The Decline of Local Authority Grants for the Third Sector: Fact or Fiction?

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1 EXECUTIVE SUMMARY

Introduction

Despite an unprecedented favourable policy environment for the third sector, the Finance Hub has noted “a creeping sense of crisis” regarding voluntary sector funding and a widespread perception in the sector that funding has not only changed markedly in character in recent years but has also significantly reduced. In particular, it is felt that ‘grant’ funding for the third sector available from local authorities has faced the greatest decline, gradually being replaced with more ‘restricted’ types of funding, such as contracts and funding for the purchase of commissioned services. It is this central issue in particular which forms the subject of this present report.

The Finance Hub commissioned this research to assist in developing an evidence base in three particular areas: changes in funding; the effect of these changes on third sector organisations (TSOs); and the implications for funders and TSOs.

Data was drawn from surveying and telephone interviewing of a balanced sample of 10 local authorities in each of the nine English regions – 90 in total. 72 telephone interviews were completed and 22 survey responses received. 15 third sector organisations, including frontline and infrastructure organisations, were interviewed across five English regions.

Wide-ranging desk research was also undertaken to identify and collate publicly accessible data regarding funding from each of the local authorities involved. A wider literature survey and policy analysis was also undertaken.

The research was undertaken by brap, a Birmingham-based equalities and research organisation. brap was commissioned by the Finance Hub commencing June 2007 and the research was carried out during the period July 2007 to November 2007.

Key findings

Critical Lessons Regarding Availability of Data

Local authority data of sufficient detail and quality to enable comparative analysis, especially in the areas of grant support vs. commissioning, and restricted vs. unrestricted funds, is largely non-existent at present. The research identified a number of different reasons for this:

- Widely differing interpretations of the terms involved (‘grants’, ‘contracts’, ‘service level agreements’, ‘commissioning’ and ‘restricted’ and ‘unrestricted’ funding).
- Differential levels of awareness regarding the kinds of structural changes currently taking place in third sector funding.
- A trend in most local authorities to separate the functions of small-scale grant arrangements and third sector purchasing, commissioning and contract management, creating a major obstacle to the production of collective data and more sophisticated monitoring models.

- Local authority 'income' derives from different sources – e.g. NRF – and this creates further problems in identifying local authorities' 'independent' spend with the third sector.

Rich qualitative data, however, is available and the findings in this document derive primarily from this information.

Profile of Third Sector Income

Hearts and Minds, the Audit Commission report on commissioning from the voluntary sector, suggests that total local authority expenditure has been on an upward trend since 2000, rising from £1.3 billion in 2000/01 to £3.2 billion in 2003/04. There is little information available that enables the relative mix of restricted and unrestricted funding to be examined, however. Key statistics regarding the income profile of the third sector over broadly the same period can be drawn from other sources:[1]

- In 2003/04 the third sector had an income of £26.3 billion, 38% of which income derived from statutory sources.

- In 2006, for the first time, third sector income from the statutory sector was derived primarily from **fees** rather than **grants** – fees represented 53% of income from statutory sources.

- The sector's income is increasing but this is largely as a result of an increase in the number of organisations. The income of individual organisations is either static or falling. Organisations earning £10,000 to £100,000 saw the largest fall in income – almost 10%. Organisations earning between £100,000 and £1 million saw an increase in average income of 2.4% but overall the sector average income showed only a slight increase (£154,067 to £155,526).

- Sector income is heavily concentrated in a relatively small number of organisations. Over two-thirds of total income is generated by approximately 3,200 organisations – about 2% of the sector. The vast majority of organisations – some 87% – have incomes below £100,000 and together these organisations generate less than 8% of the sector's income. This concentration of resources is becoming more pronounced over time.

Changes in Overall Levels of Local Authority Funding for the Third Sector

27 local authorities were able to supply precise figures regarding levels of *grant aid* (including service level agreements) over the last three years, and 10 more local authorities were able to offer estimates. Whether using only the 'actual' figures or the 'actual + estimates' a decline of around 13% in the sums available in grant-aid to the sector is indicated over the past three years.

In only a few local authorities has the amount of grant funding for the third sector increased and this appears to be in local authorities where the third sector is felt to have done an effective job of promoting its added-value. The available figures suggest third sector funding amongst these authorities in 2004/05 totalled **£2,487,085**, rising in 2005/06 to **£3,013,684** and remaining static at **£3,013,684** in 2006/07. But even here budgets rarely allowed for cost of living increases so it is arguable that these too may have declined in real terms.

[1] NCVO Voluntary Sector Almanac 2006.

Only one local authority was able to provide information regarding restricted vs. unrestricted funds and only for 2006. Here, the total amount of third sector funding for 2006/07 was £14m, of which £13m was provided in the form of contracts. The grant allocation to local groups in 2006/07 was **£780,427.00** – up from **£682,056.00** in 2005/06. The bulk of these awards were made to larger groups in major payments.

Significantly greater sums are currently available to the third sector via the local authority commissioning route rather than as grants. What none of the available data enables an analysis of, however, is whether grant funding is being migrated across to commissioning budgets or is simply disappearing.

This shift towards more restricted types of funding – and of funding being harder to identify for core costs – was borne out in interviews with third sector organisations. One TSO said that grant funding from its local authority "came with so many strings attached that it might as well be a contract". The pressure to collaborate and work in partnership is also a double-edged sword: one TSO explained that in the preceding year it had received £30k to fund a full-time worker, but "this year we had to work with four other organisations and we had to split that same £30k between us".

Key Drivers for Local Authorities

Local authorities were asked what they see as the biggest drivers of change in third sector funding. 29 cited commissioning and 26 cited Local Area Agreements and/or local strategic partnerships. But with the former, most respondents did not see a reduction in grant funding as being intrinsically linked to commissioning – they did not consider that grant funds had 'migrated' across to purchasing. More respondents felt this reduction in grant funds was a consequence of budget cuts, the need for greater accountability and transparency in funding the third sector and the need to pursue efficiency savings following the Gershon report.

Local Authority Views Regarding the Impact of these Changes in Funding on Third Sector Effectiveness

Overall local authorities were fairly evenly split in terms of whether they thought these changes in funding had a positive or negative effect on the sector. There is a perception amongst at least some that changes in funding have actually improved the quality of third sector service delivery, but no available evidence to suggest a systematic assessment of this.

One local authority said, "It is not the council's job to understand the impact funding is having on the VCS… It is our job to deliver good value services… If someone loses a job in the VCS or a small organisation goes out of business then that is sad but as long as it doesn't have a negative impact on residents it's not our concern."

Some local authorities expressed concern that in future the funding sources open to them – such as NRF – would reduce, with a consequent impact on what they were able to make available to the third sector. Several said that there would be "a large gap" in their funding of the third sector. But some sounded a more critical note, urging the sector to end its reliance on declining sources of grant revenue. One said, "The sector is often very good at marketing itself as poor. I really think that the sector has to grow up and look at itself… The sector here says we are good, give us money."

Few local authorities are reviewing the impact these changes in funding are having on the third sector or developing third sector strategies.

Third Sector Views Regarding the Impact of these Changes in Funding

Third sector interviewees were asked specifically about their ‘lived experience’ of coping with changes in local authority funding. A wide range of issues were raised:

- There is some evidence that smaller organisations are losing out to larger ‘super charities’.

- Organisations are having to get better at apportioning their core costs across a number of different budgets and/or income streams.

- Others are having to think much more creatively about the factors that will help them generate income and in some cases and this can include learning from the private sector.

- Third sector organisations have particular problems in generating sufficient surplus from restricted funds – especially public contracts – to invest in the business and grow their capacity and this can also have an impact on both the range and volume of services they offer.

- There is also an impact on TSOs’ abilities to deliver their social mission. One TSO explained, “Our mission has definitely been affected. We’ve had to re-do our business plan and concentrate on core services and sustaining those. We’ve lost a lot of our projects.”

