

# The holy grail of funding

*Why and how foundations  
give unrestricted funding*

*November 2021*

# Authorship and acknowledgements

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Foundation	Name	Position
Allen Lane Foundation	Zoe Teale	Trustee
	Tim Cutts	Executive Secretary
Blue Thread	Hannah Hoare	Executive Director
Cattanach	Mafe Marwick	Trustee
	Dr. Patricia Jackson	Trustee
	Sophie Flemig	Chief Executive
Esmée Fairbairn Foundation	Tom Chandos	Trustee
	Gina Crane	Director of Communications and Learning
Garfield Weston Foundation	Philippa Charles	Director
Impetus	Eleanor Harrison	Chief Executive
John Ellerman Foundation	Keith Shepherd	Trustee
	Sufina Ahmad	Director
Lloyds Bank Foundation for England and Wales	Baroness Rennie Fritchie DBE	Trustee
	Paul Streets	Chief Executive
Pears Foundation	Amy Braier	Director
Peter Minet Trust	Aanchal Clare	Former Trustee
	Rachel Oglethorpe	Director
Two Ridings Community Foundation	Jan Garrill	Chief Executive
William Grant Foundation	Nigel Woof	Trustee
	Nick Addington	Chief Executive

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# Contents

<b>Introduction</b> .....	4
Why unrestricted funding matters .....	4
The purpose of this report .....	5
Towards a common language .....	5
<b>Part One: The value of unrestricted funding</b> .....	6
<b>Part Two: Why and how foundations decide to offer unrestricted funding</b> .....	9
Legal powers and purpose .....	9
How far can we go in offering unrestricted funding? .....	9
How do we keep our spending in line with our priorities? .....	10
Efficiency and effectiveness .....	11
Does the way we give our grants actively support the contribution we are trying to make? ....	11
Does the way we give our grants reflect our confidence in our own strategy, staff and processes? .....	12
Is unrestricted funding cost-effective? .....	13
Equity and Power .....	14
Does how we fund help us tackle challenges around equity and power in our funding relationships? .....	14
Risk and who bears it .....	16
What is the risk to us in giving funded organisations more control of their spending? .....	16
What is the risk to funded organisations if we don't give them more control over their spending? .....	18
Judging impact and success .....	19
Does the way we think about impact call for greater control over how funds are spent? .....	19
How do we judge our own impact? .....	21
<b>Part Three: Advice from our group of funders</b> .....	22
Appendix One .....	25
About open and trusting grant-making .....	25

# Introduction

## Why unrestricted funding matters

*‘Unrestricted funding is the single most powerful thing that funders can do to support charities. It enables us to be agile and decisive in dealing with the ever-changing demands of the current uncertainty, while planning as best we can for whatever the future holds.’<sup>1</sup>*

Back in 2013, we explored the need for more funders to look beyond individual projects and make grants to meet charities’ essential running costs.<sup>2</sup> Over recent years, many more funders have recognised the importance of supporting the core costs of organisations – helping to make them more resilient and able to respond to whatever life throws at them. Far fewer have made the next step to unrestricted funding – a genuinely *‘no strings attached’* contribution that funded organisations can use as they wish. The Covid-19 emergency has begun to change this picture, with many more foundations offering unrestricted funding to free the organisations they support to respond to unprecedented demand and uncertainty.

This uncertainty is not going away. With massive social and economic consequences now and to come, charities know that they must remain highly adaptable and fleet of foot if they are to meet the needs of the communities and causes that they serve. Unrestricted funding is *‘the holy grail of funding’* that will give them the best chance of success: *‘It enables us to listen to and hear our communities, and implement solutions based on what they need’*. The powerful message from voluntary sector leaders is that now is the time to make unrestricted funding widespread and permanent:

*‘We need funders to say, “We know you will use it for what is needed, and you are doing a good job”, without the restrictive conditions attached. Show us you trust us.’<sup>3</sup>*

This calls for a new mindset – one that starts from the assumption that charities *‘know their own business and can be trusted to spend wisely’*, adding constraints only by mutual agreement or where absolutely essential. For small and medium-sized organisations in particular, this change would be transformational.

We recognise, though, that this raises many considerations for funders, especially those who feel sceptical about the case for unrestricted funding. Some are practical – like whether it is permitted by your legal powers. Others are more philosophical – like being clear about your attitude to risk. In this piece we shed some light on how funders at different stages are thinking about and addressing these questions. Whatever your constraints, and however far along the journey you are, we believe that it is worth asking: can we go further in offering unrestricted funding?

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<sup>1</sup> IVAR (2020-2021) *Covid-19 briefing series*

<sup>2</sup> IVAR (2013) *Thinking about Core Funding*

<sup>3</sup> IVAR (2020-2021) *Covid-19 briefing series*

## The purpose of this report

At the time of writing, over 80 funders have signed up to becoming Open and Trusting Grantmakers with IVAR (see Appendix One), making a commitment to:

Enable voluntary sector organisations to respond flexibly to changing priorities and needs – we will give unrestricted funding; if we can't, we will make our funding as flexible as possible.

To support them in this effort – and to encourage others to join them – we asked a group of funders to share their experiences and what they have learned about offering unrestricted funding. We spoke with eight trustees and 12 senior staff from 12 trusts and foundations, with annual grant spends ranging from c. £200k to c. £100m. Some have long experience of unrestricted funding, while others are making their first steps towards a more flexible approach. We hope that this mix of perspectives, from people at different stages of the journey, acts as a conversation starter for your own foundation.

We were particularly keen to give a voice to trustees, whose views are often assumed rather than heard. What follows is, largely, in the words of interviewees from our group of funders. Direct, on-the-record quotes are attributed throughout and, unless identified as trustees, contributors are senior staff.

