

## **Proposal for an Index of Foundation Diversity, Inclusion and Transparency**

### Introduction

Trusts and Foundations have assets of over £62 billion of untaxed philanthropic capital in the UK<sup>i</sup>. This is used to support charities, social enterprises, people in need and good causes through grants amounting to over £6.5 billion in 2018. Trusts and foundations are fiercely independent of government and corporate influences on their spending and are able to give more despite falls in income, respond quickly to crises and provide vital funding to unpopular causes. Yet this independence is seemingly inextricably linked to a unique lack of accountability to any authority – donors, the public, government policy or a common code of conduct - other than Charity law. A result of this is that most of the huge resources of capital and charitable activity of trusts are controlled by groups of people that do not reflect the population as a whole or the communities they serve.

This proposal is an attempt to address this gap using a technique often used to bring greater accountability to corporate behaviours – a published index using available data. We aim to create an index to assess and report on how independent trusts and foundations in the UK compare to each other in relation to good governance practice. By publishing this data on an annual basis, the trust and foundation world will, for the first time, be publicly accountable for the representativeness of its leaders, the disclosure of its activities and how well it serves its charitable purposes.

### Background

#### **The problem**

##### *Diversity*

What we know about trusts and foundations in the UK from recent research<sup>ii</sup> is:

- 92% of foundation trustees are White
- Men outnumber women 2:1
- 60% are over 65 years old
- Two thirds of foundation trustees are recruited informally;

At present, there are 6 non-White CEOs of independent foundations in the UK.

This stands in stark contrast to other sectors of the economy, corporates, philanthropy in other countries and even in relation to other parts of the voluntary and community sector. It has not gone unnoticed: the foundation sub-sector - including ACF, groups of concerned trusts and UK Community Foundations - has for a long time tried nudging and suggesting change on the basis of good practice, to clearly little effect on governance participants or practices.

##### *Transparency and accountability*

Private foundations in the UK are almost uniquely unaccountable to the usual array of stakeholders – government, external donors, the public, corporate interests. This independence is a great strength; it means that foundations can stay true to their missions, fund unpopular causes and speak truth to power regardless of fashion or political interests.

However, this laudable independence has a down-side in terms of a lack standards of transparency or accountability. For instance:

- Only 144 funders publish their data in an accessible form through 360 Giving<sup>iii</sup>;

- There are no common standards for reporting on grants, investment holdings, or other activities other than the regulatory standards that apply to all charities.

The case for making information accessible and informative over and above the expectations of charity reporting is a relatively new debate for private foundations in the UK. Some trusts have public or corporate accountabilities and therefore apply different standards; for most, there are hugely varying levels of investment in communicating, informing and being accountable to stakeholders or beneficiaries. This has been addressed at various times, most recently by ACF as part of the Stronger Foundations initiative<sup>iv</sup>. At the heart of the lack of consistent standards is the issues of power – independent funders tend to be relatively powerful in the relationships in which they operate: those asking or requiring funds are rarely in the position to question the source of funds or the legitimacy of the funder. However, in the era of big data and shifting power balances, these traditional relationships are shifting. Foundations are beginning to recognise – as evidenced in the ACF report – that charity effectiveness and responsibility is based on transparency and being accountable to those we seek to support and society more widely.

### **The proposed solution**

The theory underpinning the creation of an index of is that at least part of this can be attributable to the unique lack of accountability of independent foundation trustees – they are not accountable to donors, public scrutiny, the state or accepted norms as they have complete control of their own resources which are essentially private funds used for charitable purposes. Only in philanthropy, it is still common practice to use family membership as the sole qualification for inclusion in decisions on the deployment of large sums of capital.

Our view is that the use of an index approach – commonly used to influence corporate behaviour (see Transparency International's Corporate xxx Equileap Global Gender Equality Index or ShareAction's annual ranking of fund managers) – as one which complements and moves beyond the managerial. We believe that the compilation of an index will act as an effective means of addressing deep-seated, long-standing structural issues of power, equity, control of capital and transparency. The aim of this work is to use similar standards of corporate governance and public accountability that have been long applied to the corporate sector. For too long, foundations have been evaluated by how much money they give away or the size of their endowments (see Giving Trends 2018); it is time for a new conversation.

The aims are:

- To improve foundation performance and accountability, by offering charities insight into which foundations best reflect those they aim to serve, are open in terms of sources and destination of funding and offer the best funding service;
- To highlight and encourage best practice in the foundation sector;
- To provide foundations with dimensions to increase their accountability, representation and transparency;
- To encourage a new dialogue about the practices and decision-making within Foundation.

The analysis would assess the largest UK grant givers or could support efforts of groups of funders such as Community Foundations, according to funds disbursed, against a set of criteria which are considered best practice for the sector. Ideally the analysis would address the largest hundred,

although both the number of charities and the criteria used may have to be reduced, depending on the level of available funding.

#### *Funding model and feasibility*

We have carried out a review of available data and assessed how long it would take to compile; this is available to review on request. On the basis of this and with estimated publication costs (interest has been expressed by Civil Society Media as a stand alone annual report), costs are set out below.

#### BUDGET

Summary:		
Number of foundations	50	100
Fees - for producing the research / analysis (not the copy)	£35,850	£63,600
With VAT added	£43,020	£76,320

#### *Publication costs*

Civil Society Media (publisher of Charity Finance and Governance and Leadership) has expressed interest in publishing an Index as outlined. They have worked on the basis of giving the report 8 pages. If 100 foundations were analysed, then that would allow 4 pages for the data table and 4 pages of commentary.

In terms of costs therefore, which take in writing the copy, editing and page design, and adding pages to G&L to accommodate the report, they estimate this to be around £8k.

In terms of potential advertising, it is really hard to estimate what advertising revenue will be. A lot will depend on the economic situation when the report comes out - certainly at the moment there is a real reluctance to spend. Their experience is also that fund managers are much less willing to support general foundation content than they are to support content that directly concerns investment matters. On the other hand, this would be a publication that would be of great interest to foundation decision-makers in charge of substantial resources. Given the uncertainty, they have left advertising revenue out of any financial assumptions.

Although it would be possible for a single funder to fund the entire project, it feels important that it is supported broadly across the sector as a demonstration of a wide commitment to the principles of accountability, transparency and increased diversity rather than resting on a small group. Therefore, funders are being asked for a contribution of £15k for 3 years, with potential adjustments after Year 2 due to estimated high research and design costs in Year 1. Friends Provident Foundation will hold the MOU for funds and coordinate the oversight of the project with the contributing funders.

#### **Conclusion**

This work is a vital complement to the work of initiatives sharing of resources, personal support, and best practice such as the DEI Coalition, Future Foundations, Funders for Race Equality. The aim would be to create real pressure to change by shining a bright and continuous light on foundation practices.

Danielle Walker Palmour, July 2020

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<sup>i</sup> Pharoah and Walker (2019) Giving Trends, Association of Charitable Foundations.

<sup>ii</sup> Lee et al (2017) Taken on Trust - The awareness and effectiveness of charity trustees in England and Wales. Centre for Charity Effectiveness, Cass Business School.

<sup>iii</sup> <https://www.threesixtygiving.org/>

<sup>iv</sup> See Transparency and Engagement (2019), Association of Charitable Foundations; also Dufton (2014) Shining a Light on Foundations: Accountability, Transparency and Self-Regulation. Philanthropy Impact. 27 February 2014