CONCLUSIONS

1) The limitations of, and profound difficulties in accessing, consistent and comparable data regarding local authority grant support and other investment in the third sector – especially restricted vs. unrestricted funds, and grant-aid vs. commissioning – poses one of the most significant challenges for future work in this area.

2) This lack of information arises from widely differing interpretations of the terms used and there is a need for much greater consistency in order to enable clarity and dialogue.

3) Available data from the sample of local authorities indicates that grant-aid funding has declined over the past three years by at least 13%. Data from other sources would seem to support this view. Income amongst the majority of smaller VCOs (£10k-£100k turnover) has declined by around 10%, while incomes for larger organisations are thought to have increased marginally or to have remained at a standstill. There is also evidence to suggest that in addition some voluntary organisations are having to do more with the declining grant funding they do receive, and this includes splitting funding between a group of service delivery partners.

4) Significantly greater sums are available to the voluntary sector via commissioning and contracts than via grant-aid and this trend is now markedly increasing across the sector. In 2006, voluntary sector income from

statutory sources was dominated by fee income for the first time: fees accounted for 53% of this income.

5) The majority of local authorities interviewed believe that the make-up of third sector funding has changed, and that this has been marked by a shift towards restricted rather than unrestricted funding. Over one-third believes that the primary driver has been a shift to more centralised commissioning models. But significantly, very few local authorities see a link between declining grant resources and increased use of commissioning as the preferred purchasing model.

6) While there is currently no unified data that categorically indicates that grant resources are 'migrating' across to commissioning budgets, this does not mean that this isn't happening. At least one city council was categorically identified as 'rolling up' its own grant spend, main programme resources *and* income from other sources, such as ESF, into a 'single commissioning pot'. For many TSOs this presents a tightening noose of competition and it is this that appears to be having the greatest impact – especially on those groups that fail to meet commissioning thresholds.

7) The sector is currently struggling to find ways to evidence the impact of these changes on its delivery and prospects for sustainability and has yet to successfully communicate these messages to local government. But this may also indicate a hardening of attitude amongst some local authorities that do not see it as their responsibility to 'safeguard' the third sector.

8) A significant number of local authorities still consider that third sector budgets are an "easy option" for cost-cutting because they can be reduced with less political opposition and generally less opposition from voters.

9) This current funding climate is creating major challenges for TSOs that are seeking to build their capacity or invest in scaling-up operations. But it is also having a negative impact on both the range and volume of services the sector is able to deliver. In 2005 alone, one-third of ACEVO's 2,000 members had to close services due to an inability to fund them.

1.1 RECOMMENDATIONS

In concluding this work, brap makes recommendations to national policy makers, funders and third sector organisations. The Finance Hub supports these recommendations:

1.1.1 National Policy Makers

Capacity builders, Communities and Local Government, Office for the Third Sector, the Compact Commissioner and the Local Government Association in particular should:-

1) Outline stronger monitoring requirements from Local Authorities to help identify and generate evidence of how different funding agreements impact on

third sector organisations' abilities and capacity to deliver public services, plan for sustainability, scale-up operations and improve their developmental prospects. Key agencies listed above (including the Compact Commission and ChangeUp Consortia) should be encouraged to work *collectively* to engage local authorities in this critical dialogue.

2) Provide support to assist local authorities to collect better and more comparable and consistent data regarding their third sector funding arrangements. In the current transitional period when relatively new commissioning models are being widely applied to third sector service provision, there is a window of opportunity for a number of the agencies listed above to offer guidance.

3) Improve enforcement and regulation of the 'Funding and Procurement Code of Good Practice' and related guidance. In particular this should include taking steps to ensure Local Authorities are encouraged to implement full cost recovery in a more consistent way. It will involve more rigorous monitoring through the LAA process and ensuring that support is provided to support commissioners and grant makers to do this. To assist this, the role and function of Compact Commissioners should be reviewed to ensure relevant guidelines are being adhered to.

1.1.2 Local Authorities

Local Authorities should:-

1) Identify and implement a consistent approach to monitoring funding for third sector organisations (between departments – e.g. children and young people, environment). This should include an indication of the 'type' of funding being provided (e.g., grant, contract etc) and the scope and length of that funding (e.g. delivering specific public services, core costs). Where possible information about total third sector expenditure across departments should be collated centrally to help identify changes in Local Authority funding for the sector.

2) Ensure that effective third sector engagement mechanisms are in place (e.g., through Local Strategic Partnerships, third sector contract management processes, end of project evaluations) to enable third sector organisations to share information about the impact of particular funding approaches on the effectiveness of service delivery and the development of local third sector capacity and infrastructure.

3) Consider how third sector organisations can be encouraged to share information about the infrastructure/ capacity building support they need in order to deliver against Local Area Agreement targets. If current Local Authority funding is not helping organisations to fill that gap, who is? If no resources are available, how can Local Authorities work with other partners (e.g. local infrastructure organisations) to help stimulate a diverse and 'contract – ready' third sector economy? These are issues that should be considered as part of the Local Area Agreement process.

1.1.3 Third Sector Organisations

Third sector organisations should:-

1) Develop systems to generate the evidence needed to demonstrate the effect of changes in Local Authority funding (e.g. a relative decrease in the amount of beneficiaries they have been able to work with and evidence that this is a result of changes in funding and that residents are unable to access services elsewhere). These are crucial messages that need to be shared with local authority partners. But they need to be shared *in a language they can relate to*. This will probably require more investment in undertaking internal monitoring and evaluation, but it could help to pay large dividends for third sector organisations.

2 FULL REPORT - INTRODUCTION

In recent years Government policy has emphasised the central significance of, and a growing role for, the third sector – in social and economic regeneration, public service delivery, and 'voice', campaigning and strengthening civic society.

This direction of travel has been evident in public policy for at least ten years now, and can in large part be traced back to recommendations made in the profoundly influential report of the Deakin Commission on the future of voluntary action and the voluntary sector.[2] The subsequent publication of the Labour Party policy document *Building the Future Together*,[3] establishment of the Voluntary Sector Compact in 1998, the publication in 2002 of *The Role of the Voluntary and Community Sector in Service Delivery: A Cross Cutting Review*[4] and subsequent establishment of the ChangeUP programme, the national "hubs of expertise" and the Capacitybuilders fund are milestones in a decade of policy aimed at transforming the third sector landscape.

In 2004, largely as a response to recommendations contained in *The Role of the Voluntary and Community Sector in Service Delivery: A Cross Cutting Review*, the Home Office consulted widely with the sector and published *ChangeUp: A Capacity Building and Infrastructure Framework for the Voluntary and Community Sector*.[5]

This latter document recognised that voluntary and community sector organisations would need to raise their game and scale-up their operations if they were to realise the ambitious goals Government has for the sector. Building the capacity and capability of the sector is considered central to this and the ChangeUP framework called on other funders to modify their funding practices so that they too could contribute to these core aims of strengthening the voluntary sector: "Sustainability can only be guaranteed," the framework said, "If other funders ensure that their investment takes account of the capacity needs of frontline organisations and funds the infrastructure that supports them. The costs of infrastructure support should also be included in contracts and grant payments to frontline organisations."

But in 2006, *Strong and prosperous communities*, the Local Government White Paper,[6] confirmed the Local Strategic Partnership as the "overarching strategic partnership for an area" and placed a requirement on all county and unitary authorities to put in place plans that would enable their Sustainable Community strategies to be properly implemented – these plans to be known as Local Area Agreements (LAAs). The development of LAA structures forms a further dimension to this present research as in recent months, as other research commissioned by the

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[2] Robb. C, (ed), Voluntary Action: Meeting the challenges of the 21st century, NCVO (1996). Originally published as the final report of the Commission on the Future of Voluntary Action, a non-governmental commission established by NCVO in 1996 and chaired by Prof. Nicholas Deakin. Since republished in an expanded edition (2005).
http://www.ncvo-vol.org.uk/uploadedFiles/NCVO/Policy/voluntaryaction2005.pdf
[3] Building the Future Together – Labour's policies for partnership between Government and the Voluntary Sector (1997).
[4] The Role of the Voluntary and Community Sector in Service Delivery: A Cross Cutting Review, HM Treasury (2002).
[5] Home Office / Active Communities Unit (2004).
[6] Strong and prosperous communities: The Local Government White Paper, Dept for Communities & Local Government (2006).

