THE CLOTHWORKERS' FOUNDATION

# CAPITAL GRANT FUNDING

## A RESEARCH REPORT

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# BACKGROUND TO THIS REPORT

In May 2015 the Clothworkers' Foundation commissioned new research on the current provision of capital grant funding to the voluntary sector, with the particular aim of informing the Foundation's five-yearly strategy review. This report has been compiled to make the detailed findings of the study more widely available. It brings together the three separate working reports presenting the results from the research. A summary article on the findings was published in Trust and Foundation News February 2017, and can be accessed on [http://foundation.clothworkers.co.uk/Who-we-are/Publications](http://foundation.clothworkers.co.uk/Who-we-are/Publications)

Working Report 1 sets out estimates on the current value of capital grant funding and the main findings from quantitative surveys of funders, applicants and grantees. The Appendix to Working Report 1 contains the data tables behind these results, and the numbering of its Tables and Graphics cross-refers to the references in Working Report 1.

Working Report 2 reports the findings of in-depth interviews and focus groups with funders, which explored their perspectives on capital grant funding.

Together these reports provide a comprehensive picture of the current scale and scope of capital grant funding by independent charitable foundations, and the perspectives of funders, applicants and grantees on emerging trends and issues.

The research was carried out in association with the Centre for Giving and Philanthropy, Cass Business School and the Association of Charitable Foundations, and conducted by Cathy Pharoah, Catherine Walker and Richard Jenkins.

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# REVIEW OF CURRENT TRENDS

## SUMMARY OVERVIEW

In the context of a rapidly-changing funding environment, this report presents new findings from quantitative research on trends in the provision of capital grant funding, commissioned by the Clothworkers' Foundation in 2015. The research was carried out through a desktop review of existing financial information, and surveys of foundation funders and applicants and grantees. It focused on:

- the overall state of current capital grant funding for UK charities
- the main current patterns and trends in the supply of and demand for capital grant funding
- the implications for future need and provision of capital grant funding.

### Definition

For the purposes of the research capital grant funding was defined as:

*'funding for the purchase, refurbishment or renovation (inc. fixtures and fittings) of buildings or land or the purchase of vehicles, computers and computer systems, other equipment or items such as marketing or accounting software or web development, collections and acquisitions (but not project funding for salaries and running costs)'.*

### Main findings

- It is estimated that at least 575 funders will consider capital grant funding, but the priority which foundations give it varies across a wide range from low to very high.

- Using figures from different sources, an approximate and probably conservative estimate of at least £177.5 million for current spending on capital grant funding has been reached (excluding BLF, the Big Lottery Fund).

- Findings suggest a reduction in the supply of capital funding, which is getting lower priority in the current funding climate of government spending reduction. More funders have reduced than increased their spending, and applicants and grantees overwhelmingly report not only that the number of funders willing to provide capital grants has reduced, but that the amount available has fallen.

- Demand is already outstripping supply, and applicants/grantees report that demand has increased.

- Social investment/ finance alternatives to grant finance have a limited but significant place in capital funding.

- While allocation policy varies very widely amongst foundations, there is considerable funder unanimity around many aspects of decision-making.

- Almost all funders support building and renovation, and equipment, and a majority support computer (hardware), and vehicles. There is a high success rate in applications for funding in these areas. Harder to get are computer software items related to marketing, accounting etc, and a range of more niche items can be very difficult to get, albeit vital to the mission.

- Almost all foundations agree that the most important criterion in deciding on grants is the organisation's ability to meet long-term running and maintenance costs. In spite of this, it has emerged that applicants/grantees run into considerable difficulty over these. There is evidence that policy over providing running costs varies, and that applicants underestimate such costs. A review of how capital and revenue grants work together would be useful.

- There is virtual unanimity over the importance of the capital funding to securing or improving services to the beneficiary in the longer-term, though less agreement over longer-term financial sustainability or income growth.

- An extremely high value is placed by recipients on capital items, many of which are absolutely central to the services they deliver. Funders have increased their expectations for evidence on outcomes and impacts from capital grant funding, and also for co-funding. These place increasing demands at a time of reducing funding.

- Funders and applicants' perceptions of the value and impact of capital grant funding are generally close, but there are also some mismatches which might present barriers in the fund-seeking process. A majority of both funders and applicants believe that grants have a 'very positive' or 'positive' impact on service quality, quantity, outcomes, and on staff morale, job satisfaction and reputation. However, applicants are more likely to emphasise operating than cost efficiencies, while for foundations it is the reverse. Foundations emphasise the capacity of the grant to secure a long-term community asset, while applicants emphasise its impact on their own local presence, and awareness.

## Further reflections and questions

This research showed evidence of wide variation in funder policy and practice around capital grant funding, some uncertainty on trends amongst funders, increasing demands for evidence of outcomes and impact, and a potential lack of 'joined up' thinking about the different kinds of grant funding. These findings give rise to some questions and reflections about how and when capital funding can best be deployed, and these were further explored in the next phase of the research. Its results are published in Working Report 2.

# 1 INTRODUCTION

## Background to the research

In May 2015 the Clothworkers' Foundation commissioned research on the current provision of capital grant funding, with the particular aim of informing the Foundation's five-yearly strategy review. The research was carried out in association with the Centre for Giving and Philanthropy, Cass Business School and the Association of Charitable Foundations, and conducted by Cathy Pharoah, Catherine Walker and Richard Jenkins (see separate Appendices).

This report presents key results from the first stages of the research. It incorporates the main body of the findings, but excludes the results of further qualitative interviews and focus groups which will be carried out subsequent to the Clothworkers' Court seminar in October to enable any issues raised at that point to be further followed up. The final full report will be completed in February 2016. It is intended subsequently to disseminate key findings for the benefits of those who took part in the surveys and others interested in the area of capital grant funding. We are grateful to the Association of Charitable Foundations for giving access to their members for the online survey, and to the Small Charities Coalition for facilitating distribution of the survey.

## Details of research method

- desktop research of existing studies, documentation and annual reports;
- online survey - applicants/grantees, including Clothworkers' contacts;
- online survey - Association of Charitable Foundations members;
- interviews/ focus group with 20 relevant foundations and stakeholders.

## Key research themes

- overall state of current capital grant funding for UK charities
- main current patterns and trends in the provision of capital grant funding
- patterns, trends and experience in the demand for capital grant funding
- implications for future need and provision of capital grant funding.

## Research samples and respondents

There is no data on the population of foundations making capital grants, nor charities seeking them, on which to construct a representative sample, nor did the study aim to establish this. A purposive 'fishing' approach to the survey samples was taken, aiming to capture the bulk of capital grant funding by value and including only foundations and grant applicants/ recipients actively engaged in capital funding, and able to provide informed insights into current trends in the field. This was achieved with a sample of 43 medium-large foundations, 3 of which had begun capital grant funding in the last two years, and with some spending £2 million or over. A sample of 161 applicants/ grantees with income £250k -£15 million, who had sought grants within the last two years, was achieved. Around half were Clothworkers' contacts. A substantial majority of applicants were registered charities (87%, 119/137), 7% were social enterprises (CIC, CIO registration), and a further 7% were community organisations and other entities.

# 2 SCOPING CAPITAL GRANT FUNDING

## Definition

Definitions of capital grant funding, its inclusions, exclusions and criteria vary widely by funder. For the purposes of the research it was defined as:
*'funding for the purchase, refurbishment or renovation (inc. fixtures and fittings) of buildings or land or the purchase of vehicles, computers and computer systems, other equipment or items such as marketing or accounting software or web development, collections and acquisitions (but not project funding for salaries and running costs)*
This is a different, more functional approach from that of government which defines 'capital spending', as: *'money that is spent on investment and things that will create growth in the future'.*[1]

## Evaluation of capital grant funding

Few evaluations studies have been published. The most significant UK study was commissioned by Big Lottery Fund (BLF), and covered very major and long-term capital investments.[2] It took the 'government' approach to capital investment, focusing on growth and sustainability impacts. Main conclusions were that the effectiveness of capital investment is integrally related to organisational capacity including to their skills and revenue and maintenance costs, as well as relationships with external stakeholders. A comprehensive earlier US study, commissioned by the Bush Foundation, focussed on scope of applications, decision-making and outcomes in capital expenditure, and provided useful insights which informed background thinking to the study reported here.[3] It found capital spending is perceived to be of high benefit to organisations, beneficiaries and their environments, but that capital needs are often neglected. Funders may compound this by providing grants for emergencies or one-time opportunities over general support for ongoing facilities management. It also found that success is highest when grants are embedded in good organisational planning.

## Scoping the total value of capital grant-making

A major challenge in researching capital spending is that there is little research which maps its scale and scope, and the level of detail in foundations' annual reports varies hugely. A study of a large sample of grants in 2000[4] compared the distribution of capital, core, project and research grants by subject area, and found capital grants were dominant only in the areas of health/ bio-medical and religion (probably church/ faith buildings and halls). Capital grants ranged from 48% in religion/faith to 10% in environment/ animal protection, and 25-30% in education and social care.

It has recently been estimated that around 575 foundations in total provide capital grant funding.[5] The 112 largest of these (those with *total* grant making >£1 million) make £710 million total grants

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[1] HM Treasury Guidance https://www.gov.uk/government/publications/how-to-understand-public-sector-spending/how-to-understand-public-sector-spending
[2] BIG Lottery Fund (2011). Sustaining the benefits of Capital Funding. Report by CRESR, SHU.
[3] Showalter & Co for the Bush Foundation. (2002) BUILDING STRONGER ORGANIZATIONS: The impact of capital projects – lessons for human services organizations and their funders.
[4] Vincent, J and Pharoah, C. (2000) 'Patterns of Independent Grant-Making'. in *Dimensions of the Voluntary Sector 2000*, Volume 3. Charities Aid Foundation. West Malling, Kent.
[5] Traynor, T and Walker, C. (2015) *Sector Insight: UK Grant-making Trusts and Foundations 2015.* DSC London and DSC *The Guide to Major Trusts 2014/15, Vols 1 and 2*. DSC London.
Pharoah, C, Jenkins, R, Goddard, K. *Top 300 Foundation Giving Trends 2015*. ACF/CGAP/ Pears Foundation

(or about £1.5 billion including Big Lottery Fund), and have assets of around £17 billion, one-third of the assets of all independent grant-making foundations.

Using the results from the survey of foundations reported below on the proportion of charitable spending devoted to capital grant funding, it is possible to make a rough and indicative estimate of total foundation capital grant funding. The survey shows that half of the foundations which provide capital grants devote under a quarter of their grants budget to it, in a range from <10% to 100%. (Spending examples include the Bernard Sunley Foundation for whom capital funding is the sole priority, the Wolfson Foundation for whom it is a major priority and the Tudor Trust, which dedicated 14% of its budget to capital grants in 2015.)

Based on this result, if an average across-the-board 25% is assumed for spending on capital grant funding, then approximate total annual spending would be at least £177.5 million. (This figure excludes the Wellcome Trust and BIG Lottery Fund which has 27 staff involved in its major capital programme.[6]) This is a slightly conservative estimate as it excludes foundations which do not state that they make capital grants in their accounts and surveys, and the smaller trusts.

The value of individual capital grants lies across a huge range, consisting of many of the largest multi-million single grants that the foundation sector ever makes, to many small grants of <£10k.

## Allocation policies

Scrutiny of the annual reports of some of the most significant capital grant funders quickly revealed that some budget allocation approaches are common to some funders. This includes, for example, setting total percentage allocations from grants spending budgets, limiting capital awards to fixed percentages of project costs, requiring project funding to have been secured first. However, there is no single or even common 'profile' of foundation capital grant funding. Policies vary enormously, for example:

- Henry Smith Charity's capital grants only begin at £10k, as part of their main grants programme;
- Robertson Trust's capital grants should represent no more than 10% of total project costs;
- Dulverton Trust supports craftsmanship but not churches, historic buildings, galleries or property purchase;
- Gannochy Trust supports capital grants to 10-25% of total project costs, and applicants must have secured 40% of project support before applying;
- Fidelity UK Foundation prioritises capital grant funding as a way 'to add lasting, measurable value to recipient charities', devoting the vast majority of its £5.6 million spending to buildings, equipment and IT infrastructure;
- The Mercers' Company makes capital grants on an infrequent, occasional basis;
- Clore Duffield Foundation 'does not adopt a rigid approach in terms of the criteria for its grant-making';
- Veolia Environmental Trust covers a very wide range of capital and maintenance/ revenue costs, while Bernard Sunley does not support running costs including salaries.

[6] BIG Lottery Fund, Annual Report and Accounts, 2013/14.

# 3 FINDINGS - FUNDERS

## Presentation of the results

This section summarises the main results from the two surveys which were carried out. For ease of reading, tables and graphics of the full results are compiled in a separate accompanying document of the Appendices. References to the relevant tables and graphics are given in this document, where data is quoted.

The survey of funders refers to 43 total respondents. In presenting the results, the **number** of respondents is quoted alongside the actual number answering each question (some questions could be skipped). The survey of applicants and grantees refers to 161 total respondents, and results are given as **percentages** because of the higher numbers.

## What priority do funders place on capital grant funding? (SEE FIGURE 1)

Priority varies considerably by capital funders, from less than 10% of spending to more than 80%. In general capital grant funding has less priority than core and project funding. Just under half of the foundations in the survey devoted less than a quarter of their budget to it. For a substantial number, however, it absorbs the largest share (over 50%) of charitable spending. (10/37)[7]

## Mismatch between supply and demand for capital grants (SEE FIGURES 2 & 3)

Supply of capital funding appears outstripped by demand. More than 100 applications for capital grant funding were received in the most recent year by 11 of the foundations, but just 6 funded this number. One-half (18/36) funded 20 or less capital grant requests, although only 10 received 20 requests or less.

## What gets funded? (SEE FIGURE 4)

Almost all respondents provide grants for **equipment** and for **building/ renovation**. Three-quarters support **computer hardware**, and just under this number mentioned **vehicles**. There is considerable variation in practice, however. Items such as **marketing and computer software**, for example, were supported by three-fifths, with just over half **supporting pre-funding feasibility and technical assessments**. Seven out of 37 respondents supported **collections and acquisitions.** Other areas mentioned by individual funders included heating systems, wheelchairs and mobility aids, memorials and other physical installations. This suggests that for more specialised items applicants need to hunt around for funders.

## What are the trends in the amount of capital grant funding? (SEE FIGURES 5 & 6)

Findings provide strong evidence firstly that capital grants are taking a lower priority in the current funding climate. Over one-quarter of respondents (11/39) had reduced the amount they spend on capital grants in the last two years, although only 2/40 had reduced spending overall. Similarly just 9 had increased spending on capital grants, while 19 had increased their total spending.

Views about their own spending on capital grants and general sector spending on capital grants diverged. While over one-quarter had reduced their own spending on capital grants, more than one-

[7] Because this is a relatively small sample, and numbers answering each question varied somewhat, the results have not been reported as percentages here. These can be found in the tables in Appendix 1.

third felt the total amount of funding available in the sector had remained the same, and only a few (4/38) said that it had increased. This suggests a mistaken belief that others are filling shortfalls.

Considerably more believed the general availability of capital grants had reduced rather than increased (8 and 2 respectively). Similarly 8 felt funder willingness to provide capital funding had fallen, and only 2 thought it had increased.

While it is not possible to assess the potential amount of change in capital grant funding, together the findings show it has lower priority, that more funders have reduced rather than increased their spending, and as will be seen below, applicants and grantees overwhelmingly report that the availability of capital grant funding has reduced.

## Why has capital grant funding been reduced?

The overwhelming reason for decreases in capital grant spending was current pressures to devote more funding to revenue and core, and *'keep essential services running'*. One funder mentioned that it was easier to show the impact of core or revenue over capital funding, and another the pressure from other funders around core funding. Where there had been an increase, reasons included a move into the housing area, and an increase in demand (particularly smaller capital grants). Two foundations highlighted capital grants as a resource-efficient way of using money, and as leading to better long-term impacts.

## Are policies around capital grant funding changing? (SEE FIGURE 7)

Some funders keep capital grants policy under review, with over one-fifth (8/37) having changed criteria and/or approach within the last two years. Changes, however, were largely individual and piecemeal, and did not indicate any sector-wide strategic response to the current funding environment. One noted a drive to use capital funding *to encourage long-term efficiency savings or increase earned income capacity,* but otherwise changes were largely small amendments to existing policy. These could be contradictory. For example, one mentioned taking a more flexible and open-ended approach to capital items, so they could fund what would most help project outcomes rather than being restricted by a pre-determined list of what would/ would not be considered, while others mentioned greater restrictiveness such as introducing specific funding streams, declining requests where reserves are disproportionately high or the applicant's annual income exceeds a certain level. One funder said there was *no official change but some attitudinal change making capital grants more difficult to get*.

