

Committee:	Date:
The City Bridge Trust Committee	12 March 2015
Subject: Strategic Initiative – NCVO and Charities Evaluation Services Merger	Public
Report of: Chief Grants Officer	For Decision
Summary	
<p>This report requests funding to support the costs of a merger between the National Council for Voluntary Organisations (NCVO) and Charities Evaluation Services (CES), two of the country’s leading infrastructure organisations.</p>	
Recommendation	
<p>Members are asked to:</p> <p style="padding-left: 40px;">approve a grant of £50,000 over one year to the National Council for Voluntary Organisations (NCVO) to support the successful merger between NCVO and the Charities Evaluation Services..</p>	

Main Report

Background

1. The National Council for Voluntary Organisations (NCVO) is the main infrastructure body for the third sector in England. It has 11,000 members, ranging from large, household name charities, through to small community organisations. It provides a voice for the sector through engaging with policy makers, it delivers a range of support services to help charities work more effectively, and it is highly-regarded for its research into the size, scale, opportunities and challenges facing the voluntary and community sector. The Trust has funded NCVO several times to date through its Main Grants and Working with Londoners programmes, most commonly for projects supporting the charity sector across London.
2. Charities Evaluation Services (CES) is a smaller, specialist infrastructure organisation providing support to the voluntary sector on impact measurement and quality assurance. Established in 1990, CES is best known for its introductory guides to monitoring and evaluation, its training courses, and PQASSO, a quality assurance tool which is the most widely used by the voluntary sector. Over the years, the Trust has funded CES to deliver subsidised monitoring and evaluation training to City Bridge grant-holders as part of its efforts to improve the quality of impact reporting in the charity sector.
3. In September 2014, NCVO and CES announced that they were working towards completion of a legal merger by the end of 2014, and that full integration of the two organisations would be addressed during 2015.

Rationale and Timetable for Merger

4. Whilst CES receives funding in the form of grants from Trusts, Foundations, and statutory sources, a significant proportion of its income is generated from sales of training, publications and consultancy, largely from the voluntary and community sector.
5. Members will be aware that funding for infrastructure support services has been under pressure for some time. Simultaneously, and arising from the income squeeze which many voluntary and community organisations are facing, charity-sector budgets for training and consultancy have been cut back. Whilst CES remains a financially viable organisation these trends have nonetheless challenged its margins. CES and NCVO began merger discussions in early 2014, driven by five specific factors:
 - i. There is a close strategic fit between the two organisations. CES is the UK's leading provider of support and advice on quality and evaluation systems for the voluntary sector, and NCVO is the biggest provider of support to voluntary organisations in England.
 - ii. Both organisations are driven by a commitment to strengthen and improve the voluntary sector and have a history of collaboration on research, policy influencing and delivery of support services.
 - iii. In the current climate, it is ever more important for voluntary sector organisations to be able to measure and demonstrate impact. A strong and unified infrastructure service can facilitate this.
 - iv. Merger enables both organisations to strengthen their efficiency and financial sustainability and reduce duplication of services.
 - v. There are business opportunities that neither organization can maximize alone, particularly further development of the quality assurance tool, PQASSO.
6. Following a preliminary exploration of strategic fit, detailed talks between NCVO and CES began in July 2014. The organisations announced their merger in October 2014.

Post-Merger Priorities

7. Although both organisations have a history of collaboration and share many of the same values, a merger can be unsettling for staff and does involve additional work to ensure successful completion of the process.
8. In 2015, the newly merged NCVO/CES (hereafter referred to as NCVO) will work to:
 - i. Integrate customer databases, websites, and financial systems

- ii. Promote CES products and services to a wider audience of charity sector organisations
 - iii. Develop a shared sense of identity between staff in order to avoid the loss of key personnel
 - iv. Communicate the merger to key stakeholders including trustees, members, funders, contract clients, service users and partners
9. NCVO has approached City Bridge Trust for support towards half the costs of these post-merger activities, and the charity will provide the other half from its own resources.

Financial observations

10. As of 18th February NCVO had confirmed £10.2m (90%) of its forecast income for 2014-15 and £6.7m (70%) of its forecast income for 2015-16. As a result of the merger in the current year 2014/15 where CES becomes part of NCVO and is included in the table below, NCVO anticipates a 17.7% increase in income from 2013-14 to 2014-15. For 2015-16, NCVO has not assumed that CES' earning potential will remain at its current rate and has budgeted on a prudent basis including only those grants and fees that it believes the organisation has a high probability of winning.
12. NCVO's reserves policy was reviewed in March 2014 and, based on their risk analysis, trustees agreed that a readily realisable reserve of £2m was necessary. This level of available reserves equates to 2.7 months' worth of total expenditure. As shown in the table below, actual available reserves held at the end of March 2014 were £2,678k, which is £678k ahead of the target holding. At the end of 2015/16, available reserves are forecast to be £812k ahead of target.

Year end at 31 March	2013/14 Audited Accounts	2014/15 Current Year Budget	2015/16 Forecast
Income and Expenditure	£	£	£
Income	9,588,000	11,281,000	9,579,000
Expenditure	8,868,000	11,182,000	9,411,000
Unrestricted Funds Surplus / (Deficit)	629,000	84,000	168,000
Restricted Funds Surplus / (Deficit)	91,000	15,000	0
Total Surplus / (Deficit)	720,000	99,000	168,000
Surplus / (Deficit) as a % of turnover	7.5%	0.9%	1.8%
Cost of Generating funds (% of income)	993,000 (10.4%)	1,223,000 (10.8%)	1,024,000 (10.7%)
Free unrestricted reserves			
Unrestricted free reserves held at Year End	2,678,000	2,762,000	2,930,000
How many months' worth of expenditure	3.6	3.0	3.7
Reserves Policy target	2,000,000	2,515,950	2,117,475
How many months' worth of expenditure	2.7	2.7	2.7
Free reserves over/(under) target	678,000	246,050	812,525

Conclusion

13. NCVO and CES are well-regarded infrastructure organisations, offering valued support to the voluntary sector and representing the sector's interests with policy makers. At a time when charities are under ever more pressure to demonstrate the impact of their work, low-cost and highly-skilled training and consultancy of the type offered by CES is of particular importance.
14. It is difficult for CES to continue to operate as a stand-alone organisation and the merger with NCVO offers both charities the opportunity to combine their respective strengths. NCVO has a large membership and effective marketing capability which it will use to ensure that CES services are well promoted.
15. The proposed strategic initiative will help ensure a successful merger between these charities and would demonstrate your continued support for work that promotes improved impact assessment and quality assurance in London's voluntary sector.
16. Total costs of the merger are expected to be £100,000. Both organisations have national remits but a significant proportion of the support they offer is to London-focused charities and consequently a £50,000 award is advised.

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