## Towards a common language

Many of the funders interviewed give a mix of restricted and unrestricted funding and have taken great care to define and communicate their different offers and intentions. However, both funders and charities use the term 'unrestricted funding' in different ways, often to reflect different degrees of flexibility rather than formal accounting definitions. Further confusion arises when 'core funding' is used as a synonym for unrestricted funding by some, and by others as a description of restricted grants for defined elements of overheads (for example, a manager's salary) or, sometimes, of grants to support established ('core') services, rather than new projects and initiatives.

### Terminology

For the purpose of this report, we use:

- **Unrestricted funding** to describe no strings funding that funded organisations can use for anything within their charitable objects.
- **Core funding** to mean grants restricted to either a specific element of overheads (for example, rental costs or the director's salary) or available to be used for essential running costs more broadly.
- **Project funding** to mean grants restricted to the delivery of a specific project or defined set of activities, often (but not always) including a percentage contribution towards general running costs.
- **Foundations** and **funders** interchangeably as shorthand for 'trusts and foundations'.
- **Charities, funded organisations** or simply **organisations** to refer to the full range of entities comprising the voluntary sector, from unincorporated associations through to social enterprises.

# Part One: The value of unrestricted funding

Our group of trusts and foundations are at different stages in the development of their ideas and practices. Some offer unrestricted funding as a default position; some 'lightly restrict' their grants to ensure they are aligned with their own spending powers; some emphasise core funding; and some are working to create more flexibility within their project funding or to shift the balance from project to core support. But at the heart of all they are trying to do is the belief that a more trusting and flexible approach to funding helps them to do a better job as funders and supports better outcomes for the causes and communities they care about.

## **Seven key ways in which enabling funded organisations to have greater control over their own spending adds value:**

1. **Better use of expertise.** It respects the experience, skills, and knowledge of funded organisations, freeing them to make informed judgements about the best use of funds:

*'We don't deliver anything – those organisations do. Given our different priorities, given the amount of information we receive in applications, we can say that we do understand a little about different issues within different sectors. But we don't know what the face-to-face experience is: we don't really know what it's like to work with trauma, or loneliness or severe isolation. We hope we bring empathy, we think we have some insight, but it's the organisations that deliver who know better.'* (Tim Cutts, Allen Lane Foundation)

*'Those closest to the issue trying to be solved are the best-placed to design and understand what's needed, and how to adapt and change.'* (Philippa Charles, Garfield Weston Foundation)

2. **More flexibility and agility.** It recognises that the future is unpredictable, and it enables funded organisations to manage well in uncertainty, responding quickly to changing circumstances and needs:

*'Unrestricted funding gives our partners the freedom to be outcomes-focused and community-led. They can do their best in the best way; it enables them to plan and allows them the discretion to stop what is not working and adapt to new realities.'* (Eleanor Harrison, Impetus)

*'The value has been underlined by the experience of the COVID pandemic, where partners have had the freedom to adapt what they do with agility and speed.'* (Aanchal Clare, former Trustee, Peter Minnet Trust)

3. **More effective work.** It maximises the chances of delivering the greatest positive impact for the communities and causes that the funder seeks to support:

*‘If you feel comfortable about trusting an organisation, it is likely that unrestricted funding will have the greatest impact. You’re backing their team to direct their funds better than we can pre-emptively.’* (Tom Chandos, Trustee, Esmée Fairbairn Foundation)

*‘You need to focus on the end user and ask what’s best for them. By supporting an organisation’s work with a general contribution to core costs [unrestricted funding], we are enabling them to deliver outcomes for the people they want to support.’* (Tim Cutts, Allen Lane Foundation)

4. **Better relationships.** It helps towards levelling the power relationship and opens the way for greater mutual honesty between funded organisations and their funders:

*‘Unrestricted funding goes with a trust-based approach, empowering and trusting funded partners to decide how best to spend the money to further their mission. It represents a real power shift.’* (Aanchal Clare, former Trustee, Peter Minet Trust)

*‘Unrestricted funding is the hardest to raise and so the most valuable to fund. It brings you closer to the heart of an organisation, although you have to be cautious about not getting too involved.’* (Tom Chandos, Trustee, Esmée Fairbairn Foundation)

*‘Grantees can be more honest. They don’t have to play the project game and collude in what a colleague has called “the dance of deceit”.’* (Jan Garrill, Two Ridings Community Foundation)

5. **Building confidence.** A more supportive, less transactional funding relationship delivers a significant boost to funded organisations:

*‘When we fund an organisation, we say “we back you and we stand beside you” – and that means their Board, their staff, their strategy, their infrastructure. It gives them confidence. We focus on what they want to do and what they are there to do.’* (Rennie Fritchie, Trustee, Lloyds Bank Foundation for England and Wales)

*‘It demonstrates to other investors that they are trusted to do what is needed.’* (Sufina Ahmad, John Ellerman Foundation)

6. **Lighter processes.** It reduces bureaucracy for both funders and funded organisations:

*‘There has been less admin and process than would have been necessary with restricted funding – for example, changing the use/terms of a grant. The logistics are easier to manage.’* (Aanchal Clare, former Trustee, Peter Minet Trust)

*‘It has introduced more flexibility and rendered unnecessary the “permission seeking” which grantees feel they must do when they want to change how they use a grant.’* (Sophie Flemig, Cattnach)

7. **Reduced organisational risk and greater resilience.** Unrestricted funding gives funded organisations much greater scope to cover all essential costs, deal with challenges quickly and effectively, and experiment:

*'Restricted funding is a peculiarity of the sector which would be mad in commerce. How can you deliver if you run out of overhead? Restricted funding is generally a burden we place on grantees for our own ends.'* (Nigel Woof, Trustee, William Grant Foundation)

*'If an organisation's core is secure, that will create opportunities for them to experiment, take their own risks, form new relationships and continue to improve.'* (Philippa Charles, Garfield Weston Foundation)

*'If you have a reasonably high appetite for risk there will be failures – if there aren't, then you are either kidding yourself about the risks you have taken on or I'd like to join your Lottery syndicate. If those grants had been restricted project grants, the incidence of failure would probably have been worse.'* (Tom Chandos, Trustee, Esmée Fairbairn Foundation)