## Key decision-making considerations in capital grants (SEE FIGURE 8)

There was strong convergence amongst foundations on key criteria for decision-making, particularly on the importance of **organisational capacity around maintenance costs** and **value to beneficiaries**. Nearly as many highlighted **long-term or developmental value** for the organisation and **maintaining existing services** as important. Fewer (but still more than half) considered **co-funding or matched funding** important while a few thought this unimportant. Results show:

- the applicant's ability to meet long-term running and maintenance costs was 'very important or important' to nearly all respondents (34/36)
- of equal importance was that the capital grant would improve the quality of services in the long term (34/36)
- close behind was long-term economic or social value for the community and society (32/36)
- the capital grant was key to maintaining services and activities (28)
- contributing to longer-term organisational capacity was important to a majority (27), though 4 thought this unimportant

- the role of the grant as part of a development plan was important to 23, with just 3 saying this was unimportant;
- co-funding or matched funding was important to 19, and unimportant to 5;
- the least important considerations were acknowledgement and recognition of the funder's contribution (14) and, whether the capital grant is part of an application which has already received core/ project or other funding (13).

In spite of the importance attached to ability to meet long-term running costs, however, results from the applicant/ recipient survey in Section 4 show that some applicants do indeed run into difficulties.

## Are funders considering alternatives to grants? (SEE FIGURES 9 & 10)

Two-fifths (14/36) of foundations, mainly larger ones, had encouraged an organisation to consider loan finance (or other types of social investment funding such as loan guarantees and underwriting) for capital items and projects (14/36); while one quarter had occasionally offered such an alternative (and 1 funder frequently offers this alternative).

## Outcomes and impact of capital grant funding (SEE FIGURE 11)

As with decision-making criteria for awarding capital grants, there was almost unanimous foundation convergence on the key value and impacts such grants make.

**Gains to services, activities and products** Most foundations felt that grants had a 'very positive' or 'positive' impact on service quality (32/35); improved outcomes (31/35); ability to increase numbers of clients (29/35) and services offered (30/35).

**Gains to the organisation** (SEE FIGURE 12) Slightly fewer foundations emphasised benefits to the organisation itself, though there was also substantial agreement around some key areas. Around two-thirds felt there were 'very positive' or 'positive' impacts on reputation and status (23/34), staff morale and satisfaction (22/34) and cost efficiency (22/34). Impacts on financial stability (18/34) and income generation and growth were agreed by just over half (19/34), with some saying there were none in these areas. Slightly fewer felt there were positive impacts on organisations' planning capacity (15/33), and relationships with other organisations (16/35). Just 7/34 felt that grants facilitated access to loans and other repayable finance, and 11/34 said there was no impact on this.

**Gains to the wider community and environment** (SEE FIGURE 13)

By far the greatest agreement was on the value of the grant in 'creating or securing a local asset (29/35), with a large proportion seeing the impact in this area as 'very positive'. Pride and achieving local or national reputation were also generally seen as important (23/35). Other impacts included *leverage of funding and support in kind from other sources*, and *local environmental impact*.

## Are funder expectations of capital grants changing? (SEE FIGURES 14 & 15)

Funder expectations of capital grant funding have moved up a gear. The biggest change is in expectations for outcome and impact data, with almost half (18/38) saying these had increased, and none saying they had decreased. Almost all foundations asked for outcome and impact data from capital grants, though just over half (21/36) **always** asked for it. It was not within this study's scope to explore or compare detail and rigour expected by different foundations, but it would be useful to know, with recipients reporting it increasingly onerous. (See below) Just over two-fifths (17/38) said funders had higher expectations that applicants would provide evidence of need. A slightly lower level (15/38) felt that funders' expectations that applicants will find co-funding or matched funding had increased (15/38), with none saying these had decreased, and 12 recorded increased expectations for monitoring data.

# 4 FINDINGS - APPLICANTS AND GRANTEES

## Levels of applications and capital grants received (SEE FIGURES 16 & 36)

A sample of 161 applicants/ grantees with income £250k -£15 million, who had sought grants within the last two years, was achieved. Around half were Clothworkers' Foundation contacts. While a substantial majority of respondents were registered charities (87%, 119/137), 7% were social enterprises (CIC, CIO registration), and a further 7% were community organisations and other entities. In answering the survey they were asked to focus solely on funding from charitable trusts and foundations[8], but including the BIG Lottery Fund (BLF). Results showed that the respondents had a high level of activity in seeking and obtaining capital grant funding from foundations, with 82% having applied for capital grant funding in the last two years[9], including 64% in the last twelve months.

### Applications (SEE FIGURE 17)

Just under one-third (32%) had made 1-2 applications in the last two years, with over one quarter (27%) making 3-5 applications, and 41% making 6 or more.

### Numbers of projects/ items funded (SEE FIGURE 18)

One-half (51%) had received funding for 1-2 projects and one-quarter had 3-5 projects funded. One-fifth (21%) got 6 or more projects funded, but this was around half of those making 6 or more applications. This relatively low success rate where there are multiple applications might result from 'spray tactics' and poorly targeted applications, difficulty in getting funding for capital projects, or a funder preference for partly funding capital grant requests.

### Other capital grant providers (SEE FIGURE 21)

Charitable funders were by far the most important providers of capital grant funding (for 88% of respondents), and the single largest other source was the Big Lottery Fund and other Lottery distributors, from whom 37% had received funding. Local authorities and companies/ private donors had each awarded capital grant funding to around one-third (33%). Central government had made capital awards to 14%, and the Arts Council to 4% (this is likely to have included Lottery funds).

## What kinds of capital funding are received? (SEE FIGURE 22)

Varying success rates were found for different items. It was not surprising to find that equipment (67%), and buildings & renovation (58%) were the highest categories of applications, since almost all funders support these two areas. Broadly three-quarters (76%) of applicants were successful in obtaining funding for equipment and building & renovation, about two-thirds (59%) for computers, and 78% for vehicles.

High success rates were not reflected in other 'niche' areas. While 18% had applied for items such as computing, marketing, CRM or accounting software, only 8% received such funding, and funders might consider the value of giving greater priority to IT infrastructure if hardware investments are to be fully effective. As one charity said,

[8] Throughout the report 'foundations' is used to refer conveniently to trusts and foundations.
[9] All results in this report refer to applicants and grantees' experience over the last two years.

*We need to keep up to date with the latest IT hardware/software and audio/visual equipment, as we are a youth communications charity.*

Interestingly 13% of charities had applied for support for pre-funding feasibility work, and 8% had received this, indicating funder concern for effective capital investment. The types of capital projects/ items applied for seem related to the size of the organisation – larger organisations tend to make more applications for building/renovation, equipment and vehicles and to be more successful in these applications than smaller organisations.

## What is it difficult to get funded? (SEE FIGURE 23)

Almost half of the respondents (47%) reported items which they considered appropriate for capital support, but difficult to get funded. The most quoted items were 'repairs, replacement, renovation', followed by 'IT equipment and software'; buildings and vehicles were also mentioned by some, in spite of the generally high success in these areas. More smaller organisations applied for computer hardware and software, but were less successful in these bids than larger organisations.

It was in other software and vehicles that the perception of 'more difficult' far outstripped that of 'no change', suggesting a need for more funders to move into these areas, or to be more explicit about their support. Other 'difficult to get' items ranged from mundane to highly specialised, including repairs/replacement, storage areas, musical instruments, carpets, cinematic and circus equipment and disabled access. All of this bears witness to the extraordinarily diverse nature of the sector, and the need for funders able to respond! The smaller the organisation, the more likely it was to mention items for which it had struggled to access capital funding.

## Do applicants feel more is expected of capital grantees? (SEE FIGURE 24)

Mirroring funders, a substantial 65% of grantees and applicants said expectations for **outcome and impact data** have increased, along with **information, detail or justification** in the grant application process. Over half (55%) felt that expectations for monitoring data had also increased. Requirements for co-funding or matched funding for capital items were seen as increasing by one-third (31%), though one quarter (24%) felt they had stayed the same.

Setting aside the general value of developing more informed and evidence-based approaches to funding, and of partnership approaches, important issues which remain are the extent of resources needed to meet such requirements, how applicants and grantees resource them and the opportunity cost. (A further research issue is the quality and comparability of the impact data collected.)

## Applicant experience of trends in capital funding levels (SEE FIGURES 25, 26 & 27)

Resource issues are particularly important in a context where 38% of grantees and applicants also report that the number of funders willing to provide capital grant funding has reduced, with just 6% saying it has increased. As noted in the previous section, only a tiny minority of foundations thought general funder willingness to provide capital grants had increased.

An even larger 55% perceived the overall amount of funding for capital projects to have reduced, with just 17% saying it had stayed the same, and 4% that it had increased. This appears related to the problems of the wider funding environment. Half of the respondents said grant funding of all kinds had become less accessible, with 14% perceiving capital funding to have become less accessible than other funding, and 10% more accessible. Again, more smaller organisations tended to feel that all funding, as well as capital funding, has become less accessible. Larger organisations tended to feel that there has been no change, while a few (27% of £5m-£15m) feel that capital grant funding has become more accessible.

If the supply of capital funding is generally perceived to be tighter, what is the experience of demand? A substantial majority (62%) said the need for capital grant funding in the sector has increased, with just 16% reporting it had stayed the same. Only just over half of the respondents (52%) had received the full amount of funding for which they applied. The majority (67%) said this had 'fully' or 'partly' affected plans, and 13% 'a little'. The impact of part-funding on service plans and on how organisations address it would merit further research. One-fifth said it had not affected their original plans.

## How important is it to applicants and beneficiaries? (SEE FIGURE 28)

Capital grant funding is of high value for applicants, with over half saying it is 'essential or very important', and one-third (33%) saying 'important'. Around half cited reasons for its importance, mainly related to maintenance of existing assets, plans for growth, general scarcity of such funding and impact of government spending reductions and contracting policy. Respondents' own voices bear vivid witness to the essential place of capital grant funding in their ability to achieve missions, grow and develop, and some examples are quoted below.

### Maintaining existing buildings/ equipment/ items

*We own an old building: maintaining it to ensure day centre stays open is expensive.*

*Large site in need of constant renewal. Tatty environment is depressing…*

*We operate in an old building which requires much updating... Without capital funding our building, over time, would become unusable.*

### Expansion/ becoming self-sustaining / major projects

*We needed to invest in a transformation of our organisation to take us online. This was crucial strategically, for our future.*

*To expand our work, achieve our ambitions for impact, investment in infrastructure is essential…to take our work to an appropriate level.*

*We are looking to expand our services in other locations due to levels of demand and drop off in some statutory services.*

### Essential source of scarce funding

*Our van (supported by the Clothworkers' Foundation) travels 600 miles a week supplying often remote prisons with old bikes to restore, collecting new bikes to sell. Without this…..we simply could not do what we do.*

*Not covered by revenue grants from local authorities and not possible to raise through service charges, (which) would be unaffordable to users.*

### As a result of cuts/ the economic downturn

*Without our capital grant we could not have increased our activities and services to the local community when the council are cutting services.*

*Usually use reserves to fund capital equipment but these have reduced and trustees are less willing to allocate them to capital equipment.*

*We had to move premises and were unsupported by our local authority: the (trust) grant meant we could (develop) our new centre without completely using up our reserves.*

## Are alternative approaches to funding capital items used? (SEE FIGURE 29)

As with foundations, alternatives play a small but important part in applicants' capital financing. Size was important here, with larger organisations showing success in loan finance, and smaller ones unlikely to have considered it. Success in obtaining loans or other repayable finance for capital items was reported by 11%. Two thirds (64%), however, have never tried or considered the possibility of loans or repayable finance, and 3% tried but failed.

## What are grantees' perceptions of outcome and impact?

There was a reassuring convergence between foundations' and applicants' perception of the value of capital grant funding, albeit with some subtle though notable differences.

### Gains to services, activities and products (SEE FIGURE 30)

Closely paralleling foundations, most felt grants had a 'very positive' or 'positive' impact on quality (83%); outcomes (85%); ability to increase clients (73%) and services offered (66%).

**Gains to the organisation** (SEE FIGURE 31) Similar to foundations, grantees placed rather less emphasis on benefits to the organisation than to services. The main impact for grantees was on staff morale and satisfaction (76%). Around two-thirds of applicants (67%) and foundations (23/34) mentioned positive impacts on reputation and status.

A more striking difference, however, was that more applicants mentioned impact on *operating* efficiencies (68%) than *cost* efficiencies (66%) - for foundations it was the reverse. Grantees were less likely than foundations to mention he importance of impact on financial stability and income generation and growth (half compared with three-fifths of foundations). They were slightly more likely to mention impacts on planning capacity (53%) and relationships with other organisations (53%). As with foundations, few felt that grants facilitated access to loans and other repayable finance. This is hardly surprising as few charities even considered it.

### Gains to the wider community and environment (SEE FIGURE 32)

Perceptions of external impact drew some rather polarised responses. For foundations the most important impact was 'creating or securing a local asset'. For applicants, however, this item attracted the highest proportion of '*very positive*' ratings overall than any other, but was also was felt by many not to have any impact at all. Variance in view may be related to the type of item funded, but would be worth further exploration.

Top of applicants' impact list overall was 'creating awareness of their organisation and its mission' (71%); followed by 'involvement in their activities' (68%); and 'local or national reputation' (57%). Possibly applicants saw a stronger local presence as the best way to 'create or secure a lasting local asset', which they gave fewest positive mentions overall (48%).

### EXAMPLES OF OUTCOMES AND IMPACT

The many concrete examples given by respondents more than illustrate the essential place of capital items in their activities, and the tangible direct impacts of grants.

*Annual footfall doubled. The number of groups and beneficiaries using us doubled.*

*Improved facilities for our residents, better levels of trust and engagement, and improved individual outcomes.*

*The new lighting desk (for our theatre) enhanced performances ..and audience enjoyment; it enabled our technical volunteers to learn new skills (impossible) on our outdated equipment.*

*Extra beds in our residential addiction service ..enabled more women to access specialist, gender-specific treatment.*

*Sefton Council see us as a provider of a wide range of activities and services and have continued to fund us.*

*Creation of a successful social enterprise on our site (a café open to the public)..bring in revenue for our charitable work and contributes to (its) sustainability.*

## Issues of sustainability? (SEE FIGURES 33 & 34)

Sustainability of capital projects continues to present some challenges. Applicant ability to meet long-term running and maintenance costs, and the role of the capital grant in improving long-term service quality emerged as highly important foundation considerations when deciding awards. In practice 21% of recipients said costs had proved higher than anticipated, though just 6% said this had affected use of the capital item. Are some applicants under-estimating running and maintenance costs when they apply for funding, either through a lack financial planning expertise[10] or because they do not want to admit full costs to funders? It would be useful to know more about how applicants address subsequent costs and how they make up for any budget shortfall.
A large majority (83%), however, felt their award contributed to the sustainability of their organisation's services, activities or products in either the long or short-term, or both. Over half perceived the gain as long-term. (55%)

[10] The Building Asset Service provides guidance on whole life costing of building assets. http://www.building-assets.co.uk/managing-uses-and-improving-your-premesis/improving-your-premises/

# 5 CONCLUSIONS AND IMPLICATIONS

In reviewing the current state of capital grant funding, this study has provided an opportunity to look at a range of related issues and draw out some implications. Conclusions and implications are set out below.

## Trends in supply of and demand for capital funding

- It is estimated that at least 575 funders will consider capital grant funding, but the priority which foundations give it varies across a wide range from low to very high. Using figures from different sources, an approximate and probably conservative estimate of at least £177.5 million for current spending on capital grant funding has been reached (excluding BIG).

- While it has not been possible within this survey to assess the amount of change in capital funding by value, together the findings suggest a trend towards reduction. Firstly, it is quite clear from the survey evidence that it is being given lower priority in the current funding climate of government spending reduction, particularly as increased demand for project and core funding has emerged. More funders have reduced than increased their spending, and applicants and grantees overwhelmingly report not only that the number of funders willing to provide capital grants has reduced, but also that the amount available has fallen.

- While the supply appears to be falling, demand is already outstripping supply, and applicants/ grantees report that demand has increased. Many applicants report receiving less than the amount for which they applied, and the majority of these said this had affected their plans.

- Social investment/ finance alternatives to grant finance have a limited place in capital funding. Larger organisations have had success in using loan finance for capital items, but the majority of grantees, however, have not considered it and around three-quarters of foundations do not suggest it. Only a few (larger ones) have offered it.

