

# Insights on core funding

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**Insight Report 4**  
*March 2019*

# Caroline Mason

## Chief Executive of Esmée Fairbairn Foundation

At Esmée Fairbairn Foundation we believe that our job is to back remarkable organisations and people that are passionate and professional. We want to provide them with the right resources and believe that they know what that means. That is why we have offered core funding since our start in 1961 and, today, 64% of our active grants (£92.7m) give core or unrestricted support.

There have been many excellent reports written about the need for core funding, so why are we writing another one? Because, as Suraj Vagdama's analysis<sup>1</sup> of grant data published to 360Giving from 2013-18 shows, the overall amount of core funding has "remained reasonably consistent" over the past five years – it is not going up.

Since the report identifies Esmée Fairbairn Foundation as giving out the most core funding, we think it's important to share our learning. We also want to examine our core funding critically – does it have more impact? What impact does it have on outcomes and organisations? What more could we do?

This report is for funders who care not just about the impact of what they fund, but the impact of how they fund. It shares insights from the hundreds of organisations we have supported in recent years with core funding.

We also hope it will help provide the organisations out there doing the work the ammunition to continue to make the case for what they need to thrive.

March 2019

*Caroline Mason*



# Why core funding?

<sup>1</sup><https://www.ivar.org.uk/3-things-to-notice-from-slice-and-dice-a-tool-to-explore-grantnav-data-visually/>

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# 1.

## What is core funding?

Core funding is money for central running costs which enables organisations to meet their needs and priorities on their own terms.

Core funding can include:

- staff salaries, training, expenses, rent and other overheads
- fundraising costs
- monitoring and evaluation
- communications and digital innovation

Core grants can be **restricted** (eg to UK-based work, or the CEO's salary), or **unrestricted** (used freely for anything within the organisation's charitable objects, including for reserves).

Project grants are restricted to the aims and delivery of a specific piece of work, usually time-limited, and may be shared with more than one organisation.

# 2.

## Esmée's approach to core funding

At Esmée we offer unrestricted, core, and project grants, in addition to social investments. We aim to let organisations choose the type of grant or investment they need for their work. We've gradually increased core funding over the past decade. Today 64% of our active grants provide core or unrestricted support.

# 3.

## Our approach to learning

This is our fourth Insight Report into what we are learning from our grants and social investments. Our first, **Learning from our grants**, goes into the reasons and method of our approach in more detail.

This report is based on 628 learning conversations held by our Grants Managers with each organisation we fund at the end of our grant. During the conversation we can both feed back on what worked well, and what didn't, about our funding and the work it supported.

Following the learning conversation, we use a four point scale – Excellent, Good, Improvement Needed, or Poor (see Appendix on page 16) – to rate how effective each grant was according to:

- Outcomes – did grantees achieve what they planned to?
- Organisation – how effective is the grantee organisation?
- Esmée's own performance – should we have given more support, or acted differently?

We use a "What? So What? Now What?" reflective model to plan and report on what we learn.

# Esmée's approach

## Core grants and project grants are similarly effective

Looking at more than 600 closed grants, we rate the effectiveness of organisations we fund, and the outcomes the grants achieve, similarly for core costs grants and project grants. There are small differences in our ratings – we judge project grants to be 4% more likely to exceed their planned outcomes, and 2% more likely to miss them – but we were surprised not to see a bigger variance. **For Esmée, project funding and core funding is similarly effective when it comes to achieving outcomes.**

## Core grants lever in more money

Grants for organisations' core costs, and in particular unrestricted grants, are more likely to help lever in other funding for organisations.

14% of organisations which received an unrestricted grant, and 9% of those with a core costs grant, gave unsolicited feedback in end of grant learning conversations that our grant had unlocked further funding, compared to 2% of project-funded organisations.

## Core funding enables evolution, and evolution is key to impact

Organisations consistently told us that core funding gave them the flexibility to develop and improve their work. They made changes to the way their work was carried out, communicated and understood. They tested and tried new things. They took risks, made mistakes, failed and learned as a result. We think that this ability to evolve and change is key for both funded organisations and funders.

## Time matters

The most negative feedback we have received about our funding has not been about the type of grant (project or core), but how long it is for. 1 or 2 year grants can make it hard to recruit and keep staff. Even a 3 year core costs grant only gives organisations an 18 month respite from fundraising. 5 years of support could genuinely free organisations up to concentrate on impact.

