

# A DYSFUNCTIONAL RELATIONSHIP?

## THE RELATIONSHIP BETWEEN GRANT MAKING TRUSTS AND OPERATING CHARITIES

A survey of Grant Making Trusts and Operating Charities exploring the  
current state of their relationships.

May 2006



# EXPLORING THE RELATIONSHIP BETWEEN GRANT MAKING TRUSTS AND OPERATING CHARITIES

## *Introduction*

The exercise is the initiative of **Four Acre Trust**. Four Acre Trust was founded by John Bothamley in 1996 with the purpose of supporting, through grant aid, respite care and holidays, vocational training and the relief of health disability in the U.K. and overseas.

4A focuses on core costs and repeat funding. Having found himself at odds in this with mainstream thinking in the sector, JB became involved with the Association of Charitable Foundations and served as an Executive Committee member. In 2006 4A announced a spend out strategy with a view to winding up the trust within ten years.

**Carus Consultants** were recruited to assist in the initiative. Principal Bob Cornell has worked in the sector for approximately 30 years having founded his own charity and worked for both national and local organisations as CEO and Head of Fundraising. Carus Consultants retains a brief to assist charities in their development but is now mainly involved with grant makers in areas of development, assessment and monitoring and providing added value consultancy to recipients.

## *Purpose*

The purpose of the initiative was to gain data regarding the needs and perceptions of both grant making trusts (GMTs) and operating charities (OCs) in respect of the purpose and experience of grant aid.

This data would be used to inform a discussion paper that it is hoped may provoke some debate and challenge some assumptions about the grant making process.

The purpose was not to undertake a rigorous research into the issues. The strict disciplines of research models have not been applied – the resultant paper is humbly presented solely as an informed insight into some key issues that affect a sector that disburses, and receives, £2.1bn per annum.

## *Method*

It was decided that the most cost efficient route would be to undertake a survey by postal questionnaire to a sample of both grant making trusts and operating charities. The size of sample was set at 200 organisations from each sector. Other than ensuring a geographical spread, the sample included trusts disbursing £100K or more p.a. and charities with turnovers exceeding the same figure. It neither selected trusts from within trade associations or specialist areas and only excluded government agencies.

Grant making trusts were randomly selected from the Directory of Grant Making Trusts and questionnaires were addressed to Chairs. Operating Charities were randomly selected from the Charity Commission Register of Charities, questionnaires addressed to CEOs.

The questionnaires were restricted to one side of A4 paper with space for additional comment. Participants were invited to respond anonymously if preferred.

### *Key Data Findings*

#### Grant Making Trusts

38 responses received (19%). 12 pro forma 'decline to fund' letters or refusal to participate were received. Therefore the effective sample was of 26 returns (13%). Returns represented geographical spread.

Total of disbursed funds reported upon was £36m, annual disbursement ranging from £126K to £7m.

Allocation was	45% of funds to project costs
	27.5% of funds to capital costs
	27.5% of funds to core costs

No GMT gave 100% of allocation to core costs, others gave 100% to project or capital costs

£2.74m was spent on administration and processing (9%). Some smaller trusts spent 0%, highest proportion was 21% of funds.

54% of GMTs carried out no visits for assessment and monitoring purposes.

94% of funds disbursed were given under a policy of 'like to move on to new recipients, rather than stay with known ones'. The remainder allowed for staying with recipients as well as moving on.

25% of funds disbursed were allocated over a three year period.

75% of funds disbursed were one-off grants.

70% of respondents did not feel that the ability to talk or meet would improve their relationship with applicants.

92% of respondents did not consider 'long term contracts' to be of benefit.

## *Key Data Findings*

### Operating Charities

40 responses were received (20%). Four responses declined to participate and two were incomplete. The effective sample was therefore of 34 returns (17%). Returns reflected geographical spread.

Data collected represented gross turnovers of £76m p.a. with scale ranging from £300K p.a. to £9m p.a.

