Third Sector Funding Principles

Call for views
August 2024

Corra Foundation responded to a call for views from the Social Justice and Social Security Committee about third sector funding principles. This document reproduces the response that Corra sent

When we respond to a consultation or provide evidence, we do so based on the learning gained from our work and insights gathered from grant holder reports.

What are the primary advantages you foresee in transitioning to longer-term funding arrangements of three years or more for third sector organisations?

Our response draws on evidence from reports, surveys, and conversations with Corra grant holders, applicants, and Corra staff. Our insight includes learning from a range of funding programmes – including Scottish Government funds alongside our own unrestricted multi-year funding. We currently manage 15 multi-year grant programmes and with 275 grant holders in receipt of multi-year funding.

We believe the primary advantages of transitioning to longer term funding arrangements for third sector organisations are:

- Freeing up financial resources.
- Freeing up time for organisations to redirect towards delivery.
- Supporting the third sector to take preventative approaches alongside creating solutions that stick.
- Improving staff recruitment and retention.
- More equitable access to funding – particularly for Black, Asian, and Minority Ethnic led organisations.

Freeing up financial resource

The third sector in the UK spends an estimated £900m each year applying for funding (The Law Family, Commission on Civil Society). Transitioning to longer term funding arrangements could reduce the financial burden on organisations applying for funding. Writing fewer applications likely results in less time spent writing them. This could allow organisations to redirect financial resources away from writing applications towards direct delivery to achieve their social goals.

We know that annual funding decisions can often have delayed announcements, whether that is announcing if funds will open again or announcing which organisations received grants. Often this means that organisations have issued redundancy notices for staff before the next round of funding is approved. Recruitment and retention are significant challenges which have an impact on financial resources. Longer-term funding may reduce the financial resources needed when organisations must adjust organisational and staffing structures to match annual funding rounds.

> *"For this year, the funding ended in March 2024, but the [funder] didn't give a decision until around April/May. By that point, a lot of staff were on redundancy notices and the parents they were supporting didn't know what was going to happen with their support."* Grant Holder

Freeing up time to direct towards delivery

Writing funding applications takes a lot of time and third sector applicants rightly weight up whether the time they spend will be valuable in terms of the funding secured. Writing one application to secure multiple years funding is more efficient. At Corra, applicants conservatively spent over 3100 hours completing 822 application forms in 2023. Research based on applications to the National Health and Medical Research Council of Australia found that it took 550 years of medical researchers' time applying for funds in a single year (BMJ 2013). Grant Advisor UK also provides information from applicants on how long they spend completing application forms – ranging from a few hours to weeks. Transitioning to longer-term funding arrangements could free up time for organisations to spend less time writing applications and more time on achieving their social goals.

We know that organisations spend considerable time reporting and managing funding across multiple funders. Often, each organisation will have their own patchwork of funders – each with their own reporting processes, payment process, and staff team to navigate. Longer term funding arrangements could allow organisations to reduce the administrative burden of managing and reporting on funding – potentially redirecting this time towards delivery of their social goal and being able to allow for long-term planning. Funders harmonising or having very similar reporting processes is a positive approach that helps make a difference. At Corra, where possible, we will accept reports written for other funders in place of a separate report for Corra. We work to increase awareness of this option amongst our grant holders. As more funders support harmonised reporting, we hope this will increase the uptake and confidence from organisations to use this approach.

Supporting the third sector to take preventative approaches alongside creating solutions that stick

The third sector is a diverse group of organisations working to achieve positive change across society. Each has their own social goals they work to realise. These are big goals which take time to achieve. Transitioning to longer term funding arrangements could provide security for the third sector to take preventative approaches alongside creating solutions that stick.

> *"We are hugely concerned that the funding is likely to run out... this year and that we have created a service with a wide geographical reach and capacity to work with a large volume of parents including those with drug and alcohol issues, who are impacted by poor mental health and some of whom are families on the edge of care. It will feel hugely detrimental to have to end this work. We are attempting to secure funding from elsewhere within a hugely competitive fundraising environment with no guarantees that this valuable and valued work can continue."* Grant Holder

Grant holders have told us that when grant programmes start out as a single yearly programme, and then are extended for single years repeatedly – that this restricts their ability to plan and to tackle issues effectively. One organisation told us that had they known a fund would eventually run for nine years (albeit under different iterations) they would have operated and planned differently, they would have had more confidence to take bold action.

