ACF Association of Charitable Foundations

Spending Out: learning lessons from time-limited grant-making

An ACF Guide for Member Trustees and Staff

FOREWORD

This booklet continues the series of guides for ACF members, supporting them in their work and helping to re-examine aspects of being an effective foundation, a role which is now more necessary than ever. Drawing out the questions of purpose and focus asked by limited-life foundations has revealed experience and learning that we believe may be of value to many other foundations undertaking their own periodic reviews, as well as to new philanthropists considering the appropriate vehicle for their giving.

The content has developed from the discussions between limited-life foundations within ACF's membership, and we are most grateful to all the members of that group for their help. We would especially like to thank **The Diana, Princess of Wales Memorial Fund** and **The Tubney Charitable Trust** for their financial support which has enabled us to produce this booklet, as well as to their Chief Executives, Dr Astrid Bonfield, and Sarah Ridley respectively, for their generous advice and guidance in addition. We are also very grateful to John Healy for his thoughtful observations and help on our drafts. Nonetheless, responsibility for any errors of fact or interpretation remains with ACF.

Most especially we are grateful to Liz Firth for working with members of the group of limited-life foundations to develop the structure of this guide, and then to write such an excellent analysis distilled from the collective experience of this group of ACF members.

David Emerson, Chief Executive, February 2010

ACF is very grateful for the support of these two members in the publication of this booklet:

Diana
Princess of Wales Memorial Fund
The Work Continues

The Tubney Charitable Trust

1. WHO THIS IS FOR

Current times and pressure on resources mean that 'being effective' is ever more necessary for trusts. One group for whom this has always been especially pertinent is those trusts and foundations with a limited life span. With ACF support, some of these have been meeting regularly to share their experiences and develop their collective learning. However, from discussions at ACF's 2009 AGM and elsewhere around the subject of 'spending out', it has become apparent that the experience of such foundations may be useful to many other foundations and to philanthropy advisers more generally. We therefore hope this guide may be of interest to any grant-making body or individual philanthropist concerned to make best use of their resources in challenging times, and most especially to any trust or individual contemplating confining their spending to a limited period ahead.

2. STRUCTURE AND CONTENTS

This short paper is one of a series of resources on effective practice for trusts and foundations, and draws particularly on the experiences of foundations with a limited life span. We are grateful to all the members of the 'Spending Out Group' for their help and advice in preparing it.

Feedback from ACF members suggests that, while most remain committed to a long-term or permanent future for their foundation, increasing numbers are interested in exploring spending all or part of their capital in pursuit of their mission. And many new donors are attracted to a 'giving while living' approach, allowing them to put their personal energies behind the funds they have donated.

'Spending out well' brings challenges on many fronts. We hope that the questions of purpose and focus addressed by this group of members will also be of value to new philanthropists considering the appropriate vehicle for their giving, and to other trusts and foundations undertaking their own periodic reviews, whether or not they are interested in spending out themselves.

ACF's purpose in producing this paper is not to advocate for or against spending out as a strategy. Within the constraints of their constitutions, how trustees choose to deploy the assets of their foundations is, of course, entirely for them to decide. Rather, our aim is to capture issues and key questions that members have asked in preparing for spending out, and to offer ideas on how others might use this learning, so providing a structure for their discussions and decision making.

Part 1 of the paper focuses on the reasons why members have chosen to spend out and where they feel other foundations might benefit from considering this option in their strategic planning.

Part 2 moves on to explore in more detail some of the questions and ideas spending-out foundations are asking themselves, many of which may be of direct relevance to any foundation thinking about how best to use its resources to meet its mission.

Terminology

We are using the term 'spending out' to refer to the process of spending both endowment income and capital, with a view to using up all the assets of a trust over a defined period. There are variations in how this is done but we use spending out to refer to them all. In the US and elsewhere the process is often known as 'spending down'.

Spending out is technically possible for any trust with an expendable endowment. Only those foundations required to maintain their endowment in perpetuity are prevented from considering this option.

