

INTRODUCTION TO GRANT-MAKING

FIRM FOUNDATIONS SETTING YOUR GRANT-MAKING STRATEGY



SARAH RIDLEY



CONTENTS



Introduction	04
Should we set up a foundation?	06
Why should we develop a strategy?	08
Getting the strategy setting process right	10
What are the ground rules by which we must operate?	12
What resources are available to us?	14
What do we want to achieve through our grant-making?	16
Shall we focus our grant-making in order to achieve our goals?	18
What is the best funding model to achieve our objectives?	22

What criteria will we use to decide which grants to award?	27
What are the implications of our grant-making strategy for the way that we operate?	28
Rolling out our grant-making strategy	30
When and how might we establish/review our strategy?	31
How will we judge success?	32
Conclusion	33
Bibliography	34

INTRODUCTION

Introduction to grant-making is a series of four publications from the Association of Charitable Foundations (ACF) designed to introduce you to the grant-making cycle.

Foundations are set up for many different reasons and to support a wide range of causes. Some are run entirely by volunteer trustees, others have one or two members of staff and some have large teams to help trustees make decisions about how to use their funding. Some work in a small local area, while others support organisations all over the UK and internationally.

By carefully thinking through what your foundation is trying to achieve with its grant-making, and doing so before beginning to design the systems and processes by which grants will be awarded, you will make life easier for yourself and your applicants.

Based on the practical experience of ACF's diverse membership, we hope that these guidelines and ideas will be particularly helpful to foundations with few or no paid staff, brand new foundations, or people new to the grant-making process.

We also hope they will be of interest to any independent grant-maker thinking about the nuts and bolts of its funding practice and how this might be developed and improved.

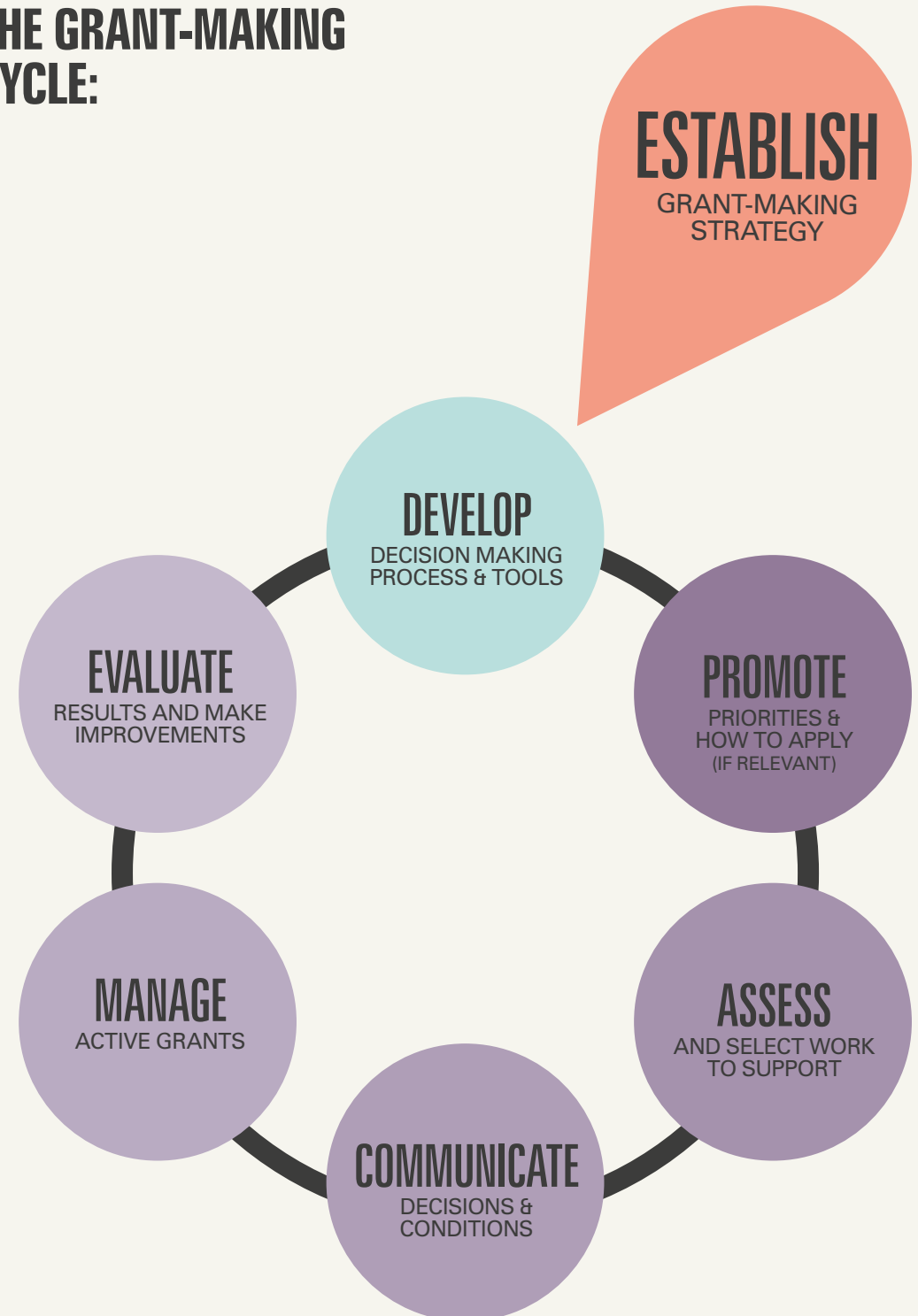
Our focus is on grant-makers who support the work of other UK-based organisations, rather than foundations focusing on individuals or who have their own operational programmes. But we hope all will find something here that is of interest and relevance to their work.

This publication, *Firm Foundations: Setting your grant-making strategy*, covers one stage in the grant-making cycle. Here we look at how to create a grant-making strategy that is right for the particular circumstances of your foundation, one that makes the best possible use of your time and resources, as well as those of organisations that seek grants from you. This publication focuses on grant-making, additional support accompanying grants ('grants plus'), and spending rates, but these are not the only factors to consider in a foundation's strategy. Other considerations include engaging all of our assets in pursuit of our mission. More information on how foundations use their assets can be found in ACF's publication *Intentional Investing*.