As a funder, we occupy a position of privilege in the third sector, having relative financial security, and being able to plan years in advance. Our vision is for a society where people can create positive change and enjoy fulfilling lives and we have a 10-year strategy in place to achieve this. Our financial security has enabled us to take bold and impactful action. Action that takes many years to realise.

For example, in 2024, we launched the Independent Human Rights Fund for Scotland. Work on realising this fund first began in 2020 taking four years from idea to delivery. This may not have been possible if we were reliant on year-to-year funding.

Our People in Place programme is a long-term commitment to get alongside communities in Scotland. This has given communities the confidence and security to dream and plan big. This has resulted in significant changes within communities that may not have happened otherwise. Many of these ideas have started small – from a group of women meeting for coffee, or a weekly craft group going on to establish the Carbrain Community Hub and the development of the Nest Wellbeing Collective in Cumnock. Such a long term commitment to communities would not have been possible if we were reliant on year-to-year funding.

Grant holders tell us the importance of longer-term funding in enabling them to build trusting relationships with the communities and individuals they work alongside. Often, third sector organisations work to support people who are most marginalised and unheard in society. Organisations tell us that the uncertainty around annual funding affects their ability to build trusting relationships. They often do not know if they will still have funding the next year or be able to support individuals when the funding finishes. Transitioning to longer term funding could allow organisations to build meaningful relationships and work alongside individuals for several years, allowing time for change to happen.

Improving staff recruitment and retention.

Transitioning to longer-term funding arrangements could allow organisations to keep staff, skills, and knowledge. Research from the Scottish Centre for Employment found that insufficient and unstable funding are key factors in employee insecurity. We regularly hear similar challenges from Corra's grant holders. A key challenge in delivering work is keeping skilled staff if funding is allocated often on a yearly basis.

> *"Our key issue at present is securing longer-term funding streams in order to retain our amazing workers."* Grant Holder
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> *"The biggest challenge was the ongoing uncertainty of funding and therefore staff retention. We hope that by securing long term (3-years) investment from the Council it will help alleviate this challenge for the next few years."* Grant holder

"We need long term secure funding to maintain delivery levels in this vital specialist service. The recruitment crisis in qualified childcare workers has limited the qualified ratios within creche, therefore having significant impact on the service." Grant holder

"Staff retention and recruitment: Due to a number of factors including a lack of clarity on the continuation of [grant fund name] and the inability to provide realistic cost of living pay rises, we have seen all three of our Programme Managers move on and we have not been in a position to replace them. This has caused significant pressure of workload on the existing team." Grant Holder

More equitable access to funding – particularly for Black, Asian, and Minority Ethnic led organisations.

"Philanthropy has done much to tackle injustice and inequality in our society, seeking to improve the lives of those affected by layers of structural disadvantage. However, philanthropy is by its nature unequal, with philanthropic giving often drawing from wealth accrued through unequal labour and power structures.

Funders are also increasingly examining the sources of their wealth, which can sometimes be traced back to historical injustices and exploitation, which helped create the very problems philanthropy now seeks to solve. This is increasingly prompting funders to challenge their structures and practices, with some funders opting to redirect funds towards reparation."

How to embed DEI into your grant-making cycle (Civil Society Consulting/NPC, May 2023)

Black, Asian, and Minority Ethnic communities are among those most impacted, and historically have been under resourced and underfunded. The transition towards ring-fenced, unrestricted, multi-year funding is a key solution to address this and ensure equitable access to funding.

Corra are committed to increasing the resources available to Black, Asian, and Minority Ethnic community-led organisations. We seek to do this through establishing dedicated programmes and ring-fencing proportions of funds wherever possible. When grants are made from Corra's own funds, there is a commitment to ensuring there is a minimum of 30% ring-fenced for Black, Asian, and Minority ethnic-led groups.

We now provide unrestricted funding of up to five years through our Henry Duncan Grants which includes a 30% ring-fenced funding pot for Black Asian and Minority Ethnic organisations.

The Coalition for Racial Equality and Rights have written an insightful blog outlining how funders can better support anti-racism in Scotland. In this blog, they share their reflections on the impact of short-term and project-specific grants particularly for Black, Asian and Minority Ethnic Led Organisations.