# Part Two: Why and how foundations decide to offer unrestricted funding

Our group of trusts and foundations are all very different – in terms of scale, focus, geography and degree of independence, as well as in their judgements about purpose and how they can make their best contribution. They come to questions about more flexible funding from different places and reach their own conclusions about what approaches are right for them. No matter where they are now – whether routinely offering unrestricted funding or tentatively inching away from a restricted project funding model – everyone is still asking and answering questions: *‘We are at the beginning of this journey, and still feeling things out. It’s important to be flexible and respond to situations. Things might look very different in the future’.*

**We identified some of the critical questions that funders ask themselves to help navigate the opportunities and barriers they experience in enabling funded organisations to have greater control of their own spending.**

## Legal powers and purpose

Trusts and foundations must, of course, fund within their own legal powers. Beyond this, though, funders are free to choose what and how they want to fund. All make strategic choices about their funding aims and priorities. Some distribute funds on behalf of others and are constrained by their requirements. Our group shared how they have made progress towards greater flexibility – and in some cases to fully unrestricted funding – without compromising their own position, strategic priorities, or relationships with donors.

## How far can we go in offering unrestricted funding?

Our funders face few barriers in terms of their own legal powers, or they have examined them closely to maximise flexibility. Most have widely framed objects constrained only by the requirement to demonstrate public benefit in their spending. Where their own objects are not fully aligned with those of an organisation they wish to fund, a relatively light-touch restriction (in line with regulatory guidance) often gives sufficient assurance:

*‘The majority of our funding is now unrestricted. We still use restricted funding for non-charities (in line with Charity Commission rules) and for charities with non-UK work, which we are not able to fund. Usually, the restrictions are light, and the grant can be broadly applied to overheads/core costs. And we use project funding when organisations request it, or we are funding collaborations or delegating funding decisions to other organisations.’* (Gina Crane, Esmée Fairbairn Foundation)

*‘We give broadly restricted funding where we want our funding to be used for a specific type of work, beneficiary group or geography, but allow the organisation to use it flexibly within that scope. For example, our focus is Scotland, so if we fund a UK charity, we make a grant restricted for its work north of the border.’* (Nick Addington, William Grant Foundation)

## How do we keep our spending in line with our priorities?

There is a variety of approaches to maintaining focus on a foundation's specific funding priorities and programmes.

Some funders rely purely on their application and assessment process to identify the organisations which most closely meet their priorities. They see no need to restrict their grant as a further control over how funds are used and may be reluctant to 'restrict on request':

*'We seek assurance from applicants that they know their work and beneficiaries well – if we are convinced of the need and their solution and if the governance is sound and finances are in good order, then our Trustees will most likely back them. In many ways, it is an entrepreneurial approach with similarities to the business underlying the Foundation's income.'* (Philippa Charles, Garfield Weston Foundation)

*'We want to empower the leadership of organisations to take the best decisions on how to use funds based on their own judgements. And, as in commerce, leaders have to be ready and able to take tough decisions. We shouldn't believe that internal allocation is the job of external funders.'* (Nigel Woof, Trustee, William Grant Foundation)

A variation on this approach involves having a conversation with an organisation the foundation wants to support about the most helpful way to frame their funding offer, which may then be restricted:

*'The Foundation is open to working together to define how the funds will be used. Over 80% of our funding is towards core costs. Some applicants request grants towards specific core costs (for example, the salary of a particular post); some request project funding; some like their funding to be unrestricted.'* (Sufina Ahmad, John Ellerman Foundation)

Where the work of the organisation does not align fully with their own priorities, some foundations add light restrictions that focus the grant on the area of work they are interested in, enabling organisations to use funds flexibly within this broader envelope:

*'The way we are dealing with this (as a specialised funder) is to offer broadly restricted funding. The terms state that the grant can be used on any expenditure relating to (in our case) early years children, including strategic spend, core costs, etc. We made adjustments to our grant paperwork accordingly, but that was not a problem.'* (Sophie Flemig, Cattanach)

*'We are making some larger grants, to support growth opportunities or experimental projects. Those grants might not be totally unrestricted, but we would consider the funding open to free allocation within the broad project or programme we are supporting.'* (Hannah Hoare, Blue Thread)

Restricted project funding is otherwise most common where our funders are constrained by their own donors' wishes; are making a grant to a large organisation with a wide range of interests; or have a strong interest in a specific element of an organisation's work. However, even where their interests are highly focused, some prefer to retain a lightly restricted approach that is not tied to a tightly defined budget, or have come up with

innovative ways of attaching their interest to a particular project or programme of work without restricting their funding to that work:

*‘We also give what we call ‘designated unrestricted’ funding. This is when we’d be happy to support everything the organisation does, but we’ve identified a project or activity which we’re particularly interested in, and the size of our grant probably reflects the cost of it. But if the organisation can get some or all of the money for that from elsewhere, we’d be happy for them to use our money for something else. So, we ask them to report specifically on the activity we’re interested in, but make the grant unrestricted.’* (Nick Addington, William Grant Foundation)

## Efficiency and effectiveness

In a busy foundation, it can be hard to step back and take a critical look at established assumptions, systems and ways of working to make sure that they fully reflect agreed values and strategic intentions. In thinking about more flexible funding, a key ambition is to achieve *‘the best possible alignment between “how we do things” and “what we are trying to achieve”’*.

### Does the way we give our grants actively support the contribution we are trying to make?

This question often marks the starting point of a foundation’s journey to offering more flexible funding.

