

The Foundation Practice Rating 2024

Year Three

**Assessing diversity, accountability and
transparency in grant-making foundations**

Short report

**Friends Provident Foundation
March 2024**



Foundation
Practice
Rating

Background

The Foundation Practice Rating (FPR) is an annual objective assessment of UK-based charitable grant-making foundations. It was initiated in 2021 by Friends Provident Foundation, and is funded by a group of UK grant-making foundations. The 'Funders Group' this year were: Friends Provident Foundation; Barrow Cadbury Trust; The Blgrave Trust; Esmée Fairbairn Foundation; John Ellerman Foundation; Joseph Rowntree Reform Trust; Joseph Rowntree Charitable Trust; Lankelly Chase Foundation; Paul Hamlyn Foundation; Power to Change; The Indigo Trust; City Bridge Foundation; and John Lyon's Charity.

The Funders Group recognise the importance of good practice in diversity, accountability and transparency for foundations, and the aim of the FPR is to support the trust and foundation sector to develop practice these areas by encouraging and celebrating positive examples and challenging current practices where necessary.

The research and assessment are carried out each year by Giving Evidence, a consultancy specialised in the production and use of rigorous evidence in charitable giving.

Further information

This short report and the full report can be downloaded free of charge from the Foundation Practice Rating website: <http://www.foundationpracticering.org.uk>

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In brief

What is the Foundation Practice Rating?

The **Foundation Practice Rating (FPR)** is an objective assessment of UK-based charitable grant-making foundations. It looks at foundations' practices in three important and interlinked domains of practice: **diversity, accountability and transparency**. Foundations cannot opt out: the research, and findings are outside their control, and therefore the FPR gives a representative view of the performance of the sector.

This is the third year of the FPR. Data for Year One was gathered in 2021, for Year Two in 2022 and for Year Three in 2023.

Each year, the FPR assesses a cohort of 100 UK-based charitable grant-making foundations: the foundations funding this work; the five largest by giving budget; and a random selection of community foundations and charitable foundations. For each foundation, researchers access publicly available information including the foundation websites and information provided to the regulator. Taking the stance of a prospective applicant, the researchers try to find answers to a list of questions. The answers are scored using a points system, which is then converted into a rating/grade of A, B, C or D (A is top) for diversity, accountability and transparency, and an overall rating.

Headline findings

- ***There are continued improvements in performance:***
 - This year, 11 foundations were rated A overall, up from seven in Year Two and three in Year One.
 - Fewer foundations were rated D in all three domains than in previous years: nine this year, down from 17 in Year Two.
 - There has been a statistically significant increase in transparency scores between Years One and Three, and in diversity scores from Year Two to Year Three, even after accounting for the fact that the Year Three sample included more community foundations (due to random selection), which tend to perform better.
 - There are improvements in the performance of both automatically included foundations (such as the Funders Group), and randomly selected foundations. This suggests that improvements are not restricted to large or particularly engaged foundations. The one exception is accountability: after

stripping out the effect of including more community foundations (which tend to perform better), the year-on-year improvement in accountability scores is not sufficiently large to be statistically significant – though some accountability criteria were applied differently this year.

- **High ratings aren't exclusive to wealthy foundations. The foundations rated A overall were diverse in size and structure.** They included community foundations, a huge foundation (Wellcome), and smaller/younger endowed foundations (e.g. Blagrave Trust, The Indigo Trust). This also happened in both Year One and Year Two. The FPR is not a tacit measure of a foundation's size – some small foundations score well, and some large ones score poorly: this year, three of the largest foundations (by giving budget) scored C overall, two of them falling a grade since last year.
- **Performance seems to correlate, albeit weakly, with the number of trustees.** Scores of D overall are almost unique to foundations with 10 and fewer trustees; only one foundation with 10 or more trustees scored D overall.¹
- **Diversity was again the weakest domain by far, as in Year One and Year Two.** Although one foundation scored A on diversity, many achieved that on the two other two domains. Nearly a third scored D on diversity, and 11 scored nothing on diversity.
- **Community foundations continue to outperform the broader sector,** and by an appreciable margin. There is now enough data to be confident that this finding is statistically robust.
- **The paucity of foundations' websites was striking.** Thirteen foundations had no website at all (22 in Year Two). Others have poorly designed or limited websites that impede finding basic information. This matters, because the website is often how potential applicants source information about a foundation to determine how it fits with their work.
- **Few foundations publish quantitative analyses of their own effectiveness.** Only 16 did so, and they varied greatly in how much information they shared about their own effectiveness. There were examples of great practice, and some foundations appeared to have done such analysis but not published it. This suggests foundations have much to contribute to improving charity effectiveness by assessing their own giving programmes as opposed to that of their grantees.

