28 Bedford Square
London WC1B 3JS
Telephone: +44 (0)20 7631 0566
Fax: +44 (0)20 7323 4877
www.nuffieldfoundation.org
Registered Charity 206601

Giving Team (giving@cabinet-office.x.gsi.gov.uk)
Office for Civil Society
Cabinet Office
Admiralty Arch
London SW1A 2WH

9th March 2011

For the attention of the Giving Team, Office for Civil Society

Response to the Giving Green paper by The Nuffield Foundation

I am responding on behalf of the Trustees of The Nuffield Foundation to your consultation in relation to the Giving Green Paper.

The Nuffield Foundation is an endowed Foundation, established in 1943 by the motor car manufacturer Lord Nuffield. Our mission is to fund research that will improve social well being. The current value of the Foundation's assets is £240m.

Our comments relate to the suggestion that foundations should make a minimum annual payout (p.18). In our view a mandatory distribution rate:

- would result in less effective grant making;
- would not increase the money available for disbursement to the charitable sector, and indeed would over time lead to a decrease;
- would be a disincentive to the creation of new foundations;
- is unnecessary.

Effective grant making. For Foundations such as Nuffield it is important to retain the flexibility to adjust funding from one year to another. This might be for a number of reasons. We could, for example, want to launch a special initiative, or to respond to times of particular need.

To give an example, in 2007 we made grants of £2.5m to fund five centres of excellence in the field of rheumatism research. Our normal level of expenditure in this area is about £0.5m pa. Each grant covered five years' expenditure so in the following four years reported expenditure was nil. Had we been required to meet a mandatory payout we would have made annual grants, which would have meant that the beneficiaries could not plan with the confidence that a long term commitment would have provided.

Flexibility is also necessary to cope with changing economic circumstances. Like most foundations Nuffield sees itself as a long term funder and Trustees need to be allowed to retain their discretion to reduce their distribution rate if they find that their endowment is failing to keep pace with inflation.

Money available for disbursement. Flexibility notwithstanding we, like most Foundations, rely on stable budgets to support our activities and those of our grant holders. If we were

required to adopt a distribution rate linked to market values (i.e. the US model) we would need to change our investment strategy to one that would give more stable returns. This would mean increasing the amount we hold in bonds, (which give a lower but stable return) at the expense of equities (which are more volatile but give higher long term returns). This would inevitably reduce the amount we could afford to distribute our beneficiaries, perhaps by as much as a quarter.[1]

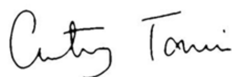
Our long term perspective allows us to ride the volatility of markets and maintain a steady rate of expenditure. During the recent financial crisis we maintained level expenditure budgets despite the fact that the market value of our endowment dropped from £270m (in May 2007) to £160m (in November 2008)[2]. Under a mandatory payout policy that would not have been the outcome. We would almost certainly have reduced expenditure as market values dropped, perversely at a time of great need.

The Green Paper suggests that a fixed payout might "result in extra income for charities". We think this is unlikely. Indeed, we believe that forcing long term funders to be sensitive to short term stock market volatility would have the reverse effect. This is another of the perverse consequences that the Paper seeks to examine.

Disincentives to new philanthropy. The imposition of a mandatory payout rate could not be anything other than a disincentive to the creation of new foundations. A philanthropist receives the same tax benefits giving his or her money privately as he or she will by creating a charitable foundation. Imposing additional regulatory burdens on such vehicles makes this sort of public philanthropy less, not more, attractive for wealthy donors. The independence of foundations is an important part of their attraction to settlors.

Is it necessary? As a Foundation we aim to spend as much as we can consistent with preservation of our endowment in real terms. Trustees need the flexibility to respond to different economic circumstances but equally under present rules they must be prepared to justify their policy for retention of assets. We do not believe that foundations should accumulate assets unless it is for a clear charitable purpose (for example to fund a capital project). However the Charity Commission already has ample powers to ensure that foundations do not hoard assets that they should be spending.

Yours faithfully,



Anthony Tomei
Director

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[1] A portfolio of 90% in equities and 10% in bonds should provide a long term return of 7.6% (90% x 8% equity return, plus 10% x 4% bond return). A portfolio equally weighted between bonds and equities should provide a long term return of 6% (50% x 8% equity return, plus 50% x 4% bond return).

[2] In 2010 we reported expenditure of £12m against an endowment value at the beginning of the year of £206m (5.8%); 2009: £11m against £192m (5.7%); 2008: £12m against £254m (4.7%).