Trusts associated with family businesses or with trustees experienced in venture capital or business start-ups, for example, tend to instinctively take the view that restricting spending against project budgets – no matter how flexibly applied – inhibits good organisational performance:

*‘Investment of unrestricted funding in start-up initiatives enables them to chase down the best opportunities, and to implement, adapt and scale up and achieve a bigger impact. It gives organisations flexibility which enables them to achieve more.’* (Nigel Woof, Trustee, William Grant Foundation)

*‘I can’t think of a single instance of disquiet about the principle of supporting organisations through unrestricted funding. It professionalises the organisations you support.’* (Tom Chandos, Trustee, Esmée Fairbairn Foundation)

Others have come to this point in response to feedback from charities, conversations with other funders and deep debate about whether the kinds of grants they were making best supported their strategy and aims:

*‘We asked charities what they needed, and they said larger, multi-year grants for unrestricted funding. The Trustees decided to respond to this and focus our limited resources on smaller numbers of larger grants, concentrating on smaller charities based in Lambeth and Southwark. We have received many emails from organisations who were not eligible for the new programmes but nevertheless thought the changes were the right ones to make.’* (Rachel Oglethorpe, Peter Minet Trust)

*‘The Board was not instinctively inclined to unrestricted funding. With a range of backgrounds and a significant Bank membership, some would naturally default to the non-exec director model of performance management. But our trustees don’t jump to conclusions – they thought through the logic of what would best support our aims.’*  
(Paul Streets, Lloyds Bank Foundation for England and Wales)

Giving time and attention to achieving shared understanding and consensus around the foundation’s own purpose, role and intended contribution has proved instrumental in achieving greater comfort with unrestricted funding, whatever the starting position:

*‘We’re trying to offer more unrestricted funding to give maximum flexibility, and generally unrestricted funding is our default. We need to see ourselves in the long run as investors rather than purchasers of outcomes.’* (Nigel Woof, Trustee, William Grant Foundation)

*‘Our aim is to help build sustainable charities – that have a clear purpose and objectives, clear strategic thinking, are building their capacity and strength, working on prevention as well as cure, and are seeking to diversify their income. Unrestricted funding supports our aims.’* (Rennie Fritchie, Trustee, Lloyds Bank Foundation for England and Wales)

## Does the way we give our grants reflect our confidence in our own strategy, staff and processes?

Foundations invest considerable time and effort in making grants. Our funders agree that it is easier to develop more flexible and trusting relationships when a foundation’s internal culture is flexible and trusting – forward-looking, accepting of risk and always interested in how to learn and do better:

*‘Internally, you need to have a clear strategic direction and trust in your own team. Looking out, you need to put yourselves in the shoes of the applicant and not make them jump through needless hoops. And be prepared to take risks and accept that there will be things which don’t work out or where a change of direction is needed.’*  
(Mafe Marwick & Patricia Jackson, Trustees, Cattanaich)

*‘In terms of developing our model, it was important to go back to first principles and be a bit radical with our thinking. We agreed what we wanted to do – and then designed the process. So, for example, we spend more time on due diligence, because we have to be sure they are an effective organisation. And we provide organisational development through our Enhance programme.’* (Rennie Fritchie, Trustee, Lloyds Bank Foundation for England and Wales)

There is a clear sense that board leadership is key to building a flexible and trusting culture. And many of our funders have taken active steps to expose themselves to new voices and challenges at board level by, for example, actively recruiting trustees to achieve greater diversity in terms of both professional and lived experience, or setting up advisory boards or networks and appointing senior staff with an explicit mandate for change:

*‘It made a big difference that we had a newly strengthened and diverse group of Trustees that were passionate about unrestricted giving – our board also included*

*some from the fundraising sector and that made a big difference. There was a completely different energy which enabled us to be more radical.'* (Rachel Oglethorpe, Peter Minnet Trust)

*'We've also created a network of associates from practitioners and front-line organisations, who provide expert advice and are co-opted to our Grants Committee. They also help the Board in keeping its thinking up to date with frontline work.'* (Sophie Flemig, Cattnach)

Perceptions of 'what the board wants' exercise a powerful influence on staff confidence to critique established ways of doing things and test out new ideas and approaches. Without clear messages and explicit direction, grants managers may default to an unnecessarily risk-averse position, excluding organisations that trustees would be happy to fund, or imposing restrictions to mitigate risk which trustees would be happy to accept. Our group of funders have, therefore, given attention to making sure that board priorities, attitudes to risk and expectations of '*what good grant-making looks like for our Foundation*' are well-understood throughout the organisation:

*'We do very consciously design a model before we start and constantly test it and see how we could improve it – the culture needs to be comfortable about continuous improvement.'* (Paul Streets, Lloyds Bank Foundation for England and Wales)

*'We need to help funding managers to stop feeling accountable [to Trustees] for things that they really aren't ever going to be held accountable for. This can free people up to take the leap into unrestricted funding built on trust.'* (Gina Crane, Esmée Fairbairn Foundation)

## Is unrestricted funding cost-effective?

Foundation overheads reflect the choices funders make about their strategy and role, and how these are implemented in their application, assessment and grant-management processes. What is clear from the varied experiences of our group of foundations, is that unrestricted funding is not inherently more costly. It may even reduce costs because of the lighter touch approach to compliance:

*'We're very clear about what we do. Due diligence is important – it's done thoroughly, but also in proportion to the scale and complexity of the charity we are looking at. This enables us to get to know an organisation while allowing them to get on with their necessary work. We are also careful about reporting requirements with clear and straightforward agreements that acknowledge the administrative burden involved in reporting.'* (Philippa Charles, Garfield Weston Foundation)

*'We've found that grantees in receipt of unrestricted funding don't necessarily want lots more contact. They sometimes just want to be left to get on with it.'* (Rachel Oglethorpe, Peter Minnet Trust)

The efficiency benefits to funded organisations are undeniable:

*'If funders continue to prioritise project funding, organisations continue to spend their time chasing around from funder to funder, dressing up their core as a bright new project idea. How can we justify, as funders, pushing organisations to create projects*



*that they don't necessarily need to do when it is their base work that is most important to those they are seeking to support? This is a problem of funder's creation.'* (Tim Cutts, Allen Lane Foundation)

*'Restricted funding isn't good for charities and their beneficiaries. It wastes time and resources – one of our funded charities has 17 staff and 17 funders. Three staff spend all their lives fundraising and managing funding.'* (Paul Streets, Lloyds Bank Foundation for England and Wales)

## Equity and power

Alongside their ongoing exploration of questions around efficiency and effectiveness, trusts and foundations are increasingly concerned with the implications of their processes and behaviours for questions about equity and power. There are animated debates about the contribution that more unrestricted funding might make to opening up wider access to funding, and addressing long-standing power imbalances in grant management.