¹ Thirty of the 100 foundations in the cohort have 10 or more trustees. So if D ratings were equally spread, three or four foundations with 10 or more trustees might score D. But none did. That suggests that having more trustees enables better performance.

Criteria on which foundations scored highest overall

Collectively, the criteria on which the 100 included foundations scored best were:

- whether the foundation provided information on who or what it has funded (99% did so);
- whether it had an investment policy (91%);²
- for approximately what percentage of its funding was information given on who makes the funding decisions (87%); and
- whether it had a website (87%).

Criteria on which foundations scored lowest overall

They collectively scored worst on:

- having ways for people who have disabilities to contact the foundation (2% of points scored by 'non-exempt' foundations³);
- having a plan to improve the diversity of trustees or board members, with numerical targets (3%);
- having a plan to improve the diversity of staff, with numerical targets (4%); and
- having various ways for contacting the foundation concerning malpractice (5%).

² Note that the regulator in England and Wales, the Charity Commission for England and Wales, 'expects all charities that invest to have a written [investment] policy'.

³ Foundations are only scored on criteria which are relevant to them, and are exempt from criteria which are not.

Introduction

Who the FPR rates, and how

The FPR assesses 100 UK-based charitable grant-making foundations. The cohort comprises:

- the foundations funding the work. This year, there were 13;
- the five largest UK foundations by giving budget; and
- a stratified random sample of community foundations and charitable foundations. This year, there were 82. They are taken from lists published by the Association of Charitable Foundations (which covers the largest 300 or so UK charitable grant-making foundations⁴) and the UK Community Foundations network.⁵

In other words, the cohort changes somewhat year to year. Each year, the cohort is organised to be representative by size: a fifth of the cohort is in the top quintile by size; a fifth in the second quintile, etc.⁶

The 100 foundations assessed in the Year Three main cohort collectively had:

- net assets of £61.6 billion, compared to £68.1 billion in the Year Two cohort;⁷
- annual giving of £2.0 billion, compared to £1.8 billion in Year Two; and
- an average pay-out rate (i.e. the amount given annually as a proportion of assets) of 3.2% compared to 2.6% in Year Two.

⁴ C. Walker (2023) 'Foundation Giving Trends 2022: Top 300 foundation grant-makers – key facts and figures on giving, income and assets on the top UK independent charitable foundations', Association of Charitable Foundations. https://www.acf.org.uk/common/Uploaded_files/Research_and_resources/Research/Foundation_Giving_Trends/ACF_FGT_2022.pdf

⁵ A network of 47 community foundations across the UK: www.ukcommunityfoundations.org

⁶ In addition, any foundation not selected for the 'main cohort' of 100 foundations can opt in to be assessed. They pay a small fee, and are assessed in the same way as the others, but their results are reported separately to avoid selection bias. (Their results are not included in the totals or analysis in this summary report.) This year, three foundations opted in.

⁷ Professor David Spiegelhalter of Cambridge University teaches that we should always ask 'Is this a big number?' and find some comparators. The annual budget for NHS England is £192 billion. In 2020/21, the UK Government expenditure on roads was £12 billion. The budget for Hospice UK (the umbrella body) is £264 million. Investment income across the voluntary sector is £4.7 billion (see the FPR's full report, page 9, for data sources).

