



National Audit Office

## Making grants efficiently in the culture, media and sport sector

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# Making grants efficiently in the culture, media and sport sector

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**20 May 2008**

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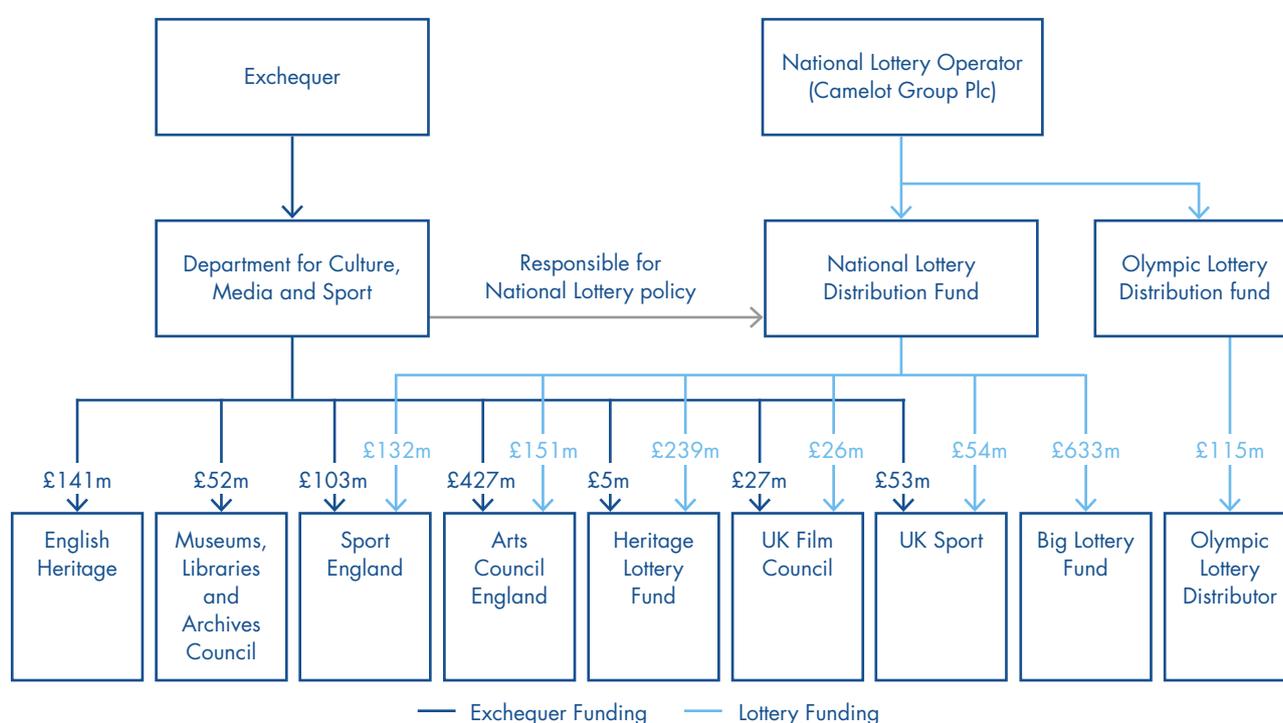


# SUMMARY

**1** This report looks at the cost-efficiency of making grants in the culture, media and sport sector. In 2006-07, the nine principal grant-makers in the sector, sponsored by the Department for Culture, Media and Sport ('the Department'), received some £2 billion in funding from the Exchequer and the National Lottery (**Figure 1**) and awarded grants totalling £1.8 billion. Although not all the grant-makers separately identified the costs of their grant-making activities, we estimate that the combined cost of administering these grants and fulfilling their wider functions was in the region of £200 million.

**2** We focus in this report on grant-making at four of the nine principal grant-makers: – Arts Council England, Big Lottery Fund, English Heritage and Sport England. The grants these four organisations make range in size from a few hundred pounds to many millions of pounds and support a wide variety of activities, from funding educational schemes for children and supporting theatre performances, to the restoration of places of worship and the building of new sports facilities. Some examples of the types of grants made are shown at **Figure 2**.

## 1 The nine principal grant-makers received funding of some £2 billion from the Exchequer and the National Lottery in 2006-07



Source: Grant-makers' 2006-07 Annual Report and Accounts

### NOTE

English Heritage's Grant-in-Aid includes an £8m non-recurrent contribution towards a relocation project. Lottery funding does not include any loss or gain on the revaluation of investments.

## 2 Grant-makers in the culture, media and sport sector support a wide range of activities

### Arts Council England

David Fine a poet from Bakewell, Derbyshire received a grant of £7,580 to be the *poet in residence* for the 2006 Ashes cricket test series in Australia, where he wrote 25 poems, one for each day of play. The aim of the grant was to bring a different perspective to the sporting tour and to raise the profile of poetry as an art form in the UK.

Connect 4, based in Swindon, plays a key role in connecting up different sectors within the theatre community across Wiltshire. It received a grant of £28,000 in May 2006 which helped it to facilitate events such as newly commissioned international theatre, new work from local companies, school residencies, skills workshops, pre and post show events and a festival of community theatre.

### English Heritage

In 2007, a grant of £127,000, was awarded to the Losang Dragpa Buddhist Centre at Dobroyd Castle in Todmorden, West Yorkshire. The grant was used to fix a leaking roof and preserve the intricate stone-work and tower on the nineteenth century Grade II listed building.

### Big Lottery Fund

In October 2007 Withyam Parish Council in East Sussex used a grant of £2,800 to give two to 17 year olds in the area the chance to take part in outdoor activity weekends run by the Sussex Wildlife Trust. The aim of the project was to educate children about the outdoors and the environmental needs of the area.

The North East Lincolnshire Women's Aid charity received a grant of £116,000 in 2006 to establish a new Women's Centre in Grimsby. The Centre helped those who have suffered from domestic abuse can learn valuable life skills, rediscover independence, reduce their social isolation, move on with their lives and improve their children's lives.

### Sport England

Holden Lane Residents' Association in Stoke-on-Trent was awarded £119,000 in October 2007. The grant was used to provide sports facilities at Repington Road Park, including a new multi-use games area and Skateboard Park, and to employ coaches to organise sporting activities. The overall aim of the project is to provide local people with much needed sports facilities to help combat high levels of anti-social behaviour and to help increase sports participation to improve quality of life in the Stoke area.

Source: Arts Council England, Big Lottery Fund, English Heritage and Sport England

**3** We examined in detail eight grant programmes at the four grant-makers. These were:

- Arts Council England: *Grants for the Arts for Individuals, Grant for the Arts for Organisations and Regularly Funded Organisations*;
- Big Lottery Fund: *Awards for All England and Reaching Communities England*;
- English Heritage: *Repair Grants for Places of Worship in England* (in partnership with the Heritage Lottery Fund); and
- Sport England: *Community Club Development Programme* and the *Community Investment Fund*.

**4** Each of these programmes had different objectives. Some were broad, such as the *Awards for All* programme which is managed by the Big Lottery Fund, but jointly funded with the Arts Council England, Heritage Lottery Fund and Sport England, which sought to support and increase participation in arts, sport, heritage and community activities and promote education, the environment and health in local communities. Most were focused on delivering policy objectives within a specific sector, such as the Arts Council's *Grants for the Arts for Individuals* programme, which sought to help individual artists to carry out their work for the benefit of people in England. Six of the programmes employed an open and competitive application process, in which the grant-makers awarded funding to those proposals which most closely matched the programme's policy objectives. In the other two programmes, the Arts Council's *Regularly Funded Organisations* programme awarded grants to organisations such as the English National Opera based on its own assessment and without an application process; and Sport England's *Community Club Development Programme* made grants only to governing bodies of sports. In both cases the grant-makers often had a long-term relationship with the grant recipients.

**5** It is a priority for the Department in the light of competing demands on finite resources, and in particular the need to achieve cash savings following the announcement of the 2007 Comprehensive Spending Review, to ensure that its sponsored bodies operate as efficiently as possible. The focus of this report is the cost-efficiency of making grants, and it does not seek to evaluate their effectiveness.

**6** We sought to identify the costs and the main cost drivers of each grant programme taking account of the complexity of the grant-making activities and inherent differences between the grant-makers. We found that in most cases the grant-makers had not themselves developed measures of their costs or efficiency, and those that had done so did not seek to assess the costs or efficiency of grant-making by any consistent methodology. We therefore commissioned research to map their processes and, on the basis of the cost data they could provide, to estimate and compare the processing costs between different grant programmes. For each programme, we sought to estimate the overall costs and to calculate two key indicators – the direct staff cost of awarding each pound (£) of grant, and the full operating cost of awarding each pound (£) of grant, including overheads. We also identified what work each grant-maker had done to measure and enhance the efficiency of grant-making.

**7** The second main strand of our work was to consider the cost-efficiency of the grant-making process from the perspective of applicants. To do so, we surveyed successful and unsuccessful grant applicants on their satisfaction with different aspects of grant-making and asked them to estimate the time they spent making applications and complying with grant-makers' monitoring and reporting requirements.

**8** Thirdly, we sought to identify in the light of our analysis what further actions grant-makers might take to improve the efficiency and performance of their processes and so reduce costs, taking into account work already underway at individual grant-makers within the sector. A full analysis of the methods we applied is at Appendix 1.

**9** The focus of our work was on the cost-efficiency of the grant-making processes, seeking to shed light on the scope for grant-makers to learn from one another to identify potential savings. It did not consider the effectiveness of the grant programmes in delivering the grant-makers' policy objectives.

## Main findings

Our main findings are as follows:

### On measuring the costs of grant-making processes:

- The grant-makers held little information by which to judge the efficiency of their grant-making. They had not routinely undertaken an analysis of the costs of their processes and the Department and the grant-makers had not agreed common indicators to assess and compare costs or efficiency across the sector. Having attempted to do so some years ago, the Department and grant-makers had concluded that the inherent difficulty and complexity of making valid comparisons between bodies handling different work precluded such analysis.
- Our estimates of costs show variations, some of which can be explained by differences in objectives, the level of support offered to applicants, and the type of grants being made. However, we also found that many of the administrative functions carried out by the grant-makers were similar. The variations among programmes which had similar features suggest there is more grant-makers could do to understand the differences and identify the relative efficiency of their processes.
- We found that on some programmes, more work was needed by the grant-maker to understand where costs fell and to evaluate whether the costs of grant-making were proportionate to the outcomes delivered. For example, the Arts Council's *Grants for the Arts for Individuals* involved intensive work to support individual artists in applying for grants though the costs of this development activity were not separately identified. It cost the Arts Council an average of 35 pence to award each pound of such grant.

### On the impact of the grant-making process on the grant applicant:

- Grant applicants bear significant costs in preparing applications and in meeting grant-makers' monitoring and reporting requirements. The estimated average number of days spent preparing an application, for example, ranged from five days to 21 days for a sample of programmes we examined.
- Successful grant applicants reported high satisfaction with the grant-makers' processes while, as one would expect, satisfaction was much lower among failed applicants. We found no correlation between the level of resources committed to grant-making and applicants' satisfaction with the process.
- Whilst applicants' satisfaction with the grant process is not a reliable indicator of a programme's effectiveness, their views on each stage of the process do indicate where grant-makers might seek to improve in order to help potential applicants engage with their programmes more effectively. Both successful and unsuccessful applicants considered the level of knowledge of grant-making staff to be a strength of grant-makers, while the availability of feedback about an application and information about decision-making were areas where they would like grant-makers to improve their performance. In the case of unsuccessful applicants this is a likely consequence of having their applications rejected.

### On opportunities to improve the cost-efficiency of grant-making:

- Practice within and outside the sector demonstrates a number of methods grant-makers have employed to enhance their processes and so reduce the costs of grant-making, both to themselves and to applicants. Key areas include managing the demand for grants, mapping and streamlining processes, and sharing systems or facilities. In the USA, for example, a number of government organisations work together through one common website to promote grant opportunities and receive and manage on-line applications. A similar single gateway to lottery funding exists in the UK, although it does not allow applications to be made on-line.
- Overall we found little evidence that grant-makers had sought to learn from one another by sharing information on the costs and processes of grant-making. There was, however, an established forum for sharing knowledge among the lottery distributors on which the grant-makers could build.

## Overall conclusion

**10** On the evidence of our work at four of the principal grant-making organisations, grant-makers in the culture, media and sport sector do not have a clear understanding of the costs or efficiency of their grant-making and how they compare with others. Grant-making in the sector is complex and the different objectives of the grant-makers make comparisons of their efficiency inherently difficult. However, in many cases grant-makers had not sought to identify separately the costs of administering their main grant programmes, or to assess whether their activities were cost-efficient relative to other organisations employing similar administrative processes. Without such measures, there are no firm grounds on which to conclude whether or not the processes used in the sector to make grants currently provide value for money.

**11** Our estimates of the costs of administering eight grant programmes show variations between their administrative costs as a proportion of the value of grants awarded. Some of these differences are explained by the different nature of the grant programmes. For example, in general we found that strategic grant programmes with a pre-selected field of grant recipients cost less to administer for each pound of grant awarded than programmes with a high volume of awards made on an open, competitive basis. The extent of variation, however, among programmes with many similar features suggests there is scope for grant-makers to find savings by applying good practice from elsewhere in the sector. We think that the grant-makers could do more to identify and compare the costs of their processes on the basis of a clearer understanding of where costs are incurred and where value is added.

## Recommendations

We make the following recommendations for making grants more efficiently in the culture, media and sport sector:

- a) The grant-makers hold little information against which to judge the cost-efficiency of their grant-making processes.
  - **In order to understand their cost of making grants and so identify where they can make efficiency savings, grant-makers should collect information on the costs of grant-making on a consistent basis.** They should agree ways to measure the costs of individual grant programmes based on relevant indicators, such as those identified in this report – the direct staff cost of awarding a pound of grant and the full operating cost of awarding a pound of grant.
- b) There is no accepted framework for comparing cost-efficiency across the sector, although lottery distributors are required to report their administration costs on a consistent basis in respect of lottery funding.
  - **The Department should agree with all grant-makers a common framework for reporting administration costs.** They should extend the measures currently reported by lottery distributors in respect of lottery funding to grant-making activities that are funded by the Exchequer.
- c) Grant-makers do little to compare grant programmes in order to identify the scope for efficiency savings.
  - **Grant-makers should identify the scope to increase the efficiency of grant-making by comparing their grant programmes, or elements of them such as the application process, both internally and against similar programmes in other organisations.** Several of the grant-makers have developed process maps which set out in detail each stage of the grant-making process. They should build on this work to increase their understanding of where costs fall, the reasons for cost differences and how efficiency improvements might be made.

