



Do grants to charities crowd out other income? Evidence from the UK[☆]



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ABSTRACT

We use a novel identification strategy to shed light on the effect of grant funding. We focus on charities that applied to a UK lottery grant programme. Where charities score the same on formal criteria, it is likely that informal criteria orthogonal to quality are used to break the ties, allowing us plausibly to treat a grant as a random event. We find evidence that grants have a positive impact for smaller charities, increasing their longevity and even crowding in other income.

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1. Introduction

What effect does receiving a grant have on charities' incomes? Does the funding simply substitute for other sources of funding – do donors reduce their giving and/or do charities reduce their fundraising activities – or does the grant have a positive effect, helping charities to survive and thrive? This issue is crucially important for organisations that fund charities and has been a long-standing area of research (see, e.g., Andreoni (1989), List (2011), and Andreoni and Payne (2013) for summaries). The most recent empirical evidence from the US and Canada shows that donations fall when a charity receives a government grant. The research points to a high level of “crowd out” – an extra dollar of funding reduces donations between 80 cents and one dollar on average. The main mechanism underlying this reduction, however,

is not that donors respond directly to the grant by reducing their donations but that charities reduce their level of fundraising activity, leading to fewer donations (Andreoni and Payne, 2011, 2012).

This paper studies this question using a unique sample of all the charities that applied for a grant from a programme funded out of the UK National Lottery ticket proceeds.¹ We employ a standard differences-in-differences approach to identify the effect of grant funding on charity incomes and compare the change in income before and after the funding decision across successful and unsuccessful applicants. The novelty and strength of our analysis lie primarily in the data we use. Our analysis focuses on a sample of relatively homogeneous charities that have all chosen to apply for funding. We track the charities both before and after the funding application. This allows us to control for time-invariant charity-specific characteristics that affect income. Next, we observe the assessment criteria used to award funding and can narrow our analysis to those “marginal” charities that narrowly succeeded to receive funding and those that narrowly failed. Of course, the decision to award a grant is not random; there is a particular

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¹ The grants are funded out of the UK National Lottery “good causes” funding. Lottery funding represents an important source of income for charities in a number of countries. In the UK, National Lottery funding for charities totalled £0.5 billion in 2010–11, compared to £3.0 billion in grants from the government. There has been relatively little evidence on the impact of this source of funding on charities (for a recent exception, see Jones, 2012).

concern that it may be correlated with pre-existing trends in charities' incomes. We show that there is no evidence of any differential trends and that the main findings are robust to focusing on "marginal" applications.

We find that being awarded a grant has a positive and significant effect on a charity's total income. In other words, these grants do not crowd out other funding sources. Indeed, for medium-sized charities the data lend some support for there being crowd in – £1 of grant income increases income by more than £1.

Our analysis points to a number of key reasons why our findings differ from previous studies. First, we analyse the effects separately for different-sized charities. We find the strongest evidence of positive effects among smaller charities (with incomes <£1 m a year). The size of the lottery grants varies little by charity size, so it is perhaps not surprising that being awarded a grant has a relatively bigger impact on smaller charities' total incomes and we are able to determine the effect of receiving a grant for smaller charities with greater statistical precision. However, it is also plausible that the effects of the grants are larger for smaller charities that have fewer alternative funding sources for raising similar levels of income.

Second, we show that the positive effect of being awarded a grant persists well beyond the year in which the grant was awarded (and the period over which the grant payments are likely to be made), highlighting the importance of assessing policy impacts over the longer-term. Third, we know something about the type of activities for which charities are typically seeking funding under this programme. Usually grants are for distinct, well defined activities that may be different from a charity's current activities. This is consistent with the idea suggested by Andreoni (1998) that seed funding can crowd in other income.

The plan of the paper is as follows: In the next section, we present a simple framework for thinking about the effect of lottery grant funding on a charity's total income. Section 3 describes the National Lottery good causes funding, and our data, in more detail. Section 4 discusses our empirical strategy and Section 5 presents our main results. Section 6 concludes.

2. A framework for assessing the effect of grant funding

Our data contain reliable information on charities' total income, including grant income (Y), and the amount of the grant awarded (G_1). Our empirical tests are therefore:

- (1) whether receiving a grant completely crowds out other sources of income: $\frac{dY}{dG_1} = 0$ and;
- (2) whether total income increases exactly in line with the increase in grant income, $\frac{dY}{dG_1} = 1$, or whether it increases more or less pound-for-pound, which allows us to say something about whether there is crowd in versus crowd out.

To think about the various channels through which receiving a grant might affect a charity's total income, we borrow a simple, conceptual framework from Andreoni and Payne (2012). In practice, a charity's income will come from a number of different sources including donations from individuals (D) and grants from the government (G_2) and from other foundations (G_3) – each of which may respond directly to the charity being awarded a grant.² The charity will also spend money on activities to generate income from these different sources – including fundraising activities directed at individual donors (FR) and grant applications directed at the government (GA_2) and other foundations (GA_3). The charity may adjust these activities following receipt of a grant, and this will also affect its income.

² The charity may also receive other sources of income from investments, sales and legacies that we assume to be unaffected by the grant.

Being awarded a grant will therefore have an immediate effect on a charity's income, but the overall effect will also depend on the responses by donors, the government and other foundations, as well as by the charity itself:

$$\frac{dY}{dG_1} = 1 + \frac{\partial D}{\partial G_1} + \frac{\partial D}{\partial FR} \frac{\partial FR}{\partial G_1} + \frac{\partial G_2}{\partial G_1} + \frac{\partial G_2}{\partial GA_2} \frac{\partial GA_2}{\partial G_1} + \frac{\partial G_3}{\partial G_1} + \frac{\partial G_3}{\partial GA_3} \frac{\partial GA_3}{\partial G_1}.$$

What does the existing theoretical and empirical literature say about the likely direction – and magnitude – of these elements?

The classic crowd out/neutral result of Bergstrom et al. (1986) and Warr (1982) relates to the direct effect of a grant on donations ($\partial D/\partial G_1$).³ The result is based on an assumption that donors care only about the total level of public good. Crowd out will be less than pound-for-pound, however, if donors also get some utility from the act of giving, such as a "warm glow" (Andreoni, 1990).

Recent empirical evidence has provided little support for direct crowd out of donations either from government grants (Andreoni and Payne, 2011, 2012) or from lottery funding (Borg et al, 1991; Banks and Tanner, 1997; Lin and Wu, 2007; Wu, 2012). An exception is Jones (2012) who looks at the effect of the introduction of grants to education from lottery revenues on donations in the US and finds a negative effect. However, these state lotteries differ slightly from the UK National Lottery in that their revenues are dedicated to a single purpose and allocated by the government rather than an independent body.

Alternative mechanisms suggest channels through which grant funding could actually crowd in other income. One is a signalling story in which grants provide a signal to uninformed donors about the quality of a charity (Vesterlund, 2003; Andreoni and Payne, 2003). In this capacity, the grant-funder may act like a lead donor providing information to individuals about the charity, or the specific project for which the charity is raising money. Another story is that the grant provides seed funding for a new project – for example allowing a charity to cover fixed costs and expand its operations (Andreoni, 1998). These mechanisms could be particularly relevant to the lottery grants we study here which typically provide funding for distinct – and often new – projects. There has also been some empirical support for crowd in effects in lab experiments (Bracha et al., 2011) and in field experiments (List and Lucking-Reiley, 2002; Huck and Rasul, 2011). In relation to government grants to universities, Connolly (1997) shows a positive correlation between external and internal funding for academic research while Payne (2001) shows that an increase in government grants to a university increases private donations.

What about the effect of a lottery grant on other grant income, $\partial G_2/\partial G_1$ and $\partial G_3/\partial G_1$? Similar arguments are likely to apply as in the case of donations. Government and other funders may react to a charity receiving a lottery grant by reducing their funding because the marginal benefit of their funding is reduced. Alternatively, they may increase funding because the grant provides a quality signal or covers fixed costs. Most of the evidence points to a negative effect. Andreoni and Payne (2012) provide some evidence that income from other foundations is negatively affected by a government grant, $\partial G_3/\partial G_1 < 0$. They suggest that the absence of a positive signalling effect is consistent with the view that other foundations are likely to be better informed than individual donors. Evidence from the US on the effect of lotteries on government financing of public goods also shows that the purported beneficiaries rarely experience a significant increase in state government spending ($\partial G_3/\partial G_1 \leq 0$). For example, Jones (2012) finds that education lotteries significantly increase revenue but fail to significantly increase education expenditures for education lotteries introduced between 1989 and 2008.

