



fruitful funding

a guide to levels of engagement

by julia unwin

in partnership with


**Association of
Charitable Foundations**
Good grant-making practice


improvement and development agency

NCVO's vision, mission and values

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NCVO's vision is of a fair and open society, which encourages and is supported by voluntary action.

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- cultivate an environment that fosters their development
- help voluntary organisations to achieve the highest standards of practice and effectiveness
- provide leadership to the voluntary sector in tackling new issues and unmet needs.

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- encourage voluntary organisations to learn both from each other and from wider best practice
- provide information in an open way with due regard to confidentiality
- reflect the diversity of the voluntary sector in its work
- provide continuing professional and personal development for its staff
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About the author

Julia Unwin OBE

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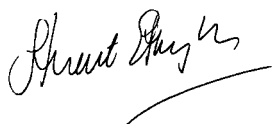
Foreword

●● **T**he sustainable funding of the voluntary and community sector – for both the services it provides and in developing its capacity – is crucial to its continuing success. However, sustainability is not just about having sufficient resources; it is also about the way the funding is applied – in short the level and type of ‘engagement’, or relationship between funder and recipient. Therefore, NCVO is delighted to publish *Fruitful Funding* in partnership with the Association of Charitable Foundations (ACF) and the Improvement and Development Agency for Local Government (IDeA). *Fruitful Funding* will make informative reading for all those who fund voluntary and community organisations – both independent and statutory. By methodically exploring and appraising the various levels of engagement, this book will enable funders to choose the approach that achieves the best outcomes for all.

Durable and diverse funding streams are fundamental to an organisation’s sustainability, and NCVO fully supports a mixed economy of funding to achieve this. NCVO’s Sustainable Funding Project works to ensure that voluntary and community organisations explore a wide range of funding options, providing advice and information on how to develop the right funding mix. At the other end of the spectrum its work with funders is central in widening organisations’ horizons to the range of funding initiatives available. *Fruitful Funding* builds on this, offering a valuable insight into the different levels of engagement that funders can take.

The ‘engaged’ approach to funding is nothing new, and NCVO recognises that many funders have taken an engaged approach for several years – even though it has not necessarily been defined as such. What is noticeable is the growing trend by funders to develop a constructive dialogue with the recipient in order to ascertain what kind of funding best meets the organisation’s needs, and where appropriate, to provide resources to enable the organisation to grow and develop. Engaging with funders does not negate an organisation’s independence; it simply allows for a pragmatic and equal relationship to be established between the funder and the recipient. Engaged funding is not one-sided, and as Julia Unwin’s influential publication, *The Grantmaking Tango* implied, it does indeed take two to tango, and when they are in step the effect can be extremely fruitful for both parties.

Fruitful Funding demonstrates that the level and type of engagement between funder and recipient is entirely one of choice, and I warmly support and welcome this publication which encourages funders to look at how they apply their funding, and how they might further enhance their funding relationships to ensure maximum utility of their funding programmes.



Stuart Etherington, Chief Executive, NCVO

Introduction

●● **T**he relationship between funders and the organisations they seek to support is critical for the health and development of the voluntary and community sector and the services it provides. The current arrangements are often perceived as unsatisfactory by funding organisations and funded bodies alike. This dissatisfaction takes a number of forms. Funding organisations regret that they do not receive applications that are sufficiently interesting. They believe that there are shortcomings in the process of generating applications, and that frequently the presented applications are not a fair reflection of the work of the organisation. Equally, applicants believe that the rules created by funders are not sensible, and do not reflect the reality of the activity they are managing. In terms of outcomes, both funder and funded report on an unsatisfactory, time consuming process.

Funders find it hard to see how their grants and contracts are achieving the desired objectives, and voluntary organisations themselves reflect that the funding environment shapes their activities in ways that are neither desirable nor appropriate. Both reflect on the danger that funding relationships allow little room for shared learning, and tend to drive out risk and new thinking.

One response to this dissatisfaction has been the development of a range of new approaches to 'engagement' – ways in which the funder-funded relationship can be more fruitful. Proponents of engagement describe a more mutually satisfying process through which the funder and applicant work closely together to develop a funding proposition, and then are engaged as equals through the process of grant management. The advocates argue that this relationship can be much more fruitful, involving the funder more closely in the design and delivery, but also enabling the applicant organisation to share the risk and learning together.

Many funding bodies respond by saying that they have always worked in this way, and that there is nothing new in it. A close relationship between applicants and funder is, they argue, central to the way in which they work. Others however, are much more uncomfortable with the notion that funding organisations and applicants can work closely together, fearing that this approach blunts judgement, and makes the funding process less transparent and less open.

What does this mean in practice? What are the pros and cons of this approach from the point of view of the funding organisation? And from the perspective of the recipients of the funding? In a funding market, in which most voluntary organisations are juggling relationships with a wide range of funders, can an individual organisation cope with too many engaged funders? And anyway, where does the risk lie? Are funders that seek to be engaged with their recipients merely asking them to take the risk? Or is this a new approach to risk sharing?

Fruitful Funding is designed to help funders determine the sort of engagement they want to offer. It traces an application all the way from the first bright idea to the eventual assessment of impact, and suggests at each stage that there are a number of ways of engaging. It argues that each form of engagement has advantages and disadvantages, and recognises that individual funders must make up their own minds about the most appropriate form of engagement. It argues that engaged funding means very different things to different funders, and there is no single way of doing it. It suggests that there are three tests for any form of engagement:

- Does it improve the activity in the end?
- Can it be done in a way which does not compromise the integrity of the decision making of either the funder or the applicant?
- Does it increase the range and type of organisations funded, or does it create another barrier to entry?

These questions are asked at each stage.

Structure of the book

The approach adopted recognises that engagement happens in different ways at different stages in the relationship between the applicant and the funding organisation. The way in which funding bodies position themselves is determined by their own internal priorities, the nature of the organisation they are funding, and the issues that arise during the funding relationship.

Stage 1

Engaging with the sector

The ways in which funders establish relationships with a whole field of activity, whether it is geographical or a particular area of interest are explored here.

Stage 2

Taking the initiative

All funders take the initiative from the moment that they decide on the areas they wish to fund. At this stage there are issues about how much funders wish to initiate a particular approach and how much they wish to leave it to the field to consider.

Stage 3

Shaping the application

The nature of the applications received by funders affects the decisions that they make. Therefore for applicants there are real attractions in engaging the funder at an early stage. However, there are also risks for both partners, and at this stage clarity about the relationship is needed more than ever.

Stage 4

Evaluation and monitoring

Funders wish to learn from their grants and from their contracts. They also need to be able to take corrective action. While in some funding relationships evaluation and monitoring is a readily shared experience, this is not always the case and the degree to which sharing and joint work takes place is significant.

Stage 5

If things go badly wrong

Nobody in a funding relationship ever wants to think about things going wrong, but it does happen. At this stage the nature of the engagement, and the real costs of it, can be severely tested.

This book was commissioned after discussion triggered by *The Grantmaking Tango*, published in 2004 which sought to illuminate some of the processes of grant making.

The Grantmaking Tango argued that there are three modes which funders use.

- When **giving** they are entering into a fairly open-ended relationship, expecting the return to the funder in terms of acknowledgement and shared learning, but not a great deal more
- When **shopping**, funders are commissioning particular types of activity, buying either particular services or approaches
- Funders who are **investing** are more likely to focus on the long term relationship with the funded organisation

In each of these three modes funders can be more or less engaged. This book expands on these themes, arguing that some funders have always been engaged with the organisations that they fund, but will design their engagement to fit their own particular circumstances. In particular it argues that in any of these modes funders can be as more or less engaged as they choose.

The Grantmaking Tango also suggested that there are three different motivations for most pieces of funding. They are either designed to:

- support services or activities
- build organisations
- change policy

Whichever motivation is behind any funder, it is possible to conduct the relationship in a more or less engaged way.

Fruitful Funding describes a prism of relationships. It concludes that there is no single way of being engaged, and that funders need to find their own style of engagement. Where they choose to be within this prism will be determined by the sort of funder they want to be, the risks they are prepared to take, and

their level of interest in the organisations they are funding. In examining the journey of an application in some detail, it tries to explore the hidden wiring within the funding relationship, and to draw attention to the different decisions, judgements and compromises that are inevitably made at each stage of this process. Understanding the process, it argues, is an important step in the journey towards a funding relationship that is more fruitful for all concerned.

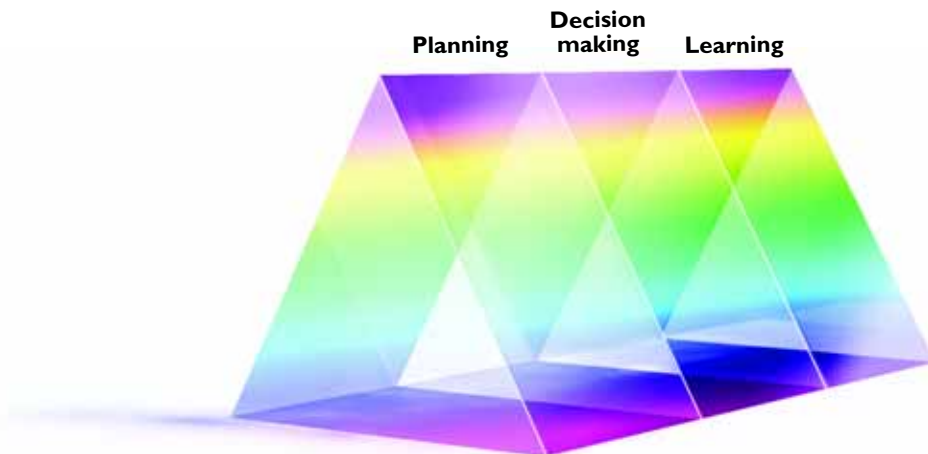
Chapter I

Engaging with the field

●● **Funding** can be fruitful if the funder engages in different and more imaginative ways with applicant organisations as they go through the journey from bright idea, through application, to grant management and eventual evaluation and learning. At each stage there are ways in which the funder may choose to engage with the individual organisation. For a great many funders, however, there is real merit in trying to engage with a whole field of activity. This may mean engaging with the voluntary sector in a particular locality, or in an area of interest.

This section describes the ways in which funders can do this, the advantages of working this way, and some of the risks that may be faced. It suggests that for many funders there is real benefit in moving beyond the sort of bi-lateral relationships with individual organisations that are most commonly discussed, and consider instead the relationship with a whole area of voluntary sector activity.

There are three ways in which funders engage with the sector they are funding. They engage the sector in planning, in decision making and in learning. In each of these modes they will have a different set of relationships and will encounter different risks.



Engagement with the field as part of planning a programme

Many funders are increasingly concentrating on developing their programmes, setting out in some details the areas they want to support and how. In order to do this they need to be guided by the experience in the field of endeavour, the existence of operating organisations and infrastructure, and the research and evidence base for intervention. In determining the area of activity, they need to have some sense of the field they wish to support. In shaping the programme as a whole they may wish to consult leading organisations in the area, umbrella bodies such as the National Council for Voluntary Organisations (NCVO) or second tier organisations such as the Councils for Voluntary Service (CVS), and any advisers or academics working in the field. They may also wish to consult other funders, as well as the statutory organisations with responsibility and experience.

This part of the work of any funder, the planning stage, is a critically important part of the work of any engaged funder. It allows the funder to gather expertise without necessarily recruiting specialist help, and can provide both necessary information, and the texture, to design a good, clear and responsive programme.

However, it should be noted that in taking soundings in this way, funders inevitably raise expectations. By expressing an interest they in turn start to generate interest within the field. They may even be inadvertently encouraging applications which will later be presented to them for assessment and decision. But in taking these soundings the funder is ensuring that the programme that is about to be announced is well founded, and will receive a response.

It is also possible for funders to use this approach quite consciously in encouraging applications from particular types of organisation. So for a funder which particularly wishes to support black and minority ethnic organisations, in the way that City Parochial Foundation does for example, engagement in local voluntary sector fora is a fruitful way of signalling interest, and ensuring that the Foundation offers a welcoming and informed face to new applicants.

Funders who are committed to innovation and risk taking, however, will wish to be absolutely certain that this sort of engagement is not simply drawing them into the safer and more mainstream areas of activity. All sectors have the potential to be conservative and to view new and challenging ways of operating with a certain amount of scepticism. The funder, in consulting within the sector, needs to be confident that negative feedback is not simply the cry of established vested interests. This confidence can usually be built both by getting to know the organisations in the field, but also by ensuring that advice is taken from more than one quarter.

Engagement with the field as part of assessment and decision making

Much more difficult is the desire by some funders to take soundings about the applications which they are considering. In one sense there is real advantage in this. Umbrella organisations offer real expertise and knowledge, and using that expertise can potentially help the process of assessment and decision making.