TERMINOLOGY

The terms trust and foundation are used interchangeably in this publication to describe charities with private, independent and sustainable income that fulfil their charitable goals mainly by funding and supporting other organisations and individuals.

THE GRANT-MAKING CYCLE:



SHOULD WE SET UP A FOUNDATION?

In this publication we assume that you are involved with an existing foundation. However if you are at the beginning of your grant-making journey and are considering establishing a foundation, the first strategic question to ask is whether setting up a formal legal structure is the most appropriate mechanism through which to deliver your goals.

A foundation provides independence and tax planning benefits, as well as the ability to use the foundation's reputation and influence to help achieve charitable goals.

However, before establishing a foundation, it is essential to seek good professional advice on your particular circumstances. Managing a foundation well can require a significant investment of time, so it is important that you are clear about what you are seeking to achieve and to understand the legal obligations and administrative implications of establishing a foundation before doing so.

In the UK, three regulators oversee the work of charities, including that of trusts and foundations. The Charity Commission for England and Wales regulates work in those two nations, while the Office of the Scottish Charity Regulator (OSCR) and the Charity Commission for Northern Ireland (CCNI) hold the same responsibilities for those nations respectively. Trusts and foundations are governed by the same regulations that apply to other charities. Each regulator provides guidance about the legal obligations and administrative implications of this status.

For example, the Charity Commission for England and Wales has provided the following guidance in its publication *How to set up a charity* (CC21a):

- A charity must have exclusively charitable aims.
- Strict rules apply to trading by charities. Guidance on this can be found in *Trustees, trading and tax* (CC35) on the Charity Commission website.
- Trustees are not allowed to receive financial benefits from the charity which they manage unless this is specifically authorised by the governing document of the charity or by the regulator. Financial benefits include salaries, services, or the awarding of business contracts to a trustee's own business from the charity. Benefits which are incompatible with the establishment of an organisation for exclusively charitable aims cannot be authorised at all (further guidance can be found in *Trustee expenses and payments* (CC11)). Trustees need to avoid any situation where their personal interests conflict with their duties as trustees.

- Charity law imposes certain financial reporting obligations; these vary with the size of the charity. Further details may be found in the Charity Commission guidance *Charity Reporting and Accounting: The essentials* (CC15b).
- There are limits to the extent of political or campaigning activities which a charity can take on – the Charity Commission has published guidelines on this in *Campaigning and political activity guidance for charities* (CC9).

FIND OUT MORE ...

Full details of what trustees and staff need to know about setting up a charitable trust are available on the regulators' websites.

WHY SHOULD WE DEVELOP A STRATEGY?

Few things are more rewarding than giving money to causes and activities that will make the world a better place.

Many of the individual philanthropists, trustees and staff of foundations with whom ACF works have told us that they began their philanthropic journey inspired by the notion that they could use their finances to support worthy causes. Indeed, most funders who are new to grant-making derive great pleasure from their ability to make financial contributions to a wide variety of charities and organisations.

However, many have also confided that after making grants for a while they grew uncertain about the impact of their donations. These funders already recognised that their contributions, no matter what their scale, could not solve all of the world's problems. Nevertheless, they had niggling doubts about what their contributions were actually achieving. Some were concerned that they were spreading their money too thinly, others were uncertain about the difference they were making or lacked a sense of direction. Having received more applications than they could support, these grant-makers found themselves faced with seemingly impossible decisions about the many worthwhile applications they received.

Establishing a strategy for your foundation helps you negotiate these uncertainties. It encourages you to challenge your thinking, provides an opportunity to reflect on all of the options that are available to foundations and helps you to define your approach. It provides an opportunity to discuss and debate key questions about what you do and how you do it. It helps you to identify the outcomes you hope to achieve and to decide your priorities. Importantly, it enables you to articulate to yourself and others the kind of foundation you want to be, where you want to focus and how you will judge your success.

Internally, it provides a clear sense of direction for all staff and trustees. Externally, it serves as a guide to potential applicants, helping them to decide whether they should spend their time and scarce resources applying to your foundation.

Different strategies will lead to different funding models. Some foundations develop strategies that include tightly defined objectives and impacts that they seek to deliver, while others choose to support the vision of applicant organisations by providing core funding through an unrestricted grant; some are highly risk-averse whilst others see their role as providing support to innovative organisations and projects which other funders may view as risky; some are open to all applications and others operate an invitation-only approach.

We have included a series of questions in each section of this publication that you might discuss with trustees, staff and other stakeholders to help you formulate your strategy. There are no right answers to these questions, just well-considered choices that are right for the team of trustees and staff of your individual foundation at a particular time.



GETTING THE STRATEGY SETTING PROCESS RIGHT

A strategy setting process is likely to include reflection, research, good humoured discussion and debate. The process need not be difficult or expensive. However, it will require time and focus.

A well thought through strategic planning process will enable you to examine key strategic questions, consider a variety of options, evaluate their relative merits and decide on your strategy. Importantly, it will encourage you to describe clearly your objectives, style and approach to the potential grantee organisations who will ultimately deliver the goals of your foundation.

WHO SHOULD BE INVOLVED?

Trustees hold ultimate responsibility for the direction of the foundation, and so establishing its strategy is a key governance issue that must be agreed by the trustees. But the strategy setting process should not be the domain of trustees alone. To ensure that you understand how the work of your foundation is viewed and valued by others, it is helpful if you draw on the experience of a range of internal and external stakeholders.

If your foundation employs staff you will want to glean the insights of employees who have developed their understanding of the organisation's role and impact through their work with applicants and grantees. Current and potential beneficiaries will also have an important perspective on the unique role of your foundation, as well as how it operates; their insights and involvement in the process should be encouraged. Some beneficiaries may prefer to offer feedback anonymously, such as through a survey. Where possible it is useful to conduct face to face interviews with individual trustees and other key internal stakeholders. Foundations find that they are able to gather the input of a wide range of perspectives in a variety of ways, for example, through one to one interviews, focus group meetings or through carefully crafted surveys.