There is less evidence on the direction and magnitude of effects on charity activities. As has been discussed, Andreoni and Payne (2011)

³ The result is based on government grants, but similar arguments apply to lottery funding.

Table 1
Applications and awards, by year.

Year of committee decision	# of committee meetings	Total # of applicants	% of successful applicants	Total amount awarded (£ millions)	Total amount requested (£ millions)	Minimum amount awarded	Median amount awarded	Maximum amount awarded
2002 (Sept–Dec)	16	209	56.9%	£19.3	£39.0	£3506	£137,563	£628,648
2003	57	1385	60.9%	£130.0	£246.5	£4550	£144,293	£819,220
2004	46	1472	46.3%	£102.7	£261.4	£1304	£142,282	£518,364
2005	54	1735	70.4%	£172.3	£279.1	£1500	£134,899	£717,040
2006 (Jan–Feb)	8	270	80.7%	£32.1	£45.1	£2500	£132,819	£737,410
Whole period	181	5071	60.7%	£456.4	£871.1	£1304	£138,702	£819,220

Notes to table: All figures refer to our cleaned sample of 5071 lottery grant applicants. Further details on this sample are provided in Section 3.1.

provide evidence of a sizeable negative effect of grants on fundraising for donations. However, it is plausible that if a grant acts as a signal of quality then the return to fundraising and grant applications – and expenditure on these activities – may actually increase (see, e.g. Payne, 2001).

In sum, the existing literature suggests that the effect of a grant on other sources of income is likely to be negative, but the discussion highlights the lack of a clear prediction. In the next section, we explain how we exploit the UK National Lottery good causes funding to provide new evidence on this issue.

3. National lottery funding

This section describes the “good causes” programme of the UK National Lottery, and how grant applicants for the funds are scored and selected. We explain how we exploit this setting to identify the effect of grant funding on charity incomes. We also describe how the information from applications was matched with the panel data on charities' incomes and expenditures.

3.1. The funding programme

Twenty eight pence from every £1 spent on the UK National Lottery is designated for “good causes” and is allocated to charities, small community groups and sports and arts organisations through five non-governmental bodies: The Community Fund (for charities), the New Opportunities Fund (for small community groups),⁴ the Heritage Lottery Fund (for historic buildings), the Arts Council of England and Sport England.⁵ We focus on one programme, Grants for Large Projects, administered by the Community Fund. This was the single largest grant funding programme for charities from the National Lottery money, accounting for 80% of total funding allocated by the Community Fund.⁶ We analyse a sample of over 5000 applications made between 2002 and 2005.⁷ The distribution of applications by funding by year in our sample is shown in Table 1.

The stated aim of the Community Fund was to “help meet the needs of those at greatest disadvantage in society and also to improve the quality

of life in the community”.⁸ The Grants for Large Projects programme was open to all charities seeking funding of £60,000 or more (the mean award in our sample was £151,295). The distribution of lottery grant funding tended to favour smaller charities relative to their sector's share of total income, and the grants awarded were, naturally, a relatively larger share of pre-award income for smaller charities. This is illustrated in Table 2. Ignoring “micro” charities,⁹ which are an unrepresentative group of very small charities, and focusing on “small” charities, the median grant among this group was more than twice the level of median pre-award income (note that grants could be paid over a period of up to three years), while for “major” charities (incomes £5 m+), the median grant was less than one per cent of pre-award income. Our analysis of the effects of grant funding finds that the degree of crowd out varies with charity size – and is greatest among major charities. The fact that the grants are relatively more consequential to smaller charities may help to explain why this might be the case.

The Grants for Large Projects programme typically funded specific projects – in each case the application described a set of activities to be funded. These activities could be the continuation of existing work, but in most cases, the applications suggested new activities. The majority of applications (80%) were for funding to cover the provision of services, 10% were for the cost of staff or training activities, while the remaining 10% were for capital projects.¹⁰ Below are some examples of proposed activities.

Services: “The project aims to provide a volunteer bureau service for the people living in [the town] and surrounding areas, which will also support people with learning disabilities, excluded young people and older people”.

Staff/training: “[the advice centre] wants to employ a diagnostic interviewer and receptionist to screen and signpost clients to decrease waiting time and increase capacity. Training will be provided to all staff on diagnostic interviewing.”

Capital: “The project will replace a well used Brownie and Guide headquarters. The project will increase and improve activities for children and young people who access the centre.”

3.2. The application process

Grants were awarded based on a two-stage assessment and a final committee meeting. The purpose of the first stage was to eliminate

⁴ In 2005, the Community Fund and the New Opportunities Fund were merged to form the Big Lottery Fund.

⁵ Note that the money was not allocated equally across the good causes. The Community Fund received 4.7 pence of the 28 pence allocated from the Lottery proceeds.

⁶ In addition to the Grants for Large Projects, the Community Fund also had a Medium Grants Program (£5000–£60,000), Awards for All (£500–£5000), and International Program and a Research Program.

⁷ Our initial sample consists of 7522 applications made between May 2002 and December 2005. We merge in information on charities' incomes and expenditures from the Charity Commission Register of charities, covering England and Wales – which together account for 6196 applications. We then focus on 5574 for which there is single application per project. We drop 13 observations where no definite outcome is recorded (defer/in assessment), 370 observations where the requested amount was more than 5 times the charity's income (defined as mean income over the whole period) and 109 obs where information on income is missing over the whole period. Our final, cleaned sample consists of 5071 applications.

⁸ There were six priority groups for funding – children and young people, older people and their carers, disabled people and their carers, black & minority ethnic communities, refugee and asylum seekers and people in areas disadvantaged by social and economic change.

⁹ The split by size follows the National Council for Voluntary Organisations classification. Micro charities have incomes <£10 K per annum; small charities have incomes £10 K–£100 K; medium charities have incomes £100 K–£1 m; large charities have incomes £1 m–£5 m; major charities have incomes £5 m+.

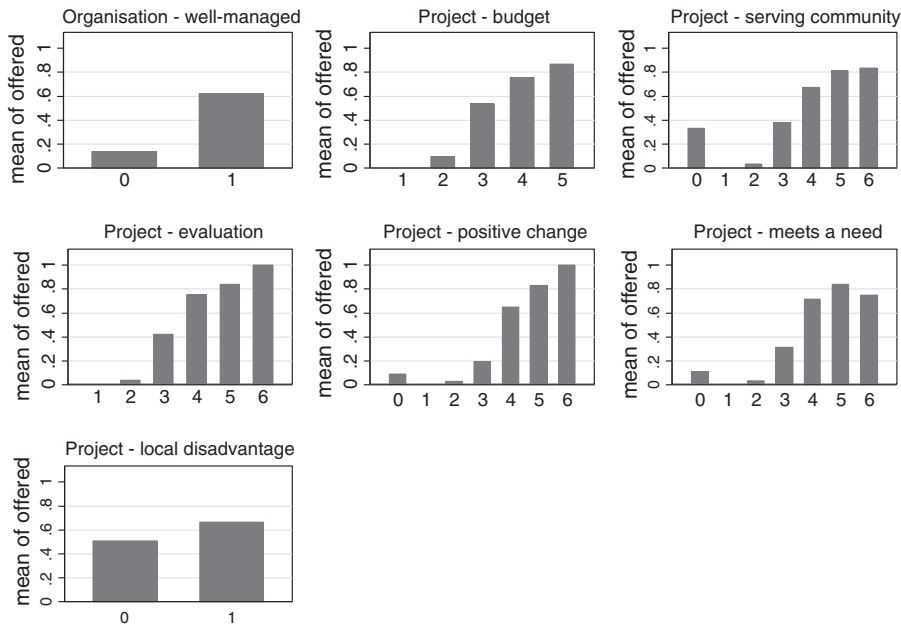
¹⁰ Most applicants did not have to match the funding received from the fund. The exception to the matching requirement was for charities with incomes of £5 million or more. These larger charities were required to contribute – or secure from other sources – at least 25% of the total cost of their project.