Finance Hub has demonstrated,[7] local authorities, Government departments and even arm's-length national funding programmes such as Capacitybuilders, are now considering how best their funding resources can be aligned with, and made to flow through, LAA structures, thus supporting LAA outcomes.

And yet despite this unprecedentedly favourable policy environment for the third sector, the Finance Hub has noted "a creeping sense of crisis" regarding voluntary sector funding,[8] with demand for its services dramatically increasing, particularly with regard to support for income generation. An analysis of ChangeUP Consortia infrastructure investment plans carried out for Capacitybuilders by the Good Foundations Consultancy also reinforces the view that funding and finance issues are of overwhelming importance to the sector, with the majority of infrastructure investment plans examined (78 out of 109) having a "strong or moderate focus on financial support needs".[9]

In addition, overall implementation of the Voluntary Sector Compact code has been patchy at best, with many commentators noting poor progress towards Compact-compliant commissioning of services (i.e. longer term funding periods, greater transparency, more timely information regarding tendering opportunities and a general opening up of the public sector marketplace to greater numbers of third sector providers) and persisting difficulties in securing 'full cost recovery' from public service contracts.

The Charity Commission, for example, has identified that many public service contracts are so under-priced that delivery of these by third sector organisations requires them to subsidise the services from their charitable donations, potentially in breach of charity law.[10] And as recently as November 2007, the Association of Chief Executives of Voluntary Organisations (ACEVO) stated that "there is a core costs crisis" in the sector, with declining unrestricted funds and a combination of other factors – including under-costed public service contracts and an inability to implement full cost recovery models – creating inefficiencies or even major "financial crises". In 2005 alone, one-third of ACEVO's 2,000 members had to close services due to an inability to fund them.[11]

There is, then, a widespread perception that funding for the third sector has not only changed in recent years – in terms of where it comes from, how it is accessed, and what it can be used for – but that it has also significantly reduced.

In particular, it is felt that 'grant' funding for the third sector available from Local Authorities has faced the greatest decline, gradually being replaced with more 'restricted' types of funding, such as contracts and funding for the purchase of

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7 *Intelligent Funding: From Vision to Reality*, brap for The Finance Hub, December 2007 (ref: FH17). This research complements the present report.
8 Finance Hub Business Plan 2007-08, p.5.
9 Seiderer, N., Changeup Programme: Infrastructure Investment Plans – Collation and Analysis of Data: A Report For Capacity Builders, Good Foundations Consultancy (2006). http://capacitybuilders.org.uk/downloadfile.aspx?ID=111
10 *Stand and Deliver: The future of charities delivering public services* (Charity Commission, 2007), the Charity Commission's latest survey of 4000 charities highlighted serious problems in public sector contract acquisition by charities. It reveals that many state contracts are under-funded and are being subsidised by charitable donations – possibly in breach of charity law. It also states that: only 12% of contractors manage full-cost recovery in every case from the contracts they sure, and 43% never manage full-cost recovery. Almost half say their activities are determined more by funders' criteria than their own mission. Two-thirds of public service contracts are still offered for only 1 year or less – only 13% last more than 3 years.
11 Full cost recovery – external funding national conference, 22/11/07.

commissioned services. It is this central issue in particular which forms the subject of this present report.

The Research Organisation

The research was undertaken by brap, a Birmingham-based equalities and research organisation. brap was commissioned by the Finance Hub commencing June 2007 and the research was carried out during the period July 2007 to November 2007.

3 PURPOSE, SCOPE, METHODS & CRITICAL LESSONS REGARDING AVAILABILITY OF DATA

But does the available evidence really support such a picture of declining local authority grant support for the third sector? Local Authority funding still represents a significant percentage of the overall income for third sector organisations. A recent Audit Commission report found little evidence to support the view that Local Authorities are cutting 'grant budgets'[12] and suggests instead that a perception of declining local authority grant funding may be caused by the following:

- Growth in government funding to the voluntary sector has come through contracts rather than grants.
- The increasing use by Councils of competitive tendering and centralised commissioning to procure services that used to be funded through grants (with grant funds now being used for other things).
- Available grants from various sources – including in some cases the independent charitable sector – being realigned with sometimes narrower strategic priorities.
- And fewer 'unrestricted' grants – a lot of grants now have Service Level Agreements (SLAs) attached to them as standard practice and to many in the third sector these are regarded as being the same as contracts.

Given the potential implications of these changes in the nature of local authority funding for the future development of third sector organisations, the Finance Hub commissioned this study to help develop an evidence base regarding:

- Trends in the types of funding Local Authorities provide for third sector organisations, in particular 'restricted' and 'unrestricted'.
- And how TSOs are responding to these changes and whether there are any particular issues regarding their development or sustainability.

3.1 Purpose & Objectives

The purpose of this research is to assist the Finance Hub in developing an evidence base in three particular areas:

Changes in Funding

- Identify and quantify the changes in levels of restricted and unrestricted funding provided by a sample of English Local Authorities.

[12] See Audit Commission, *Hearts and Minds: commissioning from the voluntary sector – public services national report*, July 2007. The Audit Commission used results from nine councils that were able to provide reliable grants data. Between 2003/4 and 2004/5, there was no discernible pattern of reduction in grants. The value of grant funding had increased in five councils and decreased in four. Similarly available information about central government grants administered by councils has remained at approximately the same level between 2005/6 and 2007/ 8.

Effect on TSOs

- Explore how any changes have affected TSOs' development and delivery.

Implications for funders and TSOs

- Provide suggestions for how improvements can be achieved between funders and TSOs and how organisations can respond to changes in the funding environment.

This report focuses primarily on the first objective of this research project. The latter two objectives are covered in more detail in an accompanying set of case studies and briefings. However, some of the key headlines from our research with third sector organisations are drawn out in section 3 and implications for funders are discussed in the conclusions and recommendations section.

It is anticipated that this report will be of interest to:

- **Third sector organisations**: by providing evidence that explains changes in local authority funding over time and the potential impact on, and implications for, TSOs. This can be used to influence local authority funding decisions at a local level.

- **Local Authorities**: by highlighting how changes in local authority funding are affecting the development and provision of TSOs. The report also provides LAs with an opportunity to learn from the experience of other authorities that are or have been faced with similar challenges.

- **Other funders and policy makers**: by demonstrating the effect of changes in local authority funding on TSOs and highlighting potential learning for other public, independent charitable sector and private funding streams.

3.2 Methods & Approach

The research has had two main areas of focus. Firstly, gathering information about changes in local authority funding; and secondly, information about how TSOs have responded to those changes. When first envisaged, this research project was intended to be based mainly on secondary research (with follow up phone calls to verify and probe particular information). However, the limitations of available data through secondary research required us to re-think our methodology during the project and employ more primary research approaches. This overall process of research offered a number of potential learning points for further research on this subject. For this reason we explain in some detail the barriers we faced in accessing that information.

3.2.1 Primary Research

- ***Local authority sample***

The research began by creating a sampling framework of 10 local authorities in each of the nine English regions (90 in total), using data-sources from the LGA, DEFRA and ONS to ensure a diverse sample. This was possible in all nine regions.[13] The sampling framework ensured the inclusion of:

- At least 10 rural and 10 urban local authorities.
- At least 10 local authorities with a high level and 10 with a low level of ethnic diversity.
- At least 10 local authorities with large and small populations.
- At least 10 unitary type local authorities.
- At least 10 metropolitan district councils (including London Boroughs).
- At least 20 two-tier councils, namely 10 district and 10 county authorities.
- And at least 10 local authorities with Local Strategic Partnerships (LSPs).

In addition to local authorities identified as fulfilling criteria for inclusion in the sampling framework, a much wider selection were given the opportunity to participate through an online survey option. Local authorities were contacted directly (using a local authority database provided by the Finance Hub) and via a number of press releases and publicity emails. 22 local authorities responded to the survey.