## We could give more unrestricted funding

Despite making a policy decision to do it, we haven't increased the number of unrestricted grants we make. Unrestricted grants are more likely to lever in other money, and are considered by our twitter followers to be the "holy grail" of funding, over earned income or unrestricted donations. The reasons we give for putting restrictions around our core costs funding are mostly of our own choosing.

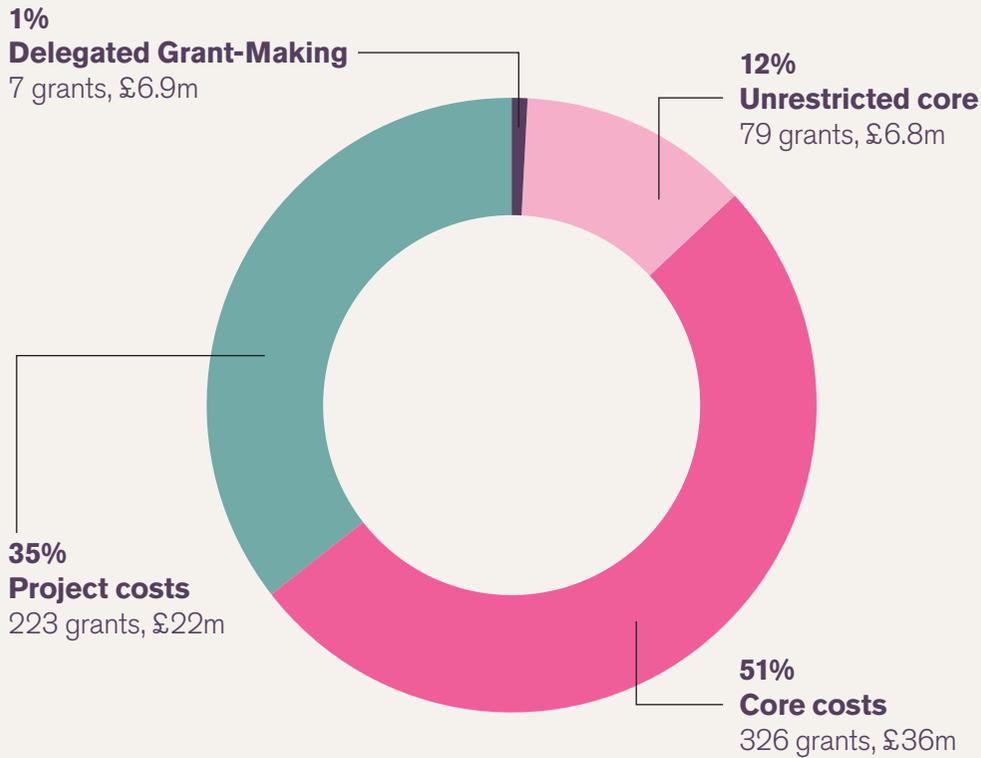
## Our funding is only as good as an organisation's other funding lets it be

Many organisations we fund told us that Esmée's core funding helped them piece together the complex jigsaw of grants and restrictions from others. We are rarely a charity or social enterprise's only funder. Where a grant achieves its outcomes, or a project is successful, that is because of the work of a whole organisation, and by extension the whole funding model of the organisation, and cannot be attributed to the single grant of a donor. Even an unrestricted grant is only as effective as an organisation's other funding allows it to be.

# What have we learned?

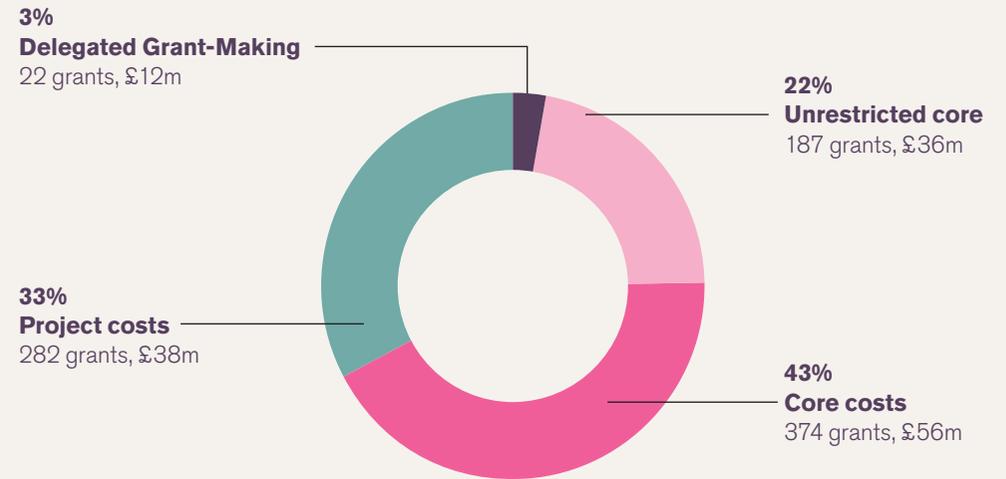
## Closed Grants for which we've held learning conversations