> *"…the rigidity of the short-term and project-specific grants favoured by funding bodies […] can pressure organisations to conform to rushed, top-down ways of working in order to deliver institutionally recognised outcomes to grant-makers."* Coalition for Racial Equality and Rights

We believe that providing multi-year unrestricted funding with ring-fenced funds for Black, Asian, and Minority Ethnic led groups is a key way to advance anti-racism and address historic inequity in funding.

What potential challenges do you foresee in transitioning to longer-term funding arrangements of three years or more for third sector organisations?

We believe the primary challenges in transitioning to longer term funding arrangements of three years or more for third sector organisations are:

- Reduction in the availability of funding.
- Disproportionate impact of high competition on some organisations.
- Funding restrictions could limit ability to respond to changing need.
- Significant risk to organisations if funding is withdrawn during the grant period.
- Some organisations may not want to access this type of funding.

Reduction in the availability of funding

The structure of multi-year funding often means that without increasing the financial resources available to the fund, fewer organisations receive funding. This kind of approach is helped by strong decision upfront, setting out priorities and eligibility criteria, which means that although here may be fewer grants made, those that apply have a higher chance of success and gain better funding support which is more efficient all round.

Our Henry Duncan Grants have transitioned from providing £994,000 to 228 organisations in one-year grants in 2019 to providing £925,000 to 27 organisations in 5-year grants in 2023. Whilst this is positive for those organisations receiving funding, organisations who do not receive funding often have to wait several years till the next funding cycle.

> *"Access to multi-year funding was a significant driver for many applicants to HDG [Henry Duncan Grants]. Most responded that they 'probably would have applied if it was only one year' but the opportunity to get multi-annual funding was a factor in prioritising this application."* Internal evaluation, January 2021

Disproportionate impact of high competition on some organisations

Competition for multi-year funding is exceptionally high. When competition is high, it is likely that organisations with more expert fundraising capacity and skills will score highest on an assessment. We work to ensure we have clear criteria and targeted communication that supports people to apply for funds their work strongly aligns with. This aims to reduce wasted time from applicants writing applications.

Our most recent Henry Duncan Grants offering five-year grants have had success rates at 49%, 22%, 13% and 63% from 2020-2023. Since 2021, we have worked to ensure the programme provides an equitable experience – particularly for Black, Asian, and Minority Ethnic led organisations who have been historically under resourced and underfunded. This has included:

- A commitment to ring-fence at least 30% of the funding since 2021 for groups led by Black, Asian, and Minority Ethnic groups. We've offered this through a range of both project and unrestricted funding based on what communities told us would work best for them.
- We have prioritised organisations who demonstrate strongly that there is meaningful involvement of people with lived experience throughout their work. In 2023, the fund sought to fund organisations that supported disabled people – a key criterion was added that organisations should have representation of disabled people on the board of trustees.

We know there is more we need to do to ensure equitable access to highly competitive multi-year funding programmes. It is important that funders address this, to ensure that third sector organisations do not experience a disproportionately negative impact because of highly competitive funds.

Funding restrictions limit ability to respond to changing need.

If funding is not flexible or unrestricted, organisations could find it difficult to respond to the changing needs of their communities. If organisations are tied to agreed goals set years previously – these may not be relevant or even achievable within the funding period as external circumstances can change rapidly.

We have recent examples of running multi-year funding programmes during the COVID-19 pandemic and the cost-of-living crisis. We have been proactive in speaking to our multi-year grant holders to ensure they can spend funds as their communities need them to in these moments of crisis. Because of this flexibility, organisations were able to deliver on the agreed goals of the grants in ways that were appropriate to the fast-changing circumstances.

Significant risk to organisations if funding is withdrawn during the grant period.

When providing a multi-year grant, funders must be confident that they can deliver the full grant to the organisation. The risk of withdrawing funding during that multi-year period could be greater than if an annual programme simply did not open again.

For example, communities have shared their concerns at the recent The Scottish Government's Investing in Communities Fund announcement about uncertainty on the funding allocation for this in the 24/25 Scottish Budget.

Some organisations may not want to access this type of funding.

While our learning shows that there is a clear case for more third sector funding to be unrestricted and multi-year – and indeed, for that to be the norm - that does not mean that all third sector funding needs to be. There are some circumstances where shorter grants, or grants for a specific purpose, provide unique and much needed support, and having some diversity in the funding landscape is valuable.