- d) Over 80 per cent of the grants made in 2006-07 on Arts Council England's *Grants for the Arts for Individuals* programme were for £5,000 or less, and 10 per cent for £1,000 or less. The Arts Council does not know how much its costs vary according to the size of grant.
- **Grant-makers should review whether the costs of making grants are proportionate to the size of grants awarded.** Should they judge the cost of making grants to be disproportionate, they should seek to learn from others' processes to see how their costs might be reduced. Where intensive development work with applicants is undertaken, they should identify these costs separately and evaluate whether the cost is proportionate to the outcomes delivered.
- e) Grant applicants bear significant costs in preparing applications and in meeting grant-makers' monitoring and reporting requirements which vary between programmes.
- **Grant-makers should explore how they might estimate the costs to grant applicants of preparing applications and providing information for each grant programme they manage.** Where appropriate, they should adapt their processes in order to reduce the burden on applicants.
- f) There is little effective sharing of information on the costs and processes of grant-making in the sector.
- **The Department should facilitate an initiative across the sector to share information about the administrative costs of grant-making.**  
It should:
    - promote the exchange of information and learning about good practice, both within and beyond the sector, for example by helping grant-makers set up a benchmarking club;
    - help the grant-makers to collate information on the relative efficiency of their programmes based on relevant indicators of costs and to set targets to bring down the costs of grant-making for those programmes which may have the scope to reduce administrative costs.
    - encourage grant-makers to work together wherever possible to make better use of technology, such as by developing a shared grant application system similar to the grant-gov model operating in the USA.
- g) Grant-makers could reduce the costs of their processes for themselves and for applicants by managing the demand for grants and by streamlining or sharing their processes.
- **Grant-makers should build on each others' existing work to enhance efficiency by identifying further opportunities to improve their processes.** They should each review whether they could do more to:
    - Manage the demand and flow of applications by, for example:
      - notifying applicants when programmes are over-subscribed;
      - setting financial or time limits to restrict repeat applications;
      - using a two-stage process by inviting outline applications which are subject to an initial sift so that not all applicants go through the full process.
    - Streamline their processes by:
      - mapping the grant-making system to identify where costs fall and where the process might be simplified;
      - taking up opportunities to share systems, services and facilities between regional offices and with other grant-makers; and
      - making greater use of IT systems to automate applications and relevant parts of the decision making and awards process.

# PART ONE

## About grant-making in the culture, media and sport sector

**1.1** This report examines the cost of grant-making in the culture, media and sport sector and what grant-makers are doing to assess and increase the efficiency of their grant-making activities. It focuses on grant-making in England and looks at:

- the costs and the main cost drivers for a sample of different grant programmes and what actions each grant-maker has taken to measure and reduce the costs of its processes (Part Two);
- the cost to the grant applicant of applying for and receiving a grant and the factors that determine their satisfaction with the grant process (Part Three); and
- what further opportunities there may be for grant-makers to improve the cost-efficiency of their grant-making activities by learning from good practice within and beyond the sector (Part Four).

### Efficient grant-making by its non-departmental public bodies is central to delivering the Department's policy objectives

**1.2** The Department for Culture, Media and Sport is responsible for Government policy in the culture, media and sport sector, including the National Lottery, and delivers most of its policy objectives through some 60 sponsored bodies, known as non-departmental public bodies. These organisations carry out a variety of activities to help deliver the Department's strategic aims and objectives, within which grant-making plays a major part. They receive funding to do so mainly from the National Lottery, or from the Exchequer, via the Department or from both funding sources.

**1.3** The Department has arms-length relationships with grant-makers in the sector and each operates with a high degree of independence. Each grant-maker is responsible for its own grant-making processes and for meeting the costs of its operations from its own budget. The objectives of those grant-makers which receive Exchequer funding are set out in three-year funding agreements between them and the Department, within which a priority of the Department is to ensure its sponsored bodies operate as efficiently and effectively as possible across all their activities including grant-making. Distributors of lottery funding, although they have much broader objectives set out in their policy directions, are required through their financial directions to have 'regard to value for money' so that 'lottery money is used economically, efficiently and effectively'. Grant-makers are therefore required to devise appropriate indicators to assess the efficiency of their grant-making activities.

**1.4** All central Government departments and non-departmental public bodies are seeking efficiency savings in response to the Gershon review and the wider efficiency agenda. Following the 2007 Comprehensive Spending Review, the Department has a target to achieve annual net cash-releasing savings of £148 million by 2010-11.<sup>1</sup> In order to identify opportunities to reduce costs and streamline processes, it is important that grant-makers understand and measure their performance including the efficiency with which they make grants.

<sup>1</sup> HM Treasury, *Meeting the aspirations of the British People, 2007 Pre-Budget Report and Comprehensive Spending Review*, CM 7227 October 2007.

## Grant-makers in the sector spend over £200 million a year on awarding £1.8 billion of grants and fulfilling their wider functions

**1.5** Nine organisations are the principal grant-makers in the sector and in 2006-07 received some £2 billion in funding (Figure 1 in Summary). Of this amount, £1.8 billion (81 per cent) was awarded in grants as shown in **Figure 3**, of which:

- £600 million was funded from the Exchequer; and
- £1.2 billion was funded from the National Lottery.

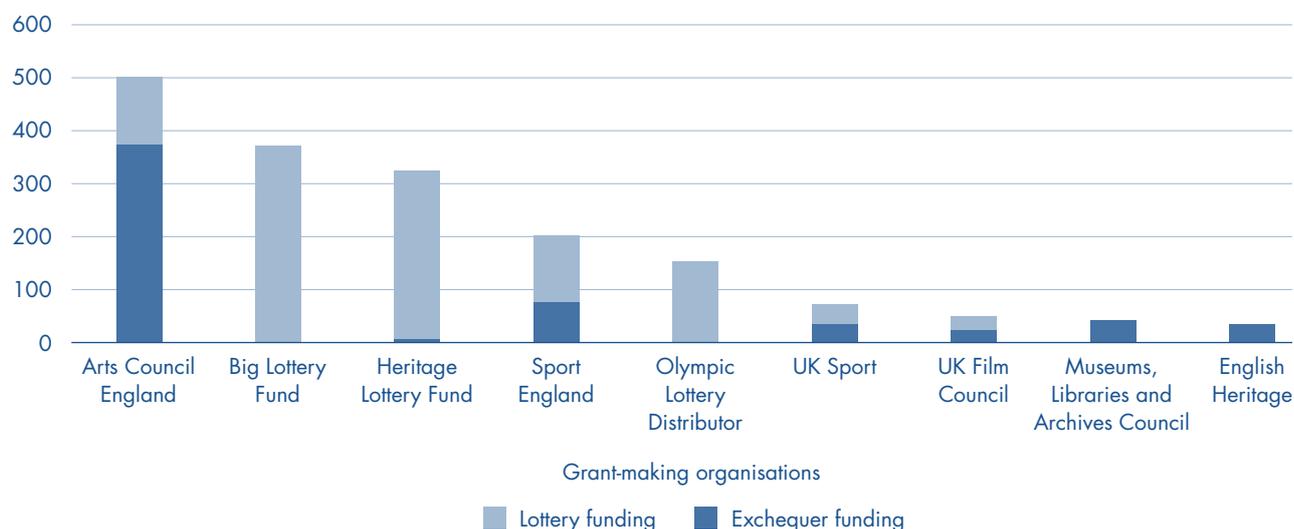
**1.6** Not all the grant-makers separately identify the costs of their grant making activities. However, we estimate that, based on the costs reported in their Annual Report and Accounts in 2006-07, the combined cost of administering these grants and discharging their wider functions, where relevant, is in the region of £200 million a year.

## Grant-making activities are complex and reflect a diversity of aims and objectives, though they share common elements

**1.7** Grant-makers in the culture, media and sport sector have a wide diversity of aims and objectives. They engage with different policy fields, such as the arts, sports and heritage sectors, and are established and funded to play different roles within those sectors. Some of the nine grant-makers, such as Arts Council England and Sport England, have a clearly focussed strategic role and commit much energy and resources to developing the specific sector in which they operate. By contrast, the Big Lottery Fund was exclusively a distributor of Lottery funding in 2006-07 with a more wide-ranging remit covering health, education, the environment and charitable purposes. For some organisations, grant-making is one aspect of a wider remit. English Heritage, for example, manages and opens to the public over 400 historic sites and also maintains the statutory lists, schedules and registers of England's most significant buildings, monuments and landscapes.

**3** In 2006-07 the nine principal grant-makers in the sector awarded grants funded by the Lottery and Exchequer of some £1.8 billion

Grant expenditure in 2006-07 (£ million)



Source: Grant-makers' 2006-07 Annual Report and Accounts

**1.8** Most of the grant-makers in the sector have developed a range of different grant programmes to address the full range of their objectives and to reach different types of recipient. Grant-making activities in the sector are therefore complex and diverse in nature and require different processes by which to manage and assess applications. For example, they may be targeted at large organisations or individual citizens and may encompass a variety of different forms of funding, including:

- capital or revenue funding;
- short or long term funding – for example, grants may be awarded for specific, one-off events or for projects or activities taking place over a number of years; and
- full funding or partnership funding – some programmes require the applicants to obtain funding from other sources such as private companies.

**1.9** Despite their differences and complexity, however, most grant programmes have in common the same basic administrative functions. These typically include, for example, setting up and maintaining an applications process, receiving and logging applications, notifying applicants of decisions, and recording outcomes. For the purpose of this report, we have defined the grant process as the chain of activities grant-makers undertake from providing advice to potential applicants, to making grant payments to successful applicants, and evaluating the outcomes of grant-funded projects.

**1.10** In all cases, managing the grant process will involve a range of staff at the grant-maker. These may include grant officers in the regions identifying and supporting potential applicants and carrying out initial assessments of applications, the technicians required to support an electronic grant management system, and an assessment panel or national board making final decisions on which applications to approve. Some grant-makers also draw on the expertise of professional advisers, such as architects or surveyors, in the grant-making process. We set out in **Figure 4** an overview of the typical roles of a grant-maker and a grant applicant at each stage of the grant-making process.

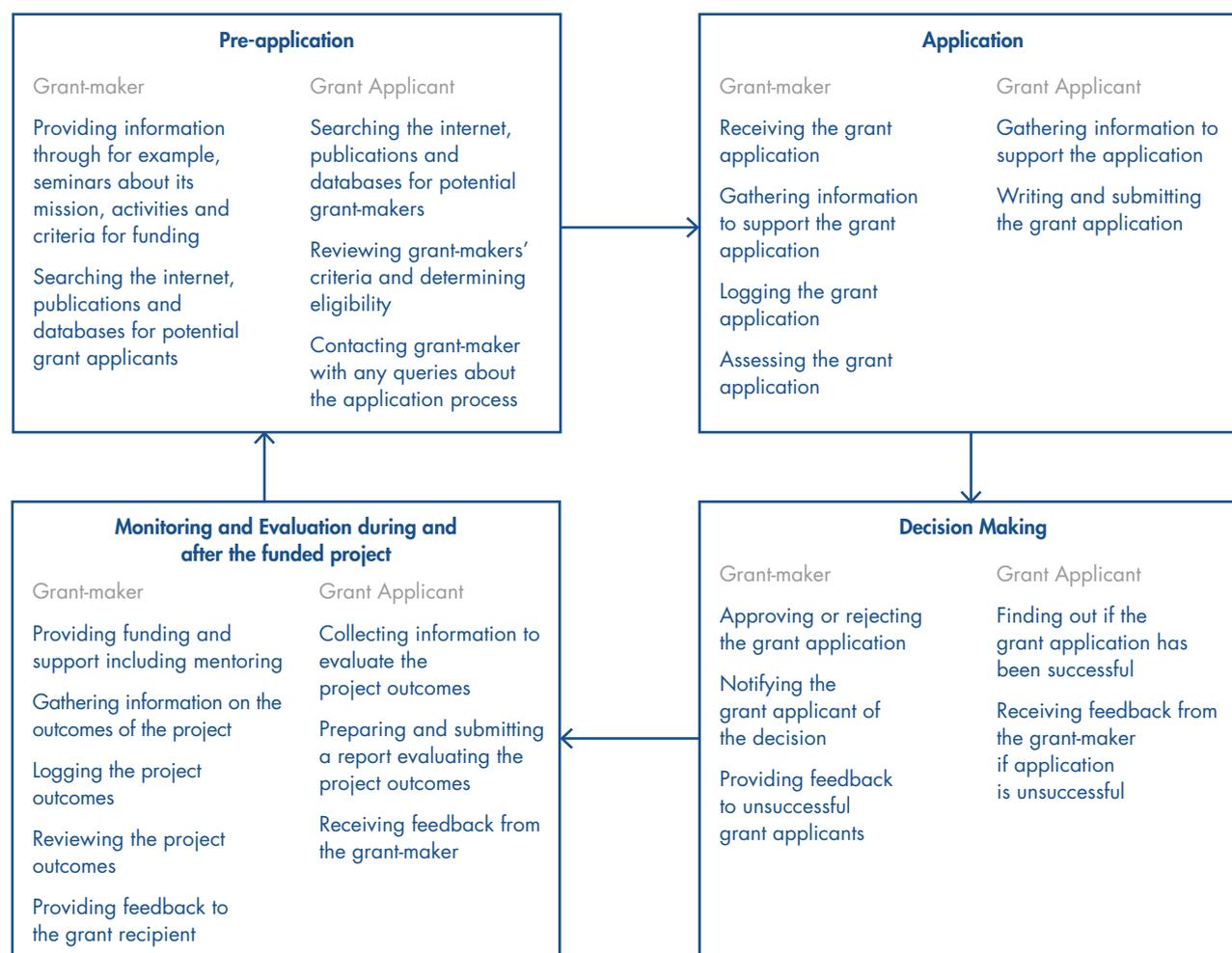
## We examined a sample of eight grant programmes at four grant-makers

**1.11** In order to measure costs and understand the factors which influence cost, we have focused on grant-making at four main organisations which between them accounted for over 60 per cent of grant-making expenditure in the sector in 2006-07. Total costs, including both administration and all other monitoring, capacity building and mentoring activities have been taken into account in this report.

**1.12** The four grant-makers we selected carry out grant making activities across England at both a regional and central level and, in the case of the Big Lottery Fund, across the whole of the United Kingdom. The cost of running offices, from which grant processes are operated and funding is distributed to grant recipients, is around £20 million each year. The offices, however, also support other activities to varying degrees such as in the case of English Heritage where grant-making is not its primary function and Sport England, which also fulfills other functions such as its statutory planning role.

**1.13** We selected a sample of eight programmes at the four grant-makers. These eight programmes awarded a total of £647 million in grant funding in 2006-07, more than a third of the £1.8 billion grant expenditure of the sector in that year. In the following paragraphs we set out the background to each organisation and, in Figures 5 to 8, the grant programmes we examined and details of their application processes.

#### 4 The typical roles of a grant-maker and grant applicant at each stage of the process



Source: National Audit Office review of roles of grant-makers and grant applicants

## Arts Council England

**1.14** Arts Council England's objectives are to:

- develop and improve the knowledge, understanding and practice of the arts;
- increase accessibility of the arts to the public; and
- advise and co-operate with other government departments, local authorities and the Arts Councils for Scotland, Wales and Northern Ireland.

**1.15** The Arts Council receives both Exchequer and Lottery funding and in 2006-07 this funding totalled £578 million. The Arts Council distributes the majority of this funding to individuals and organisations by way

of grants and aims to do so in a strategic way to support artists, art organisations and arts infrastructure to develop and grow. The majority of grants administration is carried out by the Arts Council's nine regional offices.

**1.16** In 2006-07, the Arts Council employed around 870 staff and its total operating costs were £51.67 million, including the one-off cost of developing a new IT system for finance, grants and management information.

**1.17** We examined three distinct grant programmes at the Arts Council, two of which – *Grants for the Arts for Individuals* and *Grants for the Arts for Organisations* – complement each other as part of the same strategic programme (Figure 5).

### 5 Arts Council England: Grants for the Arts and Regularly Funded Organisations (2006-07)

#### Grants for the Arts for Individuals and Organisations

	Average Grant	Number of grants	Total value of grants	Number of applications
Grants for the Arts for Individuals	£5,840	1,666	£9.8 million	3,712
Grants for the Arts for Organisations	£28,073	2,767	£74.9 million	4,412

*Grants for the Arts* was launched in April 2003 to bring together over 100 separate funding programmes and to make grant processes consistent across England. The programme supports activities that benefit people in England or that help artists and organisations to carry out their work. *Grants for the Arts for Individuals* is funded by the Exchequer and *Grants for the Arts for Organisations* by the National Lottery. In 2006-07, the minimum grant available was £200 and the maximum was £30,000 for individuals and £100,000 for organisations.

