LEN REYNOLDS TRUST

Memo To: Philanthropy NZ

From: Melissa Gibson

Subject: Capital Funding

Date: April 2020

Background:

1. The Len Reynolds Trust has not previously been in the business of funding capital projects. We previously had a limit of funding capital in our contestable funding rounds of up to $2,000.

2. This led me to step back a bit and question things – why don't we fund capital projects?; why do other funders contribute to capital projects? Why is there a limit? These are examples of some of the thoughts going on for me. I then set about researching and investigating, the types of funding and the "pros" and "cons" of different ways of doing things. I think it is important for us to always be questioning "why" and asking ourselves is there a better way of doing things – not only for us, but also for the groups we are here to serve, and for our community.

3. This paper will have a particular focus on "capital funding", and why we may or may not choose to go down the path of funding capital projects in the future.

4. For this paper, I did some research into capital funding. There was a lot of information out there about impact investing, and social loans, but there wasn't a lot of focus on why it is that organisations fund capital over other types of funding.

5. I spoke with a number of funders and asked "why" they fund capital projects. There is a lot of information about "what" organisations fund but not a lot about "why" or the strategy around it so the conversations about the "why" were really useful to shape my thinking.

6. I then looked at capital funding through a capital investment lens – why do investors like to invest in capital?

7. Having gathered the above knowledge, I then produced this paper which has fed into a proposed capital funding policy for our board. I have amended this paper for Philanthropy New Zealand members.

Benefits of Capital Funding

8. Benefits of Capital Funding – for the Funder

    a. Adds to the growth of the sector;

    b. Can add to the long term sustainability of an organisation;

    c. Potential to improve systems and sectors and what can be delivered;

d. Marketing – there's usually naming/public acknowledgment etc when you contribute to capital compared to say operating expenses. Name on building, name on a sign – some funders are motivated by that name recognition.

9. Benefits of Capital Funding – for the Charity

    a. When a funder comes on board for a capital contribution, you can leverage this for other funders to come forward – just like you would with investors.

    b. Fit for purpose – the ability to deliver services in the way that you want and need to. Better outcomes for the community.

    c. Owning an asset - certainty of position. Adds to balance sheet – sustainability.

    d. Ability to earn income from the asset.

    e. Permanence – don't have to worry about landlord not renewing your lease.

    f. Capital gain. The potential for the capital asset to increase in value, further adding to the sustainability of the organisation.

10. Disadvantages of Capital Funding – for the Funder

    a. The charity could be tempted to cash up assets for short term cash (no control over them doing so).

11. Disadvantages of Capital Funding – for the Charity

    a. Can impact on and hinder long term plans of the organisation if you are tied to a specific building.

    b. Cost of maintaining/upkeep - building falls into disrepair. Does the charity have the resources to maintain/upkeep? (For example, Council assets. We see this often with Councils not maintaining their assets, and then selling for a loss).

    c. Adds to the charity's balance sheet and this may mean that they are less likely to attract other funding in the future as the charity is seen as "asset rich".

12. Some Anecdotes

    a. Anecdotal evidence is useful as it provides some context to some of these abstract concepts. It is interesting that those I spoke to were quick to remember the projects that didn't work out so well!

    b. The YWCA Experience

        i. Historically, YWCAs provided low cost housing for young women. A number of YWCAs own and operate hostels because of this. Over time as the financial position of women changed, and women had access to social welfare, the need for women's only hostels became less. YWCAs then opened these hostels up to all people. Most YWCA's who are still operating hostels probably couldn't be seen as "social housing" providers and are

probably more in the realm of "social enterprise". A number of YWCAs in fact had to be wound up as the cost of running the hostel and earthquake strengthening these facilities meant the organisation was no longer viable. They could obtain funding for some operating expenses but not for earthquake strengthening and the organisations eventually went under because of the burden of owning the hostel.

ii. For the sake of completeness, I note there are still some YWCAs operating hostels – one of which is in Hamilton. Having a hostel is an income stream for the organisation but they also have challenges around earthquake strengthening. As they own the site, they are in a better financial position than the other YWCAs who went under.

