IVAR Institute for Voluntary Action Research

THINKING ABOUT... CORE FUNDING

THINKING ABOUT

Authorship and acknowledgements

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IVAR'S
THINKING ABOUT...
SERIES

IVAR's **Thinking about...** series draws on previous research (our own and that of others) to provide practical, useful information for leaders and senior practitioners of voluntary organisations, charitable trusts and foundations and public agencies.

We aim to generate dialogue, encourage reflection and facilitate action by shedding light on tricky issues.

The series is also likely to be of interest to policy makers, academics and others working in or with the voluntary sector.

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INTRODUCTION

Thinking about… core funding draws on research and the experiences of grantmakers to help funders understand why, when and how to give core funding.

1.1 Introduction
1.2 Who should read this?
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1.4 Terms

1.1 Introduction

Thinking about... core funding draws on learning from our own and others' research and interviews with key informants from seven charitable foundations providing core funding to shed light on why, when and how to use core funding. Our particular focus is social welfare voluntary organisations, many of which are local. This part of the voluntary sector relies mainly on two types of income – grants (and more recently, contracts) from statutory bodies and fundraising from trusts and foundations. This makes their dependence on core funding from trusts and foundations, and full cost recovery, even more critical.

1.2 Who should read this?

This publication will be of most use to staff and trustees of charitable trusts and foundations that are engaged in providing core funding or are interested in doing so.

Core funding is not a new issue, nor is it always problematic – many foundations already give core funding and have done so for many years. However, it continues to be a topic of debate and discussion for both foundations and voluntary organisations.

1.3 Overview

IN THINKING ABOUT... CORE FUNDING WE LOOK AT:

- Background and context – what we can learn from previous research
- Terminology and types – including full cost recovery, restricted grants and unrestricted grants
- Benefits of core funding to grantees, funders and the voluntary sector
- Challenges of core funding, including accountability, assessing impact and resourcing frontline service delivery
- Making core funding work – implications for grantmaking practice.

Previously published material is referenced at the end of the publication. Quotations from our interviewees are presented in italics. In some instances interviewees have given permission for their comments to be identified and attributed. Where this is not the case, we refer to 'interviewees' and present the material anonymously.

Since this research was carried out, two of our interviewees have left their respective organisations – Dawn Austwick from Esmee Fairbairn Foundation and Carol Candler from Northern Rock Foundation.

1.4 Terms

We use the term 'voluntary organisations' to describe organisations belonging to the: charitable sector; voluntary sector; community sector; voluntary and community sector; voluntary, community and social enterprise sector; third sector; non-profit sector; NGO sector; and civil society.

We use 'core funding' to describe funding that contributes towards the core costs of running an organisation (including support costs, income generation and governance activities). See 'What is core funding?', page 14, for further explanation.

We use 'funder', 'trust' and 'foundation' interchangeably to refer to independent charitable trusts and foundations.

BACKGROUND AND CONTEXT

Here we take a brief look at what our own and others' research can tell us about core funding.

The core funding of voluntary organisations has been a recurring theme in the sector and IVAR's research over the last 10 years – its meaning; its usefulness; and the challenge of both securing it and accounting for it.

Our previous research has highlighted the difficulties that community organisations can experience in trying to secure funding for core costs:[1]

"We have the skills, we have the networks, we have delivered before and have a good reputation. We have more people coming to us than we can respond to … we just don't have the [core] funding."

We have also found that a lack of core funding can cause or compound other organisational challenges, including: staff shortages; inappropriate premises; and a lack of capacity to meet beneficiary demand.[2] This often results in staff and trustees being preoccupied with seeking multiple pots of project funding.

More recent research highlighted the growing importance of core funding in helping voluntary organisations to manage the challenges of their current operating environment.[3] Specifically, we heard about the role of core funding in helping to stabilise organisations and make them better placed to meet the needs of service users. However, many voluntary organisations felt that funders were not interested in providing core funding, preferring instead to fund innovation. Despite this, they stressed that core funding is crucial: '*We currently need the ugly stuff';*

"[core funding] is great because it provides greater stability, continuity and flexibility and it also saves time because all the time that you are trying to get project money you are not actually doing the job you are here for."

