



surer funding
August 2006



The Finance Hub is delivering to the government's ChangeUp programme to create voluntary and community organisations that are effective and independent because they are financially sustainable.

The Finance Hub

Charities Aid Foundation
St Andrew's House
18-20 St Andrew Street
London
EC4A 3AY

financehub@cafonline.org
www.financehub.org.uk

t (020) 7832 3014

f (020) 7832 3001



Development Trusts Association

National Office
33 Corsham Street
London N1 6DR

info@dta.org.uk
www.dta.org.uk

t 0845 458 8336

f 0845 458 8337



acevo

1 New Oxford Street
London
WC1A 1NU

info@acevo.org.uk
www.acevo.org.uk

t 0845 345 8481

f 0845 345 8482

This briefing provides an introductory guide for organisations currently delivering, or looking to deliver, public services. It is also aimed at funders of third sector organisations carrying out such a role.

Why surer funding?

Key public services are increasingly being delivered by the third sector – charities and not for profit organisations – on behalf of central and local government. However, contracts and grants can sometimes be insecure or insufficiently forward-looking. This can create a climate of uncertainty in which the sector cannot properly consider long-term and sustainable planning.

By addressing the issues of stability in funding relationships, timing of payments and balance of risk, as well as reducing the burden of bureaucracy, statutory funders of the third sector could place its service delivery on a more stable footing, ensuring better value for taxpayers' money.

The *Surer Funding* report

In light of discussions with representatives of the voluntary and community sector (VCS) and departments I recommend the government improves its funding relationship with the VCS by:

- *improving stability by moving to longer-term, multi-year funding arrangements where possible;*
- *considering carefully the appropriate assignment of risk between the statutory body and the voluntary and community organisation when contracting for service provision;*
- *making further progress towards full acceptance of the principle of full cost recovery, ensuring publicly funded services are not subsidised by charitable donations or volunteers; and*
- *streamlining and rationalising monitoring, regulatory and reporting requirements.*

Gershon, 2004 *Efficiency review: Releasing resources to the front line*

In 2004 the acevo Commission of Inquiry produced the *Surer Funding* report, which was underpinned by research from New Philanthropy Capital. The report's proposals were developed after widespread consultation with the third sector, and input from the Home Office,¹ Treasury and other statutory bodies.

¹ Responsibility for third sector issues has now moved from the Home Office to the Office of the Third Sector in the Cabinet Office.

The report made several recommendations relevant for those third sector organisations already playing, or looking to play, a role in the delivery of public services, and for public sector funders looking to contract more efficiently with the third sector.

The key recommendations had the aim of ensuring there was an effective mechanism to identify good funding practice and bring all funding practice up to a consistent and fair level. This included an accreditation scheme that would enable funders to demonstrate that they apply surer funding practice, and an independent body to oversee the funding commitments.

These proposals have been taken up. In November 2005 the government and the sector announced joint recommendations to establish an independent Compact Commissioner who would take forward work on the accreditation scheme, and a clear and succinct set of undertakings – *Compact Plus*.

The commitments in *Compact Plus* also envisage that third sector organisations should have skills in finance and contract negotiation. This is being supported by the introduction of the Futurebuilders and Change Up programmes – in particular the finance and governance hubs in Change Up. Meanwhile, the Office of Government Commerce is considering how surer funding for the third sector fits within the Gershon Review.

Government's guidance to funders

The government recognises there has been a longstanding tendency at all levels to enter into short-term (that is, one year) funding arrangements with the third sector. Doing so can, and does, create a climate of uncertainty in which the sector cannot properly consider long-term – and sustainable – planning. While some progress has been made, HM Treasury's document *Improving financial relationships with the third sector: Guidance to funders and purchasers* (May 2006),² underlines the importance of creating stability in the funding relationship.

The guidance makes clear that there is a need to guard against advocating long-term funding for its own sake. Instead, the length of funding should be tied to the length of the objective of the funding – with value for money being the overriding principle that dictates whether a longer-term funding arrangement is appropriate.

There should be no standard length of contract. Long-term planning and funding arrangements can often represent better value for money than one-year funding agreements.

HM Treasury, 2006 *Improving financial relationships with the third sector: Guidance to funders and purchasers*

In addition, the introduction by the government of multi-year spending plans aims to provide certainty and flexibility for longer-term planning and management, and so reduce the tendency to be short term and narrow in

² Available from www.hm-treasury.gov.uk

focus. The 2004 Spending Review announced the introduction of full three year settlements for local authorities, which now also have the opportunity to cascade this stability through to third sector organisations, where this represents good value for money.

Guidance on principles

- 1** Risk is an inherent part of public service delivery. In the context of funding, risk describes the chance that costs incurred in delivering a service exceed the revenues.

Risk cannot be eliminated but has to be managed within the funding relationship. Agreeing the balance of risk, as well as the timing of payments, with the provider of the service is central to the creation of effective and agreed incentives.

The current *Compact Funding and Procurement Code* and the imminent *Compact Plus* express the government's commitment to payment in advance. In specific circumstances, government accounting allows for payments to be made in advance of expenditure. These should be made on the basis of need and therefore can, and should where appropriate and necessary, be made in order to achieve better value for money.