Income from GMTs overall was £5.2m p.a. (7%) ranging from 0% (6 charities) to 36%.

Costs of trust fundraising varied from minus 100% (i.e. £2 spent to raise £1) to 1:50 (i.e. £1 spent to raise £50). The mean cost:income ratio was 1:4 (i.e. £1 spent to raise £4).

48% of respondents had paid staff to trust fund raise.

Of trust funds received:

40% to existing projects

33% to core costs

16% to new projects

11% to capital projects

75% of grants received were one off

18.75% received were for three years

6% received were for two years

.25% were for more than three years

No respondents disagreed with the following statements:

- Trusts want us to be innovative
- Trusts are resistant to core cost awards
- Trusts restrict their grants to too short periods

There was virtual total agreement with the statements:

- Ability to talk and meet with trusts would be helpful
- Clearer guidelines are needed
- Longer term contracts would be beneficial

*Comments additional to multiple choice responses*

From GMTs

‘there is a need to develop more understanding of the sector, especially in respect of the increasing number of charities operating as arms-length statutory providers’

‘the problem is the number of old versions of guidelines that people still access’

‘I wish there was a means of withdrawing expired guidelines’

‘we are looking at how to reduce the number of inappropriate applications’

‘we have good relationships with the charities already’

‘please make sure we receive the results of your survey’

‘we would like to participate more in this work, it is vital’

From operating charities, comments were restricted to the matter of visits-

‘would be wonderful’

‘if only!’

‘would help enormously’

*Limitations of Process*

With hindsight, there should have been greater clarity to distinguish between core costs, project costs and capital funds. There is inconsistency between the reported proportion of funds received for core and existing work and all the other data received. The strong view of GMT resistance to core costs also reinforces some flaws in reported data.

No attempt was made to distinguish between charities that wholly or substantially gain funding from public service delivery and those receiving little statutory input. The resultant mean figures probably do not reflect the major differences in culture of these organisations.

Some GMTs reported difficulty in being able to separate funds into the given categories. Distinctions are therefore likely to vary between respondents.

Questions regarding visits did not distinguish between all applicants, short listed applicants and successful applicants. There are probably therefore inconsistencies in the data received.

Whilst a limited telephone follow up was undertaken (to non-respondents), the survey entirely relied upon postal returns.

### *Interpretations and observations*

Statistical anachronisms aside, there would seem to be a gulf between the needs of charities to have their core work supported over a term that allows for planning and stability and the policies and practices of the majority of grant disbursement to be short term and project based.

The short termism appears to be connected to a reluctance to meet, let alone engage, by most trusts, yet every charity respondent believed this would be helpful. Arguably, even short term funding would be informed and therefore more reliably allocated by meeting with potential recipients.

The level of administration costs is no holy grail in itself. It is easy to do a job cheaply if it is not carried out responsibly. It may well be that expenditure on assessment would be balanced by savings on inappropriate awards.

### **John Bothamley, Trustee Founder of Four Acre Trust continues**

“Following a business career for most of my working life, my baptism in 1996 into the grant making trust sector has been interesting, if not startling.

GMTs set up their stalls and wait for buyers (OCs) to punt for funds – as a new boy I felt I had to do the same. As time passes, I have been more and more surprised by the arcane practices of the sector. I regret, to some extent, that my own Trust has slipped into some of these habits.

My experience of visiting recipients is one of despair. The wasted effort of making multiple applications, the long lists of well meaning funders for a simple and often small project, the need to be innovative, the reluctance of GMTs to fund for more than one year. These are the subjects about which I hear on nearly every visit. Charities, in their turn, are far from blameless. My Trust writes when issuing grant cheques “*We like to fund on an ongoing basis. I look forward to meeting you at some time during the coming year with a view to learning more about the work of your charity.*” Yet, in one quarter last year only 42% of recipients bothered to reapply.