Figure 1: Composition of the Year Three cohort

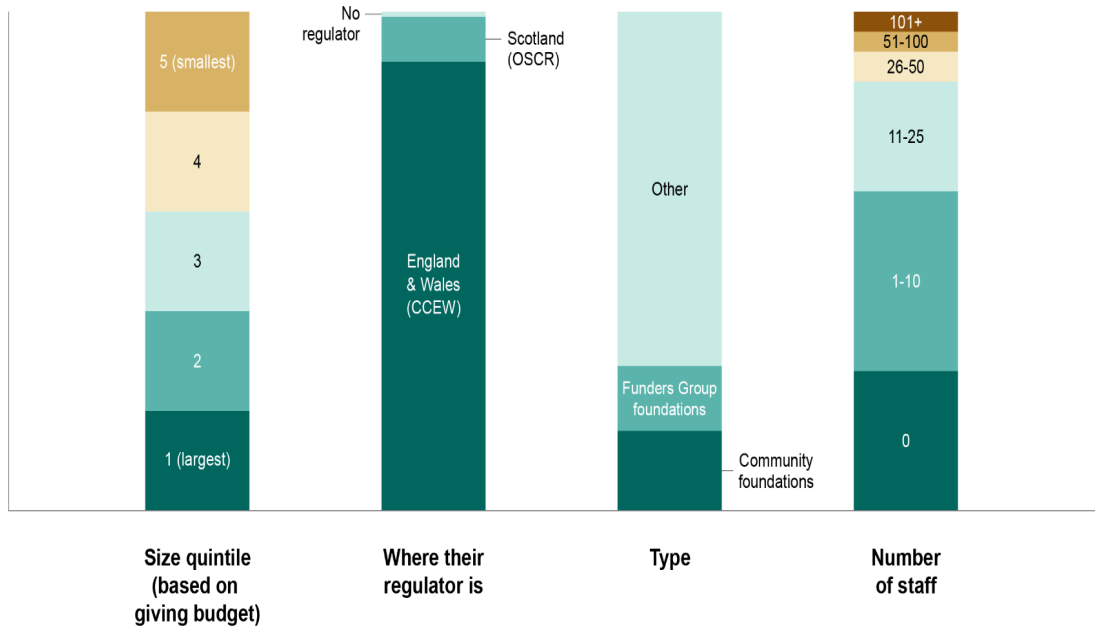
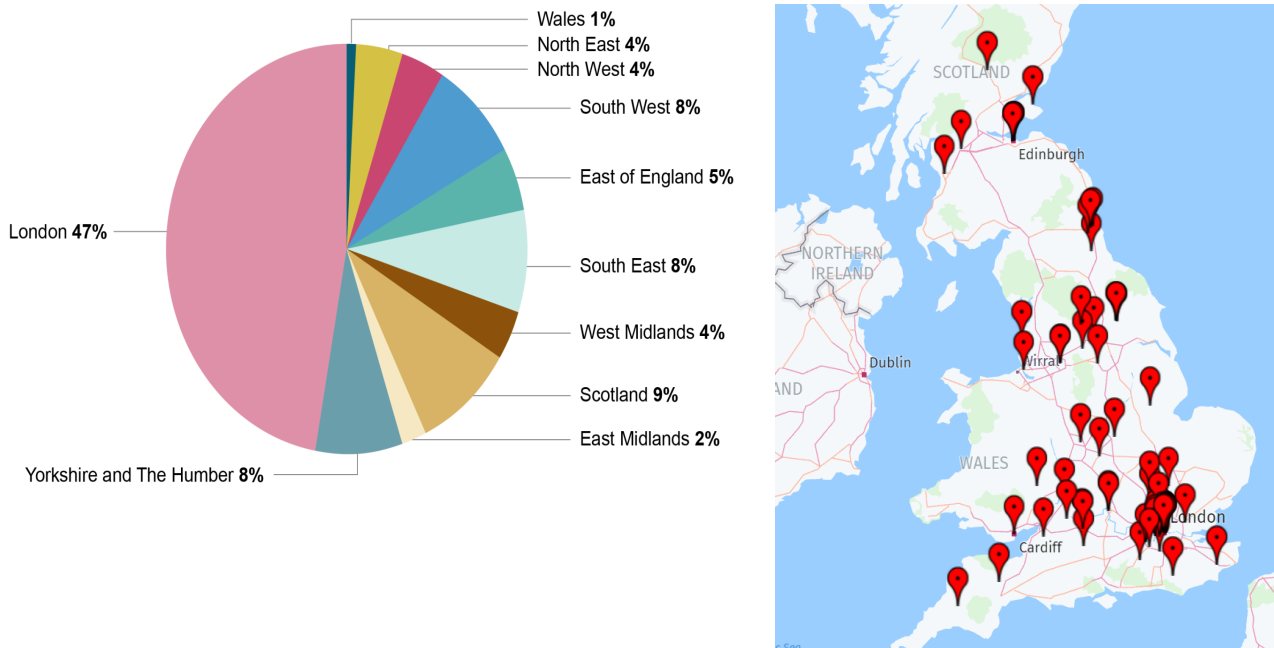


