accounts for a 38% share of the total income of the voluntary sector.

The split between fee and grant income is weighted towards fee income which illustrates the shift from grants towards contracts.

The NCVO have defined the funding spectrum as ranging from ‘asking’ (gift economy, grants) to ‘earning’ (earned income, open market trading). Small community organisations are likely to receive funding at the ‘asking’ end of the spectrum:

- gift economy income from donors - this is unrestricted, with no expectation of return, and is often focussed on general support for an organisation to meet its aims;

- grants from independent, statutory or corporate sources which are more likely to be tied to specific objectives. The funding is often suitable for projects with a clear start and end, and with defined outputs and outcomes.

This builds on the useful typology of funding the sector developed by Julia Unwin of: giving (traditional grant giving); shopping (contracts and service level agreements for specific outcomes/outputs); and investing (such as building capacity or providing loans).

NCVO evidence suggests that the income of the third sector as a whole is increasing, but this is largely to do with an increase in the number of organisations in the sector. As a result, average incomes for all organisations in the sector are static or falling. Within this context, small organisations are particularly affected – organisations in the £10,000 to £100,000 band saw the largest decrease in average income from £37,156 in 2002/03 to £33,791 in 2003/04. The vast majority (87%) of the voluntary and community sector is made up of organisations that have incomes of less than £100,000, yet they only generate 8% of the total sector’s income.

**WHAT ARE THE FUNDING CHALLENGES FOR SMALL COMMUNITY ORGANISATIONS?**

It has been suggested that small community organisations are in danger of being lost in the current arrangements, where it is now unclear who should provide backing for small scale community activity. There has been widespread concern in the sector about the winding down of various funding streams, and fears that small grants will no longer be ring fenced for community work. In addition, the trend towards contracts is unlikely to benefit small organisations that may not be in a position to play a role in service delivery.

Studies of small community organisations and associations have identified several challenges relating to funding. The main issues can be summarised as follows:

- small community organisations can apply for a wide range of grants from different sources,

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[33] Richardson, L (Forthcoming) DIY Community Action Bristol: Policy Press
but there has been a decline in some key sources (for example, SRB) and other sources are oversubscribed (for example, the Big Lottery Fund’s BASIS programme) \(^{34,35}\);

- as a result there may be significant competition for grants, in a context where grant makers’ policies and priorities may not match the needs of small community organisations \(^{36}\);

- past evidence has suggested that smaller groups lack confidence in local authorities as projects can be cherry picked, and it can be hard to obtain a small grant without political support (Begum, 2003);

- small organisations face a challenge in terms of the resources required to fill in funding applications, and the requirements to provide financial and statistical data \(^{37}\);

- risk of polarisation between voluntary and community organisations that deliver public services and those that do not \(^{38}\);

- funding arrangements do not recognise that participation is a slow process, and results may not be visible within the time frame of the grant. Short term funding can inhibit the development of sustainable and creative solutions to poverty and social exclusion \(^{39}\);

- many small organisations lack the capacity to build the necessary contacts and networks to deal effectively with multiple funding agencies.

\[34\] The Local Community Sector Taskforce report did recognise that the effects of the SRB wind down have been partially mitigated by new funding programmes since 2004, the continuation of NRF in some areas, RDAs investing in the sector and the introduction of LAAs.


\[37\] Cairns, B; Harris, M and Hutchinson, R (2006) Servants of the Community or Agents of Government? The Role of community based organisations and their contribution to public service delivery and civil renewal London: IVAR

\[38\] Jochum, V; Pratten, B & Wilding, K (2005) Civil renewal and active citizenship – a guide to the debate London: NCVO

BME ORGANISATIONS

BME voluntary groups are primarily funded by the public sector. McLeod et al (2001) looked at distribution of funds in 1998-99 and found that 62% of BME group funding came from public funds, compared to 16% from private sources, 18% from the national lottery and 4% from other sources.

There is evidence from various studies of BME community organisations (eg McLeod et al 2001; Chouhan 2004; Ellis, 2006) that BME groups feel they are being discriminated against in funding arrangements. In Chouhan’s study, many groups reported that funders did not understand the principles and philosophy of self organisation amongst minority groups. A common complaint was that groups had to demonstrate standards of equality and inclusiveness in their applications, which did not reflect the purpose of their organisation. In a similar vein, the literature on faith organisations uncovers the same frustrations. Faith groups were fearful of strings attached to funding, and found the grant rules, and bureaucratic requirements of public funding difficult to negotiate (Furbey, 2006).

This situation highlights the fact that trade offs do have to be made in the funding relationship – between demand led funding, and funders making more strategic demands. Inevitably, these tensions will close doors to some organisations.

McLeod et al identified the lack of a joined up approach to BME organisations at a local level as the key barrier to effective funding relationships. A second tier organisation with expertise in BME issues could help to alleviate some of the problems associated with perceptions of unfairness and the pressures of time involved in fundraising.

FUNDING MECHANISMS – A BRIEF REVIEW OF DIFFERENT STREAMS AND THEIR EFFECTIVENESS

SUMMARY OF FINDINGS
This section draws upon existing evaluations of small grant funding programmes. A summary of the key issues arising from these documents is provided below. A key issue about these evaluations is that the methodology is weak. The focus is on the recipients of the grants, and the feedback has come from these organisations. Although outcomes have been explored, this has not been in consultation with the beneficiaries of the grants.

We then go on to provide more details of funding and some of the evaluations for the following mechanisms: Big Lottery Fund; small grants; Local Area Agreements; and Community Foundations. This does not represent a comprehensive analysis of these funding streams and should only be considered as avenues for further investigation.
IMPACT AND REACH

- evaluations highlighted the positive impact of small grant funding on community based organisations. Many evaluations provided evidence of imaginative and innovative work that could be done with a small amount of money and support.