There is some evidence¹ that funders do frequently consult infrastructure organisations, both locally and on subject areas, but both funders and umbrella organisations profess some unease at this. On the one hand, it can be argued that it is proper within a mature economy to take soundings and make use of the expert knowledge held in the sector. On the other hand, such requests can be destabilising for the organisation asked, and can interfere with the relationship with its members.

Funders who want to involve voluntary sector organisations in their assessment and appraisal need to have clarity about the ways in which they do this, and about their expectations. They also need a clear statement of responsibilities so that there is an unequivocally shared understanding of the position.

Engagement with the field to disseminate findings and encourage learning

Engaged funders have the opportunity to work closely with the field to understand the implications of what they have learned through their funding, and to encourage more thinking about the findings. *The Grantmaking Tango* suggested that the motivation behind all grant making fell into one of three categories. It was intended to:

- pay for services, or activities that were useful in their own right
- help build the strength of the organisations
- lead to policy change

Whatever the motivation of the funding, the funding body will wish to learn from the experience. It might be learning from problems, and be primarily motivated by a desire to avoid repeating mistakes. On the other hand it might be learning in order to encourage replication and growth. In either approach it is of course possible for the learning to be done through the bi-lateral relationship between the funded organisation and the funder, but it is likely to be of greater value if it is done through the sector. As Diana Leat² has argued, learning from good practice requires the collective action of the voluntary sector working with the funders to ensure that the learning really takes place.

¹ Ball & Urwin, *Funding the Infrastructure* (1998)

² Leat, *Replicating Successful Voluntary Sector Projects*, ACF (2003)

The benefits of this sort of co-operative work are clear but there are some risks. Funders with a very precisely defined view of their own learning may find it more difficult to work in a collaborative fashion with organisations which may put a different interpretation on events. Given the long term power relationship between most funders and the voluntary sector, it is particularly important to work hard to secure an honest and reliable interpretation and thus maximise the benefits.

The costs of engaging with the field

The sort of engagement described in this section of the book is normally in addition to the overhead costs of the funder. The receipt, administration, and assessment of applications are normally all that can be contained within the average funder's overhead. This sort of engagement also costs the field. Umbrella organisations that devote a significant part of their time to advising funders may conclude that this is part of their mission. On the other hand, and increasingly in the current funding climate, many may conclude that they need to be funded to work in this way.

Acceptance of the additional costs involved is only possible or sensible if this sort of engagement is seen as really adding value. If the funder believes that the help of the sector in shaping the funding programmes results in a better strategic direction, and consequently better applications, then the engagement approach can be justified. Equally if the outcomes are improved because the field is actively engaged in disseminating and promoting the findings of any grant programme, then there is a strong argument that the costs are worth meeting in order to make the funding more fruitful.

In considering these additional costs, many funders are also aware, through long experience, of the real costs of failing to engage.

- Funding programmes to which there is little, or delayed, response are wasteful for all concerned.
- Grants made to organisations which the field knows are poorly run and incapable of delivery.
- Learning is lost through repeated reinvention.

These are all costs that funders traditionally incur because the field is insufficiently engaged.

Conclusions

Much of the debate about engaged funding focuses on the relationship between the individual funded organisation and the funder. Of potentially greater significance is the relationship between funders and the field in which they are engaged. In order to develop these relationships properly, and to ensure that they are as effective as possible, it is likely that funders will need to devote a portion of their overhead and will also probably need to meet the costs of the organisations with which they are working. The rewards can be great however, and the benefit of true engagement of this sort is that some of the risks of traditional funding relationships can be avoided. Funding that works in partnership with others may be much more fruitful.

Engaging with the field

Reason for engagement	Risks of engagement	Management of risks
To shape a programme	That new ideas will get a hostile reception	Good understanding of the field More than one source of advice
To make decisions	That the umbrella bodies will not wish to be involved That getting involved will damage the umbrella body	Clarity about the relationship Clear assessment protocols
To learn	That the voluntary sector will have a different interpretation That the funder will not be told the truth because of the wish to avoid future problems	Positive action by the funder to demonstrate the desire to learn jointly



Chapter 2

2

Taking the initiative

●● **T**he classic model of funding views the funding body as a giant, and rather unpredictable, cash dispenser. The applicant organisation develops a proposal, submits it, and after period of inexplicable reflection the funder issues either a cheque or an opaquely worded rejection letter. Also, from the point of view of the funder, the process is fairly obscure. The postbag brings in a variety of applications, some highly polished and some which seem rather rough and ready. The funder then goes through a process of more or less formal assessment, using skill, experience and external knowledge to make a judgement.

Of course in reality the picture is much more complex. Many funding bodies have devoted a great deal of time and intellectual energy to developing statements of priorities. Some offer strategic plans and invest significantly in understanding the fields in which they wish to fund. Others work with applicant organisations to develop the sort of proposal that they might wish to fund.

- But how do they take the initiative?
- Are there risks to funders in initiating proposals?
- Are there ways of taking an initiative and still offering an open approach to funding?

The question of initiative is a complex and multi-layered one. In one sense, funding bodies take an initiative as soon as they open for business. They signal that they wish to fund and they receive applications. There is a range of ways in which funders can do this, and all the approaches raise further questions.

This chapter explores the question of initiative, arguing that the responsibility for taking initiative is a critical part of engaged funding, and the approach to this will be determined both by what the funder wishes to achieve, and by the nature of the funder.

What sort of funder?

Some organisations which have a funding relationship with voluntary and community organisations are established with very specific purposes. The Housing Corporation, for example, is established to fund social housing, and this determines the ways in which it initiates any funding relationship. Equally some government

departments will have very particular objectives, and in achieving those objectives may well fund voluntary organisations for particular pieces of work. Some grant making trusts will also have more or less defined objectives, and will only fund either within a locality, or within a particular field. For all of these, the fact that the funder has particular objectives is a significant determinant.

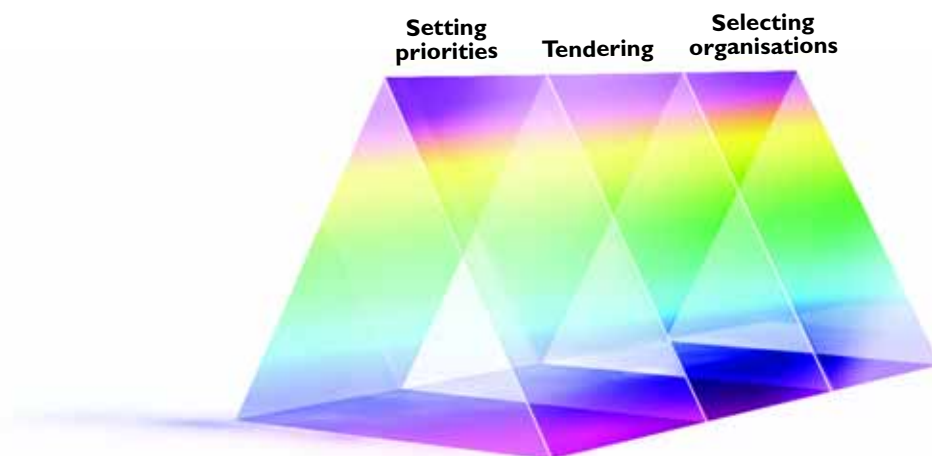
Other funders, such as many grant making trusts, the Big Lottery Fund, and some schemes within central and local government, will have been established with a much wider remit in relation to the voluntary sector. For these organisations there are two distinct reasons for signalling priorities:

- as a rationing mechanism
- in order to increase impact.

Both types of funder will therefore take the initiative in establishing their priorities for funding. In recent years the level of specification has increased and – although there are still grant making trusts that express themselves as willing to fund any good cause – most provide some guidance to applicants.

Taking the initiative or responding to demand?

Once a funder sets out its intentions, it has taken an initiative towards the sector. There are other ways in which the initiative can be taken. Some funders choose to operate on a 'tender' process. While for some this is a formal, and sometimes competitive, process, for many others a tender process operates in effect, although it is not described as such. These funders describe what they wish to fund, specify the nature of the outcomes expected and then invite interested organisations to respond. Yet another group of funders takes the initiative by selecting individual organisations, suggesting to them an area that might be of interest, and assisting that organisation in the development of a proposal.



In deciding where on the funding prism funders wish to be, they will be guided by a view about what they want to achieve and the ways in which they wish to achieve it. Funders with very specific intentions may well find themselves 'shopping' and are more likely to gravitate towards the tendering corner of the triangle. Those that wish to respond to demand, within some fixed parameters, will probably confine their initiative to the area of general strategy. Those pursuing very specific objectives, perhaps wishing to support a particular approach, may wish to work closely with an individual organisation to bring about those changes.

Each of these approaches has strengths and weaknesses, risks and opportunities.

Taking the initiative through setting priorities

The initiative in these examples is taken at the strategic level. By setting priorities and signalling areas of interest the funder is, in effect, issuing a call for applications. In taking the initiative strategically, the funder will consider the following questions:

- Are there organisations in the field that will wish to respond?
- Is there a funding gap?
- Do we know enough about the field to assess and make decisions?
- Who are the other funders in this area? Is there room for collaboration?

In doing this the funder is seeking a focus for its funding portfolio, either in its totality or for a portion. This might involve a geographic interest, a subject or sub sector, or indeed a type of organisation. Once a funder has established and published its priorities it has issued a public initiation to respondents. Frequently funders will try to enhance this initiation through conferences, road shows, and meetings with umbrella bodies. Some funders supplement this work with considerable investment in getting to know the field of activity, through discussions with key players, meetings with umbrella organisations, commissioned research and so on.

By signalling an interest, these funders avoid making a commitment to any one organisation, but they are likely to generate discussion, and will almost certainly have the effect of making some organisations consider activity in an area that they might not otherwise have considered. This impact can be seen in one of two ways. In one sense it is an easy and practicable means by which a funder can develop interest in a particular area of work, and so exert some gentle influence on the sector.

Comic Relief, funding through Charity Projects in the early 1990s, made it clear that it would only fund projects for disabled people that were led and managed by disabled people. This encouraged many potential applicants to re-visit their governance structures and ensure that their membership met the concerns of this significant funder.

Using the prospect of funding to influence the sector can, however, have adverse, or unintended, consequences. By signalling an interest in a particular area, the voluntary sector may inappropriately develop schemes, or may try to develop activities that do not really fit with their mission. This places a greater burden on the assessment capacity of the funding body which then needs to be able to demonstrate that it can distinguish between the skilled and committed provider, the entrepreneurial new entrant into the market, and the opportunist following the promise of funding.

Benefits for the funder of this approach

There are a number of benefits with this approach to grant making.

- The funder retains the capacity to respond to the wide range of initiatives that come from the sector without being overly prescriptive
- It allows the funder to influence, without determining, the nature of responses
- It can leave flexibility to enable different types of proposal to present themselves

Risks for the funder of this approach

There are also obviously risks associated with this approach.

- The voluntary sector's acute responsiveness to funder priorities may mean that some organisations inappropriately alter their programmes in order to meet funder priorities
- It can be a rather blunt instrument for achieving outcomes
- Unless the preliminary research is done carefully the funder may find themselves with priorities but no good applications

Best for funders ...

- wishing to support and encourage a particular type of activity, perhaps enabling a new focus on an issue
- with an open mind about the nature of interventions, wishing to explore a range of possible approaches
- who accept that a proportion of their funding will not result in dramatic success

Taking the initiative through tendering

Another more targeted approach is to adopt a tendering process. Some funders do this in a very formal manner, and would describe their approach as a competitive tendering approach. Typically such funders are contracting for a piece of work, and may even issue a formal 'invitation to tender'. Many others, however, use the principles of tendering, even if they use a slightly different terminology. A tendering approach is distinguished by:

- A focus on highly specific outputs
- Invitations to respond issued, rather than simple open availability
- Selection by the funder of the most appropriate delivery body
- Basis of the selection being a comparison between different approaches from different organisations

Funders who successfully adopt this approach will normally invest considerable time and effort in understanding the field in which they are shopping, and also in understanding the nature of the organisations which they invite to tender.

Benefits for the funder of this approach

There are some very particular benefits with this approach.

- It enables the funder to set out the desired approach
- Minimises the risk that the money is used in ways not envisaged by the funder
- It provides the basis for a clear, output based approach to work. This may mean that the funder can avoid responsibility if things go wrong
- The introduction of a controlled element of competition allows the funder to compare and contrast applications, and so reduces some of the complexity and challenges of assessment

Risks for the funder of this approach

- Unless the funder is very well informed about the issue, the specification might be inaccurate or inappropriate
- In a contractual relationship of this sort, the tendering organisation is likely to focus on winning the piece of work. This may reduce the opportunities for engagement at a later stage

Best for funders ...