Figure 2 shows the location of the headquarters of the Year Three foundations. In this year, there was one foundation based in Wales and none in Northern Ireland.

Figure 2: Location of the foundations in the Year Three cohort



The FPR uses only publicly available information, because this is all that is visible to outsiders such as prospective applicants for grants or work. The criteria are determined as objectively as possible, drawing on other rating systems (in the voluntary sector and also beyond), as well as the results of an annual public consultation.

To facilitate comparison, the FPR's method deliberately changes very little year-on-year. However, following the annual consultations, there have been some changes in criteria that potentially affect scores (see the full report for details). For example, this year most information used to rate a foundation must have been published within three years.

The FPR's research involves answering 98 questions about each of the 100 foundations. Each foundation is assessed by two researchers operating independently: discrepancies are resolved by a third researcher. Each researcher spends up to 90 minutes per foundation, as this is about the maximum that a charity might spend researching a prospective funder. Foundations are exempt from criteria that do not apply to them; for example, a foundation with no staff or few staff is exempt from (i.e. not penalised for not) publishing its gender pay gap data.

Each foundation is assigned a rating (A, B, C or D: A is top) on each of the three domains of diversity, accountability and transparency, and is also given an overall rating.

Each included foundation is sent the information gathered about it, so that it can suggest corrections and point out anything that had been missed. They are given a three-week time period to respond, during which Giving Evidence runs three public webinars to which the included foundations are invited.

