Due diligence – options for piloting a shared approach in London

June 2023

What’s the problem?

It costs civil society in the region of £900m per year to apply for funding. This new figure comes from research by [Giving Evidence](https://giving-evidence.com/insights/) for the [Law Family Commission on Civil Society](https://civilsocietycommission.org/publication/giving-pains-the-cost-of-grant-making/). The Commission concludes that funders must take steps to reduce the costs of applying to them, alongside working in collaboration to tackle duplication and complexity.

Background

London Funders strategy for 2018-21 identified an ambition to strengthen collaboration between funders through (amongst other things, including shared application forms) a shared approach to due diligence. This had been generated by members’ experience of collaborating in response to the Grenfell Tower Fire in 2017. The willingness to use the due diligence that has already been carried out by other funders was tested at scale during the London Community Response in 2020, where members were confident and able to skip this stage and make their grant decisions more quickly. An appetite to develop this approach further outside of crisis is shared between a number of members.

In 2022, exploratory work was convened by London Funders, supported by staff from Bridge Houses Estates/[City Bridge Trust](https://www.citybridgetrust.org.uk/), and in parallel to developmental work on the [Propel](London%20Funders%20strategy%20for%202018-21%20identified%20an%20ambition%20to%20strengthen%20collaboration%20between%20funders%20through%20(amongst%20other%20things)%20a%20shared%20approach%20to%20due%20diligence.%20This%20had%20been%20generated%20by%20members’%20experience%20of%20collaborating%20in%20response%20to%20the%20Grenfell%20Tower%20Fire.%20The%20willingness%20to%20use%20the%20due%20diligence%20that%20has%20already%20been%20carried%20out%20by%20other%20funders%20was%20tested%20at%20scale%20during%20the%20London%20Community%20Response%20in%202020,%20where%20members%20were%20confident%20and%20able%20to%20skip%20this%20stage%20and%20make%20their%20grant%20decisions%20more%20quickly.%20An%20appetite%20to%20develop%20this%20approach%20further%20outside%20of%20crisis%20is%20shared%20between%20a%20number%20of%20members.) programme. During the year, the concept of sharing due diligence has been developed and refined, with the aim of piloting in 2023. Key activity to date has included engagement with funders across London and data gathering exercises:

* Due diligence roundtables: three meetings held during 2022, attended by representatives from 21 funders of all sizes, including four local authorities, the GLA and London Councils, to discuss approaches, opportunities and challenges around sharing due diligence
* Survey of funders in London: shared with the London Funders network, completed and analysed to inform final roundtable meeting of the year and next steps
* Plans to trial collection of shared due diligence data in the first round of Propel

In early 2023, we have been developing this options proposal paper, which sets out *why* and *how* we could develop a shared approach.

Shared principles to underpin a shared approach

The approach is being developed on a foundation of principles agreed by the roundtable group and based on the IVAR open and trusting principles:

* Don’t waste time: *consider approach if documents are already available in the public domain*
* Be trustworthy: *both for other funders (i.e. trusting each other’s processes to be consistent), and for potential applicants who share their information with us*
* Communicate with purpose*: acknowledging that the process is stressful for applicants and there may be increased concerns from any ‘sharing approach’: need to be clear about what we are doing and why. This is also about ‘being transparent’*
* Look for positives: *screening in not out, looking for strengths not weaknesses, using an asset-based approach*
* Accept risk: *but acknowledging that different funders have different tolerance for risk in decision making*

The overall aim of the project is to make things easier and not more difficult for applicants, especially for marginalised groups that find it hard to secure funding. Funders agree that the potential benefits of a shared approach would be to develop trust and transparency between funders and civil society organisations, save time and costs for both applicants and grant managers, raise knowledge about due diligence requirements in civil society and create an asset based funding approach across London, seeking to rule organisations in rather than out.

Note that discussions indicate that any shared approach would need to initially be focussed on funders based in London or London-specific programmes to reduce complexity (e.g. regulation of international grants) and because of the existing networks that exist in this specific area already.

Definitions

Due diligence is part of the work that all funders do to provide their Trustees with assurance that they are spending their money in line with their charitable objects.

Due diligence is focussed on risk identification, with key outcomes being to:

* Ensure that funds are not given to those who are seeking to abuse the charity, and
* confirm that beneficiaries have met minimum requirements to demonstrate that they will be able to spend the money as intended

The initial roundtable meetings helped identify that, in assessing funding requests, funders carry out a range of processes and analysis that can be grouped under the following headings

1. Eligibility checks – specific to each funder and their own funding criteria – limited scope for sharing
2. Due diligence – risk focussed checks to confirm that there are no reasons to rule an organisation out/rule an organisation in for funding – analysis may be similar although decisions differ based on funders’ appetite for risk
3. Grant assessment – subjective and specific for each funder, dependent on the individual organisations being considered and the funding programme

The dividing lines between the three areas noted above are not always clear, and not all funders would classify the same activities and processes during funding assessments under the same headings.