Throughout this paper we use either the word 'trust' or 'foundation' interchangeably.

PART 1 – CHOOSING TO SPEND OUT

3. WHO IS SPENDING OUT?

Time-limited trusts and foundations are just as diverse as any other group of independent foundations. Some are simply fulfilling their founders' wishes. A number of foundations are established with a limited life span, perhaps so that they will be led by people known personally by the settlor or because their purpose will be fulfilled in a relatively short time. At the other end of the spectrum, some have come to the view that spending out is intrinsically a better way to work, forcing trusts to focus on their purpose and making them more accountable for what they do. They sometimes argue that any foundation that has the legal capacity to spend out should at least consider why it is not doing so.

However, most see spending out as one of a range of models that trusts and foundations might choose to use, depending on their legal circumstances and the imperatives of their mission. In general, they would suggest that spending out works best for certain kinds of trust and in particular circumstances, broadly as follows.

'Giving while living'

New philanthropists or family trusts often feel a strong personal connection to the money they have to spend and a vision of what they want to achieve. Some want to play an active part and see results in their lifetimes. They often contribute time, contacts and expertise as well as funds and find personal satisfaction in their philanthropic activity. Some do not want to burden their children with the challenges of running a foundation. Others fear that future trustees will not manage the foundation as they would want or might allow it to drift away from its original purpose.

Mission-related imperatives

Some foundations face strong drivers to use resources now rather than preserve them to meet future needs. Opportunities may be rare and must be taken when they arise, such as the purchase of land to save it from development or of art works to keep them on public view. Some opportunities offer the promise of high returns, which some grant-makers find it hard to ignore. The eradication of malaria or support for girls' education in developing countries are often cited as examples of grant investments with the potential to deliver large and sustainable social and economic returns. Others have an in-built sense of urgency: for example, many would argue that the challenges of climate change threaten to undermine all other activity if they are not tackled now.

Scale and impact

Some foundations feel their ambitions are constrained by their resources. They are too small to have a strong influence with their annual spend but are not satisfied with the role of supporting good work in a small way. For them, the option to use capital as well as revenue creates a chance to achieve the impact they are looking for. So, instead of supporting a general appeal to restore a historic landmark, they can take action now to ensure no further damage takes place. Or rather than help a number of domestic violence services to keep their phone lines open a few evenings a week, they can invest in a collective effort to make sure someone is available to help 24 hours a day.

Others – of all sizes – feel that more can be achieved by focusing their funds on one or more areas of pressing social need or in highlighting neglected and under-served causes. Young refugees held in detention centres, farm animal welfare and building peace in Northern Ireland have all been chosen as priorities by spending-out foundations, supporting a mix of policy work, research, service delivery and community development to meet their aims. They take the view that 'one chance to succeed' makes them more vigorous in pursuit of change. It may also create more opportunities to use their organisational resources and reputation to support their giving effectively.

A changing world

Some foundations feel that their work is reaching a natural conclusion. In a number of cases the foundation is closely associated with the interests or personality of the founder. New trustees may feel it is inappropriate to try to step into their founder's shoes, preferring to leave a legacy to their work and move on. Others are satisfied that the original mission has been fulfilled and do not feel it is appropriate to seek to change the focus of their work. One example of this might be a foundation established to rebuild relationships between European nations after the Second World War, or the more recent example of the trust set up in the aftermath of the public transport bombings in London in 2005.

Value for money

Some take the view that, just as financial returns are more heavily discounted the further in the future they are likely to occur, so should estimates of future social returns be more conservatively measured. For them, money spent now has a significantly greater social value, pound for pound, than it does in the future.

Others argue that the proper management of an endowment and disbursement of its annual income requires a level of cost and administrative bureaucracy that does not represent an efficient use of funds, unless it is a requirement of the founding document. They believe they can spend more on their mission and less on overheads if they spend more quickly.