In addition, the perceived tendency towards short-term project funding led voluntary organisations to suggest that funders may need to consider the effectiveness of this approach in difficult times: *'If you accept that organisations that are unstable are unlikely to be able to deliver, then you need to think seriously about their core and what they require to be stable.'*

Finally, trusts and foundations are also grappling with questions and debate around core funding. At the Association of Charitable Foundations' 2012 Conference, a workshop helped more than 60 members to consider core funding from both a voluntary sector and funder perspective. At the session, Dawn Austwick (Esmée Fairbairn Foundation) highlighted the need for decisions about core funding to include both '*looking at context – what does the organisation contribute to the sector/area?'* and *'focusing due diligence on organisational capacity, governance, potential'.* It was also noted that core funding required careful thinking about appropriate and useful exit strategies.

BACKGROUND AND CONTEXT – SUMMARY

- Voluntary organisations identify core funding as critical to organisational stability and sustainability for a myriad of reasons, including: strengthening independence; buffering against unexpected hardship; contributing to organisational overheads; and buying time and space for thinking and planning.

- Many trusts and foundations have an appetite for providing core funding – indeed some do so already. However, there is still a desire and perceived need for careful thinking about the detail and practice surrounding core funding.

WHAT IS CORE FUNDING?

The phrase 'core funding' is used to describe a range of different types of funding. Here we try to unpick some of the confusion around terms and types of core funding.

3.1 Terminology
3.2 Types of core funcding

3.1 Terminology

'Core funding' is commonly used as short-hand by both funders and grantees to mean financial support for: non-projects costs; general operating costs; core costs; central costs; running costs; management, administration and office costs; and overheads and support costs.

> Our interviewees variously described core funding as financial support for: *'the boring things'; 'the unglamorous things'; and 'the dull, but critical, functions that ensure that the organisation works well as an organisation'.*

In this publication we use 'core funding' to describe funding that contributes towards the core costs of running an organisation, including support costs (as defined by the Charity Commission's statement of recommended practice, or SORP[4]), income generation and governance activities.

3.2 Types of core funding

FUNDING OF CORE COSTS IS USUALLY ACHIEVED IN ONE OF THREE WAYS:

- Full cost recovery, which funds the full cost of a project (or service), as well as the direct cost of delivery and a proportion of the overhead costs[5]
- Restricted grants to cover core costs or fund planning activities or monitoring and evaluation activities
- Unrestricted grants, which are given on the basis that they will be spent in accordance with furthering the charity's objects[6].

Each of these types of core funding do slightly different things – for example, full cost recovery is a way of recognising and paying for the back office activities associated with running a project; this is quite different from unrestricted grants that support the mission of an organisation as a whole. As we will explore in the following sections, each type of core funding may carry a slightly different strategic intent from the funder.

WHY PROVIDE CORE FUNDING?

There are a range of reasons why grantmakers may choose to provide core funding. In this section we explore some of the benefits that core funding can bring to both grantees and funders.

4.1 Helping to create, maintain and build strong organisations
4.1.1 Supporting strong 'back office' functions
4.1.2 Facilitating organisational development
4.2 Enabling flexibility and responsiveness to changing circumstances
4.3 Supporting strategic coherence
4.4 Enhancing existing investments
4.5 Strengthening a sector
4.6 Establishing and building trust and confidence

"You may offer core funding because you have identified organisations that will contribute to your own strategic objectives as a grantmaker. Core funding then enables that organisation to deliver its vision and mission."

— **Gilly Green,** Comic Relief

Both funders and grantees recognise that core funding can play an important role in achieving a positive impact for an organisation's beneficiaries and, therefore, on the fulfilment of both the funder's and grantee's objectives.[7] Richard Piper, from Roald Dahl's Marvellous Children's Charity, notes: *'We only support core funding because we think it is ultimately good for our end beneficiaries.'*

In this section, we consider some of the principal benefits of core funding highlighted by earlier research in this area.

4.1 Helping to create, maintain and build strong organisations

"[Core funding supports] what it is necessary to have, without which projects can't happen."

— **Kristina Glenn,** Cripplegate Foundation

It has been widely argued that a key benefit of core funding is that it helps to create, maintain and strengthen voluntary organisations by supporting strong 'back office' functions, facilitating organisational development and improving efficiency.[8] This is important because funders work with frontline organisations to help deliver their objectives (e.g. alleviation of poverty and social change) and weaker organisations are less likely to deliver strong projects on a consistent basis.

4.1.1 Supporting strong 'back office' functions

"We recognise that organisations have core costs and they need funding. The funding has to come from somewhere. You can't deliver anything in a vacuum."

— **Gilly Green,** Comic Relief

Voluntary organisations with paid staff – even very small ones with just one part-time worker – require certain core functions in order to deliver their charitable activities. Sometimes referred to as the 'back office', these functions support an organisation to carry out activities and deliver services, and include organisational management, finance, information technology and human resources.