- some grant providers favoured small amounts as it attracted new groups to apply for grants, others felt that grants are too small to achieve anything meaningful (for example, Community Chests).

- the overall picture from the evaluations was that even if a project only had a small visible impact and if it yielded some level of social benefit, then it could be considered cost effective (Local Network Fund evaluation)\(^{[41]}\).

- some examples of direct impacts included: acquiring new skills; boosting morale; increasing confidence and participation; providing resources for communities and groups; undertaking training; gaining new qualifications, strengthening networks and cooperation in a local area.

- small grants are often aimed at the most disadvantaged and isolated, and are often successful in enabling people to take up opportunities that would not otherwise be available to them (for example, the Community Chests).

- small grants often increase the capacity of organisations to address local problems.

- groups that benefited most from small grants programmes include children and young people, BME groups and disabled people's groups (Greater Bristol Community Foundation evaluation)\(^{[42]}\).

ACCESSIBILITY

- grant programmes with accessible application procedures were welcomed.

- often groups needed a ‘way in’ to a discussion about the grant making process with the grant giving body, and outline proposal forms were popular with less experienced groups (Big Lottery Fund).

- applicants benefit from support and easy access to advice during the application process (for example, the Local Network Fund was seen as having a friendly and approachable help line).

- in some cases groups can apply directly to a second tier organisation, eg community foundation, and the staff there will then allocate the grant.

- some evaluations reported the need for more outreach work to inform local groups and individuals about grants (for example Greater Bristol Foundation evaluation).


CAPACITY

- most of the evaluations highlighted the importance of support during the grant making process

- the grant money itself is significant, but recipients also require help to develop their project into something that is sustainable once the grant has run out. This development and capacity support is crucial for achieving sustained change

- there can be a tension between the desire to make grants and reach targets on the one hand and the need to undertake longer term capacity building on the other

- given the short term nature of grant funding, capacity building is crucial for giving organisations the confidence to apply for further grants

- there is a danger of groups using the small grants to shore up gaps in other funding

- some evaluations highlighted the problem of the speedy introduction of programmes which did not allow enough time for planning and development

- there was recognition that post grant support was improving, but that more needs to be done to ensure that this continues to happen


DISTRIBUTION

- it was particularly welcome when lead organisations were local and involved groups in decision making (for example, Community Chests)

- an ESF global grants evaluation found that match funding (an EU requirement) had an adverse impact on the effective operation of many intermediary bodies and many reported that they could have achieved more and better outcomes if it had not been for match funding difficulties[43]

- public sector bodies were more successful at securing match funding, but they were less well place to provide support to organisations

- lead organisations may interpret the implementation of national funding streams in different ways. The Community Chests evaluation found that some varied the size of the grant, and eligibility differed - for example, in one area, the chests were only made available to organisations that had an income of under £15,000. In another the income ceiling was set at £100,000.
REGULATION

• some groups are happy with a ‘light touch’ approach to grant giving, although the grant giving body has to weigh up the relative risks of this approach. An NAO report on tackling fraud in grant making recommended more cross referencing and sharing information between different organisations. [44]

• informality is seen as being beneficial in terms of accessibility

MAIN FINDINGS

1. BIG LOTTERY
Thirteen independent distributing bodies are responsible for awarding National Lottery grants. Of these, the Big Lottery Fund has a budget of £630 million a year and has a strong commitment to supporting communities. One of the principles underpinning its work is that its funding is additional to government funding streams, and therefore adds value to work with local communities. Another core principle is making access to funding easier, and providing support to grant applicants and recipients. The Big Lottery Fund has a commitment that at least 60-70% of funding will go to the voluntary and community sector.

Who benefits from the Lottery?
The Big Lottery Fund self assessment provides an indication of who the recipients of the grants are:
- 40% of funding from the New Opportunities Fund went to voluntary and community groups
- £254 million was awarded to projects supporting BME communities
- The Community Fund targeted funding using the index of multiple deprivation at local authority level, and adopted six priority groups - children and young people, older people and their carers, disabled people and their carers, refugees and asylum seekers, black and minority ethnic groups
- The Community Fund has enabled community organisations to undertake work in government priority areas
- £137m for work supporting homeless people to return to mainstream society since 1997
- £213m to projects helping carers since the launch of the National Carers Strategy in 1998 - the equivalent of an extra 20% per year on top of the Carers Grant allocations

What can be learnt from the Lottery approach to grant making?
The Big Lottery Fund’s self assessment highlights:
- Local context - recognition of local factors are critical to the effectiveness of funded projects – programmes have encountered problems when there has been a failure to take wider contextual issues into account, as well as organisational capacity to deliver

[46] In 2005, the Community Fund and the New Opportunities Fund merged to become the Big Lottery Fund
Community involvement - when communities are genuinely involved in decision making there are long lasting and direct benefits such as empowerment, involvement and self esteem. Often these were not anticipated at the beginning of programmes.

Investor - the Fund achieves more sustainable outcomes when its role is as an investor – encouraging partnerships and collaborations, and complementing other programmes and funders.

A number of weaknesses have also been identified with the Lottery’s approach:

- Some projects under the BLF (and previously the New Opportunities Fund) have had fast turnaround times, and this can lead to insufficient consultation at the outset (DCMS self assessment).

- McKinney and Kahn have drawn attention to the fact that many organisations undergo a change of identity after receiving a lottery grant, when their scale and operation expand dramatically. Many voluntary organisations in receipt of Lottery funding lack the capacity to manage the operational process immediately following financial investment.

- McKinney and Kahn also point out that the size of many Lottery grants can place considerable pressure upon other funders to match fund projects. Organisations are increasingly compelled to turn toward public sector funding, because foundations cannot match many Lottery grants, and this contributed to sectoral alignment with public sector policies.