c. Plunket

i. Plunket did own a number of small "plunket rooms" all throughout the country. I am not sure of the exact numbers but there were multiple small sites and I believe that many were purchased or built through community fundraising. As time went on, there wasn't a need for so many small sites. There was also a huge cost to maintain the buildings. The way Plunket delivered their services has also evolved over time.

ii. I understand that a number of the smaller Plunket branches have been amalgamated into the one organisation. Many of the Plunket rooms have been sold, and the preference now is to lease an office or two so the organisation has more flexibility and freedom to adapt to the needs of the Community.

d. Funding a Jetty

i. "Would you fund a jetty?" may seem like an odd question. Is your initial answer no? In this particular example, the new jetty meant that the Fuller's Ferry could go directly to the particular island, saving two hours in travel time each trip. Without the Jetty, volunteers were travelling to a different part of the island and then had to do a one hour tramp to then begin the environmental project. The Island is predator free, and volunteers would go there every Sunday to work on restoration. By funding the jetty, it has meant that the volunteers each have two additional hours each week. That is 200 hours for 100 volunteers per visit! The difference this made to the overall project continues to be amazing. This gives a good example of why it is important to not be too prescriptive in a capital funding policy and to focus on the "why" of a project rather than the "what".

e. Capital Projects in Schools

i. Beware of the unintended consequences of your funding decisions. Through funding capital projects in schools in one particular region, the schools were tendering for these amazing facilities such as theatres, technology blocks and the like. These facilities are good for the profile of a school, and parents want to send their children to schools with amazing facilities. What then started happening was that the schools were focussing on these projects and they then were competing with each other to have the next new facility. Instead of focusing on the teachers and teaching, the schools were in a competition and lost site of their purpose in many respects. This funding focus was then abandoned.

ii. This an example of organisations (in this case schools) changing their focus or vision based on the funding streams available. I am a firm believer that funding should be responsive to the needs of the community and not the other way around.

13. Mitigating the Risks

a. Having reflected on the above risks, and discussing these with others and learning from those experiences, there are ways to mitigate some of these risks which include:

i. Relationships. Like with all funding, relationships are key. Having a relationship where you can have difficult, robust and honest conversation is going to be key when funding a capital project. You don't want an organisation to hold onto a building if it isn't serving its purpose, but you also want to be able to have those real discussions with your funding partners.

ii. Long term. How much thinking and planning has gone into the longer term needs of the organisation? Does this project serve those longer term needs?

iii. Ongoing budget. What is the budget going forward to sustain the operation? Is this grant dependent or does the project enable the organisation to earn income to cover costs and maintenance (or something in between)? Consider capital funding together with operational funding.

iv. Assets. Capital assets are only part of the picture when making our funding decisions. It is important to analyse the nature of any capital assets and not penalise a charity for having assets. (There are a number of charities that set up a separate organisation to hold assets because of this).

v. Consider the ownership of the underlying land. For example, it was suggested to me that a good option is funding buildings where they are on Council or Crown land, ensuring that the building will remain for community benefit long term.

14. Reflections

a. Entering into any type of funding relationship relies on a degree of Trust. At the Len Reynolds Trust, we operate on a model of high trust. Capital funding is no different. If we do decide to fund capital projects, we need to consider:

i. What are the needs of this community? How does this project address those needs? Does this project align with our strategy? One example may be that a small rural community identifies that they need a youth hub. Contributing to the purchase of a building for a youth hub might be one way we can have a huge impact in that rural community.

ii. In general, it is the people who deliver outcomes in the not for profit sector. One of the questions to ask is therefore "what does this project/building/capital deliver that the organisation (i.e. the people) wouldn't be able to deliver without it?"

iii. Put another way, what difference will this project make, and what outcomes will now be delivered?

iv. We are a small funder. The level of our contribution here will undoubtedly be small. Likewise, our requirements of those we fund need to reflect this. We don't want to contribute the smallest contribution and have the most hoops to jump through and the most accountability.

v. It is important to select the right partners – ones we know and trust.

vi. We need to discuss the long term strategy. Has planning been done around future growth? Is there a plan to repay debt and/or maintain and upkeep?

vii. Like with all funding decisions, we do the relevant due diligence and then leave it to the community groups to deliver outcomes in the way they think best – and that may mean that in the future, the best decision is to sell the building we contributed to.