The process of developing a new or renewed strategy may be something that trustees and staff are eager to tackle together.

However, it is likely that some tough decisions will need to be made about what the foundation will and will not support, and this may involve some individuals 'giving up' causes and approaches about which they feel particularly passionate. Negotiating these issues can lead to tension and conflict within a team and it is important to avoid the pitfall of one person's agenda dominating the debate, so it is often useful to call in an external facilitator who can help the group to arrive at shared decisions. You may also find that using a neutral chair for the strategic review will enable all board members to participate actively in the discussion, freed from the responsibility of having to chair the conversation themselves.

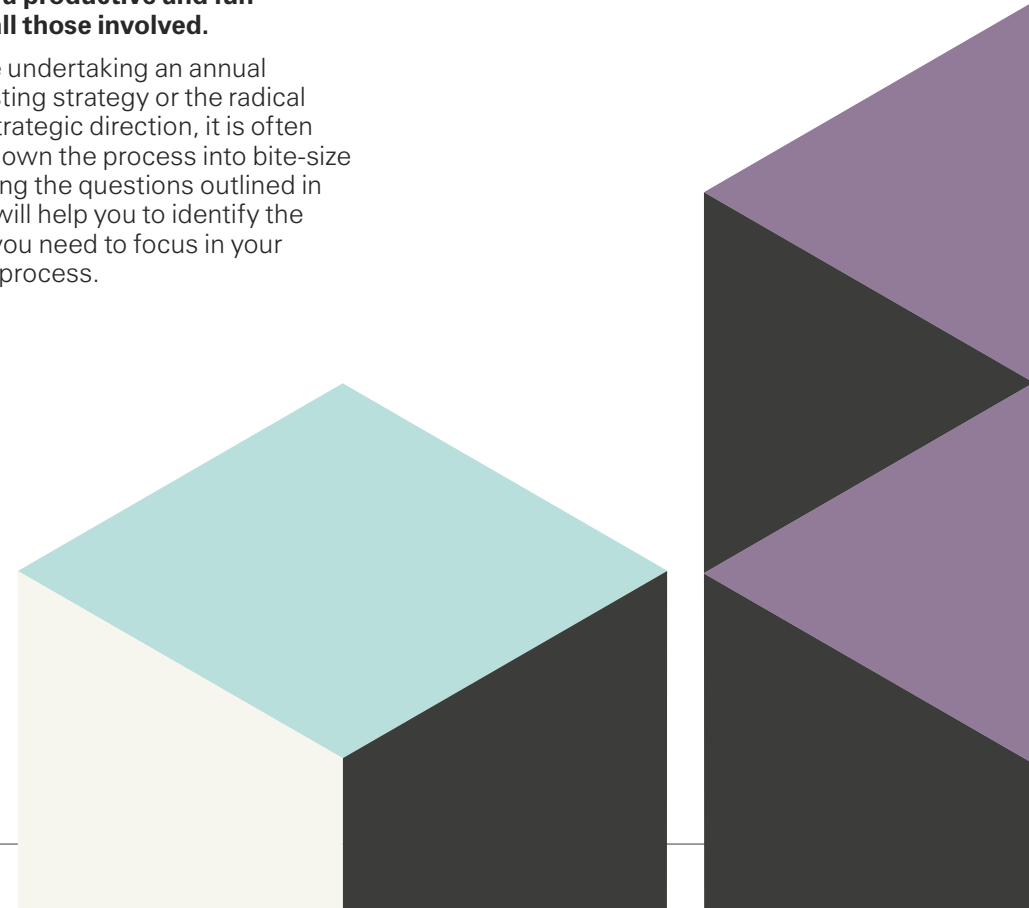
HOW LONG WILL IT TAKE?

Developing a clear and effective strategy can be time consuming. Careful planning of the strategy setting process will help ensure that it is a productive and fun experience for all those involved.

Whether you are undertaking an annual review of an existing strategy or the radical rethink of your strategic direction, it is often useful to break down the process into bite-size chunks. Reviewing the questions outlined in this publication will help you to identify the areas on which you need to focus in your strategy setting process.

Many foundations find that in order to effectively implement their new strategy they also need to develop a new operational plan that complements the strategic plan. Several foundations have reported that they found it helpful to temporarily close their grant-making for a short period in order to devote adequate staff and trustee time to perfecting the strategy and its subsequent implementation. However, do be mindful of the impact on beneficiaries if considering this.

A clearly thought through timetable will help keep the planning process on track and ensure that all of the activities are completed in the time available. Making certain that everyone involved in the strategy setting process is aware of the timetable and is committed to meeting the deadlines is key to the ultimate success of the process.



WHAT ARE THE GROUND RULES BY WHICH WE MUST OPERATE?

Before beginning to develop a grant-making strategy, it is important to understand how the strategy aligns with charity law and with the foundation's governing documents.

CHARITY LAW

A grant-making charity can only make grants that will **further its charitable purposes for public benefit**. Whether you are setting up a foundation, or are a trustee of an existing foundation, you should be able to outline the public benefit the charity was established to deliver:

- What the charity is set up to achieve – this is known as the charity's **'purpose'**
- How the charity's purpose is beneficial – this is the **'benefit'** aspect of public benefit
- How the charity's purpose benefits the public or a sufficient section of the public – this is the **'public'** aspect of public benefit
- How the trustees will carry out the charity's purpose for the public benefit – this is what is known as **'furthering'** the charity's purpose for the public benefit.

GOVERNING DOCUMENTS

The governing documents of foundations differ depending on their exact legal form.

- The governing document of a charitable trust is its **Trust Deed**.
- The governing documents of a charitable company are its **Memorandum and Articles of Association**
- The governing document of a charitable incorporated organisation is its **foundation constitution** (if the only members of the CIO are its trustees) or **association constitution** (if it has a wider voting membership).