## Capital grant funding decision-making

- Allocation policy varies very widely amongst foundations, but there is considerable unanimity around various aspects of decision-making on capital grant funding. Almost all funders support building and renovation, and equipment, and a majority support computer (hardware), and vehicles. There is a high success rate in applications for funding in these areas. Harder to get are computer software items related to marketing, accounting etc, and a range of more niche items can be very difficult to get, albeit vital to the mission.

- Foundations are almost unanimous in agreeing that one of the most important criteria in deciding on grants is the organisation's ability to meet long-term running and maintenance costs. In spite of this, it has emerged from the grantee survey that applicants/ grantees run into measurable difficulty over these. Some may underestimate costs, or lack appropriate budget planning skills. Foundation policy over providing running costs varies considerably, but it seems as though a review of how capital and revenue grants work together would be useful.

- There is almost equal unanimity over the capacity of the capital funding to secure or improve services to the beneficiary in the longer-term, though less agreement over its potential value to longer-term financial sustainability or income growth.

## Outcomes and Impacts

- Examples in the research bear witness to the extremely high value placed by recipients on capital items, many of which are absolutely central to the services they are aiming to deliver. It is clear, however, that funders have increased their expectations in relation to the outcome and impacts of capital grant funding, and also for co-funding. Undoubtedly a drive to use limited funds in the most effective ways is driving these, but it is putting more pressure on applicants at a time of increasing funding difficulty. Most funders ask for outcome and impact data, and it is clear from both foundation and grantee surveys that demands for data on this and on the case for funding have increased. It is less clear how organisations are resourcing increased requirements, and what the opportunity costs are, and this could valuably be explored.

- There is a reassuring convergence between foundations' and applicants' perceptions of the value of capital grant funding, though there are some subtle but significant differences. The majority of both believe that the grants have a very positive or positive impact on service quality, quantity, outcomes. A majority of both also think they have important impacts on charities themselves, in relation to staff morale, job satisfaction and reputation, though grantees are slightly more likely to emphasise these than foundations. Applicants and grantees are also more likely to emphasise operating than cost efficiencies, while for foundations it is the reverse. Looking at external impact, there is a further difference between foundations and applicants, with the former emphasising the capacity of the grant to create or secure a long-term local or community asset, and the latter emphasising more its impact on their external presence, and awareness. If applications and awards are to achieve maximum success, it is very important that foundations and applicants have a full understanding of each other's expectations and priorities in relation to outcome and impact.

## Some further reflections and questions

*How to get the best value out of capital funding* It is overwhelmingly apparent from the research that amidst evidence that the supply of capital grant is reducing and demand increasing, this sort of funding is of enduring importance. The research findings therefore give rise to some important questions and reflections for funders about how and when capital funding can best be deployed.

The research shows there is no 'one size fits all' approach to what funders regard as capital funding, though there is some evidence that smaller funders are more likely to fund everyday items like vehicles and computing equipment than larger funders who may fund building work and larger scale purchases. But while the research took a concrete approach to defining 'capital' funding items and areas, it is clear that funders are also increasingly aware of the need to look at its outcomes. While some funders are dealing with demand through increasingly specified and itemised lists, a few others mention a more flexible approach led by needs, goals and intended outcomes. It also seems that areas of funding which could have an influential effect on the success of capital investments, such as maintenance and running costs, or full funding are sometimes slipping through the net. This range of approaches, coupled with the varied sense among funders of whether the supply is reducing or remaining steady, raises the question of how much funders know about wider practice in this space, and the need to develop discussion and awareness further.

*Investing for growth and development?* Another emerging issue from this first stage of the research concerns the variety of benefits capital funding is seen to bring. Within grant-holders' reports, the terms 'expanded', 'grew', 'increased', 'developed' all appear frequently, suggesting that capital funding is often associated with expenditure that helps organisations make a 'step change' in improving the services they offer. This chimes with the public sector emphasis on capital investment as focusing impacts around growth and sustainability, often under-pinned by delivering long-term cost savings from one-off innovative changes to services – the 'invest to save' approach. However the findings also suggest an important difference between public and charity sector approaches. Within the charity sector 'growth' has qualitative as well as quantitative aspects. So, for example, while some recipients associated a capital grant with increased income or reduced costs, others saw improvements as primarily relating to the quality, reach or effectiveness of services delivered within the same cost envelope.

For some, capital funding was essential simply to *maintain* services – for example, vehicles for community transport. With increasing evidence that small and medium sized organisations are particularly facing funding pressures, in the current climate maintaining services with reduced funding and in the face of more complex needs is a huge achievement in itself. At the same time, these organisations are often managing to maintain services because they are transforming the way they work – which may indeed include one-off items of expenditure to improve systems for service users, to change approaches to fund-raising and administration or even simply to rethink operations.

This means that funders of capital expenditure need to tease out the particular use the capital funding is being put to, and its anticipated outcomes, not least to ensure the right monitoring information is being sought. For example, if the funding is really about maintaining or even improving the quality of services, it would be inappropriate to require organisations to report on what cost saving or raise in income has resulted from the grant. Gaining this sort of understanding could help with the vexed question of inaccuracies in applicants' estimating running costs or ongoing revenue costs associated with larger capital expenditure. It could be that, if funder and applicant are clear that purchases aren't always intended to generate more income or reduce costs, then applicants can be more transparent about the likely associated costs that will arise.

*Forms of funding for capital items* Clarity around outcomes and value might also help in exploring issues around the connection between social investment (repayable injections of capital to organisations to grow their services) and capital grants. The research has shown only a relatively small percentage (10%) obtaining loans or other repayable finance in association with capital grants, and there could be unexplored scope for repayable finance to meet capital needs, from either philanthropic or commercial lenders. The caveat is that social investment as an alternative to capital grant is only appropriate and sensible where there is clear intention – and evidence – that the expenditure will result in increased income and/or realisable cost-savings. Social investment is not a panacea for all organisations' needs for capital investment.

*Which to use when – smarter capital grants?* Based on these reflections, it might be useful to develop a simple framework for relating the assessment and outcomes criteria which funders use more specifically to a simple typology differentiating types of capital funding. A model of how this might be developed is set out in the table below.

| *Potential aims of capital grant funding* | *Most relevant assessment and outcome assessment criteria* |
|---|---|
| To improve the quality or effectiveness of existing services. | How clear is the link between the capital investment and improvements to the quality of services?<br>Are the other inputs, in terms of revenue expenditure, going to remain constant or is additional income also required? |
| To improve the efficiency of existing services by reducing costs or increasing income. | How robust is the evidence for the cost-savings or income generation?<br>If financial benefits are clearly demonstrated and sufficient, is there a case for the expenditure to be funded instead by repayable finance? If so, where might that come from?<br>How accurately does the proposal reflect running costs and other inputs? |
| To launch new services or expand existing services. | What is the evidence of need? Does the expected outcome justify the scale of grant?<br>How accurately does the proposal reflect running costs and other inputs? |
| To maintain existing service levels. | What is the evidence of need?<br>What would happen to the organisation, quality or reliability of service, if the grant were not made?<br>How appropriate is the scale of grant?<br>How accurately does the proposal reflect running costs and other inputs required to maintain the service? |

## Questions for further consideration

Finally, as well as exploring the usefulness of the approach outlined above in this simple typology, the research suggests a number of other questions to be explored by/with? funders during the next qualitative phase of the research:

- To what extent is it helpful or meaningful to make a distinction between 'capital' and other kinds of grant funding?
- What sort of issues arise from a funder's perspective in relation to associated revenue costs/ inputs? What sort of factors might prevent these from being accurately estimated?
- To what extent might repayable finance be a solution to a perceived lack of supply for capital grant? When might it be appropriate and when might it not?
- Is there enough awareness of the usefulness of capital grants among funders generally? Among potential applicants?
- Could capital grants be viewed more strategically within the funding mix by grant-makers that generally make revenue grants?
- Could more capital funders consider funding associated revenue costs?
- What is the role of capital funding in helping organisations adapt in the today's new and changing social and economic environment, and what are the most appropriate ways of providing it?

# APPENDIX TO WORKING REPORT 1 RESEARCH DETAILS AND DATA

## DETAILS OF SAMPLES AND SURVEYS

### Foundations

Foundations involved in capital funding were identified from a list of funders supplied by the Clothworkers' Foundation, supplemented with others identified from the DSC Directory of Grant-making Trusts 2015. Information on capital grant policy was extracted from a sample of annual reports of significant funders.

All members of the Association of Charitable Foundations were invited by ACF to take part in an online survey, in August 2015. Two reminders were sent. A filter question was used to identify those involved in capital grant funding in recent years. Forty-three (43) foundations reported that they provided capital funding, of which three had entered this field within the last two years. A further 2 had pulled out. A large majority (25) had an income of over £1 million, therefore lying within the range of the top 300 independent grant-making foundations[11]. This means that the survey captured some of the most significant capital funders by value. One–fifth (7) made total capital grants of £2 million or more in the most recent financial year, with 70% (26) giving £100k or more. This means a specialised sample was achieved which capture respondents well-placed to provide insights into the current position of capital grant funding. A substantial set of 21 respondents agreed to further interview, demonstrating interest and commitment to this funding area.

### Applicants and grantees'

There is no quick or easy way of identifying charities which have applied for/ received capital grants. To capture a sufficient number within the range of Clothworkers' Foundation applicants (£250k-£15 million), 3 samples were used:

1) the 7000 charities on the Small Charities Coalition database
2) a booster sample of relevant operating charities with incomes between £5-15 million, identified from the Charity Financials database
3) all previous Clothworkers' Foundation contacts.

Online surveys were sent out in August 2015. Through use of a filter question, only those which had applied for capital grant funding within the last two years were invited to complete the survey. 246 responded, of which 157 were usable. 14% were excluded as they had applied prior to the last two years.

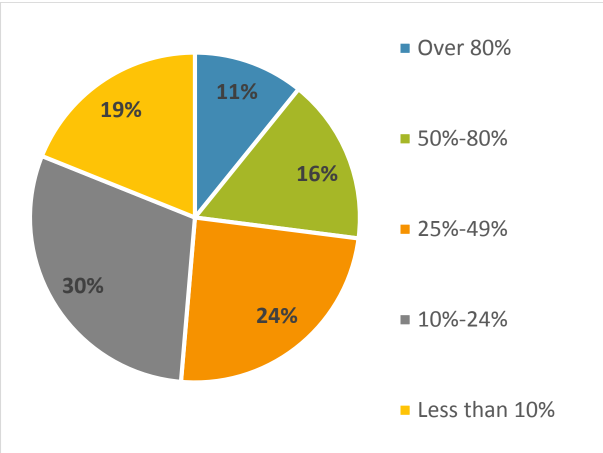
[11] Pharoah, C, Jenkins, R, Goodard, K. (2015) *Top 300 Foundation Giving Trends.* CGAP/ ACF/ Pears Foundation.

# SURVEY TABLES AND GRAPHICS

## 1 SURVEY OF FUNDER PERSPECTIVES

NOTES: Except where presented as percentages (%), the figures in the graphics in this section represent actual numbers of respondents. Rounding means that occasionally percentages do not total 100. Numbers for 'Don't Know' and 'Other' responses have not been included in the graphics.

***Figure 1: How much (by value) of your annual grant-making expenditure was dedicated to capital grant funding in your most recent financial year? Estimates are sufficient.***




***Figures 2 & 3: Roughly, how many requests for capital grant funding in the most recent financial year have you a) received and b) funded? Estimates are sufficient.***