In their general review of the Big Lottery Fund, Leat and Kumar recommend:

- a greater focus on the post grant phase, as this would enable the BLF to deliver a wider public benefit and to manage investment more consciously, rather than as a ‘belated add on’.

FAIR SHARE

The Big Lottery Fund has a range of programmes and funding streams. Of these, Fair Share has been well documented. This was a joint initiative by the Community Fund and the New Opportunities Fund.


[48] Leat, D & Kumar, S (2006) Investing in our programmes – maximising the impact of grant making Big Lottery Fun

[49] Many other examples of BLF evaluations are available on their website: http://www.biglotteryfund.org.uk/index/evaluationandresearch-uk.htm

Opportunities Fund to address disparities in Lottery funding across the UK. The Community Fund made Fair Share Awards through its programme. The basis of the New Opportunities Fund Fair Share Trust was to establish an expendable endowment in each Fair Share area and to make grants from this endowment over 10 years. The Fund appointed the Community Foundation Network to manage the programme. Local agents are responsible for recruiting members of award panels, who make decisions on applications for funding in each neighbourhood.

**Fair Share through the Community Fund – key findings**
- for many groups three years of funding was enough to develop capacity and prepare to apply for funding;
- the grants were made on the basis of demand, and there are no dedicated future funding arrangements;
- the programme prioritised meeting financial targets within wider programmes rather than allocating funds to specified areas. The risk of this was that poorer applications may have been funded;
- the new focus on working with partner bodies as considered one of the successes of Fair Share;
- the programme worked best when it focussed on community development skills;
- the independence of the initiative meant that in some cases decisions about funding may not have always been in line with wider local priorities and area based initiatives.

**Fair Share Trust – through the New Opportunities Fund – key findings**
- this element of the programme was particularly based on consultation, local involvement, identification of local needs and priorities;
- the process of identifying and formalising contracts with local agents was sometimes protracted, and led to disagreement;
- choosing neighbourhoods has been controversial, for example, resentment about being singled out as ‘disadvantaged’;
- the programme was successful in bringing together stakeholders and identifying local priorities, but grant making was slow;

[51] In 2005, the Community Fund and the New Opportunities Fund merged to become the Big Lottery Fund.
reports from those involved with Fair Share Trust suggest that the Community Foundation Network have done a good job of managing the Trust and developing the guidance. However, there may now be a need for local agents to receive greater assistance in maximising the community development opportunity.

AWARDS FOR ALL

Awards for all is a lottery grant scheme that makes grants of between £300 and £10,000 for people to take part in art, sport, heritage and community activities, and projects that promote education, the environment and health in the local community. In 2005, over 70,000 grants had been made.

The examples of projects that Awards for All fund play a crucial role in raising social capital, cohesion and empowerment. Examples from the North East of projects that have received Awards for All grants include:

**North Tyneside Art Studio - Renovation of Ceramics Studio and Workshop £5,909**
This registered charity and not-for-profit company manages an art studio and workshops which are used by people with mental health problems. They would like to install a new kiln at their premises and undertake a series of ceramics workshops, supported by a professional artist.

**Kurdistan Community for Kurds - Kurdish Cultural Festival £8,800**
This group provides advice and support to all Kurds living in the Tees Valley area. An award would enable the group to put on a festival event celebrating the culture and history of the Kurdish Community and members’ integration into the local community.

http://www.awardsforall.org.uk/

2. SMALL GRANTS

There are a number of small grants from central government that have been made available for small community organisations. We have focussed here on Community Champions, the Local Network Fund, the Single Community Programme and the Faith Communities Capacity Building Fund.

COMMUNITY CHAMPIONS

The Community Champions fund is a Department for Children, Schools and Families programme that provides small grants, of up to £2000 to support individuals to develop community projects and pass on their expertise to others. The programme is administered through the Government Offices for the Regions, who contract with intermediaries to reach target communities and deliver the programme on the ground.
A substantial proportion of Community Champions projects – 43% - are seeking outcomes for the community at large, with 46% focusing on young people. Champions also promote learning activities for their groups including first aid training, managing a credit union and training board members.

Key findings from the Community Champions programme:

- the evaluation found that Community Champions did make a real difference in their communities – through ‘learning by doing’. There was substantial evidence of increased capabilities, confidence and self esteem;

- grants are flexible and easy to apply for;

- there is evidence of success in reaching BME groups;

- 44% of Community Champions secured funding from other sources before, during or after the period of their Community Champions award;

- Community Champions may be left high and dry when their funding runs out, and not be provided with information about where to go for funding and support;

- there is a need for greater efforts to target less experienced Champions and ensure a more integrated support approach such as closer one to one contact, periodic follow up, help with management, training, interpreters – the objective being more and better routes for sustainable projects.[52]

### EXAMPLES OF COMMUNITY CHAMPIONS PROJECTS IN LONDON

**Polar Bear Community** [www.polarbearcommunity.org.uk](http://www.polarbearcommunity.org.uk)

The Polar Bear Community aims to introduce people who have mental health issues to the tools for having successful conversations and positive growth through the Affinity Wellbeing Project (free community events); Xpress Yourself (adult education classes in personal development); Connection Coaching (an accredited training programme); or through one-to-one coaching and support.

**Haringey Federation of Residents’ Associations** [http://www.haringeyresidents.org/](http://www.haringeyresidents.org/)

This is an umbrella organisation for 130 local residents associations in Haringey. It meets monthly to pursue issues and to offer support. The focus is on providing information on local community news, views, experiences, and residents’ action for improvements. It provides a DIY guide for local residents to make a real difference.