### Does how we fund help us tackle challenges around equity and power in our funding relationships?

Foundations are very aware of the power differential inherent in funding relationships. Many are actively looking for ways to shift the dynamic in their relationships with charities so that they, as foundations, hear what is really needed and can make a stronger contribution. For some, unrestricted funding is the single most powerful mechanism for supporting this change:

*'We are genuinely trying to find a way to get alongside small organisations and be helpful. A perennial question along that journey is about how we get honesty from the organisations we fund. We have learned that being honest with them is a start. And unrestricted funding is a key part of that, because it is expressing faith in people. You can't overestimate its importance.'* (Paul Streets, Lloyds Bank Foundation for England and Wales)

*'It's important that funders can listen to what people really need rather than automatically prioritising our preferences.'* (Mafe Marwick & Patricia Jackson, Trustees, Cattanach)

*'The advantages for the recipient are clear cut. It's easier for applicants to ask for what they most need so they have more flexibility.'* (Zoe Teale, Trustee, Allen Lane Foundation)

The increasing willingness of some funders to offer core funding has made inroads into expectations, but the idea that '*funders prefer projects*' is deeply entrenched:

*'Most charities don't ask for unrestricted funding because they think funders are more likely to give a grant for something specific.'* (Jan Garrill, Two Ridings Community Foundation)

Building confidence in an offer of unrestricted funding can prove challenging and calls for clear and explicit communication:

*'Having worked for grantmakers and grant seekers, I wonder about the prevailing culture and preference for project funding. Do we need to increase confidence on both sides and make it clearer that for some funders we are willing to talk about unrestricted funding? Could we question this more?'* (Sufina Ahmad, John Ellerman Foundation)

*'Sometimes an organisation comes with a specific project, but we will go back and say we're not that keen on the project but could make a contribution to general costs. This stems partly from organisations thinking that they need to come up with a project – a new idea or new approach, an 'innovation' – when what they really want is a general contribution.'* (Tim Cutts, Allen Lane Foundation)

Where foundations are trying to give funded organisations more control of their spending within the format of a restricted grant, they have equally found that they need to be very explicit about their intentions in order to enable funded organisations to benefit:

*'Sometimes organisations tie themselves in knots with the distinctions between unrestricted and restricted funding and unnecessarily impede themselves by interpreting restricted funding as project funding, which can be narrower than the funder's intention. On the other side of the coin, they think that core costs can only be funded from unrestricted funding. There is a lot of misunderstanding around how restricted grants can be used, which sometimes reflects the power imbalance between funders and grantees.'* (Mafe Marwick & Patricia Jackson, Trustees, Cattanach)

*'Grantees' accountants sometimes seem to prefer to assign funding more narrowly than the funder intends. There are points of insecurity within the whole relationship of funder and grantee.'* (Sufina Ahmad, John Ellerman Foundation)

There are some concerns that unrestricted funding is more likely to be offered to organisations already funded by foundations, further reinforcing existing inequalities of access. Although some agree that *'it may be easier for Trustees to trust organisations they know already'*, most would argue that making funding more accessible to minoritised communities is not primarily a question about the type of funding offered. Rather it calls for strategic choices and attention to implementing these choices across application, assessment and grant management processes.

Where our group of foundations give unrestricted funding, a significant proportion goes to organisations they have never funded before. In their experience, pre-existing or close funding relationships are not a precondition for unrestricted funding, provided they have confidence in their own assessment processes.

The challenge is to ensure that these processes genuinely reflect their commitment to be open and accessible and to be ready to improve and develop them in the light of experience and feedback:

*'I saw what a difference it made when I visited charities with different Trustees who brought their own insights and lived experience. When we visited a youth club in South London I could see that the staff really opened up with the Trustee in a way*

*they didn't with me. Similarly, when we visited a sports youth project with a Trustee who runs a community centre in a neighbouring borough, the staff were really interested in her work with a different local community and felt she understood what their challenges were.'* (Rachel Oglethorpe, Peter Minnet Trust)

*'We have a tightly defined funding programme around complex social issues and generally apply our '50% rule', accepting applications only when more than half of a charity's work is addressing one of these issues. We are committed to making at least 25% of our grants to charities led by-and-for Black, Asian and minority ethnic communities, which tend to be less specialist. So, we don't apply this rule to our racial equity strand.'* (Paul Streets, Lloyds Bank Foundation for England and Wales)

*'A feature of our assessment process is that applicants can chat through with associates what they want to do. It enables us to nurture newer organisations. Sometimes we can help them develop their ideas and think about whether they have the right capacity. On some occasions, after discussion, we may conclude that with more funding than previously asked they can achieve better results and we offer more.'* (Mafe Marwick & Patricia Jackson, Trustees, Cattnach)

## Risk and who bears it

Overall, our funders do not see more flexible funding in general – or unrestricted funding in particular – as inherently more risky for their foundation than restricted funding. And most share a strong sense that enabling funded organisations to have greater control over their own spending significantly reduces the risk those organisations are managing.