What are the challenges you see in providing flexible, unrestricted core funding to third sector organisations and how could these be overcome?

We have delivered many multi-year grants programmes ranging in length from 2-5 years. Other funds we have managed for almost a decade under slightly different iterations. From our experience, the challenges in providing flexible, unrestricted funding to organisation are:

- Clarity on what the intended outcomes of the fund are.
- Clarity on what unrestricted, flexible, and core funding mean.
- Designing grant making processes with an anti-racist lens.
- Adapting to learning and making changes to processes quickly.
- Designing an equitable and thorough application and assessment process.
- Increasing appetite for risk.
- Allocating sufficient resources to the demands of multi-year funding.

Clarity on what the intended outcomes of the fund are.

When making funding commitments that last several years, we as a funder need to have clarity about the changes we hope the grant will contribute to.

Importantly, grant making bodies need to decide whether a particular change can be achieved through a grant fund, or whether a tender process to provide a specific piece of work or service should be undertaken instead. This will be vital to consider within this review.

It can also be difficult to balance our intended outcomes of a fund alongside the provision of unrestricted or flexible funding. Ultimately, in providing unrestricted funding we choose organisations that we trust and support them to deliver the kind of changes or outcomes we hope the grants would contribute to.

Clarity on what unrestricted, flexible, and core funding mean.

Ensuring that we have real clarity around what each of these terms mean for us as a funder, and sharing these at the point of application is vital. As part of our fund design process, we think through whether we can provide fully unrestricted funding or whether we are able to provide flexible funding.

In our application processes, we make clear what type of funding is being offered and provide a clear definition about what ‘unrestricted’ or ‘flexible’ funding means within each fund.

Designing grant making processes with an anti-racist lens.

Funders should take a proactive, anti-racist approach in the design of all grant programmes and funding processes. With our unrestricted, multi-year funds – we have taken slightly different approaches depending on the fund focus.

An example of this is our Henry Duncan Grants which have offered a range of project grants and unrestricted grants through ring-fenced pots. In 2021, Henry Duncan Grants provided support for organisations working within Mental Health. In developing the fund, we learnt that mental health support that is designed to respond to the specific needs of Black, Asian, and Minority Ethnic communities was more likely to be given by a project, rather than by a mental health focused organisation. Had we launched a fund that would give unrestricted funding to “mental health organisations” only, we would have inadvertently limited the reach of the grants to people from Black, Asian, and Minority Ethnic backgrounds. You can read an in depth review of our process in designing a multi-year funding programme with a focus on reaching Black, Asian and Minority Ethnic communities in our Henry Duncan Project Grant Insight Briefing.

Adapting to learning and making changes to processes quickly.

We have learnt that processes often need to change throughout the life cycle of a multi-year fund. It is important that funders are aware of this at the outset and provide the space and time to allow this to happen. For example, during recent multi-year grants, organisations have had to navigate COVID-19 and the effects of the cost-of-living increases. We strive to be an open and approachable funder and have made changes to our processes to accommodate organisations navigating these external events – these included changes in reporting periods, financial uplifts, and flexibility in spending.

We want to be the best grant maker we can be, so we are constantly striving to improve the experience of our applicants and grant holders. We have made changes to shorten reports, speed up payment times, and use light touch application where possible.

Designing an equitable and thorough application and assessment process.

We have found that, especially for multi-year funds, particular care must be taken during the design and assessment phase of the fund to ensure that funds do not inadvertently exclude some organisations. The impact of this can be even more significant in multi-year funds which will naturally have longer funding cycles before an applicant can reapply. Our approach has been to seek out and listen to voices of lived and learnt experience in our fund design process, and to gather feedback from the sector on the design of some of our fund programmes. This process has resulted in changes to our funds – particularly our multi-year unrestricted Henry Duncan Grants which we have referred to throughout.

Increasing our appetite for risk.

To ensure our funding reaches as many groups as possible, we have changed our grant making processes to manage a higher level of 'risk'. By risk, we mean that Corra takes a proactive approach in ensuring that our funding reaches organisations who have faced barriers to funding. We work based on trust and aim to undertake a proportionate due diligence process, where smaller grants may have a lighter touch approach.

One example is that we have changed the payment processes for some of our micro grants (under £3000) to offer non-constituted groups a way to receive funds without a bank account. We believe steps such as this are important in ensuring equitable access to our funding for all.