The programme is open to applications from anybody at any time during the year. A common application form can be downloaded from the Arts Council's website, although applications cannot be made online. Applications are assessed, using a common process, at regional offices by desk officers and committees against the regional priorities for the arts. The target for receiving a decision on an application is six working weeks for applications of £5,000 or less and 12 working weeks for those over £5,000. In 2006-07 Arts Council England achieved these targets for 92 per cent of applications.

#### Regularly Funded Organisations

Average Grant	Number of grants	Total value of grants	Number of applications
£312,107	1,009	£314.9 million	N/A

The Arts Council provides Exchequer funding to over 1,000 organisations on an ongoing basis under its *Regularly Funded Organisations* programme. Each organisation is monitored and assessed annually against how effectively it is supporting the Arts Council's objectives. Those receiving funding range from large established organisations, such as the English National Opera, to smaller ventures such as 'The Sage', a new arts venue in Gateshead.

The Arts Council does not invite applications but selects the organisations for funding. The programme is managed at a regional level, though some organisations may be working nationally. Just over half the regularly funded organisations supported in 2006-07 had received funding from the Arts Council over the last 10 years, including the Royal Shakespeare Company and the English National Opera. The remaining organisations had started to receive regular funding in the past five years, reflecting the Arts Council's commitment to supporting emerging art forms, black and minority ethnic-led venues, and new arts venues in regeneration areas.

Source: Arts Council England

## The Big Lottery Fund

**1.18** The Big Lottery Fund's mission is to bring real improvements to communities and to the lives of people most in need. As the largest of the lottery distributors, in 2006-07 it received lottery funding of around £630 million which was used to support good causes across the UK. The Big Lottery Fund's primary activity is grant-making and around two-thirds of its staff are employed directly on grant-making. Since 2006, matters relating to grant funding have been devolved to four country committees, one for each of England, Scotland, Wales and Northern Ireland. Separate committees advise and make funding decisions for specific programmes.

**1.19** In 2006-07, total operating costs were £74 million, including the £8 million cost of a major change programme to reduce further costs by restructuring and relocating grant-making activities in England. The administration of grant programmes is now managed from two offices, following the opening of the Newcastle Centre in 2005 and the Birmingham Centre in 2006. Nine regional offices in England continue to contribute to the grant decision-making process for some grant programmes.

**1.20** The direct cost of running grant programmes, including assessing grant applications, monitoring the awards and managing the IT systems needed to support grant-making was £36 million in 2006-07. We looked at two grant programmes at the Big Lottery Fund – *Awards for All England* and *Reaching Communities England* (Figure 6).

### 6 Big Lottery Fund: Awards for All England and Reaching Communities (2006-07)

#### Awards for All England

Average Grant	Number of grants	Total value of grants	Number of applications
£5,613	10,701	£60 million	18,528

*Awards for All* is a lottery-funded programme launched in June 1999. It is jointly funded by the Arts Council England, Big Lottery Fund, Heritage Lottery Fund and Sport England, but the Big Lottery Fund is responsible for the programme's administration. The programme aims to support and increase participation in arts, sport, heritage and community activities and promote education, the environment and health in the local community. In 2006-07, the minimum grant available was £300 and the maximum £10,000.

The programme is open to applications from organisations at any time during the year via a short paper-based application form. Organisations eligible for awards include charities, schools, local councils and health bodies. Funding is provided in one payment which must be spent within 12 months of the award. Grant applications are processed by the two central offices in Birmingham and Newcastle. The target for receiving a decision on an application is eight weeks. In 2006-07, Big Lottery Fund achieved these targets for 86 per cent of applications.

#### Reaching Communities England

Average Grant	Number of grants	Total value of grants	Number of applications
£221,243	452	£100 million	6,421 outline proposals/ 2,437 full applications

*Reaching Communities England* launched in December 2005. It aims, in line with Big Lottery Fund's overall mission to bring real improvements to communities and to the lives of people most in need, including those who are hard to reach. It also seeks to support projects that respond to the needs of communities and actively involves them. The programme is open to applications at any time during the year from organisations such as charities and voluntary or community groups. Projects may be funded for up to five years. In 2006-07 the minimum grant available was £10,000 and the maximum £500,000.

Applicants complete a short paper-based outline proposal form. Within the programme's aims, if the project is one that the Big Lottery Fund might consider funding then the applicant is encouraged to complete a full application within six months of the outline proposal. Applications which the Big Lottery Fund considers 'fundable' are considered by a decision making committee each month which includes representatives from each of the nine regions and three board members. In 2006-07 the target for receiving a decision on an outline proposal form was 15 working days and four months for a decision on a full application. In 2006-07, the Big Lottery Fund achieved these targets for 82.3 per cent of outline proposals and 86.7 per cent of applications respectively.

Source: Big Lottery Fund

## English Heritage

**1.21** English Heritage works in partnership with the central government departments, local authorities, voluntary bodies and the private sector to:

- Conserve and enhance the historic environment;
- broaden public access to heritage; and
- increase people's understanding of the past.

**1.22** English Heritage receives Exchequer funding from the Department and also receives significant funding from other sources, such as membership income and admission fees to the historic properties it manages. In 2006-07, Exchequer funding was £141 million, including £8 million for a relocation project, and total income from other sources was £47 million. Operating costs were £25 million, including the costs of the relocation project, and 1,900 staff were employed.

**1.23** Grant-making is only one part of English Heritage's activities and in 2006-07 accounted for around one-fifth of total expenditure. English Heritage is a statutory consultee in the planning system, advises on the conservation of the historic environment, manages and opens to the public over 400 historic sites and also maintains the statutory lists, schedules and registers of England's most significant buildings, monuments and landscapes. In 2006-07, just less than half of English Heritage's staff worked on running and maintaining historic properties.

**1.24** We looked at one grant programme at English Heritage – *Repair Grants for Places of Worship in England* (Figure 7).

### 7 English Heritage – Repair Grants for Places of Worship in England (2006-07)

#### Repair Grants for Places of Worship

Average Grant	Number of grants	Total value of grants	Number of applications
£126,493	225 stage-one grants and indicative stage-two repair grants were awarded and 187 stage-two offered in 2005-06 were confirmed	£24 million	489

*Repair Grants for Places of Worship* is a grant programme which is jointly funded by English Heritage and the Heritage Lottery Fund and gives grants for urgent repairs normally costing under £200,000 to listed buildings which are in regular use as public places of worship. Congregations from all faith groups and denominations which are responsible for maintaining and repairing their place of worship can apply for grants. The day-to-day administration of the scheme is carried out by English Heritage in its nine regional offices. Grants typically range from £10,000 to £200,000, although English Heritage may consider funding larger projects.

English Heritage invites grant applications from 1 April each year, with deadlines of the end of June and the end of September depending on the grade of listed building a grant is required for. Grants are offered in two stages. Stage-one development funding assists the development of an effective conservation building project, for which 12 months is permitted. An indicative Stage-two repair grant offer is based on estimated costs following a review and site visit by an English Heritage expert. The target for offering a grant is six months from the deadline for applications although nearly 75 per cent of unsuccessful applicants are informed within six weeks. Any case not rejected at this point has a high probability of receiving a grant. A second assessment is undertaken on completion of the Stage-one works to review the project costs and to confirm the level of Stage-two repair funding. This is the only point at which additional funding may be offered in the event of tendered costs being in excess of those estimated.

Source: English Heritage

## Sport England

**1.25** Sport England's mission is to make England 'an active and successful sporting nation'. The majority of Sport England's funding comes from the Exchequer and National Lottery and in 2006-07 this funding totalled £235 million. In 2006-07, total operating costs were £36.7 million and the total number of staff was around 250.

**1.26** Sport England works with a range of national partners, such as the national governing bodies of sport, to create a robust sporting infrastructure of clubs, coaches and volunteers that enable grass roots growth and inspires people to take part in sport. It also undertakes specific roles on behalf of the sport sector, including a statutory

planning function in relation to developments which affect playing fields, and the management of six major sport centres across England. Sport England works through nine regional offices governed by Regional Sports Boards which work to ensure that national strategies and policies are adapted to local needs. The Regional Boards take a number of the decisions around grant funding informed by local knowledge and expertise. Sport England also works with a range of private sector organisations to bring in matched funding and sets itself a target of attracting funding at a 2:1 ratio which it has met to date. We looked at two grant programmes at Sport England - *Community Club Development Programme* and *Community Investment Fund* (Figure 8).

### 8 Sport England – Community Club Development Programme and Community Investment Fund (2006-07)

#### Community Club Development Programme

Average Grant	Number of grants	Total value of grants	Number of applications
£64,835	301	£19.5 million	N/A

The *Community Club Development Programme* (CCDP) began in 2003. It is a collaboration between Sport England, the Department and 19 national governing bodies of the major sports to invest in community club facilities that support the bodies' own strategies. The programme provides bodies with Exchequer funding for capital projects, which in 2006-07 included eight refurbished hockey pitches, new judo halls, rebuilding a canoe club on the banks of the River Thames and a golf driving range.

National governing bodies receive funding from Sport England over a three year period determined by Sport England's CCDP Project Board and each has a target to obtain partnership funding to match the total funding allocated. The bodies work in partnership with Sport England to deliver individual projects.

The four largest bodies representing Football, Tennis, Cricket and Rugby receive the majority of funding and can select and assess projects applying for grants and have direct access to Sport England's grant management system. Sport England administers the grant process on behalf of other bodies.

Award decisions are made by Sport England's Regional Directors with input from the governing body, unless the project exceeds £250,000, when it is considered by the CCDP Project Board.

#### Community Investment Fund

Average Grant	Number of grants	Total value of grants	Number of applications
£136,223	387	£43.4 million	899

The *Community Investment Fund* aims to support projects that help get more people involved in sport, especially hard to reach groups, and help them stay involved throughout their lives. It is supported through funding from the National Lottery and in 2006-07 grants of over £10,000 were available.

The programme is managed by Sport England's nine regional offices and Regional Sports Boards decide which projects to fund up to a threshold of £1 million. The boards comprise experts from sport and related fields and are responsible for the development of sport in the region. Funding is awarded through an open application process which comprises two stages. Following an initial application, an applicant will be encouraged to submit a full application only if a proposal meets priorities for the region or has the potential to do so.

Source: Sport England

# PART TWO

## Measuring the costs of grant-making processes

**2.1** In this part of the report we:

- examine how grant-makers measure and report their costs;
- estimate the direct staff costs and the full administrative costs of each of the eight grant programmes we examined; and
- consider the drivers that influence the cost of each programme and what each grant-maker has done to improve efficiency.

### Grant-makers report on their costs in different ways

**2.2** We looked at how the four grant-makers currently measure and report the cost of their grant-making activities. The Department considers that as the grant-makers are different types of bodies working in different sectors, the costs of their grant programmes are not comparable. It does not therefore require grant-makers to report against a common set of measures. The Department has issued guidance to lottery distributors that they should, as a

minimum, set indicators which cover the time taken to process grant applications and the cost of these processes. As part of their accounts directions the distributors are also required to show total expenses incurred in respect of their National Lottery activities in their annual accounts.

**2.3** The Lottery Forum, which is made up of representatives of UK-wide and English lottery distributors, has agreed with the Department to publish information each year about the administrative costs of distributing lottery funds which include the cost of grant-making. The three lottery distributors we examined, Arts Council England, Big Lottery Fund and Sport England, report this information in their Annual Report and Accounts, shown for the three years from 2004-05 to 2006-07 in **Figure 9**.

**2.4** There is no such requirement for Exchequer-funded grant-making activities. However, those grant-makers we examined which receive funding from the Exchequer, Arts Council England, English Heritage and Sport England, have also reported separately on the costs of administering their activities, including grant-making, funded by the Exchequer and jointly funded by the Exchequer and Lottery as follows.

### 9 Published information on the administration costs of lottery distributors covered by this report (2004-05 to 2006-07)

Grant-maker	Information reported	2004-05	2005-06	2006-07
<b>Arts Council England</b>	Actual lottery administration costs (£ million)	18.54	19.78	19.49
	Actual lottery administration costs as a percentage of lottery income	10.96%	11.50% <sup>1</sup>	13.05% <sup>1</sup>
<b>Big Lottery Fund</b>	Actual lottery administration costs (£ million)	60.42	57.03	65.41
	Administration cost as a percentage of lottery income received	11.00%	7.6% <sup>2</sup>	10.2% <sup>2</sup>
<b>Sport England</b>	Actual lottery administration costs (£ million)	18.52	18.93	17.52
	Operating costs as a percentage of revenues	10.80%	9.20%	13.80%

Source: 2004-05, 2005-06 and 2006-07 Annual Report and Accounts of grant-makers

#### NOTES

1 Excludes one-off development costs.

2 Excludes one-off merger and relocation costs.

- Arts Council England agreed with the Department that it would cap its core administration costs in relation to its grant-in-aid and lottery funded activity in 2006-07 and 2007-08 at the 2005-06 level. In all years costs were adjusted for one-off development costs. In 2006-07 Arts Council England met its target with operating costs remaining at £50 million.
- English Heritage is also required by the Department to report annually on its efficiency programme, of which grant-making is a part. It has set a benchmark that the administrative costs for its grant programmes should be 7 per cent. Although this does not necessarily include the cost of expert advice which is often an essential part of conservation projects due to their complex and historically sensitive nature.
- Sport England set separate targets for its operating costs as a percentage of Exchequer revenue of 24 per cent and 22 per cent respectively in 2005-06 and 2006-07. In both years it met the targets. It also set targets for Lottery operating costs of 12 per cent and 11 per cent respectively for 2005-06 and 2006-07. Performance against these targets is shown in Figure 9.

**2.5** Figure 9 shows that the percentage of grant-makers' income used to administer lottery funds has increased over these three years for some grant-makers, although this is due to a fall in lottery income received by the grant-makers over the period, rather than an increase in costs. These data tell us little about the efficiency or effectiveness of these organisations' activities as they do not identify what benefits may have been delivered by the different level of resources the organisations have deployed. They also say nothing about the relative efficiency of grant-making processes at the individual programme level.

## The costs of grant-making are influenced by a range of factors

**2.6** The costs of grant-making can be expected to vary between different grant programmes depending on a range of factors. Some of these factors are at least in part outside the control of grant-makers, including for example:

- the volume of applications the grant-maker has to manage;
- the cost of staff needed to manage the grant process, including the extent to which expert advisers, such as surveyors, are used;
- the likelihood of abuses, such as fraud or impropriety and the need for robust systems to prevent and detect them; and
- requirements placed on the grant-maker by the Department to ensure a robust process and accurate reporting are in place.