In London, Community Champions is administered by The Scarman Trust. The Scarman Trust feel that the operation of Community Champions is successful because people take on issues that statutory organisations find difficult, such as discouraging drug taking, encouraging good parenting and raising awareness of domestic violence. There is the freedom for applicants to display considerable creativity as the programme is generic. The networking element is also vital as people join together to deliver a service.\[^{53}\]

**LOCAL NETWORK FUND**

The Local Network Fund is a small grant programme that aims to support small voluntary and community groups to improve outcomes and opportunities for children and young people aged 0-19. The focus was on small grassroots organisations working in the poorest communities, taking a preventative approach to tackling poverty. The fund offers grants of between £250-£7000. It began in 2001, and funding is secured until March 2008. The DCSF works in partnerships with community foundations, rural community councils, CVS and grant making trusts to provide an experienced grant administrator in each area.

**Key findings from the Local Network Fund:**

- the funds enabled the emergence of new groups bringing people together to volunteer for the first time;

- the application process had a child protection policy requirement which some groups found hard to meet;

- there was concern about sustainability due to the short nature of the funding;

- more creative outreach may be required, as the evaluation found that some groups, for example, BME or special needs, were not benefiting as much as they might do;

- the cost effectiveness of the scheme was investigated by the evaluation team. Modelling was carried out to see if the scheme was cost effective in relation to such issues as crime and vandalism reduction;

- the conclusion was that the LNF was providing a valuable input at a local level in terms of detectable changes in crime rates and unemployment rates, but more work on this kind of evaluation would need to be undertaken over a longer period of time.\[^{54}\]

\[^{53}\] Based on a conversation with the Scarman Trust

SINGLE COMMUNITY PROGRAMME

The aim of this programme was to build social cohesion through community activity, and to help the community and voluntary sector participate in LSP decision making. The programme consisted of £182m from 2001-06, in the 88 most deprived areas identified in the Neighbourhood Renewal National Strategy. It was administered through bodies appointed by Government Offices.

The three elements of the Single Community Programme (before they were merged) were the Community Chest (CC), the Community Learning Chest (CLC) and the Community Empowerment Fund (CEF). The first two provided small, accessible grants to support self help and community activity; whereas the latter was to support Community Empowerment Networks as a route to engaging communities effectively in LSPs.

Key findings from the Single Community Programme:
- the programme has been successful in providing funds to support 25,000 self help and community group projects. The grants were also used to establish Community Empowerment Networks to enable voluntary and community sector participation in LSPs (NAO report);
- organisations valued the independence of having access to money that did not come from public sector organisations;
- 78% of respondents found the application process straightforward;
- grant recipients could be supported directly, or join a CEN. However 55% do not go on to join a CEN and the NAO report recommended that CENs need to employ more innovative methods of communication to get smaller community groups involved in neighbourhood renewal [55].

EXAMPLES OF SUPPORTED PROJECTS INCLUDE

The All Community Group received £1,500 for a community festival in Ardwick (Manchester). The festival, which was partly funded by the European Social Fund, brought together different communities who do not normally mix, promoting good race relations.

Sparkbrook Women’s Group in Birmingham received £5,000 to contribute to an IT and business support centre. The centre runs courses for local women to help them return to work.

Community Chests

Community Chests were distributed through local organisations such as development trusts or umbrella organisations that tend to distribute other funds, such as the Local Network Fund and SRB money. The amounts available ranged from £50 - £5000, and were targeted at excluded or marginalised communities.

The type of projects funded included social and cultural events; refurbishment of community buildings; research; provision of equipment. The CLC funded projects such as first aid training; IT training and leadership skills.

EXAMPLE OF THE SOCIAL COHESION ROLE OF COMMUNITY CHESTS

A grant of £1,782 funded a day trip to a theme park for 106 members of a tenants' association. The group included asylum seekers and young people and 'barriers were broken' as a result of the trip. Future community events are now being planned – in a mixed community that has seen a rapid influx of asylum seekers and refugees in the past two or three years.

Key findings:

- the scheme was established very fast, and often suffered from a lack of monitoring data or effective overall systems;

- support from lead organisations to applicants and recipients was welcomed – this involved intensive work with individual groups to try to increase the number of successful applications and completed projects;

- lead organisations welcomed the fact that money was delivered up front which made it easier to reach small groups with few resources;

- the informality of the chests made them more accessible to BME groups [56];

- the different regional interpretations of eligibility and the size of grants awarded meant that grant allocation was inconsistent. In Bristol, this issue was investigated when concerns were raised about the high rejection rate for BME led groups – the resulting report found that the success rate for groups described as 'communities of interest' were lower than the overall success rate. This highlighted the need for more outreach work to help groups through the grant making process [57].

[57] Monitoring the Community Chest Renewal.net Case Study
FAITH COMMUNITIES CAPACITY BUILDING FUND (FCCBF)

The FCCBF supports faith and inter faith organisations to strengthen their capacity. It also
supports inter faith activities. The Community Development Foundation is responsible for
administering the fund on behalf of the DCLG.

CDF’s evaluation of the first round application process found that grants were offered to 578
organisations, totalling £7.4million. Overall, respondents were satisfied with the distribution of
the fund and felt that the implementation had been a success. However, there was a short time
frame in terms of planning and delivery and the evaluation revealed a number of issues relating
to this:

- a consistent message about the Fund’s purpose was hard to ensure, as CDF had to contract
  support work out to third parties;
- the CDF used networks to reach organisations, but many smaller organisations will have
  fallen through the net;
- the panels and teams assessing the fund needed to be loosely representative of the faith
  and inter faith sectors, but there was a risk that advisors and assessors would have a vested
  interest in the grants. The CDF tried to make the decision making process as transparent as
  possible, but some members did not want to disclose their identities. [58]

ESF GLOBAL GRANTS PROGRAMME[59]

This programme provides grants of up to £10,000 for organisations that would otherwise be
unable to access mainstream ESF funding. It is administered by intermediary bodies such as
foundations. For example, the County Durham Foundation has made 58 grants – ranging from
£45 to buy a uniform for a catering course to £5000 to train 8 volunteers in a programme to
enable them to deliver a self help rehabilitation programme.