In the absence of sufficient funding for back office costs, some research suggests that organisations resort to a *'make do and do without'* strategy, which can further diminish organisational effectiveness and compromise their ability to address social problems.[9] Having access to core funding allows an organisation to invest in technology or process improvements, which may significantly increase productivity and long-term efficiency.

4.1.2 Facilitating organisational development

"We want to use core funding to strengthen the core of an organisation, not just maintain it, because we are ambitious to see change happen."

— **Richard Piper,** Roald Dahl's Marvellous Children's Charity

Core funding also plays a role in helping voluntary organisations to develop and improve, by allowing funds to be invested in performance improvement, research and development.[10] This creates the possibility of providing space to adapt, innovate and develop imaginative solutions for meeting the needs of beneficiaries.

As development work often needs to be undertaken in advance of changes to delivery, receiving restricted grant funding alone can prove problematic and costly for operational charities. Recognising this risk for frontline organisations, some funders take a proactive approach, giving core funding with the specific aim of enabling an organisation to develop – and perhaps to grow – or to help ensure that it has sufficient resources to fund development work upfront.[11]

4.2 Enabling flexibility and responsiveness to changing circumstances

"Our grants programme aims to be flexible to encourage organisations to meet the changing needs of local residents."

— **Kristina Glenn,** Cripplegate Foundation

Some of the least restrictive forms of core funding, such as unrestricted grants, provide voluntary organisations with great discretion as to how they spend funds. This can be beneficial, allowing them to respond quickly to a changing environment and deploy resources accordingly. This need for flexibility is especially important during periods of rapid change, as highlighted by recent IVAR reports.[12]

Restricted grants tend not to have this degree of flexibility, as any change in the use of funds requires a renegotiation of terms with the funder. While good lines of communication between funder and grantee can ameliorate some of these difficulties, restricted grants can still *'hamper an organisation's ability to respond quickly or flexibly to needs'*.[13] Indeed, some have argued that restricted grants actually shift the responsibility for responding to changing circumstances onto the funder as they will need to negotiate and approve any change in grant use.[14]

4.3 Supporting strategic coherence

Some forms of core funding, especially unrestricted grants, can help voluntary organisations to preserve the coherence and integrity of their strategic plan as it is not restricted to any particular charitable activity. In this respect, unrestricted funding has an advantage over restricted programme funding. Where only the latter is available, an organisation may need to carve up its work into discrete blocks and seek out funding for each one.

This 'projectisation' may not appear to present too many problems, assuming suitable funders can be found for each discrete piece of work. However, voluntary organisations frequently contend that the reality is different: it has been observed that, as an organisation engages with an increasing number of project-orientated funders its *'own strategic plans can get quite fragmented and distorted'.*[15] The resulting distortion of strategy can become more pronounced as organisations try to reinvent and reshape their programmes in response to funder preferences, sometimes leading to fundamental changes to their objectives and charitable activities.[16] In such instances, there is a risk of drifting off mission which may, in turn, adversely affect their ability to support beneficiaries.

4.4 Enhancing existing investments

Providing core funding can be a useful 'insurance' mechanism for funders, enabling them to offer additional support to organisations in which they have already invested via programme grants.

Several of our interviewees noted that they only provide core funding once they know an organisation well, usually after having provided a project grant and seen the organisation's effectiveness at delivering their objectives. One of our interviewees described this use of core funding as a means to: *'shore up the core to enable the project we are funding to have enough support around it. So we are enhancing our own investment as well as investing in the organisation.'*

4.5 Strengthening a sector

"Esmée Fairbairn provides core support to organisations we consider important. It is part of supporting a healthy and vibrant sector."

— **Dawn Austwick,** Esmée Fairbairn Foundation

In addition to recognising the role of core funding in enabling an individual organisation to deliver its charitable objectives, some funders see it as a means of strengthening an entire sector. For example, individual organisations that play a leadership or coordination role may be key to the effective functioning of a particular sector and therefore to that sector's ability to deliver the goals it shares with the funder. Thus, investment in the general work of such central organisations is seen as an effective means of building the strength of an entire sector.

4.6 Establishing and building trust and confidence

"[Core funding] means we are saying we believe in your organisation, we like what you are doing and we are going to give you money for you to use in the way that you see best, provided you use it to deliver your vision and mission. By core funding we are saying that we trust you to deliver well."