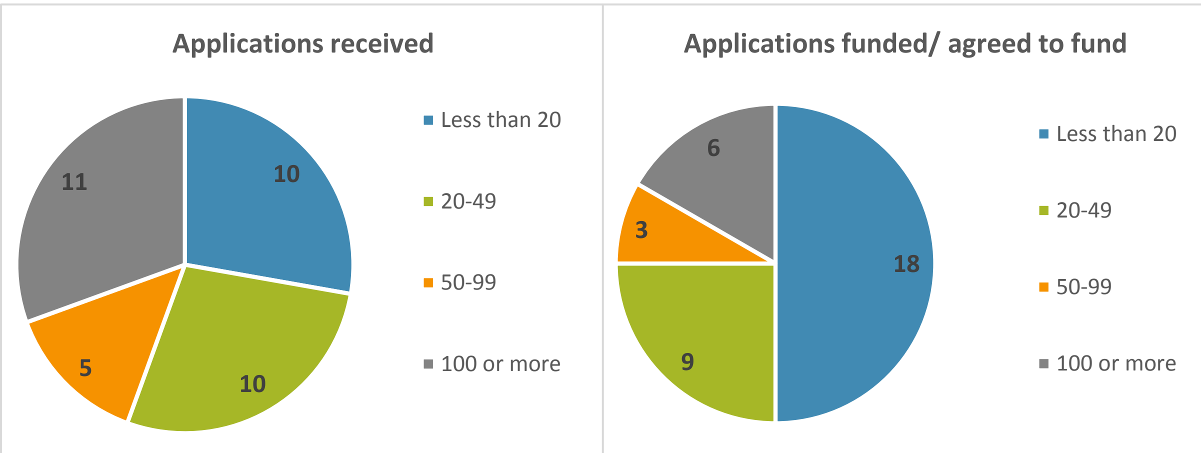


***Figure 4: Which of the following would you consider for capital grant funding? Tick ALL that apply***

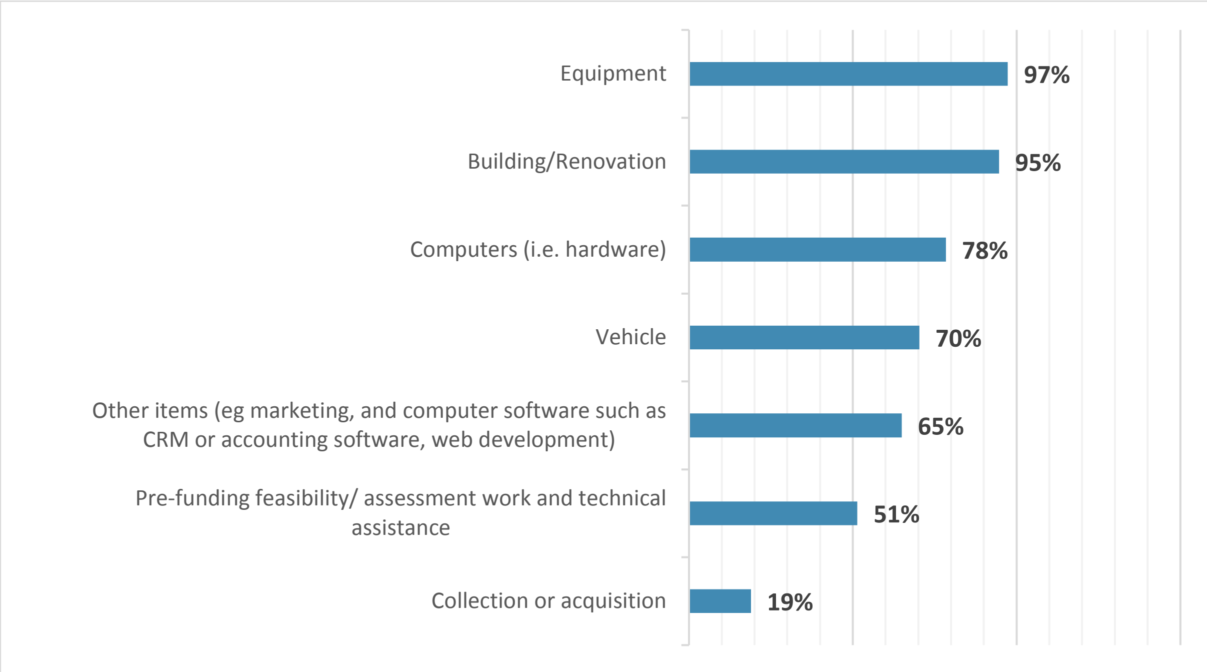



***Figure 5: Thinking about your level of grant-making over the last few years, has it changed or not?***

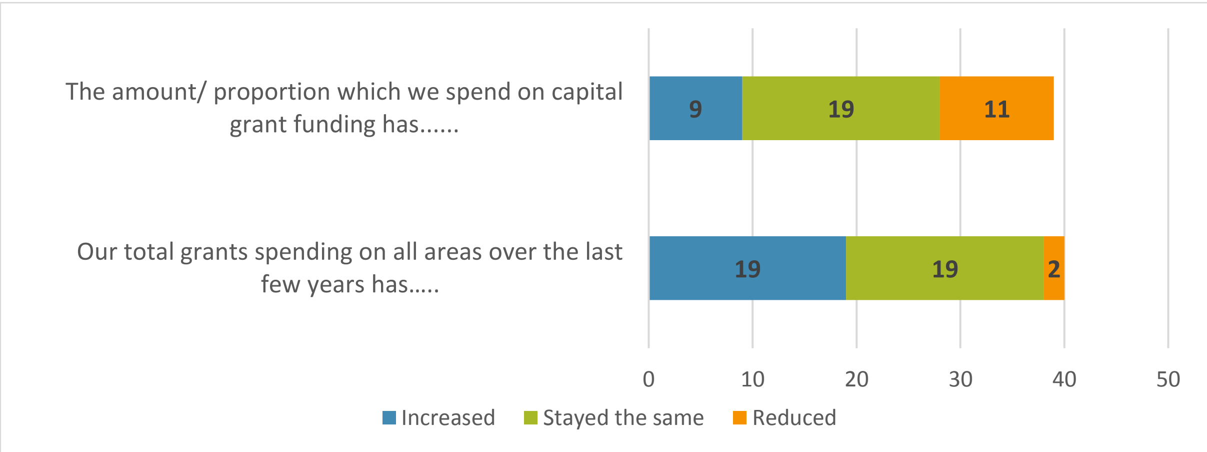



***Figure 6: General sector trends around capital funding, views and experiences***

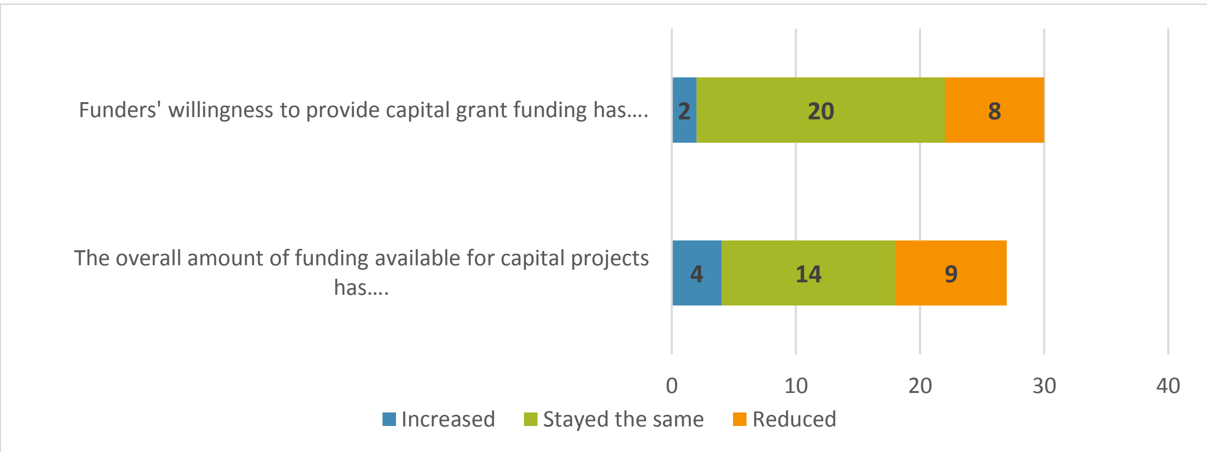


***Figure 7: Have you changed your policy/ criteria for capital grants over the last few years?***

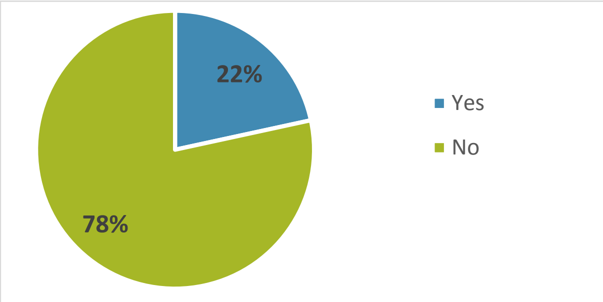



***Figure 8: When deciding on a capital grant, how important are the following considerations?***

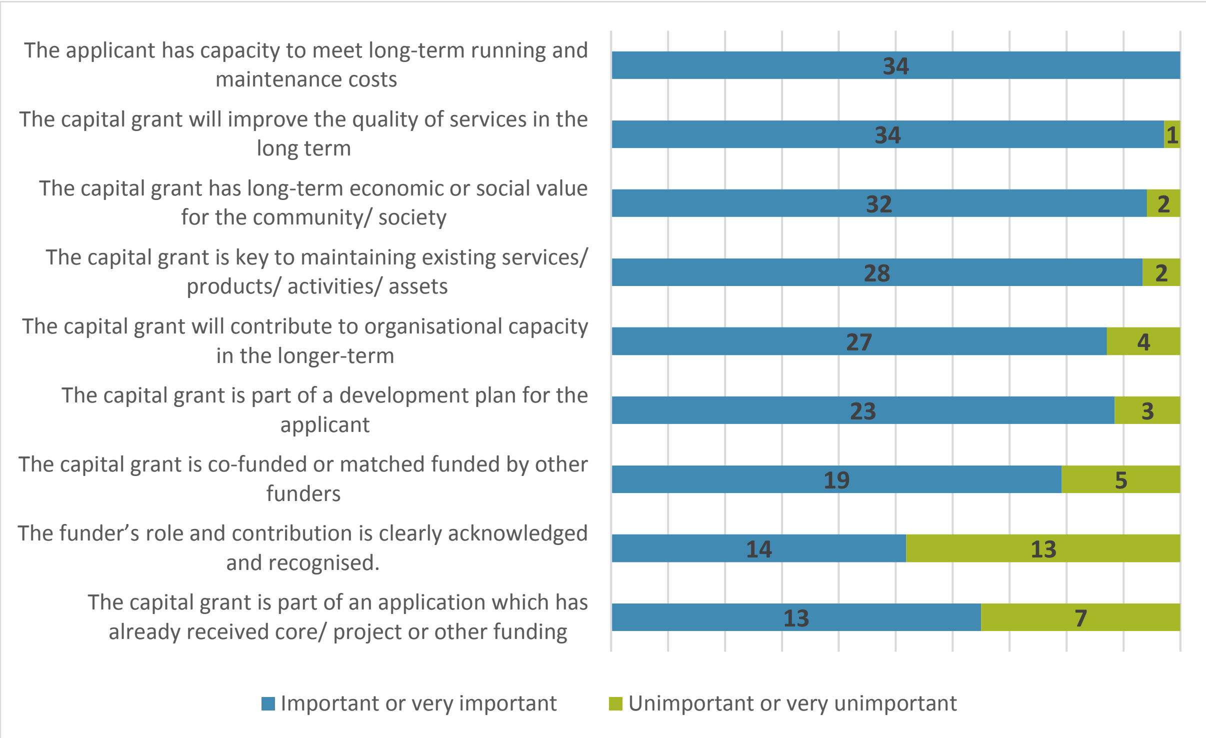



***Figure 9: Have you ever encouraged loan finance (or other social investment) for capital items/ projects?***

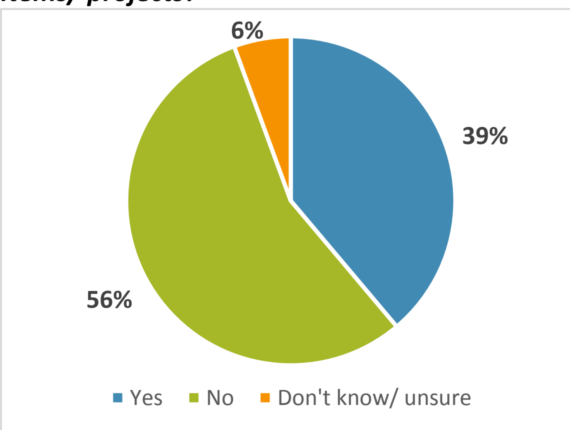
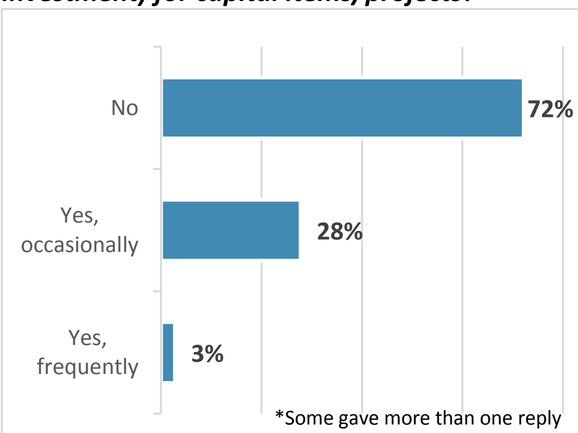



***Figure 10: Have you ever* offered loans, loan guarantees/underwriting (or other social investment) for capital items/projects?***



***Thinking of a couple of recent and/or major capital grants, how much impact have they had?***

***Figure 11: Impact on services/ activities/ products***

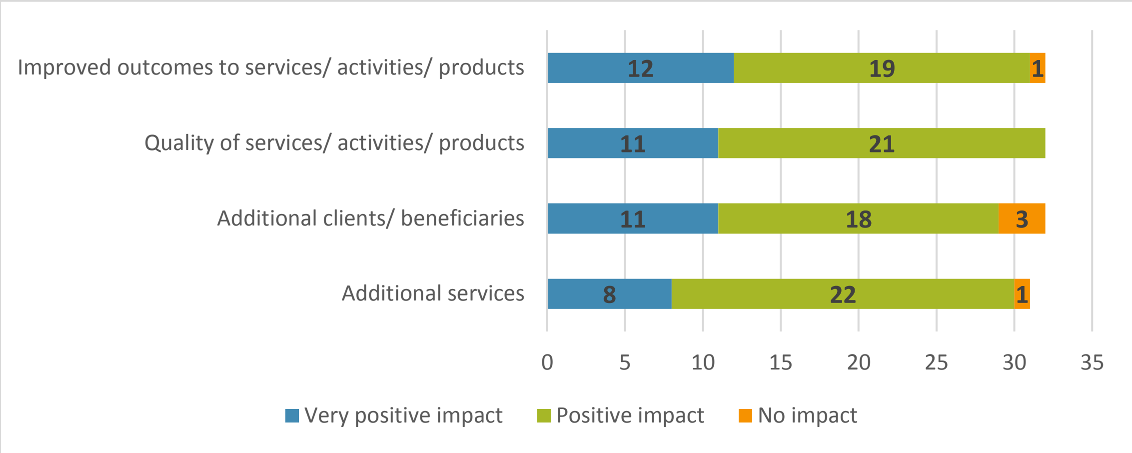



***Figure 12: Impact on the funded organisation***

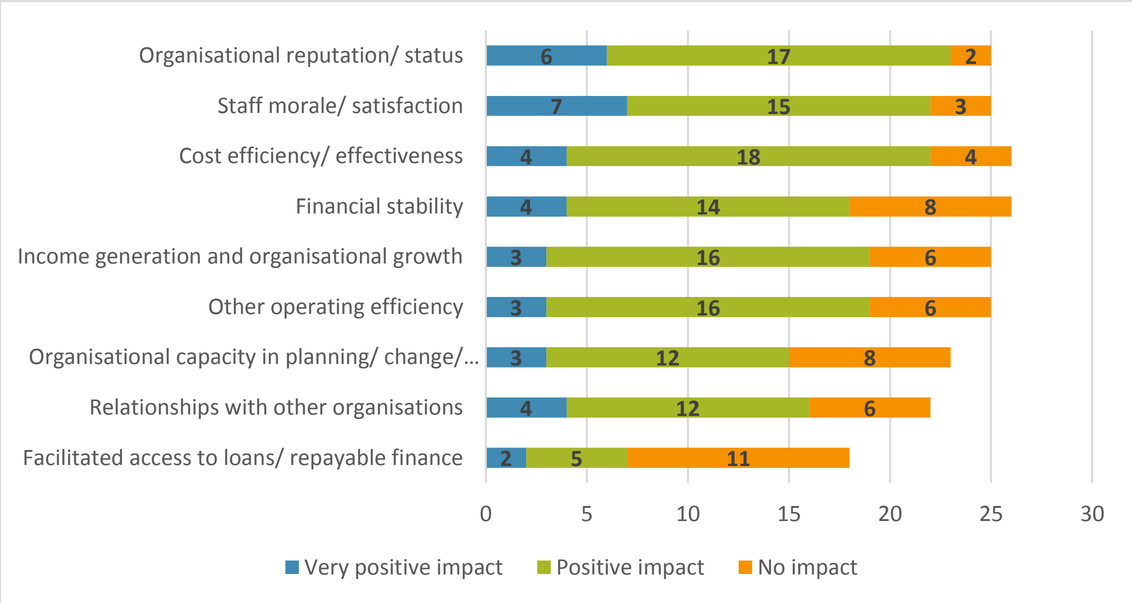



***Figure 13: Impact on wider community/ environment***

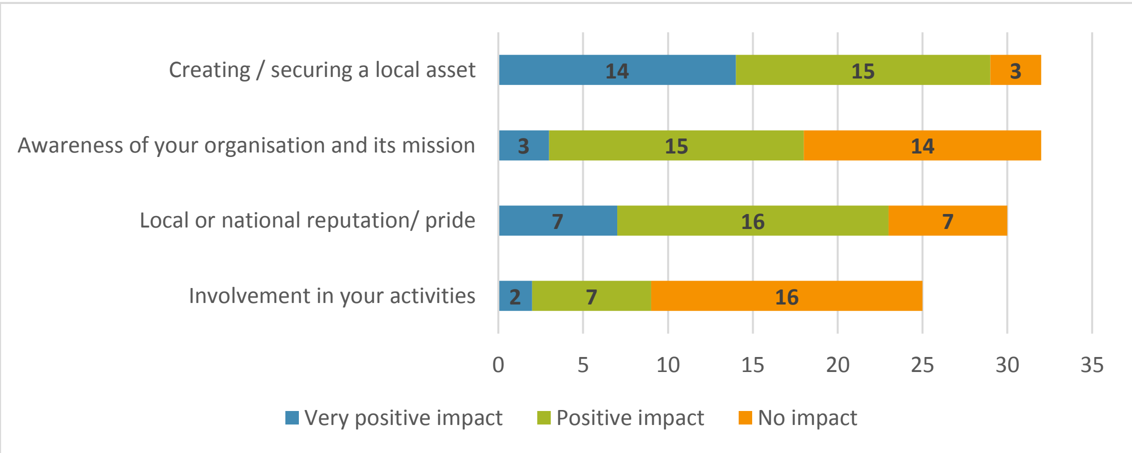


***Figure 14: Funder expectations for outcome/ impact data for capital have….***

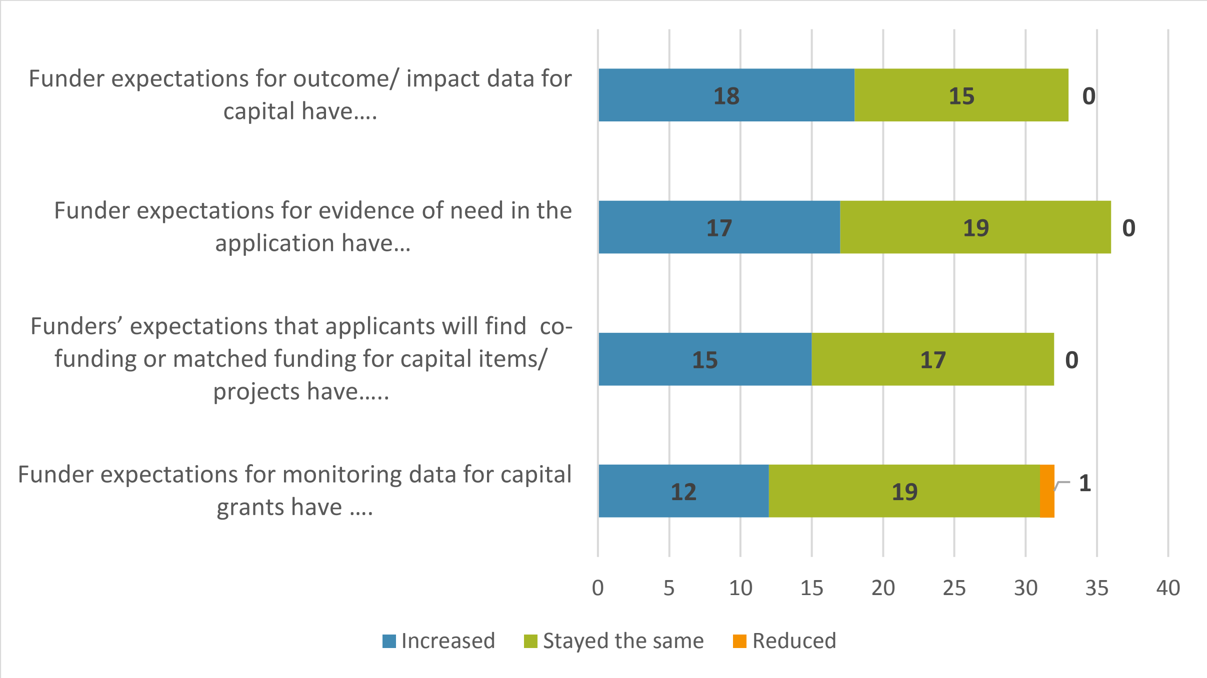
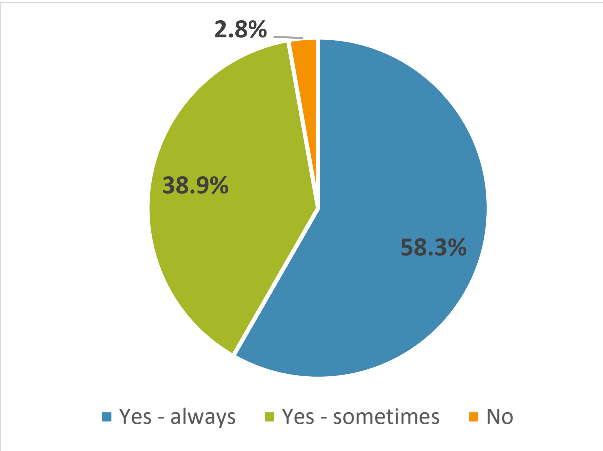



***Figure 15: Do you ask recipients for any outcome/ impact data on any of the above, or any other outcome of funding for a capital item/ project?***



# APPLICANTS AND GRANTEES

NOTE: Percentages do not always total 100 because the 'Don't Know' responses were not included in the graphs.