Having made contact with 90 LAs, 72 telephone interviews were conducted with key staff (an officer either responsible for administering funding programmes for the third sector or responsible for engaging with and providing support to third sector organisations). The remaining 18 local authorities were either unable to find the time to participate in an interview or were unable to locate the relevant person during the eight week period allotted. A copy of the question framework used is included in **Appendix A**.

Third sector sample

15 TSOs were interviewed across 5 English regions (North West, West Midlands, Yorkshire and Humber, London and the East) to provide information about how TSOs have responded to any changes in types of local authority funding and the effects such changes are having on their delivery and overall development. A diverse range of third sector organisations was contacted (in terms of size, focus, community of interest, and urban/rural geographic location).

3.2.2 Secondary Research

The project also included desk-based research to collate publicly available funding information from each of the 90 local authorities identified. This was intended to be

[13] Although it should be noted that all London borough authorities are Metropolitan and considered to be 'urban' by DEFRA.

the principle means by which information would be gathered, with follow-up telephone calls being scheduled to ‘fill the gaps’ in available data.

However, it quickly became apparent that in only a handful of instances across all 90 local authorities was information about local authority grant funding readily available. While some information was available from local authorities that have published detailed accounts online, the vast majority of local authority ‘grant funding’ web-pages typically amount to little more than downloadable application forms and funding criteria, with some redirecting enquirers to other third party websites, typically Councils for Voluntary Services (CVS). Many local authority websites do not even include contact information for the department or individuals responsible for administering the funding.

This proved to be a further obstacle to information collection – a critical issue which is explained in detail in the next section.

3.3 Critical Lessons Regarding Availability of Data

The limitations of, and difficulties in accessing, quantifiable local authority data regarding third sector grant funding proved to be such significant problems in the conduct of this research that they are worth explaining in some detail. They have implications not just for this research but also for the Finance Hub’s continuing and future efforts to clarify this situation.

Of the 72 local authority officers interviewed and 22 survey responses, 40 were able to provide quantitative data regarding overall levels of local authority spend with the third sector, but rarely could this be broken down to provide comparison between grant support funds and commissioned or contracted services, or restricted and unrestricted funds. A significant number of Local Authorities were unable to provide anywhere near complete information and in some cases almost none at all.

While this means that it is possible to identify trends in *overall funding for the sector* over the last three years in many local authorities, data of sufficient detail and quality to enable comparative analysis, especially in the areas of grant support vs. commissioning, and restricted vs. unrestricted funds, would appear to be largely non-existent at present. This makes it extremely difficult to quantify and analyse changes in the specific nature of funding for the third sector. There are a number of different reasons for this and it is important that they should be fully understood.

Terminology:
There are very clear issues to do with terminology and interpretations of that terminology. Less than half of respondents used the terms ‘restricted’ and ‘unrestricted’ funding and in addition responses suggested widely differing interpretation of the terms ‘grants’, ‘contracts’, ‘service level agreements’ and ‘commissioning’, despite definitions being offered by interviewers as part of the interviewing process. Differing views of respondents about what particular types of funding agreements are called meant that the job of unpicking the exact nature of ‘grant aid’ for voluntary organisations was very difficult.

Awareness:
While it is certainly the case that some interviewees appeared to have only limited awareness of the kinds of structural changes currently taking place in third sector

funding, this was not uniformly the case. Many interviewees were clearly aware of these issues but did not personally have access to data that would enable quantitative analysis to be made.

Functional obstacles:
While many local authorities are still engaged in the provision of small-scale grants (typically under £10,000) as part of continuing 'community chest' arrangements targeting primarily smaller and grassroots community groups, it appears increasingly that within most local authorities these small-scale grant arrangements are functionally separate from third sector purchasing, commissioning, and contract management: there is increasingly a split between *grants* and *purchasing*.

Thus, in a large city council data on third sector spend could be fragmented between a community grants officer or team, an external funding unit, the commissioning officers of five or six service directorates or committees, and sometimes a corporate procurement department handling 'high risk' larger contracts on behalf of all service directorates. As one interviewer said, "What you're asking is near impossible because it goes through so many different departments." Out of ninety Local Authorities, only one was able to provide data that reflected actual changes in levels of restricted and unrestricted funding over the last three years. Clearly, for most local authorities the shift from grant-aid to service commissioning is not yet accompanied by the more sophisticated monitoring models that are evidently required.

Different sources of funding:
In addition, it is also important to note that local authority 'income' derived from different sources – e.g. NRF – also creates further problems in identifying local authorities' 'independent' spend with the third sector.

Time & buy-in:
Given these complexities, it is perhaps not surprising that the data required of participants placed greater demands on their time and capacity than they were prepared to allocate.

Amongst the comments received from participating local authorities were: "We don't have that detail, there are several million pounds going out in contracts" (a local authority in the in North West); "We do monitor the organisations we fund and this does assist us in our work – but this information is not publicly available" (a local authority in the in South East); "I don't have any figures about our spending other than this year's figures. I have no idea about figures of two or three years ago… we have different funding arrangements within different departments, a kind of ad-hoc, non-co-ordinated approach. We don't have a corporate approach" (a local authority in the in North East); and "Unfortunately (we) do not have a centralised database through which all the funding streams are managed and so locating the total amount within the funding pool is difficult" (a local authority in the East Midlands).

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Some of these issues have been noted by other recent studies[14] and seem to reinforce the case for a mandatory requirement on local authorities to gather and publish information regarding their funding for the third sector. There is also a clear need for local authorities to provide named contacts for information requests regarding third sector funding.

[14] Hearts and Minds, ibid.

- ***Rich qualitative data***

Having said this, the contributions received from the 77 local authority telephone interviews and 22 online survey completions have produced rich *qualitative data* and the findings in this document derive primarily from this information. Whilst this data does not necessarily help to quantify the scale of changes in Local Authority funding for the third sector, it does provide a valuable insight into the views of local authorities and third sector organisations. In particular, the data identifies – in a way that quantitative data would not – the factors that have influenced decisions about local authority funding of the third sector. The qualitative analysis in this report also demonstrates the differences in views about the impact of local authority funding on the third sector.

- ***An area for subsequent research?***

Given that these problems of data availability regarding local authority third sector grant support look set to continue certainly for the foreseeable future, there is another possible approach that could be used.

The central problem currently is the transition many local authorities are making from grant-aid to more strategic commissioning. Using a sample-plus-case-studies approach, it might be possible to analyse trends in overall local authority spend with the third sector by focusing on specific service areas in which third sector organisations are known to be heavily represented or in which a local authority has previously made significant use of third sector providers. So, for example, one might look at children and young people's provision, care for older people, employment and training, sports and recreation and so forth.

An advantage of this approach is that it would take into account not just the value of third sector spend but also the critical issue – probably the key issue for many voluntary and community organisations currently – of how that spend is distributed.

- ***The need for a debate on this issue***

Although further research of this type may help to show what is happening in a particular local authority, clearly any further substantive analysis of what kinds of organisations are winning and losing in the present commissioning environment across the country is still a long way away. There is a pressing need for a national debate about how local authorities improve the depth and quality of their monitoring information about the funding of the third sector. This should help to provide a firmer evidence base from which to judge the impact of funding practices on both third sector delivery and the development of the third sector as a whole.

4 FINDINGS

4.1 Existing Data from Other Sources

Hearts and Minds, the Audit Commission report on third sector commissioning, suggests that total local authority expenditure has been on an upward trend since the year 2000. The total expenditure for local authorities across England is identified as being:

2000/01	£1.3 billion
2001/02	£2.2 billion
2002/03	£3.0 billion
2003/04	£3.2 billion

However, there is little available information about the relative mix between restricted and unrestricted funding.

NCVO's *UK Voluntary Sector Almanac 2006* notes the following, however:[15]

- Key statistics for 2003/04, the latest available, indicate that the sector[16] has an income of £26.3 billion, with 38% of this income derived from statutory sources.