Table 2
Distribution of funding, by charity size.

	% Population	% Sector income	% Lottery grants awarded	Success rate	% Lottery funding	Median grant size	Median income
Micro (<£10 K)	53.5%	0.6%	2.8%	72.0%	2.4%	£121,793	£5433
Small (£10 K–£100 K)	31.2%	4.9%	24.8%	62.0%	21.1%	£119,785	£54,143
Medium (£100 K–£1 m)	12.5%	17.2%	52.0%	60.2%	52.3%	£140,000	£278,864
Large (£1 m–£5 m)	2.5%	30.9%	10.8%	55.6%	13.4%	£165,741	£2,120,587
Major (£5 m+)	0.3%	46.4%	9.7%	63.9%	10.6%	£139,907	£26,615,820

Notes to table: The size categories have been defined by the UK National Council for Voluntary Organisations. Information on the population distributions also comes from the NCVO, based on data provided by the Charity Commission. Median income refers to successful lottery grant applications; it is measured over the pre-award period. All figures refer to our cleaned sample of 5071 lottery grant applicants.

a) Individual criteria scores



b) Total score

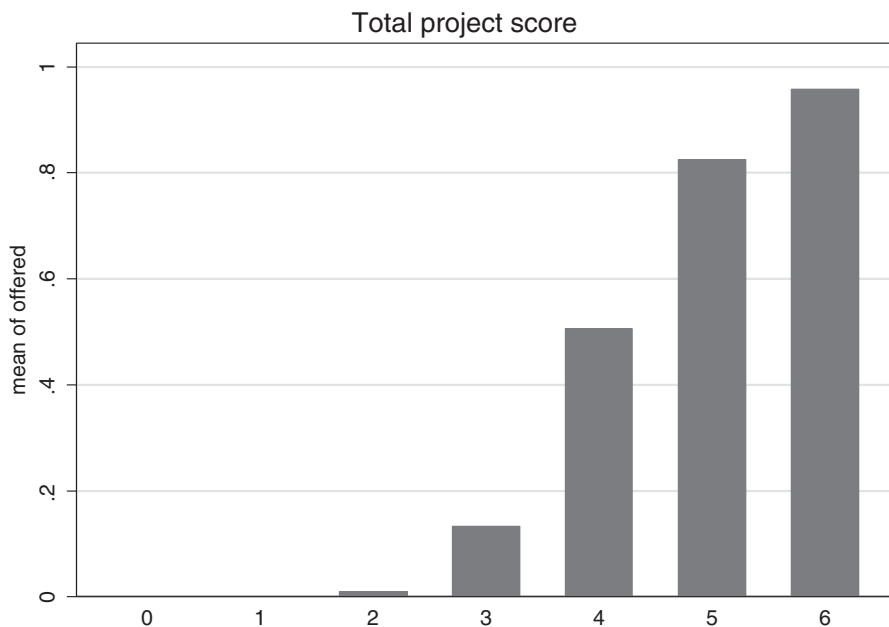


Fig. 1. Proportion of successful applications, by score.

ineligible organisations and applications that clearly failed to meet the programme or funding policies. Our data are from the second stage which involved a detailed assessment of the proposal based on a structured telephone interview and review of the application. In this second stage, proposals were scored along the following dimensions:

- Criterion 1 (“Management of Organization”): Whether the organisation is well-managed and financially sound (scored 0–1)
- Criterion 2 (“Project Budget”): Whether the project budget is accurate and reasonable and is matched by realistic income projections (scored 0–6)
- Criterion 3 (“Serving Community”): Whether the organisation reflects the diversity of the community it serves and demonstrates appropriate levels of user involvement (scored 0–6)
- Criterion 4 (“Project Evaluation”): Whether the project has clearly-defined outcomes and outputs and a thorough and reasonable project plan that will be monitored and reviewed (scored 0–6)
- Criterion 5 (“Impact of Project”): Whether the project helps to bring about long-term positive change in the needs of those at greatest disadvantage (scored 0–6)
- Criterion 6 (“Project Meets a Need”): Whether the project responds effectively to a clearly defined need (scored 0–6)
- Criterion 7 (“Disadvantage”): Whether the project targets/makes a difference to disadvantaged groups in the community (scored 0–6).

For each of these criteria, the projects were scored on the basis of a number of specific sub-indicators. Examples for the first criterion

(whether the organisation is well-managed) are given in Appendix A1, illustrating the comprehensive nature of the second-stage assessment.

The final decision on whether to award funding was made by the relevant national or regional committee, typically made up of part-time (paid) members appointed by the executive staff overseeing the Fund. The assessments and scoring were important for the committees' deliberations, but they were not decisive. This is clear from Fig. 1 which shows the proportion of applications funded by total score (note that for Fig. 1 and in our subsequent analysis, each criterion score is normalised to score out of 1 to weight them all equally). While there is no “critical” threshold score either overall or for any single criterion (ruling out a regression discontinuity analysis), there is a positive relationship between score and likelihood of success.

One can speculate on the lack of a more precise relationship between the score and the success of the application. First, in Fig. 1 we applied uniform weights to all criteria, whereas the each committee member could each provide unique weights. Second, as a non-governmental public body, the Community Fund operated under policy directions from its sponsor department, the Department of Culture, Media and Sport, and likely faced political considerations in terms of sizes, missions, and locations of funded organisations. Third, the committees faced budget constraints based on the expected revenues from the National Lottery. This meant that the chances of success could depend on the total amount of funding available and on the number and quality of the other applications being considered.

Table 3 reports the results from a probit regression of a binary variable indicating whether the application was successful. The first column

Table 3
Grant application success.

	Probit model, marginal effects				Cox proportion hazards model, hazard ratio			
	Dependent variable = grant awarded (0/1)				Dependent variable = charity exit (0/1)			
	(1)		(2)		(3)		(4)	
	Coeff	SE	Coeff	SE	Coeff	SE	Coeff	SE
Grant awarded (0/1)					0.8811	(0.086)	0.7306	** (0.104)
Criterion 1 Management of org	0.910	** (0.164)	1.017	** (0.194)			0.6515	(0.189)
Criterion 2 Project budget	2.623	** (0.213)	2.714	** (0.244)			5.9883	** (3.490)
Criterion 3 Serving community	1.294	** (0.240)	1.509	** (0.273)			0.6662	(0.399)
Criterion 4 Project evaluation	2.444	** (0.224)	2.717	** (0.254)			0.6244	(0.358)
Criterion 5 Impact of project	2.717	** (0.232)	2.820	** (0.263)			1.7657	(0.988)
Criterion 6 Project meets need	2.115	** (0.223)	2.399	** (0.249)			1.4034	(0.809)
Criterion 7 Disadvantage	0.419	** (0.044)	0.393	** (0.052)			0.8647	(0.109)
Ln charity income			−0.005	(0.014)			0.8188	** (0.030)
Ln amount requested			−0.056	** (0.017)			1.0802	(0.122)
<i>Funding for services</i>								
Funding for staff			−0.065	(0.080)			1.2716	(0.206)
Funding for capital			0.136	(0.089)			0.3966	** (0.097)
Funding for development			−0.016	(0.068)			0.8897	(0.130)
Total on table			−0.009	* (0.004)			1.0011	(0.011)
Quarter 2			−0.408	** (0.073)			0.9448	(0.157)
Quarter 3			−0.054	(0.060)			0.9359	(0.128)
Quarter 4			0.259	** (0.067)			0.9545	(0.160)
<i>Social services</i>								
Culture			−0.140	(0.136)			0.4640	* (0.195)
Education			−0.177	(0.111)			1.4150	(0.324)
Health			0.054	(0.093)			0.9282	(0.207)
Environment			−0.032	(0.143)			0.6491	(0.273)
Community development			−0.176	* (0.070)			0.9010	(0.149)
Legal advice			−0.037	(0.076)			0.9367	(0.160)
Philanthropic assoc			−0.058	(0.091)			0.8643	(0.190)
International			−0.447	(0.245)			0.2881	(0.290)
Religion			−0.337	* (0.140)			0.6935	(0.254)
Region							Yes	
N	5071		4582					
R ²	0.308		0.354					

Notes to table: ** p < 0.01; * p < 0.05.