- wishing to secure some very specific objectives, as opposed to outcomes
- that have a high degree of knowledge about the field and the impact that can be made
- with a relatively low tolerance of risk

The Northern Rock Foundation has a long-standing interest in domestic abuse. In June 2003 the University of Sunderland published research they had commissioned into the causes of attrition (or 'drop-out') in domestic abuse cases entering the criminal justice system. The research highlighted the need for better partnerships between statutory and voluntary agencies and more comprehensive support for victims. In consultation with partners they designed a model intervention service that built on the research findings, and invited consortia of agencies to tender. The plan was to fund two projects, one urban, one rural, alongside a longitudinal evaluation so that learning could inform services across the country.

Selecting organisations

The third approach to taking the initiative occurs when the funding body approaches an organisation directly. They may do this because they have a particular strategic interest in the work of that organisation, or because for their own reasons they wish to see that particular organisation strengthened. Equally they may do so because the piece of work they wish to commission is of such a specific nature that there is only one organisation that can do it.

In this approach the funding body needs to have considerable confidence in the selected organisation. Frequently this will be because they have worked with them in the past and have confidence in the ability of that organisation to respond.

Benefits for the funder of this approach

- It can allow the funder and the recipient organisation to develop a good shared understanding of the project concerned, and can minimise some of the difficulties of a more competitive approach
- It provides a useful basis for working closely with an applicant organisation, and allows the funder to adopt more of the investment style that many are interested in. In other words, it allows the funder to establish a degree of closeness to the recipient

Risks for the funder of this approach

- It is of course possible for this approach to be adopted on the basis of incomplete knowledge. The information held may be partial. It may be based solely on reputation, and insufficiently tested
- By the same token, it can limit the field, and make it difficult for new organisations to receive funding

Best for funders ...

- with a long and recognised relationship with individual organisations
- prepared to stick closely to those organisations through good times and bad
- who have an articulated desire to see some particular organisations succeed

The Baring Foundation established a programme of support for core costs for a small number of organisations in 1997. It was able to do this on an invitation only basis because it selected organisations which it had supported over many years and with which it had built up a long term relationship. Over time however this approach was reviewed and a more competitive element introduced in order to allow comparisons to be made, and also to prevent the creation of a 'charmed circle' with impossible barriers to entry.

Conclusions

All funding bodies take some sort of initiative when they announce that they are open for business. The nature of the initiative is determined in part by the sort of funder they are, and their own style. It is also determined by the areas they wish to support. This chapter has suggested that there are three principal ways in which funders take the initiative:

- strategically by setting out priorities
- through the sector; by inviting specific proposals
- by organisation, through approaching individual agencies

Each approach has strengths and weaknesses, and each encounters particular risks. However the approach will be determined by the nature of the impact desired by the funders, the nature of the association with the sector; and critically, the type of issue under consideration.



Shaping the application

●● **T**here are some funders who take a deliberately neutral stance towards the applications they receive. They avoid discussions with applicants in advance, and make their judgements on the basis of the proposal put in front of them. For these funders there is a certain clarity of process. They can make their judgements unimpeded by any prior association with the proposal in front of them. Decision makers and those who advise can then express confidence in an objective assessment, and can make their decision on the evidence they see, not on a more complicated set of relationships. Questions of probity will be much less troubling as the funder can draw a clear distinction between the process of application, and the processes of assessment and decision making.

Like so much in the funding environment, this is only part of the picture. Funders get involved with shaping applications for a number of different reasons.

Should funders shape applications?

In one sense all funders have a hand in shaping applications. Their approach in requesting information, the supporting documents they require, and more specifically the pattern of their funding, all influence voluntary organisations and their advisers when preparing an application.

There are strong arguments encouraging funders to resist shaping applications. These are partly to do with probity. Shaping applications, it is argued, obscures the relationship between funder and applicant. By aligning the interests of the applicant with those of the funder, it makes the assessment process much more difficult, and makes it hard for funders to offer a fair hearing. It may also make it more difficult for the decision makers in funding bodies to scrutinise effectively, if they understand that their staff or advisers have had a major hand in assisting with the application. It may be that applicants also conclude that they will not get a fair hearing under these circumstances.

Equally, funded organisations usually treasure their independence from funding bodies. They recognise that they need to control their own destiny and have control over their own business planning and strategy. They may therefore also be reluctant to recognise that their plans and proposals are subject to

influence, even from funders with considerable sympathy for their objectives and method of operating.

This reluctance has another sound basis. Well managed and governed organisations need to establish their own internal approach. There are real fears that the siren voices of funders may well distort the mission and coherence of applicant organisations.

Shaping applications, therefore, is not a straightforward form of engagement for funders, and the ways in which it is done need to be managed to ensure the mitigation of these risks.

Why do funders seek to shape applications?

Despite the many arguments against it, there are compelling reasons for helping to shape applications. These reasons tend to fall into three categories:

- To help an organisation that might otherwise struggle to succeed – compensating for the difficulties facing the applicant
- To ensure that the skills and knowledge of the funder are used to inform the application
- To marry the application more closely to the intent of the funder

These three motives for assisting in shaping an application each result in slightly different dilemmas for funders.

**Compensatory
action** **Better fit
with funder's
wishes** **Use of
funder's
expertise**



Any attempt to shape the application, for whatever reason, brings risks as well as benefits. The principal risk is that the funder is later constrained from making a proper judgement. Almost as significant as this is the risk that the applicant will assume that a proper judgement will not be made, and will then be unduly disappointed, and perhaps resentful, if the application eventually fails. On the other hand, the three sets of motivation described here are all good and robust reasons for engaged funders choosing to shape the applications they receive. Each motivation does, however, produce different risks and benefits, and will be suitable in different circumstances.

The Wates Foundation engagement with a community arts charity in South London

Following an initial exploratory conversation, the Foundation's director met with the organisation to scope the nature of the organisation's needs. These were: a strategic plan as the basis for development of the organisation's work and its structure; a funding strategy to support development; core funding over a period of years to provide sustainability during the initial delivery of the strategic plan. The pre-application assessment showed that here was an organisation providing identifiable benefits across its community, that simply needed a kick-start.

The Foundation's director wrote a three-year strategic plan for the organisation that offered: a series of annual targets for productions and activities that built on its existing track record; a basis for structural development including a move to proper business premises and employment of an administrator to release the artistic director from routine administration to strategic development; the use of New Deal and student placements as a resource multiplier; the expansion of the trustee body to call upon wider expertise and networking; and the construction of a financial/funding strategy to support current and future work.

From this strategic plan, the organisation and the Foundation developed an application to the Foundation for core funding of £41,000 over three years that provided for rent, an administrator's wage and a contribution to the artistic director's wages to allow for full-time working. The potential outcomes of the application reflected the targets identified in the strategic plan. A grant was given in March 2004 with payments being made at six-monthly intervals triggered and monitored by progress reports based on the parameters in the original application.

Shaping the application as compensatory action

Many funders increasingly recognise that the competition for funds is unequal and that some excellent initiatives are denied funding simply because the applicant organisation lacks the skills and experience to put the application together in a successful manner:

Benefits of this approach

Many funders express the desire to fund organisations that are small, new entrants to the sector, and led and managed by people who are not professionals. They express concern at the weaknesses of applications from new and emerging organisations, and recognise that too frequently, successful funding applications come from professional and well-resourced organisations.

Those that are serious in this desire may decide that one way of meeting their objective is to offer professional help to applicants. They may do this through their own staff, or through consultants, but the input is paid for by the funder, and done in order to improve the prospects of the applicant. The apparently opaque processes of grant making and funding decisions can be more easily translated in this way.

The Trust for London, which is specifically devoted to supporting new and emerging organisations is explicit in its advice to applicants that the role of the field officer is to 'help you apply for funding'. The website offers the applicant the opportunity to discuss the proposal before submitting an application, and describes the field officer's intervention as a part of the process of drawing up an application.

Risks of this approach

There may be risks in the inherent conflict of interest that this entails. There is a danger that the assessment and decision making process becomes blurred, since it is hard for individuals, who have worked closely with an organisation to develop their proposals, to then make objective judgements about the quality of the application. This reluctance to judge may, unless managed, affect the whole organisation, with key decision makers reluctant to make a negative judgement about a proposal with which their staff are closely involved.

On the other hand, this possible conflict can be managed, and is effectively managed in many organisations which rely on a clear separation of roles. It is also frequently a justifiable risk in relation to the desire of the funder to ensure that funding is made available to the right organisations. However, in a public audit context, or in a culture where there are likely to be challenges to the process, funders who do devote resources to assisting applicants will need to do so in a way that does not invite charges of conflict of interest.

The Lloyds TSB Foundation encourages 'pre-application' contact when advice is given to the potential applicant to help shape their application for an appropriate aspect of their work, and for a realistic amount. This makes the application process efficient on the part of both the applicant and the funder.

For organisations that do offer this sort of help in shaping applications there is another risk. Even if the funding body is absolutely clear about the separation between the function of assessment and assistance, the applicant may not be. Applicants whose applications are rejected, even after they have submitted them under the guidance of a grants officer, may feel very critical of the process, and may even feel misled.

A motivation suitable for funders ...

- with a strategic desire to widen the type of applicant organisations
- committed to investing in organisations that are not established voluntary organisations
- willing and able to create structural clarity about the distinction between roles

Shaping the application to provide a better fit with the funder's wishes

Some funders have very specific outcomes in mind when they invite applications. They may also have very clear and well founded views about how they wish a piece of work to be developed and established. For such funders there may be real merit in guiding the application itself and having considerable input into it. The alternative, after all, is to trust to luck and hope that there is a coincidence between the funder's desires and at least one of the applications received.

Benefits of this approach

This approach has real benefits for funder and applicant alike. If the funder has certainty about the outcomes to be achieved, and this is almost always the case when the funder is in 'shopping' mode, working with the applicant to shape the proposal can actually save both parties time and money. The funder does not need to deal with a large number of inappropriate and unsuitable applications. Equally the applicant can be spared the costs and effort of preparing a proposal that is not consistent with the wishes of the funder.

If the funder is sufficiently energetic in promoting the model, and if the field is large enough, this approach can provide the funder with a real choice between similar proposals. The element of competition may help to improve quality, and drive down costs. As this is combined with assistance to the applicant, it should also introduce competition without generating massive transaction costs for the voluntary organisations concerned.

Risks of this approach

However, there are risks. These relate primarily to the robustness of the funder's own position. A funder that has confidence in its own definition of desirable outputs will be able to shape applications with confidence.

However, for a funder that is less secure, or where there is less corporate commitment to the approach proposed, it may be harder to shape applications credibly. Challenges to the approach may result in different advice to applicants, and the objective of offering assistance will be undermined.

In a local authority in the South East where the commissioning officer had a very clear view on the sorts of home care that should be provided for elderly people, more junior staff were asked to help voluntary organisations develop proposals to fit the vision. When an individual voluntary organisation challenged the vision, and said that it would not work, the arguments were compelling and the officer advising the applicant felt unable to continue to shape the application as directed. The resulting application was not successful, and was not considered suitable by the director of commissioning. This left the applicant organisation feeling misled, and they submitted a complaint saying that not only had their time been wasted, but their expertise had been ignored.

A major additional risk concerns liability. In taking responsibility for shaping an application in order to coincide with the funder's views, the funding body takes considerable responsibility for the outcome. When funders are 'shopping' they are creating an identity between the outcomes desired by the funder and those desired by the applicant. While this may occasionally happen, it is also common for applicant organisations to bend their own objectives, and even mission, to fit those of the funding body. While this is a danger in all engagement, it is particularly apparent at the stage of application, where an organisation may be tempted to promise more than can sensibly be delivered. With this approach, the risk of failure is, at best, shared. In reality more of the risk may fall with the commissioning organisation.

A motivation suitable for funders ...

- with considerable clarity about the outputs they want to pay for
- who want to stimulate competition between providers with similar services on offer
- with sufficiently strong foundations to accept the liability for outputs they have already determined

Shaping the application to use the funder's expertise

Most funders hold a tremendous store of knowledge. They will know from their own experience about the perils and pitfalls of any one approach, and they will also have a good understanding of activities across the fields in which they operate. Too frequently, this knowledge is held within the funder and for a number of reasons fails to inform the applications in front of the funder. The knowledge is likely to be in one of two forms:

- Knowledge about developments in the field, and the value of particular interventions and approaches. This may extend to a knowledge of the strengths and weaknesses of key individuals and organisations
- Knowledge about the management and development of voluntary organisations and the ways in which particular funding decisions can influence the recipient in the future

Both of these sorts of knowledge can be usefully offered to applicants and help to shape the applications.