'Objects' is the term used to describe and identify the purpose for which a charity has been set up as outlined in its governing documents.

The trustees, and staff if there are any, need to be clear what the foundation is permitted to do under the organisation's existing governing documents. For example, are you free to make grants for charitable purposes to organisations that are not registered as charities? Are there geographical or thematic restrictions?

It is helpful to note that as part of your strategy you are able to establish priorities that focus on a subset of the foundation's wider objects. However, you cannot permanently exclude work that falls within the charity's objects and focus only on a subset.

Conversely, some foundations find that their objects were drawn too narrowly and that there are restrictions on widening them. If the trustees consider it necessary, it is possible to make a formal request to your charity regulator to change a charity's objects.

It is also important to remember that once a gift is given to a foundation, subject to the conditions laid out in the charity's governing documents, it is up to the trustees as a whole to decide how the gift is used. This is true even when a foundation was founded by a single individual or company. The primary responsibility of trustees and staff of charitable foundations is to ensure that you fulfil your charitable objects. So you may choose to pay attention to the history of the foundation if you wish, but you are under no obligation to do so if this is not specified in your governing documents. This gives foundations much more freedom to develop their strategy than many imagine.

Given the widely held misconception that foundations must adhere to the values of their founders, it is worth addressing this issue head on by discussing:

- Beyond the objects set out in our governing documents, is there a history of our foundation that we want to preserve?
- How important is this history to our ability to achieve our charitable objects and therefore for our future work?



WHAT RESOURCES ARE AVAILABLE TO US?



When developing the foundation's strategy, consideration should be given to all of the resources that are available to the charity: including financial, intellectual and reputational. While most foundations provide grants, doing so is but one way to deliver an organisation's charitable purpose.

HOW MUCH ARE WE ABLE TO SPEND?

The financial resources that are available to a foundation and the timeframe over which they will be spent will shape the grant-making strategy that is adopted.

It is helpful to clarify the following issues:

- What are the total assets of the foundation? How liquid are they?
- What restrictions are attached to them?
- Are the assets a fixed amount or are they likely to grow due to investment income, additional donations or capital appreciation?
- How secure is the income?
- For how long must we/do we want to exist?
- What volume of funds is it possible for us to give each year?

This final question deserves careful thought and the ACF publication *For Good and Not for Keeps: How long-term charity investors approach spending on their charitable aims* provides invaluable insights into the essential question: 'How much are we able to spend?'

Foundations can also consider their investments in light of their overall strategy. While this publication focuses on grant-making, ACF's publication *Intentional Investing* contains advice on different investment approaches that can be used to further your charitable objects.

WHAT OTHER RESOURCES DO WE HAVE TO HELP US ACHIEVE OUR GOALS?

Foundations should consider the full range of resources that they have at their disposal that could be applied to achieving charitable objects.

While the financial resources of the foundation may be the primary focus of your initial thinking, it is important not to ignore the other resources that you have and which you may choose to use to achieve your charitable objectives. These include the skills of the board and staff, along with the influence that your foundation may be able to bring.

Not all foundations decide that they want to take on roles above and beyond grant-making, but it is useful to examine the full range of options that are open to you as an independent grant-maker and to consider whether additional approaches might enable you to expand the positive impact of your grant-making.

Some foundations use their skills, networks and influence to:

- disseminate learnings from the work that they have supported
- leverage additional financial support for a particular concern
- bring key players together to drive change
- provide business and financial advice or consultancy support
- influence policy, legislation and change public opinion.

Important questions to consider include:

- What skills do we have that we might use to make a positive contribution?
- What influence do we/could we have?
- What networks do we have/could we establish?
- Can we leverage our giving with the financial resources and expertise of other funders?
- What might we be able to achieve using the full range of resources available to us?

WHAT DO WE WANT TO ACHIEVE THROUGH OUR GRANT-MAKING?

Having identified the parameters within which a foundation operates and considered the full range of resources available, decisions must be made about what the foundation seeks to achieve through its giving.

Fundamental to the creation of your grant-making strategy is deciding what you want to achieve with your grant-making. At the end of the strategy setting process you should be able to answer the following questions:

- Who or what are we seeking to benefit (target population)?
- What charitable benefits are we seeking to achieve (results)?
- By when will we achieve them (timeframe)?
- How will we and others make this happen (activities, strategies, resources)?
- Where and under what circumstances will we do our work (context)?
- Why do we believe our approach will achieve our goals (assumptions)?
- How will we know that we are being successful (evaluation)?

For some foundations making these strategic decisions may be straightforward because a clear vision was set out by their founders that is articulated in the charity's governing document. But for many foundations with wide charitable objects, working out if and where to focus can be a daunting task.

Concentrating on a few key factors can help you narrow down your choices:

- Are there topics about which we are passionate?
- Are we interested in a particular group of people, community, region or country?
- Do we want to provide support for vital ongoing work, such as hospice care or education?
- Do we want to achieve specific changes in the world, such as a cure for cancer?
- Are we willing to support advocacy work, the outcomes of which may be harder to quantify?
- Do we want to go it alone or could we collaborate with others?

As you reflect on these questions it may be helpful to be honest with yourself about how much you know about the issues in the areas that you seek to support, particularly about what interventions are likely to be useful and effective. Thinking about these issues may lead you to commission some research and to seek the advice of others with specific expertise in your areas of interest.

ARE THERE OTHER BENEFITS THAT ARE OF INTEREST TO US?

In addition to charitable benefits, foundations may have other benefits they want to achieve through their grant giving.

The purpose of a foundation is to deliver its charitable objects for the public benefit. But it is important to acknowledge if, after having achieved those goals, there are other benefits that matter to you. For example, do you wish to receive public recognition for your donations? Do you hope that your grant-making will help draw attention to an issue or raise the foundation's profile? Teasing out any additional objectives that you would like to achieve is an important activity. As you develop your strategy it is important to prioritise your objectives and be sure that you are balancing those objectives that will achieve the greatest charitable benefit against those which may deliver other advantages.