For definition of criteria, see Section 3.2; Amount requested: the amount of funding the charity asked for in its application. Funding for services/staff/capital: the main purpose for which funding was sought (see Box, Section 3.1). Funding for development: whether the activities are new or additional. Total on table: the total amount of funding requested by the other applications at the same meeting. Quarter: the quarter in which the committee meeting took place; Social services – Religion: main activities of the charity (ICNPO classification).

Table 4
Non-missing income data, by period before/after committee decision.

Periods before/after decision	Proportion nonmissing income (all applicants)	Proportion nonmissing income (successful)	Proportion nonmissing income (unsuccessful)
–5	0.727	0.724	0.739
–4	0.736	0.730	0.749
–3	0.790	0.780	0.807
–2	0.828	0.820	0.841
–1	0.885	0.886	0.883
0	0.916	0.928	0.896
1	0.905	0.926	0.873
2	0.893	0.911	0.868
3	0.876	0.897	0.852
4	0.847	0.863	0.823
5	0.824	0.885	0.756
Total	0.861	0.866	0.854

shows the results using only the criterion scores. All of these have positive and significant correlations with the likelihood of receiving funding. Column 2 includes additional controls (descriptive statistics are presented in Table 5). There is some evidence that charities that requested more funding were less likely to be successful, there is also variation in the likelihood of success tied to the total amount on the table and the timing of the committee meeting, both of which reflect the degree of competition for funding, and some limited evidence that charity type matters.

3.3. Identifying the effect of receiving a grant

We use a standard difference-in-differences approach to identify the effect of grant funding on charity incomes in which we compare the

change in income before and after the funding decision across successful and unsuccessful charities. Our sample of grant applicants allows us to focus on a relatively homogeneous group of charities that have all chosen to apply for this source of funding. We also observe the same charities over time, allowing us to control for any time-invariant characteristics of successful and unsuccessful charities that might affect their income.

A potential concern, however, is that the decision to award a grant may be correlated with trends in charity incomes. This could be the case, for example, if applicants are treated favourably when they have privately raised part of the funds for the project. We address this concern in a number of ways. First, we test directly for pre-funding differential trends in income and show that there is no difference between successful and unsuccessful charities. Second, while we do not observe a sharp regression discontinuity design, we are able to exploit the criteria scores to identify charities that, within the group of all applicants, are likely to be even more similar in terms of their characteristics and the projects. We describe this next.

Following a standard approach in the literature suggested by Rubin (1974), we impose a common support across successful and unsuccessful charities using propensity scores based on the probit estimation of grant success with the wider set of controls presented in column (2) of Table 3.

We also create groups of “marginal” charities based on their overall grant proposal score, selecting charities that scored within a range that contained both successful and unsuccessful applicants. We define this range by committee meeting. As pointed out above while the scores received on the seven criteria are predictive of getting an award, they were not the sole determinant of success and we see charities receiving the same score that both were and were not awarded a grant. These are applications where it is plausible that success in securing a grant

Table 5
Characteristics of successful/rejected applications.

	Full sample		Balanced sample		Within meeting marginal applications		Across meeting marginal applications	
	Offered	Rejected	Offered	Rejected	Offered	Rejected	Offered	Rejected
Total score (0–6)	5.01	4.25 ^a	5.01	4.27 ^a	4.80	4.67 ^a	4.46	5.31 ^a
Income (£'000)	£4570	£3915	£4667	£4149	£3906	£4590	£3631	£4065
<i>Type of charity</i>								
Culture	0.032	0.039	0.028	0.038	0.036	0.043	0.042	0.039
Education	0.047	0.054	0.045	0.057	0.046	0.054	0.062	0.042
Health	0.086	0.076	0.086	0.079	0.084	0.069	0.072	0.078
Social services	0.396	0.333	0.399	0.332	0.386	0.346	0.376	0.373
Environment	0.029	0.034	0.028	0.032	0.029	0.038	0.035	0.032
Community development	0.164	0.201	0.160	0.203	0.173	0.199	0.183	0.159
Legal advice	0.140	0.132	0.141	0.128	0.143	0.119	0.147	0.139
Philanthropic intermediaries	0.072	0.078	0.077	0.079	0.072	0.081	0.099	0.071
International	0.007	0.014	0.007	0.015	0.006	0.010	0.009	0.016
Religious	0.027	0.038	0.028	0.038	0.029	0.038	0.028	0.022
Requested amount	£165,871	£180,918 ^a	£165,261	£180,072 ^a	£164,957	£183,978 ^a	£165,582	£182,617 ^a
<i>Nature of funding</i>								
Funding for services	0.806	0.788	0.803	0.777	0.812	0.801	0.783	0.815
Funding for staff	0.097	0.112	0.096	0.115 ^a	0.095	0.104	0.086	0.130 ^a
Funding for capital	0.097	0.099	0.100	0.106	0.081	0.104 ^a	0.131	0.055 ^a
#apps at meeting (/10)	5.86	5.86	5.92	5.90	6.34	6.36	5.99	6.97 ^a
Total £ on the table (£'m)	9.54	9.91 ^a	9.67	9.96	10.40	10.77	9.75	11.74 ^a
Q1	0.340	0.336	0.338	0.328	0.343	0.366	0.322	0.354
Q2	0.118	0.171 ^a	0.123	0.177 ^a	0.121	0.182 ^a	0.092	0.214 ^a
Q3	0.299	0.312	0.293	0.310	0.297	0.303	0.318	0.262
Q4	0.242	0.180 ^a	0.245	0.185	0.254	0.149 ^a	0.267	0.169 ^a
N	3082	1989	2670	1688	1892	1241	1273	308

Notes to table: For definition of criteria, see Section 3.2 provides information on criterion scores; *Income* refers to the mean observed income prior to the committee decision; *#apps at meeting* refers to the number of applications considered at the same meeting; *Total on table* refers to the total amount of funding requested by the other applications at the same meeting. Q1–Q4 refers to the quarter in which the committee meeting took place; *Balanced sample* refers to applications for which the propensity score is on a common support. *Within meeting marginals* are applications with a total score between the minimum score of successful applications at the same meeting and the maximum score of the rejected applications at the same meeting; *Across meeting marginals* are accepted applications that scored below the mean overall score of (all) successful applications and rejected applications that scored above the mean overall score of (all) successful applications.

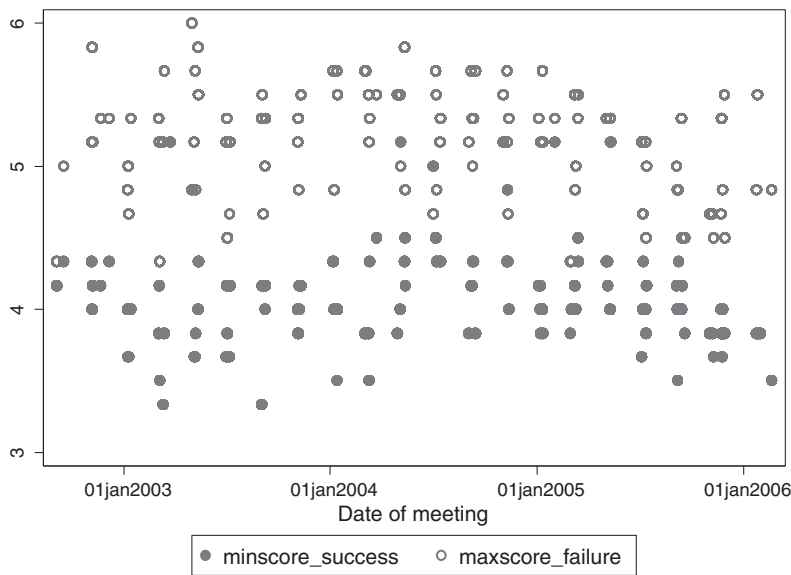
^a Indicates that the difference across the successful/unsuccessful applications is significant at the 5% level.

depended on exogenous factors to do with the committee's need to ensure portfolio balance and/or the timing of the application in being considered by a particular committee. We refer to the charities that were just funded/rejected as “marginal” charities because they are those that were just successful or that just missed out. Focusing on these marginal charities is likely to provide us with control and treatment groups that are more closely comparable in terms of quality.