The Baring Foundation issues checklists for applicants asking for commonly requested grants – for website development, or consultancy help – suggesting that they should first answer certain questions before submitting an application. The intention of these checklists is to ensure that the knowledge held in the Foundation is at the disposal of applicants. The Foundation also regularly puts applicants in touch with other funded organisations with similar activities or projects so that learning can be shared.

Benefits of this approach

This approach builds on the experience of the funder, and enables some sharing of experience between applicant organisations. The fact that the potential funder mediates the process and is the channel for knowledge means that the whole process of the application is informed by the experience of others.

Risks of this approach

In many ways this is a very low risk way of helping applicants to shape their proposals. It builds directly on the experience of successful applicants, and in this way develops a strong and shared sense of what works.

The only danger with this approach is that it may result, over time, in a slightly formulaic approach. Funders need to be able to encourage the new, the quirky, and the entirely unconventional, and there is a small risk that, in seeking to spread best practice, funders may inadvertently discourage an entirely innovative way of dealing with an issue.

A motivation suitable for funders ...

- who wish to invest in improving the management capacity of the sector
- with a sufficiently large pool of successful applicants from which they can learn

Conclusions

Assistance in shaping an application is a common way in which funders engage with applicants. It can have enormous benefits, not least in reducing the costs to both parties of unsuccessful or inappropriate applications. There are dangers, but these are partly informed by the different motivations for this form of engagement. What seems to matter is that there is clarity about the status of this engagement, and that within the funder there is a clear understanding of the distinction between this sort of supportive work, and the eventual decision making.

Chapter 4

4

Evaluation and monitoring

●● **Funders** in all sectors are committed to evaluating what they have funded. They need to do this for all sorts of reasons; specifically they focus on monitoring and evaluation to ensure accountability and probity, and also to learn from experience. The twin processes of monitoring and evaluation are probably the areas in which engagement is most talked about, and yet is in many ways most difficult to do.

This can be achieved in a number of ways which include:

- tracking the funding to ensure that the funds are properly applied
- keeping in close contact to ensure that the development meets the funder's aspirations
- learning in order to inform future funding decisions and to help inform the wider field

Each aspect of the monitoring and evaluation process lends itself a slightly different form of engagement.

Is this a sensible place for engagement?

There are a good many reasons for developing an engaged approach to monitoring and evaluation. Once the funding decision has been made, many funders in all sectors consider that it is easier to develop a relationship of trust. After all, once the funding has been committed there should be more scope for an adult conversation about the perils and pitfalls of the chosen path. Furthermore, if the funder is to develop a useful form of monitoring and evaluation, it needs at least to have some clear understanding of the way in which the funded body intends to measure its own performance.

There will be occasions, however, when the engagement at this stage of the relationship cycle may be much more limited or circumscribed. For organisations which are operating under the spotlight of accountability, there may be a real premium in demonstrating some distance between the funder and the recipient organisation. There may be a need to demonstrate that the assessment of progress is made through a process of objective scrutiny, and is not taking part

within too cosy a relationship. This is particularly relevant when the funding is likely to be long term or repeated. Those funders who expect to continue to provide funding may be particularly anxious to demonstrate some proper and transparent separation between the roles. They may wish to ensure that their engagement in measuring progress does not later inhibit them from making tough decisions.

What sort of engagement is possible in monitoring and evaluation?

There are essentially three parts to any process of monitoring and evaluation. These will require a different emphasis for different sorts of project but in essence any approach to measuring performance will have the following features:

- collecting and analysing data
- making judgements about progress
- making recommendations for change

This process is followed whether the objective of the monitoring and evaluation is to:

- track spending
- measure outcomes
- learn about impact

In each of these steps the engaged funder can work with the funded organisation, or they can operate at arm's length.

There are arguments at each stage for close engagement. One of the major bones of contention in the funding economy concerns measurement. Funded organisations complain that they are asked to collect apparently random information, submit it in different and frequently incompatible formats, and that they receive no feedback from the funder. Funders in turn complain that funded organisations comply poorly and do not seem to understand the importance of measurement and good reporting. As in so much of the funding economy, both sides parody the other, and both exaggerate some of the difficulties. Nevertheless there must be real benefit in a shared approach which is more likely to result in sensible information being produced, and what is more, will almost certainly help to ensure that funded organisations at least submit the information that is requested. Marrying up the information requirements of the funder and the funded must maximise the chances of success.

It seems entirely sensible for funders to work closely with the funded organisations to try to analyse the information, whether it is a simple financial account of money spent, or a more complex attempt to measure and assess impact. Finally, recommendations for change which spring directly from the monitoring and evaluation will have far greater force and salience if they are generated jointly.

It is possible for funded organisations to be held to account for their outputs and outcomes, without placing a burden of paperwork upon them if the funder really understands what the funded organisation is seeking to achieve. This in turn can foster greater openness from the funded organisation, enabling both flexibility and accountability. The funding that NCVO's Sustainable Funding Project receives from Centrica plc is a good example of how this can work in practice. A constructive dialogue has been developed allowing for candid communication that benefits both parties in their objective of encouraging voluntary and community organisations to explore a range of funding options in an innovative manner. Centrica's key interest is the wider impact that the Sustainable Funding Project provides to the voluntary and community sector, and appreciates that there needs to be a flexible approach in the reporting mechanisms and funding, whilst ensuring accountability is robustly implemented.

Is engagement always right? And are there risks?

As in so much about the engagement of funders, the picture is not completely straightforward.

While the relationship between the funder and the funded organisation may be an open and trusting one, there is inevitably a tension. This tension is largely attributed to the fact that the funded body has the power to remove funding, or in other ways damage the funded organisation. Inevitably this means that the recipient of funding will wish to handle their relations with the funder with discretion. It should be noted, however, that the funded body, in some circumstances, also has considerable power. Public sector funders, especially those operating within the democratic framework of local or central government, have considerable experience of funded bodies lobbying to reverse decisions, and in particular having a very high media impact when there has been discussion about removing funding. So there are constraints to total openness on both sides.

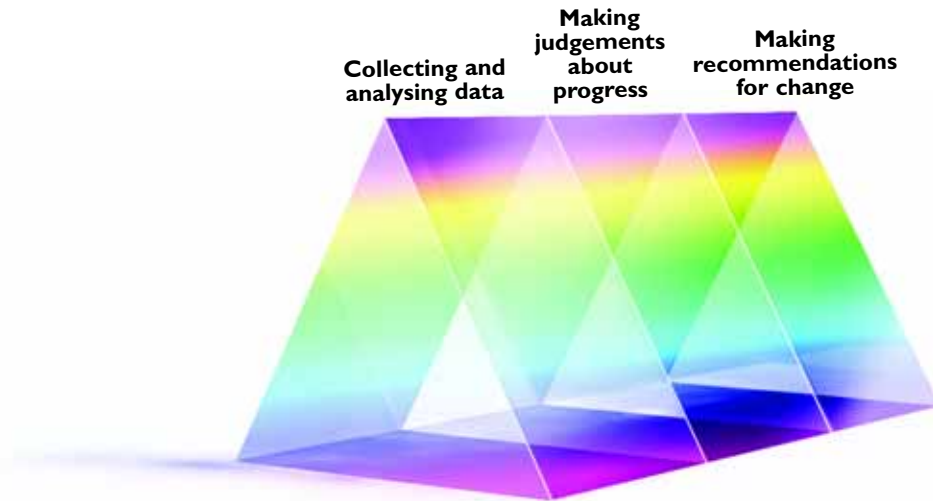
What is more, the desire to share information in an open way is readily open to misinterpretation. If the funded organisation believes that they are sharing information about obstacles and difficulties, and then discovers that this has had a negative impact on their reputation and prospects, they may well feel resentful. Equally they may believe, erroneously, that shared information involves shared risk and expect the funder to step in with assistance when things go wrong.

“They kept saying that we were to be open about risk. Then when things started to go wrong they got very angry and threatened to withdraw funding.”

Representative of small health charity funded by a heavily engaged grant-making trust

Engagement in practice

All three aspects of the function of monitoring and evaluation can be carried out in an engaged manner. In each there are risks and opportunities. Funders determining where they feel most comfortable will be guided by the sort of relationship they want to have, their own capacity for risk, and the other pressures that they face.



Collecting and analysing data

There is considerable merit in establishing clarity about the nature of the data that needs to be collected and the ways in which it should be reported. Whether it is reporting straightforward accounting information, key performance indicators or more complicated and multi-layered approaches to impact assessment, a clear view from the start about the nature of the information to be collected, is obviously desirable. If this view can be developed jointly with the funded organisation there are real benefits. It is more likely that the information collected will be useable, it should be more understandable, and crucially, the funded organisation is more likely to comply with a reporting framework which they have helped to design.

However, for some funders this would simply not be practicable. Very high volume funders, with a significant throughput of applications, may consider it an excessive overhead cost to negotiate individually about this detailed reporting. Equally those funders who need to be able to readily contract across organisations, such as local authorities commissioning services in a highly competitive environment, are more likely to provide a reporting format and then expect compliance.

Some funders, on the other hand, may not wish to engage in drawing up the terms for data collection and reporting because they believe that the real

expertise lies with the funded organisation. Particularly when the discussion is about the more complex sort of information gathering, relating to outcomes and impact assessment, it may be entirely proper for some funders to take a more passive view about the nature of reporting, asking funded bodies to report back on their activities in the way that they prefer.

The final reservation about this form of engagement may arise where the funder has reason to be suspicious of the organisation it funds. This does occur and if there is a strong motivation to track either funding or performance because there is suspicion, then funders may well wish to reserve to themselves the form of reporting they require. Some types of funders will feel more vulnerable to particular forms of fraud. Equally some will exist in an accountability framework which makes any suggestion of collusion even more problematic.

Making judgements about progress

Most funders wish to verify impact. They have a strong need to know what has worked, and to have assurance that the money given is having at least some of the impact desired. This involves the funder making judgements, based on the data provided, about the progress being made.

For a 'shopping' funder; purchasing highly specified services, this can be more easily achieved. A support service for excluded children, funded by a local authority on a per capita basis, is able to track outcomes on a case by case basis. The engagement of the funded organisation, in this case the professional delivery vehicle, in advising the funder about individual progress, is an important part of getting the assessment right.

For many other funders, however; especially those that are 'giving', there can be more difficulties with a shared judgement about progress. They are frequently concerned that the organisations they support will wish to present the best possible case to the funder; and may find it difficult to share misgivings about progress, or indeed information about obstacles encountered. Some funders have sought to address this through the engagement of a third party, commissioning a university or consultancy firm to do the evaluation.

The Northern Rock Foundation has established an approach to evaluation for its larger grants. It requires the funded organisations to fill in evaluation planning forms and send reports on progress. These will be to a six-monthly, rather than the usual yearly, schedule. The whole programme is subject to an external evaluation that was the subject of a separate tendering process. The evaluation is focused on learning, rather than 'policing' the grant.

This approach can be particularly helpful when the funder is supporting a number of organisations in a similar or related field. This may be through chance or it may be because they are running a thematic programme of one sort or another.

The London Housing Foundation runs the Impact Programme alongside its grant making, to help organisations develop their capacity to deliver more effective services. Through a range of inputs including training, peer support, technical assistance and dissemination of good practice, the Foundation has focused on improving the sector's own abilities to manage learning. As a funder, the Foundation invested significantly in this process, and viewed it as an additional benefit to the organisations that it funded, as well as others involved in similar work.

Making recommendations for change

The third part of the monitoring and evaluation triangle is in many ways the most difficult. While anyone involved in evaluation will always say that the purpose of continuous evaluation is to enable changes to be made, for the funder wishing to be engaged there are real dilemmas at this stage. These dilemmas revolve around legitimacy, ownership and responsibility. If, for example, a process of evaluation reveals that a particular form of intervention is simply not working and that despite the best efforts of those involved, it is simply not delivering, the funded organisation has to make a choice. The organisation can come to the funder and ask for permission to vary the object of the grant, or it can continue, hoping to succeed in the long run. In these circumstances the funder is also faced with a dilemma. It can intervene, recommending a changed course of action, or it can continue to fund until the end of the life of the grant. It also has the option of ceasing to fund. Both these dilemmas will be resolved by the individual partners. If, however, they have been working closely together through the life of the proposal, then the dilemmas are more complex. Some funders will consider that they have the right to intervene in an organisation, providing expertise and insight to address the shortcomings identified in the evaluation.

The Impetus Trust, which is pioneering the principles of venture philanthropy in the UK, is clear about its role. The Impetus Trust describes its funding as investment and agrees milestones for each year of partnership with a charity, set out in a written agreement. In year one these tend to focus on inputs and outputs rather than outcomes. The milestones are monitored through monthly meetings with the charity's chief executive, calling in others of the charity's senior management as need be. Impetus Trust will review the past year's performance annually and agree milestones for the partnership for the year ahead, by sitting down with the charity to discuss and then recording what is agreed. With their first investee charities, they are working with them to develop stronger performance management using the balanced scorecard as a basis – using an associate experienced in balanced scorecard working with charities. Once that is in place, milestones will also include key performance indicators.