**2.7** However, there are a range of factors within the control of the grant-maker that may have an equal or greater influence on the costs of running the programme. These include:

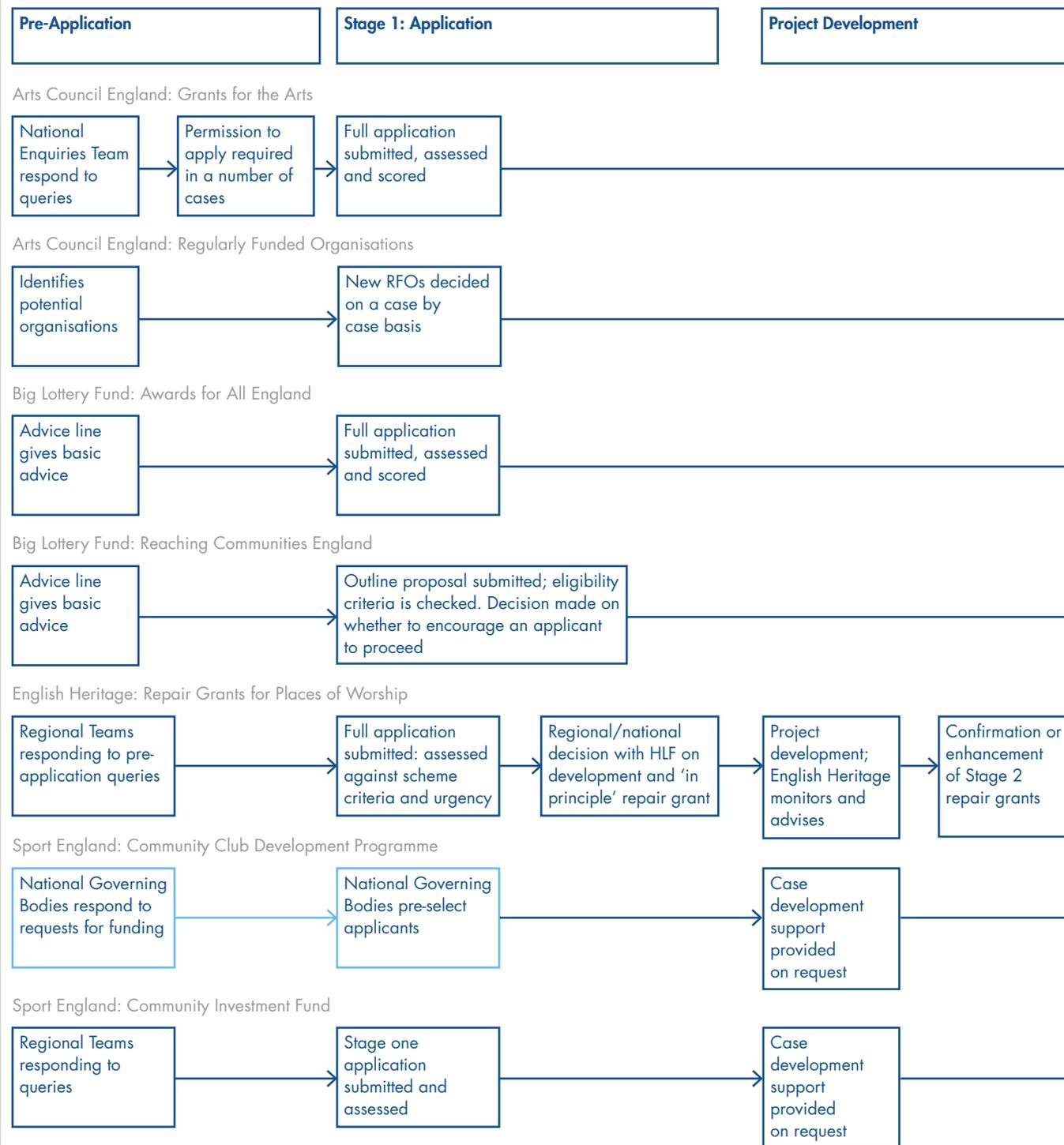
- initiatives taken by the grant-maker to strip out costs or reduce the complexity of the process;
- the IT systems used;
- the overall efficiency of the organisation, including any corporate costs that are apportioned to the grant-making process; and
- whether the process is managed centrally or regionally and the extent to which processes are standardised.

**2.8** All parts of a process add costs but some are essential and some may add more value than others. Within the grant making process, the costs of performing a particular function may, for example, outweigh the benefits. Those grant-makers with a clear understanding of where the costs of the process fall are better placed to make judgements about how the process might be improved or streamlined based on an assessment of risk and value added. Efficiency is likely to be higher where the grant-maker has taken a well-thought out approach to risk management.

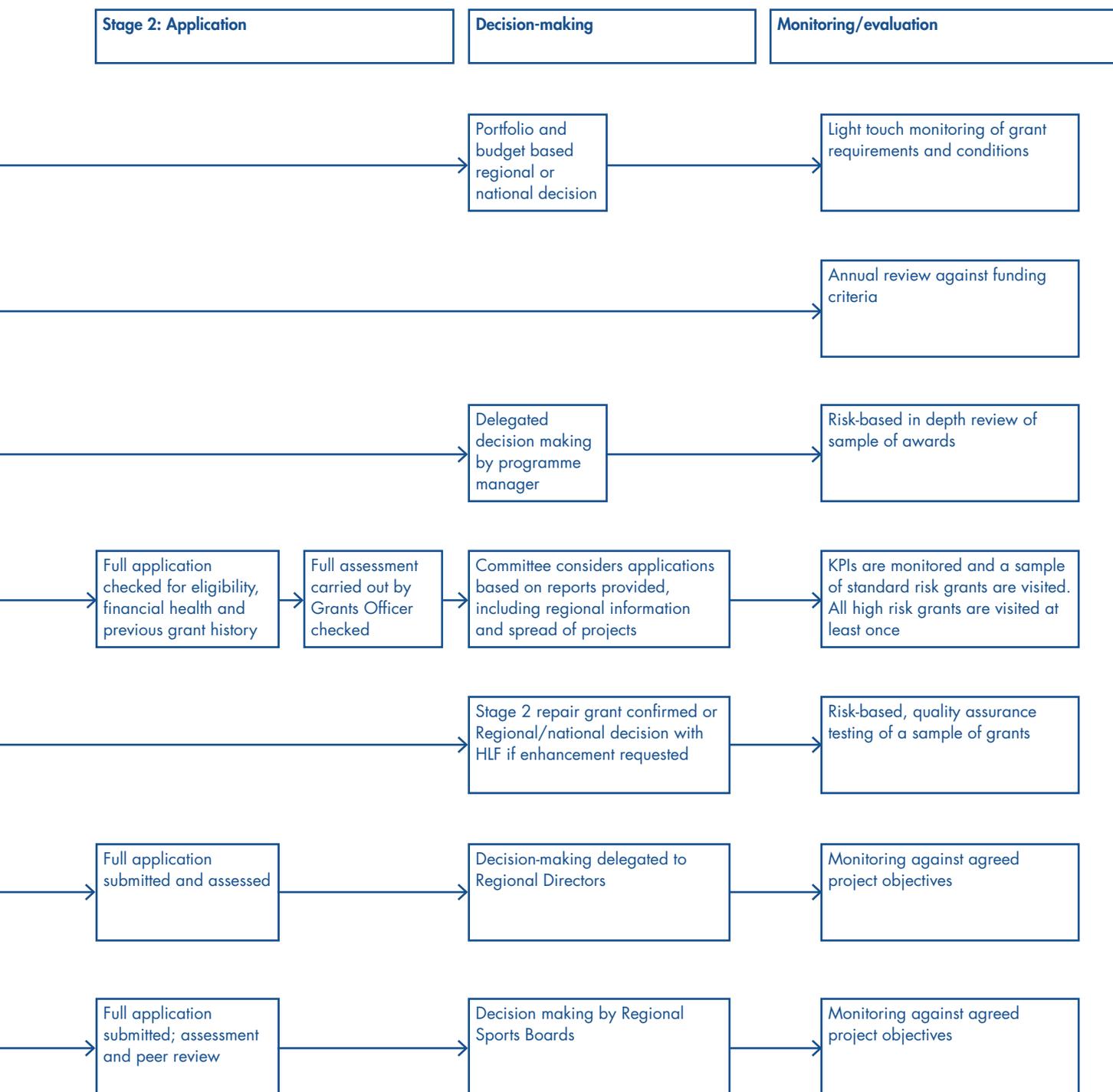
## High level process maps illustrate differences between the processes employed for each grant programme

**2.9** To measure the cost-efficiency of individual grant programmes we began by mapping the processes of the grant-makers to identify where costs were incurred, building on the work already underway at the organisations covered by this report. **Figure 10 overleaf** shows process maps which provide a high level view of the grants process for each of the eight programmes we examined. Appendix 2 provides a more detailed example of a process map for Sport England's *Community Investment Fund* grant programme.

## 10 High level stages of the grant-making process for the eight grant programmes we examined



Source: National Audit Office



**2.10** The map in Figure 10 illustrates some of the differences between the processes in place for the eight grant programmes we examined. Although most programmes employed a single stage applications process, Sport England's *Community Investment Fund* programme employed a two stage application process so that developmental support could be provided to applicants before a full application was submitted. Whilst on English Heritage's *Repair Grants for Places of Worship* programme, although only one application process is undertaken, at the end of the first development stage the grant recipient confirms that they have undertaken the relevant work and have tendered costs so that the level of grant requirement can be reassessed if necessary for the stage two repair grant. In both cases, this additional stage is designed to improve the quality of applications and so achieve better outcomes, but inevitably has an impact on the cost of the grant process.

**2.11** To estimate and understand what drives the costs of each programme, we asked the grant-makers to provide data on each element of cost, both direct staff costs and an estimate of the associated overheads. The direct staff costs included salary costs, National Insurance contributions and other benefits. Based on the data provided by the grant-makers, we estimated two indicators to compare the cost of grant-making for each of the eight grant programmes.

- the direct staff cost of awarding a pound (£) of grant; and
- the estimated full cost of a pound (£) of grant, including overheads.

## To assist comparison we divided the grant programmes into three broad categories

**2.12** In order to facilitate comparison between the programmes, we divided the eight programmes into three broad categories based on the type of application process and the size of grants awarded. Given the different objectives of the grant-makers and the variety of grant applicants across the sectors, this classification is necessarily crude and does not imply that direct comparisons of the costs of the programmes within each category can be drawn. However, it does provide a useful starting point from which to compare practice between

the grant-makers and to identify where scope may exist to improve or streamline processes. For example, the level of assessment required to provide assurance about the suitability of applications for low value grants is likely to be lower, in general, than for programmes where high value awards are made. In all cases, there needs also to be reasonable proportionality between the value of a grant (or the benefit to the recipient) and the cost of administering it.

**2.13** The three categories of programme we selected were:

- **Category A.** Low value, open application programmes. These programmes award grants with an average value of less than £30,000, have set criteria and publicised timescales for applications, and are open to all.
- **Category B.** High value, open application programmes. These programmes operate in much the same way as Category A programmes but make much larger grant awards, averaging in excess of £100,000; and
- **Category C.** Strategic programmes. The grant-maker identifies the organisations or projects which it chooses to fund or from whom to invite applications in order to develop the sector and further its strategic aims.

## Category A. Low value, open application programmes

**2.14** We examined three open application programmes with an average grant award of less than £30,000: the Big Lottery Fund's *Awards for All* programme and two programmes run by the Arts Council, *Grants for the Arts for Individuals* and *Grants for the Arts for Organisations* (Figure 11). These programmes each had different strategic objectives which influenced the approach taken by the grant-maker, but shared the feature that they were intended to reach a large number of recipients, many of whom would have limited resources and little experience of making grant applications. They therefore had some similarities in both the approach to soliciting applications and the type of processing required. These programmes were characterised by high demand, with typically around half of all applications rejected. In each case, significant work was needed by the grant-maker to communicate the programme effectively to potential applicants and to support them in making applications.

## 11 Low value, open application programmes

### Arts Council England – Grants for the Arts programmes

#### Costs of the programme in 2006-07

Direct staff cost for each £ of grant awarded: Grants for the Arts for Individuals: 18 pence  
Grants for the Arts for Organisations: 4 pence

#### How were staff costs calculated?

The Arts Council calculated the cost of staff directly employed on the *Grants for the Arts for Individuals* programme for 2006-07 at £1.79 million based on an analysis of the time staff spent working on the programme. This gives an average staff cost for each grant awarded of £1,075 and each application received of £482.

As a lottery funded programme, the Arts Council is not required to report separately on the costs for its *Grants for the Arts for Organisations* programme and its administrative costs, including staff costs, are disclosed in the total lottery administration costs reported by the Arts Council as 13 per cent of lottery income (Figure 9). To arrive at an estimate of the separate direct staff cost of the programme, Arts Council considered how staff costs could be apportioned across all of its lottery funded programmes, including more complex capital programmes which can run for up to 25 years. On this basis they estimated that the direct staff cost in 2006-07 for administering the *Grants for the Arts for Organisations* programme was £3.21 million giving an average cost for each grant awarded of £1,161 and for each application received of £728.

Estimated full cost for each £ of grant awarded: Grants for the Arts for Individuals: 35 pence  
Grants for the Arts for Organisations: 7 pence

#### How were full costs estimated?

The Arts Council reported the support costs of its *Grants for the Arts for Individuals* programme as £3.85 million in its 2006-07 Annual Report and Accounts. This figure, however, included elements of overheads not related to this programme including the one-off costs of setting up ARENA, a new IT system. Arts Council recalculated the full costs of the *Grants for the Arts for Individuals* programme to be £3.36 million. The average cost for each grant awarded was therefore £2,015 and for each grant application received £904.

As above, the Arts Council is not required to report separately on the costs for its *Grants for the Arts for Organisations* programme and therefore apportioned its total administration costs including overheads across all of its lottery funded programmes. On this basis they estimated that the full cost in 2006-07 for administering the *Grants for the Arts for Organisations* programme was £5.16 million giving an average cost for each grant awarded of £1,863 and for each application received of £1,168.

#### What influences costs?

The programmes have the strategic aim of developing the arts in England by supporting and investing in the development and growth of individual artists and arts-based organisations.

The *Grants for the Arts for Individuals* programme is the only programme we examined making awards directly to individuals, rather than to groups or organisations. As individual artists typically lack the capacity and experience of organisations to apply for funding, the Arts Council offers them further support in developing their ideas into a credible grant application. Where an artist is seeking a grant for the first time, the Arts Council will carry out additional checks on their suitability for funding and, as a high proportion of applications are unsuccessful, time is also required to give feedback to those rejected. Providing this support is a factor in the relatively high cost of administering this programme compared with the other grant programmes we examined.

#### Initiatives to reduce the costs of the programmes

The Arts Council England regularly evaluates the programme and has carried out user testing to improve the process for applicants and recently introduced a new simpler application pack. Demand for grants is managed by requiring applicants to complete previous projects before making a new application, and there is an "early review" stage in the process to weed out applications. In May 2008, the minimum grant value was increased from £200 to £1,000.

A central team based in Manchester is being set up to consolidate the grant application logging process previously performed at nine regional offices. The team opens and acknowledges all applications' logging them on to a system ready for assessment at the relevant regional office.

### Big Lottery Fund – Awards for All England

#### Costs of the programme in 2006-07

Direct staff cost for each £ of grant awarded: 4 pence

#### How were staff costs calculated?

Staff costs of £2.37 million were taken from the Big Lottery Fund's Annual Report and Accounts (2006-2007). The average staff cost of each grant awarded was £222 and for each application received £128.

Estimated full cost for each £ of grant awarded: 7 pence

#### How were full costs estimated?

The full costs of the programme of £4.06 million were calculated by the NAO using the Big Lottery Fund's analysis of the average time and salary cost spent by each grade of staff involved at each stage of the grant process and an estimate of overhead costs. The overhead element was estimated at 121 per cent of total staff costs based on an analysis of Big Lottery Fund's total operating costs for 2006-07.

The average cost for each grant awarded was £380 and for each application received £219.

#### What influences costs?

The Big Lottery Fund works to the principle that the programme is aimed primarily at relatively inexperienced applicants. Sixty two per cent of applications received are initially incomplete, a factor which drives up processing costs. The programme is deliberately 'light touch' in terms of monitoring and evaluation. Grant holders complete an end of award report which describes the activities funded by the grant and the benefits of the award.