These grants form the basis for the findings in this report

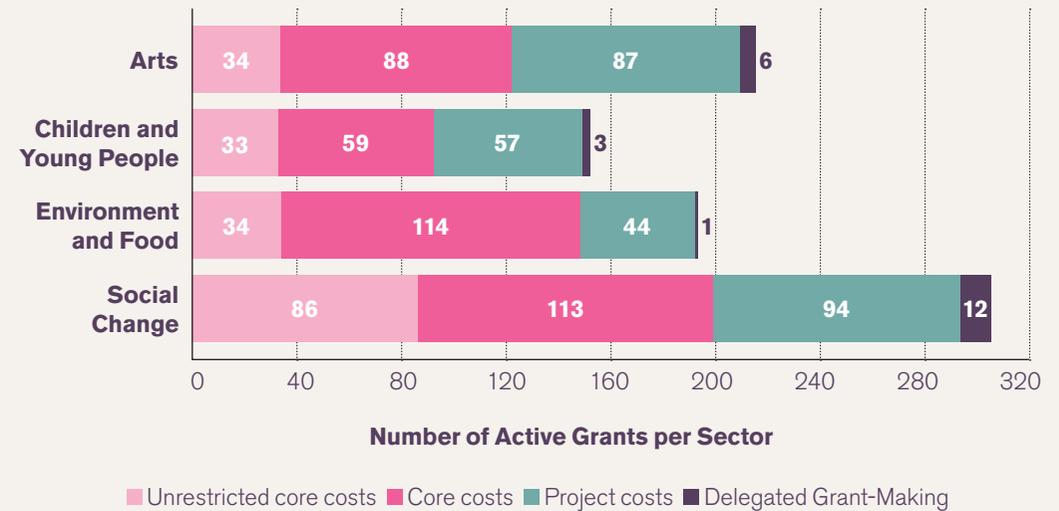


# What does our funding look like?

## All Active Grants



## All Active Grants by Sector



# How core funding makes a difference to...



In 405 end of grant learning conversations for core and unrestricted grants, organisations we fund attributed these effects to the funding they received.

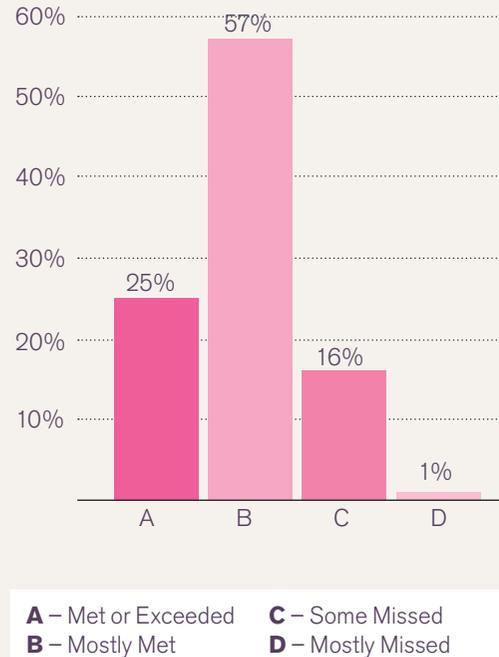
For Esmée, we judge project funding and core funding to be similarly effective when it comes to achieving planned outcomes.

There are small differences. Organisations with project funding are 5% more likely to exceed their planned outcomes than those with core or unrestricted funding, but also 5% more likely to miss them.