### What is the risk to us in giving funded organisations more control of their spending?

Each foundation has come to a clear view about 'what risk looks like to us' in this context and is comfortable with the level and type of risk they are taking on. For many, the decision to look at all the opportunities and challenges in a systematic way was an essential first step towards greater comfort with fewer, or no, restrictions:

*'We recognised that project and one-year funding was causing a lot of 'churn' for small and medium size charities, who had to reapply six months after receiving their first grant, lacked bid writers to do this work, and had nobody funding their core costs. Three to four years ago we started looking at risk, asking ourselves whether we were taking enough risk (without ignoring the importance of good governance). We concluded we needed to take "balanced risk", to work more as partners – to put ourselves in charities' shoes and, if we decided to fund them, offer them our unequivocal support.'* (Rennie Fritchie, Trustee, Lloyds Bank Foundation for England and Wales)

*'A lot of the barrier is fear. People worry a lot about what their obligations are – to HMRC, to the Charity Commission. And, because other funders do it like this, we all do it – you default to the highest level of bureaucracy. But it doesn't have to be that way.'* (Hannah Hoare, Blue Thread)



The decision to offer unrestricted funding does call for genuine willingness to relinquish control of how funds are spent:

*'It's unrestricted so, once it's given, you aren't in control of it. We are comfortable, for example, with the idea that funds may go into reserves. Trustees do sometimes question the amount of money an organisation has in reserves at the decision making stage but, once the grant is given, it really doesn't matter how they use it.'* (Gina Crane, Esmée Fairbairn Foundation)

*'Several grantees have told us how they spent their unrestricted grants – and a lot of it went on really basic needs. A taxi for a woman fleeing domestic violence with her kids: a night in a hotel; some nappies and bedding – stuff that people really need and is so hard to find funding for. Some unrestricted funding may go into reserves – but they need that too.'* (Hannah Hoare, Blue Thread)

*'If we want to receive applications in future from an agile, creative and resilient third sector, learning and innovating its way towards ever more effective solutions to stubborn social and environmental problems, then we need to see contributing to core costs, working capital and reserves as part of the cost of doing business with it, just like paying the profit margin priced-in by the private sector.'* (Nick Addington, William Grant Foundation)

Foundations respect the commitment of the charities they support and were not concerned that funds would be 'wasted' or poorly used, especially in small to medium sized charities:

*'The pandemic showed that grantees provided outstanding support for their communities soon after the crisis started, and they told us they could do that because they had the freedom to use the money however they wanted – and didn't have to waste time having to check with us.'* (Rachel Oglethorpe, Peter Minet Trust)

*'Small charities feel inherently unrisky in terms of money not being used well. They don't have enough money to waste it. I am not sure whether the fear that unrestricted funding disappears into the ether is based on real, specific incidents or a vague distrust.'* (Hannah Hoare, Blue Thread)

In any event, some argue that the inefficiencies of much restricted funding from a charity's point of view carry greater risk of wasted spending, and that a more 'respectful and trusting', 'adult' or 'professional' relationship is needed:

*'I do think at the heart of it is still the old-fashioned idea that voluntary equals amateur and that 'we know better.' Unless you start from the premise that people running charities are every bit as intelligent and capable as someone running a business of the same turnover, and have simply made a choice to put that intelligence in service to their values, you will never be approaching them from a place of respect or truly listening to what they are saying.'* (Amy Braier, Pears Foundation)

*'Trustees often like the sense of connection and emotional attachment of project funding. But it also implies a lack of trust – you specify how your funds can be spent for fear that they otherwise might be misspent. Core costs [unrestricted funding] are less glamorous but give the most benefit. The sense of building the organisation you*

*support should give you a feeling of satisfaction and achievement, more so than funding a sexy project.’ (Tom Chandos, Trustee, Esmée Fairbairn Foundation)*

Some would argue that ‘*restricted funding is an illusion*’ – that the sense of security foundations may feel in funding to a pre-agreed budget, especially over a long period, is out of line with reality:

*‘Charities ask for funding in good faith, and then things may change in the way they thought they would use the funds. As Trustees, we have to balance our responsibilities in deciding what level of reporting we want on how a grant has been spent, and the broader question as to whether they have been achieving our aims within the 0-3 focus. Within our agreed focus, if a grantee informs us that the grant awarded would have a better outcome if spent differently from previously agreed, we don’t have a problem with that.’ (Mafe Marwick & Patricia Jackson, Trustees, Cattanach)*

*‘When an investor invests in a start up, they don’t ask where every penny has gone – it doesn’t tell them anything useful about what’s being achieved. But, in grant-making, we’ve decided that an essential way to monitor effectiveness is to monitor spend. That doesn’t make sense to us.’ (Hannah Hoare, Blue Thread)*

The degree and impact of exposure to reputational risk varies, depending on a foundation’s scale, profile, and source of funding. No one is complacent about the difficulties that can arise when things go wrong. But the general view is that flexible or fully unrestricted funding carries no greater reputational risk than any other type of funding:

*‘It’s an issue of trust and public perception. When things go wrong, there is a tendency to feel that funders should control more how their funds are spent. There’s an illusion that statutory organisations look after money better. But people can see from the work of charities during COVID how clever and creative they have been in using their funds. So, it’s a very good time to develop the case for less restricted funding.’ (Mafe Marwick & Patricia Jackson, Trustees, Cattanach)*

*‘We have moved away from the idea that we are accountable for the performance of grantees. The Board do believe that the risk in an individual charity needs to be managed by its board locally. Staff are accountable to their trustees, not to us. Restricted funding undermines this. Instead of being accountable to the people you want them to be, they have to focus on delivering against grant terms and contracts.’ (Paul Streets, Lloyds Bank Foundation for England and Wales)*

## What is the risk to funded organisations if we don’t give them more control over their spending?

Funded organisations are hamstrung by lack of control over their own resources. The risks play out day to day as they work to be responsive, effective, sustainable, and accountable, while relying largely on a patchwork of restricted project funding. Our foundations recognise that they are much better positioned to take a greater share of the burden of risk, rather than seeking to pass it on with their money:

*‘Trustees have a shared conviction that this is the right and progressive way forward. We’re an independent funder so we can take risks.’ (Aanchal Clare, former Trustee, Peter Minet Trust)*