— **Gilly Green,** Comic Relief

Our interviewees suggested that there needs to be a high level of trust (between funders and grantees) for core funding to be appropriate and for it to work well. For funders, this can come about by building its knowledge and expertise through working in: a specific geographic area; a specific subject area; and/or an engaged way with the grantee.

THE CHALLENGES OF CORE FUNDING

Despite the benefits associated with core funding, funders can face a range of challenges in providing it. We take a look now at some of these issues, including accountability and assessing impact. We also highlight some possible responses to these concerns.

5.1 Ensuring accountability
5.2 Assessing impact
5.3 Identifying and supporting the actual cost of delivering frontline services
5.4 Creating dependency
5.5 Building reserve capital

5.1 Ensuring accountability

"The obsession with counting and numbers and not trusting the organisations to be able to deliver is based on a lack of trust and need for control on behalf of funders. I can understand this concern where there is public accountability, but for most of us independent foundations, we don't actually need that level of accountability."

— **Carol Candler,** Northern Rock Foundation

There are increasing calls from both within and outside the funding community for trusts and foundations to account for the money they spend. This may have inspired a preference among some funders for making restricted programme grants that enable them to connect their funding more easily to the achievement of specific outcomes. Arguably, this concern is greatest among funders with a high public profile or donor interest, such as Comic Relief or BBC Children in Need.

It has been suggested that risk aversion amongst funders may encourage them to rely on restricted programme grants. This is because, while core funding can allow a funder to claim a share of a grantee's success, it also raises the prospect of sharing some responsibility for any failures of the grantee organisation.[17] Restricted project grants enable a funder to limit accountability to the project being funded. However, some funders encourage independent foundations to take a bolder approach and consider both the kind and level of accountability appropriate for each grant.

5.2 Assessing impact

"Funders have become preoccupied with aggregating impact. I am not saying we shouldn't have any of it, but there is a possibility of commoditising beneficiaries, turning them into statistics. Assessment requires more complex judgements."

— **Dawn Austwick,** Esmée Fairbairn Foundation

The desire to quantify impact is closely associated with issues of accountability, but worth addressing separately. The increased emphasis on monitoring and evaluation within the voluntary sector over recent years has provided the tools and mechanisms to allow better tracking of project progress and encouraged funders to attempt to link their grants to specific outcomes,[18] thereby perhaps reinforcing a preference for restricted programme grantmaking. But there is a risk here of funders becoming unduly attracted to short-term, unambiguous indicators of causal attribution and deterred from more ambitious social and environmental change agendas, where measures of success are inevitably less clear-cut and likely to be long-term in the making.

In addition, while considerable progress has been made on assessing specific project or programme outcomes, there is perhaps less confidence in the ability of voluntary organisations to measure their overall impact.[19] For some funders, the provision of core funding thus takes on a slightly more risky feel as they grapple with understanding what has been achieved with it, as Joanne Anderson from the Yapp Charitable Trust acknowledges: *'How do you measure the impact of a contribution to a gas bill or telephone bill?'* Thus, provision of core funding requires voluntary organisations to be able to understand the difference their whole organisation makes – something they may need support to do. It also requires funders to be clear about their objectives and pragmatic about assessment and reporting requirements.

The perception amongst some funders that it is easier to demonstrate impact with restricted grants than core funding is also questionable. Indeed, core funding may offer some advantages, allowing funders *'to work with grantees to identify organisational-level rather than programme-level indicators of success'*.[20]

5.3 Identifying and supporting the actual cost of delivering frontline services

The commitment of many foundations to work towards social and environmental change often leads them to support programme activities in the voluntary sector. This sometimes gets expressed as a desire to see as much money go to the frontline as possible and capping expenditure on support costs.[21] Although the Association of Chief Executives of Voluntary Organisations (ACEVO) and others have done much to promote the importance of full cost recovery,[22] it remains the case that some funders still refuse to fund some or all support costs within the confines of a restricted programme grant. In the US, it has even been suggested that some funders do not pay for overheads because they assume that other sources of income will cover this.[23]

The fact that some funders avoid paying a share of support costs means that, inevitably, other funders are left picking up the tab and funding a greater proportion of support costs themselves. In other words, the funder providing core funding may be subsidising restricted programme funders. For some, this may not be an entirely attractive proposition.

Funders may wish to question whether it is acceptable for any funder (charitable or statutory) to fund frontline work without recognising the organisational costs associated with delivery:

"Independent funders are taking advantage of organisations and other funders if we aren't prepared to put some money into the central costs of an organisation. We are expecting somebody else to cover the costs of the organisation so that we can have a project. Fair's fair; we should share it about. As independent funders, if we are not funding core costs, who else are we expecting to fund them?"