#### Initiatives to reduce the costs of the programme?

There is a cap of £10,000 on the total value of grants an applicant can apply for in a two year period and applicants can only apply for grants for different activities. Big Lottery Fund takes a risk-based approach to the programme and carries out additional project monitoring for a random sample of standard risk projects and for all high risk projects.

Source: Arts Council England and Big Lottery Fund

## Comparison of grant processes for Category A programmes

**2.15** As shown in Figure 11, the wide disparity of processing costs that apply to the low value open application programmes we examined suggests that there are important differences between their activities. In particular, only one of the grant programmes, the Arts Council's *Grants for the Arts for Individuals* programme, was set up to make awards to individuals, rather than to groups or organisations. This programme is distinguished from the others we examined by the type of support needed to help individual artists make grant applications and to provide appropriate safeguards to ensure the public money they receive is used for the purposes intended. These factors are significant in explaining why a relatively high level of cost might need to be borne by the Arts Council in order to deliver the programme's objectives. It had the highest administrative cost of the programmes we examined, and at 35 pence for each pound of grant awarded, its costs fell outside the range of all the other grant-makers.

**2.16** However, whilst the cost variances might be explained by the different activities that are needed to deliver each programme's objectives, only by comparing their processes in detail can the organisations understand the reasons for cost variances and identify where there are common features and opportunities to learn from one another. The differences between programmes do not therefore lessen the value in the grant-makers working together to explore the scope to learn lessons and to make improvements or generate efficiency savings.

**2.17** We also calculated the same measures for two other UK grant-makers outside of the public sector, the BBC's Children in Need and the Lloyds TSB Foundation for England and Wales. Based on the full operating costs reported in their annual reports and accounts, this analysis produced estimates of nine pence and ten pence for each £ of grant awarded respectively. A direct comparison with the costs of grant-makers in the culture, media and sport sector cannot be made as, by virtue of their relationship with their parent bodies, these bodies may benefit from relatively low overhead costs. However, they do provide evidence that the Big Lottery Fund's *Awards for All* programme is within the range that might typically be expected for low value, high volume awards programmes, whereas there appears to be scope for the Arts Council to explore ways to improve the ratio between the costs and the value of grants awarded for its *Grants for the Arts for Individuals* programme.

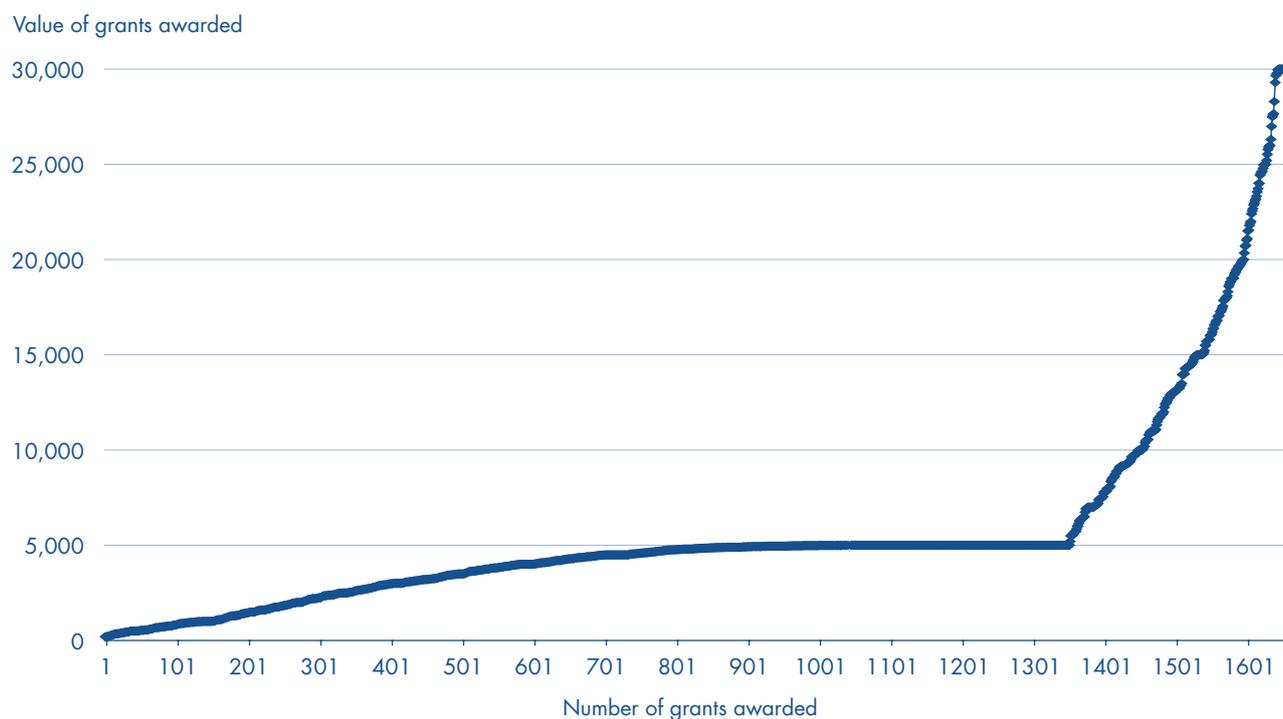
**2.18** Further analysis of the *Grants for the Arts for Individuals* programme for 2006-07 suggests that the cost of making grants was not always proportionate to the value of the grants made. In 2006-07, the average full cost of making a grant was £2,000, and the average direct staff cost was £1,000. Over 80 per cent of the grants made were for £5,000 or less, as applicants were required to provide more information, including on their spending plans, for grants above £5,000, and about 10 per cent of the grants made were for less than £1,000 (Figure 12). In May 2008, the Arts Council increased the minimum grant value from £200 to £1,000.

**2.19** In order to explore whether there are ways to reduce its costs further the Arts Council should consider identifying where the costs fall at each stage of its *Grants for the Arts Individuals* programme, in particular those costs that relate to the support and development of individual artists (paragraph 2.15) as distinct from the more generic elements of the grant-making process. The Arts Council could then compare its approach with other grant programmes to identify elements of good practice it could adopt to reduce costs and to help it understand whether the cost of its development activity is proportionate to supporting the delivery of its objectives.

## Category B. High Value Open application programmes

**2.20** We examined three open application programmes with an average grant award of more than £30,000: the Big Lottery Fund's *Reaching Communities England* programme; English Heritage's *Repair Grants for Places of Worship* and Sport England's *Community Investment Fund* (Figure 13). Once again, these programmes each had different strategic objectives which influenced the approach taken by the grant-maker. They each, however, had in common a two stage process and were targeted at organisations or groups of individuals (such as congregations in the case of the *Repair Grants for Places of Worship* programme) many of which would have limited resources and little experience of making grant applications. They therefore had some similarities in both their approach to assessing applications and their target audiences for the programmes, which meant that the grant-maker often needed to support applicants in making applications. These programmes were also characterised by high demand: Around four out of five applications for example were rejected in the case of the *Reaching Communities England* programme.

## 12 Over 80 per cent of grants made by *Grants for the Arts for Individuals* were for £5,000 or less in 2006-07



Source: Arts Council England – Grants for the Arts for Individuals data 2006-07

## 13 High value open application programmes

### Big Lottery Fund – Reaching Communities England

#### Costs of the programme in 2006-07

Direct staff cost for each £ of grant awarded: 1 pence

#### How were staff costs calculated?

Staff costs of £1.32 million were calculated by the National Audit Office using the Big Lottery Fund's analysis of the average time and salary cost spent by each grade of staff involved at each stage of the grant process. The average staff cost of each grant awarded was £2,925 and each application received of £542.

Estimated full cost for each £ of grant awarded: 3 pence

#### How were full costs calculated?

The full costs of the programme of £2.92 million were calculated by the NAO using direct staff cost as shown above and an estimate of overhead costs. The overhead element was estimated at 121 per cent of total staff costs based on an analysis of Big Lottery Fund's total operating costs for 2006-07. The average cost for each grant awarded was £6,467 and for each application received of £1,199.

#### What influences costs?

There is high demand to this programme for funding and in 2006-07 less than one in five applications were successful.

#### Initiatives to reduce the costs of the programme?

At the end of the first year of the programme the England Committee reviewed the application processes and agreed to strengthen the outline proposal stage. As a result decisions on whether proposals should be worked up into full application or not will be clearer. Big Lottery Fund takes a risk-based approach to the programme and carries out additional project monitoring for a random sample of standard risk projects and for all high risk projects. The business process re-engineering programme, due to be launched in 2009-10, will provide on-line application and customer account management capabilities improving the customer experience through on line access to track the progress of their application and grant. The programme will also deliver efficiencies through automatic transfer of data, completeness of data and customer account management.

## 13 High value open application programmes (continued)

### English Heritage – Repair Grants for Places of Worship

#### Costs of the programme in 2006-07

Direct staff cost for each £ of grant awarded: 4 pence

#### How were staff costs calculated?

Staff costs of £0.89 million were calculated by the NAO using English Heritage's detailed review of the time staff spent on each stage of the grant process in this programme in 2003-04, and re-assessed as part of this report, and average salary costs for 2006-07. The average staff cost for each stage two grant awarded was £4,753 and each application received was £1,818.

Estimated full cost for each £ of grant awarded: 8 pence

#### How were full costs calculated?

The full costs of the programme of £1.81 million were calculated by the NAO using English Heritage's staff time analysis, direct IT costs for 2006-07 provided by English Heritage and overhead costs for 2006-07. The overhead element was estimated at 100 per cent of total staff costs as advised by English Heritage. The average administration cost for each grant awarded was £9,700 and each application received of £3,709.

#### What influences costs?

The quality of the applications received. English Heritage told us that most applicants to this programme tend not to have applied before and often have no experience of a building project. By investing the time of experts such as Surveyors and Architects to assess and mentor projects on this programme, it aims to ensure the design and implementation of good projects. Of 759 cases due to have completed under the scheme to date, all have finished within budget and only three have extended beyond the deadline, all due to contractors going out of business

#### Initiatives to reduce the costs of the programme?

English Heritage have taken a number of steps to manage demand which include holding seminars for grant applicants and recipients and providing pre-application advice as to whether a scheme is likely to be considered a priority; setting a minimum project cost of £10,000; setting clear priorities for funding in guidance notes for applicants and by using an initial sift process to reduce applications to those with a high chance of success.

English Heritage takes a risk-based approach to grant-making as, for example, monitoring of stage-two grants is light touch and based on a risk assessment

### Sport England – Community Investment Fund

#### Costs of the programme in 2006-07

Direct staff cost for each £ of grant awarded: 3 pence

#### How were staff costs calculated?

Staff costs of £1.45 million were calculated by the NAO based on Sport England's analysis of costs of staff working on the grant process in the regions. Average staff cost for each grant awarded is £3,754 and each application received of £1,616

Estimated full cost for each £ of grant awarded: 5 pence

#### How were full costs calculated?

The full costs of the programme of £2.22 million were calculated by the NAO using direct and indirect cost data provided by Sport England. This included their apportionment of regional operating costs based on the number of staff working on the grant process. The average estimated full cost for each grant awarded was £5,733 and each application received of £2,468.

Source: Big Lottery Fund, English Heritage and Sport England

#### What influences costs?

Many awards are capital projects. The conditions of the grant require that the facilities Sport England is investing in will remain in use for at least 21 years, so during the grant making process time is needed to get the project right. This can lead to increased costs, but Sport England's intervention results in far better, sustainable, projects.

#### Initiatives to reduce the costs of the programme?

There is a two stage application process. Following Stage 1, Sport England's regional offices will encourage an applicant to proceed to the full application (Stage two) only if it meets its priorities or has the potential to do so.

## Comparison of grant processes for Category B programmes

**2.21** This analysis shows that for high value open application programmes the average full cost of awarding a £ of grant ranged from three pence to eight pence. The average cost of making a grant on these high value open application programmes was higher than for low

value open application programmes at around £10,000. This higher cost is driven by the common features of the high value programmes including a two stage process and also the use of expert support to develop applications, often for long-term capital projects. The use of architects and surveyors on English Heritage's *Repair Grants for Places of Worship* programme is an example. There is also high demand for funding on these programmes.

## Category C. Strategic programmes

**2.22** Finally we calculated measures for the two strategic programmes the Arts Council's *Regularly Funded Organisations* and Sport England's *Community Club Development Programme* (Figure 14).

### Comparison of grant processes for Category C programmes

**2.23** Figure 14 shows that for the Arts Council and Sport England's strategic grant programmes the average full cost of awarding each grant was £5,591 and £1,568

respectively and the average full cost for each pound of grant awarded was two pence for both programmes. The average administrative cost of these strategic programmes was lower than the cost of the open application programmes we examined. This is probably explained by two factors. Firstly, in the case of Sport England, a much lower volume of applications to its programme had to be assessed. Secondly both the Arts Council and Sport England benefited from long-term relationships with the grant recipients, the large arts organisations which received the majority of the Arts Council's funding and the national governing bodies of sports.

## 14 Strategic programmes

### Arts Council England – Regularly Funded Organisations

#### Costs of the programme in 2006-07

Direct staff cost for each £ of grant awarded: 1 pence

#### How were staff costs calculated?

Based on an estimate of staff costs of £ 2.16 million from an analysis of the time staff spent working on the programme in 2006-07. The average staff cost for each grant awarded was £2,140.

Estimated full cost for each £ of grant awarded: 2 pence

#### How were full costs calculated?

The Arts Council reported the full costs of its programme of £5.64 million in its 2006-07 Annual Report and Accounts. The average cost for each grant awarded was £5,591.

#### What influences costs?

The average administrative cost of this programme is lower than the cost of the open application programmes we examined primarily because the grant-maker typically has a longer term relationship with the recipients. Less assurance is therefore needed about the intended recipient's eligibility for funding. The programme also benefits from economies of scale due to the high value of grants awarded (which average over £300,000).

#### Initiatives to reduce the costs of the programme

In 2002-03 responsibility for the relationship with National Regularly Funded Organisations was delegated to regional offices. More recently a new investment department has been set up to oversee and develop funding programmes including *Regularly Funded Organisations* and *Grants for the Arts*.

### Sport England – Community Club Development Programme

#### Costs of the programme in 2006-07

Direct staff cost for each £ of grant awarded: 1 pence

#### How were staff costs calculated?

Staff costs of £0.28 million were calculated by the NAO based on Sport England's analysis of staff time. Average staff cost for each grant awarded is £937.

Estimated full cost for each £ of grant awarded: 2 pence

#### How were full costs calculated?

The full costs of the programme of £0.47 million were calculated by the NAO using direct and indirect cost data provided by Sport England. This included their estimate of staff time and overhead costs directly related to the delivery of the programme. The average estimated full cost for each grant awarded was £1,568.

#### What influences costs?

The average administrative cost is lower than the cost of the open application programmes we examined as the grant-maker typically has a longer term relationship with the grant recipients. Less assurance is therefore needed about the intended recipient's eligibility for funding.

Source: Arts Council England and Sport England

# PART THREE

## The impact of the grant-making process on the grant applicant

**3.1** To assess the overall costs of the grant-making process, we also took into account its impact on grant applicants. There are two relevant factors here:

- the costs incurred by grant applicants in applying for grants and providing monitoring information to grant-makers; and
- the grant applicants' level of satisfaction with the grant making process and the information they receive from the grant-maker.

**3.2** We therefore asked 250 successful and 250 unsuccessful applicants of the six open application programmes covered by this report to estimate the time they spent applying for grants and reporting to grant-makers after an award and to rate their satisfaction with the components of the process itself.