Key findings:

- the evaluation states that the majority of intermediary bodies administered the programme
  in house and operated a single tier delivery model – this had related advantages of
  contractual simplicity, transparency of approach, administrative efficiency and clear lines
  of communication;
- the delivery mechanism was seen to be a key factor in explaining the success – the accessible
  application system and light touch monitoring and reporting requirements. Good outcomes
  also depended on the quality of support provided by intermediary bodies;

Round Application London: Community Development Foundation
Global Grants Programme London: Department for Work and Pensions
respondents noted that the funded projects had acted as catalysts to increasing community involvement and improved community cohesion;

intermediary bodies that distribute Global Grants had also had their organisational profile, visibility and standing in the community enhanced as a result of delivering the profile.

**ESF GLOBAL GRANTS CASE STUDY**

In April 2004 the London Bus Theatre Company applied for a grant of £8,000 to carry out six workshops on job interview techniques and confidence building for young people who are not in employment, education or training. The young people included tagged offenders, those excluded from school and others who were unemployed. Participants were taught about voice, posture, presenting positively for interviews and how to release nervous energy. More than 300 young people took part in the project, and feedback was overwhelmingly positive, with four out of five saying that the skills they had learnt would help them gain employment. The grant encouraged the London Bus Theatre Company to work in partnership with Connexions, local colleges, the media and a local training provider – Chelmsford Training Services.


**3. LOCAL AREA AGREEMENTS**

**LOCAL GOVERNMENT FUNDING**

The majority of local authorities make grants to the local voluntary and community sector, and these are administered locally. As a result, there is no standard application procedure. The implementation of Local Area Agreements (LAAs) across England have started to bring together central funding streams that were previously administered separately (although note that many local authorities also separately funded the local voluntary and community sector as part of overall general expenditure). For example, the Safer and Stronger Communities Fund is now being administered under LAAs between government offices and local partners.

There are fears amongst the sector that with the merging of some programmes into LAAs, small group funding will be harder to access, with resources diverted to other strategic priorities, and that political control over funds might lead to some groups being excluded. A recent report by the Urban Forum indicated that 79% of organisations responding to the survey had experienced a loss in funding that following the end of the Single Communities Programme (SCP)  

A survey by NACVA also suggests that in the first two rounds of LAAs, 76% of respondents had seen no significant growth in funding for the voluntary and community sector, and only 4% of LAAs had reduced bureaucracy by introducing a more streamlined application process  

London: Urban Forum Research
However, there is little available information at present about how LAAs are planning to allocate their small grant funding, although this could be obtained by looking at local level grant making in specific council areas. The Government Office for London has recently set up a community engagement working group to look at the funding of small groups within LAAs, but this is in its early stages. Similarly, the Scarman Trust are planning to look at London Boroughs to find examples and ideas about what small groups require to work more effectively in the LAA context.

There are a number of recommendations that are being made by parts of the sector to safeguard small grants for local groups. These include:

- reinstating the mandatory LAA indicator that measures the growth of the voluntary and community sector as a means of gauging progress against the Government’s objectives set out in the Local Government White Paper and the Pre-Budget Report;

- requiring LAAs to include a statement setting out how the LSP partners invest in the community engagement capacity of the VCS; and

- requiring LAAs to include a statement setting out how the LSP partners will build and sustain a healthy local VCS, with a mix of funding mechanisms including grant-aid.\(^{[62]}\)

A national evaluation of LSPs revealed, in some cases, the success of the VCS and LSPs working together to reach otherwise excluded groups.\(^{[63]}\) The recent Local Government White Paper also introduces new expectations on local authorities to consult with citizens, the third sector and private sector. However, given the current concerns about funding in LAAs there would appear to be a need to explore a stronger commitment to community engagement, recognising that small groups can contribute to improved quality of life, civil renewal and cohesion.\(^{[64]}\)

### 4. COMMUNITY FOUNDATIONS

There are over 50 community foundations in the UK, and figures from the Community Foundation Network suggest that in 2006, 18,000 community groups were supported.\(^{[65]}\) Community foundations act as a broker for donors, and are increasingly distributing government funding as well as charitable money. For example, community foundations have distributed the Fair Share Trust and Local Network Fund, which were referred to earlier in this report.

\(^{[61]}\) NACVA (2006) Briefing Note for roundtable meeting at HMT Available online at www.nacva.org.uk/NR/rdonlyres/9EDD67C6-9243-47D1-8BD0-AC65D8E8B6D5/0/briefingnotetreasurymeeting18dec.doc

\(^{[62]}\) Ibid.


\(^{[64]}\) IdEA (2005) Making it Work – Voluntary and Community Sector involvement in LAAs

\(^{[65]}\) http://www.communityfoundations.org.uk/
The examples of the York and North Yorkshire Community Foundation and the Somerset Community Foundation show the spread of funds that foundations can administer:

<table>
<thead>
<tr>
<th>York and North Yorkshire Community Foundation</th>
<th>Somerset Community Foundation</th>
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<tr>
<td>Local Network Fund</td>
<td>Local Network Fund</td>
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<tr>
<td>Sky Youth Action fund for young people</td>
<td>Sport Relief</td>
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<tr>
<td>Community Champions</td>
<td>Somerset Giving Fund – up to £3000 for projects</td>
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<tr>
<td>Sport Relief (£250-£5000)</td>
<td>WCS Pickford Trust – long term support for projects</td>
</tr>
<tr>
<td>North Yorkshire Community Involvement Trust – for people from disadvantaged backgrounds (£1000-£5000)</td>
<td>Cosyfeet Fund – local project grants of up to £1000 for mental health projects</td>
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<tr>
<td>York Community Pride – for improving local environment (£100-£2000)</td>
<td>Millfields Students Fund – money raised by Millfields School to support community organisations</td>
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<tr>
<td>Community Charity Fund for small projects (£100-£750)</td>
<td>ROK fund – for local organisations in Yeovil</td>
</tr>
<tr>
<td>Catalyst Fund – for locally managed charities and groups</td>
<td>Sir John Wills Memorial Trust – for organisations involved in music education</td>
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There is considerable variation in the level of funding – for example, the Community Foundation for Wiltshire and Swindon awarded 229 grants, totalling £668,804 in 2005/06. In comparison, the community foundation in Tyne and Wear makes over £7m of local grants per annum.