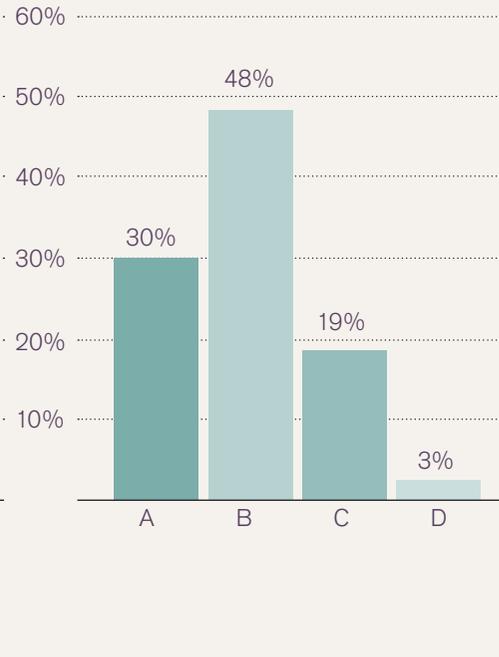
This might be because projects can demonstrate their impact within the course of the grant, so we will know more about how successful or unsuccessful they have been in achieving their planned outcomes.

We think performance is similar, because applicants choose the funding which works best for them. If the request is for a project grant, but could be core costs, we always check if the organisation wants core instead.

### Outcome ratings, core & unrestricted grants (405 grants)



### Outcome ratings, project grants (223 grants)



## Outcomes

We agree up to three key outcomes at the start of the grant, led by the organisation. These are flexible and can be altered throughout the grant. Outcomes might specify the solution, but don't restrict the way an organisation delivers the work.

### Outcomes for core and unrestricted funding:

- Are directly related to the mission of the organisation
- Might be organisational
- Might relate to one aspect of the organisation's work, if that is what they'd like to change with Esmée's core grant
- Are more likely to change over the course of a grant
- Are likely to be more ambitious, longer-term, and harder to measure
- Don't help us to isolate the effect of our grant.

### Outcomes for project funding:

- Are more easily measurable
- Are more related to delivery
- Can be short-term
- Have more potential for shared indicators and measurement
- Might help funders understand the direct impact of their money

# The effects of core and project grants on outcomes

Esmée Fairbairn has funded ShareAction since 2005 with £588,000 for core or unrestricted support.

**Deborah Ball**

*Head of Communications and Fundraising, and Harriet Rimbault, Fundraising Manager.*

ShareAction exists to unleash the positive potential of the investment system, to truly serve savers and communities, and protect our environment for the long term. We give investors the tools and knowledge they need to become responsible investors, and to use their power to improve corporate behaviour on issues that affect society, such as climate change, workforce practices and public health and nutrition.

**How can core funding help you achieve your organisation's outcomes?**

Core funding is vital as it enables us to maintain our independence – ShareAction takes no money from the corporate sector or the investment industry in order that we can continue to challenge the system and influence the policies that govern it. Independence means we can work alongside our funders to contribute together towards strategic goals. Core funding also enables us to think longer-term and be responsive to opportunities for increasing our impact in a rapidly changing context.

**When would an unrestricted grant be more appropriate?**

There's a growing understanding that this is more useful for long-term operations and working towards complex environmental and social challenges. We see core funding and unrestricted funding as synonymous – there's no difference in our case.



**What does core funding allow you to achieve that you might struggle with project-based funding?**

Core and unrestricted funding allows for growth and exploring different directions. It means we can invest in the infrastructure needed to run an effective, efficient organisation and to have greater autonomy over where our work is going.

**If you could provide one key piece of advice to funders, what would it be?**

It's about having an open dialogue with funding recipients; a close relationship that is ongoing, a continuous discussion that builds trust. Small organisations can learn from the knowledge held in foundations, helping funding to contribute to greater impact.

**If you could provide one key piece of advice to grant applicants, what would it be?**

Don't assume that funders are not interested in providing core support! There's nothing dull about core funding; it really does help an organisation achieve its long-term objectives and react to changing circumstances around them. Don't be scared to approach for core funding, and have an open conversation about the need for it.

# Case study ShareAction

# How core funding makes a difference to...



In 405 end of grant learning conversations for core and unrestricted grants, organisations we fund attributed these effects to the funding they received.

At Esmée, we judge organisations that receive project funding and core funding to be similarly effective.

