

Foundation Practice Rating: Changes Arising from the Year Four Consultation

22 July 2024

This note presents the findings from the 2024 FPR consultation process, and includes all the feedback received, our response to the feedback, and the actions we are taking.

The consultation process

Each year, we run a public consultation before data-gathering for FPR begins. This is to gain input from the sector about the process and criteria etc. This report covers the findings from the Year Four consultation (ahead of FPR during 2024/25), and recommendations arising.

The Year Four consultation asked demographic questions, which filtered out all respondents from outside the UK (there were three); as well as the following questions:

- Are there any issues within the domains of diversity, accountability, and transparency that you think the FPR should **add** to those that it already considers?
- Is there anything that you think we should **change** about the way the FPR currently works or about the current criteria?
- Are you aware of any foundations - perhaps including where you work - which have made any changes specifically /mainly because of FPR?
- This final section invites you to comment on any other aspects of the Foundation Practice Rating, including but not limited to:
 - the set of foundations assessed
 - the method used to assess these foundations
 - the overall process
 - any other comments

Who responded to the consultation

The consultation ahead of FPR Year Four ran from 14th March to 31 May 2024, using SurveyMonkey. A total of 40 people responded, marking an increase from ten respondents in Year Three and fourteen in Year Two. However, only 18 respondents answered at least one question.

The table below shows the distribution of respondents based on their organizational affiliations. Most respondents are from grant-making foundations. This is significant as the FPR is designed to scrutinize and drive behavioural change within foundations.

Types of organization	Responded	Answered at least one question
A grant-making foundation	21	12
A registered, exempt or excepted charity	10	4
A private company	1	1
A charitable incorporated organisation (CIO)	1	1
A community interest company (CIC)	1	0
A public body	1	0
A not-for-profit company limited by guarantee	1	0
Other (please specify)	1	0
Total	37	18

What feedback did we receive?

Overall, the feedback covered a wide range of perspectives, e.g., it includes both of these statements:

- *“It seems to be slightly running out of steam. Same voices saying same things. Without buy in from the sector, I wonder whether it is worth continuing?”*; and
- *“Thank you for this important and ongoing accountability work and for the opportunity to input suggestions.”*

The feedback is broadly grouped into:

1. Criteria to add – which include:
 - a. Recommendations to broaden the FPR perspective on diversity e.g. to include neurodiversity, diversity of thought, or review whether criteria like numerical diversity targets have a positive impact.
 - b. Calls to include more social justice issues like racial equality by assessing foundations’ documentation of commitment to anti-racism, origins of funding, and membership of bodies which hold organizations accountable to race equality.
 - c. Sector changes that the FPR could incorporate e.g. the forthcoming Charities Investment Governance Principles (CIGP), increasing number of foundations that are becoming Living Wage Funders
 - d. Other criteria such as impact accountability and payout rates
2. Issues to change about the way FPR currently works e.g.
 - a. Selection of foundations - increasing the number of foundations assessed, reviewing the same foundations each year
 - b. Information that is shared – publish a list of “crappy funding practices”.
3. There was also feedback on areas that the FPR already assesses e.g. investment policies, analysis of foundations’ effectiveness, etc.

The section below examines the complete set of responses, and our response to each question. As has been the practice since Year One of the FPR, we evaluate all feedback on whether the requested change is (i) in scope and (ii) observable or measurable from the outside, using only published material.

Our proposed responses to the feedback

The responses below are more-or-less verbatim, so they include parts that are unclear.

Issue raised	How we propose to respond
<u>Criteria to add</u>	
<p>The focus on protected characteristics feels like a very impoverished interpretation of diversity, overlooking the immense groupthink that pervades many (most?) charities and foundations. I understand that diversity of thought is hard to measure: but that doesn't mean that presenting a rating for diversity that excludes it isn't damaging.</p>	<p><i>No change:</i></p> <p>We can only measure things which foundations disclose or might plausibly disclose, i.e., which are measurable: that is the nature of assessing 100 organisations each year.</p> <p>We use protected characteristics because they have legal definition and have been defined and listed by an entity which isn't us.</p> <p>If /when other characteristics (e.g., diversity of thought) meet those criteria above, we are open to including them.</p>
<p>The foundation's website explicitly states its commitment to anti-racism. The foundation publishes its plan to honour its commitment to anti-racism.</p>	<p><i>No change:</i></p> <p>Racism is covered under the Equalities Act, which covers discrimination due to all protected characteristics including race, gender, disability.</p> <p>Any public affirmation of an organisation's commitment would be covered in the diversity plans for staff and trustees, which FPR already publishes.</p> <p>There does not yet seem to be a standard definition of anti-racism which FPR could use.</p>
<p>Consider neurodiversity</p>	<p><i>No change, because</i></p> <ul style="list-style-type: none"> a) This is not a protected characteristic, and b) There is not a standard to observe it that we can reference