4. AN EFFECTIVE TIME-LIMITED FOUNDATION

Time-limited foundations are, of course, far from alone in thinking seriously about their purpose and mission, impact and cost-effectiveness. These are questions that exercise all trusts and foundations concerned to make best use of their resources in the face of pressing social needs.

Trustees of spending-out foundations have diverse views about their purpose and their responsibilities – as in other trusts, the way they do business rightly reflects the 'personality' of the trust, what it wants to achieve during its lifetime and the legacy it wants to leave behind. They have different attitudes to risk and to resources. There is no single model for who should spend out and how they might best do it.

Many would, however, argue that spending out has focused their minds in a way that nothing else can. In their own distinctive ways, all the trusts contributing to this paper have had to make hard decisions about what they want to achieve, how they will achieve it and how they will measure progress. Part two of this paper reflects on these challenges in more detail.

PART 2 – QUESTIONS AND IDEAS

5. MISSION AND OBJECTIVES

Many trusts and foundations are increasingly concerned about the change their funds will help to create. With an end date in sight, spending out foundations have to tie this down in a realistic way – ideally, without compromising their ability to be flexible and responsive to changing circumstances. Some of the key questions they have asked themselves are:

- What would spending out enable us to achieve?
- And over what timescale?
- Why is this important? What difference will it make?
- What other kinds of resources can we bring to bear? Can we offer our expertise, contacts, and reputation, as well as our money?
- How will we be able to judge our progress and achievements?

Their answers to these questions tend to reflect each foundation's:

- **Views on impact** – some see spending out as an opportunity to shift public policy or deliver significant change on a pressing social issue. This might range from international arms control or the eradication of malaria through to residential care funding for older people or challenging custody arrangements for the under-21s. Others want to invest in a sector at the heart of their mission, supporting its capacity to be effective and creative in the longer term. And others simply want to support as many beneficiaries as possible with the funds they have left.
- **Focus with flexibility** – in general, foundations with a limited life stress the importance of focusing their effort and not spreading resources too thinly. Some would argue that the robustness of these decisions is at the heart of a successful spending-out strategy. The foundation needs to take a long, hard look at the issues it cares about and choose those on which it can gain traction during its desired life. While limited-life foundations would encourage colleagues to remain ambitious in their aims, they stress the importance of a realistic assessment of what is possible, recognising that almost everything takes longer to achieve than initially believed.

However, despite their general emphasis on focus, most spending-out foundations would agree that effective grant-making often relies on experience and an established reputation in the field. For those that want to make a contribution in a new area, this may mean spreading their net more widely or being prepared to change course, especially in the first stages of spending out.

- **Stage of development** – new foundations, in particular, may need to build in a period of experimentation and development, while they grow their expertise and find the niche in which they can be most effective. Most would argue that this is an essential part of spending out well. It takes time for trustees and staff to learn what approach works for them, to find the right applicants or partners, and to establish a reputation in their chosen fields of operation before moving on to evaluate in detail where they can be most effective and what they want to achieve before they close. Understanding this in advance means the trust can make a conscious decision about how much of its resources to dedicate to different phases of activity and how quickly it can realistically work.
- **Attitudes to risk** – for some, spending out creates an imperative to achieve greater certainty of outcome, while others have shown that 'one chance to succeed' means trustees are more willing to embrace risk if the potential outcome is important enough.
- **The role of the trust in delivery** – many spending-out trusts continue to act largely or solely as grant-makers. Others have become more active partners in achieving the goals they have agreed, working alongside grantees or acting as an independent convenor and facilitator. The foundation might, for example, employ its own small research team to collect evidence to support a joint policy initiative. Or it might develop a joint business plan with its grantees, setting objectives for its own contribution to achieving their agreed aims, perhaps through lobbying or public relations work, as well as providing funds.
- **Focus on learning** – for some, spending out creates an absolute obligation to understand progress towards the agreed aims of the foundation and to be able to report on achievements. These trusts generally spend a greater proportion of funds on learning and evaluation

than before they decided to spend out. However, those with less ambitious change objectives are more likely to focus on keeping all overheads to a minimum to maximise the funds available for grant-making.