Community foundations carry out their own evaluations individually. Evaluations by the Greater Bristol Community Foundation, the Scottish Community Foundation, the County Durham Foundation and the South East London Community Foundation have been considered here, as well as an evaluation of foundations that administered the Local Network Fund, and a DWP evaluation of the ESF Global Grants scheme that a number of foundations distributed.

The key findings from the evaluations were:

Greater Bristol Community Foundation\[68\]
- 45% of the groups who responded reported an increase in users as a result of the grant which contributed to the sustainability of their activities

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**EXAMPLES OF PROJECTS SUPPORTED BY COMMUNITY FOUNDATIONS**

**Penhill Art and Craft Group.** This is one of the more deprived areas of Swindon. An LNF grant of £1,713 allowed the Penhill Art and Craft Group to run a summer holiday club for families. This aimed to give families the opportunity to make new friends and learn new skills. Teenage volunteers were trained to help younger children and others with special needs. In total, 92 children took part, and 32 adults. (Wiltshire and Swindon Community Foundation)

**Slough.** A £5590 community foundation grant enabled a small group of people in Slough who had been unemployed for a considerable time to get together, learn new skills in desktop publishing and support other voluntary groups by designing and publishing leaflets, posters and newsletters. The project developed participants' confidence and self esteem and opened up employment opportunities. (Berkshire Community Foundation – example cited on www.communityfoundations.org.uk)

**Benhill in Manchester.** Benhill is the most deprived ward in England. Recently it has been transformed by the efforts of a health and fitness centre created by a local resident to steer young people towards more constructive activities. The Community Foundation for Greater Manchester is committed to making funding available for community entrepreneurs and grassroots groups, and has so far provided £20,000 from a variety of sources. (www.communityfoundations.org.uk)

**Baydon Village.** This is a rurally isolated village which has no facilities for the under 5s. Some of the families are on low incomes and have no means of transport during the day. The local pre school was threatened with closure, so a group of parents set up a toddler group in the village hall. They applied to the Community Foundation for an LNF grant to help with set up costs. A grant of £2,641 enabled them to buy a climbing frame, safety mats, dressing up clothes and storage equipment. Since then, more children are attending and the group is doing its own fundraising. (Wiltshire and Swindon Community Foundation)

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there was also some evidence of economic benefits: some users had gained jobs through involvement in funded activities, and 21% of groups reported a decrease in crime and vandalism

GBF plays a key role in building the confidence of groups, particularly to make other grant applications: 64% of responding groups reported this

the evaluation revealed that the GBF has a strong pattern of serially funding groups: 59% of questionnaire respondents had received more than one grant, and 10% had received five or more grants

there was evidence that smaller, more isolated group should be visited by the Foundation to improve relations between them

Scottish Community Foundation\textsuperscript{[69]}
- the Foundation makes grants of up to £5000, and organisations who had received these grants reported that the process was straightforward and clear, praising the approachability of the Foundation staff
- the size and simplicity of the grants programme as being particularly beneficial for organisations
- the grants were seen to be useful for pilots, small groups and charities, although respondents did want to receive grants for longer than a year, for continuity and developmental reasons
- the impact on client groups included: increased self worth and inclusion; improved quality of life; reduced isolation; direct help to families; positive engagement in communities
- the impact on organisations included: improved profiles; increased sustainability; improved skills and confidence; new services and enhanced partnerships
- the evaluation reported that the publicity of grants could be improved as some had only heard about SCF by accident

County Durham Foundation – Local Network Fund evaluation\textsuperscript{[70]}
- 427 grants, totalling £1.84m have been made since 2001
- 62% of grants went to first time applicants

the Foundation’s outreach work was praised, and there was a marked increase in applications from hard to reach communities and excluded groups. 11% of all LNF grants were awarded to ethnic minority groups (BME groups account for only 1.4% of the population of County Durham)

the Foundation provides up to date contact details distributed with application forms so that applicants have access to named officers to provide them with support

the Foundation developed a mechanism for young people to be involved in the pre-assessment and monitoring of groups

many organisations went on to develop their projects to a capacity where statutory and mainstream organisations were able to support them – this was particularly evident in sports clubs and ‘issue’ groups

South East London Community Foundation - community groups and health projects

the Health Communities Fund was delivered by the SELCF on behalf of the local Primary Care Trust. The Fund provided £5000 grants over three years to voluntary and community groups

the groups were able to develop holistic local services and were ideally placed to improve residents’ motivation to lead healthier lives. For example, Houses into Home works in women’s homes and offers befriending and support to those who are depressed. The Pepys Tenants Action Group provides one to one support to tenants on an estate aiding them through stresses related to housing issues

local groups were seen as a safe and trusted local service

the grants led to multiple outcomes across various themes – volunteering, employment and community safety

the evaluation found that one year funding meant it was hard to monitor the work of the groups

groups needed more coordination and direction to sustain themselves alongside other groups

Community Foundations administering the Local Network Fund

35 community foundations are part of the network distributing the LNF

[71] South East London Community Foundation Choosing Health in Lewisham – Community Groups leading Health
decisions are made by assessment panels consisting of people with knowledge of the community

foundations undertake considerable preparation work behind the scenes prior to awarding a grant

good partnerships had been established with the local voluntary and community sector infrastructure which helped to raise the profile of the scheme locally

foundations worked proactively with partners to find new organisations to support

in Bristol, 20% of grants benefited BME groups

in Manchester, 60% of grants awarded went to groups in the top 30% nationally areas of deprivation

in Essex, 25% of the groups funded had a turnover of less than £10,000 per annum

Conclusions:

Community foundations have the potential to be accessible, responsive and reliable at a time when funding for smaller projects is hard to find.