<p>Re providing [info in] Welsh language: this might not be feasible [given the] capacity and funding of many organisations (especially if they award a small proportion of grants in Wales)</p>	<p><i>No change</i>, because</p> <ul style="list-style-type: none"> a) This is not observable: foundations aren't obliged to disclose their grants so we might not be able to know what % of their funding goes to Wales b) Possible chicken & egg situation! - maybe they have few grants in Wales *because* they don't publish in Welsh.
<p>Diversity: publishing numerical targets. As I understand it, research on mandated diversity statements in recruitment shows that targets and focus on specific characteristics does not positively impact diversity and indeed may have a negative impact.</p>	<p><i>No change</i>:</p> <p>Re definitions: [for teachers] "A diversity statement is a polished, narrative statement, typically 1–2 pages in length, that describes one's accomplishments, goals, and process to advance excellence in diversity, inclusion, equity, and belonging [as a teacher and a researcher in higher education]."ⁱ</p> <p>FPR doesn't look for these kinds of statement at all. So perhaps this comment isn't relevant.</p>
<p>incorporating transparency on investment practices, most realistically based on the forthcoming Charities Investment Governance Principles (CIGP), due to be launched in September 2024</p>	<p><i>No change</i>:</p> <p>The CIGP will be too late for this current iteration of FPR. Our research happens in August - November: foundations cannot be expected to have responded to something published in September. Plus our research relating to investment policies usually uses their annual reports, which have an inherent delay. We can consider adding it for Year Five (2025/56).</p>
<p>[Give credit for fdns which] Publish the[ir] investment policy (or key extracts from the policy)</p>	<p><i>No change</i>: We capture this already (in Q75 and Q76.)</p>
<p>Funders should publish how their money is invested, e.g. which fund managers they use, or if its property holdings, a summary of this etc.</p>	<p><i>No change</i>: We capture this already - in Q76 (e) and (g) though we don't score for the granular detail of 'a summary of property holdings'.</p>

<p>Maybe add something about impact accountability. Report on the impact of initiatives/ programmes have had.</p>	<p><i>No change:</i></p> <p>We would love to do this! But that is a complicated job for most individual foundations, let alone doing it across 100 of them. About the best that we can do for this many foundations and on a comparable basis is to look at whether the foundations publish about their own effectiveness, which we do.</p>
<p>Evidencing membership of bodies which hold grantmaking foundations accountable for a commitment to race equity - such as Funders for Race Equality Alliance</p>	<p><i>No change:</i></p> <p>According to FREA, there is no organization that currently holds grantmaking foundations accountable to race equity. (FREA is a membership body and does not do this role.)</p>
<p>Include Living Wage Funder status in the rating: add a criterion: 'The foundation is an accredited Living Wage Funder'</p>	<p><i>We will incorporate this into FPR.</i></p> <p>This is a good idea. We will collect data on whether the fdns state on their website that they are Living Wage Funders: some do.</p> <p>This will be a non-scoring question for FPR Yr4</p>
<p>Payout rates. Score [fdns on] whether the payout ratio is above a set threshold.</p>	<p><i>No change:</i></p> <p>There's no proper benchmark for this so we would have to decide on one, and that is fraught because it is a contentious issue: sensible people argue about whether there should be a pay-out threshold: it is not obviously a good idea.</p> <p>We could publish a graph of what each fdn's payout ratio is, because we know its giving budget & its assets.</p> <p>We could gather data on whether foundations explain publicly why they have the pay-out rate that they do.</p>

