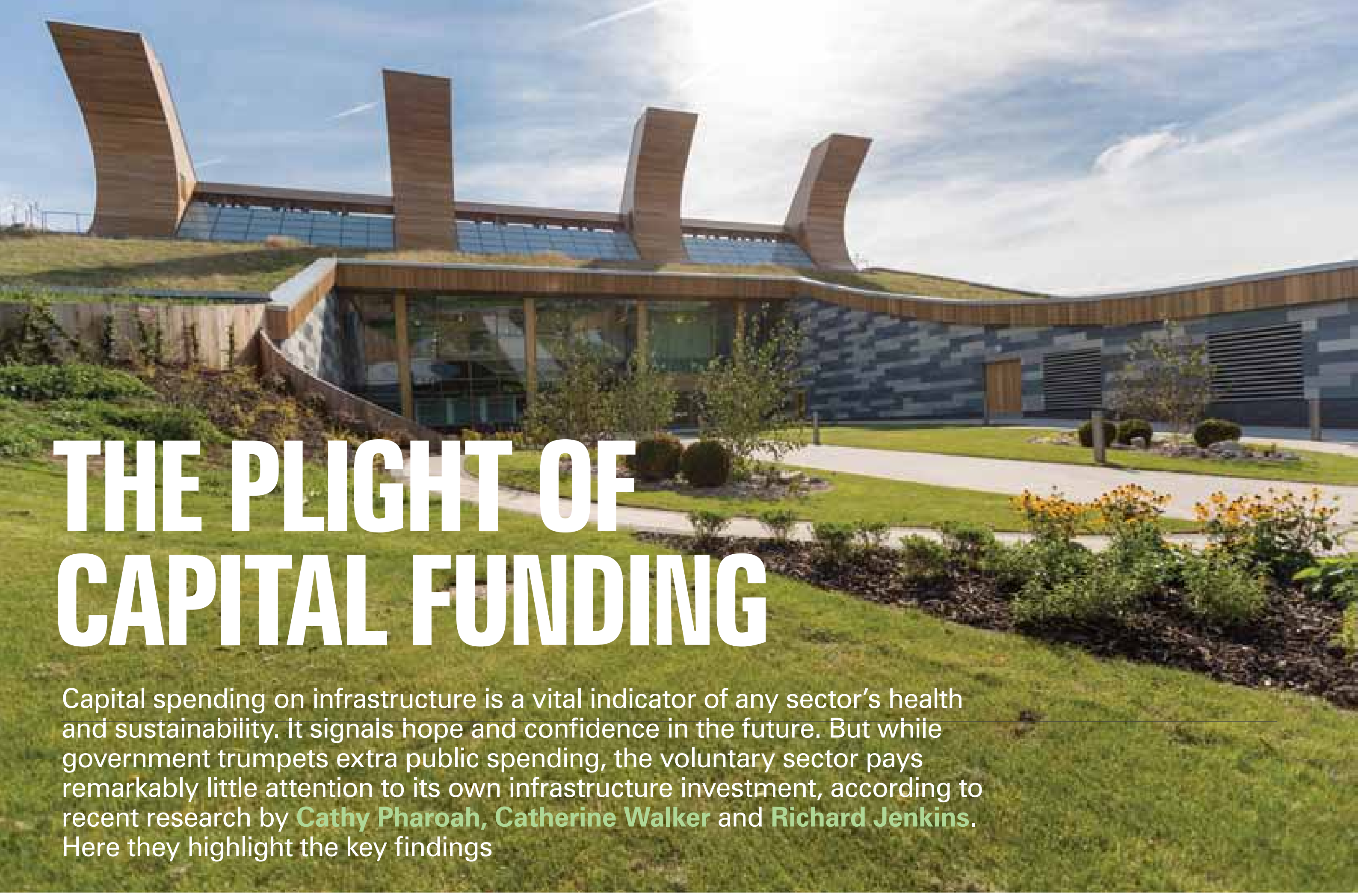


# THE PLIGHT OF CAPITAL FUNDING

Capital spending on infrastructure is a vital indicator of any sector's health and sustainability. It signals hope and confidence in the future. But while government trumpets extra public spending, the voluntary sector pays remarkably little attention to its own infrastructure investment, according to recent research by **Cathy Pharoah, Catherine Walker** and **Richard Jenkins**. Here they highlight the key findings