SHALL WE FOCUS OUR GRANT-MAKING IN ORDER TO ACHIEVE OUR GOALS?

Having identified what it is hoped the foundation will achieve through its grant-making, the next step is to decide how best to target grant-making in order to achieve those goals.

You may decide that you want to make contributions to a large variety of charitable concerns and that it is appropriate for you to adopt an open application strategy that encourages proposals for funding from a wide range of causes and approaches. However, many foundations find that they are overwhelmed with more applications than they can possibly fund and therefore choose to provide a degree of focus to what they will support.

No matter how loosely or tightly you choose to define your funding guidelines, it is important to think about your strategy in the context of other work that is taking place in your areas of interest and of other support that is available to charitable causes. Ultimately, you may find it instructive to consider where your contributions will be most useful in achieving your objectives and whether you want to narrow your focus.

HOW BEST TO TARGET

It may be helpful to discuss the following issues:

- Which organisations are delivering work on the ground that seeks to achieve our chosen objectives?
- What are the areas of greatest need in this area?
- It is likely that there are several organisations that have similar objectives. How will we evaluate the differences between these organisations? How many are we able to support?
- Are there aspects of the work that don't seem to be getting as much support as others?
- Which other funders are supporting this type of work?
- Are we able to get a sense of how much money is already provided to the areas we are interested in from government, other foundations or elsewhere?
- Are there issues that only independent foundations are able to fund because these issues are unpopular, too risky or too difficult to show results within short timeframes?
- How will our additional funds make the greatest contribution to work that is already taking place?

Again, it is likely that you will need to draw on the views of key stakeholders, such as grantees, professional advisers and other funders operating in the sector, in order to be able to answer these questions fully. Useful data may be available to support your analysis from GrantNav, other funders or government publications.



DO WE WANT TO DEVELOP A THEORY OF CHANGE?

Some foundations that decide to focus their giving on achieving particular objectives choose to develop their own 'theory of change'. A theory of change describes the approach you will take and assumptions you are making about how to achieve change. It typically describes the immediate steps you will take, what short- and long-term changes that will make happen, and ultimately how these changes will contribute to the outcomes you wish to achieve. Articulating a theory of change can be a useful exercise to inform your strategy, as well as any evaluation and communications plans.

Some foundations find that developing a well thought through change model enables them to identify tangible impacts they want to achieve through their grant-making. They suggest that developing a theory of change enables them to make more informed decisions about their strategy and tactics, helps them define their long-term goals and outline the steps that they think need to take place in order to achieve their goals. They argue that tackling the task in this way allows them to identify the causal relationships between activities and to address them in a logical sequence.

If you wish to review your progress against your objectives, it is important that you set aside sufficient funds for the foundation and your grantees for monitoring and evaluation. This will enable you to adapt your approach and refine your theory of change periodically as you assess the evidence you gather.

WHAT IS OUR COLLECTIVE ATTITUDE TO RISK?

It is important the foundation's attitude to risk is articulated clearly and that this is understood by all involved.

Several commentators in the foundation world suggest that independent grant-makers should be willing to take significant risks. They argue that governments avoid taking risks with public money because of the constraints that are imposed on them by the election process. Foundations, by contrast, have the potential to support 'risky' projects as part of a strategy that promotes experimentation and innovation. Indeed, independent foundations have the potential to actively seek opportunities that strive to deliver creative solutions to the most intractable environmental, development and social problems. Many authors argue that the provision of 'risk capital' is an important role for foundations to take on; one that often enables foundations to support early-stage projects and then help bring successful models to scale. Thus, these writers argue, in order to support innovation, foundations need to be much more accepting of failure and recognise that in order to achieve large scale change not all of the initiatives they support will bear fruit. They suggest that occasional failure should be seen as an acceptable part of the process of innovation.

Keeping this in mind, it is important to discuss your collective attitude to risk in relation to the foundation's giving and to agree the level of risk that you are comfortable in assuming. Questions to discuss together include:

- Do we wish to support tried and tested activities or do we wish to fund innovation?
- How would we feel if a project 'failed' to achieve its objectives?
- If we have a strategy that promotes innovation, what percentage of our portfolio would we be happy to see 'fail'?
- How might we minimise inherent risks?
- What reputational risks should we be aware of and how might we mitigate these risks?

FOR HOW LONG DO WE THINK THE FOUNDATION COULD/SHOULD EXIST?

Unless a foundation was established with a permanent endowment, grant-makers are free to spend all of their assets to achieve their charitable objects.

Many assume that establishing a foundation means creating an endowment which will fund charitable activities in perpetuity.

However, relatively few foundations have this restriction imposed on them by their governing documents; most foundations have an expendable endowment that means they are free to spend all of their assets to achieve their charitable objects.

A growing number of influential foundations such as the Bill and Melinda Gates Foundation and the Atlantic Philanthropies have decided that the best use of their charitable resources is to 'spend out'. In this approach, rather than simply spending the interest on their assets, these 'spend out' foundations direct all of the organisation's holdings to a defined number of objectives, spending the entirety of the foundation's resources within a specified timeframe.

Concern about making a difference to an urgent problem, like finding a cure for malaria or addressing the causes of climate change, may suggest that giving as much as possible now makes more sense than making a relatively small annual pay-out in perpetuity. However, if your foundation provides support for an ongoing need, one that will continue indefinitely, such as arts education, then a longer time horizon may make more sense.

If you have the ability to make use of all of your assets for charitable purposes, then some of the most difficult and important questions to ask during a strategic planning process are:

- Why does the foundation exist?
- Do we need to exist forever?
- Can we do more good by concentrating our resources within a fixed timeframe and very specific areas of interest?

Some writers in the grants sector have suggested that sitting down to write an imagined obituary for your organisation is a useful exercise for all foundations to undertake. Doing so has led several foundations to decide not to take the step of spending out, but to define their objectives and strategy with greater rigour.

FIND OUT MORE ...

Many useful publications exist on the topic of 'spending out' including ACF's *Spending out: learning lessons from time-limited grant-making*.