This survey I commissioned confirms, in my view, that GMTs, as a body, act in an aloof manner towards their recipients. There is a superior view – possibly due to the simple fact that they hold some of the purse strings. I would question whether that is a reasonable stance to take. In a capitalist situation the purchaser has some power over the seller which is determined by the market – in the charitable sector it’s quite different.

GMTs are quite entitled to seek value for their largesse but to get OCs to jump through hoops is unreasonable.

A change of attitude towards collaborating with recipients, of joining with other funders, of building teams must surely be the best way forward.

## The estimated wasted expenses of the current modus operandi

This survey clearly shows that GMTs like to “move on” from one year to the next. Constantly changing the list of recipients could be considered to be totally wasteful of effort by GMTs and OCs clamouring for funds. However, GMTs could, with some justification, claim that a “dab” here and there keeps charities alive and on their toes. Readers should draw their own conclusion but as trusts usually have quite strict guidelines on areas of support, why is it necessary to keep changing the recipients within that area? Surely, a successful charity that is achieving outcomes is worthy of continued support and deserving of relationships with its funders that cannot be built over a single year.

Using notoriously inaccurate figures from the charity sector, the following figures may be relevant:-

Trust Sector grants annually	£2,100,000,000
Less 26% on capital grants	-£546,000,000
Revenue Grants	£1,554,000,000
Less administration costs:-	
GMTs (7% of grants)	-£109,000,000
OCs (22% of grants)	-£342,000,000
<b>Spent on charitable activities</b>	<b>£1,103,000,000</b>

If GMTs committed for two years instead of one and increasing costs by 10% to allow for extra overheads, the annual position would be:-

Revenue Grants	£1,554,000,000
Less administration costs:-	
GMTs (7% divided by 2 + 10%)	-60,000,000
OCs (22% divided by 2 + 10%)	-188,000,000
<b>Spent on charitable activities</b>	<b>£1,306,000,000</b>

ie Plus £203million per annum available for charitable activities, plus the inevitable benefits from closer working. If only 10% of GMTS took this step, there would be £20 million more to spend.

GMTs rightly demand that applicants provide evidence that their activity reflects current need of the sector served. They also expect that some evaluation takes place to assess whether outcomes met expectations.

It would seem hypocritical if GMTs are unprepared to apply the same discipline to their own practice. There is little doubt that the evidence from the operational charities is a need for stability and support for existing work. GMTs have a duty to meet their own particular objectives in the most efficient manner and to provide evidence that their actions are well considered.

### *Call for Action*

From John Bothamley

GMTS should review their policies on:-

- ❖ Length of grant support – if only 10% of GMTS granted for 2 years instead of one, there would be PLUS £20million for charitable activities
- ❖ Support of core costs – there's no charity to operate if the rent isn't paid
- ❖ Support for proven projects – success deserves to be supported. Innovation is time limited. We cannot continue to reinvent the wheel.

From Carus Consultants

- ❖ Is it not the case that assessment visits are essential for any significant award? It is arguably reckless and possibly against the spirit of the Charities Act to not carry out due diligence as part of the duties of trustees and custodians of charitable funds. It has to be a concern that the survey showed that 54% of funds were awarded with no visit taking place.
- ❖ At best the drive for innovation is rooted in the belief that charities should trail blaze and take risks in areas of social care rather than become institutions in themselves. Insisting on innovation amongst established organisations actually misses both this mission and the need for proven good practice to be supported.
- ❖ How many GMTs have OC representation on their boards? Yet user participation is recognised as an essential of any OC good practice.

This survey has succeeded in providing an adequate snapshot of activity to provide reliable data to inform the debate. It falls short of providing rigid research into the essential elements identified. It may be that a more thorough exercise is needed to develop the issues raised and shed a truly informed light on whether the relationship between grant making trusts and operating charities is truly 'dysfunctional'. It may be that the most effective way of progression is for GMTs to examine their own particular practice rather than to attempt another sector wide review.

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