The first row of the table on pages 6–7 provides more specific advice, along with further sources of information.

- 2** Contracts for the life of the project have the potential to reduce wasted time and money and improve service delivery. In other countries, this has become the norm for service delivery where the state has become the commissioner and the independent organisation the provider. For example, in Australia contracts are now a minimum of two years for employment services. Longer-term contracts tied to the length of an objective have the potential to save both time and money. See the second row of the table.
- 3** Transaction and reporting costs consume resources that could be used elsewhere. HM Treasury's *Guidance to funders and purchasers* makes clear that funding bodies should ensure their application procedures are clear and as simple as they can be.

Funding bodies should also seek to minimise the monitoring and inspection burden on the recipients of funds to a level proportionate to the level of funding and risk, and which maintains proper control of public monies. See row 3 of the table for further advice.

- 4** Full cost recovery is strongly recommended at policy level by central government for all public sector funders. HM Treasury's 2002 report *The role of the voluntary and community sector in service delivery: A cross-cutting review* first endorsed the principle, stating that:

All government departments should ensure that the price of contracts reflects the full cost of the service, including the legitimate portion of overheads.

For more detailed guidance on full cost recovery, see the briefing 'Full cost recovery', included in this pack, and www.fullcostrecovery.org.uk.

Checklist – principles for risk management

The seven surer funding principles on risk

- Principle I The risks to service delivery, and the mechanisms used to distribute those risks, need to be recognised and understood
- Principle II Risks should be discussed upfront when negotiating funding agreements, recognising that risk has a cost
- Principle III Risks should be placed with the party best able to manage them at the lowest cost
- Principle IV Reducing the number of bodies the provider has to deal with
- Principle V Increasing efforts to ensure consistency between funders
- Principle VI Increasing flexibility in the procurement process to avoid unnecessary procedures
- Principle VII Ensuring that regulatory procedures are fit for purpose and proportionate

Key principles

The key principles of the Surer Funding framework are set out in the table below, with accompanying outcomes and further sources of advice.

Key principles	Outcomes	Relevant tools and initiatives
<p>1</p> <p>Sharing the responsibility for risk</p>	<p>1 Risks are recognised, discussed upfront, and shared appropriately between funder and provider</p> <p>2 The costs of risks are understood by both sides, and risk transfer is funded appropriately</p>	<ul style="list-style-type: none"> ● <i>acevo/NPC 2004, Surer Funding</i> ● Office for the Third Sector, Cabinet Office: <i>Compact Plus</i> ● A risk meeting, based on a risk register
<p>2</p> <p>Contracts are of an appropriate timescale</p>	<p>1 Contracts are multiyear where appropriate, and tied to the length of the objective, and are of an appropriate timescale for service development, delivery and evaluation to take place</p>	<ul style="list-style-type: none"> ● HM Treasury, 2006 <i>Improving relationships with the third sector: Guidance to funders and purchasers</i>

Key principles	Outcomes	Relevant tools and initiatives
Contracts are of an appropriate timescale continued	<ol style="list-style-type: none"> 2 Payments are made promptly, including payments in advance of expenditure, which should be made on the basis of need in order to achieve value for money 3 Performance-related break clauses are discussed and agreed in advance 	
3 Cutting waste caused by bureaucracy	<ol style="list-style-type: none"> 1 Qualification, monitoring and reporting requirements should be focused on outcomes for service users, and be proportionate, consistent and streamlined 2 Where an organisation is funded by more than one agency for providing similar services, monitoring and auditing should be conducted by a single agency 3 The procurement process should be flexible and avoid unnecessary procedures 	<ul style="list-style-type: none"> ● HM Treasury, 2002 cross-cutting review, <i>The role of the voluntary sector in service delivery</i> ● Office for the Third Sector, Cabinet Office: <i>Compact Plus</i> ● Home Office Lead Funder Pilot ● Better Regulation Task Force
4 Fair costing and pricing	<ol style="list-style-type: none"> 1 The price offered for the service allows delivery on a sustainable basis 2 Funding for the relevant portion of organisational overheads is recognised as legitimate in non-procurement situations 3 In procurement situations, the contract should be awarded purely on the basis of value for money; no information should be sought on management or overhead costs – with costs recovered only once 	<ul style="list-style-type: none"> ● acevo/NPC, 2004 <i>Full Cost Recovery</i> ● Office for the Third Sector, Cabinet Office: <i>Compact Plus</i>

The following case studies provide examples of where successful application of the Surer Funding principles has led to marked improvements: more stability though minimising risk (case study 1); growth and expansion for the provider and more high quality public services for the user through longer-term contracts (case study 2); survival and the ability to continue providing vital services (case study 3).

Case studies

1 Minimising risk

Leonard Cheshire: an innovative partnership for high-risk services

Bryan Dutton, Chief Executive

Hollow Lane, a specialist Leonard Cheshire service in Exeter, was developed from a partnership between education, health and social services, which had collectively identified a need for residential provision for the most demanding learning disabled children in Exeter and the wider Devon area.