6. GOVERNANCE AND DECISION-MAKING

Spending-out foundations also stress the importance of tailoring their governance structure to support their spending-out strategy, rather than assuming that their existing structure will meet their needs. For some, trustees have stepped away from individual grant decisions. They focus all their attention on outcomes and overall performance measures set out in their spending-out strategy and business plan, with day-to-day decisions left entirely with staff. Others are engaging trustees even more closely in grant assessment and risk management, as individual grants or programmes grow in scale and significance. Again, there is no perfect model: the challenge is to clarify and focus governance arrangements so that these enable rather than inhibit organisational effectiveness.

Many spending-out foundations will go through a period of 'managing the tail', when they have finished grant-making but are still overseeing disbursement of committed grants and any necessary reporting. Foundations with a limited life also need to make arrangements for appropriate governance in these latter stages. More detailed information on the technical and practical arrangements for closing or transferring the assets of a foundation is available from ACF for those actively pursuing the spending-out approach.

7. DELIVERING THE PROGRAMME

Spending-out foundations also need to look afresh at how to develop and deliver funding programmes to best support the spending-out strategy. This means asking a range of questions about the grant-making models they want to use, the relationships with grantees and the resources they need to work effectively.

Grant-making models

Spending-out foundations are using a number of different models for grant-making – and some are using different approaches at different stages of the process. As in trusts and foundations more generally, the relative merits of grant-making programmes open to all, and those restricted to past grantees and/or available by invitation only, generate considerable debate. Some members argue that a closed programme for past grantees and invited applicants allows them to be more responsive to new ideas, because they do not need to specify their criteria as closely as they would for an open programme. Some are becoming more proactive, moving to a form of semi-commissioning, where they set out the outcomes they are seeking and invite applications from organisations ready to help deliver them. Others continue to accept applications from any relevant organisation. All, however, have tried to make these decisions in the light of the demands of their strategy and to understand the impact they will have on delivery.

Relationships with grantees

Many grant-makers are looking for ways to encourage more rounded reporting on success and failure and to get honest feedback on their own performance from an applicant's point of view. Because spending out foundations will – by definition – not be a long-term source of funds, they may be in a good position to negotiate new relationships with operational charities.

However, some report that it can be difficult to convince grantees of the seriousness of their intention to spend out. Organisations in receipt of grants – especially where they make a significant contribution to the bottom line – can be tempted to live in hope of a change of heart, rather than begin to look seriously for other sources of funds. Foundations who have had this experience would recommend keeping the finite nature of the relationship in everyone's mind right from the start. When a spend-out foundation is entering a new grant-making relationship, it needs to pay as much attention to how the relationship will be ended as it does to how it is being set up.

Some are concerned that their inability to offer future funding may have a negative impact on relationships, reducing the pressure on grantees to report and engage effectively with them as funders once the grant has been made. But others are making significant investments in individual organisations or sectors or are working as partners alongside operational charities. They hope that this approach will add to the body of learning on how to develop relationships of mutual accountability between grant-makers and grantees.

8. MEASURING SUCCESS

Many limited-life foundations argue that measurement of impact is one of their most important functions. All need to keep a close eye on the progress they are making towards achieving their goals and most want to be able to capture and share their achievements when their work is complete. Many of the questions they face are, of course, common to all trusts and foundations interested in monitoring and evaluation. They need to decide, for example:

- What milestones and indicators to put in place to measure progress?
- What information to collect from the organisations they support?
- Whether they want to build a bigger picture across their spending – and how they will do that?
- Who their learning is for and how they will get it to these audiences?

However, spending-out foundations face two distinctive challenges in assessing progress and impact.

- The first is a technical one to identify whether important lessons are likely to emerge after the lifetime of the trust and how they will be captured. Some are looking to compatible, permanent grant-makers to take on this role for them, while others accept that learning activity ends when the foundation closes.