***Figure 16: Have you applied for any capital grant funding?***

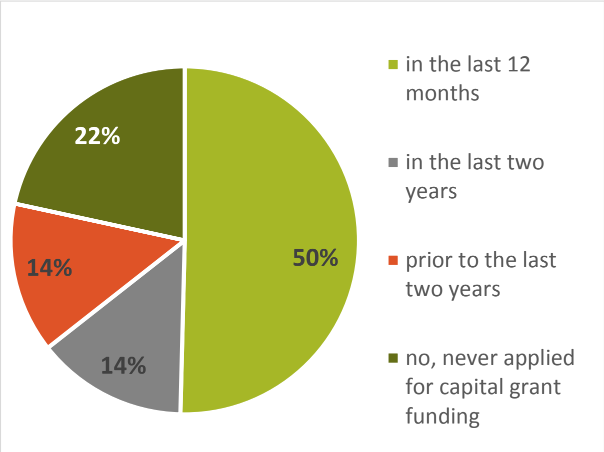



***Figure 17: How many applications for capital grant funding over the last two years?***

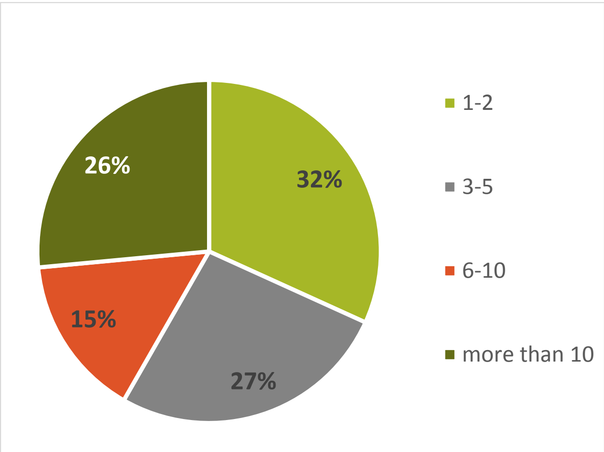



***Figure 18: Number of separate projects/ items for which capital grants received in last two years***

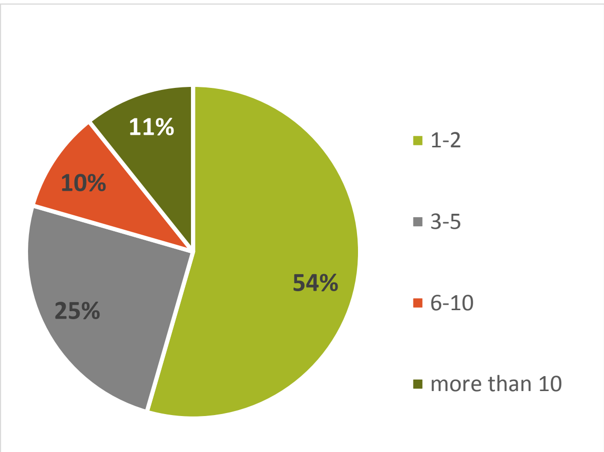


***Figure 19: Number of funders approached for capital grants in the last two years***

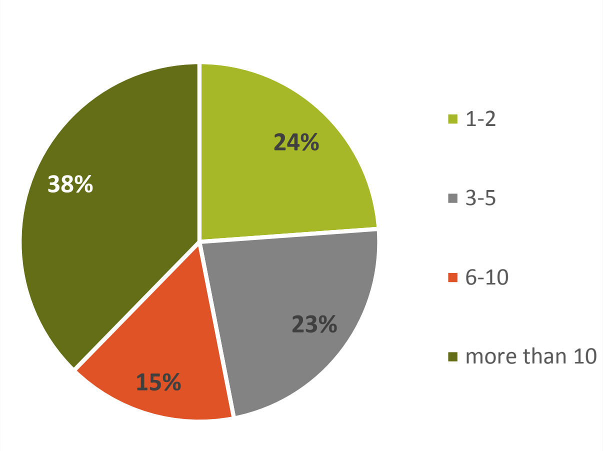



***Figure 20: Have you received either of following for capital items/ projects in last two years?***

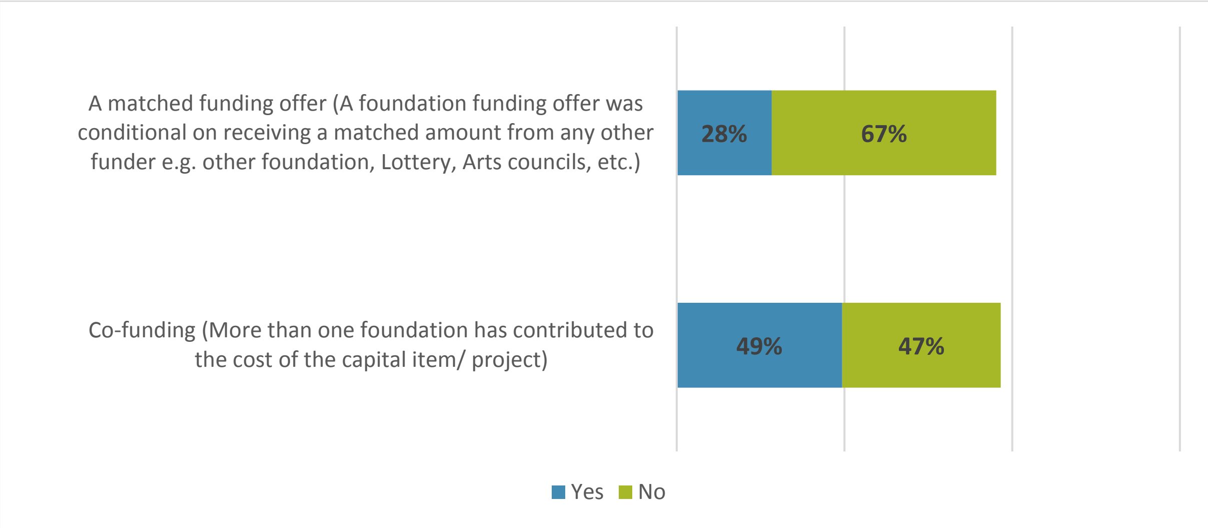



***Figure 21: Thinking about capital grant applications to ALL FUNDERS, which have given you funding for capital items/projects in last two years? Tick ALL that apply***

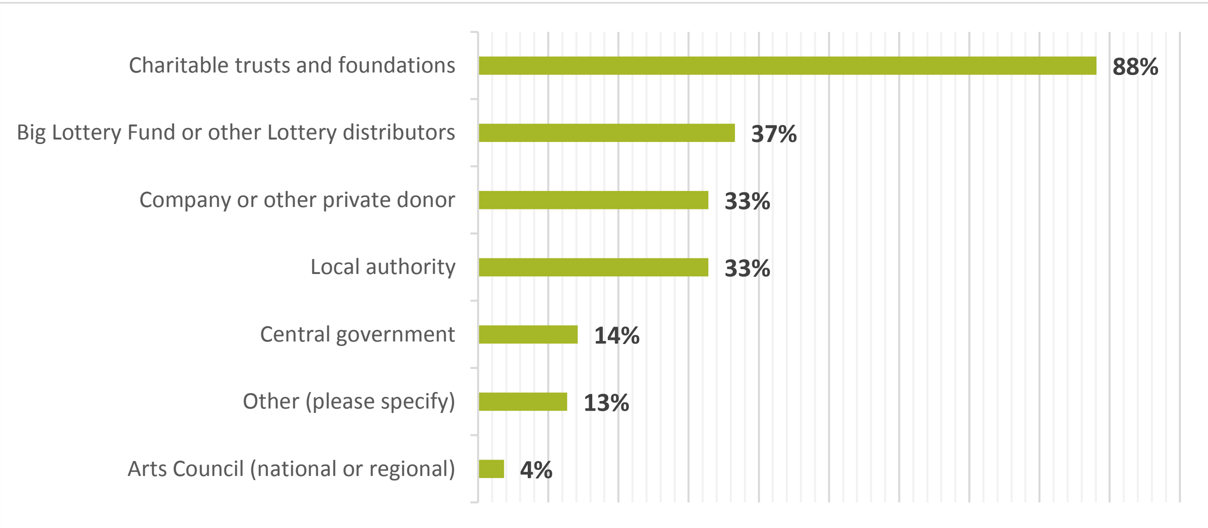


*Figure 22: For which of the following areas have you a) applied b) received capital grant funding from trusts/foundations in the last two years?*

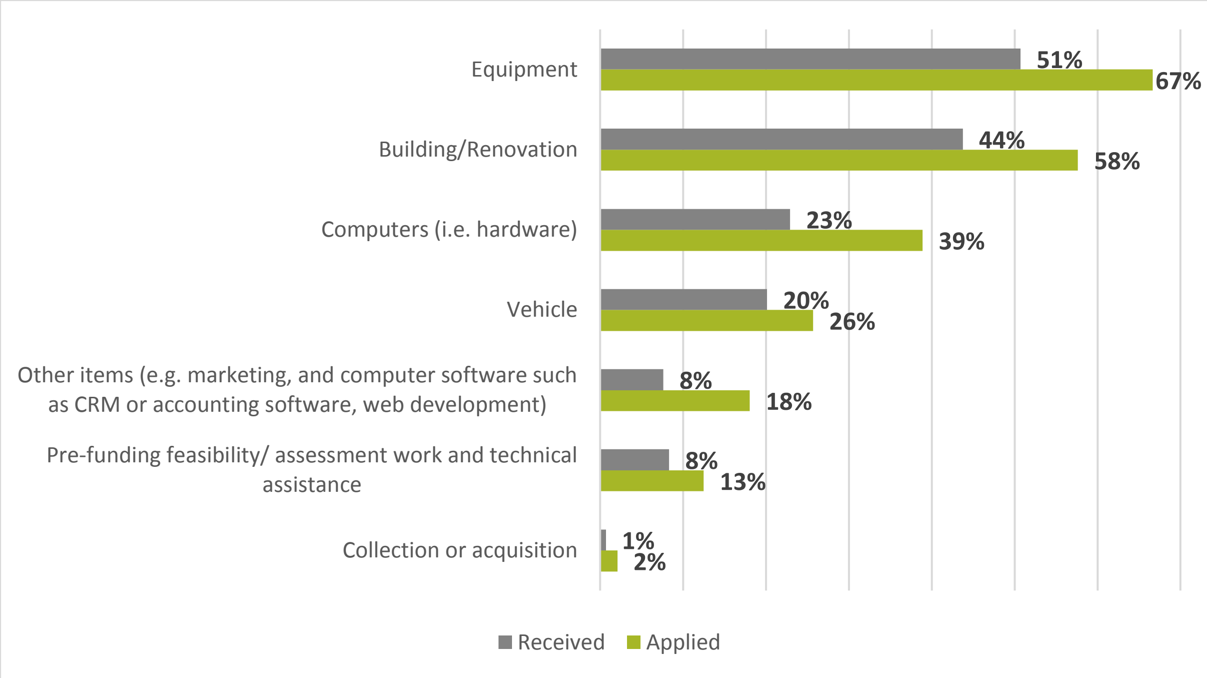



*Figure 23: Has access to funding for any specific types of capital items/ projects changed over the last two years?*

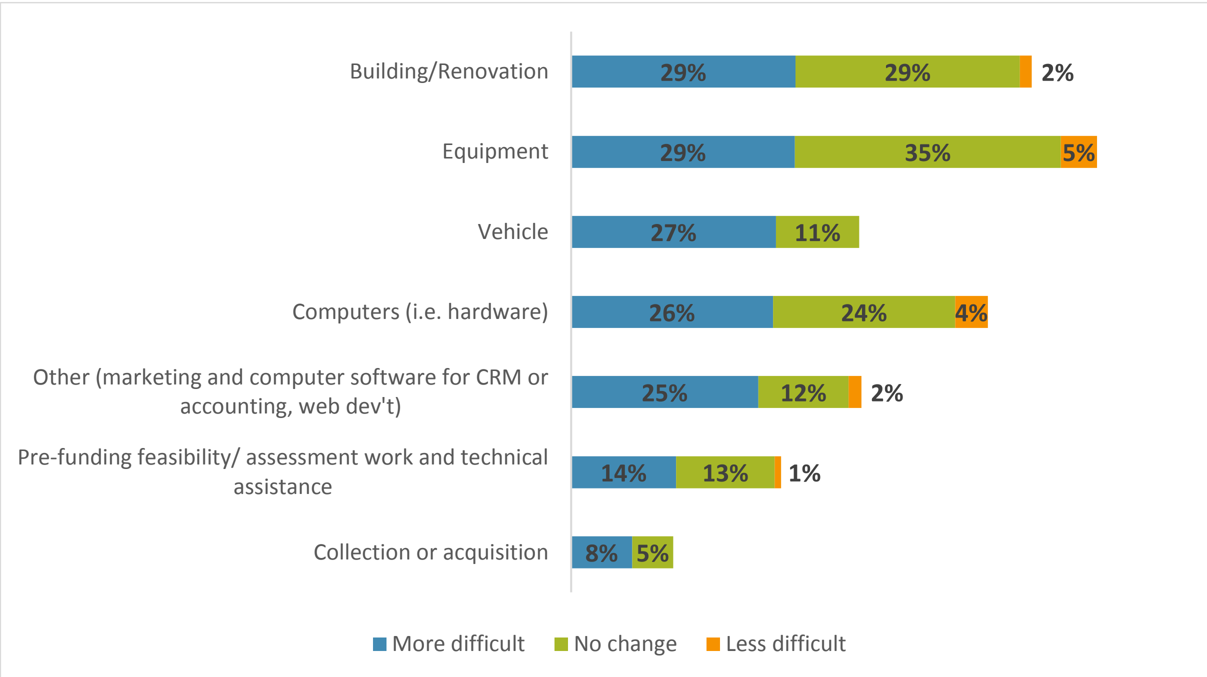


***Figure 24: Thinking of your organisation's recent experience of seeking capital funding, what are your views on the following funding and funder issues?***