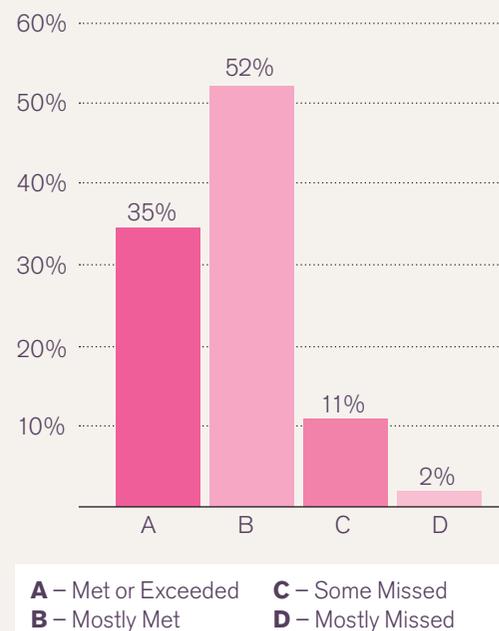
We think performance is similar because applicants choose the funding which works best for them. If the request is for a project grant, but could be core costs, we always check if the organisation wants core instead.

We expected to see an uplift for organisations in receipt of unrestricted grants, but this is not the case. Singling them out, we judged 35% of organisations to be excellent, which is lower than the 39% of organisations in receipt of project grants we rated as excellent.

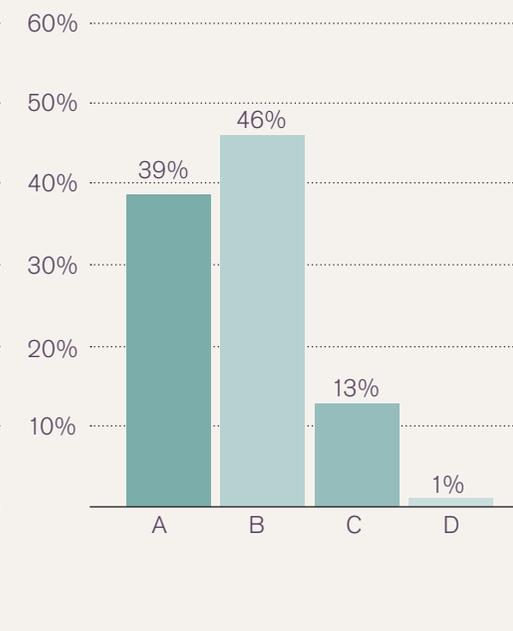
Even with the small number of organisations we've supported with core funding over 10 years (see page 13), we don't see a big difference.

Our organisation ratings are not based on an objective health check, but a judgement on the quality of the organisation's work, in proportion to its size and context. We take into account the organisation's importance in its sector, influence, overall impact, adaptability, efficiency, innovative or collaborative approach, and the ambition of its strategy. We also consider people (governance and staff) and finance.

### Organisation ratings, core & unrestricted grants (405 grants)



### Organisation ratings, project grants (223 grants)



# The effects of core and project grants on organisations

Esmée Fairbairn has funded London Youth since 2013 with £515,000 for core support.

### Laura Blazey

Head of Learning

London Youth's mission is to support and challenge young people to become the best they can be; developing their confidence, resilience and relationship skills. Together with their network of over 400 community youth organisations, they create opportunities for thousands of young people every year to have fun with their friends, to be healthy and creative, to make positive change in their communities, and to shape the kind of city they want for the future.

#### **What is core funding? How do you define it, and what does it mean to you?**

The term 'core funding' is used in a few different ways, and for us it's funding towards non-direct project costs, that isn't tied to one activity. It can cover a range of different scenarios, from a share of organisational costs, to funding specific roles. However, the term 'core funding' creates an artificial distinction that is

sometimes unhelpful. All of a charity's activities should be core - direct delivery as well as back office functions. There shouldn't be a sense that some activities are optional or nice to have.

#### **How can core funding help you achieve your organisation's outcomes?**

We look holistically and focus on the change we want to see for young people, and then on all the elements needed to make that happen. That requires a healthy, strong, resilient organisation that's looking ahead and able to respond to change. A resilient organisation is better able to meet their outcomes.