### Grant applicants incur significant costs in applying for grants and providing information to grant-makers

**3.3** As shown in Figure 4, the grant-making process also involves the time and cost of grant applicants. The cost to the applicant therefore also needs to be taken into account when considering the cost of the grant-making process.

**3.4** All four of the grant-makers we examined had carried out applicant surveys or sought feedback on the grant process but none had measured the amount of time applicants spent on the grant process. As part of our survey of grant applicants we therefore asked people applying to open application programmes to estimate:

- the time they spent preparing an application; and
- the time they spent providing information for monitoring and evaluation purposes after receiving a grant.

**3.5** Figure 15 and Figure 16 show the average time grant applicants estimated they spent preparing applications and providing information for grant-makers based on the categories of grants we selected in Part Two. On the basis of the number of applications processed in 2006-07, we estimated the equivalent number of full-time employees that might be required to carry out this work over the year.

**3.6** Figure 15 and Figure 16 show the following.

- The largest variance in the time spent preparing applications was reported by grant applicants for high value, open application programmes. The median number of days spent preparing an application ranged from five days for English Heritage's *Repair Grants for Places of Worship* programme to 21 days for Big Lottery Fund's *Reaching Communities* programme, although applicants surveyed on this programme included those who had submitted outline proposals which may not have converted into successful applications for a variety of reasons.
- For low value, open application programmes the median value reported by applicants was between five and 12 days. Applicants to the *Grants for the Arts for Individuals* programme spent a median number of 12 days preparing an application reflecting the inexperience of these individuals in applying for funding as mentioned in Part Two, which also has an impact on the Arts Council's costs of delivering this programme.
- Applicants reported spending considerably less time providing monitoring and evaluation information. The only exception was English Heritage's *Repair Grants for Places of Worship* programme where applicants estimated they spent six days on providing monitoring information compared to five days spent preparing an application. On this programme the time spent on monitoring and evaluation by the grant applicant mainly occurs after stage one development funding has been awarded and before stage two repair grant offers are confirmed, after which time the monitoring becomes lighter touch.

- The estimated number of days spent providing monitoring and evaluation information ranged from less than half a day for the Big Lottery Fund's 'Awards for All' programme to six days for English Heritage's *Repair Grants for Places of Worship* programme. Although the Big Lottery Fund does require recipients of *Awards for All* funding to complete an end of award report describing what the award has achieved, this monitoring is deliberately light and in most cases it took applicants less than half a day to provide the report.
- When extrapolated to all applicants to the grant programmes examined, these estimates suggest that the time spent preparing applications may be equivalent to the work of over 1,412 full time employees while providing information for monitoring and evaluation purposes may be equivalent to an estimated 77 full time employees.

## 15 Estimated time spent by grant applicants preparing applications

Grant Programme	Median number of days preparing applications	Number of applications in 2006-07	Estimate of equivalent number of full time employees
Category A. Open application programmes with an average grant of less than £30,000			
<b>Arts Council England</b> – Grants for the Arts for Individuals	12	3,712	202
<b>Arts Council England</b> – Grants for the Arts for Organisations	7	4,412	140
<b>Big Lottery Fund</b> – Awards for All England	5	18,528	421
Category B. Open application programmes with an average grant of more than £100,000			
<b>Big Lottery Fund</b> – Reaching Communities England	21	6,421 (outline proposals)	613
<b>Sport England</b> – Community Investment Fund	6	899	25
<b>English Heritage</b> – Repair Grants for Places of Worship	5	489 new applications	11
<b>Total</b>			<b>1,412</b>

Source: National Audit Office Survey of Grant Applicants

## 16 Estimated time spent by grant holders providing monitoring and evaluation information to grant-makers

Grant Programme	Median number of days on monitoring and evaluation	Number of successful applications in 2006-07	Estimate of equivalent number of full time employees
Category A. Open application programmes with an average grant of less than £30,000			
<b>Arts Council England</b> – Grants for the Arts for Individuals	2	1,666	15
<b>Arts Council England</b> – Grants for the Arts for Organisations	2	2,767	25
<b>Big Lottery Fund</b> – Awards for All England	0.5	10,701	24
Category B. Open application programmes with an average grant of more than £100,000			
<b>English Heritage</b> – Repair Grants for Places of Worship	6	225 new grant offers were made and 187 Stage two repair grant offers from 2005-06 were confirmed	5
<b>Sport England</b> – Community Investment Fund	2	387	4
<b>Big Lottery Fund</b> – Reaching Communities England	2	452	4
<b>Total</b>			<b>77</b>

Source: National Audit Office survey of Grant Holders

## Overall applicants were satisfied with the grant-making processes

**3.7** We also asked the 250 successful and 250 unsuccessful applicants for the six open application programmes to rate their satisfaction with the overall process of grant-making. Respondents were asked to rate satisfaction on a scale from one to ten where one meant they were not at all satisfied and ten meant they were completely satisfied. The average satisfaction scores for each of the programmes are set out in Figure 17.

**3.8** As **Figure 17** shows grant applicants' satisfaction is influenced as much by the outcome of their grant application, in other words whether it is successful or not, as by the process itself. The results of our survey showed that:

- the overall satisfaction scores for the six grant programmes among successful applicants were high;
- the overall satisfaction scores for the six grant programmes were broadly similar, the average scores ranging from seven to nine for successful applicants and from four to five for unsuccessful applicants;
- the Big Lottery Fund's *Awards for All* programme and the Arts Council's *Grants for the Arts for Individuals* programme had the highest satisfaction scores among successful applicants; and
- successful and unsuccessful applicants to Sport England's *Community Investment Fund* programme had the lowest average satisfaction levels.

## Grant applicants identified the quality of feedback about the application and decision-making process as areas for improvement

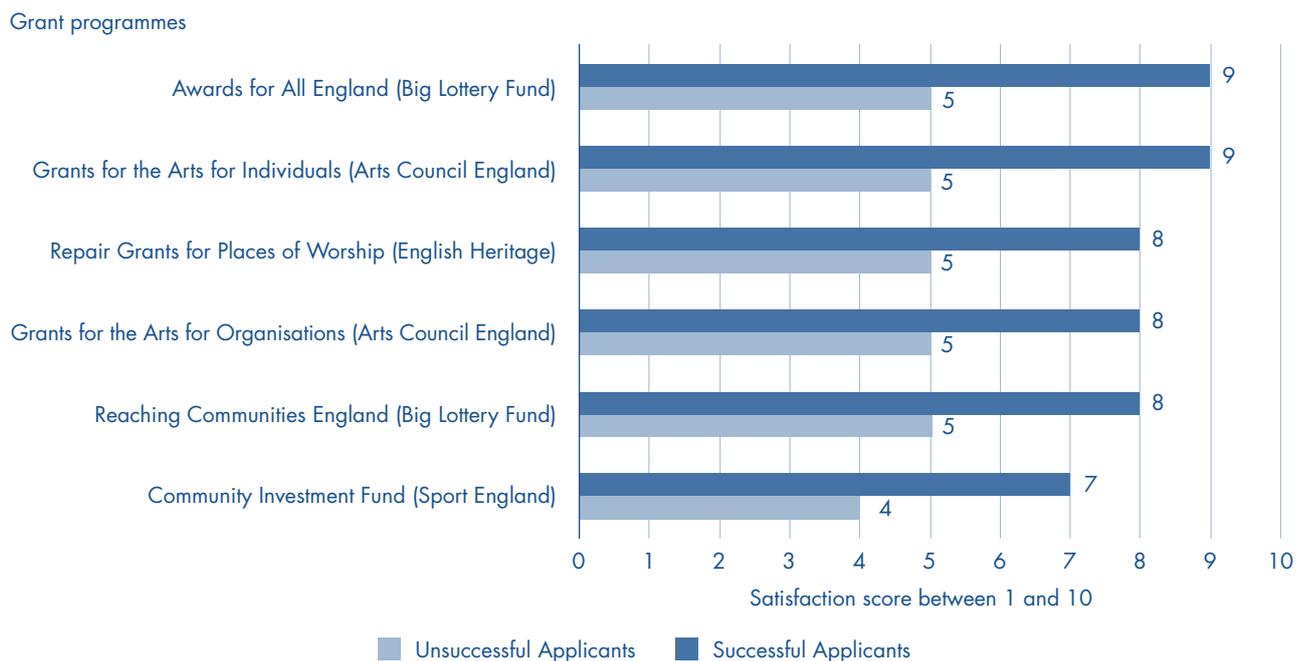
**3.9** We also asked successful and unsuccessful applicants about their satisfaction with individual aspects of the process, such as the availability of information and the ease of submitting an application. Overall applicants reported high levels of satisfaction with most aspects. In particular, the average satisfaction score across all programmes for the ease of communication and the post-award processes was eight out of ten. The average satisfaction rating for both the availability of information and the decision making process was seven out of ten. On average the applicants were less satisfied with the application process which scored six out of ten.

**3.10** We carried out further analysis to examine the relationship between grant applicants' satisfaction with individual aspects of the grant-making process and the impact this had on their overall satisfaction with the process. The analysis shows where grant-makers need to focus their attention in the grant-making process, such as on the application stages or decision-making stages of the process, if they want to maintain or improve grant applicants' overall satisfaction with their programmes. This 'key driver analysis' is explained in more detail in Appendix 1.

**3.11** The results of our analysis for successful and unsuccessful applicants are shown in **Figure 18 and Figure 19 on page 32**. In each figure, the graph is divided into four quadrants. This framework shows where grant-makers are performing well in the opinion of grant applicants and where there are areas for improvement:

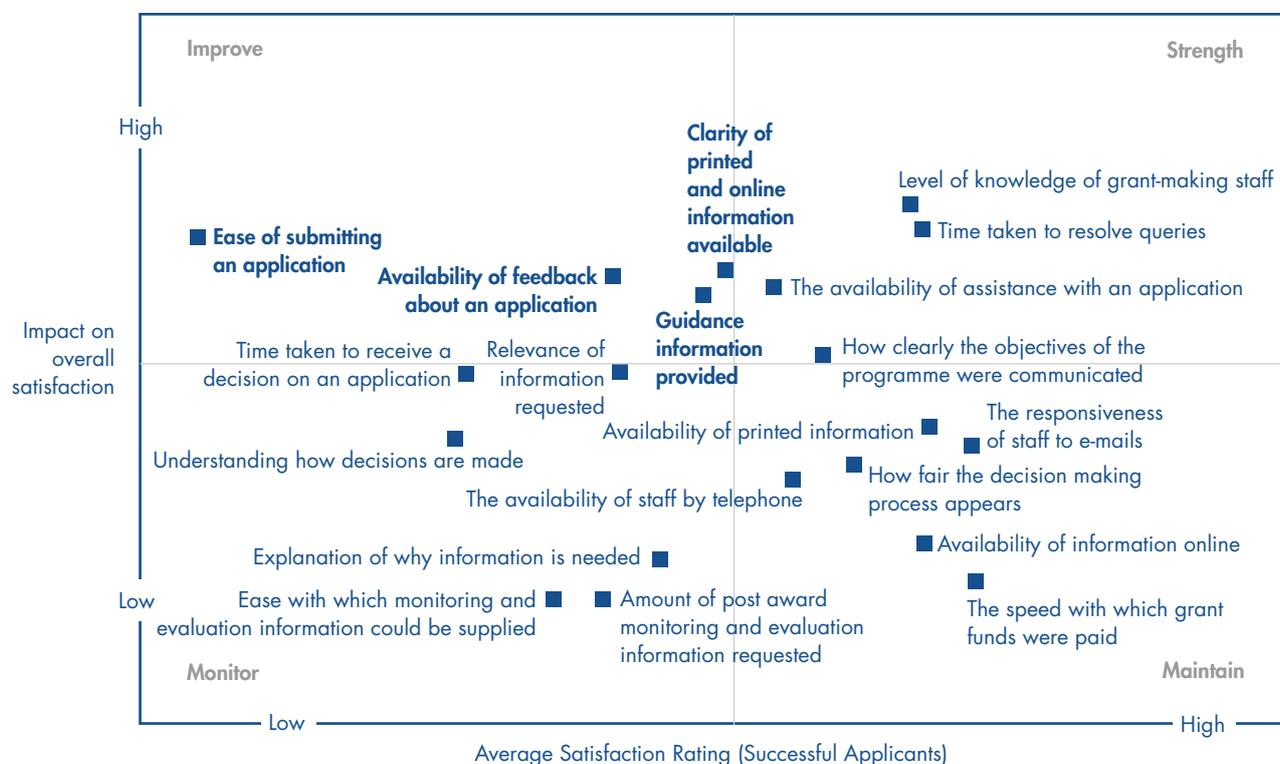
- The top right quadrant shows the **strengths** of grant-makers processes as the average satisfaction rating for an aspect of the process is high, and satisfaction with that element strongly impacts on overall satisfaction.
- The bottom right quadrant shows the aspects of the processes where grant-makers need to **maintain** their performance as although average satisfaction with these aspects is high, the impact on overall satisfaction is low.
- The bottom left quadrant shows where grant-makers need to **monitor** performance as although the average satisfaction rating for an aspect of the process is low, the impact on overall satisfaction is also low.
- The top left quadrant shows which aspects of the process grant-makers need to **improve** as the average satisfaction rating for an aspect of the process is low, but satisfaction with that aspect strongly impacts on overall satisfaction. The aspects of the grant making process which appear in this final quadrant are those on which grant-makers should focus their attention in order to improve applicants' satisfaction with their overall process.

### 17 Successful applicants reported high satisfaction with the grant making processes



Source: National Audit Office survey of Grant Applicants

### 18 Key driver analysis for successful applicants



Source: National Audit Office survey of grant applicants

3.12 Figure 18 and Figure 19 show that for both successful and unsuccessful applicants:

- the level of knowledge of grant-making staff was a strength of the grant-makers; however
- both identified the availability of feedback on an application as an area grant-makers could improve on.

For successful grant applicants:

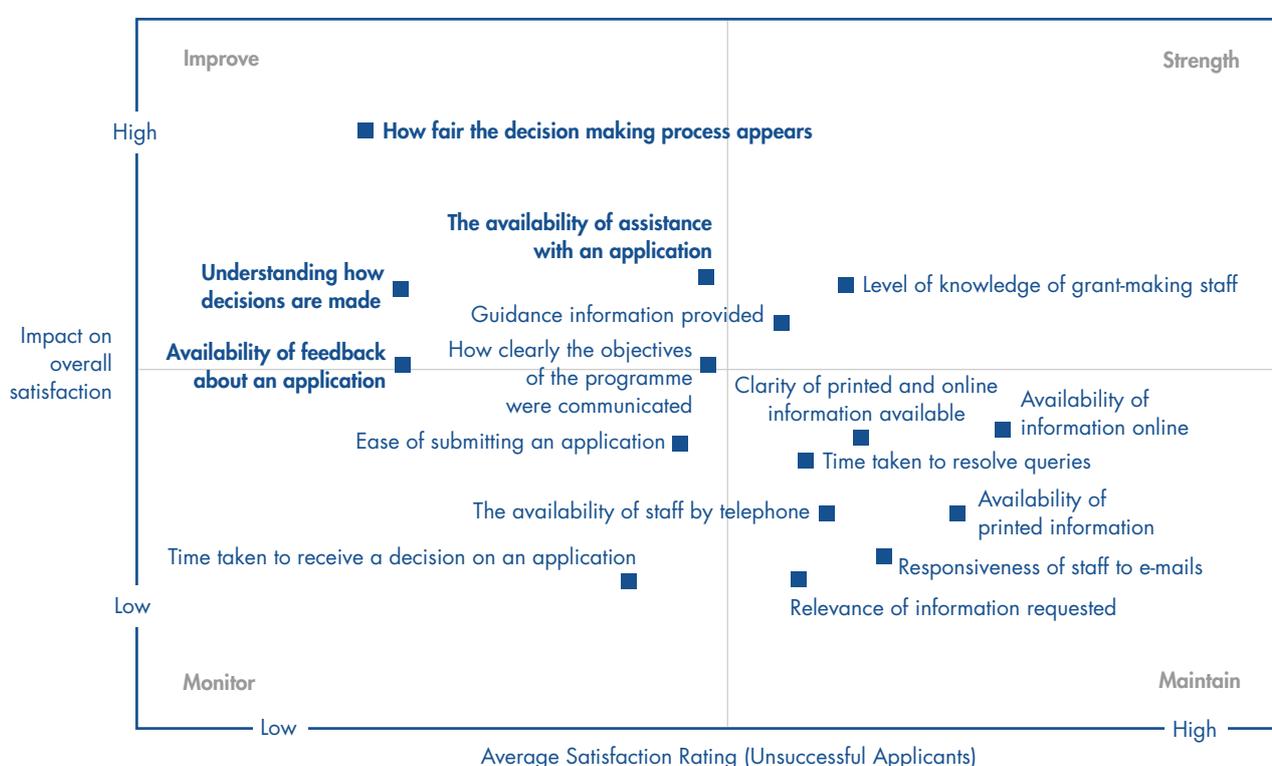
- the time taken to resolve queries is also a strength of the process; however
- the ease of submitting an application and the availability of feedback on an application are the main areas grant-makers could improve.