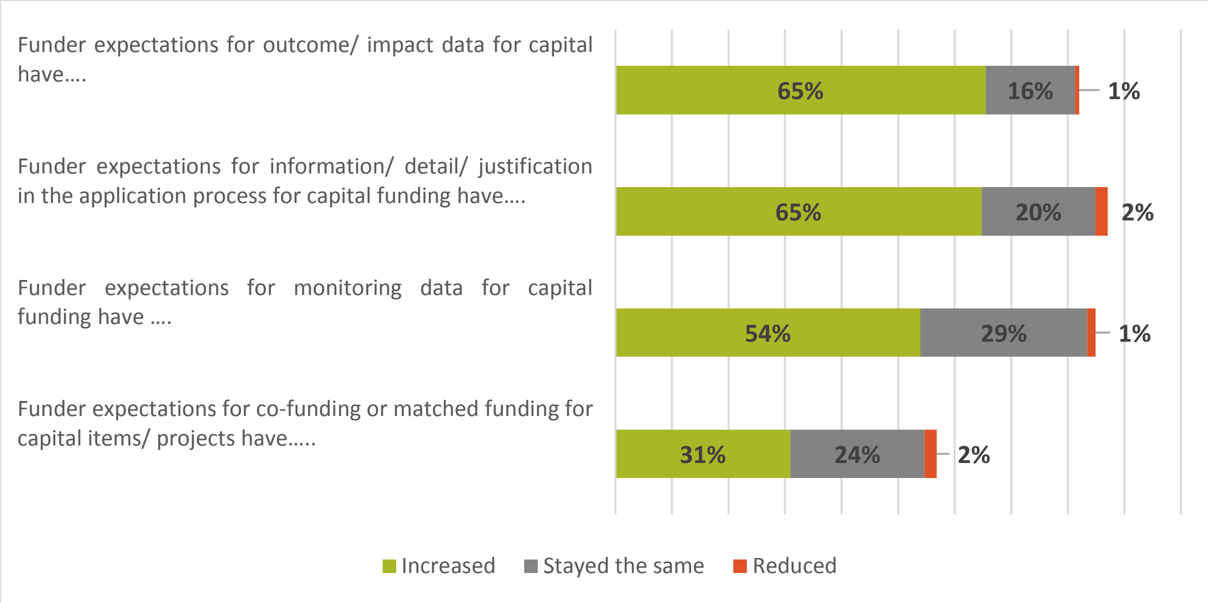



***Figure 25: Thinking of your organisation's recent experience of seeking capital funding, what are your views on the following funding and funder issues?***

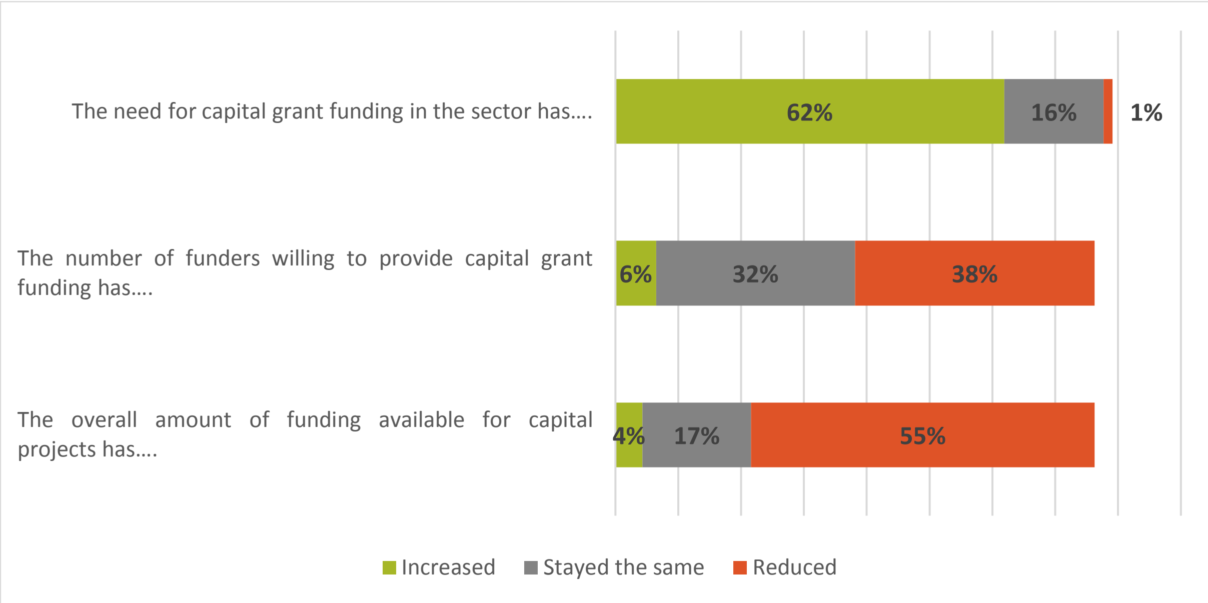


***Figure 26: Over the last two years, how does your experience of accessing capital funding compare with other grant funding? Tick ONE statement.***

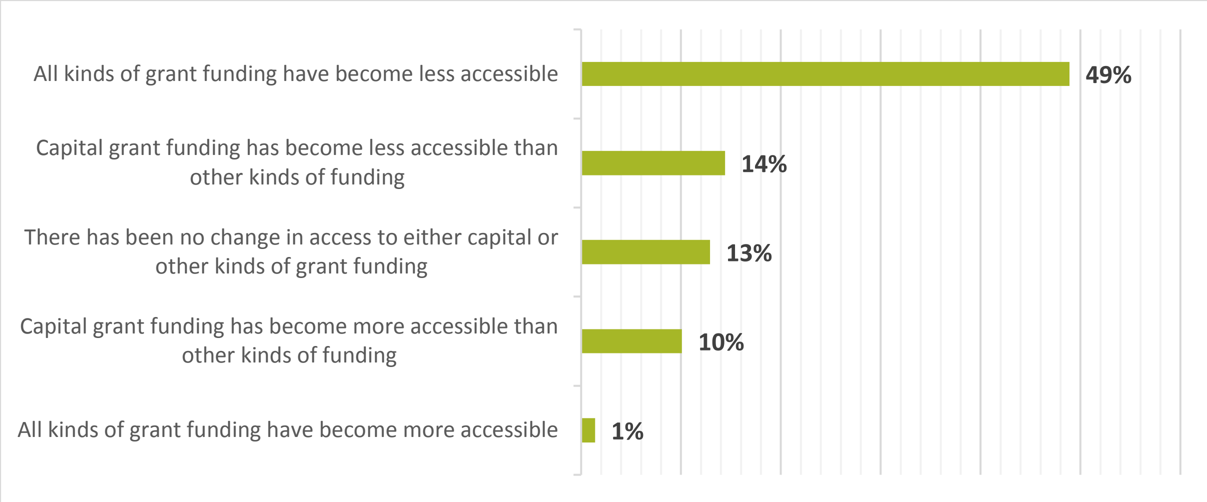



***Figure 27: Did you receive the full amount of funding for which you applied? If no, how far did this affect your original plans?***

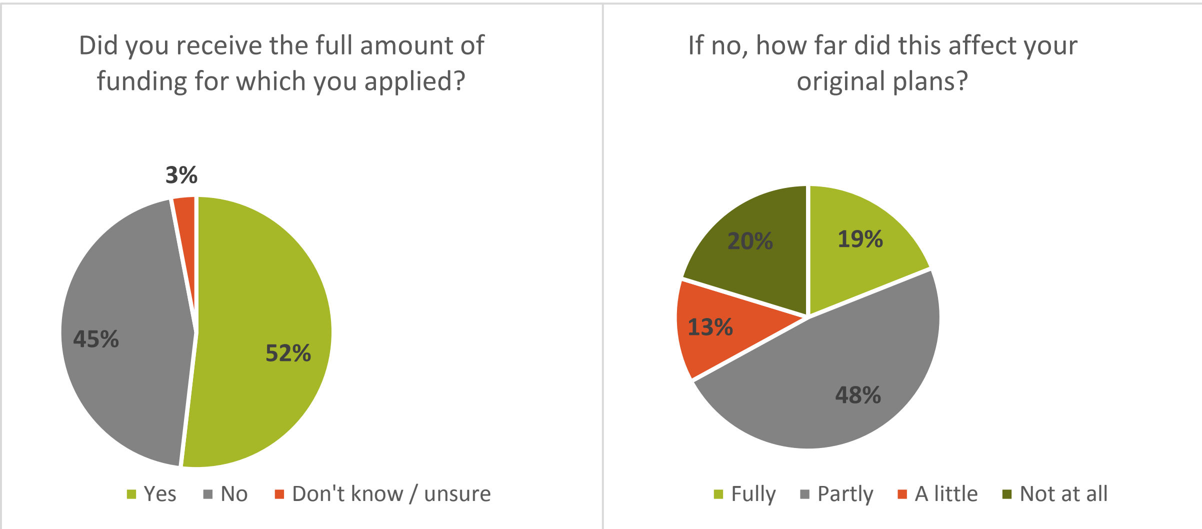



***Figure 28: Over the last two years, how important has capital grant funding been to you?***

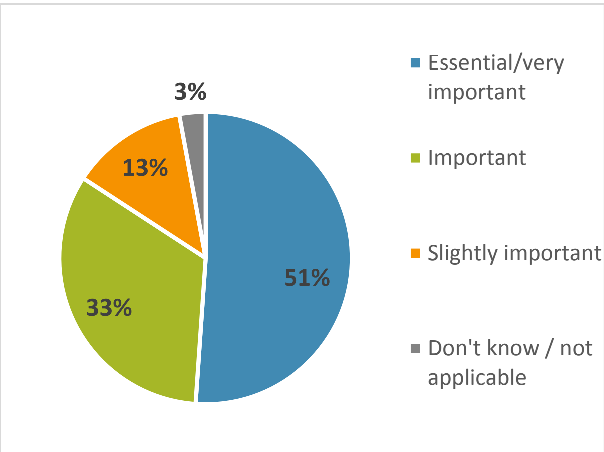
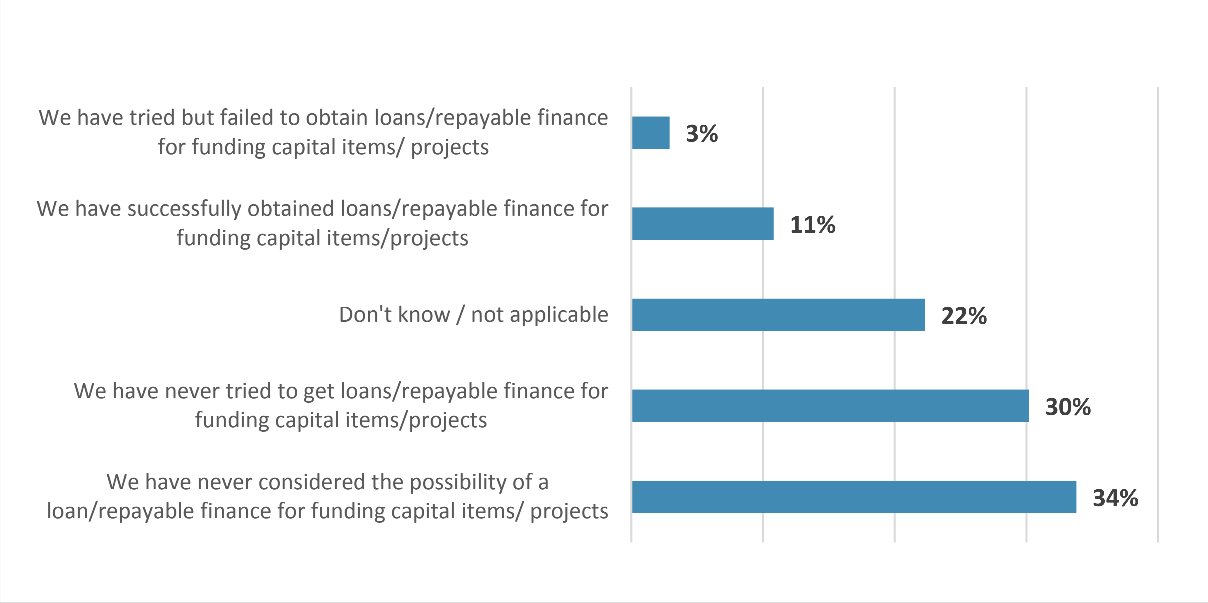


*Figure 29: Does your organisation have any experience of alternatives to capital grant funding such as loans, loan guarantees or underwriting, or other repayable or equity-like finance? Tick ONE statement which best reflects your experience.*




*Thinking of a couple of recent and/or major items or projects for which you recently got capital funding, in which of the following areas have they had outcomes or impacts?*