#### **What does core funding allow you to achieve that you might struggle with project-based funding?**

Core funding protects investment in infrastructure. Without it, organisational structure can become very vulnerable. It can be very difficult to keep the base infrastructure maintained, and even harder to patch-up if it's weakened. Project funding doesn't allow us to a step back to be taken to ask "what will our needs be in 5 to 10 years' time?".

Another area core funding allows for is the development of partnerships and



relationships, which for us usually falls outside project funding. One area core funding could be better harnessed is for early-stage organisational development.

#### **If you could provide one key piece of advice to funders, what would it be?**

We would challenge funders to consider whether there are circumstances where an unrestricted grant is more appropriate than a restricted grant to allow for flexibility and to support organisations to be more future-focused. We often see our members working with many sources of funding and it's really challenging to put these together. It creates gaps and becomes very difficult to fit the jigsaw together.

As well as this, we're asking funders to support organisational development, not just the maintenance of existing infrastructure. Instead of just helping charities to tick-over, help them thrive! This will help organisations to be strong and resilient now and well into the future.

#### **If you could provide one key piece of advice to grant applicants, what would it be?**

Don't be afraid to assert yourself and be confident to apply for the full cost needed to deliver your service. There's a tendency in the sector to play down support costs, and I think that leads us to an unhelpful place where we're not having open and honest, genuine conversations about what's needed to do our work and to do it well.

**“All of a charity's activities should be core – direct delivery as well as back office functions. There shouldn't be a sense that some activities are optional or nice to have.”**

# Case study London Youth

We are currently funding 39 organisations that we've committed to core fund for at least 10 consecutive years. What can we learn from them? Is there something that makes them special, or do they share characteristics? What is the effect of this kind of long-term commitment on the organisations and the work they do?

## Who are they?

**20** organisations are aiming to influence policy change or legal action on a range of issues like marine conservation (COAST), ethical investment (ShareAction) or sexual exploitation (PACE).

**8** are delivering services in an innovative way which continues to transform lives, as well as working to influence others in their sector (One25, Leap Confronting Conflict).

**7** are arts organisations who continue to break new ground in artforms (Fuel, Paines Plough) or the way they work with participants (Streetwise Opera, Clean Break).

**4** are sector-spanning organisations working to make their sectors more effective or collaborative (IVAR, Wildlife and Countryside Link).

# Lessons from 10 years of core funding

## What do they have in common?

- Half have an annual turnover of less than £1million, and three quarters have a turnover of less than £2million.
- Most work nationally across the UK (60%).
- Most organisations are based in London (67%).

## Why do they need grant funding?

Some receive up to 99% of their funding from trusts and foundations. Organisations like CHEM Trust, Transform Drug Policy Foundation and the Prison Reform Trust acknowledge that they will always need the support of independent funders to

campaign on issues that are unpopular or not well understood.

For those with a more varied funding mix, grants have mostly supported organisations which have grown or stayed stable in income during a difficult time for the sector, with some doubling or tripling in size over the last five years

## So what can we learn?

**Length matters.** CHEM Trust reported a significant difference between 3 year and 5 year grants. A 5-year core funding grant enabled them to develop, grow and improve. In a 3-year grant, by 18 months in, they would already be worrying about what happens in the future, will they gain further funding etc. A 5-year grant gives far more time to focus on delivery and impact.

**Policy change may take more than 10 years.** We have funded Yorkshire Wildlife Trust to work with other wildlife trusts to secure and manage Marine Protected Areas in the North Sea since 2010, but despite big gains, the job is far from done. The need is the same, but YWT have had to quickly change direction and adapt to a rapidly changing

political landscape. If we care about this work, we will need to commit to another 10 years.

### **Growth can be de-stabilising.**

For organisations like ClientEarth and ShareAction, rapid growth and demand for their work can mean rapid expansion in various directions, without a similar amount of growth in their central base of staff and reserves. Core funding has enabled both organisations to focus on back office development, train staff and build appropriate systems for their new size. It is hard for organisations to report on the impact of this kind of grant, unless its funder is happy to consider the wider picture of the whole organisation and what it is achieving.

## It's just one piece of the funding jigsaw

The ratio of one core grant to all the other project grants an organisation is juggling is important – too much can be expected of that grant. For very large organisations, Esmée's core grant only represents a tiny fraction of overall turnover. It can be hard to single out or understand impact, beyond what has been delivered with the money, in those cases.