5.4 Creating dependency

"We encourage and support applicants to develop a mixed funding package, so that they aren't dependent on us.
We are happy if our funding enables opportunities to source public funding."

— **Carol Candler,** Northern Rock Foundation

Concerns about creating grantee dependency are sometimes given as a reason for not providing long-term project or core funding.[24] The fact that most funders place time limits on their grants is perhaps a reflection of this; it has been suggested that time limits provide funders with a natural break point to review progress and opportunities to remove themselves from relationships in order to allow new activities and organisations to be supported.[25]

For some funders, the management of grantee expectations regarding the length of funding also stems from concerns about their own long-term financial position: it has been suggested that charitable foundations live in fear of creating *'an immovable philanthropic annuity'*.[26] The recent financial crisis has brought this issue into sharper focus, as financial returns from stock market investments come under pressure, thus placing future investment income streams in doubt.

Understandably, funders do not want to over-commit their future finances. However, our interviewees emphasised a commitment to supporting grantee resilience and independence, and did not raise concerns about grantee dependence or their own financial circumstances: *'It is possible to fund core in order that organisations become more independent, for example by enhancing their ability to fundraise.'* Some also noted that the relatively small amounts of money given in individual grants make dependency unlikely in any case.

5.5 Building reserve capital

"Businesses in good times, when they have got plenty of money, will tuck some money away as contingency funding. In the current climate, it is a little unfair of us as funders to, on the one hand, expect organisations to have strong strategies and be sustainable but, on the other hand, not allow them to think about tucking away reserves. In order for organisations to weather downturns and upturns they have to have some reserves."

— **Carol Candler,** Northern Rock Foundation

Another potential barrier to core funding, and especially to unrestricted grantmaking, is a concern that grantees will not spend the grant. Previous research by the Charity Commission identified that holding back significant reserves rather than spending them on beneficiaries was perceived as 'hoarding'.[27]

Although this practice is likely to be less prevalent in these more austere times, restricted grantmaking nonetheless negates such concerns by ensuring that the grantee has a particular purpose in mind for the funds.

Some of our interviewees noted that as funders they are not concerned by the size of reserves of well run organisations that deliver against their objectives. Rather, they commend the prudent creation of reserves, particularly in the current climate, as they may help to ensure stability and development in the sector.

MAKING CORE FUNDING WORK

In this section we look at the key things to consider when providing core funding in order to make it a beneficial experience for both funder and grantee.

6.1 Examining the limitations of project funding to address social issues during times of austerity
6.2 Enhancing accountability through trust
6.3 Valuing the 'back office'
6.4 Funding development work
6.5 Modifying grant application processes
6.6 Carefully selecting and training grant staff
6.7 Adopting a portfolio approach
6.8 Considering the possibility of unrestricted funding

Having reviewed some benefits and challenges of core funding, we now turn our attention to how funders might successfully use core funding as a means of helping voluntary organisations to achieve their charitable objectives.

This section also highlights the conditions in which core funding may be most appropriate and usefully deployed. We draw on work published in the US – particularly by Grantmakers for Effective Organisations[28] – which has sought to advance arguments and strategies to help funders to use core funding.

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6.1 Examining the limitations of project funding to address social issues during times of austerity

"Core funding is needed more than ever to get organisations ready for what lies ahead. If public sector and trust and foundation funding is retracting, we need organisations to be strong and resilient."

— **Kristina Glenn,** Cripplegate Foundation

The recession has brought with it new challenges for those seeking to address deep-seated and complex social problems. Just as service delivery organisations are considering new approaches, some funders have taken the lead in advocating and implementing alternative strategies to improve social returns.

Trusts and foundations are also paying more attention to alternative funding models such as social investment,[29] and some researchers have argued that reliance on the restricted programme grant model may no longer be enough.[30] Increased provision of core funding offers another option and, indeed, can give grantee organisations space to adapt and respond to changes in their environment and beneficiary need. Recent research echoes this, suggesting that voluntary organisations have an appetite for more flexible funding to give them the freedom to find innovative responses to beneficiary need.[31]

6.2 Enhancing accountability through trust

"We are more likely to provide core funding when we have a relationship with an organisation. Trust is vitally important."