*Figure 30: Gains to services/ activities/ products*

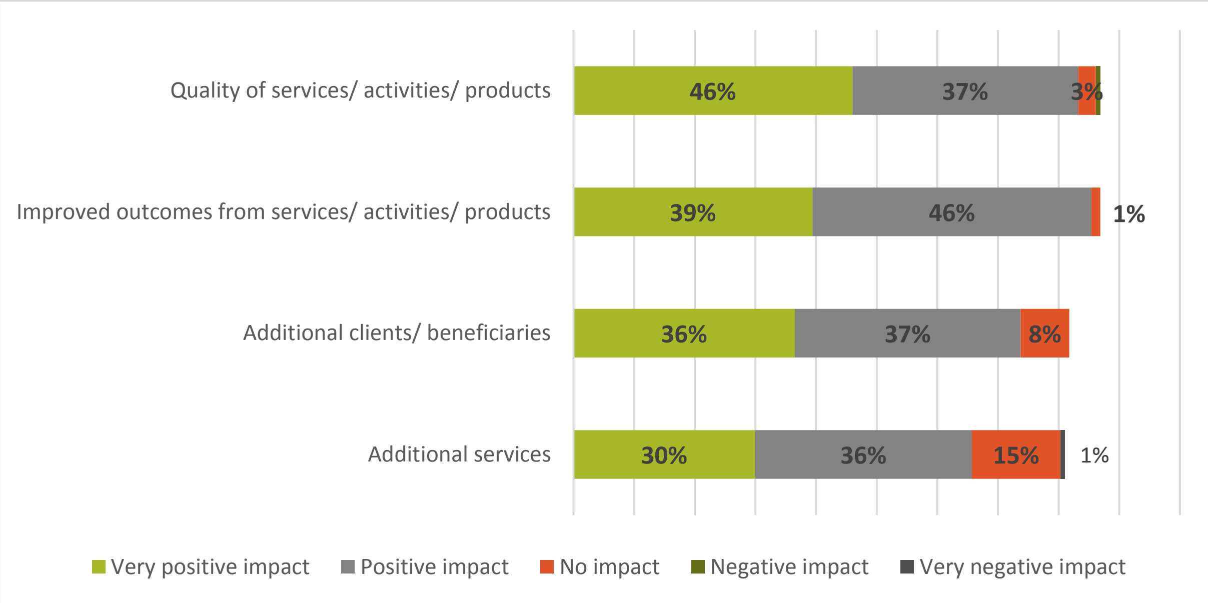


*Figure 31: Gains to the organisation*

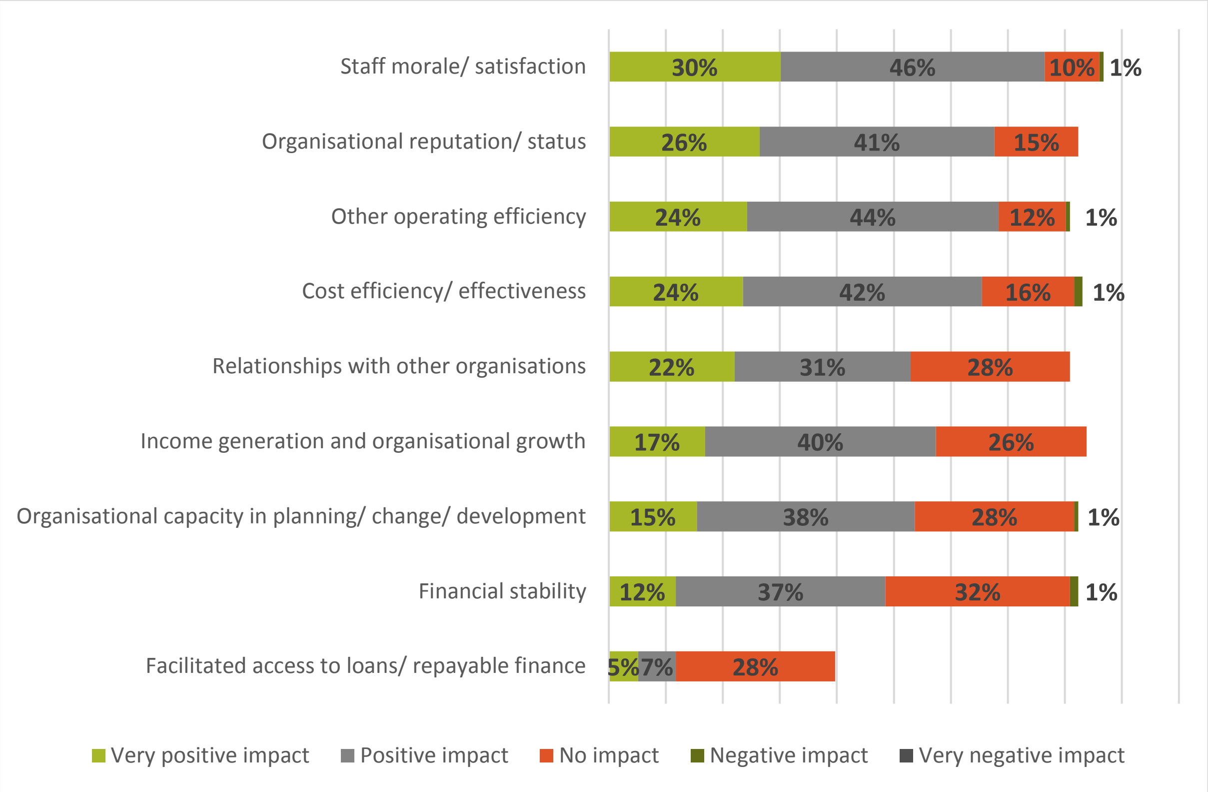



*Figure 32: Gains to the wider community/ environment*

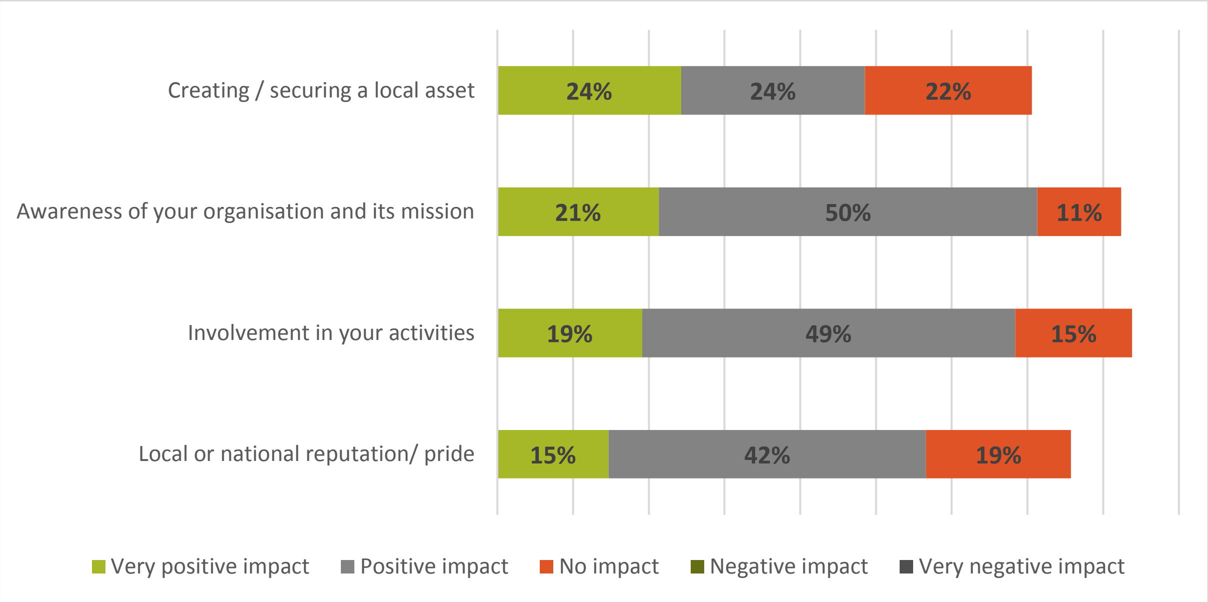


*Figure 33: Thinking of a recent and/or major item or project for which you recently got capital funding, did you find in practice that you had budgeted sufficiently for any running, staff or other costs which arose in relation to the capital investment?*

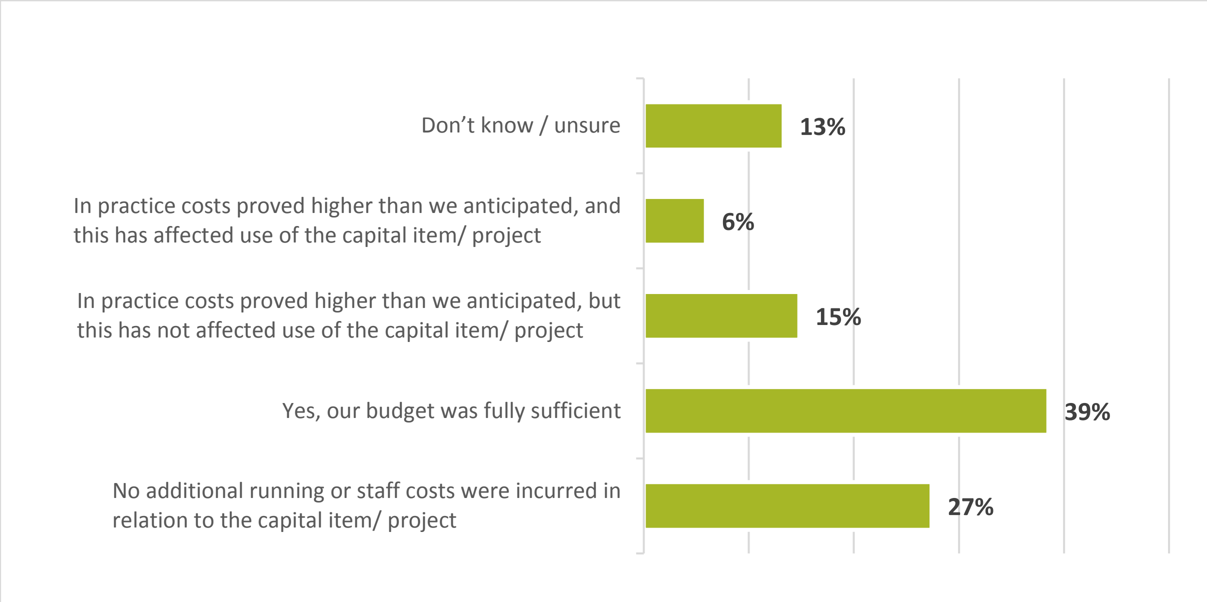
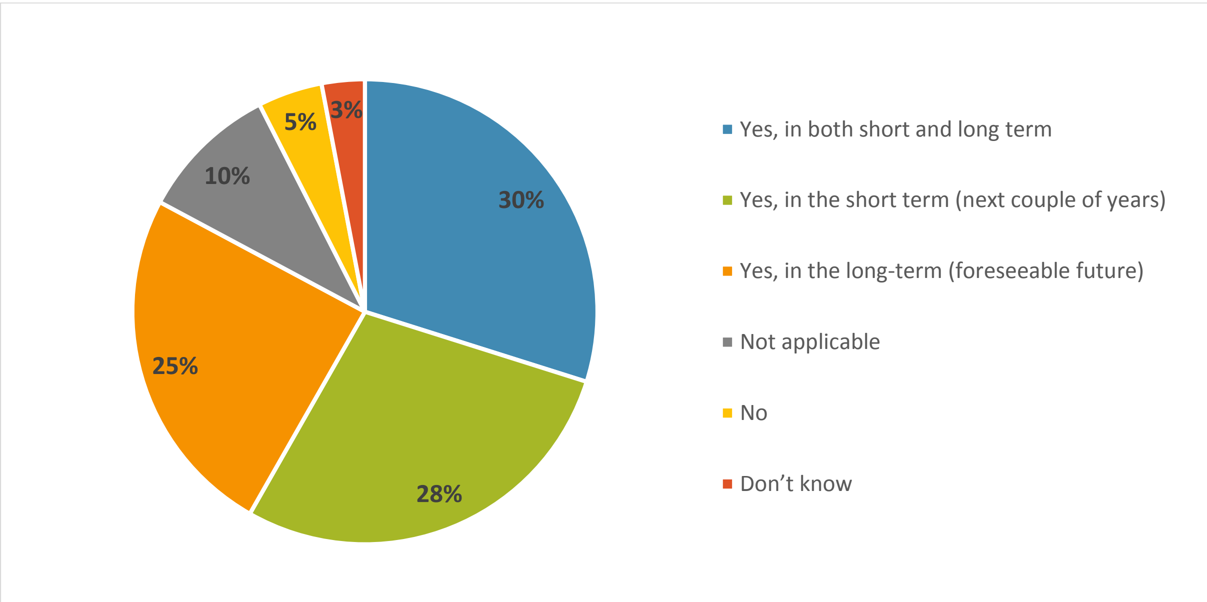
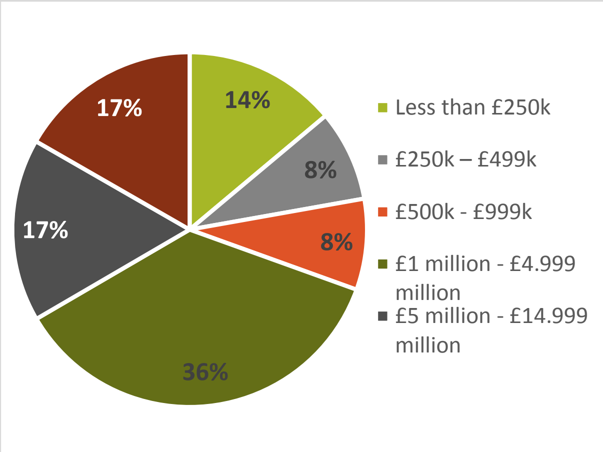



*Figure 34: Has the capital grant contributed to the sustainability of your organisation's services/ activities/ products?*



# DEMOGRAPHIC ANALYSIS OF THE SAMPLES

## FOUNDATIONS *Figure 35: which income band does your organisation fit into?*




## CHARITIES

*Figure 36: What type of non-profit organisation are you? Tick ONE only*

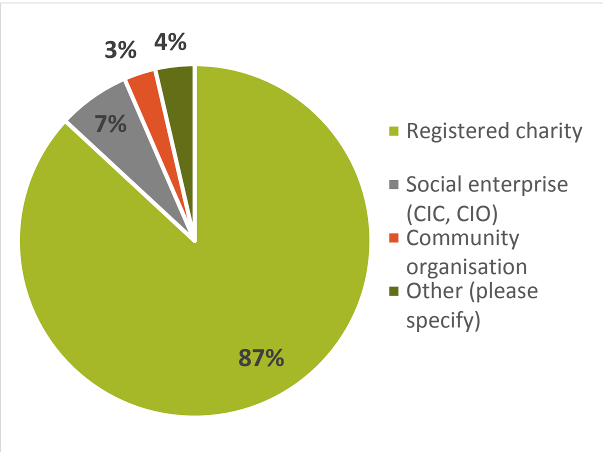
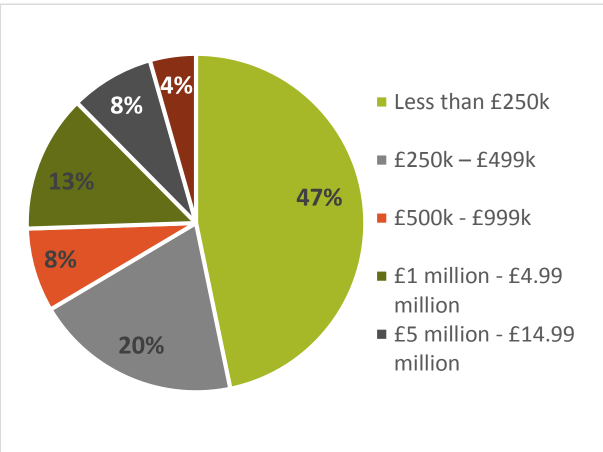



*Figure 37: Which income band does your organisation fit into?*



# CAPITAL GRANT FUNDING WORKING REPORT 2 ISSUES AND FUNDER PERSPECTIVES

## EXECUTIVE SUMMARY


In 2015 the Clothworkers' Foundation commissioned research on the current provision of capital grant funding, with the particular aim of informing the Foundation's five-yearly strategy review. Results from the quantitative surveys of funders and applicants carried out in the first part of this research were reported to the Clothworkers' Foundation in September 2015. This document completes the research by presenting the findings of further qualitative research amongst foundation funders to explore issues which arose from the quantitative surveys, including wide variation in policy and practice around capital grant funding, some uncertainty on trends amongst funders, increasing demands for evidence of outcomes and impact, and a variety of views about why, how and when capital funding can best be deployed. Fifteen participants from the initial funders' survey who indicated that they would be willing to contribute to follow-up research were invited to take part in a focus group or a telephone interview to explore funders' experience of making capital grants.

Overall the findings corroborate the results of the quantitative research, giving a range of perspectives on some of the drivers behind those results. Funders generally felt that the overall proportion of capital funding had reduced in recent years as both applicants and funders have prioritized revenue needs in order to sustain services in tough economic times. Nonetheless funders had a sense that capital funding has a distinctive place in the overall funding mix or 'ecology', in particular expressing and providing long-term security for organisations through the acquisition or improvement of mainly physical assets. While in most cases funders felt that the specific contribution of capital funding to outcomes was difficult to measure or attribute, all felt that capital projects had an enabling or supportive role in service outcomes and contributed to organisational sustainability. There was also a sense among funders of heritage projects in which the maintenance of landmarks or artefacts was a good in itself that defied quantification.

For the most part funders agreed with the finding that revenue costs were frequently wrongly estimated, with reasons given being the inexperience of applicants, or over-optimism connected with new projects. In some cases engaging professional quantity surveyors or adviser was seen as a problem and not a solution because their assumptions were often generic and not related to the specific project in hand. Overall however funders felt that predicting and assessing running costs and revenue streams was usually a difficult process and that it was as important for organisations to have good governance in managing finances as accurate costings.

Many funders considered that repayable finance could be an option for organisations seeking capital funding. Some of those interviewed had offered repayable finance instead of or alongside grant funding, but most had not and were reluctant to do so. Mostly the reasons were of capacity and expertise within the trust or foundation, though some funders felt that even if they could develop the expertise they would rather offer grant because it felt simpler and more direct. There was a feeling that repayable finance options, if available, could be offered by commercial or other suppliers but also a questioning about how many organisations could take on debt, particularly where their business model had been reliant on public sector contract delivery.

## *Methodology*

The qualitative research was conducted after the survey component had closed and been analysed. From those preliminary findings, and from the scoping study, a set of open questions were developed to be explored in the qualitative research stage in a semi-structured format. The questions covered:

- The difference between capital and other kinds of grant funding
- The distinctive things that capital funding achieves
- The role of capital funding in helping organisations to adapt in today's funding environment
- The factors that affect applicants' ability to estimate revenue costs
- The perceived lack of supply of capital funding and the potential for social investment to meet need
- The desirability of other funders who did not already do so offering capital grants.

Participants from the funders survey who indicated that they would be willing to contribute to follow up research were invited to take part in either one of two focus groups or a telephone interview depending on their availability.

Everyone who indicated their willingness to take part in the research and who responded to the invitation contributed to the qualitative research. In all 15 individuals at took part across two focus groups and seven individual interviews all based around the same set of questions. They represented insights from 13 different funders across a spectrum of size of annual grant-making from £15m to less than £250k. See Appendix the list of organisations represented.

Themes were identified from the research outputs and are presented in the following Findings section in ways that echo but are not constrained by the research questions.

# FINDINGS

## A diminishing supply of capital funding?

Funders offered varied perspectives on the availability of capital funding, though there was a clear sense of convergence on trends so that several of those interviewed described that in recent years they *had* reduced the amount of capital grants they made as an overall proportion of their funding, lending support to the picture emerging from the survey findings. All the same, some funders expressed a different view and felt that the supply of capital funding had remained unchanged and one funder - who had increased the proportion of capital grants – felt it had increased generally.

For some funders any decrease had been caused by changing patterns of demand. In at least two cases, it was the result of an intentional decision by trustees to give priority to revenue projects over capital bids.

One funder estimated that in the last decade the proportion of capital funding had fallen from approximately 10% to around 5% of total spend. Another funder observed that, in recent years, organisations had stalled capital projects, phased them over longer timescales or reviewed designs to reduce overall costings.

Others who had a less accurate sense of what proportion of their spending was represented by capital funding nonetheless reported a changing pattern of need, as evidenced by the type of applications they received, with the following comment being typical:

*Overall, because of the range of charities now coming to us, especially those who we didn't see before because they relied on public sector grants, we have an increased number of applications for revenue funding and we feel that we must respond if organisations are to keep going.*

One funder, who still had a high number of capital grants, reported a more conscious decision to switch priorities towards revenue funding:

*We've reduced the level of capital funding because the perception is that since 2008 that's where the need is at. What revenue buys is the main priority now; upgrading can wait but salaries can't.*

Another funder observed

'A lot of charities haven't been able to think about capital. Organisations have been in survival mode; they just haven't had the headspace or time to think about capital projects.'

Nonetheless, a smaller number of funders reported a more recent upturn in demand for capital funding that they felt they should respond to. One felt that in the few months at the end of 2015 they had received more applications signaling that perhaps 'organisations are now beginning to stabilize and come out of the woods so that they can now look to the future.'