Capital grants have a special place in our funding ecosystem because of their distinct focus on the importance of physical and other assets to strengthening services and capacity. So it is critical that we understand more about their value, especially in a harsh funding environment. Are increased needs for revenue funding, the obsession with outcome and performance-related measures, or the growing emphasis on social investment squeezing capital grants? Is investment in sector infrastructure at risk? Newly published research, commissioned by The Clothworkers' Foundation in 2015[1], provides insights into the current state of capital grant funding, by analysing existing data, and newly surveying funders and fund-seekers.

## WHAT IS CAPITAL GRANT FUNDING?

Government views capital spending strategically as *"money... spent on investment and things that will create growth in the future"*[2]. Foundations take a range of approaches, from the open, flexible approach of the Clore Duffield Foundation, which indicates only which sub-sectors are most likely to be funded and has no formal application form, or the more targeted Fidelity UK Foundation, which lists areas while also emphasising *"strategic initiatives that will strengthen and scale up UK-registered charities"*. For this research, capital grant funding was defined as *"funding for the purchase, refurbishment or renovation 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)"*.

We discovered that policy around frequency, priority, size, type, and purpose of capital grant funding was very diverse, although relatively common funder practices included fixing capital grants at a percentage of total spending, requiring project funding to be secured first, or limiting awards to fixed percentages of project costs.

## CAPITAL SPENDING BY INDEPENDENT FOUNDATIONS

One challenge is the lack of comprehensive sector data on capital spend. We used diverse sources to develop estimates which draw a relatively detailed picture.

**Value and priority**

Using various existing sources of data:

- Total value was estimated conservatively at £178 million per annum (excluding Wellcome Trust and Big Lottery Fund)
- Capital grants account for 25% of the value of grants made by those foundations that make capital grants
- At least 575 independent foundations will consider capital grant funding.

Through funder and recipient surveys, the research further found:

- The amount of spending dedicated to capital grant funding varies between foundations from 10% to 80% of their total spending
- Demand outstrips supply: half of the survey funders made 20 or fewer capital grants per annum, although nearly three-quarters received a higher number of requests than this.

**What capital grant funders support**

- Equipment and building/renovation was common across most funders
- Computer hardware attracted a large majority (75%), followed closely by vehicles
- Marketing and computer software were supported by three-fifths
- Just over half supported pre-funding

feasibility and technical assessments
- Funding for other items may be harder to find: under one-fifth of funders supported collections/acquisitions, with only a few mentioning items like heating systems, wheelchairs and mobility aids, memorials and other physical installations.

## ESSENTIAL CONTRIBUTION OF CAPITAL GRANT FUNDING

Over half of applicants and grantees rated capital funding as 'essential or very important', and a further one-third as 'important'. Key reasons were the need to maintain existing assets and to plan for growth, the general scarcity of such funding, and the impact of government spending reductions alongside the shift towards sector contracting. As one grantee said: *"To expand our work, achieve our ambitions for impact, investment in infrastructure is essential… to take our work to an appropriate level."* Independent foundations were by far the most important providers of capital grants, supporting 88% of the recipients surveyed, followed by the Big Lottery Fund and other lottery distributors at 37%, and local authorities and companies/private donors, each at around one-third.

## IMPACTS AND OUTCOMES

Grantees rated the outcomes of capital grant funding very positively in three areas: beneficiary services, organisational capacity and wider/local environment. As one organisation summarised it: "Improved facilities for our residents, better levels of trust and engagement, and improved individual outcomes."

The graph below illustrates results for beneficiary services.