In this example, because the Impetus Trust is so clearly focused on an 'investment' relationship, it has already secured the legitimacy for high level intervention.

For funders that have traditionally seen themselves as 'givers' or 'shoppers' the dilemmas are different.

The independence of funded organisations and the importance of them managing their own mission deter many funders from too much engagement in this aspect of evaluation. This is largely because they recognise the importance of the independent direction and development of the funded organisation.

Conclusions

In any engaged relationship, there are particular moments in the cycle at which higher levels of engagement are more, or less, desirable. During the process of monitoring and evaluation there are strong arguments for the engagement of both parties in establishing information and reporting needs by mutual agreement. There is also considerable merit in sharing responsibility for analysis of this information, although there may be valid arguments for additionally deploying a third party resource. It is when corrective action is required that the dilemmas are seen more clearly, and in this aspect of evaluation and monitoring many funders whether 'givers', 'shoppers' or 'investors', will wish to tread very cautiously.



Probity, accountability and engagement

●● **T**o observers, the funding environment often seems impenetrable. The decisions made by funders seem unpredictable and surprising, and the applications submitted by voluntary organisations seem to bear little relation to the priorities established by the funder.

One response to this confusing picture has been to try to enhance the relationship between applicant and funder, and to call this 'engaged funding'. This book considers the different forms that engagement can take, and draws attention to the issues that rise. A central theme is the need to protect probity and accountability while developing closer relationships with applicant organisations.

This chapter considers the whole engagement prism from this perspective:

- Are there risks in a set of relationships that can appear too cosy?
- Are there systems that can be established to make sure that these relationships are genuinely fruitful, and not just mutually protective?
- Can a fully engaged relationship be sufficiently challenging?
- Is engagement possible for all types of funder?
- Are there additional checks and balances that need to be introduced?

Can engagement undermine probity and accountability?

Many of the systems and processes set up to manage the funding responsibilities of statutory organisations have created a distance between the applicant and the funding decision maker. In order to reconcile funding decisions with the propriety expected of public audit, funding systems have been designed to separate the supportive and engaged relationship from that of the assessor and decision making.

For independent grant making trusts there was, at least in the past, much less requirement to separate functions. Many grant making trusts consciously sought to connect with their applicants. Over the last decade however, in the guise of greater professionalism, there have been efforts across all sectors to separate the functions, and to ensure, as far as possible a 'level playing field' for applicants.³ This development has had particular impetus from a growing concern that too

³ *Leat, Faith, Hope and Information (1998)*

much charitable funding is taking place within a charmed circle, and that for new and different types of voluntary organisations, entry to that charmed circle can be difficult. In particular, black and minority ethnic groups, both in the UK and elsewhere, have argued that their access to grants and contracts is limited. The engaged funder needs to demonstrate that the model of engagement adopted does not restrict the field of successful applicants, but rather removes barriers to entry.

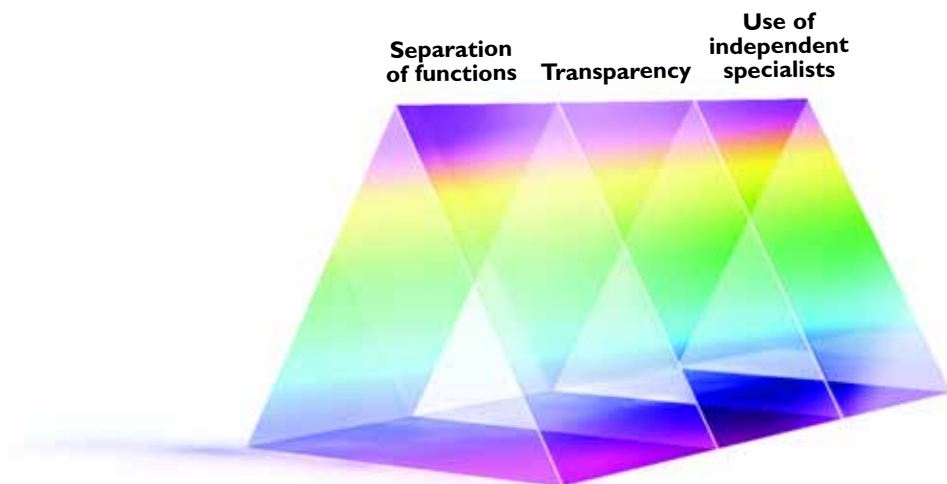
There are therefore three distinct reasons why engagement can be seen as problematic to the outside observer:

- the relationship between the funder and the funded can seem too cosy for challenge, and this may affect the quality of the application
- it can erect barriers to entry which can make it difficult for new and marginalised organisations to get funding
- it can inhibit the funder from taking a sufficiently rigorous and objective look at the proposals in front of them

These weaknesses can, unless addressed, affect the reputation and standing of the funder, and at the same time undermine their own objectives.

Ensuring probity and accountability in the process of engagement

Funding organisations that are concerned about these challenges can set up a number of mechanisms to allow them to be actively engaged with the organisations from which they invite applications, and those which they fund in the long term.



Separation of functions

Many funders seek to separate the process of support and encouragement from that of decision maker. This can be done most easily by using different people to do the two functions. However, for smaller funders this can in itself be difficult and for these organisations it is the split between the supporter and the decision making trustee body that provides the best challenge and guarantee of objectivity. Either approach relies on an organisational culture that delineates clearly between the function of support and encouragement, and the function of assessment and decision making. Where this delineation is not clear, hostile critics, or those who had hoped to receive funding, will quite understandably conclude that the process has been a closed and pre-determined one.

Transparency

Many funders are increasingly trying to be transparent about their funding processes. This can be done through the involvement of outside assessors, and by the clear and unambiguous statement of priorities and intentions. This sort of transparency can, at worst, militate against the two way learning that is at the heart of true engagement, and a critical product of fruitful funding. Funders that allow themselves too little room for manoeuvre will find it hard to learn from the organisations with which they wish to work.

“They told us exactly what they wanted us to say and then they went and turned us down. It didn’t seem right.”

Anonymous rejected applicant

Use of independent specialists

Some funders have followed the tradition of the research funders and introduced variants on the peer review process. These funders are then free to work closely with applicants, knowing that the decision makers in their organisation will, at least for the larger grants, have the benefit of external independent and expert input into the eventual decision making process.

These three different approaches are used by funding bodies to allow them to develop close relationships with applicants and at the same time ensure that their own processes are fair and are seen to be so.

The same processes can be seen at later stages in the relationship between the funder and funded organisation. A focus on achieving outcomes, at the heart of the engaged funding approach, can allow for flexibility in the relationship between the actors, but it does still need to be underpinned with a clear understanding of the different roles and responsibilities they both have.

What sort of funder?

There is a tension between the two approaches, and this tension can deter funders from pursuing any sort of engagement. In practice however, the nature of the response will depend on the nature of the funder, and the field with which they are interacting.

1. Statutory funders, or those reporting through a public audit framework will need to demonstrate clear lines of accountability and decision making. Their decisions are subject to review of all kinds and they will therefore need to establish a very clear trail to describe the processes of engagement, and the resulting decisions. These funders will usually rely on the separation of functions to enable them to both support and judge applicant organisations.

2. Fundraising grant making trusts are subject to particular challenges as their work and decision making is open to public scrutiny and comment. Organisations like Comic Relief, BBC Children in Need and the Disasters Emergency Committee will all need to demonstrate quite clearly that their processes are open and fair, but will also wish to invest significantly in assisting some applicants in their relationship with the funding body. For these organisations it is most likely that they will rely on transparency and a separation of functions to ensure a clear and accountable process.

3. Independent endowed grant making trusts will, if they are large enough, seek to separate the functions, but for many of them, the most useful and economic way of ensuring rigorous appraisal and assessment may be to assemble panels of independent advisers in order to provide a form of peer review to the decision makers.

Conclusions

There are a good many reasons for funders to try and enhance the quality and nature of their engagement with funded organisations. A major deterrent to engaging in the ways described in this book is the fear that such engagement will compromise the integrity of the assessment and decision making processes, and in this way undermine the good standing of the funding body. There is potential hostility and suspicion from those parts of the voluntary sector which consider that they are excluded from funding processes and a concern by all funders to ensure that their processes do not inadvertently erect barriers to funding for new, emerging voluntary organisations and those which have not been funded before.

This chapter argues that there are ways in which funders can protect their own internal integrity, but continue to engage with the organisations they wish to fund. The choice of the methods used will depend crucially on the nature of the funding body.

When things go badly wrong

●● **A**ny funder of any sort is concerned when things go wrong. While many funders talk openly about the need to take risks, all funders dread the telephone call that informs them that either the project is not working as well as hoped, or that the money has been misappropriated. For the engaged funder these calls can be particularly problematic. If the funder has been involved in developing the proposal and shaping its implementation, they may feel that they share some of the blame for things going wrong. If the aspirations of the project have not been met, or the approach turns out to have been fundamentally flawed, the engaged funder cannot retreat behind a screen of detachment. Equally, if the engaged funder has become close to the key players, and has personal confidence in them and their management abilities, the fact that funds have been misused can be particularly difficult.

Indeed, one of many reasons why funders choose to keep some distance from their grant recipients is precisely because of the risk of things going wrong. In part this is a reflection of their approach to risk. It has been relatively easy for funders, both statutory and independent, to declare a significant appetite for risk, but it is only recently that a few of the independent grant making trusts have been prepared to be public about their less successful grants. In any event, whatever the risk appetite, no funder wants to be surprised when things go wrong, or to discover that the scarce funds allocated for an important purpose have actually been stolen.

What does this mean for the engaged funder? Is there a greater risk for the engaged funder of being implicated? Can the engaged funder know more about the activity they fund and so avoid risk? Or does the engaged funder at least have the advantage of predicting risk? Does engagement run the risk of blurring the lines of responsibility and accountability? Should funders who have been heavily engaged in the development of a proposal share responsibility for failure? And anyway, in an environment that favours innovation, shouldn't risk be welcomed? After all, every great innovation only takes place after a great deal of learning. Shouldn't funders embrace risk more thoroughly?

The nature of what can go wrong

It may be helpful to try to disentangle the different sorts of risks that are encountered.

Risk of failure (or less success than hoped for)

- because the original proposal was ill conceived
- because of external circumstances change
- because there was insufficient money to make it work

Risk of fraud or financial abuse

- because the whole project was designed to defraud
- because a rogue individual decided to defraud the organisation
- because the opportunity arose and an individual took it

The above types of risk will present different sorts of challenges to the engaged funder. While none can be entirely avoided, and indeed there are real dangers in seeking to avoid them entirely, funders will play different roles in each set of circumstances. They will also have different ways in which they manage and mitigate the risk under each separate set of circumstances.

Risk of failure

An ill conceived purpose

If a project has been taken at the initiative of the funder, and may even have been designed largely by the funder, it is likely that the funder will feel some significant responsibility. This may be a sole responsibility, if the proposal really was developed in its entirety by the funder, but is more likely to be a shared responsibility in practice. Nevertheless, a very powerful and influential funder may well take the initiative in recommending a course of action which the funded body has felt unable to resist.

This is perhaps most common when a funder is 'shopping'. In this mode a funder will specify the activity or service that they would wish to see provided and the voluntary organisation will develop a proposal to meet that specification. In a perfect world, of course, no voluntary organisation would bid for a piece of work unless it had complete confidence in the approach to be taken and its own capacity for delivery. In a less perfect world, pragmatic and compromised decisions get made and the engaged funder, in 'shopping' mode may well find that the recipient of their funding is actually less committed to the approach than they might be.

Mitigation of risk

- Careful and rigorous assessment needs to make allowance for this, ensuring that there is support and understanding for the approach throughout the

whole organisation. In this way, though responsibility can be accepted, it does not need to be over burdensome

- Most funders, whether 'shopping', 'giving' or 'investing', do not act entirely unilaterally. At least for larger funding commitments, funders are likely to have taken soundings from within the field and will therefore have a sound basis for the approach they are intending to take

External circumstances changing

For many projects that fail, or at least fail to live up to their promises, the problem is not intrinsic to the project, but is rather caused by external circumstances. Projects run into difficulties because they cannot recruit the staff they need, or because key staff leave. The purchasing environment changes, and this affects the approach, or the behaviour of one particularly significant agency alters in ways that challenges the basis of the project itself.

Funders, whether 'shopping', 'giving', or 'investing', can find this turbulence in the external environment difficult to read and understand. While in some sub sectors and indeed some localities, there are well developed mechanisms for consultation between funders. Even these are tested if a change in magistrates sentencing approaches, or a new house building programme, destabilises a piece of voluntary sector activity.