<p>How transparent a foundation is in regards to the origins of its funds. Whether it has gone through the process to determine this and whether this information is published on its website. Where a foundation has benefitted financially from immoral/discriminatory means (e.g. slavery, colonialism) - what actions it is taking in response to this.</p>	<p><i>No change:</i></p> <p>There isn't a standard yet on how to investigate origins, or how to respond /what to do about them. There is no disclosure standard. FPR would need a way to criteria-ise this issue.</p> <p>Some foundations report where their funds originate e.g. funds are from XYZ corporate organization or individual, but not where/how that corporation raised its funds</p> <p>We will do nothing in Y4 and maybe include in our overhaul of criteria ahead of Y5.</p>
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<p><u>Issues to change about the way the FPR currently works</u></p>	
<p>The foundation publishes any analysis of its own effectiveness - examples of what this looks like in practice</p>	<p><i>No change:</i></p> <p>We already publish about this</p>
<p>It would be great if the number of orgs assessed are increased.</p>	<p><i>No change:</i></p> <p>To date, we have each year assessed 100 foundations drawn from the list of ~300 foundations on the ACF Giving Trends list + ~47 community foundations; so about 30% of the relevant 'universe' of foundations. That's a huge sample. The incentive for foundations to improve may not increase much if we assessed more foundations.</p>
<p>I would like to see specific examples of other particularly crappy funding practices highlighted.</p>	<p><i>No change:</i></p> <p>This would seem to take FPR into rather different terrain. It also would be hard / impossible to do from publicly-available sources: most griping is done privately.</p>

If the goal of the FPR is to improve practice, it would seem to make more sense to **review the same foundations** (as well as new ones) each year.

No change:

We do run & publish analysis of the foundations which are included year on year (whether by design, e.g., they fund FPR, or are included by random selection), as well as the full cohort.

Next steps

1. The FPR criteria will not change in Year Four because:
 - a. We would like the criteria to be fairly stable, at least for Years 1/2/3/4. Given our shift from the ACF Giving Trends listing to UK Grantmaking as our sampling frame, maintaining stable criteria is prudent. This allows us to closely monitor the effects of the change of cohort.
 - b. For some issues raised in the consultation, we will assess the current state of foundation practice before determining whether to incorporate criteria related to those issues in subsequent years. We aim to ensure that all criteria are both achievable and aligned with the overall purpose of the FPR.
2. In Year Four, the FPR will include two questions, which will both be non-scoring questions:
 - a. Whether the foundation has made a public statement as a Living Wage Funder. This is complementary to Q50 (= Has the foundation made a public commitment to be a Living Wage employer?). FPR will seek to understand which foundations make this declaration, and in what manner. This is in preparation to possibly adding this as a scoring criterion in future years.
 - b. Whether the foundation provides any explanation on why they have the pay-out rate that they do.
3. During this consultation, some accountability-related issues concerning racial justice emerged. These included membership in oversight bodies responsible for ensuring racial equity, public commitment to anti-racism, and transparent acknowledgement of the foundation's original funding sources. The team will assess the feasibility of objectively measuring these aspects, for consideration in the criteria overhaul, perhaps in Year Five.
4. From the consultation, there are some areas that we still need to emphasize in our communication including: why we use a cohort of 100 foundations and why we draw a different cohort every year.

Appendix: Raw responses

Q3: Issues to add on diversity

- The focus on **protected characteristics** feels like a very impoverished interpretation of diversity, overlooking the immense groupthink that pervades many (most?) charities and foundations. I understand that diversity of thought is hard to measure: but that doesn't mean that presenting a rating for diversity that excludes it isn't damaging.
- The foundation's website explicitly states its commitment to **anti-racism**. The foundation publishes its plan to honour its commitment to anti-racism.
- Consider **neurodiversity**

Q4 b) Issues to add on accountability

Investments

It would be great to explore incorporating transparency on investment practices, most realistically based on the forthcoming Charities Investment Governance Principles (CIGP), due to be launched in September 2024, which should give an external reference standard which could be incorporated into FPR's methodology.

Publishing the foundation's investment policy (or key extracts from the policy)

Funders should publish how their money is invested, e.g. which fund managers they use, or if its property holdings, a summary of this etc.

Impact

Maybe add something about **impact accountability**. Report on the impact of initiatives/ programmes have had.

Other

Evidencing **membership of bodies which hold grantmaking foundations accountable for a commitment to race equity** - such as Funders for Race Equality Alliance

I would like to see **Living Wage Funder** status included in the rating. There are three aspects of being a living wage funder. Firstly, becoming a Living Wage employer (already included in the rating). Secondly, publicly committing to funding posts at the real Living Wage. And thirdly, supporting grantees to become Living Wage Employers, for example, by including information about the Living Wage in application notes and guidance and through communications with grantees. It's well-recognised that low pay disproportionately affects women, disabled people and people of colour; this is true in the charity sector as well as the wider economy (see <https://www.livingwage.org.uk/sites/default/files/2022-10/All%20work%20and%20low%20pay%20-%20Summary%20%283%29.pdf> for stats). Committing to tackle poverty pay in the charity sector disproportionately benefits these groups, and is a key part of enabling people of **all** socio economic backgrounds to be able to work in, and crucially, to **stay** in, the charity sector. Poverty pay is racialised and

gendered, and funders have a really important part to play in enabling and encouraging the charity sector to pay the real Living Wage and be part of the solution. There are 85 Living Wage Funders currently.