- In addition, for the first time income from the statutory sector is now derived primarily from **fees** rather than **grants** – fees now represent 53% of statutory income.

- While the sector's income is increasing, this is largely due to an increase in the number of organisations in the sector: individual organisations would appear to be doing less well as average incomes for all organisations in the sector were either static or falling:

    - The £10,000 to £100,000 band saw the largest decrease in average incomes – almost 10%.

    - Organisations with incomes between £100,000 and £1 million saw an increase in average income of 2.4%, but overall, average income for the whole sector showed only a slight increase (from £154,067 to £155,526), suggesting that individual organisations have struggled to increase revenues beyond the rate of inflation.

- The sector's income continues to be heavily concentrated in a relatively small number of organisations. Over two-thirds of total income is now generated by approximately 3,200 organisations, equivalent to 2% of the sector.

[15] NCVO UK Voluntary Sector Almanac 2006 – headline summary: http://www.ncvo-vol.org.uk/research/index.asp?id=2380

[16] The Almanac (ibid) notes of the sector definition used: "In the continuing absence of a clear operational definition of the broader voluntary and community sector, our focus on 'general charities' (which excludes, amongst others, housing associations and independent schools) continues to provide a recognisable map of the sector." Its estimates are derived from a sample of over 40,000 charities' annual reports and accounts held by GuideStar UK, together with data supplied by the Scottish Council for Voluntary Organisations (SCVO) and the Northern Ireland Council for Voluntary Action (NICVA).

- At the other end of the scale, the vast majority (87%) of organisations have incomes of less than £100,000, but they generate less than 8% of the sector's income. This concentration of resources is becoming more acute over time.

4.2 Nature of Changes in Funding

4.2.1 Changes in Overall Levels of Local Authority Funding (Quantitative Analysis)

27 local authorities were able to supply precise figures regarding levels of *grant aid* (including service level agreements) over the last three years, and 10 more local authorities were able to offer estimates.

The 27 local authorities providing more detailed information provided a total of **£36,464,052 in** grant aid three years ago. The amount in the 2006/07 financial year was **£31,709,359** – approximately 87% of the amount offered three years ago.

When the estimated figures from the further ten local authorities are added the total third sector funding offered by these 37 local authorities three years ago was **£37,647,052** reducing to **£32,928,059** in the 2006/07 financial year.

Taking both lots of data together, even allowing for the estimated figures of the latter, suggests a trend of declining funds, and possibly greater than indicated too, when inflation is allowed for. It is worth noting that despite the sampling framework incorporating all of the different types of local authority, there were no clear and identifiable differences between the types. No clear trends or patterns emerged and so the findings should be considered with this in mind.

The figures are summarised in the table below.

ACCURATE QUANTITATIVE DATA ONLY		
2006/07	£31,709,359	
3 Yrs Ago	£36,464,052	• **Decline – 13%**
ALL INFORMATION (INC. ESTIMATES)		
2006/07	£31, 709,359	
+ Estimated	£1,218,700	
Total	£ 32,928,059	
3 Yrs Ago	£36,464,052	
	£1,183,000	
	£37,647,052	• **Decline: 13%**

It should also be noted that the respondents in the sample were officers responsible for managing or allocating grant funding for the third sector – not those responsible for service commissioning.[17] This enables it to be said with some confidence that the figures above – whether using the actual or 'actual + estimate' figures – offer a

[17] Indeed, one interviewee emphasised, "We do not have any involvement with the money that ends up with the VCS via commissioning or service contracts… It's debatable whether this should be classed as part of a local authority's VCS budget."

dependable analysis showing a decline of at least 13% in local authority grant funding in the past three years.

In only a few local authorities had the amount of grant funding for the third sector increased – and these, notably, seemed to be in local authorities where the third sector was felt to have done an effective job at promoting its added-value. However, even here budgets rarely allowed for cost of living increases so it is arguable that these too may have declined in real terms.

A few specific examples of reductions or stasis in 'core funding' are offered below:

Local Authority (South East)	
Forecasts show a core funding decline continuing over three years:	
2007/08	£1,249,669
2008/09	£274,715
2009/10	£284,362

Local Authority (North West) – Small Grants Programme		
2004/05	£263,608 was distributed to VCOs 272 grants were awarded	Average grant was £969
2005/06	£215,500 was distributed to VCOs 248 grants were awarded	Average grant was £869 80% of applications to the fund were successful
2006/07	£202,119 was distributed to VCOs 231 grants were awarded	Average grant was £865

The available figures suggest third sector funding amongst these authorities in 2004/05 totalled **£2,487,085**, rising in 2005/06 to **£3,013,684** and remaining static at **£3,013,684** in 2006/07.

4.2.2 Changes in Levels of Restricted & Unrestricted Funding

Only one local authority was able to provide us with information regarding restricted / unrestricted funds and only for last year:

- ***Local Authority (Yorkshire and Humber)***

The total amount of third sector funding for 2006/07 was £14m, of which £13m was provided in the form of contracts, with the bulk of the commissioning in the following service areas:

Adult services	£3.3m
Adult services services and placements	£6.3m
Children & YP NCH	£805k
Children & YP service youth services	£24k
Children & YP service Safeguarding children	£313k
A&C/C&LS Fresh Horizons	£213.5k
Community Support Services	£64k

The formal grant allocation to local groups in 2006/07 was **£780,427.00** – an increase on the 2005/06 figure of **£682,056.00**. The bulk of these awards go out to larger groups in major payments.

While this example shows a substantial increase in grant allocation, it also illustrates – as does data from the Audit Commission report, Hearts and Minds, and the UK Voluntary Sector Almanac, that significantly greater sums are currently available to the third sector via the local authority commissioning route rather than as grants. What none of the available data enables an analysis of, however, is whether grant funding per se is being migrated across to commissioning budgets or whether it is simply disappearing.

Additional qualitative data was available from local authority officers regarding how they view changes in the relative mix of restricted/unrestricted funding. Responses to two questions on this are outlined below:

Have there been changes in the make-up of funding to the third sector?

YES	46 local authorities
NO	20 local authorities

Has there been a shift towards more restricted forms of funding?

YES	47 local authorities
NO	14 local authorities

So clearly there is a perception amongst local authorities that funding for the third sector is becoming more restricted. One interviewee said, “it is almost impossible to offer unrestricted funding to organisations since we are accountable for public money.”

4.2.3 TSO Views Regarding Changes in Funding

The following responses from third sector interviewees give a flavour of the prevailing views:

“Yes – hardly any funding is given out now just for core costs. We have a voluntary sector policy and grants team at the local authority whose role keeps changing. They used to house all of the contracts and funding, but now they are the only place that funds certain types of organisation. And the history of this department has been quite exclusive (they don’t advertise and it’s harder to get funding if you don’t have a historical relationship). Most of what is available from the local authority is ‘thematic grant making’. Although technically it is a ‘grant’, in actuality it has so many strings attached that it may as well be a contract. People in the Local Authority think this is the only way to do it – and aren’t trying new ways.”

“Districts are supposed to start commissioning services in March 2008. This will make it much more difficult for smaller voluntary organisations to compete for money. All money will be pooled at a district level and services will be paid for from a centralised budget. Over the last year or so a number of Local Authorities have said that there needs to be more collaborative ways of working in order to draw down funding… The year before we received £30k to pay for a worker. The next year we had to work with four other organisations and we had to split the £30k between us. Each organisation provided a number of hours working with 25 young people.

However, when you have a number of organisations working together, people have different styles of working."

"About 7 years ago our local authority funding was reduced from £21k to £18k. It has remained the same since then (despite inflation, and despite increased expectations on what we will deliver – agreed through SLAs). SLAs were introduced about 5 years ago in our local authority funding. This meant the funding was no longer seen as just a contribution to whatever we needed it for. Targets…in SLAs have changed slightly, but expectations of us have increased and we are finding it increasingly difficult to meet the demand placed upon us by potential beneficiaries of our services. We have requested more funding, but without that it is difficult for us to respond to demand."