For unsuccessful grant applicants:

- the guidance information for applications is rated as strength of the grant making process; however
- the clear communication of programme objectives and the availability of assistance with an application were identified as areas grant-makers could improve.

3.13 Unsuccessful applicants also registered low satisfaction with the fairness of the decision making process and their understanding of how decisions are made, although this is a likely consequence of having their applications rejected.

**19** Key driver analysis for unsuccessful applicants



Source: National Audit Office survey of grant applicants

## Making timely award decisions is an important feature of an effective grant-making process

**3.14** In our survey, the time taken to receive a decision on an application did not impact significantly on the grant applicants' overall satisfaction with the grant process. However, it did feature as an area grant-makers should monitor as the satisfaction rating for this element was below average. The National Audit Office's 2006 report on the Heritage Lottery Fund<sup>2</sup> found that a delay in the process could be of concern to applicants if they had to meet other funders' timescales or get a project started at a certain time. Delays could also lead to inflation-related cost increases on projects. The Heritage Lottery Fund has therefore made it a priority to assess applications more quickly and has reduced the time taken to assess applications and give permission to start work.

**3.15** From our interviews with all grant-makers in the sector, we found that they recognised that the time taken to provide a decision was an important factor. They have therefore set targets for providing decisions to grant applicants. We set out in **Figure 20** the grant-makers' targets and their recent performance against them which are also shown in Figures 5 to 8. Figure 20 shows that the grant-makers have set a range of different targets to assess timeliness and their performance against the targets varied. This suggests there is scope for the grant-makers to compare their approaches to identify good practice both in setting meaningful targets and in reducing the time it takes to make and communicate award decisions.

### 20 Time taken to process applications in 2006-07

Organisation	Grant programme	Target	Actual
Arts Council England	Grants for the Arts for Individuals and Organisations	Decision within six working weeks for applications of £5,000 or less and within 12 working weeks for applications over £5,000.	Achieved for 92 per cent of applications
	Regularly Funded Organisations	Not applicable	Not applicable
Big Lottery Fund	Awards for All England	Decision within 8 weeks	86.3 per cent
	Reaching Communities Programme England	Outline proposal: Decision within 15 days Application: Decision within 4 months	82.3 per cent 86.7 per cent
English Heritage	Repair Grants For Places Of Worship	Decision within 26 weeks	100 per cent <sup>1</sup>
Sport England	This target is not programme specific	90 per cent within 10 weeks	92.6 per cent

Source: Performance data provided by the grant-makers

#### NOTE

1 Although some 75 per cent of unsuccessful applicants were notified within six weeks.

2 National Audit Office *Heritage Lottery Fund* (HC 323, Session 2006-07).

# PART FOUR

## Opportunities to improve the cost-efficiency of grant-making

**4.1** The overall costs of grant-making activities depend on a range of factors, not all of which are within the control of grant-makers (paragraphs 2.6–2.7). This part of the report considers the extent to which grant-makers in the sector are managing the demand for grants and seeking to improve the efficiency of their processes. It also considers whether, on the basis of existing practice in the sector and elsewhere, there are opportunities for them to do more by sharing information and, where possible, systems and facilities.

### Managing demand is an important means of containing processing costs

**4.2** We found that in the culture, media and sport sector there is generally high demand for grants and the main grant-makers receive many more applications than they can afford to fund. For example, in 2006–07 the proportion of grant applications which were successful was:

- Fifty eight per cent for the Big Lottery Fund's *Awards for all England* programme;
- Forty five per cent for the Arts Council's *Grants for the Arts for Individuals* programme;
- Forty three per cent for Sport England's *Community Investment Fund* programme;
- Thirty eight per cent for English Heritage's *Repair Grants for Places of Worship* programme; and
- Nineteen per cent for the Big Lottery Fund's *Reaching Communities England* programme.

**4.3** Grant-makers have to strike a balance between the aim of stimulating and encouraging applications from a wide cross-section of applicants and the need to manage demand so that their costs can be contained. Each application for a grant, whether successful or not, must be logged and processed at a cost to the grant-maker.

**4.4** Grant-makers can take steps to reduce the number of inappropriate or low quality applications they receive by providing good quality guidance to potential applicants. But they can also manage the demand for grants in more direct ways, such as by controlling the flow of applications so they make the best use of available resources and do not need to bring in more resources at peak times. Alternatively, they can choose to restrict the number of applications they receive for a grant programme such as by setting a minimum financial value for each grant award or raising the minimum value where one is already set. However, the steps a grant-maker takes to restrict demand must be consistent with the aims of its grant programmes and its wider strategic objectives. For programmes such as *Grant for the Arts* and *Awards for All*, for example, the objective of reaching large numbers of people through small grant awards is an important feature of the programmes and inevitably increases administrative costs as a result.

**4.5** Amongst the eight programmes we examined, we found examples of grant-makers taking action to better manage the demand for their grants. Arts Council England and the Big Lottery Fund, for example, had both recognised the need to manage demand in order to reduce processing costs for their low value, high volume award programmes. In May 2008, the Arts Council raised its minimum award for its *Grants for the Arts* programme from £200 to £1,000. The Big Lottery Fund, whose *Awards for All* programme has a minimum grant of £300, controls the number of repeat applications by limiting each applicant to a total value of £10,000 in applications over a two year period.

**4.6** In **Figure 21**, we set out these and other steps taken by grant-makers in the sector to manage the flow of demand for their grants and to control the number of repeat applications they receive from the same applicant.

## 21 Examples of grant-makers seeking to manage demand in the sector

Issue	Grant-maker/ programme	Steps taken to manage demand
Controlling the flow of a high numbers of applications in the grant-making process	Arts Council England Grants for the Arts	Minimum grant award raised from £200 to £1,000. Applicants must complete previous projects before making a new application. Applications for grants over £200,000 for national activities or £100,000 for grants for organisations need to meet tighter eligibility criteria. “Early review” stage in the process to weed out applications.
	English Heritage Repair Grants for Places of Worship	Controls the flow of applications into its process by batching the applications as they are received. Minimum project cost £10,000. Has explicit and clear priorities for funding in the scheme guidance notes and provides advice to potential applicants, including seminars. Is considering seed-funding a number of support officers within different faith groups, part of whose role will be to work with congregations to prepare sound applications.
	Big Lottery Fund Reaching Communities England	Uses its website and call centre to inform grant applicants of success rates to manage expectations. Added a standard paragraph to correspondence to advise applicants of current success rates (on receipt of application). Grants officers are briefed to cover success rates during telephone assessment.
	Big Lottery Fund Reaching Communities England English Heritage Repair Grants for Places of Worship Sport England Community Investment Fund Heritage Lottery Fund	Uses an outline proposal stage or two stage assessment process to sift the applications to help reduce the number of applications going through the full process; and reduce the cost of dealing with inappropriate applications. Big Lottery Fund has also strengthened its use of this process.
Controlling the number of repeat applications	Big Lottery Fund Awards for All England	Has a cap of £10,000 on total value of grants an applicant can apply for in a two year period, and a condition that the grants must be for different activities.
	Arts Council England Grants for the Arts	Organisations which have received, or applied for, grants from the Regularly Funded Organisations programme must seek written permission from the Arts Council before re-applying.

Source: National Audit Office review of grant-making processes in the sector

## Mapping the grant-making process can identify ways to make savings

**4.7** Grant-makers can also seek to reduce costs by streamlining their grant processes. To do so, grant-makers need to clearly understand the grant-making process before they can make changes. Mapping out the process for each grant programme, as illustrated in Figure 10 and at Appendix 2, is an important first step.

**4.8** By developing process maps in detail, grant-makers can determine where their costs fall and which parts of the process could be streamlined by:

- measuring the time and calculating the costs of each stage of the process;
- identifying where there are bottlenecks or areas of duplication;

- undertaking a cost benefit analysis of each stage of the process; and
- comparing their processes with those of other grant-makers to identify good practice they could apply.

**4.9** In streamlining processes, grant-makers need to take into account a number of factors. They need to maintain and accept the cost of adequate controls to manage risks, such as the risk of fraudulent applications, at a level which is consistent with the principles of sound stewardship of public money and meets the expectations of their stakeholders. Grant-makers also need to keep in place elements of the process, such as supporting applicants in developing grant applications, which help to meet the programme's objectives. These factors can have an impact on the extent to which grant-makers can reduce the time the grant process takes or how much it costs.

**4.10** We found two examples of mapping exercises which had been undertaken recently by grant-makers with the intention of introducing significant changes to their grant management systems:

- Big Lottery Fund commissioned a Business Process Re-engineering project in 2007 which looked in detail at the systems and processes required to deliver the Fund's core business of grant making and grant management. This took a modular approach to costing in detail different stages of the grant-making process so that the potential to make savings could be evaluated against business needs. The project will move a significant part of grant-making on-line and automate it. The Big Lottery Fund is now in the process of procuring the technology to implement the changes, with a view to launching the new system in 2010.
- Sport England, after mapping the processes of grant activity in the regions, estimated that centralising the initial grant application assessment stage for all of its grant programmes could save £600,000. It plans to realise these savings and is opening a shared service centre in Loughborough during 2008.

**4.11** Grant-makers also need to take into account the impact any changes they make may have on grant applicants, and guard against the risk that by streamlining their own processes they are shifting the burden of cost on to grant applicants (paragraph 3.3). Sport England, for example, is considering moving to a one stage assessment process for all grants of less than £100,000. But in doing so, it recognises that this change to its process could increase the burden on applicants who will need to provide more documentation as part of their application.

## Effective use of IT can improve the efficiency and quality of grant-making

**4.12** The greater use of technology can support the streamlining of the grant-making process, and reduce costs by, for example, automating the application stage or parts of the decision making and awards stages of the process. The Museums, Libraries and Archives Council, for example, found that by introducing new grant management software in 2002 the cost of making a grant decreased by 28 per cent after taking into account the costs of additional software support.

**4.13** All applicants to Sport England's *Community Investment Fund* programme can now apply online. We found that for the other grant programmes we looked at, however, the grant-makers continued to receive large numbers of paper-based applications. If grant applicants submit applications on-line, it helps to reduce the number of incomplete or erroneous applications received. At the Big Lottery Fund for example, 62 per cent of the applications it receives for its *Awards for All* programme are initially incomplete. Automating the application process enables grant makers to ensure that applicants are only able to submit applications which meet the eligibility criteria and that applicants complete forms fully before they can be submitted. In considering the greater use of on-line applications, however, grant-makers need to consider how to ensure that applicants who may not be familiar with, or have access to, the internet are still catered for.

**4.14** Providing clear and user-friendly information such as through a website is also an efficient way to make it easier for applicants to access a grant programme. Within the sector, the lottery distributors have set up a joint website to act as an initial entry point for grant applicants seeking information on where and how they should apply for lottery funding. Outside the sector, the Lloyds TSB Foundation for England and Wales re-launched its website in late 2007 as it wanted to make it as simple as possible for charities to submit an application. The foundation had found that previously one in three people downloading the application form from its old website did not download guidelines for applicants, which had led to incomplete or ineligible applications. The new website provides applicants with clearer guidance on eligibility, a downloadable application form with guidelines, and an application checklist to help them make a successful bid for funding. In the United States a common website is shared by 26 federal grant-making organisations which lets applicants know about the grant funding available and enables them to submit applications online (**Figure 22**).

## 22 Grant-makers in the USA have developed automated shared services

In the USA, **Grants.gov** is the Federal Government's single website. The 26 federal grant-making organisations in the USA publish grant funding opportunities and applications on the website. And grant applicants can search for opportunities and download, complete and submit applications for over \$400 billion worth of grant awards across 1,000 grant programmes annually. Given the government-wide scope of the **Grants.gov** initiative, a funding strategy has been developed to disperse costs among the 26 organisations. Each of these organisations is represented on the Grants Executive Board which oversees the initiative.

**Grants.gov** has transformed the federal grants environment in the USA by streamlining and standardising public-facing grant processes, so providing an easier process for grant applicants. As of September 2007, around 3,000 grant opportunities were available for application through **Grants.gov** and over 180,000 grant applications had been received.

The benefits of **Grants.gov** for grant-makers include:

- The ability to inform the grant community about available opportunities through one readily accessible source.
- A readily available means of interacting with the grant community from registration through application processing.

Source: *Grants.gov website and annual report*

- A simplified, electronic grant application process can reduce costs and time.
- Website upgrades and enhancements have added functionality for grant-makers.

The benefits of **Grants.gov** for grant applicants include:

- A single, centralised, secure and reliable source is available to apply for all grants.
- Opportunities to learn about grant opportunities through one readily accessible source.
- A custom designed and readily available means of interacting with all grant-makers, from initial registration to application submission.
- A simple process which saves time and resources.
- The redesigned website improves navigation, enabling more efficient access to government information to help applicants find and use grant information.

## Sharing services can help achieve efficiency savings

**4.15** The National Audit Office report on *Improving corporate functions using shared services*<sup>3</sup> records that the Cabinet Office estimate that by sharing corporate services, such as human resources and finance functions, more effectively, central and local government could make savings of £1.4 billion. Whilst this estimate relates to corporate business functions, rather than to operational processes such as grant-making, it illustrates the scope for potential efficiency gains to be made through sharing processes with a high degree of commonality. *Grants.gov* in the United States provides an example of grant-makers sharing systems and services to achieve efficiency savings. Figure 22 sets out the benefits which this approach offers to both grant-makers and applicants.

**4.16** We found relatively little evidence of shared services among grant-makers in the culture, media and sport sector. One example, however, was the joint website set up with the aim of simplifying application procedures for lottery grants (paragraph 4.14). The website enables a potential grant applicant to identify the appropriate

grant-maker and relevant programmes depending on their location, the value of the grant and the type of project the grant will fund. It then re-directs applicants to the website of the most relevant organisation. Another example is of English Heritage and the Big Lottery Fund operating grant programmes in partnership with, or on behalf of, other grant-makers as is the case for *Repair Grants for Places of Worship* and *Awards for All England*.