In a competitive funding environment, charities tell us that they can feel under pressure to 'lowball' funding applications or tenders and submit low salaries, for fear that they may be competing on cost. Therefore, when a funder is transparent upfront and states clearly that they fund all posts at the real Living Wage and encourage salary costings at the real Living Wage, it empowers charities to submit funding applications that pay their workers properly, confident that the funder is committed to funding the real costs of paying workers, including year-on-year uplifts in line with the costs of living. The real Living Wage is the only rate that is calculated on the costs of meeting everyday needs, and the Living Wage Funder scheme enables funders to be transparent about how they assess funding applications to cover this.

Please add a criterion: 'The foundation is an accredited Living Wage Funder'.

It would be helpful to understand if Q31 regarding **providing Welsh language formats** is graded as this might not be feasible capacity and funding wise for many organisations (especially if they award a very small proportion of grants to projects in Wales).

Q5 c) Issues to add on transparency

There is a debate around **payout ratios** and my concern is that a Foundation could score well on the existing criteria and hence be well regarded publicly but still payout only a low or below average proportion of its assets. I would thus suggest that this is addressed through additional criteria. One measure is to simply score whether the payout ratio is above a set threshold. There is naturally some subjectiveness on what that threshold should be though you could measure the average ratio for the cohort and use that? My second suggestion is to include whether or not the Foundation includes a section within their investment policy on ethical or responsible investment. I don't think you should attempt to judge the policy, merely that it is best practice to at least consider it and communicate their approach. *(CF comment: we could publish a graph of what each fdn's payout ratio is, because we know its giving budget & its assets. I'm not sure about a criterion on this: it's pretty contentious.)*

Something around how transparent a foundation is in regards to **the origins of its funds**. Whether it has gone through the process to determine this and whether this information is published on its website. Where a foundation has benefitted financially from immoral/discriminatory means (e.g. slavery, colonialism) - what actions it is taking in response to this.

Q6 a) Issues to change about the current criteria (e.g. rewording criteria, removing criteria)

Q7 b) Issues to change about the way the FPR currently works

"The foundation publishes any analysis of its own effectiveness." - examples of what this looks like in practice"

The way this is approached remains problematic.

It would be great if the number of orgs assessed are increased.

If the goal of the FPR is to improve practice, it would seem to make more sense to **review the same foundations** (as well as new ones) each year.

I would like to see specific examples of other particularly **crappy funding practices** highlighted.

Engaging more with NFPs that receive the funding as opposed to just the funders.

The criteria is clear (*sic*). However, I'd have had found even more useful if I had **accessed the individual scores for each question/** item of the three areas to help shape the follow up 3 commitments. (*CF: I don't understand this. Also, it seems to be about Three Commitments, rather than criteria. EK: Goes back to timing of the Three Commitments roll out.*)

Diversity - **published numerical targets**. This is very much a personal decision for each foundation and may retain this internally. It is also difficult to put numerical targets where there is a small team. As I understand it, research on mandated diversity statements in recruitment shows that targets and focus on specific characteristics does not positively impact diversity and indeed may have a negative impact. I think if you continue to include this, we need to be reassured that publishing numerical targets has a positive impact on recruitment.

Q5. Are you aware of any foundations - perhaps including where you work - which have made any changes specifically /mainly because of FPR?

Community Foundation (not one already selected) - FPR has been raised at trustees' meetings and being conscious the foundation could be selected in future has led to scrutiny of current practice.

John		Esmée
Ellerman	Indigo	Fairbairn
Foundation	Trust	Foundation

there have been conversations on what points to take forward/ to action.

abrdn Financial Fairness Trust: including more information on the website about when successful applicants would receive funds, exploring using 360 giving to provide funding data, looking to include branding and project evaluation info on the website, considering who to evaluate and show effectiveness.

Freelands Foundation publication of open call materials aligning with transparency criteria; useful tool to advocate for best practice with management and trustees

ⁱ The Bok Center at Harvard University, <https://bokcenter.harvard.edu/diversity-statements>