## It might not be the defining factor

Is the length of a grant more important than whether it's core or project? We have been guilty in the past of giving short-term grants to organisations with long-term goals. We agreed to stop giving one year grants to organisations (unless specifically requested) in 2016, as a result of what we learned about their negative effects. But even two years goes by quickly, and funding instability still exists.

Size also matters. Small core grants are not going to transform organisations on their own, particularly small organisations. Can the rest of the money really be found? Or will organisations cut their cloth accordingly?

## It has a lot of pulling power

In our learning conversations, many organisations singled out their sector as one which struggled the most to get core funding: women's organisations, small arts organisations, second tier or infrastructure organisations...

The reality is that it's hard for everyone. And the search for core funding can lead organisations in some wild and wonderful directions – funders should be aware of the pulling power of that money and understand that organisations may still try to fit themselves to it just as much as project funding.

## It's about organisational strength, in a time of weakness

The harsh reality is that most organisations Esmée funds are in a more difficult position now, than they were at the beginning of our grant, regardless of whether it was for core or project costs. The effect of the wider funding environment over the past few years has been more important than our grant. This can make it difficult to see the benefits core funding has brought to organisations, even though the alternative may be that they would be in a much worse position.

## It is hard(er) to understand the impact of core funding

We have aggregated a lot of feedback from organisations about the effects of core funding in this report. It is easy for those organisations, and for Esmée, to report on the impact of core funding on their organisations, but much harder for both of us to report on the effects of core funding on the impact of their work.

This is partly because investing in some core functions, like evaluation or business development, might not reap rewards until after the course of our grant. But it is also because developing a robust evaluation strategy to understand the broad impact of an organisation (eg an arts centre working with a whole community) is more complicated than measuring the impact of one community energy project.

# The limits of core funding

22% of our currently active grants are unrestricted, compared to 43% for core grants – meaning that organisations can spend them as they see fit, including adding to their reserves.

For unrestricted grants, we ask organisations to report annually on their progress towards agreed outcomes, which relate directly to their mission. We do not ask for a breakdown of how they spend our grant, apart from their regular accounts.

Since 2016 our Chief Executive and Trustees have encouraged our funding team to ask applicants, and themselves, “is there any reason why this grant can’t be unrestricted?”, before grant decisions are made. However, the percentage of unrestricted grants we make each year has not increased.

## What reasons do we give for giving a core grant (restricted), instead of an unrestricted grant?

- Esmée is a charity, and charities can only give unrestricted grants to registered charities, not to CICs, charitable companies or other entities.
- Esmée’s funding strategy excludes some things (eg non-UK based work, capital projects).
- The applicant is doing a wide range of work, not all of which matches Esmée’s funding priorities and interests.
- The applicant has requested funding for a specific role or type of work (eg new database), so core funding is restricted for that purpose.
- We’re not that familiar with the charity so decide to limit the use of core funds to delivery of the agreed outcomes.

## So why not make more unrestricted grants?

Only the first of the reasons above is a barrier as defined by the Charity Commission. How real are the others? Do Grants Managers have a different perspective to a CEO on how useful grant restrictions are for the funder or the funded organisation? Is ring-fencing ‘our’ money in the accounts of the organisations we fund doing anything more than creating an administrative hoop for them to jump through?

## What’s so good about unrestricted grants?

We ran a twitter poll in November 2018, where our followers rated unrestricted grants as the “holy grail” of funding, over unrestricted donations or earned income.

## Respondents rate unrestricted grants because they:

- Help manage a complex patchwork of other restricted grant conditions.
- Mean that reactive or campaigning organisations can use flexible tactics to achieve outcomes.
- Can be used to fund the things no one wants to fund like new carpets and toilets!
- Help restore reserves.
- Acknowledge there’s more to delivery than paying salaries – materials and equipment can be key to creative projects.
- Show that the funder trusts, and understands the needs of, the funded organisation.

# Why don’t we make more unrestricted grants?



Esmée Fairbairn @esmeefairbairn · 1 Nov 2018

Help please! We’re writing a report on core funding. We want to know your thoughts on unrestricted grants, core costs grants that are restricted (eg to a post), & earned income or donations.

Q. What is the “holy grail” of funding for your charity/social enterprise?

34% Unrest’d donations/income

12% Restricted corecost grant

51% Unrestricted grant

3% Other (tell us what!)