"We feel that the City Council is getting the benefit from what we are doing as a service provider, but are not funding us enough to do that (so we get money from other sources). There has been talk of reviewing SLAs and moving towards a 3-year approach to funding, but no progress yet. We would obviously really welcome that."

"(We have) Local Authority funding from the core funding unit. Our annual grant is £56k. This figure has varied slightly (up and down), but has remained fairly consistent over the years. It used to cover quite a lot of our core activities, but nowadays that figure only covers a few things. Over the last few years, this has changed from being a grant to being a commissioned service. This means that the local authority can tell us what they want us to do."

4.3 Local Authority Views about Drivers for Change

The research asked:

What do local authorities think have been (or will be) the biggest drivers underpinning the changes to the funding of the third sector?

Move towards more commissioning	29 local authorities
Contract culture	6 local authorities
Greater competition	9 local authorities
Move towards more SLAs	9 local authorities
The influence of LSPs and/or LAAs	26 local authorities
The voluntary sector compact	15 local authorities
Change Up	2 local authorities
Central Government policy	14 local authorities
Budget cuts and / or deficits	5 local authorities
Less unrestricted funding	1 local authority

It is significant that although respondents felt less unrestricted funding was now available for the third sector, they did not, by and large, see this as connected with commissioning – i.e. they did not see their authority a 'migrating' funds across from grant budgets to commissioning budgets. Instead, a number of respondents suggested there were other reasons for the reductions in core funding via grant-aid, citing mainly budget cuts, the need for more accountability in public spending with the third sector, and the need to pursue efficiency savings following the Gershon report.

General budget cuts were also a recurrent theme in interview responses, with some respondents suggesting that third sector budgets were particularly vulnerable because they are not statutory (or main programme) spend. Some also suggested that third sector budgets were especially vulnerable because generally speaking it was possible to make cuts in these without the loss of votes or political popularity.

Others noted that third sector budgets were an “easy option” when cutbacks were necessary, especially if services provided by the third sector are not especially valued or lack political support. As one interviewee put it, “The pressure to tighten budgets comes from central government via the Gershon report which basically said that local authorities need to review their operations… in a council that places little value on the VCS, it is an easy place to cut funding.”

4.3.1 Third Sector View about Changes in Local Authority Funding

Although third sector organisations were not specifically asked about progress in implementing the Voluntary Sector Compact many mentioned this. One said, “The compact isn’t known by everyone, and doesn’t appear to be used or know about by those who commission or handle funding pots. The compact suggests that 3-year funding is a good approach when funding the VCS, yet at the moment SLAs are for two years, with the potential to be extended.”

Another said, “There have been a few meetings in relation to the compact but no real consultation with the voluntary sector. When applying for funding it simply involves ticking a box to say we’ve signed up to it.”

4.4 Impact on the Third Sector

4.4.1 Local Authority views Regarding Impact on the Third Sector

Overall local authorities were fairly evenly split in terms of whether they thought these changes in funding had a positive or negative effect on the sector.

In considering the responses below, it is worth bearing in mind that it was clear that some respondents interpreted these as questions about the ability of third sector organisations to deliver, while others saw broader issues about overall capacity and future development as being to the fore.

Have funding changes had a positive or negative impact upon the third sector?

Positive	17
Negative	22
Unsure / no answer	22

What has been the impact on the third sector from the changes to funding?

Improved quality of delivery	17	
Reduced quality of delivery	7	
Decreased sustainability		7
Need for other funding sources		6
Mission drift / shift focus		5
Greater professionalism		5
Diminish recognition	1	
Need to build capacity		5
Less financially stable / money		5
Need to work in partnerships	3	

Local authority views regarding impact of changed funding on effectiveness of the sector

There was a perception amongst some local authorities that changes in funding had actually improved the quality of delivery of TSOs, but no available evidence to suggest that any systematic monitoring was being carried out that would enable an assessment of the impact of various funding arrangements on delivery outcomes. One interviewee said, “We do try to report on the impact of the sector on the community and this is covered extensively in annual reports, but there is no analysis of the impact of funding strategies on VCS activity.”

Local authority views regarding overall impact on third sector development

A number of local authorities expressed concerns that in future the funding sources open to them – such as NRF – would reduce, with a consequent impact on what they were able to make available to the third sector.

Several said that their budgets were greatly inflated by funds from other schemes and programmes and that once these ended there would be “a large gap” in the funding of the third sector. One said, “A large amount of our grant funding is topped up by money from these [other] strands and because our town is now much wealthier it may no longer be eligible for this funding as it is no longer an NRF area. If we loose this funding then it will definitely mean that smaller organisations that are funded to deliver initiatives for disadvantaged communities will close down as there will be no way of stretching our grant pot to accommodate what has been funded through renewal money of [various] sorts. This will certainly have a huge impact.”

But some local authority interviewees sounded a more critical note, urging the sector to end its reliance on declining sources of grant revenue. One said, “I think that it is important to mention that the sector for many years hasn’t made good use of money it has been given. They need to look for other markets. They need to do that because we cannot fund groups for just doing a good thing… The sector is often very good at marketing itself as poor. I really think that the sector has to grow up and look at itself… The sector here says we are good, give us money.”

Another said, “It is not the council’s job to understand the impact funding is having on the VCS… It is our job to deliver good value services… It is not our duty to examine what is happening in the sector. If someone loses a job in the VCS or a small organisation goes out of business then that is sad but as long as it doesn’t have a negative impact on residents it’s not our concern.”

4.4.2 Third Sector Views Regarding Impact of Changes in Funding

Although third sector interviewees were asked specifically about their ‘lived experience’ of coping with changes in local authority funding, responses were not restricted solely to this issue and many raised broader points about the current funding climate and its impact on their organisation.

Some of the key responses are summarised below:

- ***Accessibility of funding***

NCVO has noted that in the current, more competitive climate some smaller organisations do seem to be losing out to larger 'super charities'.[18] Several interviewees made comments that echoed this experience:

"It's difficult being a local charity as a lot of money tends to be earmarked for larger umbrella organisations. With our organisation being at the bottom of the pile we tend to only get trickles of funding that might come down to us. We're never successful in getting large amounts of funding; it always goes to the larger charities."

- ***Changes to funding strategies***

Organisations are having to get better at apportioning their core costs across a number of different budgets and / or income streams:

"Ours is a response to the situation we find ourselves in. We are much less likely to get 'grants' of the type we used to get – and groups are being challenged on full cost recovery quite often. We've redesigned our budgetary processes to meet these changes. […] Although we are receiving some funding for core costs, we have a system so we can identify core costs in other projects too. For example, if we're running a project, we weight the cost for the project in relation to how many staff we need. We've got much better at recognising what our full cost is. So for example, with the POP project, we have said this is what it costs – and we also want to make a profit – they have accepted this."

Others are beginning to think much more creatively about the factors that will help them generate income:

"When we were considering how best to improve our approaches to generating income, we looked at other consultancy agencies (such as Price Waterhouse Coopers) for inspiration. We recognised that we could do pieces of work that would be of benefit to our customers, but [which] we would also learn a lot from. We have sought to do that and added a strategic element to those pieces of work to help them have impact (sometimes outside the scope of the original project). We have had to persuade people that we want to do this. We have had to work our costs out to reflect this when we're applying for funding."

- ***Internal capacity***

Other research has noted the problems third sector organisations have in generating sufficient surplus from restricted funds – especially from public contracts – to invest in the business and grow their capacity.[19] A number made revealing comments on this and related issues:

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[18] "Most starkly, we are also seeing the emergence of a small group of what might be called 'super-charities': 14 organisations, mostly household name brands, with an annual income of over £100 million. Together, they generate 10% of the sector's income. These organisations have been particularly successful in securing public donations and legacies or delivering public services under contract to government. Some have managed both. These organisations are likely to increasingly shape public perception of the sector as a whole while being responsible for an increasing proportion of the public services delivered by the sector. At the other end of the scale, the vast majority (87%) of organisations have incomes of less than £100,000, but they generate less than 8% of the sector's income." UK Voluntary Sector Almanac 2006.