## FALLING PRIORITY

In spite of its importance for future sustainability, capital grant funding has taken a particular hit in the current funding climate. Applicants and grantees overwhelmingly reported that the availability of capital grant funding had reduced. And over one-quarter of funders reported reducing their capital grants, although only 5% had reduced spending overall in the last two years. Only half of those with increasing overall spending dedicated any of the growth to capital grants. Some mistakenly believed others were filling shortfalls. The overwhelming reason for the drop was given as current pressure to increase support for revenue and core, and *"keep essential services running"*. One funder said it was easier to show impact in core or revenue funding, while another felt under pressure from other funders.

## HIGH FUNDER EXPECTATIONS

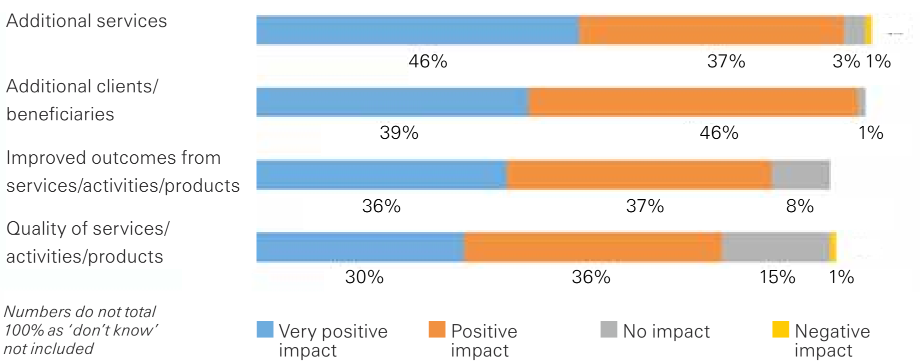
While funding has tightened, funders have increased their expectations. Well over three-fifths (65%) of grantees and applicants said funder demands for information, detail or justification in the grant application process and for outcome and impact data in the monitoring process have increased. In practice this means raising the price of seeking capital grant funding. Applicants make multiple funder approaches, with nearly half applying to one to five funders, and over one-third (35%) applying to 10 or more, sometimes to make up the funding for one project. This is confirmed by the high level of co-funding (49%) or matched funding (28%) acquired.

Almost all funders said key success criteria for awards were ability to meet running and maintenance costs associated with a grant, and the role of the capital grant in improving service quality. Nonetheless, sustainability continues to present challenges. Over one-fifth (21%) of recipients said running, staff or other costs had proved higher than anticipated, though just 6% said this had affected use of the capital item. Do applicants underestimate such costs when they apply for funding? We found that the answer was generally 'no', and that in practice costs were by nature difficult to estimate[3] because projects tended to be one of a kind.

## HOW TO GET THE BEST VALUE OUT OF CAPITAL FUNDING?

The high significance of capital grant funding to the sector coupled with pressure on supply means getting best value is a vital issue. Some areas potentially crucial to the success of a capital investment, like maintenance and running costs, or full funding, are tricky to get right. While some funders deal with demand through increasingly specified and itemised lists, others talk of a more flexible approach led by needs, goals and outcomes. While few capital funders, however, were keen to convert grant to social investment, an issue worth further explorations is whether repayable finance could play a stronger role among the three-fifths of grantees or applicants who had not either considered or applied for it. Given the diversity of approach and funder uncertainty about supply trends, how much do funders know about wider practice in this space? The research suggests there would be value in developing further discussion and awareness of effective capital grant-making.

**Impact of capital grants on services, activities and products**




*Numbers do not total 100% as 'don't know' not included*

1 Full results are available in *Capital grant funding: a research report* by Cathy Pharoah, Catherine Walker and Richard Jenkins http://foundation.clothworkers.co.uk/Who-we-are/Publications

2 HM Treasury Guidance http://tinyurl.com/HMT-UPS

3 The Building Asset Service provides guidance on whole life costing of building assets http://tinyurl.com/BAS-Cost

*Image opposite: The GlaxoSmithKline Carbon Neutral Chemistry Laboratory at the University of Nottingham, awarded £750,000 by the Wolfson Foundation in 2013. Photo by Alex Wilkinson Photography.*