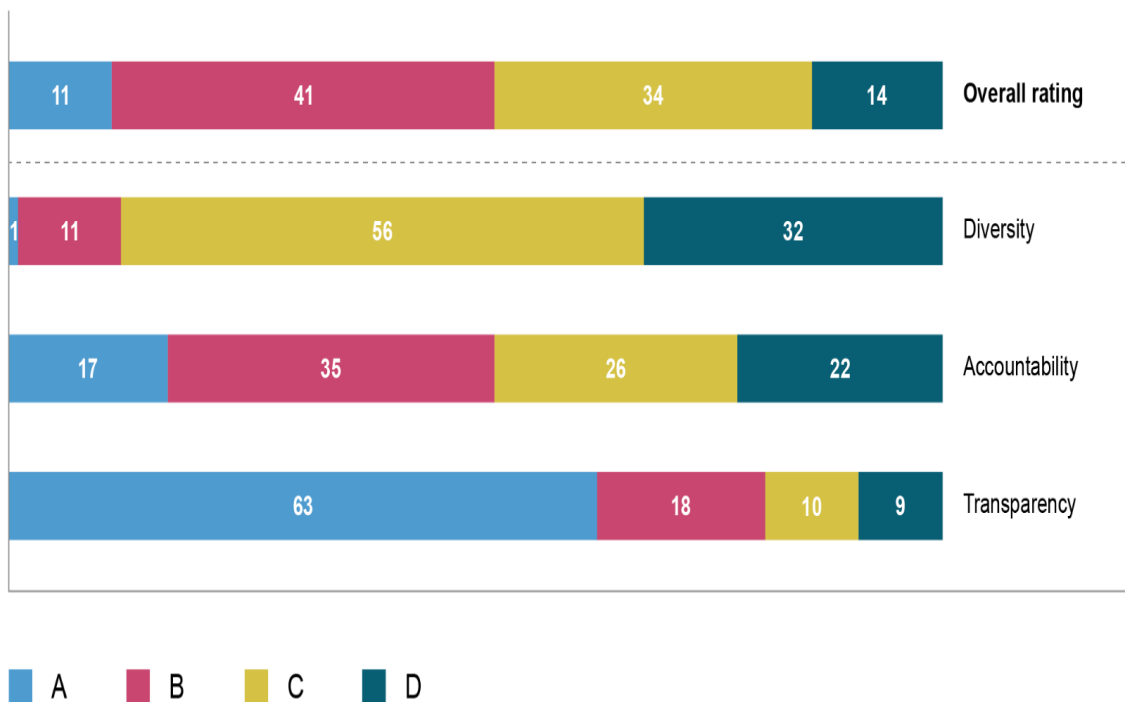
Findings

Overall ratings

In addition to the overall findings reported earlier, the FPR had a couple of firsts this year:

- a foundation scored A overall *and* on all three domains (the Community Foundation serving Tyne & Wear and Northumberland), which is a terrific performance;
- a corporate foundation scored A overall (Lloyds Bank Foundation for England and Wales).

Figure 3: Summary of ratings in Year Three (2023/24)

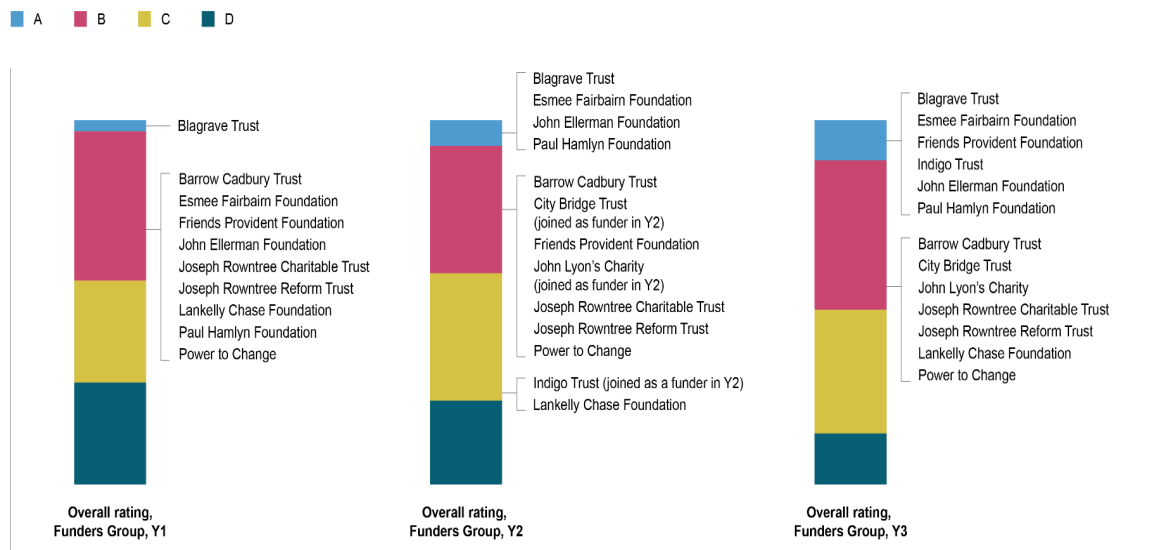


Overall, there has been **an improvement in the ratings and practices of the cohorts over time**. In Year One, only three foundations rated A overall; in Year Two, seven foundations did; and in Year Three that has grown to 11 foundations.

Conversely, **fewer foundations rated D in all three domains than in previous years**: of the 14 foundations that were rated D overall, nine scored D on all three domains. This compares to 23 foundations rated D overall in Year Two, of which 17 were rated D on all three domains.

The overall grades for the Funders Group foundations have improved over time (Figure 4): whereas in Year One, one Funder Group foundation scored A overall, this year, six did so, and all foundations in the Funders Group were rated either A or B.