Allocating sufficient resources to the demands of multi-year funding.

When managing multi-year grants, we need to allocate sufficient staffing resource to build meaningful relationships with grant holders throughout the entire term of their grant. This is important for the organisation to feel able to deliver against outcomes or goals, but also for Corra to be aware of any potential challenges, or issues arising from the grant at an early stage.

> *"Their [Corra's] flexibility and patience have been invaluable, allowing us to navigate challenges and transitions with greater resilience and adaptability. This support has fostered an environment where we feel empowered to*

> *explore new opportunities, experiment with innovative approaches, and pivot as needed to respond to changing circumstances"* Grant Holder

As we have outlined, multi-year funds are often significantly oversubscribed. We need to build in sufficient resources and time to assess all the applications. We try to manage demand by outlining at the application stage how many grants we expect to make within a grant programme.

What measures do you currently have in place to ensure that the funding you provide includes inflation-based uplifts and covers full operating costs?

As part of our assessment process, we expect applicants to demonstrate how they plan to manage funding over multiple years – this includes salary uplifts.

In many of the programmes we run, we expect and support organisations to include a fair proportion of the central and management cost associated with the project/grant. There are several well used tools to identify and track full cost recovery in use in the third sector, and we look for applicants to be able to detail and demonstrate an appropriate methodology. Overall, our experience tells us that central cost plays an important, if unseen, role in ensuring that work is delivered well. It is right that funders are prepared to contribute to them, along with direct delivery costs

How do you balance the need for sustainability with fiscal constraints and changing economic conditions?

We look to be a responsive funder supporting organisations - particularly in challenging economic conditions. We provided uplifts within some funds as the impact of the cost-of-living rise was felt. This was resourced through existing underspend in fund budget, or in some instances, through exceptional approval from Corra's board of trustees for further funds to be released.

Where possible we offer unrestricted or flexible funding which allows grant holders to respond to changing economic conditions in ways that work for them.

With Henry Duncan Grants, we have made the choice to offer larger grants to a smaller number of organisations to maintain the sustainability of a multi-year funding programme within our fiscal constraints. Without increasing funding allocations, it is always difficult to balance the need for sustainability with the needs of third sector organisations and changing economic conditions.

What challenges have you encountered in incorporating the requirement for third sector organisations to pay staff at least the Real Living Wage into your funding decisions?

Currently, two thirds of charities on the Scottish Charity Register employ no paid staff (OSCR sector report). For those charities that do employ staff, we know that staff retention and offering favourable employment terms can be challenging in the face of standstill, year on year funding.

For grant programmes we manage on behalf of Scottish Government, we have built this requirement into the application, assessment, and reporting process. It is an essential criterion for these funds. We are, however, mindful of the resources required by applicants and organisations to provide evidence that proves that they are paying at least the Real Living Wage.

For grants to keep track with the real living wage, grants need to rise over time. Understandably, organisations can't have different terms for different staff members who are doing the same job but funded from different funders. Getting all funders to support real living wage is therefore important too.

How could the process for third sector organisations making funding applications, reporting, and receiving payments be more efficient and consistent?

The Civil Society Commission published a report ‘Giving pains the cost of grant making’ which outlines the costs, time, and impact on the third sector of current grant making processes.

The Institute for Voluntary Action Research have eight Open and Trusting grant making commitments that grant-making bodies can sign up to. Each commitment is focused on making grant making better for applicants and grant holders. Corra has signed up to these commitments. Each year, we evaluate whether we’ve met our Open and Trusting commitments and outline our plans to further develop this area of work.

There are further opportunities to help streamline grant programmes such as:

- Where an organisation applies to multiple funds from the same funding body – are there opportunities to streamline the funding application process such as combining application or having functionality to pre-populate recurring fields?
- Where an organisation holds multiple grants with the same funding body - are there opportunities to complete a single report, or to combine reports into one document that makes it easier for grant holders to complete?
- Where possible, make grant payments in advance – potentially in a single yearly payment rather than quarterly releases.

What are the barriers to this?

Changing how we make and manage grants takes time and takes teams across an organisation to work together to achieve this. It takes commitment and a willingness to change systems to work more effectively for organisations. This approach needs to be embedded in a culture that sets out to support communities in ways that work for them. These are the barriers, but we have worked hard to get over them.