Specifically, we identify two sub-groups of marginal charities. First, we exploit the fact that the minimum score of successful applications is often less than the maximum score of rejected applications (see Fig. 2, panel a). We select applications that scored above the minimum score of applications that were successful at the same committee meeting, but below the maximum score of the applications that were rejected. This defines a group of “within-meeting marginals” in the

sense of being applications with scores that meant that the committee could have decided either way. The outcomes in these cases are likely to reflect the fact that the committee used its discretion, likely using criteria orthogonal to the charities qualities, such as meeting political concerns or a balancing of types of charities funded, as discussed earlier. This exercise of discretion is more common where the level of competition is higher, as shown in Table 5 by the fact that the sub-group of within-committee marginal applications come from meetings with a higher level of funding sought and a higher level of applications. There may be a remaining concern that the decision in these cases was based on some factor related to the charity's future income growth that is unobservable to us, but was known to the committee. While we cannot completely rule this out, there are a number of reasons to think that this concern is not material, including the comprehensive

a) Minimum score, successful applications and maximum score, rejected applications



b) Mean score, successful applications

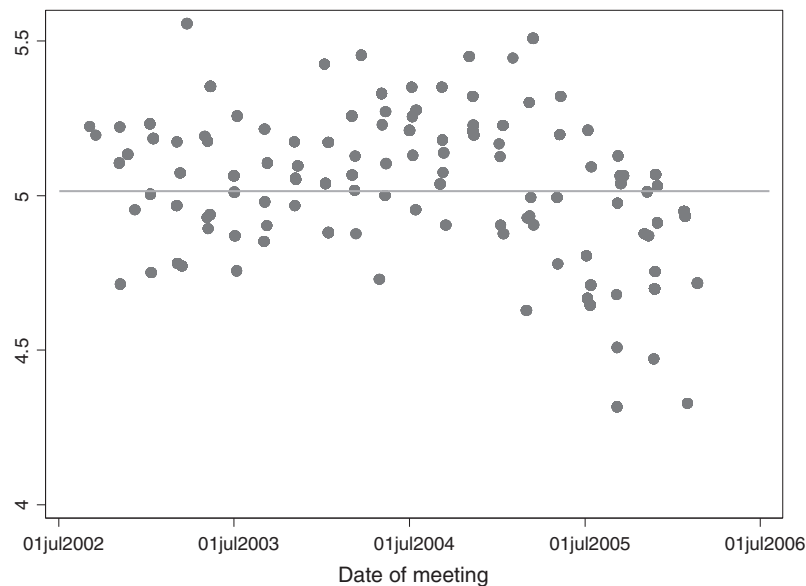


Fig. 2. Scores, by date of committee meeting.

basis for the criterion scoring and the absence of any differential trends prior to the award decision. However, we can also provide a further robustness test based on “across-meeting marginal.”

Our second group of marginal applications exploits variation across committee meetings in the average scores of successful applications (see Fig. 2, panel b). We define “across-meeting marginals” as those that scored above the overall mean of all successful applications and were unsuccessful and those that scored below the overall mean, but were successful. These are applications where the decision could have plausibly gone the other way if they were considered at a different meeting, reflecting the level of competition (the level of funding available and the number of applications being considered at any particular meeting). As shown in Table 5, the successful applications in this group typically faced a low level of competition, measured by the value of the other applications on the table, while unsuccessful applications faced a high level of competition.

3.4. Matching information on charity incomes/expenditures

To complement the grants data we received from the Community Fund, we matched data on charity incomes for 2002–2008 from the Charity Commission register. The register covers all charities in England

and Wales with annual incomes of £5000 or more (charities with income below that level are not required to register). All registered charities must report their total income and expenditure to the Charity Commission; larger charities, those with incomes of £500,000 or more, are expected to report more detailed financial information but this is far from the case in practice and our analysis therefore focuses on the overall effect of receiving a grant on total income.

In principle, if there were no missing observations, our sample would comprise 35,497 observations (5107 organisations observed over seven years, from 2002 to 2008). In practice, as shown in Table 4, information on total income is missing for 13% of our total potential sample. The number of non-missing observations is higher among rejected applicants than among successful applicants in the post-award period. Since charities are expected to provide annual information to the charities commission, not filing information is a potential signal that the charity may no longer be in operation, pointing to a possible effect of a grant on a charity's survival. To explore this further, columns (3) and (4) in Table 3 report the estimates from a Cox Proportional Hazards model. The dependent variable is an indicator equal to one if we observe sustained missing income (“charity exit”). In column (3) the estimation only uses information on whether a grant is awarded; the unconditional hazard ratio is 0.869, suggesting that charities that

Table 6
Fixed effects regression results – the average effect of getting a grant.

	ALL	Micro <£10 k	Small £10 k–£100 k	Medium £100 k–£1 m	Large £1 m–£5 m	Major £5 m+
<i>a. All applications: Dependent variable = log total income</i>						
Award (γ_1)	0.222** (0.020)	0.625* (0.285)	0.404** (0.049)	0.184** (0.025)	0.043 (0.037)	–0.038 (0.034)
# Observations	28,956	663	6664	15,204	3565	2860
# Applications	4584	107	1112	2404	538	423
<i>b. Balanced sample: Dependent variable = log total income</i>						
Award (γ_1)	0.218** (0.020)	0.596* (0.288)	0.399** (0.050)	0.183** (0.025)	0.044 (0.037)	–0.037 (0.035)
# Observations	27,839	648	6364	14,536	3465	2826
# Applications	4358	104	1049	2270	517	418
<i>c. Within meeting marginals: Dependent variable = log total income</i>						
Award (γ_1)	0.225** (0.025)	–0.295 (0.458)	0.418** (0.064)	0.161** (0.031)	0.069 (0.046)	–0.053 (0.042)
# Observations	17,859	369	4073	9455	2188	1774
# Applications	2815	59	675	1490	328	263
<i>d. Across meeting marginals: Dependent variable = log total income</i>						
Award (γ_1)	0.213** (0.049)	0.183 (0.241)	0.390** (0.123)	0.117 (0.068)	0.011 (0.083)	–0.047 (0.090)
# Observations	9113	267	2171	4832	1048	795
# Applications	1435	43	361	758	155	118
<i>e. All applications: Dependent variable = log total income (additional controls)</i>						
Award (γ_1)	0.216** (0.025)	0.520 (0.265)	0.404** (0.058)	0.155** (0.031)	0.003 (0.047)	–0.051 (0.045)
# Observations	28,888	657	6647	15,173	3551	2860
# Applications	4572	106	1119	2398	536	423
<i>f. All applications: Dependent variable = log total income (including zeroes)</i>						
Treatment (γ_1)	0.910** (0.106)	1.319* (0.572)	1.327** (0.228)	0.877** (0.148)	0.289 (0.255)	0.312 (0.314)
# Observations	31,954	742	7742	16,772	3747	2951
# Applications	4572	106	1119	2398	536	423
<i>g. All charities: Dependent variable = log total expenditure</i>						
Treatment (γ_1)	0.186** (0.020)	0.342 (0.370)	0.319** (0.051)	0.162** (0.023)	0.033 (0.037)	–0.031 (0.034)
# Observations	29,064	660	6665	15,207	3563	2860
# Applications	4584	107	1112	2404	538	423

Notes to table: ** p < 0.01; * p < 0.05.

All regressions include year dummies and an indicator for post-decision. The specification in panel e additionally includes a set of interaction terms between the post-decision indicator and the set of variables that determine whether the grant is awarded (scores, charity income, charity type, amount requested, purpose for which funding is sought). *Balanced sample* refers to applications for which the propensity score is on a common support. *Within meeting marginals* are applications with a total score between the minimum score of successful applications at the same meeting and the maximum score of the rejected applications at the same meeting; *Across meeting marginals* are accepted applications that scored below the mean overall score of (all) successful applications and rejected applications that scored above the mean overall score of (all) successful applications. We report robust standard errors clustered at the charity level.

receive grants are less likely to exit, but this is statistically insignificant. Including additional controls in column (4), the hazard ratio falls to 0.731 and becomes statistically significant at the 5% level. This evidence is not conclusive but suggestive that being awarded a grant is linked to a charity's survival, something that has not been explored in previous studies. To the extent that we observe a positive effect on charity incomes, this will therefore be an under-estimate of the overall effect.