507 votes • Final results

## Recommendations for funders (including Esmée)

### Invest in the “what”, and let organisations you fund determine the “how”

Most funders are not experts. We are confident that the organisations we fund know best how to plan and carry out their work. So why, as well-resourced charities ourselves, would we imply we know better what resources those organisations need to do that work? Why not let organisations choose the type of support that best fits?

### Acknowledge your place in the complex jigsaw of funding

Consider whether you can really attribute the effect of your grant. How much does the impact of your grant depend on the contributions of others? What about the unintended negative effects of the way you fund - what is the transaction cost of your

grant? How much time are the organisations you fund spending in re-applying, reporting and recruiting as a consequence of the way you fund?

### Consider what barriers are real and what you’ve built for yourself

If you made more of your grants unrestricted, what might the consequences be? What are the reasons you are not doing this, and do they conflict with your strategy? Are you a high-trust funder with low-trust systems?

### Make longer grants

The duration of a grant you make could be more important than the type of support you provide. For the organisations we fund, the restrictions around the grant could be less important than the security of multiple years of funding.

## Questions for organisations seeking funding

1. What more could funders do to help you evolve and improve?
2. What might the effect be of funders seeing themselves more as part of your funding mix?
3. What could funders do to increase the amount of core funding out there?

## Now What?

We're currently thinking about our next five year strategy from 2020. We will be making fewer grants, which are larger and for longer. 27 of our grants made in 2018 were for five years, the highest number we've ever had. Could ten year grants be part of our new picture?

We will continue to work on offering more unrestricted funding, looking at the barriers as perceived by staff and Trustees, and working to overcome them.

We will continue to share our learning. Please let us know if there are questions you would like to ask about our support, its effects, or the way we work.

Contact Gina Crane on **communications** @esmefairbairn.org.uk

# Recommendations and questions

	A – Excellent	B – Good	C – Improvements Needed	D – Poor
<b>Esmées Aims</b>	We went above and beyond	Our support was positive	Our support was adequate	We got it wrong
Assessment	We actively achieved greater impact for the grant	Our assessment of the application and the funding and support we provided was as good as it could have been.	We could realistically have improved our support without great cost in time or resources	Our actions or inaction had a negative impact on the grant or organisation
Funding Package	We have added value to the original proposition over and above the contribution our money has made, or supported the organisation in an unexpected way.	We have built a strong and strategic relationship where successes and failures are openly shared	We could have provided a different funding package and/or engaged in stronger communication and/or provided further support.	We did not assess the organisation well and/or the grantee's work might not be in line with our strategy
Relationship & further support			We may not have created an open relationship with the grantee	
<b>Grantees' Outcomes</b>	Outcomes achieved, or exceeded (with potentially unexpected positive results).	Outcomes are largely met, in line with our priorities and backed with good evidence and data. Results not outstanding but the grant was mostly successful.	Some outcomes are met and the organisation may be making progress but many targets are missed* and/or evidence of impact is not easily identifiable.	Outcomes are mostly not met, organisation is unable to articulate the benefits and progress of its work.
Objective Outcomes	Excellent quality of data and evidence demonstrating impact.			Thinking and evidence are poorly-developed and outcomes achieved are unsustainable.
Subjective Outcomes	Outcomes deliver against Esmées priorities.	<b>OR</b> , the initial outcomes are not met but work has generated a level of impact similar to that initially expected.		
Evidence				
<b>Organisation</b>	Excellent quality of work	<b>EITHER</b> Good, but not outstanding, quality of work, <b>and</b> organisation may need to improve finance/people but overall situation is in control.	<b>EITHER</b> Concerns about quality of work and organisation may need to improve finance/people, but overall situation is in control.	Serious concerns about quality of work.
Quality of Work	Organisation is aware and in control of potential weaknesses relating to finance and/or people	<b>OR</b> outstanding quality of work <b>but</b> significant finance/people problems which are not being addressed. <u>Please explain.</u>	<b>OR</b> organisation's work is good <b>but</b> significant finance/people problems which are not being addressed. <u>Please explain.</u>	No trust in the organisation to turn its situation around in the foreseeable future.
People (staff & governance)				<u>Please describe specific problems.</u>
Finance				

# Appendix

## framework for making effectiveness judgements

\*can be due to external circumstance – this is not a judgement on the quality of the organisation's work but only on the success of the grant relative to its outcomes.



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