[19] See *Intelligent Funding: From Vision to Reality, A report for the Finance Hub*, December 2007. See also *Stand and Deliver: The future of charities delivering public services*, the Charity Commission's survey of 4000 charities (Feb 2007). This reveals that in some cases under-funded state contracts delivered by charities are being subsidised by charitable donations – possibly in breach of charity law. It also states that only 12% of charity providers manage full-cost recovery in every case, and 43% never

"Nobody wants to fund administration. This is not seen as attractive by funders. Most want to fund new projects."

"Funding bodies undervalue the important role of administration and management in delivering services. For example, we need an administrator to help monitor the services we are providing (such as how many people from BME backgrounds we support). It is a catch 22 because we can't apply for more funding if we haven't monitored and shown the kind of groups we are reaching. "

"Our organisation has halved in size over the past 2 years. We've gone from 20 members of staff to just 9, so we can't deliver as much as we used to and don't reach as many young people because funding is just harder to get nowadays."

"Changes have had a direct effect on the number of core staff we can maintain. As we go to charitable trusts (which tends to be [for] project based work), most are not keen on funding administrative or managerial posts. This has a negative effect on our ability to maintain core staff of this type."

"In the past we had a full time worker, but we've had to look at part time workers which doesn't allow the same type of continuity. Sometimes you have to consider different ways of delivering on a project (if not enough funding or staff resources are available). This will inevitably mean you have to cut corners sometimes to try and deliver work of an appropriate standard, but this becomes harder as funding is cut."

- ***Delivery of services***

Such changes are also having a direct impact on service delivery too:

"We aren't able to provide the kind of services we want to sometimes because we are restricted by the type of funding available and by legislative requirements (e.g. providing crèche facilities)."

"[Changes in funding] do affect the quality of services we provide because of a basic resource [and because] of capacity issues (i.e. lack of it). So for example, we find it much harder to meet demand for our family services, because we haven't been able to find funding directly for them. We have actually been fortunate to receive 'reaching communities' money from the big lottery, and they are very realistic about the amount of core funding that organisations require. However, we are still set to lose a couple of key core staff posts this year because we haven't been able to find funding for them."

"Delivery of service has been affected as it's difficult to cost. For example, if one of our service users is going to a day service for 5 days a week, which is provided by someone else, then that's fine, but if they get ill and can no longer attend this service, and are therefore supported by us, then its difficult to get our funding increased for those extra hours. If everything runs how it was supposed to originally then everything's ok, but when changes need to be made it's like getting blood out of a stone."

"By being encouraged to work in partnership with other organisations by the Local Authority, this can have a detrimental effect on our ability to deliver a good service.

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manage full-cost recovery. Almost half say their activities are determined more by funders' criteria than their own mission. Two-thirds of public service contracts are 1 year or less and only 13% last more than 3 years.

The year before we received £30k to pay for a worker. The next year we had to work with 4 other organisations and we had to split the £30k between us. Each organisation provided a number of hours working with 25 young people. However, when you have a number of organisations working together, people have different styles of working."

- ***Achieving Mission***

"Our mission has definitely been affected. We've had to re-do our business plan and concentrate on core services and sustaining those. We've lost a lot of our projects."

"Sometimes changes in funding can have a bigger effect than at other times (depending on what funding we already have available to cover core costs). The overriding influence of changes is that our stability is reduced. When applying for funding each year and worrying about how to deliver SLAs, we find it harder to put together a good long-term strategy for the organisation.

"That being said, we have started to look for funding that fits our core priorities, and not to take funding that does not fit within that. This is not always easy, and occasionally we need to compromise (for example we have not been able to find funding to fit our 'families' core priority – of working with families – but we have found money elsewhere to cover that)."

"We've recognised that we need to look at where future income will be available from, and we need to adapt in order to attain that. Our approach is a pragmatic one, recognising that we will continue to retain the levels of expertise and experience we need, and pursue the same goals – whilst also recognising that we aren't always able to deliver those services in the way we would like to (because of funding restrictions)."

"Having lost the funding from the Local Authority for the crèche, we're now starting to question what it is we need to be focusing on. Traditionally we provided a crèche facility, but now it looks like we'll be delivering services for an older age group. Our organisation was set up to provide a holistic service for the community and all of the family. Now we won't be able to do that in the same way."

4.5 Plans for the Future & Good Practice

Local authority interviewees were asked whether they had a view about the best way to fund TSOs. While there were a number of insightful comments that obviously reflected a good knowledge of the issues facing the sector, suggestions often didn't match what local authorities actually do, or see it as their remit to do. For example:

One local authority said, "Funding should be made accessible to the third sector and should be standardised and co-ordinated so that organisations are monitored in the same way even if their funding comes from different departments… I also believe that local authorities should be working to bring external funders in line with standardised procedures so that applying for funding becomes a much more familiar process for organisations."

Finally, local authorities were asked whether they were developing third sector strategies for the future or had plans to review their sector funding arrangements. The majority of local authorities in the sample answered no to this.

There were a few exceptions, however. For example, one local authority (which was able to offer good monitoring information about third sector activity and spend) said:

“We have actually as a unit been through the ‘best value review process’ which rated us very highly for efficiency and effectiveness at what we do – it also highlighted how good our monitoring processes are etc. We have a very organised and fair approach to grant giving and I believe that because of the flexible nature of our various funding pots we are also able to support most organisations and sustain a great variety of activity. We now plan to sustain valuable activity across all organisations and support those smaller organisations that can’t access money via commissioning processes.”

A number of others indicated that they were planning to review their approach to funding third sector organisations in the future:

“We are at the stage where we need to be looking at our grants process and reviewing it for best practice. Our grants are allocated annually at the same time each year and they are one-off payments. We will be reviewing the process very soon”.

5 CONCLUSIONS

The following conclusions are based on the somewhat limited quantitative data available and the much richer qualitative data. There is a particular focus on the views of local authorities and third sector organisations about the causes and impact of changes in funding for the third sector:

1) The limitations of, and profound difficulties in accessing, consistent and comparable data regarding local authority grant support and other investment in the third sector – especially restricted vs. unrestricted funds, and grant-aid vs. commissioning – poses one of the most significant challenges for the Finance Hub's future work in this area.

2) It is also evident, however, that in part this lack of information arises from widely differing interpretations of the terms used and there is a need for much greater consistency in order to enable clarity and dialogue.

3) Available data from the sample of local authorities indicates that grant-aid funding has declined over the past three years by at least 13%. Data from other sources (NCVO UK Voluntary Sector Almanac) would seem to support this view, with income amongst the majority of smaller VCOs (£10k-£100k turnover) declining by around 10%. Incomes for larger organisations are thought to have increased marginally or to have remained pretty much at a standstill. Anecdotally, there is also evidence to suggest that in addition some voluntary organisations are having to do more with the declining grant funding they do receive, and this includes splitting the grant between a group of service delivery partners.

4) Significantly greater sums are available to the voluntary sector via commissioning and contracts than via grant-aid and this trend is now markedly increasing across the sector. For example, in 2006, voluntary sector income from statutory sources was dominated by fee income for the first time: fees accounted for 53% of this income.

5) The majority of local authority respondents to this present research believe that the make-up of third sector funding has changed, and that this has been marked by a shift towards restricted rather than unrestricted funding. Over one-third also believes that the primary driver of these changes has been a shift to more centralised commissioning models. But significantly, very few local authority interviewees saw a link between declining grant resources and increased use of commissioning as the preferred purchasing model. The reasons for this, however, are quite complex:

   - Commissioning for most local authorities is a relatively new model as far as the third sector is concerned and this is a period of transition.
   - As a consequence, there is an increasingly evident functional split in local authorities between those responsible for small grants distribution and those responsible for service commissioning.
   - Data is not shared across this divide and moreover there is no shared view of the potential consequences of commissioning practice on the third sector.