Mitigation of risk

Funders that wish to be heavily engaged in the projects they support, particularly at the initiation and design stage, may need to invest further in understanding the environment in which the project operates, and use their own networks and knowledge to identify likely changes on the horizon. Some funders do this by close involvement with the specialist and local intermediary bodies.

They will also need to use the assessment process to critically test the viability of the proposal, and in particular, use that stage to determine the extent to which the external environment could affect the success of the organisation.

Insufficient funds

A significant, and recurring, reason for the failure of some voluntary organisations to deliver adequately is still the lack of sufficient funding. Voluntary organisations run under funded projects, with insufficient overheads, and then observers are surprised when the project fails to fulfil its promise. As recent work by ACEVO⁴ pointed out, the lack of adequate funding presents significant risks to funder and funded alike.

Engaged funders will need to take particular notice of this risk, because it goes to the heart of an engaged approach. A funder that is primarily 'shopping' will insure against this risk through following an informed and appropriate approach to full cost recovery, thereby ensuring that the project it wishes to purchase is housed in an adequately funded organisation. Risk is similar for a funder that

⁴ ACEVO, *Surer Funding* (2004)

wishes to 'give'. Although funders in this mode may not wish to focus particularly on support for a specified project, they will wish to know that the organisation they are supporting is viable and capable. This will normally be assured by a good understanding of the funding environment.

Risk of funding misuse

Criminal activity happens in all environments and in all parts of the economy. The funding economy that supports the voluntary sector and so much of civil society, is no exception. For a funder wishing to be closely engaged with the funded organisation, there are both opportunities and threats.

On the one hand, close engagement is much more likely to prevent the creation of an application purely as a vehicle for fraud. Heavily engaged funders, working within a long term and thoughtful relationship, are less likely to be the victim of an entirely fraudulent application. These are more likely to be submitted to those organisations which are known to keep their distance from applicants, and rely on more formulaic methods of assessment and funding decisions.

On the other hand, most fraud is opportunistic in nature, and arises because an individual either sees the opportunity in an organisation with poor internal controls, or consciously chooses to work in such an organisation with intent to defraud. In these circumstances engaged funders may find themselves as vulnerable as any other type of funder. Rigorous assessment that asks about internal control systems and requires high quality accounting processes may seem like unnecessary intervention. On the other hand, it can be a considerable protection in the long run. Some funders in 'investment' mode have gone further than this, helping the organisations they wish to support, to avoid fraud.

London Housing Foundation, after a serious fraud was perpetrated at one of the organisations it supported, commissioned the publication of a guide for homelessness organisations, with help on how to avoid fraud. It also provided some consultancy support to enable organisations to manage their own systems in order to control the opportunity for fraud.

How do you know when things are going wrong?

Funders with a close involvement with the organisations they support have an advantage over their colleagues. In theory, at least, they should get an early warning signal from the organisations they support, and their involvement with a wider field of organisations should also provide them with intelligence. In practice of course it does not always work like this. Funders who are very close to an organisation may not see the flaws as readily as someone with a more detached view. They may be blinded by the complexity and, being in possession of too much detail, may miss the crucial signs of trouble.

Engaged funders who are worried about this may:

- involve others in periodic reviews to ensure a second opinion
- actively cultivate networks of intelligence and information

The Wates Foundation had experience of exposure in an organisation facing real difficulties. The Foundation had been associated with a charity since 1994 but between 1996 and 2002 the charity had expanded significantly employing 53 full-time, part-time and sessional staff. Annual turnover was approaching £200,000. Concerned that the speed and scale of expansion was having a negative impact on the charity's administration, the Foundation made a grant of £50,000 over three years to allow the charity to employ a projects coordinator to release the chief executive from routine coordination and administration.

In May 2003 the Foundation became aware that the project coordinator, in taking over the charity's administration, had uncovered evidence of what appeared to be serious and long-term fraud by the charity's chief executive.

In September 2003 the Charity Commission closed down the charity leaving the trustees with enormous personal debts as it was unincorporated. The chief executive was arrested. The Wates Foundation arranged to transfer the balance of the project coordinator's salary grant and a number of staff with their on-going work to another organisation. Much of the other work across London was lost as staff were made redundant.

Learning from problems

Whatever the nature of the problem, however, most funders agree that learning from problems is the best way of dealing with them. Engaged funders need to try to learn alongside the funded organisation, sometimes using the funder's own resources to enable that learning to take place.

From the funder's point of view there is often a retreat from contact at the moment at which shortcomings are recognised. For some funders acknowledgement of a problem requires a new and different form of behaviour. Having chosen to be engaged, as opposed to distant, they then struggle to find a form of behaviour that is not punitive or blaming, but instead co-operative and capable of learning.

"As soon as we told them that we thought we wouldn't meet the target, they got very critical and criticised us from a distance. They really weren't prepared to discuss it, and were obviously very disappointed in us."

Trustee of a charity that had decided to close a project prematurely.

In part this is because of the accountability structures of funders themselves. In most funding bodies there is a line of accountability and explaining the complexity of failure and problems, as opposed to enthusiastically reciting success, can test many funders' commitment to engagement. Engagement is normally the task of the front line staff. Accountability, when things go wrong, may be to elected members, board members or trustees without the experience of this particular relationship and possibly only a theoretical commitment to engagement. Equally, at the point at which problems arise, funding organisations will inevitably be looking for explanation, remedy and possibly redress. None of these lend themselves to a intelligent, considered and more engaged approach to managing problems. Yet in the search for more fruitful funding, new approaches do need to be developed to deal with difficulties.

The sorts of responses available to funders include:

- working with the funded organisation to try and identify what went wrong
- bringing together interested and affected parties to help shared learning
- publishing or drawing attention in other ways to the experience in order to help learning

In practice many funders, and their recipients, will tend to do the opposite, preferring to move on from the problem. If instead a much more engaged approach is adopted, the problems encountered can become a helpful starting point for a new form of engagement. Nevertheless, such shared learning will always be circumscribed by the fact that the funded organisation will fear the recriminations and possible search for redress of the funding body. Unless these fears can be allayed there are real limits to the learning that can take place. Frequently, however, they cannot be allayed. Engagement at this stage is only purposeful and fruitful if the whole funding body is committed to it. Without that shared commitment the engagement will not survive the onset of major problems.

Conclusions

Funders that choose to be engaged with a funded organisation have considerable advantages when things go wrong. They are more likely to be told about problems at an early stage. They will have a greater understanding of the nature of the problems and they may be able to offer practical and intelligent help not only to learn about the situation, but also to remedy it. However, for some engaged funders this point can create a crisis. They may find it harder to identify the problem because they are too close to it, and may even feel a sense of responsibility for having created it. The previously close relationship with the funded organisation may come under greater scrutiny from other decision makers within the funding body, and unless the commitment to engagement is really embedded in the funder, they may find it difficult to maintain and build a strong, engaged and more fruitful funding relationship in the long term.

Managing risks as an engaged funder

Risk	Management/mitigation
<i>Risk of project failure</i>	
an ill conceived project	quality assessment, independent of the initiator knowledge of the field and views about viability
external circumstances change	quality assessment knowledge of local/specialist networks
insufficient money to make it work	full cost financing understanding of the funding environment
<i>Risk of funding misuse</i>	
project was designed to defraud	attention to due diligence rigorous assessment disconnected from the process of engagement
rogue individual decided to defraud the organisation	assessment which considers the recipient organisation's internal processes, and advises on improvement attention to recruitment processes as well as financial control processes
the opportunity arose and an individual took it	assessment which considers the recipient organisation's internal processes, and advises on improvement



Engagement or otherwise?

●● **M**uch of the literature about funding in the UK over the last five years or so has explored the desirability of new forms of funding and the possibility of creating new forms of funding relationships. The ground breaking and innovative work of Venturesome, the Impetus Trust, Futurebuilders and the Adventure Capital Fund have supplemented the long traditions of grant making trusts. At the same time government, both central and local, has reviewed much of its funding relationships. The common thread through all these new developments has been the desire to expand the return on the funding given. Better outcomes for funders and funded organisations, and of course for beneficiaries too, have guided the debates about new approaches to funding.

Within these debates, the issue of engagement has had an important place.

The proponents of an investment model have argued that there is much to learn from the venture capitalists who couple their financial investment with considerable business support, and normally, a seat on the board as well.

The advocates of better procurement, in the language of *The Grantmaking Tango*, 'becoming better shoppers' have pointed to the need for responsible commissioning, taking responsibility for the long term viability of suppliers as part of a long term relationship.

Giving, which allows for the funded organisation to chart its own course, can be properly supported by engagement which allows the funder to really understand the needs and priorities of the applicants.

This book offers funders a prism through which they can consider their engagement. It argues for a more careful consideration of what the term 'engagement' means, recognising that within the prism there are many ways of operating. It suggests that it is a term that is used to cover a multitude of activities, and one that some in the funding economy have difficulties with. It also argues that engagement brings with it new risks and responsibilities as well as great opportunities.

The engaged funder risks being captured by the organisations it wishes to support. Engagement may seem to close the circle in which the funded part of the voluntary sector thrives, and other parts receive nothing. Engagement can threaten the probity and good standing of funded organisations, making the entire process look worryingly free of challenge and rigorous scrutiny.

On the other hand, engagement can enable funders to understand the fields in which they are working, and can enable voluntary organisations to benefit not just from the funding, but also from the knowledge and expertise held by the funder. The truly engaged funder can take better informed risks, can understand the nature of the field, and can celebrate in more effective outcomes, achieved through a more fruitful and mutually satisfying relationship.

Fruitful Funding argues that there is no single way of doing things. Different funders will operate differently, and the choices about which part of the engagement prism they wish to occupy will be determined by a great many things including:

- the sort of funder they are
- the nature of the impact they wish to have
- the risk they are prepared to accept

In looking at the prism of engagement, funders and funded alike have the opportunity to consider perhaps more consciously the very real benefits of a relationship that is more transparent, more open and more accessible to all. If this relationship can be even more fruitful, and much less wasteful, then engagement at some point during the funding relationship must make sense.

Epilogue

by **Lucy de Groot, Executive Director, IDeA**

●● **A**s local authorities remain the largest single funder of voluntary and community groups, the Improvement and Development Agency for Local Government, (IDeA) welcomes the opportunity to contribute to this thoughtful study of the critical and various engagement relationships between funders and the organisations they seek to support.

Local government has a long history of funding the voluntary sector; for a wide variety of activities and organisations and within a multitude of funding relationships and regimes.

The HM Treasury Cross Cutting Review of The Role of the Voluntary and Community Sector in Service Delivery (September 2002), recognised the crucial role that third sector organisations play in both the reform and delivery of public services and the reinvigoration of civic life. A number of government initiatives and funding programmes to take this commitment forward have followed, including ChangeUp from the Home Office and infrastructure funding for rural areas from Defra.

These programmes recognise that for the voluntary and community sector to realise its potential, a strategic approach to strengthening the support needs of organisations is required. The support needs of front line organisations were identified as performance improvement, workforce development and leadership, improved ICT, stronger governance, access to high quality and diverse volunteers, and opportunities to diversify income sources. ChangeUp states that to achieve the required high quality support for front line voluntary and community groups, the infrastructure organisations should 'gradually coalesce into geographic hubs of activity with services sharing premises, back office facilities or merging, depending on needs'.

These programmes have much in common with the developing agenda for local government, particularly around efficiency (Gershon Report), and the ten-year vision for local government from the Office of the Deputy Prime Minister (ODPM), which currently (April 2005) includes proposals on leadership, neighbourhoods and citizen engagement, improvement in services and streamlined performance management.

In future, it will no longer be possible for councils to remain in or achieve the excellent category under the Corporate Performance Assessment (CPA) unless a high score is achieved in both the use of resources and working in partnership.

This overlapping agenda of change will present both opportunities and challenges for both sectors. Both share a set of values and a vision to improve the locality they serve (be it geographic or issues) and both have been set a series of high-level actions. Where these are viewed as opportunities much can be gained. 'Business as usual' for most localities will not provide the desired outcomes.

Increased expectation of partnership working to deliver major policies and programmes – ranging from Sure Start to regeneration and the public health agenda, both brings the voluntary sector centre stage but also puts a lot of pressure on the nature and basis of the relationships. Partnerships and cross sector working are challenging hard work, but potentially deliver much more than the sum of the parts. There is no doubt that a 'fruitful funding relationship' can be a crucial basis for good partnerships between the public sector and the voluntary and community sector. Equally a sour funding relationship will undermine attempts to have successful partnerships.

At the same time, challenging efficiency targets have been set for the local government sector which will require councils to identify a range of actions, including greater collaboration between councils, (including corporate support services like finance or IT) and greater partnership working with each other, and the rest of the public and private sectors. This partnership agenda will include joint commissioning and joint service delivery arrangements.