Key survey and discussion points

However, it became clear from continued discussions and the results of the survey that there are areas of consistency that could form the basis of a shared approach to due diligence. In particular, the following key themes emerged:

* The type of information requested for financial due diligence processes tends to be consistent between funders, although the format or level of analysis applied may differ. This nonetheless offers a good starting point for sharing
* Funders tend to differentiate approaches based on the size of the funding application – more work is done on larger applications
* There is more consistency on the approach for reviewing large funding applications (compared to smaller grants) although definitions of size will need careful nuance

It was therefore decided that, based on discussion and survey results with the greatest evidence of existing overlap between funders, the focus of work should be on financial due diligence (rather than due diligence more broadly), encompassing:

* information requested, including format and level of detail; and
* key financial analysis and calculations applied by funders to understand the information provided

A first pilot?

We had hoped to test this approach during the first round of Propel. All grant assessors were asked to capture on the shared funder platform a summary analysis of key financial due diligence metrics with information but no conclusions around impact on decisions to fund. This would have provided evidence of how factual comments might be recorded by funders, and contributed to identifying trends in the financial information available and in the consistency of key information that is relevant to understanding the financial position of organisations. However, due to the volume of applications received and assessed for Propel, this was not possible.

This tells us something useful in itself – that even for funders keen to develop more collaborative ways of working, the potential can be trumped by the practicalities. However, with collaborative and online approaches becoming more established across London’s funders, we think there is more opportunity, not less, to progress.

Options for piloting

Based on the work to date there are a number of options which require varying degrees of commitment and engagement from London’s funders. It is proposed that pilots would include activity at both borough and regional level:

1. **Agree a single minimum set of financial information for all funding applicants**

* Differentiate between requests for small and large grants
* Remove use of a variety of tailored tables/templates to be completed by applicants when applying to different funders: should reduce time burden of making multiple funding applications
* Increase consistency in the information considered and focus on most relevant issues across funders
* No direct sharing of analysis or information required under this approach, although the same information would be provided to each funder
* Option for funders to request additional ‘add ons’ as required under local due diligence arrangements e.g. credit checks – whilst asking funders to remain committed to the principles of the project of maximising alignment and reducing the burden on applicants
* Initial focus on financial matters could be expanded to an agreed checklist of other key documents e.g. safeguarding policy and governing document, ensuring only what is *required*

1. **Develop a shared platform where this information could be uploaded and password-protected, with password to share with funders if applications are made**
   * Control remains with the applicant over who sees their information
   * One upload process to reduce time burden
   * Consideration required of how often information needs to be ‘refreshed’
   * Could initially focus on financial documents and expand in future
2. **The platform could be used to record factual notes on the key figures and financial information (rather than comment on the implications of these figures) by one funder which others could use as basis of their due diligence or rely on for their own due diligence**
   * As in the Propel trial, would focus on highlighting key metrics/ completing an analysis table of key information
   * Reduce duplication of work between funders if all are calculating the same ratios or metrics
   * Agreed focus on key/relevant information
   * No judgement to be provided – leave it to individual funders to assess risk and ensure nobody is ruled out by this process
3. **Without a platform, there could still be a sharing of the analysis by funders**

* Consistency of approach
* Reduce repeated questions
* Focus on relevant matters and help some funders reduce work/focus only on relevant matters
* Example basic analysis at **Appendix 1**

All of the options above are considered to be beneficial to both funders and the sector. The use of a platform would increase the level of resources required from funders at the start of the project but is likely to deliver higher impact for both funders and civil society and reflect better use of technology to support proportionate and efficient funding approaches, leading to reduced requirements over time. It would also have the benefit of supporting the overall aim to reduce the burden of resources on funded organisations.

A local pilot may be more appropriate for use of a platform, but getting different funders to sign up to a ‘charter’ of proportionate financial due diligence approaches (information requests and possibly basic analysis approach) could be done on a bit-by-bit basis without a trial.

Next steps

London Funders will reopen the [survey of funders](https://www.surveymonkey.co.uk/r/37RTHF7) to build more data and focus on key relevant information, especially ‘What’ do funders ask for, and ‘How’ do they review it.

Alongside this, London Funders will engage members and Trustees to assess appetite for participating in, developing and resourcing the various options above.

If you would like to be involved in conversations, please get in touch with [Geraldine](mailto:Geraldine.blake@londonfunders.org.uk).

A timetable for the implementation of pilots, including early engagement with civil society groups is at **Appendix 2**.

Conclusion

There is clearly scope for developing a shared approach to due diligence in London, with some options for improved consistency and focus of financial due diligence with limited financial resources required. More comprehensive sharing options would require greater resource. Every journey starts with small steps, and each of those steps has the potential to address part of the currently huge costs for applicants of applying for funding, alongside the duplication of effort in all of our organisations.

Appendix 1: proposed analysis for financial due diligence

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Appendix 2: Timetable

April-June 2023

* initial engagement with London Funders Trustees & direction of travel
* blog on proposals and call for engagement
* relaunch of survey & blog update on London Funders

July 2023

* collect survey results and analyse
* dinner event for senior leaders of potential pilot partners

Sept 2023

* review of pilot options
* further roundtable with members

Oct- Dec 2023

* development of pilot/s of a shared due diligence approach
* engagement with civil society organisations
* working group development of sharing principles charter

Jan – Dec 2024

* 12 month trial of pilot approach

Jan – June 2025

* review outcomes of pilot/s
* undertake technical development of shared platform
* complete and issue draft charter for funders to sign up to