*'We're here to take risks. And if we don't, then that automatically excludes certain organisations from being funded, even if they are doing good work with the groups that we are prioritising – like recently started organisations, organisations experiencing a financial blip, organisations on low reserves. If we can determine that an organisation can operate and the work is relevant to the people that they're supporting, we should trust them to do it.'* (Tim Cutts, Allen Lane Foundation)

*'We simply don't see unrestricted funding as intrinsically risky. We have a robust due diligence process. It's not a free for all.'* (Paul Streets, Lloyds Bank Foundation for England and Wales)

## Judging impact and success

Everyone – funded organisations and foundations alike – wants their work to support positive change. But views vary considerably on what success looks like, what metrics and measurements are reasonable and helpful, and whose success we are judging. It is often assumed that what a funder is interested in understanding about change, or how it defines and assesses impact, constrains its ability to give funded organisations greater control over their own spending. Our interviewees' experiences suggest that this need not be the case.

### Does the way we think about impact call for greater control over how funds are spent?

Our group of foundations show a high level of comfort with *'the concept of contribution rather than attribution'*. Although at different stages in their thinking, most are actively interested in what is being achieved but unconvinced that it is possible or fruitful *'to track a direct link between "our money" and "these results"'*:

*'There is a danger of making everything too complex and more precise than it can or needs to be. It's fine to be interested in stats – but about an organisation overall not in relation to your own grant. If you want refugees to have a safe and stable life and you've found a good, robust organisation that helps them make meaningful positive steps towards that, isn't it enough to say that your money is going to support this work?'* (Hannah Hoare, Blue Thread)

*'Our trustees have never been interested in paying for outcomes. We agree them because we want to know what organisations want to achieve. Trustees have more of an investment mindset – you give an organisation the money and they get on with it.'* (Gina Crane, Esmée Fairbairn Foundation)

*'It is challenging to persuade organisations – and by extension the funder – not to take credit for everything and to claim a halo effect for transforming people's lives. We want a different mindset where we and they are part of a team helping to make a difference.'* (Rennie Fritchie, Trustee, Lloyds Bank Foundation for England and Wales)

Each has their own view on what ‘making a difference’ looks like, for example:

### **Supporting people and causes they care about**

*‘We support specific groups of people and what we’re interested in is the outcomes for those individuals. For Trustees, that’s what they want to know: what does the organisation’s work do for those individuals?’ (Tim Cutts, Allen Lane Foundation)*

*‘We often make small, unrestricted grants, where we are simply trying to allocate funds where they are most needed now. We would all like to change the status quo, but we know that this is very hard to do and opportunities to fund that are scarce. In the meantime there are needs that need meeting now, and we want to make sure that specialist organisations who can do that have the resources to do the work.’ (Hannah Hoare, Blue Thread)*

### **Sustaining and developing good organisations**

*‘We are contributing to the totality of an organisation’s work and evaluating impact isn’t just about a single project or activity. We ask grantees to update us at certain points and include wider data such as leadership and governance changes, learnings and challenges as well as successes. This uses resources effectively and efficiently on both sides and creates a focus on continuous improvement.’ (Philippa Charles, Garfield Weston Foundation)*

*‘We are funding the whole organisation and we look at the overall performance of that organisation. The final liberation will be when they produce no data for us, just what they give to their Board.’ (Paul Streets, Lloyds Bank Foundation for England and Wales)*

### **‘Helping shift the dial’ in targeted areas of interest**

*‘The trustees are really interested in making their funding work effectively – and take positive risks to do so, considering what difference it will make for children. Ideas really matter.’ (Mafe Marwick & Patricia Jackson, Trustees, Cattnach)*

### **Investing in high-performing organisations to achieve demonstrable improvements in outcomes**

*‘We work to a theory of change based around transformative impact to ensure the delivery of hard outcomes. We have “adult to adult” conversations with our partners and provide critical challenge – and on our side provide not only unrestricted funding and non-financial support but enable leveraged support for our partners from other funders.’ (Eleanor Harrison, Impetus)*

The different ways that our funders think about impact suggests that – provided foundations are comfortable *‘to be part of rather than to “own” what is being achieved’* – they can offer lightly restricted or fully unrestricted funding, whatever their individual views on what positive change looks like and how it should be judged.

## How do we judge our own impact?

Our funders think carefully about their own role and position in the eco-system and the contribution they want to make. Their own performance is increasingly recognised as the lever they can best control in improving their contribution to the communities and causes they serve:

*‘Assessing what difference an individual grant has made is still a driver but having our own broader impact goals and some ways of showing progress towards them is lifting attention away from the individual grant. I can gather data which shows how we are contributing towards those goals. And we are talking about our actions, our strategy and how it is working, and not focusing on the performance of others.’ (Gina Crane, Esmée Fairbairn Foundation)*

*‘We have moved away from the idea that we are accountable for the performance of grantees. Rather, there are questions around our own performance in supporting their organisational development (as well as more broadly around our policy effectiveness and so on). Even here, it is difficult to avoid sliding into attribution instead of contribution, and we have not cracked this yet.’ (Paul Streets, Lloyds Bank Foundation for England and Wales)*

*‘We’re very light touch on evaluation because we decided to be that way. We’re not inclined to measure outcomes. Outcome evaluation is complicated by the issue of attribution and funders claiming grantees’ impact as their own impact. Our interest is in our own performance and what value we add to the relationship. We seek grantee feedback to evaluate our own added value.’ (Nigel Woof, Trustee, William Grant Foundation)*



# Part Three: Advice from our group of funders

A number of our funders are passionate advocates for wider adoption of unrestricted funding:

*‘Particularly at this time, when so many organisations are facing so many financial challenges, unrestricted funding feels absolutely the right thing. And our experience is that it is a powerful and effective way of supporting good work; and a way of handing trust to organisations who know better than we do about how to do that good work.’* (Tim Cutts, Allen Lane Foundation)