- The second is more tricky to resolve because it relates to how spending-out foundations might respond to poor results from their progress monitoring. Some trusts have more capacity to experiment or adjust their approach in the light of changing circumstances, because of the length of their spending-out timetable or the firmness of their end date. But most will have little opportunity to make serious course corrections. There is also the risk that, if commitment to closure becomes an end in itself, unwise grant decisions could be made, simply to keep to the timetable. The advice, again, is to build this thinking in as early as possible – ideally as part of the risk analysis that accompanies the development of the spending-out strategy.

Without a continuing 'internal audience', spending-out foundations need to think particularly carefully about potential audiences for their learning and impact assessments, once their organisation is gone. This issue is considered in more detail in the 'legacy' section below.

9. FINANCES AND INVESTMENT

Spending-out foundations are much less tolerant of income volatility than foundations with a permanent or long-term life. They have less time to make up short-term losses and generally face an annual payout rate that is a significant proportion of assets. This increases the risk that assets may have to be sold at depressed prices to meet commitments. As a result, most adopt cautious investment policies and maintain high levels of liquidity.

At the heart of a successful finance and investment strategy is the planned spending profile and an associated analysis of the balance of risk at each stage of the spending out. Many foundations will, at least in the early days, want greater returns than can be offered by investments in bonds alone in order to increase the amount of money available for grant-making. They will generally be looking for investment options that offer higher levels of capital protection and most will reach a point when certainty about how much they have to spend is more important than growth.

The complexity of this task depends on the scale of investments and the speed of spending out, but all stress the need to:

- Agree clear investment parameters, which match the spending profile.
- Consider whether and how far significant changes in investment returns would affect the spending-out strategy – and develop contingency plans.
- Model the possible impact of changes in market conditions to determine the level of tolerance that is acceptable.
- Vet and select advisers carefully, ensuring that they fully understand the special nature of the foundation.
- Monitor performance closely – challenge advisers, ask questions and be sure that everyone understands the implications of the answers.

10. STAFFING AND HUMAN RESOURCES

For foundations with paid staff, the quality of the people they employ is critical to their success. This is an issue of particular concern for spending-out foundations, who need to keep good staff to deliver their strategy but know these will need to start looking for new jobs the closer the foundation is to closure. Members who have contributed to this paper would recommend some or all of the following:

- Planning and understanding the required staffing profile from as early as possible in the process. What skills/experience/people will be needed until the end of each stage of spending out? This includes considering staff resources to 'manage the tail'.
- Consulting and engaging staff with the purpose and achievements of the strategy. Spending out can offer a unique opportunity to create change, which will be highly motivating for some staff.
- Being open and straightforward with staff about progress towards spending out and how it will affect them and their role.
- Developing a fair and appropriate redundancy policy.
- Considering what support to offer staff in moving on and whether it is appropriate to offer additional benefits to those who are willing to stay until the appropriate point in the strategy.

- Developing contingency plans to cover key roles – for example, identifying experienced consultants or working in partnership with another foundation.

11. LEAVING A LEGACY

Spending-out foundations all face the question of what happens when they are gone. For many this focuses the mind on what an 'exit strategy' really means. Trusts take different views on the level of their responsibility to grantees and to the fields in which they operate. However, all recognise an obligation to think carefully about how to exit responsibly from their relationships with grantees and to be explicit about their intentions. Some have built their spending-out strategy around the development of capacity in a particular sector and see drawing new or bigger funders into this area as a key success indicator. Others see the outcomes they have supported as their primary concern, confident that new money will come into the charitable marketplace as other philanthropists emerge to replace them. Many have talked about making unrestricted 'gift grants' to key operational charities to help them with their mission over the longer term.

Foundations are also faced with the challenge of deciding what parts of their experience and learning it is helpful to leave behind for others to use. Some have an excellent overview of particular sectors or issues. Others are keen to share their experience with colleagues in trusts and foundations. Some have a high public profile and are considering how best to communicate their achievements and the challenges for the future with a wide audience.