4. Testing for crowd out

We first estimate a basic difference-in-differences specification to examine whether successful charities have higher incomes after the award decision:

$$\ln y_{it} = \alpha + \beta_1 Post_{it} + \gamma_1 Award_{it} + \phi_t + v_i + \varepsilon_{it} \quad (1)$$

where $\ln y_{it}$ is log total income of charity i in period t (including income from grants), $Post_{it}$ is an indicator variable equal to one if the charity is observed in a period after the committee met to take a decision on its application, $Award_{it}$ is an indicator variable equal to one if the observation comes after the committee decision and the charity was successful, and ϕ_t is a set of year indicator variables to capture macro-level shocks that would affect all charities similarly. We include charity-level fixed effects (v_i), allowing us to control for unobservable, time-invariant characteristics of the charity (such as its efficiency in delivering services or management) that may be correlated with both the probability of being awarded a grant and the level of its income. We estimate cluster-robust Huber–White standard errors. β_1 captures influences on income for all applicants in the post-award period whereas γ_1 captures the change in income after the award decision for successful charities

compared to those that are not successful. This specification allows us to assess whether or not there is complete crowd out, that is $\frac{dy}{dG} = 0$, by testing $\gamma_1 = 0$.

The results are reported in Table 6. We estimate Eq. (1) separately using the full sample of all applicants (panel a), the sample that is balanced on propensity scores (panel b) and the two sub-groups of “within-meeting” and “across-meeting” marginals (panels c and d). We clearly reject complete crowd out in all specifications. The results show that receipt of a grant has a positive and significant effect on charities' incomes, which increase by just over 20% on average in the years after the funding decision.

As a robustness check, we also run the following specification on the full sample, allowing income after the funding decision to vary by the characteristics that affect the grant being awarded (panel e).

$$\ln y_{it} = \alpha_1 + \beta_1 Post_{it} + \gamma_1 Award_{it} + \delta Post_{it} \times X_i + \phi_t + v_i + \varepsilon_{it} \quad (1')$$

where X_i is a vector of charity and application characteristics, including the set of seven criterion scores, charity (pre-award) income, the service type provided by the charity, the amount of funding requested and the purpose for the funding (capital, staff or services). Our results are robust to including these additional controls.

We run regressions separately for different-sized charities. We find the strongest evidence of positive effects among smaller charities with annual incomes less than £1 million. This is perhaps not surprising. The grants are much smaller for larger charities relative to their incomes, making it harder to detect statistically significant effects. Smaller charities also comprise the majority of our sample (78% of applications); we have fewer observations on large and major charities than for small

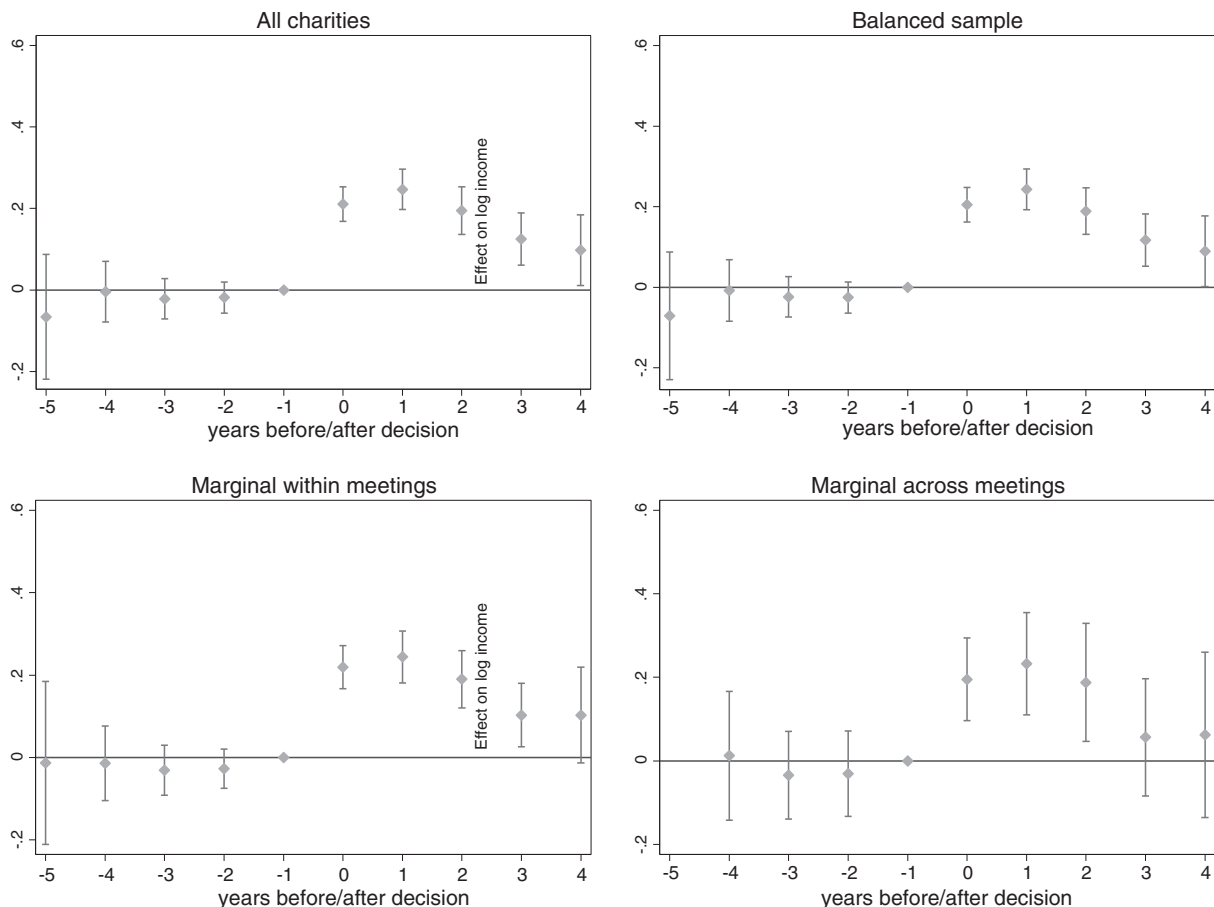


Fig. 3. Dynamic effects of being awarded a grant.

and medium charities. However, it is also plausible that the effects of receiving a grant might be more likely to be positive for smaller charities who may find it hard to raise similar levels of funding to that provided by the lottery grant from other sources. For larger charities, lottery grants are more likely to represent only one in a wide range of different funding options that can all potentially deliver funding at similar – or higher – levels.¹¹

Table 6 contains two further sets of results. Panel e looks at the effect on income when we set missing observations to zero,¹² taking account of the effect of being awarded a grant on survival not just the effect on income among surviving charities. The estimated effects are correspondingly larger since, as we have seen in the previous section, receiving a grant has a positive effect on the probability of survival. Panel f looks at the effect of being awarded a grant on expenditure. The effect is similar to that on income, implying that charities respond to being awarded a grant by changing their activities. This rules out, for example, that they do not spend the grant income but “save” the extra money and use it to smooth future fluctuations in income.

The regression results in Table 6 capture the average effect of receiving a grant on post-award income over a period of (up to) the fourth year after the award. To explore further the dynamics of income before and after the funding decision, we estimate the following specification, including indicators for each of five years before, and four years after the committee's decision on each application ($D_{i(t+r)}$, $D_{i(t+s)}$) and, separately, indicators for each year before and after the decision for charities that were awarded a grant ($A_{i(t+r)}$, $A_{i(t+s)}$):

$$\ln y_{it} = \alpha + \pi_{1r} \sum_{r=-5}^{-2} D_{i(t+r)} + \pi_{2s} \sum_{s=0}^4 D_{i(t+s)} + \rho_{1r} \sum_{r=-5}^{-2} A_{i(t+r)} + \rho_{2s} \sum_{s=0}^4 A_{i(t+s)} + \phi_t + v_i + \varepsilon_{it}. \quad (1'')$$

Fig. 3 plots the coefficients ρ_{1r} and ρ_{2s} , together with confidence intervals. These capture the difference between successful and unsuccessful charities in the change in income from the base year (one year before the funding decision). Crucially, the results confirm that there is no significant difference in income growth between successful and unsuccessful charities in the years prior to the committee decision, consistent with our identifying common trends assumption. This is true for both the full sample of all applicants and for our sub-samples of marginal applicants. This is an important robustness check that rules out that grants are awarded to charities that show better income growth prior to the committee decision and/or to charities that have received funds from elsewhere. It means, for example, that the Community Fund did not respond to decisions made in prior years by other grant-awarding bodies.