Finally, Councils remain regulators and market makers both in their own right – for instance in terms of planning, environmental health or child protection – or as the agents of key government policy such as the new ten year childcare strategy. This gives them a multi-layered relationship with service providers and individuals.

Within this dynamic context, it is unlikely that the fairly informal 'giving' mode of grant funding will feature highly in future local authority budgets. The emphasis is more likely to be on the 'shopping' mode. A wide body of work already exists on procurement from the voluntary and community sector and the strengths and weaknesses of the various relationship models have been discussed in preceding chapters. The development of these relationships cannot be one-way; voluntary organisations need to realise that local authorities have a wide portfolio of responsibilities and funding for historic reasons will no longer be an option. Voluntary organisations must also take responsibility to become as efficient and outcome focused as the authorities that fund them are required to be.

As voluntary sector funding and procurement become increasingly aligned with council priorities and local community strategies, it will be important, however, for councils to maintain a mix of funding regimes. If 'giving' is withdrawn completely, some of the most disadvantaged communities and citizens, new initiatives and entrepreneurial solutions may be stifled or lost and equally, without

some 'investment' funding, voluntary organisations will not achieve the required capacity and quality to deliver high-class services and make a serious contribution to policy debate and future planning.

This book provides a useful resource for local authorities and other statutory sector bodies to consider their existing funding relationships and practices with the local voluntary and community sector. As community leaders, local government should be willing to collaborate as widely as possible with those agencies who can help shape their policies and deliver the services that are identified for that area.



Appendix

Case studies

Northern Rock Foundation Programme/project – Domestic abuse initiative

Total investment:

£4 million over seven years from 2004

Funded groups:

- Gateshead Domestic Violence Forum (lead body: Aquila)
- Cumbria Domestic Violence Strategic Management Board (lead body: Impact Housing Association)
- The International Centre for the Study of Violence and Abuse at Sunderland University

Initiative

The Foundation has a longstanding interest in domestic abuse. In June 2003 the University of Sunderland published research we commissioned into the causes of attrition (or 'drop-out') in domestic abuse cases entering the criminal justice system. The research highlighted the need for better partnerships between statutory and voluntary agencies and more comprehensive support for victims. In consultation with partners we designed a model intervention service that built on the research findings, and invited a consortia of agencies to tender. Our plan was to fund two projects, one urban, one rural, alongside a longitudinal evaluation so that learning could inform services across the country.

Shaping

We invited tenders in response to a service specification. Potential applicants were invited to have informal discussions with a lead officer at the Foundation. Because the first round of tenders failed to bring forward a suitable rural bid, we revised and re-issued the document, targeting rural areas. We also went 'on the road' offering seminars in key rural locations for interested parties. This resulted in several good rural bids in the second round.

Evaluation and monitoring

As with other grants, the consortia have to fill in evaluation planning forms and send us reports on progress. These will be to a six-monthly, rather than the usual yearly, schedule. However, the whole programme is subject to an external evaluation that was the subject of a separate tendering process. The evaluation is focused on learning, rather than ‘policing’ the grant.

Managing risk and failure

We are in regular contact with both schemes, alongside the evaluators, but it’s very early days. Our approach is to be flexible both with our support and with our funding. We have been clear from the outset that we expect things to change, and unexpected events to occur – that’s part of the territory. We expect that the evaluation will help as it’s running alongside, rather than at the end of, each scheme.

Managing success

We at the Foundation certainly want acknowledgement for designing and backing the initiative, but as with everything we do, we know success lies in the hands of those we are funding to do the work.

Organisation or project

A consortium runs each scheme, so there are many organisations, statutory and voluntary, involved. But our relationship at present is mainly with the lead agency responsible for the grant – Aquila in Gateshead, and Impact Housing Association in Cumbria. Given the scale of investment, our assessment had to involve looking at the financial background of the whole organisations, but in delivery terms, our relationship is project focused.

Planning for engagement

We needed in-house expertise in the domestic abuse field, but we also needed to draw on external advice. We needed to be open to learning and to changing our approach when it didn’t work (as with the rural bids). We needed to be bold and prepared to ruffle feathers – statutory and voluntary bodies alike were not used to a charitable funder acting in this way. We had to be prepared to get involved over a long period and be prepared to invest substantially in the evaluation.

Trust for London – Small Groups Worker Scheme

The Trust for London was set up in 1986 and its grants are targeted at small groups, many of whom have no staff. When the Trust first established itself it undertook consultation with the voluntary sector. One of the key issues arising from this was the view that small groups were losing out. This premise was born out during the Trust’s first four years of operation and field officers and

trustees were convinced of small groups' need for infrastructure and developmental support. It had become clear that the necessary additional support was not being provided. Much of the work had not been carried out previously because second-tier bodies did not have the resources or funds. Understandably they had tended to provide services according to their own perceptions of what was needed, and often because funding was only available for a particular service.

The Small Groups Worker Scheme was established to assist small voluntary and community organisations, most of which were not part of established networks. The scheme was particularly targeted at black and minority ethnic organisations (including refugee groups) and women's organisations, which were priority groups for the Trust's funding. The objectives were for the workers to provide appropriate support, to make training available, to help the groups get access to information, technology, funding, and technical advice, and to raise the profile of these groups within the local statutory and voluntary sector.

Planning started in 1991 and discussions took place with nine CVSs who would act as the host agencies for the small groups' workers. Under the scheme, nine host agencies were funded by the Trust, each employing a worker for 24 hours a week for a three and a half year period, to work with small community groups in their boroughs. The scheme was developed on a tri-borough basis, with an advisory committee established for each area. These advisory committees had responsibility for the allocation of training funds for small groups and approved the six-monthly work programmes for the workers.

The Trust maintained a close interest in the scheme during its lifetime. Trust staff were involved in the recruitment of all of the workers and attended the quarterly meetings of the three tri-borough advisory committees.

Each project was expected to provide information which would be fed into the monitoring of the total scheme. This was managed by the Trust. The reporting system consisted of a meeting of all of the workers each year to discuss issues and problems and to exchange experiences, and a separate annual visit to each worker by the Trust's policy and monitoring officer. In addition, each worker was required to produce an annual report which included an analysis of the groups which had been helped. Eighteen months after the start of the scheme, a short questionnaire was completed by the managers of the host agencies and the beneficiaries as part of a survey carried out by the Trust. Further feedback was obtained from the tri-borough advisory committees. A final report on the scheme was published in 1997.

Some difficulties did arise in relation to monitoring and evaluation. Though the scheme had formal written agreements, experience showed that they needed to be more detailed and all concerned parties should be aware of the timing, process and expected outcome.

Despite the undoubted success of the scheme, some interesting problems did arise, these related to tri-borough activities and with the complexities involved

with management and job boundaries. Although the terms of reference of the tri-borough advisory committees had been agreed at the start of the scheme, the host agencies and the small groups workers had different interpretations of the advisory committees' roles and functions. This meant they had different expectations which needed to be, and were resolved.

Cooperation across borough boundaries proved to be unexpectedly difficult in some cases. This was especially so where the host agencies had no history of cross borough cooperation and where other funders i.e. local authorities, imposed restrictions on such activities.

There were also difficulties in continuity. Five of the nine workers remained in their posts throughout the life of the scheme. One left because the CVS closed and another CVS had three different workers in post. Another CVS closed at the beginning of the scheme and the worker was hosted by a community centre. Over the lifetime of the scheme, problems were resolved and valuable lessons were learned.

The scheme demanded a new system of management to be put into place within CVSs. This involved a separate line of management for the new workers, a separate financial accounting system, an expectation of involvement in cross-borough work, and a closer involvement with the funders than would normally be expected. For some CVSs, this was a forerunner of what local authorities were beginning to expect in terms of management structures so the experience of managing the small groups workers was a good one.

As a result of the scheme, 774 small groups received hands-on support and training ranging from advice on constitutions and charity registration to financial management and publicity. The workers also set up forums which helped to raise the profile of small groups in the boroughs. During the lifetime of the project the workers helped groups raise over £800,000 for their activities.

In addition the scheme helped small groups to access core CVS support and influenced CVSs' appreciation of the needs of small groups. It contributed to CVS thinking in relation to their internal structure and policies and helped them become more truly representative of the voluntary sector. The credit for the scheme lies with all parties involved: the Trust for London; the small groups workers; host agencies; and with the small groups which participated in the scheme. All featured in the final report which included a large number of case studies of small groups involved in the scheme. The full report is available on the Trust's website: www.cityparochial.org.uk.

By the end of the scheme the work had been replicated in a number of other boroughs and small groups work is now a key function of many second tier organisations. The Trust's sister fund, the City Parochial Foundation continues to fund small groups work in London. The Trust intends to publish an update on the Small Groups Worker Scheme in early 2006.

BME Education and Training Charity, Croydon

The Foundation had been associated with this charity since 1994 and had made grants at regular intervals, such that there was a continuous funding stream to support its work. The work focused on schools initially in Croydon to reduce the number of exclusions of young black students. The work encompassed befriending, counselling, mentoring, supplementary classes and finding alternative schools for excluded pupils. Students over the age of 16 were helped into college and university places.

Between 1996 and 2002 the charity had expanded into 57 schools over ten London boroughs, employing 53 full-time, part-time and sessional staff. Annual turnover was approaching £200,000. It appeared to be doing well, but on-going liaison with the charity's chief executive suggested that the speed and scale of expansion was having a negative impact on the charity's administration. Early in 2002, on the Foundation's initiative, it was proposed to make a grant of £50,000 over three years to allow the charity to employ a projects coordinator as a capacity building measure, releasing the chief executive from routine coordination and administration of school and Youth Justice Board contracts.

The application was shaped around a job specification for a senior administrator covering areas that would have the greatest benefit to the chief executive's post and the facilitation of the charity's projects, but did not address the projects themselves. The risk associated with this grant appeared minimal. The Foundation had almost a decade of track record with the charity's governance, financial and work delivery. A former director of the Foundation was an informal patron of the charity; two of its trustees were ex-members of the Metropolitan Police. The charity was visited at least twice in the months before the application was agreed. Further, a number of other major funders were currently funding the charity.

The payment of the agreed £50,000 grant began once the new incumbent took up his post in January 2003. Monitoring of the grant was tied to changes in the efficiency and performance of the organisation as the new post began to take effect. Payments were at six-monthly intervals, restricted to the salary of the project coordinator.

In May 2003 the Foundation became aware that the project coordinator, in taking over the charity's administration, had uncovered evidence of what appeared to be serious and long-term fraud by the charity's chief executive. Issues of concern included unpaid office lease and costs of furniture hire, unpaid VAT and National Insurance, unauthorised cash withdrawals and use of a credit card and, most importantly, the status of a number of contracts with schools. Many schools believed the charity's work was being delivered free of cost, while the charity's working staff believed that a charge was being levied.

In September 2003 the Charity Commission closed down the charity leaving the trustees with enormous personal debts as it was unincorporated. The chief executive was arrested. The Wates Foundation arranged to transfer the balance of the project coordinator's salary grant and a number of staff with their on-going work to ToCH. Sadly, much of the other work across London was lost as staff were made redundant.

Clearly there are a number of important lessons in the case, not just about governance and management oversight, but also about the unknown risks of grant making even where engagement has been long-standing.

Key issues

- Initiative from the funder
- Shaping of the application by funder and applicant
- Management of risk based on track record and experience
- Monitoring within funder's established grant-making process
- Grant focused on an organisation as a whole for sustainability and capacity building
- Failure of the organisation did not impact on grant as a result of initiative of funder
- Credit with funder

Greater Bristol Foundation

Greater Bristol Foundation is a community foundation that has been operating in the West of England for nearly 18 years. We are part of a wider national movement with nearly 100 per cent coverage of the UK with this type of grant making body.

We manage funds on behalf of all sorts of people; individuals, trusts, companies, statutory bodies, local and national governments. Our focus of interest is delivering small grants from these funds to local organisations working in our geographic area of interest, in our case this is Bristol, Bath and North East Somerset, North Somerset and South Gloucestershire. We want to encourage more people to give to the local community and in so doing we need to be aware of what is happening and what are the concerns of local people.

In this way I think Community Foundations are by their very nature and by the wealth of local knowledge they build up, engaged funders. You may think that a whole lot of small grants, £1000 here, £2000 there is not going to make much of an impact, but a recent evaluation of our grant making over the last five years showed small grants do indeed make a difference and small organisations do value our flexible and hands-on approach.

Our involvement with one local community in the last seven years clearly demonstrates the role of the engaged funder.

In 1998 we were approached by a local authority's community development worker and the chair of a local forum that had recently been set up in a neighbourhood called Redcliffe. Redcliffe is a community of just over 1000 households, primarily high-rise and blocks of maisonettes, mostly council tenancies. It is in the inner city but cut off from other areas by roads and rivers and had been quietly ignored for years.