WHAT IS THE BEST FUNDING MODEL TO ACHIEVE OUR OBJECTIVES?



There are different funding approaches that foundations can use to further their objectives. During the strategy setting process it is useful to consider the relative merits of different funding models for achieving different objectives.

It is important to remember that you do not need to select a single funding model for your foundation but may develop a number of different thematic programmes, each of which may use a different approach. Looking at the funding guidelines of other foundations and discussing with colleagues in these organisations why they use the funding models that they do will provide useful insights into which funding models are likely to help achieve your objectives.

A great diversity of funding models exist. Some donors choose to operate a grant-making programme that is open to all applicants and which has few restrictions on the scale or scope of funding available to grantees. Others choose to provide tight guidelines as to the types of projects they wish to fund, as well as to the size and duration of funding. Yet others only support organisations that the grant-maker invites to apply for funding, often providing unrestricted funding.

As you seek to identify the funding models that are likely to be most effective in achieving your goals and those with which you are most comfortable, it is useful to discuss:

- What types of **costs** will we support?
- What types of **funding** will we provide?
- What kinds of **grant programmes** will we have?

The grant funding arena is awash with jargon about costs, funding structures and grant types. Brief definitions of key phrases are provided below.

COSTS

Capital costs are costs associated with building works, furniture or equipment, and are usually one-off costs.

Revenue costs are items such as salaries or running costs which are usually ongoing.

Direct project costs relate directly to a project, often to deliver a specific service or objective. These can include salaries for project workers and volunteer expenses, as well as equipment specifically required for the project, such as a dedicated laptop.

Overheads are costs that partly support a project, but also support other projects or activities carried out by the grantee. These can include a proportion of salaries of core staff such as administrators, rent and utility costs or the organisation's legal and audit fees. They may also be referred to as support costs.

A small organisation whose sole purpose is to deliver a single service will have a very different overhead profile to that of a large charity that fulfils a wide range of roles such as delivering conservation projects, developing and campaigning for national policies, providing services to its members and running its trading arm to raise funds to support the work of the charity.

Full cost recovery provides a means for operational charities to secure funding for all of the costs involved in running a project, both direct project costs and a proportionate share of the organisation's overheads. Although ACF and others have done much to promote the importance of full cost recovery, it remains the case that some funders do not fund some or all support costs within the confines of a restricted grant. This can cause difficulty for grantees, who must then find other sources of funding to meet those costs.

Core costs are generally seen to include support costs, income generation and governance activities. Organisations with paid staff – even very small ones with just one part-time worker – require core functions in order to deliver their charitable activities. These functions support an organisation to carry out activities and deliver services, and include organisational management, finance, information technology and human resources. Some foundations choose to provide funding for core costs in order to strengthen and enhance the capacity of grantee organisations to continue delivering public benefit. Providing a clear description of what we mean by core costs is essential so that applicants respond appropriately.

TYPES OF FUNDING

Project funding is restricted to a specific piece of work, activity or a service undertaken by an organisation within an agreed timeframe. Many foundations choose to restrict funding to the support of discrete projects, with each grant having a defined timeframe and outcomes. Funders often provide grants for one to three years and wish to have clarity about the project's results. However, from a grantee's perspective short-term, restricted project funding can be inefficient, as they will often need to re-apply for funding elsewhere in order to continue their work.

Restricted funding is specified by a foundation's agreement with a grantee and outlines how the grant must be spent. Restricted funds can only be used for the purposes for which they are given, and their use for any other purpose may be viewed as fraud or deception. Restricted funding must be identified as such in a recipient organisation's accounts.

Core funding supports core costs of an organisation, such as organisational management, finance, human resources and information technology. Charities identify core funding as being critical to organisational stability and long term planning. Such financing helps ensure that an organisation and its core work will not collapse if external funding is withdrawn. Funders often provide core funding when there is a very close fit between the foundation's objectives and those of the grantee.

Unrestricted funding is not tied to a specific project or initiative but may be spent by the recipient organisation on any activities that fall within the stated objectives of the charity. These funds are not earmarked in any way and the trustees or management committee of the recipient organisation are free to set priorities and decide how and when to spend the funds. Charities value unrestricted grants very highly. Indeed a survey by Saxton and Lindström showed that when asked if they would accept a reduced amount if their grant could be unrestricted, on average charities were willing to give up £370k of a £1m restricted grant and nearly £30k of a £100k grant.

Deciding whether or not to provide unrestricted funding is likely to depend on how closely the objects of the recipient organisation align with those of a particular foundation. Where some of a grantee's objectives fall outside the objects of the foundation, it may be necessary to make a restricted grant. However, where the grantees objects fall entirely within the foundation's objects, the foundation is well placed to make an unrestricted grant.

Social investment is the provision of repayable finance to support organisations, instead of or in addition to grants. Social investment is typically used by organisations to develop new or existing activities that generate income such as trading activities or contracts for delivering public services. Organisations might also look for social investment in the form of mortgages or loans to support running costs, if these are available on more favourable terms than they could secure elsewhere.

Some foundations choose to use a proportion of their 'grants' budget to make social investments. Others draw on their underlying assets to make investments, if their endowment is – at least in principle – expendable.

If a foundation chooses to make social investments and an investment is recouped and/or yields a return for the foundation, then the resources can be reused to support a greater number of other organisations. More information on different types of social investment can be found at goodfinance.org.uk. Foundations considering this approach should also read the Charity Commission's guidance note *Charities and investment matters: a guide for trustees* (CC14) and ACF's publication *Intentional Investing*.

GRANT PROGRAMMES

Responsive grant programmes, sometimes called open programmes, accept proposals from any interested applicant that fulfils the foundation's application criteria. Foundations that have responsive grant programmes do not define tightly what will be funded, but rather respond to the needs that are presented to them by applicants who are working on the ground. Thus, as a result of reviewing the applications that they receive they are able to gather information about the types of projects and ideas for which applicants say they need funding. Many foundations with a responsive grant-making programme focus their strategy on supporting sound, practical delivery work for which there is an ongoing need. Others select a responsive strategy in order to be flexible, to react to rapid changes in the funding environment or to the individual needs of an organisation. A foundation may decide that as an independent grant-maker an important part of the organisation's role is to support new ideas that are generated by applicants, work that is untried or which has uncertain outcomes.