— **John Mulligan,** Esmee Fairbairn Foundation

Grantmaking can be understood as a process through which funders and grantees attempt to achieve common, shared goals. IVAR's own research, as well as that of colleagues at the Center for Effective Philanthropy, has found that stronger relationships tend to exist between funder and grantee when the funder understands the overarching goals and strategies of the grantee.[32]

Core funding may help foster such relationships since it usually requires the funder to engage with the whole organisation in greater depth than would be necessary if just funding a project or programme. In addition, assessment processes for core funding can provide opportunities to enhance engagement and build relationships, trust and transparency.[33]

However, an existing relationship with an organisation is not the sole prerequisite for core funding. In practice, things are rather more nuanced; previous delivery and confidence in an organisation is crucial too: *'You need to have confidence in what you want to do. You need to have confidence in the organisations you support. There needs to be trust between you.'*

6.3 Valuing the 'back office'

There have been considerable efforts over recent years to encourage all funders to embrace full-cost recovery,[34] and there can be few left who remain oblivious to the need to ensure that grants reflect the full costs of delivery, including a legitimate proportion of overhead costs. However, there are still funders that do not include funding for overheads within their grants or who set arbitrary limits to overhead support. Even amongst our interviewees – all of whom provide some level of core funding – there was agreement that both applicants and funders could be better at implementing full-cost recovery.

It might help to frame support costs not as something that must simply be borne by the funder but as integral to the delivery of front-line services[35] and therefore an asset worth investing in. Adopting such a mindset might make it possible to *'focus on how investments in infrastructure will benefit the organisation's beneficiaries, rather than reduce costs'.*[36] In this respect, core funding can have a particular advantage, giving the funder an opportunity to consider how an organisation's infrastructure contributes to all programme activity.

6.4 Funding development work

"Private foundations are not constrained. Other funders might find it difficult to support core costs. Because there is the need for money to cover core costs and we can do this more easily than other funders who are constrained, we should do it."

— **Carol Candler,** Northern Rock Foundation

Endowed trusts and foundations have to ask themselves whether the needs of current or future beneficiaries are their highest priority.[37] A similar question is also relevant to core funding decisions. In the current climate, with financial resources under pressure and beneficiary demand increasing, some funders may understandably ground their concerns in the urgency of current social problems. They may perceive that the best way of addressing them is to spend all available resources with the aim of serving more and more people now. There is a risk, however, that pursuing this route exclusively contributes towards the *'service trap'* – forcing organisations into maximising expenditure on current services, thus leaving little money to invest in future capacity.[38]

A good illustration of this point is trusts' frequent encouragement to grantees to develop earned income in order to replace their grant income when it expires. A recent report into the funding of the arts and cultural sector suggested that a perennial focus on managing deficits leaves organisations incapable of developing new income sources and assets,[39] and it seems socially focused voluntary organisations face similar challenges. If voluntary organisations are expected to develop, earn more income and achieve greater financial sustainability, they need adequate funding for their development work.

6.5 Modifying grant application processes

"In our guidelines we say we have an explicit interest in core funding, but we worry that the questions in our applications push people to request project funding."

— **Dawn Austwick,** Esmée Fairbairn Foundation

The grant application process has an important role to play in core funding. If the process is principally designed to generate grants for restricted programmes, it is unlikely to encourage requests for core support. John Mulligan (Esmée Fairbairn Foundation) explains: '*We worry that applicants dress up core funding as a project*'. Similarly, Kristina Glenn (Cripplegate Foundation) acknowledges that: '*Too often organisations say they can't get money to support core costs, so they have to tell lies*'.

Use of language is another important factor here: references within application guidelines to 'projects', 'programmes' and 'outcomes' may not encourage grantees to apply for core costs. Different processes might be needed for different purposes and types of core funding. If core funding is about funding to strengthen an organisation to deliver its objectives more effectively, then the grantmaking process should have this aim in mind from application to exit.

6.6 Carefully selecting and training grant staff

The provision of core funding sometimes introduces greater complexity to funding decisions and places more demands on communicating and maintaining relationships with grantees. During the assessment process, for example, the funder needs to develop an understanding of an entire organisation – its objectives and strategic plan. This requires particular skills from the individuals carrying out the analysis.

The need for a high level of skills on the part of grant officers is something that many funders already embrace. Joanne Anderson (Yapp Charitable Trust) suggests that good candidates for grants officers are: '*Poachers turned gamekeepers*'. Indeed, research has shown that high-performing grants officers are those with a good understanding of the environment in which their grantees operate, who can build positive working relationships with grantees.[40] They also need to have a detailed understanding of organisational management and good financial literacy when assessing applications for core funding.