The Forum wanted to carry out a community survey of people's attitudes to their area, look at needs and work out a plan to make the things that mattered to people happen. The council put up some of the funding. Would we put up the rest? And, more importantly, would we look at further applications from them if they wanted to develop the findings?

We made a grant of £1500 towards the cost of the survey. The council made a similar contribution. One of the things we liked about it was the way it was to be done: a consultant was engaged who would recruit people locally, train them up, and have them do the interviews and discussions with residents.

One of the things the survey found was that people felt cut off from the city by being in the shadow of one of Bristol's finest landmarks – St Mary Redcliffe Church.

The survey helped the Forum identify a whole range of things that people were concerned about and wanted to do. The response was very practical, people wanted to clear up and improve the open green spaces between blocks so that they would be used more. They wanted activities for young people, older people and to hold events to bring the community together. Since that first meeting in 1998 we have had regular contact, visiting the forum, meeting with people to discuss progress and what ways we could help. We have subsequently made a further eight grants totalling nearly £23,000. These have included:

- £5000 from the Churngold Environment to clear and upgrade an open space
- £5000 from the Neighbourhood Renewal Community Chest to the Forum for a range of activities, including a fun day, developing a local newsletter and holding community meetings
- £1850 from the High Sheriff's Fund for summer activities for children and young people in the area

More recently we have brokered a grant from a local branch of a national company, whose office is a five minute walk away from the estate to help with the improvement to the main square in the area. Employees from the company have volunteered to work alongside local people on the environmental work that is required.

From this you can see that although community foundations manage what looks like a diverse range of funds, through being engaged with local communities and areas, we can help people through the difficult array of funds and steer them to the right sort of funding for their needs.

John Moores Foundation

In the late 1990s, the trustees of John Moores Foundation (JMF) were being alerted to two broad issues that were emerging from applications for funding received by the Foundation. These were:

1. The continuing dependence, sometimes over a period of decades, by a number of organisations on JMF grants. Trustees felt that some of these organisations were not doing enough to diversify their income streams nor to adapt their services to the changing needs of their communities and the broader external influences such as the contract culture, the emerging concept of social enterprise and changing funding regimes and legislation. Consequently they were also depriving other more dynamic and effective groups the benefits of JMF's limited funding.
2. The small number of applications from the most grass-roots based community groups, in particular those representing newly arrived refugee communities. Even among those received many were inappropriate to the needs of the groups and did not match JMF criteria. However, it was felt that, in view of the increasing remoteness of statutory authorities from the neediest communities and the withdrawal of even basic support from many of those seeking asylum, these groups were in the best position to serve their communities and should be supported.

To address these issues it was decided to work more closely with funded groups by appointing a community groups development worker (CGDW), who helps wean the first type of organisation off their JMF dependency and enable the second type to become more effective in their fundraising and service delivery, which in turn encourages other under represented organisations to engage with JMF. This post is supported by the monitoring and evaluation worker (MEW), who has more than a simple auditing role, but also supports the groups in developing their own monitoring systems and setting their own objectives.

The approach is an enabling one, whereby the workers offer information and advice and help the organisations develop their own action plans. This ensures that the organisations develop an independent ability to grow stronger, more effective and less reliant on an individual funder or, indeed, an 'expert' consultant, who does everything for them. Moreover, the local knowledge that the Foundation and its staff possess gives a greater insight into the issues and potential solutions. This approach also ensures that the credit for success lies clearly with the funded organisation.

The decision was made to offer these staff resources to groups after offering them funding. In the case of newly established and underdeveloped organisations, this does increase the risk to JMF of groups not making the best use of any funds. However, the staff time that might potentially be wasted on ineffective groups is minimised by the action planning approach, which places responsibility for progress with the funded group. Furthermore, the close engagement that JMF develops and maintains with these organisations increases its understanding of their needs and thus further substantially reduces the risks involved.

A brief example of how this approach has operated:

Somali Community Organisation

JMF had been receiving grant applications for equipment and refurbishment on an irregular basis from this organisation for over 10 years, during which time they had occupied various premises. However, owing to inadequate administrative systems (they were entirely run by volunteers), it was difficult to assess the effectiveness of their work.

JMF's trustees had been becoming increasingly concerned by the low levels of funding successfully applied for by Somali and other BME community groups in Merseyside generally, and so decided that a more interventionist approach was required. Therefore, JMF's grants director visited the vice chair of this Somali community organisation, being the largest in the area, and encouraged them to apply for an administrator's post to deal with supervision, evaluation, monitoring and finance.

An application was subsequently received for an eight hour per week post. Trustees felt that this would be inadequate for their needs and offered funding for 17½ hours as well as a mentor for 30 hours to help the organisation with recruitment and helping their committee with supervising their new staff member.

Following the administrator's appointment, JMF's CGDW spent a large amount of time (two mornings per week at their centre plus ad hoc telephone support) helping the organisation build itself up, so that it would be in a position to manage and develop itself. This support involved helping the administrator to:

- devise systems for dealing with e.g. filing, petty cash, cheque requisitions and quarterly budgeting
- regain control of Local Authority Grant Aid for annual running costs. For several years this had been administered by the local authority as the organisation was felt to be unable to run its own financial affairs
- address health and safety issues within the centre
- successfully raise funds for significant redecoration and refurbishment work
- conduct a survey of members to assess the needs of the community
- devise policies and procedures
- organise elections that selected a committee of progressive, committed members who had the confidence of the Somali community

At the same time, JMF's MEW devised monitoring and financial recording systems and worked with the organisation's committee and members to set annual objectives, which could be used for business planning, fundraising and evaluation.

Throughout this process it became clear that the organisation required more than an administrator to fulfil its potential and serve the many and varied needs of its members and so JMF encouraged them to apply for increased hours and an upgrade to coordinator for the post. Following this move, the level of support from the CGDW has diminished to an advisory role as the skills of the coordinator and the robust procedures now in place have increased.

Moreover, the organisation now has a strong track record of delivery and competence, which means it has much greater success in securing funding from elsewhere. Indeed it has now taken a lead role in bringing together other local Somali organisations (many of whom have been encouraged by this example to seek the support of JMF) into an umbrella group that can represent the wider Somali community to the statutory authorities.

The Bedford Charity (The Harpur Trust) – Child Development Centre

Overview

The Child Development Centre (CDC) is a nationally renowned centre of excellence with skilled staff from health, education, social services and the voluntary sector working together to support children and their families. The new extension provides additional state of the art facilities and equipment, including a multi-sensory room, soft-play area, gymnasium, music therapy room, autism classroom, a section for children with sensory impairment and communication difficulties, as well as facilities for parents and carers, such as an information room, which can also be used by voluntary agencies.

Professionals working at the centre sought assistance and advice of The Bedford Charity to provide funding for the extension. In 2001, the charity made an initial grant of £400,000 and assisted the staff to set up a separate charity to continue the fundraising efforts. The Friends of the CDC was formed and raised the remainder of the £1.2million required, making this a spectacular fundraising success. Work was completed in October 2003.

This is one of the charity's major projects and has shown what may be achieved through local partnership working between the voluntary sector and statutory services. It is also an example of how the charity seeks to assist by acting as a focus for the efforts of other organisations and individuals in the Bedford area.

Background

The Child Development Centre (CDC), which provides services to children living in North and Mid Bedfordshire, was opened in 1976. It was one of the earliest centres of its kind to have health, education and social services staff working as a team to provide a comprehensive diagnostic, assessment and therapy service to children with disabilities.

The CDC is committed to enabling children with disabilities and special needs to reach their full educational, physical and emotional potential. The New Therapy Wing project aimed to enhance existing services to enable children to benefit from specialist services and new therapies. Families now also benefit from the enhanced services and resources, which were restricted by lack of suitable space.

Bedfordshire has a long tradition of multi-agency working and policies for social inclusion. The teams were well placed to take a national lead in developing a Centre of Excellence to provide a wide range of coordinated services to children with special needs. The centre now also provides training and research opportunities for higher educational establishments, to mutual benefit.

Making and assessing the application

The charity had first been approached by the professional team at the centre in 1989 for financial support for a capital build. The trustees, although sympathetic to the needs of the team and their work, did not encourage a formal approach. At that stage, there was no guarantee that statutory bodies would ensure the revenue funding to adequately staff any new facilities.

In 2000, the team based at the centre invited officers from the charity to visit them, and talk through plans they had developed aiming to show how new facilities might help them meet the demand on their services. Referrals had increased consistently over the years, and due to a lack of space and limited room availability, some of the teams had had to resort to undertaking home visits to conduct treatments. They believed that with the existing staff levels, and given the appropriate new facilities, the centre could return to being the Centre of Excellence it had been, and maximise service provision to local people. It was extremely unlikely, however, that with constraints on statutory purses, further development of the facility would be a priority for funding in the foreseeable future.

The officers encouraged the team to submit a draft proposal to the charity. The grants committee, aware of the work of the CDC, indicated that they would be receptive to a proposal being developed, but instructed officers to undertake the groundwork in ensuring that the request was as robust as possible before consideration.

Officers initially spent time working through the proposal, identifying the areas that needed investigation. This resulted in a 'songsheet', which was shared with the project team at the CDC. The aim was to ensure that both the charity and

the CDC team could work towards getting answers to potential questions that the trustees might ask.

As well as a series of meetings with the CDC team, officers met with senior key decision makers in the various departments at both the County Council and the health authorities. The charity secured letters of commitment from appropriate statutory officers that if a new facility was built, revenue and staffing arrangement would be maintained or enhanced to enable the sustainability and effectiveness of the project.

Charity officers worked with the CDC project team to fine tune their proposal and their presentation, which took place during a dedicated session at a grants committee meeting.

A provisional offer was made by the grants committee towards the costs of the project of £400,000 – approximately two thirds of the estimated costs of the facility at that stage of planning. It was believed that this would be a sum that would help unlock funding from other sources, without the charity being put in the position of financing in full this extremely valuable new resource. The charity agreed to provide ongoing support to the team in their work of bringing the project to fruition.

Progressing the project – charity engagement

Charity officers suggested that the team should form a separate ‘Friends of the CDC’ to fundraise for the project. They believed that it might be difficult to source other funding for a statutory led initiative. The charity provided funding for the Friends to be constituted, and provided contacts and suggestions for fundraising support and representation on the Friends Committee. Charity officers were also instrumental in securing an additional £100,000 towards the capital costs by the introductions and ground work they conducted on behalf of the Friends with another local charitable trust, the trustees of which were seeking actively a major project in the health field to fund.

A Memorandum of Agreement was developed and agreed, using the charity’s solicitors, between the charity, the county council and the Friends. This included the county council requirement to consult with the charity on the design of the building, evidence of commitment to ongoing funding and that it should continue in operation for an extended period, and updates on the costs of running the centre. Monitoring requirements, and conditions on which the grant might need to be repaid if the centre no longer operated, were included.

The charity’s new chief executive, David Russell, took a major role in facilitating the final arrangements for the new build and, crucially, he suggested that the centre actually needed a project management team to coordinate the work of the various teams during this period of change and development. He was asked to chair the steering group and has retained this position to date.

With the momentum created by a very active fundraising team, the various potential phases of the project were combined. Assisted by the eventual sum of £1.2 million raised from non-statutory sources by the Friends, a truly exceptional facility was created. In order to enable the final phase of the project to be completed with the others, the charity agreed an additional loan to the Friends of up to £85,000 whilst they attempted to raise this sum from other sources.

Monitoring, evaluation and shared learning

Monitoring and evaluation of the project continue through the involvement of the chief executive on the steering group, facilitating the regular reporting to the trustees. An 'away afternoon' was arranged especially for the full governing body and senior officers of the charity, to see the new facilities in use and talk to the team.

Resource implications

The project was resource intensive for the charity in terms of finances, staff and trustee time. However, the relationships that have been developed by this project, continue to evolve.

Other similar major capital projects have comparable histories. The chief executive also chairs the steering group for a partnership housing project between the charity, social services and a local housing association, that provides people with learning disabilities with their own tenancy in supported accommodation, enabling them to make the transition from living at home or in full time care to independent living. The charity provided £350,000 in funding towards the initial capital costs, but it is the skills, experience and breadth of vision of the chief executive that are now the primary reason for the key role in the management of the project.

The chief executive also sits on steering groups for the local foyer and a direct access hostel for 16 to 19 year olds managed by the YMCA, again, where initial contact had been made through an award.

This longer term 'cross-fertilisation' of knowledge and experience is viewed as extremely valuable by the funded projects, and assists greatly in the development of the charity's own grantmaking and community activities



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Futurebuilders England:

www.futurebuilders-england.org.uk

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