Figure 4: Overall ratings of Funders Group foundations in Years One, Two and Three (against the distribution of overall ratings for all assessed foundations)



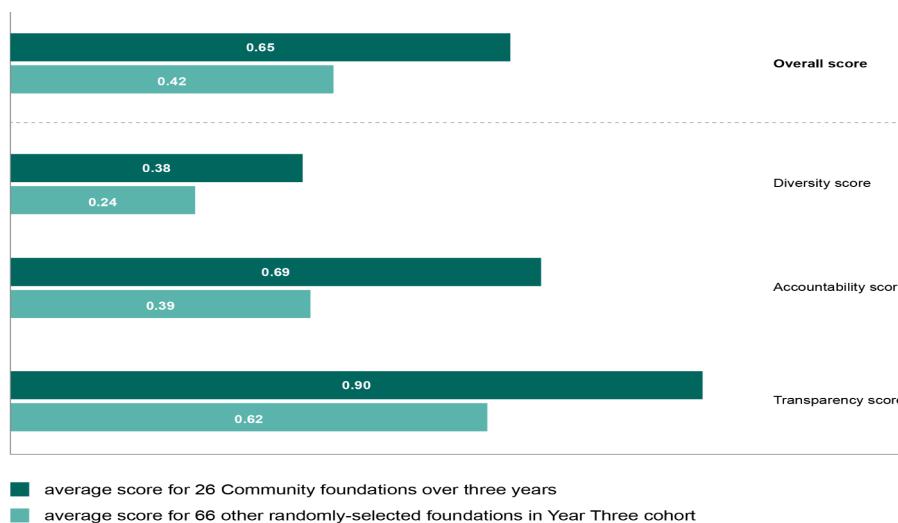
But the improvements are not confined to those in the Funders Group. **The scores of randomly selected foundations have improved markedly over time**, as shown in Figure 5.

Figure 5: Comparing average overall and domain scores for randomly selected foundations in Years One to Three

	Overall average score	Diversity score	Accountability score	Transparency score
Year One	0.38	0.21	0.38	0.54
Change between Year One and Year Two	+2.6%	-4.8%	+2.6%	+9.6%
Year Two	0.39	0.20	0.39	0.59
Change between Year Two and Year Three	+18%	+35%	+15%	+15%
Year Three	0.46	0.27	0.45	0.68

As noted above, a fresh random sample is drawn each year. Could these changes be simply a reflection of having a different sample? Community foundations generally score much higher than other randomly selected foundations (see Figure 6), and there were more community foundations in the random sample in Year Three than before. But even after excluding all the community foundations, there were still improvements in each score for the random sample.

Figure 6: Comparison of average numerical scores of community foundations with those of other randomly selected foundations (Year Three)



Statistics can help assess whether the improvement that we see is the result of random change, rather than a real improvement in sector performance. Statistical tests on our data show that **there has been a statistically significant improvement in transparency scores between Years One and Three, and in diversity scores from Year Two and Year Three.** This is encouraging, as far as it goes, although the role of the FPR in these changes is uncertain.