Successful community foundations have deep roots in the local community.

If foundations know their local community well, they are capable of tailoring their responses to specific local issues and needs.

Foundations fund organisations that are rooted in the local community and help people who find it hard to access services from institutional providers (LNF).

Community foundations are well placed to involve members of the local community – as was the case in County Durham.

Community foundations can pool donations and income from funds to create the maximum impact.

Foundations that administer multiple funding streams are able to assist groups in sourcing other funding to assist them with their development.

Foundations have good experience of levering private money – this helps create a more sustainable funding base for some groups and means foundations can act as a conduit for
resources to go into the voluntary and community sector (Greater Bristol Foundation).

- Community foundations need to consider their support role for organisations as some foundations were more successful at this work than others.
- The evaluations revealed that some foundations may need to publicise their work more effectively.
- Foundations can provide small grants that are easily accessible and beneficial to small groups but also need to consider their role in capacity building and supporting organisations to secure future funding.
- Foundations could play a role within the local funding environment and enhance their roles as capacity builders through this strategic work (GBF).

**CONCLUSION**

The evaluations of small grant programmes highlighted the many positive activities that were made possible by the funding, and revealed desirable impacts and outcomes in terms of social capital, community cohesion, empowerment and economic benefits. However, it is important to note that the focus on outcome measurement can be misleading – resulting in short term funding favouring activities that can demonstrate simple and immediate outcomes. This can mean that the work of community organisations that tackle long term problems can be overlooked by funders.

The main tensions appeared to be around regulation, accessibility and distribution, although there was plenty of evidence of good practice in grant making. One of the key messages from the evaluations was the importance of support and developmental work in the funding process. This is vital for small community organisations who often require more than just money in order to facilitate their projects and activities.

To an extent, there may always be some mismatches between the requirements of small community organisations and the priorities and approach of funders. The community sector highlights the need for greater core funding, available for longer periods. This is an important aspiration. However, funders may also want to recognise the short term nature of some local projects or particularly innovation trials, and the way in which some organisations will want to quickly outgrow their initial funding steams.
PART 4: THE PRINCIPLES THAT SHOULD SHAPE FUNDING FOR SMALL COMMUNITY ORGANISATIONS

This final section attempts to synthesise thinking in the area by outlining a set of key principles for ‘good grant making’, drawing on the findings from the discussion paper on the role of small community organisations, international work and evaluations of different funding mechanisms.

1. THE ROLE OF GOVERNMENT

Governments have a wide range of tools at their disposal for supporting small community organisations: grants (whether core, for events, projects or operations), contracts for services (with or without competitive tendering), loans, equity, asset transfers, vouchers, tax reliefs, matching subsidies and so on. Some of these can be managed directly; others can be contracted out to foundations or investment bodies like Futurebuilders. Whatever the mechanism, the aim in this as in other fields is to use resources as effectively as possible to meet public goals, which may include raising social capital, community cohesion, regeneration or the more direct provision of services like childcare. Government funding will always be to some extent instrumental – designed to achieve objectives, even if these objectives are very broad such as enabling a thriving third sector.

Any decision to fund a community organisation will then be informed by some implicit or explicit assumptions about the relative ability of the funder (whether that is government itself or another agency) and the organisation that is being funded to determine goals and the best means of achieving those goals. It will also reflect a view on what levels of control and risk are appropriate given the resources involved or the track record of the organisation. And it will reflect a view on time-scales and the balance between short-term results and long-term capacity.

At one extreme would be long-term funding with no strings attached to community organisations in the hope that they would be able to define the outcomes the community wants, define how to achieve these and then achieve them. At the other extreme is precise specification of what is to be done and how in the form of a contract. Between these two extremes there are no clear boundaries between types of funding. Sometimes grants include
so much competition and so many conditions that they become indistinguishable from contracts; sometimes loans have so little security that they are effectively grants. We consider that there is a place for a number of different types of funding. Others, including NCVO and Julia Unwin, have previously considered the most appropriate forms of funding in some depth. Below we highlight a summary of which types of funding should be used for different types of objective.

- **Grants**: where government wishes to support a very broad goals, when the outcome is hard to specify or monitor, or when government wishes to essentially back successful activity that has been initiated by others, grants are likely to be appropriate. These always need some proportionate means of assessing plans and whether results have been achieved, but these should typically be less onerous than for contracts. Grants can take many forms: fixed grants, or deficit funding (widespread in the past in the community arts field). Capital grants, and asset transfers, generally require more stringent conditions – for example on future access to the asset, and clawback in case it is particularly badly administered. Where the main goal is to promote innovation, often the best route is to back teams with core grant funding, along with staged project funding for specific projects. Where the aim is to enhance capacity, a combination of core grants and funding that requires things to be achieved, or that requires the organisation to secure the backing of other stakeholders is often best (i.e. capacity comes as much from doing things as from accumulating skills and infrastructure). For small organisations it will be vital that grant funding (and contract funding) is reasonably frontloaded since it will be very hard to borrow cash against future income.