Strategic or targeted grant programmes have more prescriptive criteria than responsive grant programmes. Foundations that use this approach usually have a specific outcome in mind that they wish to achieve, for example, reducing isolation of elderly people living in rural areas. They accept that there will be a range of different approaches to achieving this outcome, and may like to fund more than one organisation and approach simultaneously, so still run an open grants process (rather than tendering for a contract). Often these types of programmes will have a fixed deadline for applications, rather than a rolling application process, so that funders can more easily compare applications. Strategic or targeted programmes often have a focus on learning about what works, so foundations will typically spend more time and money on evaluating the success of different approaches and may require more reporting from grantees.



Invitation-only grant programmes, sometimes called proactive or closed programmes, do not accept unsolicited applications and instead only accept proposals from organisations that are invited to apply. This approach enables a foundation to proactively identify what they regard as critical initiatives and organisations related to the foundation's focus areas. This approach requires that the foundation is well informed about the issues that they seek to address; it likely has a theory of change and a mechanism for identifying effective solutions and organisations. The challenge of stand-alone, invitation-only programmes is identifying the organisations that might make the greatest contribution, without relying solely on 'who we know'. The best invitation-only programmes are built on an excellent needs assessment and research, and a degree of subject expertise either within the foundation or brought in from outside. Many foundations have an invitation-only grant programme alongside responsive programmes and use it to support current grantees with a proven track record to build on their achievements.

Issues you may want to discuss as you seek to decide which grant-making models the foundation will use include:

- Do we want to provide funding to projects with specific milestones and outcomes or will we provide core funding to invest in the overall vision and strategy of an organisation?
- Are there organisations whose objectives, strategies and administration we admire sufficiently that we are willing to provide them with unrestricted funding?
- Do we want to have an open application process and respond to all proposals that come to us?
- Do we have a clear idea of what we want to support and therefore want to accept proposals only from organisations that we have invited to apply to us?
- Do we want to be the sole or major funder of a project?
- How will we ensure that a grantee organisation has sufficient funds to cover the managerial costs associated with a one-off project?
- Is it important to us that our foundation receives recognition for its donations?
- Do we have an appetite for exploring social investment opportunities?
- Might we make loans to organisations that need start-up funding for an income generating project? What would the terms of such loans be? Might we charge low or no interest?

WHAT CRITERIA WILL WE USE TO DECIDE WHICH GRANTS TO AWARD?

It is important to carefully craft the criteria against which grant proposals will be evaluated and to communicate these criteria clearly to potential applicants.

To ensure that potential applicant organisations don't unnecessarily waste their time submitting proposals that are unlikely to be funded by your foundation, it is essential that you are transparent about what you want to achieve and the criteria you will use to select which proposals you will support. It is therefore vital that considerable focus is placed on articulating the criteria clearly and in keeping with current legislation, particularly around equality and diversity.

Each foundation is likely to have criteria that are unique to its particular strategy.

In addition, all foundations will need to consider:

- How will we assess the effectiveness of the applicant organisation and its strategy?
- What won't we fund?
- What exclusions will there be?
- For how long will we offer a grant?
- Will we allow an organisation to have more than one grant at a time?
- Will we require that grantees find match funding?



WHAT ARE THE IMPLICATIONS OF OUR GRANT-MAKING STRATEGY FOR THE WAY THAT WE OPERATE?

The grant-making strategy of a foundation has important implications for the way in which the organisation operates so it is likely that it will be necessary to develop an operational implementation plan alongside the grant-making strategy.

As you think through your grant-making strategy to decide the kinds of work and organisations your foundation will fund, you will need to consider the most effective and efficient way to deliver your aims. Overall, the foundation will want to create systems and structures that reach good quality, appropriate applications and collect enough information from them to make informed judgements about the value of the proposed work and the capacity of the applicants to deliver it.

You will need to take into account how your strategy and guidelines will be reflected in the restrictions you apply to the terms and conditions of your grants. You will also need to test out with the foundation's financial advisers whether the organisation's income and investment strategy will deliver the financial returns that are essential to enable you to implement your grant-making strategy.

Whilst your objectives should be to develop application systems and processes that provide you with the details that you need to make good funding decisions, you should consider the burden of your requests for information on applicants and of your reporting requirements on grantees.

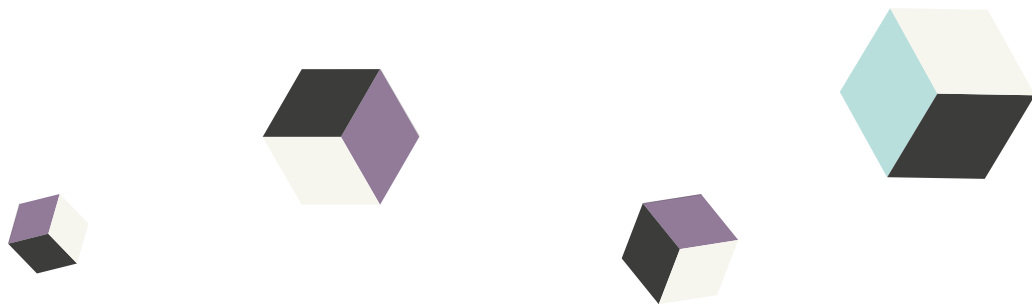
Broad application guidelines enable many applicants to apply to a foundation for funding and allow the foundation trustees and staff to get a sense of the funding needs across a number of areas. Using an application process that does not prescribe the type of work that you will fund allows you to identify the work that applicants really want to do.

However, you will need to consider whether the amount of detail you require from applicants and the time that it takes them to complete your application process is proportionate given the success rate for applications, the size of the grant and its likely impact. You should also see if there are ways of reducing the burden of the application process, perhaps by using a two-stage application process or publishing the percentage of eligible grant applications that are successful, so that potential applicants can judge the likelihood of receiving funding from you.