6.7 Adopting a portfolio approach

While many funders adopt rigid maximum time limits on grants and/or grantees, others take a more flexible, portfolio approach. For some, a key question for funding decisions is: *'What is the highest and best use of this asset for furthering our mission?'*[41] This then leads to consideration of the most appropriate funding mechanisms – for example, restricted programme grant; restricted grant for core costs; unrestricted grant or social investment – for the pursuit of particular objectives.

Some portfolio funders continue to support a grantee as long as they remain *'best in class'*.[42] This approach works on the understanding that the only sensible rationale for terminating funding to an organisation that is aligned with the funder's objectives is to replace it with one more capable of generating better social or environmental returns.

6.8 Considering the possibility of unrestricted funding

Finally, when thinking about providing core funding, it is useful to consider when it may be appropriate to make an unrestricted grant. This is an important question, not least because recent research has shown that smaller voluntary organisations in particular consider unrestricted funding to have sufficient added value that they are willing to accept a reduced grant if it is unrestricted. The same research found that larger organisations appear to prioritise grant size, while smaller organisations prioritise unrestricted funds.[43]

The key consideration here is likely to be one of objectives. Grantee organisations may have a range of objectives – some aligning with the funder's; others not. Where some of a grantee's objectives fall outside the funder's objects, it may be necessary to make a restricted grant. However, where the grantee's objectives fall entirely within the funder's own objectives, funders are well placed to make an unrestricted grant.

There may be benefit in considering how a particular grantee's overall objectives relate to those of the funder; and this may have implications for how the terms and conditions of funding may be more helpfully tailored to individual grantees.

Some funders are unwilling to provide unrestricted funding to new grantees about whom they know very little. However, through a process of engagement, perhaps beginning with a restricted grant, and then learning about the grantee and building confidence in them, funders may feel sufficiently comfortable and confident to award unrestricted grants. One caveat to this is that some organisations and initiatives might benefit from unrestricted grants at an earlier stage – for example, start-ups or new approaches to tackling intractable problems.

CONCLUDING REMARKS

In this final section we set out four points to help trusts and foundations in their deliberations about why, when and how to use core funding.

7.1 Terminology
7.2 Context
7.3 Flexible funding
7.4 Alignment and accountability

7.1 Terminology

We began our exploration with a working description of core funding: *'Funding which contributes towards the core costs of running an organisation, including support costs (as defined by the Charity Commission's SORP), income generation and governance activities.'*

Along the way, we have noted that certain terms are often used interchangeably – such as core costs, operating costs and central costs – even though they may be interpreted differently, by grantmakers and grantees alike. A single definition does not appear to be realistic, nor do we think it would be helpful.

What matters most is that foundations are crystal clear about what they mean by core funding and that they communicate this unambiguously to applicants, particularly in grant application guidelines.

7.2 Context

The current operating environment for voluntary organisations is incredibly demanding.[44] Organisations are struggling to deal with both complexity and distress, often feeling unable to find the time or space to think about how to move forward.[45]

In these circumstances, it seems that core funding can make an invaluable contribution, as it can provide: validation for the work that many organisations do, often against the odds; the opportunity and resources to plan, innovate and improve; a bit of security; or some breathing space and time to think.

7.3 Flexible funding

While the case for core funding is compelling from the perspective of voluntary organisations, we recognise that the implications for foundations are not insignificant. Transaction costs may well be higher than they would be with project grants. We also note that, for many activities and initiatives, project funding might well be more appropriate (as long as full cost recovery is used), so a presumption in favour of providing core funding is not necessarily the way forward.

In thinking about how best to achieve a balance of approaches, we are drawn to the practice of those foundations that provide flexible funding. This kind of arrangement has the potential to accommodate a range of investment types – core and project funding, unrestricted and restricted grants or even social investment. Core funding is but one tool in the flexible funder's box, to be used as and when it is judged to be fit for purpose.

7.4 Alignment and accountability

Finally, in carrying out the background research for this report, we were struck by the extent to which, for some, anxieties about core funding were linked to concerns about loss of control. These concerns need to be understood and addressed – in thinking about this, we have been drawn to the observation made by Gilly Green at Comic Relief:

> "Funders could consider offering core funding to organisations that align with their strategic objects, and then enable those organisations to get on with delivering their own vision and mission."

This approach, where core funding is linked to an alignment of objectives (which itself provides some reassurance and confidence), has the potential to create a virtuous circle that satisfies the aspirations of both funders and the organisations that they fund.

Through the sharing of objectives – and the engaged relationships necessary to identify that common ground – comes confidence, trust and, in turn, appropriate and proportionate arrangements for accountability.