**4.17** The Arts Council, Big Lottery Fund, English Heritage and Sport England all have offices across the UK. The Big Lottery Fund's grant making operations are carried out at two central offices in Newcastle and Birmingham, while English Heritage had considered it would be less cost-efficient to centralise its operations. The Arts Council and Sport England however have, or are planning to, centralise some of their grant making activity such as the initial assessment of grant applications currently carried out by their regional offices. Grant-makers could potentially find further savings by centralising more of their operations and there may also be scope for them to go further and look into sharing processes, such as grant payment, in order to reduce their running costs.

3 *Improving corporate functions using shared services* (HC 9, Session 2007-08).

## Grant-makers in the sector could do more to share information about grant-making

**4.18** As well as measuring and reporting on the performance of their grant-making processes, it is important that grant-makers share good practice and lessons learned about grant-making with one another. We looked at how good practice was shared among grant-makers in the sector and found that the grant-makers had not shared lessons learned about managing demand or improving the grant process with one another on a co-ordinated or frequent basis, although, for example, Sport England consulted another grant-maker in the sector about managing demand when reviewing its *Community Investment Fund* programme. Information on costs or grant management practice was not routinely shared by any of the grant-makers in the sector, nor was relevant data collected on a consistent basis. However, there were opportunities to share good practice via networks such as the Lottery Forum which comprised the lottery distributors' Chief Executives and its Finance Directors group operating in England. The Forum met regularly to discuss issues of common interest, including aspects of grant-making.

**4.19** As illustrated in Part Two, a number of the grant-makers are looking to make changes to their grant processes following recent reviews. However, the grant-makers had carried out separate reviews and had not taken the opportunity to work together to identify potential cost savings or efficiency gains. For example, the Arts Council and Sport England were independently implementing shared service centres in different locations, but had not appraised the costs and benefits of sharing facilities or combining any elements of their respective systems. The Committee of Public Accounts, in its 2007 report on office accommodation in the sector, noted the scope for organisations to make savings by sharing accommodation and recommended that the Department take the lead in identifying the scope for such savings.<sup>4</sup>

**4.20** Similarly, the grant-makers had all separately developed and implemented their own grants management IT systems and there was little evidence that they had shared knowledge of effectiveness or lessons learned.

**4.21** From our interviews with people involved in grant-making, we found that, while recognising the different challenges the grant-makers faced, many saw benefits in sharing good practice with organisations working in other parts of the sector. Our review of grant-making in the sector confirms that the programmes are varied and that each has distinctive characteristics. However, we found sufficient similarities in the processes they employ to suggest that there would be potential gains from the grant-makers working together with the Department facilitating the process, to compare costs, to identify good practice and lessons learned, and to explore the scope for sharing facilities or parts of their systems and processes.

<sup>4</sup> *The office accommodation of the Department for Culture, Media and Sport and its sponsored bodies* (HC 488, Session 2006-07).

# APPENDIX ONE

## The methods we used

**1** The aim of our study was to assess whether there is scope for grant-makers in the culture, media and sport sector to improve the cost-efficiency of their grant-making processes. We commissioned RAND Europe to carry out the fieldwork on our behalf. The fieldwork took place between March and October 2007.

**2** The main elements of our work were as follows:

- Sample selection;
- A review of documents relating to the four grant-makers' activities;
- Quantitative analysis to estimate the costs of grant-making;
- Process mapping;
- Semi-structured interviews with the Department for Culture, Media and Sport, grant-makers both within and outside the sector; and representatives of third sector organisations;
- Site visits to grant-makers local offices;
- Grant applicants' satisfaction survey; and
- A review of grant-making practice outside the sector.

### Sample selection

**3** Based on an early review of grant-making in the culture, media and sport sector we identified nine organisations which were the principal grant-makers in 2006-07. These could be characterised by the level of grant expenditure in 2006-07:

- 'High spenders' (grant expenditure above £100 million): Big Lottery Fund, Arts Council England, Heritage Lottery Fund, Olympic Lottery Distributor, and Sport England; and
- 'Mid spenders' (grant expenditure below £100 million): UK Film Council, UK Sport, Museum, Libraries, and Archives Council, and English Heritage.

**4** These grant-makers between them covered the main areas of activity in the sector as follows:

- ARTS – Arts Council England and UK Film Council
- HERITAGE – Heritage Lottery Fund and English Heritage
- SPORT – Sport England and UK Sport
- GENERAL – Big Lottery Fund and Museum, Libraries and Archives Council
- OLYMPICS – Olympic Lottery Distributor

**5** We selected four of the grant-makers, highlighted above – Arts Council England; Big Lottery Fund; English Heritage; and Sport England – to provide coverage of a high proportion of grant expenditure and to represent a range of grant-making activities.

**6** Our research did not cover in detail two of the large grant-makers in the sector – the Heritage Lottery Fund and the Olympic Lottery Distributor. We excluded these organisations because:

- the Heritage Lottery Fund was recently the subject of a National Audit Office report which looked at, among other things, the responsiveness and effectiveness of its grant-making processes; and
- the Olympic Lottery Distributor principally funds the Olympic Delivery Authority, although it is not precluded from funding other bodies. We have chosen to exclude it from this review as statistically its activities to date cannot be usefully compared to other grant-makers.

**7** Across the four grant-makers we identified a sample of eight grant programmes on which to further focus our work as these covered a material amount of grant expenditure. In 2006-07 these eight programmes awarded a total of £647 million in grant funding, representing over a third of the total £1.8 billion in grant expenditure of the sector in that year. The programmes also represented a range of different types in terms of the value and volume of grants they distribute and the objectives they set out to meet. The programmes were as follows:

Grant-maker	Programme
Arts Council England	Grants for the Arts for Individuals Grants for the Arts for Organisations Regularly Funded Organisations
Big Lottery Fund	Awards for All England Reaching Communities England
English Heritage	Repair Grants for Places of Worship
Sport England	Community Investment Fund Community Club Development Programme

## Document review

**8** We reviewed key documents relating to grant-making activities at the four selected grant-makers, including: manuals and policies governing the grant-making processes; the results of previous work to assess the satisfaction of grant applicants; documents related to post-award monitoring, evaluation and performance indicators; annual reports and accounts; and grant application packs.

## Quantitative analysis and cost estimation

**9** We analysed the costs of grant-making for the eight grant programmes in 2006-07 by estimating the average administrative cost for:

- each pound (£) of grant awarded;
- each grant awarded; and
- each grant application received.

**10** To estimate the cost measures, we asked the grant-makers for the following information on each of the eight grant programmes for 2006-07:

- the direct staff costs of grant-making;
- organisational overheads to support the grant-making programme;
- data from any cost estimation exercises recently undertaken; and
- the volume and value of grant applications and grant awards processed in total and at each stage of the grant-making process.

**11** As the cost information available from the grant-makers for the different programmes varied, we undertook further work to estimate the costs using data from a range of alternative sources, including the grant-makers' annual report and accounts. We also estimated the same measures of costs of grant-making for two other organisations outside the sector – BBC Children in Need and Lloyds TSB Foundation for England and Wales – using the above measures. The cost data was taken from the latest available Annual Reports. For BBC Children in Need, we reviewed the Annual Report for the year ended 30 September 2006 and for Lloyds TSB Foundation for England and Wales, we reviewed the Annual Report for the year ended 31 December 2006.

## Process mapping

**12** We mapped the processes of the eight grant-making programmes through a combination of desk research, review of documentation and through interviews with grant programme managers. Appendix 2 sets out the process map of Sport England's Community Investment Fund grant programme by way of an example.

## Semi-structured interviews with the Department and grant-makers in the culture, media and sport sector

**13** We interviewed officials within the Department's Arts, Heritage, Sports, Finance and Lottery divisions to examine the Department's oversight of grant-making activities in the sector; and its role in funding grant-makers.

**14** We interviewed senior staff at the following grant-makers in the sector, including the four which were the main focus of this report:

- Arts Council England
- Big Lottery Fund
- English Heritage
- Sport England
- Heritage Lottery Fund
- Museums, Libraries and Archives Council
- UK Film Council
- UK Sport

**15** Our interviews covered the following areas:

- the grant-makers' objectives and aims in relation to grant-making;
- the characteristics of their main grant programmes, the source of funding and number and type of applicants;
- the processes used to make grants;
- the monitoring and evaluation of grant programmes;
- how the costs of grant-making were calculated;
- measurement and analysis of grant-making costs;
- what work had been done or was planned to map or re-engineer the grant-making process; and
- examples of good practice and of sharing good practice in the culture, media and sport sector.

**16** We also interviewed the Chair of the Lottery Forum, which represents organisations in the sector distributing funding from the National Lottery to gain a wider perspective of grant-making activity, and to examine practice outside the sector we interviewed BBC Children in Need and Lloyds TSB Foundation for England and Wales.

**17** To understand more about the grant applicant's role in the grant-making process we interviewed representatives of groups in the voluntary sector, many who are recipients of the grant programmes this report focuses on. These included the Association of Charitable Foundations; Association of Chief Executives of Voluntary Organisations; National Council for Voluntary Organisations; and New Philanthropy Capital.

## Site visits

**18** We visited the following regional offices of the four principal grant-makers covered by this report to develop our understanding of grant making processes in practice at a local level. The sites visited were:

- Arts Council England – London, Yorkshire, East
- Big Lottery Fund – Newcastle, Birmingham, Manchester (BSS, Big Lottery Fund's contractor for helpline service)
- English Heritage – London, Yorkshire, East of England
- Sport England – North West, East

## Grant applicants' satisfaction survey

**19** For each of the open application programmes we examined, we surveyed a random sample of 50 successful and 50 unsuccessful grant applicants. We asked grant applicants to score their satisfaction with 16 individual elements of the grant-making process within four broad categories:

### Availability of information

- 1 The availability of printed information
- 2 The availability of information online
- 3 The clarity of the information available, both printed and online
- 4 How clearly the objectives of (the funding programme) were communicated

### Ease of communication

- 5 The availability of staff by telephone
- 6 The responsiveness of staff to e-mails
- 7 The time taken to resolve your queries, either by telephone or e-mail
- 8 The level of knowledge of (grant-making organisation) staff

### The application process

- 9 The ease of submitting an application
- 10 The relevance of the information you had to supply
- 11 The guidance information provided
- 12 The availability of assistance with your application

### The decision making process

- 13 The amount of time it takes to receive a decision on your application
- 14 The availability of feedback about your application
- 15 How well you understand how decisions are made
- 16 How fair you think the decision making process

**20** We also asked grant applicants to score their overall satisfaction with the grant-making process. To estimate the time grant applicants spend on the grant-making process we asked them to estimate how long they spent preparing applications and, if they were successful applicants, to estimate the time they spent providing information to grant-makers for monitoring and evaluation purposes. The total sample of applicants surveyed is summarised below.

Grant-maker	Grant programme	Successful applicants	Unsuccessful applicants	Total
Arts Council England	Grants for the Arts <sup>1</sup>	50	50	100
Big Lottery Fund	Awards for All	50	50	100
	Reaching Communities	50	50	100
English Heritage	Repair Grants for Places of Worship	50	50	100
Sport England	Community Investment Fund	51	50	101
<b>Total</b>		<b>251</b>	<b>250</b>	<b>501</b>

## NOTE

<sup>1</sup> Includes the *Grants for the Arts for Individuals* and *Grants for the Arts for Organisations* programmes.

**22** To carry out the analysis we first measured the relationship between the average satisfaction scores for each of the 16 elements of the process and the average overall satisfaction score for the process. The stronger the relationship between these scores, for example if the grant applicants' satisfaction with the availability of information on submitting an application was high and their overall satisfaction with the process was also high, the higher the impact score given to that element.

**23** We then plotted these impact scores for each of the 16 elements against the average satisfaction rating for each element on a graph. The results of the analysis are shown in Figure 18 and Figure 19 in the Main Report.

## Review of good practice

**24** We reviewed practice in grant-making outside the sector to identify examples of good practice and lessons for grant-makers within the culture, media and sport sector and to inform other aspects of our work such as the analysis of costs of grant-making. We reviewed practice in particular at BBC Children in Need, the Lloyds TSB Foundation for England and Wales and *Grants.gov* in the United States.

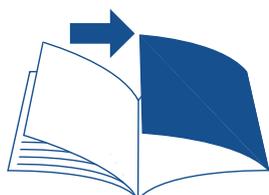
## Key driver analysis

**21** Based on the data generated by the survey we carried out a key driver analysis. We performed the analysis separately for successful and unsuccessful applicants. The analysis helped to explain how grant applicants' satisfaction with the 16 different elements of the grant making process outlined above (such as the availability of information on submitting an application or the time taken to receive a decision on an application) impacted on their overall satisfaction with the grant-making process. It therefore identified those elements of the grant making process which are the 'key drivers' of applicants' overall satisfaction with the grant-making process and those elements which grant-makers should seek to monitor or improve if they are to influence grant applicants' overall satisfaction with their processes.

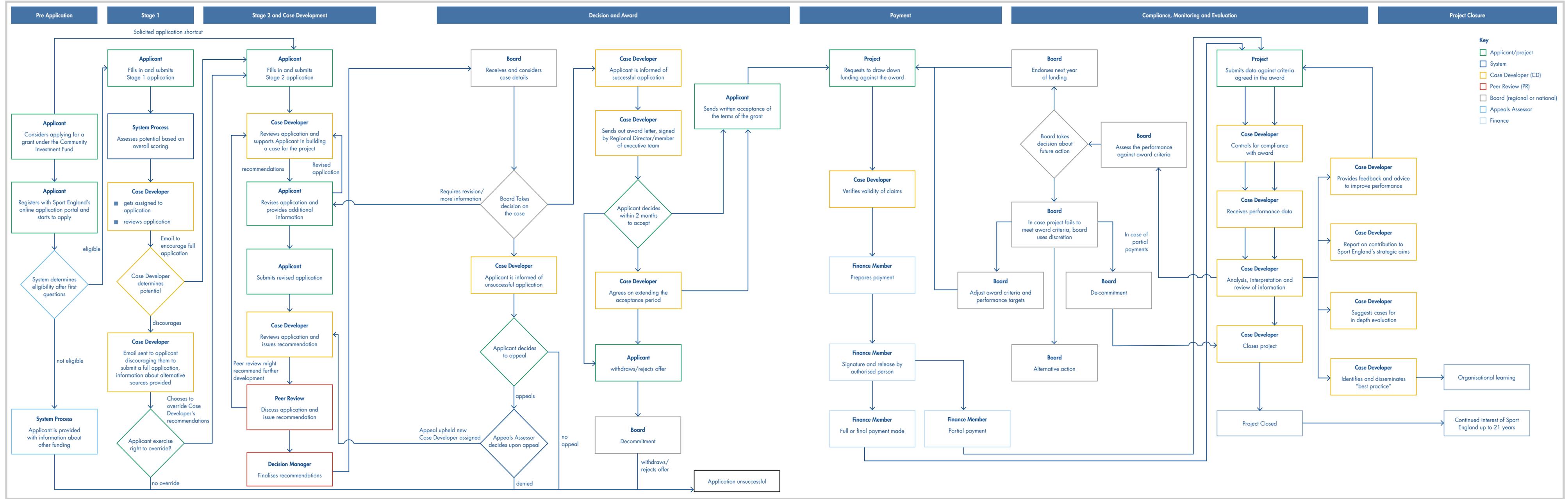
## APPENDIX TWO

### Process map

Process map for Sport England's Community Investment Fund grant programme by way of an example (overleaf)



Process map overleaf





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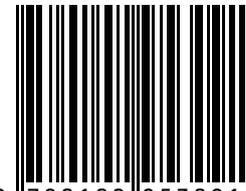
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