Changes in performance

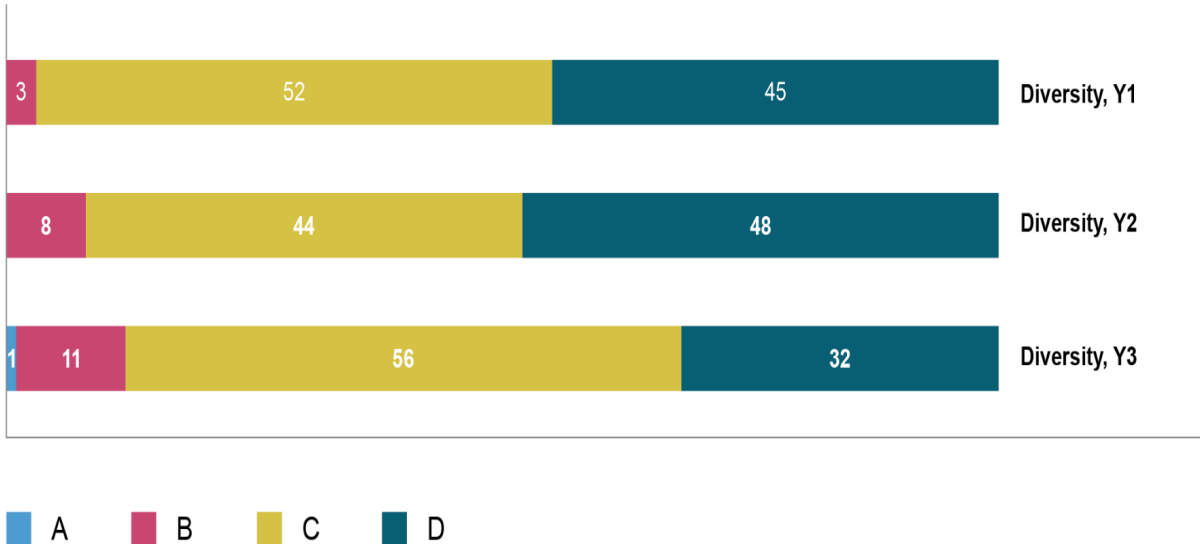
Diversity

Here we find statistically significant improvements, and **evidence that randomly selected foundations have improved their practices**, even accounting for the better performance of community foundations.

For the first time, a foundation achieved A for diversity in Year Three. There are again more Bs, and fewer Ds.

The change between Year Two and Year Three was sufficiently large to be statistically significant – although the diversity scores are increasing from a low base.

Figure 7: Diversity ratings in Years One, Two and Three

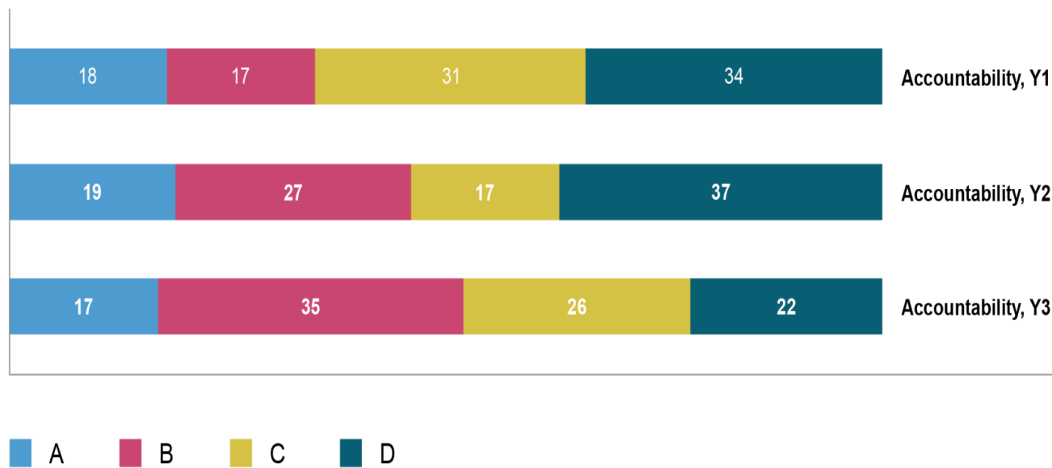


Accountability

Although the number of foundations rated A on accountability is stable, encouragingly the number of Bs has continued to increase (see Figure 8). Note that some accountability criteria were applied more strictly this year than previously. For example, the research team were more stringent this year than in previous years about what counts as evidence of consulting with communities, whether foundations state their criteria for funding decisions, and what counts as foundations’ analysis of their own performance. This change may have affected scores in accountability. Aside from the new three-year rule mentioned earlier, the criteria affected were all in the accountability domain: there were no equivalent changes in the other two domains.

Do the findings indicate a general change in practice? There is an improvement in average accountability scores for randomly selected foundations this year. But after stripping out the effect of including more community foundations (which tend to perform better), the year-on-year improvement is not statistically significant, and the change in accountability scores is smaller than the changes in diversity and transparency.