A range of children had been identified who were living a long way from home and family or in inappropriate accommodation, resulting in spiralling staff injuries due to lack of specialist staff and training. The partners considered various options, including greater use of out-of-county placements (normally privately owned and high cost) but concluded that a small, properly staffed, local residential service near a specialist school was the 'best value' solution.

Leonard Cheshire was one of the few providers willing to take on such a 'high-risk' service and gave a price within the tendering process for a given level of staffing.

Before proceeding the following methodology was developed:

- Leonard Cheshire would provide an open book approach to budgeting, showing how all costs were made up in as much detail as was wanted.
- A partnership monitoring group would be set up, with representation from health, social services, education and Leonard Cheshire. This group would make a recommendation for an annual increase based on the children's increasing/decreasing needs. The contract states 'In the event that the staffing levels fail to meet the requirements ... the service purchaser agrees to amend the contract price', and 'The purchaser will be required to agree this recommended price increase unless it has reasonable grounds for believing that costs are increasing at a lower rate'. In practice, during the first year of operation the price has increased twice and this has been agreed.
- A risk schedule was developed. This states that the capital risk for the building cost would fall to Leonard Cheshire, but the revenue risk of operating the service would fall to the commissioners.

1 Minimising risk continued

On this basis we found a site, built a specialist residential service, and recruited and trained staff. The service has now been open and running successfully for over a year.

A practical example of benefiting from detailed open book budgeting has been the staff sickness assumption. This was set at 4%, but the practical operation of the service found that this was too low, and so a higher level was funded. This very risk prone service, with a large number of cost variables, continues to flourish on the basis of this mature, open contracting basis. The acute nature of the need being met helps to ensure that all parties remain focused and work in partnership.

www.leonard-cheshire.org

2 Longer-term contracts

ECT Group (formerly Ealing Community Transport)

Stephen Sears, ECT group Chief Executive Officer

ECT is a social enterprise committed to providing better services for the community. It is committed to a triple bottom line of social, environmental and economic objectives, improving the quality and sustainability of public services through winning public service contracts.

The ECT group grew out of Ealing Community Transport. It now employs more than 1100 staff, and uses more than 500 vehicles for its services. ECT works in 17 local authorities in England from 12 operating centres. Turnover for 2004/05 was £30 million, and for 2005/06 is estimated to be in excess of £45 million.

ECT is a diversified social enterprise, offering the following services:

- Community and public transport
- Vehicle and railway engineering
- Community railways
- Primary health care
- Recycling and sustainable waste management

The ECT group has grown substantially since its origins. Central to this growth has been a move from grants to contracts. The implications of the two types of funding are set out overleaf.

continued

2 Longer-term contracts continued

Grants

- Payment in advance
- Predetermined budgets
- No commercial risk
- Capital funding for assets
- Short-term planning

Contracts

- Undertaking specified work
- Invoice in arrears
- Payment on terms
- Cost of assets included in contract price
- Longer-term planning

The ECT group has succeeded in obtaining long-term contracts of up to seven years to deliver services to public authorities in London, the west of England, the West Midlands and Northern Ireland. This has allowed longer-term strategic planning and a guarantee of quality to service users.

www.ectgroup.co.uk

3 Reducing bureaucracy

Carers' Sitter Service (CSS)

The CSS is a small charity providing respite services for carers of older people. Because tasks such as helping someone out of a chair to go to the bathroom are classified as 'personal care', the charity was informed by Commission for Social Care Inspection (CSCI) that it needed to register as a 'provider of personal care' and therefore came within the scope of the Domiciliary Care National Minimum Standards.

CSCI thought that CSS fell within the regulations of a full domiciliary care agency. This basically meant that to continue helping those in need volunteers would, amongst other things, have to undertake NVQ training. The charity reluctantly decided to withdraw its personal care assistance – a change that benefited nobody.

The Better Regulation Taskforce encouraged the CSS to re-contact CSCI, which agreed to help find a solution. In order to apply a proportionate approach and in future deal more sensitively with such cases, CSCI met with CSS and listened to its views and the details of the services it delivered. The case took several months to resolve, but a solution was agreed. This involved taking a proposal to CSCI for endorsement of a policy change which would apply to voluntary services. By registering the CSS as an introductory employment agency (an agency that acts solely as introducers of workers employed by the user) rather than as a domiciliary care agency, the CSS was able to continue providing its valuable service in its existing form.

Conclusion

Long-term, sustainable funding is – and always will be – a key issue for the third sector. It appears that statutory funders are making progress, and this needs to become more widespread. Hopefully this short introductory briefing will have helped identify and explain the key issues.

Further information

- For a more detailed explanation of these principles, see the acevo publication *Surer Funding* (NPC, 2004), available from www.acevo.org.uk/publications
- HM Treasury (2006) *Improving relationships with the third sector: Guidance to funders and purchasers*
- Office for the Third Sector, Cabinet Office (2006) *Compact Plus*³
- National Audit Office, Decision Support Tool (DST). This is designed to take funders and purchasers through a structured series of decisions about the design of funding programmes. It is available at www.nao.org.uk/better_funding.

³ Launch imminent at time of going to press.