But all recognise that it takes thought and care to unpick long established ways of thinking and find the right way forward. All are at different stages and all face challenges and conundrums. No-one got here straight away or claims to have all the answers or wants to be *‘didactic or prescriptive’* about what other foundations do. But all are pleased to see this debate higher up on funders’ agendas, identifying unrestricted funding as a critical question about how to do a better job and support better outcomes for the causes and communities they care about:

*‘Funders’ traditional ways of working are not set in stone. We should be prepared to review them, especially when the organisations we aim to support are consistently and clearly telling us they undermine the benefits our funding could achieve.’* (Nick Addington, William Grant Foundation)

To support this debate, we asked what advice our funders would give to others interested in shifting their practice to enable funded organisations to have greater control over their own spending. In summary, they offer seven key messages from their own experience:

## **1. Have confidence in the skills and expertise of the organisations you have chosen to fund – and your skills in choosing them**

*‘Trustees’ fundamental belief is in valuing the expertise of people doing the funded work. Then the question for us is “how do we help them to do what they do and do it better”.’* (Philippa Charles, Garfield Weston Foundation)

*‘We are not the experts or doing the work on the ground. Our role in the world is to give you money to do what you are good at – this is how we achieve our aims.’* (Hannah Hoare, Blue Thread)

*‘Trust people and put yourself in their shoes. Trust empowers people to make their own decisions. If you’ve got questions, just ask them. Be actively involved in the partnership. Think with your head and your heart.’* (Eleanor Harris, Impetus)

## 2. Turn questions about risk on their head

*'Instead of asking "What is the risk in being more flexible?", I'd put the question the other way round and ask, "What and who benefits from restricted funding?"  
Restricted funding is generally a burden we place on grantees for our own ends.'*  
(Nigel Woof, Trustee, William Grant Foundation)

*'We start with a recognition that we have more power and more resources, and should carry more risk ourselves. So, investing through unrestricted funding is an expression of a sense of responsibility we feel for the organisation's wellbeing, and a belief that risk is better assessed and managed through relationships of trust and respect, rather than through restrictions.'* (Amy Braier, Pears Foundation)

## 3. Experiment and see how it feels

*'If people find the concept interesting, they could set themselves a target of putting 10% of their current project funding into unrestricted funding over a period of two to three years, to enable them to decide whether they should do more of it or whether maybe it is not for them.'* (Tom Chandos, Trustee, Esmée Fairbairn Foundation)

## 4. Recognise that you won't get everything right first time

*'It's like the saying goes, start by doing well, then do better, then do better things, and then do those things better. You've got to be willing to go out of your depth.'* (Rennie Fritchie, Trustee, Lloyds Bank Foundation for England and Wales)

*'It's about continuous learning and improvement – with the attitude that you're never going to finish and should strive to keep doing better.'* (Aanchal Clare, former Trustee, Peter Minet Trust)

## 5. Build directly on the experience of Covid-19 – funders were more flexible, and the sky did not fall in

*'The experience of COVID has been quite transformational as donors have allowed their grants to be re-purposed and spent where needed. It's also enabled us to re-focus funds. Now we are more proactive and fund what is most needed. It's worked because we are a trusted partner to donors; they know our values and our reputation.'* (Jan Garrill, Two Ridings Community Foundation)

## 6. Clearly communicate what you mean and what you offer

*'On reflection, I think the Board equates core funding with unrestricted funding. We need to be clear if our current preference accurately reflects our values and intentions.'* (Keith Shepherd, Trustee, John Ellerman Foundation)

*'Looking at our grants, we can divide unrestricted grants into those for general use or those for what we call designated use; and restricted grants into broadly or narrowly restricted. Which of the four options we choose depends on how our aims – which relate to specific places, topics and approaches – align with what the organisation needs our funding for.'* (Nick Addington, William Grant Foundation)

## 7. This conversation matters – be part of it

*Stopping and looking at the issue properly – and sharing our thinking in public – surfaced objections and helped us sort out what were real and what we were creating ourselves.’ (Gina Crane, Esmée Fairbairn Foundation)*

*‘Trusts need to step back and think how they can make the biggest difference; see what other funders are doing and hope they can support and learn from one another. It’s important that funders have proper time for strategic thinking.’ (Rennie Fritchie, Trustee, Lloyds Bank Foundation for England and Wales)*

In all our recent work, IVAR has seen a shared determination for Covid-19 to be the stepping stone to a new relationship between foundations and the organisations that they fund: one that values the assets that everyone brings to the challenges and complexities that lie ahead; one that is based on mutual respect, and a greater sense of partnership in collective effort, rather than on control and false promises of certainty of outcome. Of all the things that foundations can do to add value to their essential support for charities, giving them greater control over their own spending is the most profound:

*‘Unrestricted funding is the single most powerful thing that funders can do to support us.’*



# Appendix One

## About open and trusting grant-making

Working in collaboration with London Funders and a small group of UK foundations and charities ambitious for change, in February 2021 IVAR issued a call for action by all funders to adopt more open and trusting practices that make life easier for those they fund, in light of the ongoing uncertainty caused by Covid-19. The emergency has shown us that lighter, more flexible, more trusting practices are possible. Our ambition is to see these commitments extend beyond the crisis: to become standard practice in the sector.

Over 80 funders have now signed up to become Open and Trusting Grantmakers with IVAR. From local to national to UK-wide funders; issue-specific to generalist; family to corporate; and run by one volunteer administrator through to a team of more than 50, their strategic aims, size, and governance are very different. But all believe that *'how we do it matters'*: who we reach, how we judge applications, the kind of funding we give and the relationships we make. The Open and Trusting Community of Practice have all signed up to eight commitments:

1. Don't waste time
2. Ask relevant questions
3. Accept risk
4. Act with urgency
5. Be open
6. Enable flexibility
7. Communicate with purpose
8. Be proportionate

Find out more and join us at [www.ivar.org.uk/flexible-funders](http://www.ivar.org.uk/flexible-funders)