The dynamic analysis also highlights that the impact on total income is fairly persistent – successful charities experience significantly higher incomes relative to the pre-period up to the fourth year after the grant is awarded (where 0 is the year in which the funding decision is made). Since the payment of the grant could be made over three years, i.e. over years 0, 1 and 2, this means that the positive effect of funding on total income persists for at least two years after the grant payment period. Such a longer-term effect could be plausible if, for example, receipt of a sizeable grant payment allows an organisation to step up to a new level in terms of activities and income potential. This suggests that the issue of crowd in/crowd out needs to be assessed over a longer time period, not just the

¹¹ Small charities are likely to be newer; Heutel (2009) suggests that a grant will provide a positive signal of quality – and hence be associated with a greater increase in income – for newer charities. We include an additional interaction term for new charities (founded less than ten years ago) and find evidence of a more positive effect in this direction, but the larger effect comes through charity size. These results are available on request.

¹² We set zeroes equal to ten before taking logs.

period in which the grant is received. We return to this in the next section.

5. Testing for crowd in

Our second specification extends the analysis to incorporate information on the amount of grant income awarded:

$$y_{it} = \alpha + \eta_s \sum_{s=0}^4 D_{i(t+s)} + \lambda_s \sum_{s=0}^4 A_{i(t+s)} \times Amount_i + \phi_t + v_i + \varepsilon_{it} \quad (2)$$

where y_{it} is total income (in pounds) of charity i in period t (including income from grants). As before, $D_{i(t+s)}$ and $A_{i(t+s)}$ are sets of indicators for each of four years after the funding decision and award of grant respectively, while $Amount$ is equal to the amount (in pounds) that the charity was awarded if successful. In this model, the coefficients λ_s provide an estimate of the per-pound effect of the grant for each year after the grant is awarded. Adding up the coefficients allows us to look at the combined per-pound effect of receiving a grant across a number of years. Compared to estimating Eq. (1), this specification allows us to test a wider range of crowd out/in effects. Looking over a three year period, for example, we can test complete crowd out ($\lambda_0 + \lambda_1 + \lambda_2 = 0$), partial crowd out ($0 < \lambda_0 + \lambda_1 + \lambda_2 < 1$), “neutral” i.e. total income increases exactly in line with the grant awarded ($\lambda_0 + \lambda_1 + \lambda_2 = 1$) and crowd in ($\lambda_0 + \lambda_1 + \lambda_2 > 1$).

Table 7
Fixed effects regression results – the effect per pound of grant money. Dependent variable = total income (£).

	Small charities £10 k–£100 k		Medium charities £100 k–£1 m	
<i>a. Full sample</i>				
Post0 × amount (λ_0)	0.223	** (0.031)	0.242	** (0.054)
Post1 × amount (λ_1)	0.354	** (0.046)	0.338	** (0.076)
Post2 × amount (λ_2)	0.302	** (0.058)	0.347	** (0.083)
Post3 × amount (λ_3)	0.075	(0.049)	0.198	(0.113)
Post4 × amount (λ_4)	0.050	(0.065)	0.518	** (0.178)
$\lambda_0 + \lambda_1 + \lambda_2$	0.879	** (0.087)	0.927	0.184
p-Value	[.165]		[.692]	
$\lambda_0 + \lambda_1 + \lambda_2 + \lambda_3 + \lambda_4$	1.005	** (0.150)	1.643	0.366
p-Value	[.973]		[.079]	
Number of obs	6695		15,250	
<i>b. Within meeting marginals</i>				
Post0 × amount (λ_0)	0.251	** (0.047)	0.163	* (0.071)
Post1 × amount (λ_1)	0.337	** (0.051)	0.157	(0.084)
Post2 × amount (λ_2)	0.278	** (0.053)	0.162	(0.093)
Post3 × amount (λ_3)	0.064	(0.065)	0.064	(0.152)
Post4 × amount (λ_4)	0.039	(0.092)	0.566	* (0.252)
$\lambda_0 + \lambda_1 + \lambda_2$	0.866	** (0.105)	0.482	* (0.207)
p-Value	[.202]		[.012]	
$\lambda_0 + \lambda_1 + \lambda_2 + \lambda_3 + \lambda_4$	0.970	** (0.203)	1.113	* (0.460)
p-Value	[.884]		[.806]	
Number of obs	4083		9473	
<i>c. Across meeting marginals</i>				
Post0 × amount (λ_0)	0.259	** (0.079)	0.196	* (0.097)
Post1 × amount (λ_1)	0.335	** (0.066)	0.230	* (0.108)
Post2 × amount (λ_2)	0.210	** (0.049)	0.356	** (0.127)
Post3 × amount (λ_3)	0.162	* (0.065)	0.185	(0.203)
Post4 × amount (λ_4)	0.066	(0.104)	0.528	(0.318)
$\lambda_0 + \lambda_1 + \lambda_2$	0.803	** (0.134)	0.782	** (0.275)
p-Value	[.144]		[.428]	
$\lambda_0 + \lambda_1 + \lambda_2 + \lambda_3 + \lambda_4$	1.031	** (0.231)	1.496	* (0.621)
p-Value	[.892]		[.425]	
Number of obs	2148		4841	

Notes to table: ** p < 0.01; * p < 0.05. Regressions include year dummies & indicators for years post-decision. p-Value is for the *test that the effect of the grant is neutral (i.e. that the sum of the coefficients are equal to 1). We report robust standard errors clustered at the charity level.

Lottery grants can be paid for (up to) three years. It is not clear in our data whether charities will report the full amount as part of their total income in one year or smooth it over several years. In addition, as we show below, the effect of receiving a grant on the charity's income appears to persist beyond the payment period, suggesting that we should make an assessment of crowd in/out over the longer term. We therefore test whether the grant is neutral over periods of both three years (i.e. $\lambda_0 + \lambda_1 + \lambda_2 = 1$) and five years (i.e. $\lambda_0 + \lambda_1 + \lambda_2 + \lambda_3 + \lambda_4 = 1$). Table 7 presents our main results. We estimate the specification on the full sample (panel a) and on the two sub-groups of marginal applications (panels b and c). We focus on small and medium charities since we are able to estimate the effect of grants with greater precision for these groups. Note that these two groups account for more than three-quarters of all grants received.

For small charities our results over three and five years indicate neutrality. We cannot reject that total income increases in line with the value of the grant – there is neither crowd in, nor any crowd out. Consistent with this, we also find that most of the per-pound effect comes in the first three years (i.e. years 0, 1 and 2) over which the grant is paid.

This contrasts with medium charities where there are relatively larger effects in years 3 and 4. One possibility is that this may relate to the purpose of the funding – medium-sized charities are more likely to request funding for (new) services, rather than capital or staff, which may indicate a long-term expansion of activities.¹³ In the full sample, we cannot reject neutrality after three years for medium charities, but over the longer, five-year period, the per-pound effect is significantly greater than 1 at the 10% level. In the sub-samples of marginal charities, this result loses significance but is qualitatively similar for the across-meeting marginal. This is suggestive of a crowd-in effect, but not conclusive.

6. Discussion and conclusions

This paper has provided new evidence on the effect of grant funding on charities' incomes. We adopt a novel approach, exploiting information on a panel of charities that applied for lottery funding. Overall, we find that grants do not crowd out other sources of income. This contrasts with previous studies where levels of crowd out are high. One plausible story is that the programme typically funded new, discrete activities for which charities may not seek alternative funding. Our analysis also yields a number of new insights compared to previous studies: First, we show that there are important potential dynamics associated with grant funding with the positive effects of being awarded a grant lasting several years after the funding decision. Second, we find some evidence that grants may improve a charity's chance of survival. Finally, we find the strongest evidence of a positive effect for smaller charities. Overall, our results suggest that grants may play a pivotal role in the funding portfolios of some charities. Applying the same approach to other funding programmes in other contexts where there exist better data on individual components of income and expenditure would help to shed light on these issues still further.