Figure 8: Accountability ratings in Years One, Two and Three

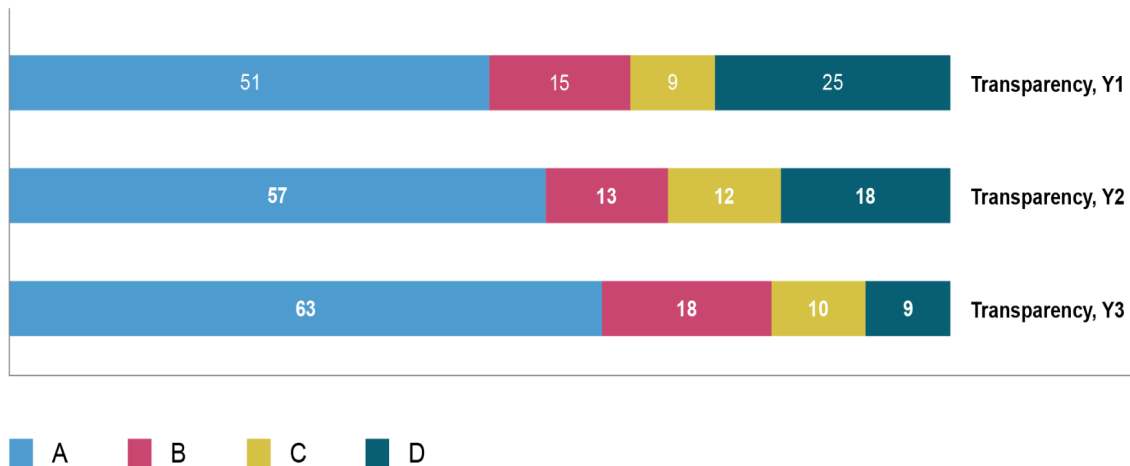


Transparency

Ratings on transparency have continued to improve strongly: there are again more As and fewer Ds (see Figure 9).

Statistical analysis showed that **the change in scores on transparency between Year One and Year Three is large enough to be statistically significant** – the chance of seeing such a large change as a result of the selection of the new cohort is less than 5%.

Figure 9: Transparency ratings in Years One, Two and Three



Feedback from foundations

There is increasing anecdotal feedback about how foundations are using the FPR criteria to assess themselves, and how being assessed has focused their attention on these issues and sometimes led to them taking new action. The following comments were received from one foundation:

'We are now exploring how this information can be provided to potential applicants in our funding guidelines and on our website. [Re. the criterion: 'Does the foundation provide its data on awarded grants in a downloadable (open) format that doesn't require payment to access?'] The information is provided on our website and free to access but is not currently available in the formats indicated. We will now be exploring these options. [Re. being a Living Wage employer] The Trust is a Living Wage employer and is a principal partner of the Living Wage Foundation. This was highlighted on our website but appears to have fallen off during our website refresh so thank you for highlighting this. This information has now been added again.'

This type of feedback is very heartening – particularly in combination with the emerging signs of improvement in sector practice from the data discussed earlier in this report. The FPR was created and designed to influence behaviour, rather than simply as a research exercise.

What next?

The Foundation Practice Rating will run again in 2024–25. To inform that, join the Funders Group or let us know your comments and observations and add to our understanding of the impact that the FPR is having. Contact Friends Provident Foundation: enquiries@friendsprovidentfoundation.org.uk

About Friends Provident Foundation

Friends Provident Foundation is an independent charity that makes grants and uses its endowment towards a fair and sustainable economic system that serves people and planet. We connect, fund, support and invest in new thinking to shape a future economy that works for all. Since 2004, we've pioneered the creation of a fair economy for a better world. Already, we've helped improve access to financial services for people who were once excluded, and supported the development of resilient economic communities across the UK.

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Acknowledgements

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- the foundations whose financial support enables this work. This Funders Group currently comprises 13 foundations, as listed on page 2;
- various membership bodies which support the FPR in various ways. The Association of Charitable Foundations and UK Community Foundations are two of them;
- the researchers and statistician. They are in the UK, Uganda and Kenya, and all bring relevant expertise and diligence;
- the designer and editor who help to produce the report, data visualisations and explanatory graphics; and
- the press and journalists who help to bring the findings to a wider audience.