End notes

1. See IVAR (2006) *Servants of the community or agents of government*, London: bassac; and IVAR (2010) *BIG and small: Capacity building, small organisations and the Big Lottery Fund*, London: BIG Lottery Fund.

2. Ibid.

3. IVAR (2012) *Duty of care: The role of trusts and foundations in supporting voluntary organisations through difficult* times, London: Institute for Voluntary Action Research.

4. Charity Commission (2005) *Accounting and reporting by charities: Statement of recommended practice,* defines support costs as: *'those costs that, whilst necessary to deliver an activity, do not themselves produce or constitute the output of the charitable activity. Similarly, costs will be incurred in supporting income generation activities such as fundraising, and in supporting the governance of the charity. Support costs include the central or regional office functions such as general management, payroll administration, budgeting and accounting, information technology, human resources and financing'* (p.74).

5. ACEVO and the Big Lottery Fund (2006) *Mind the gap: A funder's guide to full cost recovery*.

6. Ibid.

7. See Huang, J., Buchanan, P. and Buteau, E. (2006) *In search of impact: Practices and perceptions in foundations' provision of program and operating grants to nonprofits*, The Center for Effective Philanthropy; Institute for Philanthropy (2009) *Supportive to the core: Why unrestricted funding matters*; and National Commission for Responsible Philanthropy (2003) *The core of the matter.*

8. See note 5 and BOND (2005) *Core funding strategies,* BOND Networking for International Development.

9. See Hagar, M., Pollak, T., Wing, K. and Rooney, P. (2004) *Getting what we pay for: Low overhead limits non-profit effectiveness,* Urban Institute and Indiana University; and Roob and Bradach (2009) *Scaling what works: Implications for philanthropists, policymakers and non-profit leaders,* Edna Connell Clark Foundation and the Bridgespan Group.

10. See notes 5 and 9.

11. Miller, C. (2012) *The world has changed and so must we.* F.B. Heron Foundation.

12. See note 3 and IVAR (2013) *Turning a corner: Transition in the voluntary sector, 2012-2013*, London: Institute for Voluntary Action Research.

13. See Bolduc, K., Buchanan, P. and Buteau, E. (2007), *Luck of the draw,* Stanford Social Innovation Review; and Brest, P. (2005) 'The rationale for modes of foundation support for non-profit organisations' in *A memorandum to the program directors, program officers and fellows of the William and Flora Hewlett Foundation.*

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15. Ibid.

16. Burd, N. (2009) *On the money: The key financial challenges facing nonprofits today and how grant makers can help,* Grantmakers for Effective Organisations.

17. National Commission for Responsible Philanthropy (2003) *The core of the matter.*

18. Huang, J., Buchanan, P. and Buteau, E. (2006) *In search of impact: Practices and perceptions in foundations' provision of program and operating grants to nonprofits,* The Center for Effective Philanthropy.

19. Ibid.

20. See note 18.

21. Third Sector Magazine (2013) *Interview: Gina Miller,* 23 April 2013.

22. See note 5 and Unwin, J. (1999) *Who pays for core costs,* London: ACEVO.

23. See note 18

24. See note 22 and Brest, P. (2005) 'The rationale for modes of foundation support for non-profit organisations in *A memorandum to the program directors, program officers and fellows of the William and Flora Hewlett Foundation.*

25. Unwin, J. (2004) *The grant making tango: Issues for funders,* London: The Baring Foundation.

26. See note 18.

27. See Charity Commission (2003) *RS3 - Charity reserves;* and Charity Commission (2006) *RS13 - Tell it like it is: The extent of charity reserves and reserves policies.*

28. See, for example, note 16.

29. See HM Government (2012) *Growing the social investment market: Progress update* and IVAR (2013) *Charities and social investment,* London: Institute for Voluntary Action Research.

30. See note 11.

31. Stars Foundation (2013) *Perceptions of trust, risk and collaboration within international funder-charity relationships,* London: Stars Foundation.

32. See Bolduc, K., Buchanan, P. and Huang J. (2004) *Listening to grantees: What nonprofits value in their foundation funders,* Center for Effective Philanthropy; Buteau, E. Buchanan, P. and Chu, T. (2010) *Working with grantees: The keys to success and five program officers who exemplify them,* The Center for Effective Philanthropy; and IVAR (2013) *Turning a corner: Transition in the voluntary sector, 2012-2013*, London: Institute for Voluntary Action Research.

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44. See note 3.

45. See note 12.

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