Appendix A1. Scoring for criterion 1

Criterion 1

The organisation is well-managed and financially sound.

You may find the following checklists helpful when you consider the application under this criterion. Further information is available in the reference manual, where “Financial guidelines” will help you to

interpret the annual report, the accounts, and any auditor's reports, as well as discussing notes and fraud indicators. “Personnel and management guidelines” contain further background about committee and management responsibilities.

Management:	
Management committee	<ul style="list-style-type: none"> <input type="checkbox"/> Review the composition of the management committee. ● How many trustees/directors are there? ● How are they appointed? ● Is there a rapid turnover or does it rarely change? ● What backgrounds, skills and experience do they have? <input type="checkbox"/> What expertise do the key personnel have (include the chairman, treasurer, chief executive, accountant, secretary to the management committee)? <input type="checkbox"/> What are the terms of reference for the management committee? <input type="checkbox"/> Does the organisation distinguish effectively between management and governance? <input type="checkbox"/> Do committee members attend meetings regularly? <input type="checkbox"/> What is the quality of information given to committee members and how often is this information distributed?
Staff and structure	<ul style="list-style-type: none"> <input type="checkbox"/> If staff are employed, what is the length of service of the Director and/or senior staff? <input type="checkbox"/> Is the structure of the organisation fit for the purpose set out in the constitution? <input type="checkbox"/> Does the formal structure of the organisation allow management accountability and control?
Management capacity	<ul style="list-style-type: none"> <input type="checkbox"/> Are staff and volunteers adequately supervised and managed? <p><i>If in doubt ask about staff and volunteer turnover, as well as staff sickness levels and seek explanations.</i></p> <p><i>If turnover on management committee is more than 25% in last year, ask for reasons.</i></p>
Financial health:	
Accounts	<ul style="list-style-type: none"> <input type="checkbox"/> Is there a large measure of dependency on one particular source of income? How secure is it in the future? <input type="checkbox"/> Are there any unusual items such as a surplus or deficit on a sale of assets, commencement or cessation of a project? <input type="checkbox"/> What is the ratio of administration costs to total costs? (up to 10% is acceptable) <input type="checkbox"/> What is the ratio of fund-raising costs to fund-raising income (up to 15% acceptable)? <input type="checkbox"/> What proportion of income is spent on charitable activities? (at least 75% should be expected) <input type="checkbox"/> What trends year on year are evident in costs and revenue? Are these favourable or unfavourable? <input type="checkbox"/> Does the organisation have an operating deficit? If so, is it being tackled, can the applicant explain it, or is it running out of control? <input type="checkbox"/> Are the projections achievable for a new organisation? <input type="checkbox"/> Are administration costs reasonable? <input type="checkbox"/> Compare the accounts to the previous year. Are there any significant changes? Why? <input type="checkbox"/> What are the main changes in income? <input type="checkbox"/> Are these trends continuing in the current year? <input type="checkbox"/> Are the major grants secure for the immediate future? <input type="checkbox"/> What sources of income will be terminated? <input type="checkbox"/> Have any items of expenditure increased sharply over the period? <input type="checkbox"/> Are there any foreseeable increases in expenditure in current or future years? <input type="checkbox"/> Is there any additional information in the notes to the accounts such as further detail on fixed assets, further details of funds, or notes on capital commitments and contingent liabilities?
Balance sheet	<ul style="list-style-type: none"> <input type="checkbox"/> Was the organisation solvent on the date of the balance sheet? <p><i>You may want to compare figures with previous year or the management accounts balance sheet. Check:</i></p> <ul style="list-style-type: none"> ● net current assets ● net assets ● bank balances/overdraft ● other borrowing ● future commitments (leases, HP etc.) ● contingent liabilities.

¹³ Services account for 85% of applications from medium charities and 70% of applications from small charities.

Appendix A (continued)

Management:	
	<input type="checkbox"/> A ratio of current assets to current liabilities of 2:1 is ideal. Review funds: <ul style="list-style-type: none"> ● permanent endowment funds ● other restricted funds (use specified by donor) ● designated unrestricted funds ● general unrestricted funds. <input type="checkbox"/> The total of all unrestricted funds should not exceed 12 months' running costs <ul style="list-style-type: none"> ● If fixed assets (buildings) appear, check the provision for maintenance. ● If fixed assets (equipment) appear, check the provision for depreciation.
Current financial information	<input type="checkbox"/> Review the current year's budget. Review the management accounts and cash flow statements since the beginning of the current financial year. Are these up to date? <input type="checkbox"/> Ensure that financial information is used by management and that appropriate action is taken as a result of this information. Any substantial surplus/deficit arising should be investigated. <input type="checkbox"/> Note any changes in operations such as: <ul style="list-style-type: none"> ● commencement or cessation of projects ● changes in streams of income (increase/decrease in grants, donations etc.) ● different pattern of costs and unusual items <input type="checkbox"/> Review solvency and especially bank balances/overdraft <input type="checkbox"/> Organisations yet to start operations should produce income and expenditure projections for the whole organisation for the period of the grant. <input type="checkbox"/> Organisations which have commenced operations but are not yet due to prepare an annual report and financial statements should produce: <ul style="list-style-type: none"> ● budgets ● management accounts showing actual income/expenditure compared with budgets ● where budget and management are not available, ask for copies of cash book and bank statements.
New organisations	<input type="checkbox"/> Does the organisation have a bank account which requires at least two signatories on each cheque? <input type="checkbox"/> If a new organisation, when was the account opened? If no transactions have taken place, are there valid reasons (e.g. new organisations may have opened their first account simply to meet Community Fund requirements)? <input type="checkbox"/> Is there a cheque requisition system? <input type="checkbox"/> How often is a bank reconciliation carried out? <input type="checkbox"/> Is there a separate finance committee or is finance an important finances part of the agenda for trustees, directors, or management committee meetings? <input type="checkbox"/> If short term projected income is less than expenditure, what are they doing about it? <input type="checkbox"/> Are the skills and experience of the treasurer and/or financial manager suitable for this type and size of organisation? <input type="checkbox"/> Who is responsible for the budget of the overall organisation? <input type="checkbox"/> How is spending controlled? <ul style="list-style-type: none"> ● Who orders goods and services? ● Who authorises expenditure? ● Who has control over donations received and spent? <input type="checkbox"/> Are internal financial policies and controls understood and acted upon? <input type="checkbox"/> Are budgets set and management accounts reviewed regularly? <input type="checkbox"/> Are the trustees, director, management committee members, staff experienced in handling substantial sums of money? <input type="checkbox"/> What does the history of the organisation say about its likely future? <input type="checkbox"/> Check for obvious signs of relationships on the management body (such as same name, same address). If any such relationships exist, can related people be both signatories on a cheque? <input type="checkbox"/> What procedures or policies does the organisation have to ensure that there are no conflicts of interest when decisions need to be made?
Bank account	
Management of finances	

Appendix A (continued)

Management:	
	NOTE: If you are aware that there are relationships, and are confident that there are appropriate controls are in place, you should make reference to this within your assessment report. <input type="checkbox"/> Is the organisation aware of and following any legal statutory requirements imposed by its structure and constitution (such requirements as reporting accounts or charitable registration)? If the governing document refers to the Charity Commission, is it a registered charity? If not, why do they make such references? <input type="checkbox"/> Is the applicant aware of and following all legal requirements relating to managing the project and staff (such as equal opportunities legislation, health and safety and employment law)? <input type="checkbox"/> What will they do to ensure that they keep up to date with these throughout the life of the project? <input type="checkbox"/> Have you checked whether the organisation is planning any constitutional changes, including merger or incorporation? <input type="checkbox"/> If so, will this happen before or after any award would be made? <input type="checkbox"/> If before, will this affect the organisation's legal identity? If it does, you should not recommend funding the application (as described in "Changes in legal identity in the reference manual"). <input type="checkbox"/> If after, does this lead to any concerns about the future management of the project?
Legal and statutory requirements	
Constitutional arrangements	

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