There is a temptation to want to leave as much as possible but some trusts caution that, without a focused audience and careful planning, there is a danger that all that remains are boxes of files and unread reports. They would strongly recommend that the question of legacy features in strategic planning from the start, so that it is properly embedded in the spending-out plan and the best results can be achieved.

Some of the key questions foundations have asked themselves are:

- Do we want to leave a legacy?
- If so, what kind of legacy should it be and to whom (the founder? grantees? the public? other trusts and foundations? the sector supported?)
- What learning is it helpful to leave behind?
- Who will it be useful to and how do we know they want it?
- How do we collect, communicate and make it easy to use?
- How much priority will we give to helping the charities we have supported become more sustainable?
- How much attention will we give to developing new sources of money for the sectors we have supported?
- Do we want to consider making 'gift grants' to key grantees on closure?

12. CONCLUSIONS AND NEXT STEPS

We hope that this paper, drawing on the experience of members, will prove useful to others in continuing to think about how their own foundation can use its resources most effectively now and in the future.

For those members interested in exploring the practical implications of spending out in more detail, we hope to build a resource bank, bringing together in one place experience and material around the processes of closing a foundation (on technical aspects of winding up a company or HR issues, for example) and all that needs to be considered. Some of this will be available online, with more sensitive material available on request. We will also prepare materials for existing and potential philanthropists considering establishing a foundation to work over a limited period, to help in their initial planning.

And we would encourage any member, who decides to adopt a full or partial spending-out strategy, to join the group of ACF members working together to share their ideas and experience and contribute to the development of imaginative and robust approaches to the challenges of spending out well.

FURTHER READING

Members who are interested in more detailed information on trusts and foundations who have chosen to spend out may find the websites of the following members of interest

Atlantic Philanthropies
www.atlanticphilanthropies.org

The Diana Princess of Wales Memorial Fund
www.theworkcontinues.org

Four Acre Trust
www.fouracretrust.org.uk

The Gates Foundation
www.gatesfoundation.org

The Tubney Trust
www.tubney.org.uk

A number of articles and studies, largely from the US, may also be of interest:

Ascoli, P.M. 2006. *Julius Rosenwald: The Man Who Built Sears, Roebuck and Advanced the Cause of Black Education in the American South*. Indiana University Press: Indiana.

Bays, J., Dua, A. and Taliento, L.K. 2006. *A Non Profit Goes For Broke (the Atlantic Philanthropies story)*. McKinsey Consulting. *www.atlanticphilanthropies.org/news/reports/organisational_change_at_atlantic_mckinsey (registration required)*

Dickason, J.H. and Neuhauser, D. 2000. *Closing a Foundation: The Lucille P. Markey Charitable Trust*. Council on Foundations: Washington, DC.

Emerson, D. 2006. Spending out. *Trust and Foundation News,* July issue. ACF: London.

Foundation Center. 2009. *Perpetuity or Limited Lifespan: how do family foundations decide?*

O'Clery, C. 2007. *The Billionaire Who Wasn't: How Chuck Feeney Made and Gave Away a Fortune Without Anyone Knowing*. PublicAffairs.

Ostrower, F. 2009. *Limited Life Foundations: Motivations, Experiences and Strategies*. Centre on Non Profits and Philanthropy.

Ridley, S. 2007. *Ten Reasons to Spend Out*. *Trust and Foundation News,* March issue. ACF: London.

Schmidt, A. 2008. Escaping the Perpetuity Mindset. *Non Profit Quarterly.*

Thelin, j.R. and Trollinger, R.W. 2009. *Time is of the essence: foundations and the policies of limited-life and endowment spend down*. The Aspen Institute.

Further resources are available at *http://classic.cof.org/files/Documents/Conferences/InPerpetuityorIntotheSunset07.pdf*

Association of Charitable Foundations

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This guidance is available free to members of ACF. £10 for non-members.

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