- **Contracts**: where government has a clear view of a specific desired outcome or output, of how it is to be achieved (including likely cost structure), contracts are usually the best vehicle (and should both allow for all relevant costs to be covered, and should allow community organisations to retain profit). However contracts are rarely appropriate for very small organisations and involve a high overhead both for agreeing the contract and then for monitoring compliance. Sometimes subsidiary contracts may be suitable for small community organisations, for example, for housing maintenance or parks management. But it would be unusual for contracts to be an appropriate way for national funds to support small community organisations.

- **Vouchers and tax reliefs**: where it is assumed that beneficiaries or users have the better knowledge of what is needed, vouchers or quasi-vouchers are more appropriate than either contracts or grant funding. These might for example include vouchers which tenants could give to accredited tenants’ organisations. At one extreme these can be very precisely circumscribed, for example, a voucher for a specific kind of childcare. At the other extreme they can be much looser, as in tax relief for charitable giving.
Loans and investment: where there is a realistic prospect of generating an income stream, loans, usually unsecured will be appropriate. These will only rarely be appropriate for small community organisations, and can have distorting impacts on behaviour if not carefully considered by the organisation (for example if community buildings end up renting out much of their space for commercial uses). All community organisations need some predictability of funding; however there are risks (as well as benefits) for funding to be committed too far in advance to organisations which are bound to wax and wane. Hence the advantage in maintaining funds in higher tier bodies, such as Community Foundations, or networks of funds which can in certain circumstances, draw monies back.

Tax-raising powers: some small organisations raise funding from their own citizens through tax precepts. UK parish councils do this, as do European communes. These fairly modest taxes then provide an independent source of funding for community activities. In the long-run this is likely to be a healthier base for funding than dependence on national funds, and can be made flexible – whether through matched funds for precepts in deprived areas, or through variants such as community Pledgebanks (where people commit a certain sum of money on condition that others do too).

2. PRINCIPLES FOR GOOD GRANT MAKING

The benefits to be achieved from funding small community organisations are likely to be less easy to define than with larger organisation or service providers. Some will be essentially about capacities – including capacities to raise funds from other sources, capacities to represent community needs to others. Some will be about actions – for example providing sports or cleaning up an estate. And some will relate indirectly to outcomes such as higher social capital. There is a relatively large literature on good funding and experts such as Diana Leat have written extensively on this issue. Below, we highlight some of the issues we consider are most important.
The relationship between funder and fundee will inevitably require certain trade-offs. For example, funders will have to strike a balance in their requirements for accountability and recipients' needs for grants which are easy to access and administer. Organisations may require the freedom to spend their grants as they see fit, but funders might have a clear idea of their spending priorities. Undoubtedly this balance will vary between different sources of funding. Choices also have to be made about the nature of the grant – is it targeted on a small number of priorities or demand led? Does the grant cover the full cost of the project or is it a contribution?

Leat and Kumar (2006) divide effective grant making into three approaches – venture capital/investor where the aim is to build management capacity and needs are outcome driven; knowledge management and learning where the experiences can improve policy and practice; and social change/creative grant making where new combinations and approaches are considered. As the authors suggest, all funding in some way, should seek to add value as this can reduce the risks of short term failure, provide better value for money, have a wider and deeper impact and potentially strengthen the wider non for profit sector. However, there is no set way of achieving this.


[74] Leat, D & Kumar, S (2006) Investing in our programmes – maximising the impact of grant making Big Lottery Fund
We have drawn together the main **principles** for funding as:

- **Accessibility.** The varied landscape of available grants, and individual application procedures, criteria and eligibility is potentially **confusing and hard to negotiate** from the perspective of the small community organisation. The evidence from the international examples and the UK evaluations show the importance of making information about grants readily available, and also ensuring that access to these is as straightforward as possible in the application process.

- **Decentralisation.** Community organisations benefit from working with grant making bodies that are ‘close to the ground’ and have local knowledge and expertise. The evaluations did raise some questions about how engaged some independent local organisations were with their local communities. However, some of these organisations are relatively new, and there is scope to develop their relationships and networks considerably. This is certainly to be encouraged as central government is not necessarily best placed to understand the needs of the local community.

- **Choice and competition.** Funding through one stream can end up excluding some small community organisations. Retaining a mix of funding streams and options is important in order to meet the variety of needs and priorities on both sides of the funding relationship. For example, if an arrangement with a community foundation does not work, then small organisations need to have the option to look elsewhere.

- **Capacity.** The funding relationship should be about more than the grant giver handing over money. Small community organisations benefit from support before, during and after the grant has been given to build their capacity and confidence to seek further, longer term funding from elsewhere. This dual aspect of grant giving should be the norm, and community foundations, and other independent local organisations should safeguard a proportion of their grants for support packages. Independent local organisations need to be in a position to provide on going support, and develop a strategy for long term engagement. Case studies of small community organisations have shown that support for capacity building was essential for the development of social capital (eg, Jochum, 2003)

- **Appropriate funding tools.** In the UK, the third sector is increasingly engaged in public service delivery. However, it is important to recognise that many smaller community organisations are not going to generate income and do not have a service to sell. It is vital therefore that funding mechanisms reflect the diversity of the sector – not only the different types of organisations but also the different activities undertaken within the sector. For example, in some cases funding will be required to cover core or capital costs whilst in some cases project finance may be more appropriate.
- **Accountability.** The grant making process should aim to be transparent and fair. This provides reassurance to small community organisations that they have an equal chance of receiving funding. However, there is a high level of risk in grant making, and funders will have to find ways to manage this risk and still provide the most effective mechanisms that remain accessible to all. A recent NAO report which investigated grant fraud recommends that there needs to be more sharing of information between grant givers. The website, Guidestar, which lists all UK charities could potentially help with this situation, but the possibility of a central database that grant makers can access might help to cross reference and check who has received a grant, and reduce the likelihood of fraud.
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