FIND OUT MORE ...

Useful guidance on these matters is provided in the ACF publication *Developing decision making processes and tools*.

ROLLING OUT OUR GRANT-MAKING STRATEGY



Once the trustees and any staff have developed a draft strategy, it is useful to send it out for consultation to key stakeholders before taking the strategy public.

Before publicly launching your strategy you may find it helpful to send out your draft strategy for feedback from a small group of key stakeholders. By doing so you will receive invaluable advice that will perhaps help to further refine your objectives or clarify the way that you express your strategy.

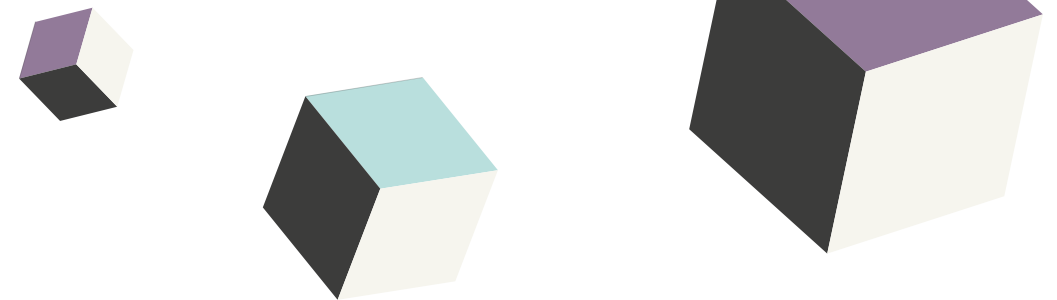
Launching a new or refreshed strategy requires careful thought to ensure that you attract the right applicants and manage the demand for grants.

It is also important that you are transparent about your grant-making systems and processes and create realistic expectations amongst potential applicants by providing clear guidance and criteria.

FIND OUT MORE ...

Helpful advice on these matters is provided in ACF's publication *Promoting our priorities and how to apply*.

WHEN AND HOW MIGHT WE ESTABLISH/REVIEW OUR STRATEGY?



Many foundations review their performance against their objectives on an annual basis, perhaps as part of an away day.

To ensure that the trustees and staff of your foundation remain attuned and responsive to the needs of your potential beneficiaries it is vital to review your strategy at appropriate intervals to consider whether you need or want to change your approach based on changes occurring in the sectors in which you are working or in response to the knowledge and circumstances of your particular foundation.

Key events in a foundation's lifecycle might prompt you to undertake a significant review of your strategy, for example:

- When a new CEO or chair is appointed
- Following a review of trustees' skills
- In response to significant changes in the internal or external environment, such as other funders increasing or decreasing funding, change in government funding priorities, more demand for your grants or a change in need from the beneficiaries.

HOW WILL WE JUDGE SUCCESS?

In order to review its grant-making strategy, a foundation needs to have clear objectives against which it can test itself.

Most successful grant-makers use a process that includes a cycle of development, promotion, assessment, communication, management and evaluation. In order to be able to evaluate your work and report on your achievements to your charity regulator and others, you need to be able to explain how you will judge the success of the foundation.

There are many different approaches to impact monitoring for frontline charities. However, as foundations are usually at one remove from the outcomes of their grant making, they will rely to some extent on the reporting of their grantees. It is important for foundations to balance their desire to measure their own impact with minimising the burden of reporting requirements placed on grantees. In many instances foundations therefore use data about their grant distribution as proxies for

impact – e.g. have we funded enough organisations/in enough areas – or choose to fund external evaluations to support their assessments.

Important questions to consider include:

- How will we know if we are making progress towards achieving our goals?
- What have we accomplished so far?
- What still needs to be done?
- How and how often should we review our progress?



CONCLUSION



Every foundation has a strategy whether it has been developed consciously or not.

Some foundations decide to open their application process to all-comers in an effort to respond to needs identified by those working on the ground, others develop tightly defined programmes that seek to deliver specific measurable impacts and yet others choose to invest in the vision of an entire organisation or sector by providing core funding.

Many foundations develop a grant-making strategy that involves a number of different approaches as they seek to achieve different ends.

Whatever strategy they choose, the most successful grant-makers are those who intentionally create a strategy for their foundation, taking time to reflect on what they are seeking to achieve and periodically reviewing the effectiveness of their chosen strategy.

Many ACF members have told us that the process of defining their strategy was a rewarding experience for them and their beneficiaries and was essential to ensuring that their grant-making delivers significant charitable benefits.

Being in a position to make grants in order to achieve charitable outcomes is a rare opportunity. Doing so with strategic focus both generates charitable rewards and is tremendously rewarding. We hope that with the guidance and ideas in this publication your strategy-setting process provides a period of reflection that offers renewed focus on the goals of your foundation, clarifies your objectives for your applicants and grantees and creates a clear direction for your future work. We hope that the process itself is useful, enjoyable, but most of all productive for your foundation and its beneficiaries.

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ACF is grateful to Sarah Ridley for writing this publication and to the many trusts and foundations she consulted for their advice and expertise.

Sarah has over 25 years' experience leading grant-making foundations and front-line charities in the US and UK in the health, disability, environment, and arts sectors. She has led strategic reviews for large national trusts,

spend-out grant-makers and private foundations both as a CEO and as a consultant. A frequent author, speaker and mentor, Sarah has written on many subjects including setting-up foundations, time-limited philanthropy and core funding.

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ACF is the membership body for UK foundations and grant-making charities. Driven by a belief that foundations are a vital source for social good, our mission is to support them to be ambitious and effective in the way that they use their resources. We do this through the provision of policy and advocacy, research and information, and a wide-ranging programme of events and learning. Our 330 members collectively hold assets of around £50bn and give over £2.5bn annually.

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Registered office:
ACF, Acorn House,
314-320 Gray's Inn Road
London, WC1X 8DP

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Telephone: 020 7255 4499
Email: acf@acf.org.uk
Website: www.acf.org.uk

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