Another funder who had created a small grants programme with the aim of helping organisations adapt to the changing economic environment, and in the expectation that it would provide revenue funding, was surprised that up to half of successful funding applications were for capital projects, meaning for that funder, an increase in the proportion of capital funding.

## The distinctive nature and benefits of capital funding

Funders felt that capital funding was distinctive in a number of ways. In the first instance, unlike revenue funding, funders reported that capital funding allowed grantees to acquire or enhance an asset that would in most cases sit on their balance sheet and which, in theory, could be tradeable. For some funders this created a specific set of issues for grant-making, including the need to retain for a period of time a right for the grant to be returned should the organisation go out of business or the asset be sold. For others, even before the grant was made, there was a need for extra caution with a number of funders volunteering that they generally withheld payment of capital grants until all funds for the capital project were amassed by the organisation.

In every case, funders reported that the norm was to co-fund larger projects alongside other funders. In only one case did a funder report entirely funding a project, and even that was a rarity for that particular funder.

Generally when asked about what was distinctive about capital grants, funders described the tangible nature of the thing it bought.

> *It's physical as opposed to people.' 'It's buildings, equipment, accessories as opposed to a person or marketing.*

Capital projects were observed to be one-off or very occasional purchases,

> *It might only be once every ten or twenty years people make an application.*

For the funder in question this had made it possible for organisations in recent years to put off upgrading items, because they were extending the lifetime of existing infrastructure even further.

This long-term nature of capital funding was also connected with the way a number of funders reported that capital funding was different in kind from revenue funding, the latter focusing on the here and now of daily activity.

> *With revenue funding, because it's about salaries and so on, once it's spent and that's it. Capital funding is about security and the long-term.*

One funder, typically funding acquisition or improvement of premises, observed that a number of other benefits flowed from this.

> *I think capital funding means a number of things to an organisation. In the first place it gives an organisation an asset that it can use to develop an income stream. Psychologically it can allow organisation to feel that they are established and that they have a solid foundation that allows them to feel confident about moving into new areas. It can have a ripple effect on the local community too – I can think of one building we helped renovate that local residents were proud to see being brought back into life and used.*

In this way capital funding for tangible things brought intangible though recognizable benefits for organisations and the communities they serve.

In terms of outcomes, most funders reported the pressure to identify impacts, but in nearly all cases found it difficult to suggest how they might be identified or measured. The reasons most gave were twofold:

- capital projects were only indirectly contributing to the sort of 'people' activity that directly deliver the services, for example buildings or computers; and
- usually funders were co-funding so that it was difficult to apportion ultimate outcome delivery to their contributed funding.

Some participants felt that, because of this difficulty in identifying attributable outcomes, they took a different view compared with revenue funding.

*We pursue the question [of outcomes] with less vigour with a capital grant than revenue.*

Another said,

*We're not as rigorous about outcomes, but we do what to know what difference the grant is going to make going forward.*

One funder felt that capital funding provided the easiest way of seeing the result of funding.

*It's obvious with capital funding what the result is. It's the building or the extension or the mini-bus or whatever.*

Some funders who offered both revenue and capital grants reported that they looked at the organisation in the round and judged, in that context, the contribution capital funding might make.

*It's the organisation that we're interested in, so it's about enabling them to deliver on their mission whatever form the support might take.*

Other funders, in observing the reduction in the proportion of capital grants in recent years, stated that while they did not want to separate out and quantify outcomes, they were concerned to make a judgement about whether the capital grant was necessary.

*We ask ourselves whether this is absolutely essential or whether it's just nice to have. These days, if it's the latter, then we won't fund it.*

In this vein, one funder recalled that recently *'I got a photograph of a new boiler with a thank you letter saying the outcome of the funding was that they could keep the building open. That was nice!'*

Funders who took part in focus group discussions also had the opportunity to comment on the different kinds of impacts that we drew together as a result of the quantitative research. In each group the outcomes were recognised but experienced differently by funders.

## Potential aims of capital grant funding

### To improve the quality or effectiveness of existing services

This was recognised as a possible aim of capital funding, typically through adaptation of buildings to make them more suitable for services or more attractive service users.

However several participants observed that in current circumstances, the focus for many organisations was keeping going rather than improving services.

**To improve the efficiency of existing services by reducing costs or increasing income** Several funders said that, in their context, it was not something they looked for first and foremost. 'It's a by-product' commented one. 'If we were to state that upfront, we'd feel there might be a pressure on organisations to misrepresent' said another.

However one funder took the contrary view, seeing making services more efficient as one of the intended aims of the capital grants they made. Others, while not making it an aim reported that in recent years they had received a number of grants to co-locate organisations, to share back office facilities, or to reduce outgoings by acquiring more efficient lighting and heating, or by opening up revenue streams by adapting or expanding premises for hire.

**To launch new services or expand existing services** Funders who recognised this outcome cited examples of purchasing buildings and adapting existing premises. One funder voiced a common feeling that, in the tough funding climate many particularly small and medium sized organisations find themselves in, *'it's not about doing more but about being able to survive.'*

**To maintain existing service levels** For some funders, this was the most common kind of capital funding. It included for example the replacement of equipment or the adaptation of existing buildings to meet new minimum legal requirements.

> *It's about keeping the show on the road when the boiler's gone.*

Others supporting the preservation of ancient monuments or buildings observed that, for their trustees *'preservation is sometimes an aim in itself.'*

**Capital grants can help organisations adapt in a changing environment** As noted, some of those interviewed observed that during recent years, capital projects had been put on the back burner by applicants in favour of seeking revenue funding.

At the same time, however, some funders noted how capital funding had helped organisations adapt to today's changing environment. These funders gave examples of grants that helped organisations co-locate, to merge their back office systems or to acquire or develop premises in order to open up new revenue streams through letting to other organisations. Nonetheless, the impression of these funders was that that such projects were rarer, and that many of the organisations they were funding did not have the capacity to think so strategically, mainly focusing their asks on those things necessary to survival.

However, one funder described a different experience based on launching a programme of smaller grants (up to £10k) with the aim of helping organisations to adapt. While the programme had not been specific about funding revenue or capital, the funder had anticipated that most grants would be in the form of core funding. In the event they were surprised that approximately 40% of the funding had been for capital items specifically aimed at helping organisations adapt and become more resilient in today's changed funding environment. Working in the field of arts and culture, many of the organisations they were supporting were not building-based. However capital grants had enabled organisations to re-equip, to purchase transport, to replace musical or lighting gear in such a way as to enable such organisations to save money and increase their long-term impact. And for those organisations that were building-based, grants had enabled them to make better use of buildings and allow increased or more varied use. In some cases capital funding had enabled organisations to move online services that had previously been building based – for example in the field of learning. In this context, the funder reflected that

*capital grants help organisations think strategically and in the long-term and not just about short term revenue costs. In the current climate that's about increased flexibility, and making something work better in a way that has ramifications for the sustainability of the organisation.*

The grant-maker went on to observe that such increased flexibility had cost-implications.

*The capital funding has enabled the organisation to reduce their cost-base or increase earned income and so helped them stabilise in an era of reduced public funding. As a funder, we're looking to hear from an organisation what is holding them back and how funding can help them fulfil their particular mission, especially when it comes to opening out to the community….*

## Revenue costs

Initial scoping for this research suggested that estimations of ongoing running costs for capital projects were often inaccurate. We explored this in interviews and focus groups.

Funders had varied responses. Most recognised that future running costs often turned out to be in excess of those quoted, but not all funders thought this was problematic or correctable in itself.

So, while some thought that applicants were frequently 'optimistic' about ongoing running costs, at times wondering if this was to tell a more attractive tale to funders, most funders we spoke to suggested that estimating costs was often inherently difficult, and that this difficulty was compounded by the inexperience of applicants handling one off projects that were unfamiliar. It was generally acknowledged that running costs for new or expanded premises were very difficult to estimate in advance,

*it really takes the first year of running a place to know with any certainty what it's going to cost because there are so many factors you have to take into account.*

One funder reported an intention to find local quantity surveyors to work with applicants to more accurately estimate ongoing running costs. By contrast a different funder warned that the involvement of professional consultants could be problematic,

*sometimes they can use industry bench marks for things like energy efficiency that don't take account of the precise context or use of the project in question. The result is that the actual costs can be quite different.*

Funders who tended to be more engaged with grant-holders during the application process reported using the opportunity to challenge or correct assumptions made by applicants. All funders felt that they used their experience in assessing a range of applications to ensure that estimates of costs - and projected revenues - were plausible.

For most funders, however, precise prediction of running costs was less important than whether overall the organisation was well governed:

*It's about the governance of the whole organisation and whether or not it's well run' said one participant. 'We look holistically at organisations and see how the project sits in the overall scheme of what they're doing', said another. 'If we know them to be a well run and responsible organisation, with a good track record, then we feel more confident in backing them knowing that they'll be able to adapt and manage things well.*

One funder highlighted the asymmetry of experience between funders and applicants.

*As a funder, we see many applications for often quite similar things. But what you have to remember is that for the individuals concerned, whether it's a new roof on a scout hut or a university wing, this might be a one- off event. I think capital funders could perhaps use their experience and networks more to put applicants in touch with others who have already done similar things, so that organisations can learn. That way they'd have a better shot at understanding what might be entailed.*

## Social investment

Given the overall sense that capital funding had potentially become more scarce, we explored whether repayable finance and other forms of social investment might be an alternative form of funding.

As in the survey, only a few of the organisations we spoke to had already offered any form of repayable finance. One funder had offered an organisation a long-term interest free loan alongside a grant to upgrade their facilities. Another had offered a repayable loan for a project, though in the end this had been converted into a grant. Another organisation had arranged a bridging loan although in the event the facility had not been used.

However, the majority of funders we spoke to reported that repayable finance wasn't for them. Reasons varied. Frequently funders felt that capacity was often an issue, with one offering the typical comment that

*Our expertise is in grantmaking, and trustees don't have the appetite for us to spend the time developing the specialist skills required to make these sort of deals.*

Connected with this, funders reported that their in-house teams were often quite small and social investment would mean increasing internal overheads instead of giving money away in grants.

*We work directly with organisations, so the costs of providing direct lending to organisations feels unjustifiable in our case. We have a small team because trustees like to see money going to organisations rather than being spent on our own costs.*

A number of funders doubted whether the grants they were making could appropriately be converted into lending, particular in today's funding environment.

*For social investment, you've got to be very sure that the development is going to help them generate a surplus. So these days we're nervous about organisations, especially smaller ones, taking on debt which actually counts as an extra cost.*

Nevertheless, a few funders did say that they might suggest organisations look for repayable finance from other sources if it was appropriate in the circumstances.

*We might suggest that people go to a charity provider or even high street lending if we felt that the organisation could manage it.*

More typical, however, was the reflection that 'It's just not what we offer.' One funder observed, 'We're sticking to our formula because we think it works as it is.' For a number of organisations there was a strong sense that their funding had to be seen in a wider context.

*There are all types of funding out there and we think that grants are an important part of the overall ecology, so we're happy to continue that and we don't feel we need to change our offer.*

### Could more funders offer capital grants?

We explored whether capital grantmakers felt revenue funders could offer capital grants. Most of those we spoke to felt unsure about whether revenue funders should expand their remit.

*In our experience the two forms of funding take different skill sets, so I'd be reluctant to suggest that revenue funders should start making capital grants.*

Where funders offered both, as already noted, some felt that the need was for increased revenue funding rather than for capital projects. On the other hand, some felt that being able to offer both capital and revenue funding was advantageous to funder and organisation alike, enabling funders to help organisations better.

*We don't really think about whether the organisation is applying for capital or revenue funding. We aim to look holistically at the organisation and then fund the things they need.*

One funder suggested that, particularly for smaller maintenance projects, the answer might be more unrestricted funding.

*What we're seeing is that organisations that previously had more unrestricted funding now have less, so that things like fixing the boiler or whatever is difficult to cover. Organisations are now coming to us for items like that which they wouldn't have before. We cover the costs, but I wonder if something like more core funding might allow them to set up a sink fund over time so that they can meet expenses like these, that only come every ten or fifteen years.*

Another funder wondered if applicants were unaware that many funders offered both.

*We find that organisations come to us for either capital or revenue funding, but seldom for both. I think they are unaware that it's possible to ask for both. What they don't tend to do is pick up the phone and have a word with us before applying to see how we might be able to help, and it always surprises me that they don't.*

## REFLECTIONS

The funder interviews and focus groups have amplified the rich data gained from the survey. They have revealed a mixed economy of funders, supporting everything from boilers and repairs to village halls, to cutting edge scientific research laboratories and facilitating the transition of services to a digital age. In this sense the capital funding provided by foundations as a whole represents an important and effective component within the overall funding ‘ecology‘, meeting a very distinctive set of needs. This may have come about more by accident than design, as funders do not have much of a common picture or sense of how the capital needs of civil society organisations are met. More information, such as this research, and more networks between funders may enable individual funders to become more intentional about how they deploy capital funding as a tool and how they collaborate with each other. So, within the enormous variety of scenarios in which capital grants are made, it seems that a number of common themes and questions emerge.

The first is that the context for organisations has changed, and that in difficult economic times both funders and applicants alike are thinking hard about their priorities. The main aim for both has been to keep services running and capital projects that in the past were seen as desirable are now being put on hold or cancelled in favour of ‘keeping the show on the road.’ Nonetheless there is evidence that, as well as maintaining services, capital funding can be, and is being, used to help organisations adapt and change their business models. In some cases funding is being used to reduce overheads, for example by replacing heating, lighting and equipment that have high running costs. In others it is being used to generate more income, perhaps through the acquisition or adaptation of premises to let or hire to other organisations. In both cases long-term sustainability is key.

This long-term aspect of capital funding is perhaps one of its most distinctive features. For, although the expenditure or project might be a one off, it bestows an asset on the organisation that in some cases could have a very long-shelf life indeed. For that reason capital funding, as one participant observed, ‘is about legacy’ and applicants who seek it are always doing so out of a conviction that they mean to be around for the foreseeable and in some cases very long term future. That holds true even for the most mundane but essential repairs and maintenance.

What is key is the overall business plan of the organisation. Capital projects, even relatively simple ones, are usually one-off and it seems that there is potential for funders to cross-fertilise experience between applicants to help build up capacity, know- how and expertise in managing a range of professional expertise and contractors, and in taking on what can at times be a daunting but transformative project. The long-term dimension also raises a question about the impact of organisations’ (reported) holding back or shelving of capital improvements over the last few years. While the emphasis since the financial crash has been on keeping services going in the short-term, our findings raise the possibility that civil society organisations are building up a backlog of repairs and upgrades that at some point will need to be addressed if organisations are going to be able to meet needs in the years ahead.

Capital funding, as funders reported, plays an essential enabling role in the overall funding mix. And while there is a theoretical possibility for repayable finance to help, it seems that a combination of a tough funding environment for applicants and the funders’ desire to keep their own costs down, means that many boards will need more convincing before they see social finance as a serious alternative to the simplicity and directness of making grants.

In terms of outcomes then, it seems that capital funding is best understood as an enabling tool, one that can maintain services that can enable adaptation or development, and in one way or another, one that always enables sustainability. The findings of the research suggest that it is important for foundations to maintain their current wide ecology of capital grant funding, and this might be facilitated through a stronger platform of shared evidence and experience on trends in such funding.

# ORGANISATIONS INTERVIEWED

The Dulverton Trust
Letchworth Garden City Heritage Foundation
Richard Cloudesley's Charity
The Bernard Sunley Charitable Foundation
Ouseley Church Music Trust
Wolfson Foundation
Sir George Martin Trust
E F Bulmer Benevolent Fund
Garfield Weston Foundation
Foyle Foundation
The Tudor Trust
The Clothworkers' Foundation
Henry Smith Charity

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# ABOUT THE CLOTHWORKERS' FOUNDATION

The Clothworkers' Foundation, an independent grant-making trust, was set up by the Clothworkers' Company in 1977. It aims to improve the lives of people and communities, particularly those that face disadvantage, by funding UK not-for-profit organisation through a range of one-off capital projects which meet the Foundation's grant eligibility criteria, and which fall under one or more of its specified programme areas. Programme areas are currently: Alcohol and substance misuse; Disabled People; Disadvantaged Minority Communities; Disadvantaged Young People; Domestic and Sexual Violence; Older People; Homelessness; Prisoners and Ex-offenders; and Visual Impairment.

In addition, the Foundation has a Proactive Grants Programme (PGP) which is not open to applications and which generally funds multi-year (3-5 years) revenue projects. The PGP works in areas in which the Foundation's research has identified a particular funding need, and where it believes its support has the potential to have a lasting impact. Current proactive initiatives are: Better Futures (disadvantaged young people); Conservation; Dramatic Arts; Textiles; and Visual Impairment in Developing Countries.