6) While there is currently no unified data that categorically indicates that grant resources are in some cases being 'migrated' across and included in commissioning budgets, this does not mean that this isn't happening. At least one city council was categorically identified as 'rolling up' its own grant spend, main programme resources *and* income from other sources, such as ESF, into a 'single commissioning pot'. While this may still not indicate that overall resources available to the sector have declined, *it does mean that the eligibility criteria, access arrangements, distribution, and terms attaching to these resources have changed dramatically*, and it is this tightening noose of competition that appears to be having the greatest impact on TSOs. Perhaps needless to say, the impact is greatest on those groups that, for whatever combination of reasons, fail to meet commissioning thresholds.

7) The sector is currently struggling to find ways to evidence the impact of these changes on its delivery and prospects for sustainability and has yet to successfully communicate these messages to local government. This may indicate (as some of the interview comments gathered in this research bear out) that by and large local authorities do not see it as their responsibility to 'safeguard' the third sector; they see their primary responsibility as being the services they deliver – or purchase for – local residents. (It is significant that it is primarily at the level of national departments and central Government – rather than at local authority level – that a more strategic, developmental view is taken of the third sector.[20])

8) A significant number of local authority respondents still consider that third sector budgets are more vulnerable to cuts because they can be reduced with less political opposition and generally less opposition from voters. They are an "easy option" for cost-cutting.

9) This current funding climate is creating major challenges for TSOs that are seeking to build their capacity or invest in scaling-up operations, but as other research has illustrated it is also have a negative impact on both the range and volume of services the sector is able to deliver. As noted elsewhere, in 2005 alone, one-third of ACEVO's 2,000 members had to close services due to an inability to fund them.

[20] For example, the Department of Health has just announced that it "is undertaking a review to develop a strategic framework for its investment in the third sector that transforms current piecemeal arrangements into a strategic portfolio of investment that more explicitly supports delivery of the Department's objectives and priorities."
http://www.dh.gov.uk/en/Consultations/Liveconsultations/DH_081183

6 RECOMMENDATIONS

In concluding this work, brap makes recommendations to national policy makers, funders and third sector organisations. The Finance Hub supports these recommendations:

National Policy Makers

Capacity builders, Communities and Local Government, Office for the Third Sector, the Compact Commissioner and the Local Government Association in particular should:-

4) Outline stronger monitoring requirements from Local Authorities to help identify and generate evidence of how different funding agreements impact on third sector organisations' abilities and capacity to deliver public services, plan for sustainability, scale-up operations and improve their developmental prospects. Key agencies listed above (including the Compact Commission and ChangeUp Consortia) should be encouraged to work *collectively* to engage local authorities in this critical dialogue.

5) Provide support to assist local authorities to collect better and more comparable and consistent data regarding their third sector funding arrangements. In the current transitional period when relatively new commissioning models are being widely applied to third sector service provision, there is a window of opportunity for a number of the agencies listed above to offer guidance.

6) Improve enforcement and regulation of the 'Funding and Procurement Code of Good Practice' and related guidance. In particular this should include taking steps to ensure Local Authorities are encouraged to implement full cost recovery in a more consistent way. It will involve more rigorous monitoring through the LAA process and ensuring that support is provided to support commissioners and grant makers to do this. To assist this, the role and function of Compact Commissioners should be reviewed to ensure relevant guidelines are being adhered to.

Local Authorities

Local Authorities should:-

4) Identify and implement a consistent approach to monitoring funding for third sector organisations (between departments – e.g. children and young people, environment). This should include an indication of the 'type' of funding being provided (e.g., grant, contract etc) and the scope and length of that funding (e.g. delivering specific public services, core costs). Where possible information about total third sector expenditure across departments should be collated centrally to help identify changes in Local Authority funding for the sector.

5) Ensure that effective third sector engagement mechanisms are in place (e.g., through Local Strategic Partnerships, third sector contract management processes, end of project evaluations) to enable third sector organisations to share information about the impact of particular funding approaches on the

effectiveness of service delivery and the development of local third sector capacity and infrastructure.

6) Consider how third sector organisations can be encouraged to share information about the infrastructure/ capacity building support they need in order to deliver against Local Area Agreement targets. If current Local Authority funding is not helping organisations to fill that gap, who is? If no resources are available, how can Local Authorities work with other partners (e.g. local infrastructure organisations) to help stimulate a diverse and 'contract – ready' third sector economy? These are issues that should be considered as part of the Local Area Agreement process.

Third Sector Organisations

Third sector organisations should:-

2) Develop systems to generate the evidence needed to demonstrate the effect of changes in Local Authority funding (e.g. a relative decrease in the amount of beneficiaries they have been able to work with and evidence that this is a result of changes in funding and that residents are unable to access services elsewhere). These are crucial messages that need to be shared with local authority partners. But they need to be shared *in a language they can relate to*. This will probably require more investment in undertaking internal monitoring and evaluation, but it could help to pay large dividends for third sector organisations.

7 APPENDICIES

7.1 APPENDIX A

Secondary research / follow – up information collection grid

FH16: Decline in LA grant support

For initial secondary research (LA websites / compact guidelines / CPA reports) refer to 1.1, 1.2, 1.4 & 3 (sections in black)

For follow-up research (interview with LA contact) refer to 1.2 onwards.

1.1 LA details	Local authority	L
	Local authority type	
	Region	
	Diversity category	

1.2 Research timeline	Secondary research conducted?	
	Date?	
	Follow-up interview required?	
	Follow-up interview conducted?	
	Date?	
	Research complete?	

1.3 Follow-up details	Contact	
	Position / role	
	Telephone	
	Email	
	Interested in supporting other aspects of FH16 or FH17	

1.4 Bibliographic details	

Research areas and follow up	Third sector funding	
	1. Does the local authority fund voluntary and community organisations/ social enterprises?	

	2. Do you place any restrictions on the funding that you give to voluntary and community organisations? ***We're trying to understand what local authorities understand by the terms 'restricted' and 'unrestricted' funding? –*** **PROMPT** – (restricted) Are there particular objectives/ conditions that need to be met? (unrestricted) Are they able to use the 'grant' purely as they see fit?	
	3. Have there been changes in how you can use money that would traditionally go to the voluntary sector? For example, - has more of this funding gone into: **"Finance"** – i.e. a loan that is repayable **"Grants"** Grants- unrestricted funding; (e.g. may have a service level agreement attached but not directly 'commissioned') **"Contracts"** Open competitive contract won via tender **"Commissioned Grants" –** VCOs are directly approached and asked to deliver particular types of work – paid for via grants. ***Do you have any details about the amount of funding that is provided via these different approaches to funding for the last 3 years?***	
	4. Overall has there been a decline in real terms on the amount of money that you distribute to the Voluntary and Community? And what have been the reasons for this? ***What is the amount of funding that has gone to the third sector in the last 3 years as a whole?*** ***Also Is that information split up into the types of organisations that were funded/ who was benefitting from projects?*** (e.g. BME organisations, faith organisations, small voluntary frontline organisations and bigger infrastructure organisations?, rural organisations etc?)	

	5. Have you a view on the best ways to fund third sector organisations? **Prompts** - Do you think that third sector orgs struggle to keep to their mission when they are bidding for money/ being directly commissioned? - Do you think there's a particular proportion of unrestricted funding that should be provided to third sector orgs? - Has commissioning of services led to any inadvertent gaps in services because third sector orgs can't meet the eligibility criteria?)	
	Trends / changes in LA grant giving arrangements over the last 3 years	
	7. In the last few years – what do you think have been the biggest changes in the way Local Authorities fund third sector organisations? **Prompts** - Unrestricted grants no longer exist - Restricted grants no longer exist - All funds are tied to SLAs - All funds are tied to contractual and/or commissioned services - Third sector funding has migrated to Local Area Agreement/VCS Compact/Local Strategic Partnership - Other?	
	7.2 8. What do you think has the biggest influence on the way third sector organisations are funded by Local Authorities– and why? **Prompts** - Corporate commissioning/ contracting objectives? - New structures (such as Local Strategic Partnerships, Local Area Agreements)? - Voluntary sector compacts? - Other?	

	9. Do you think that the VCS in your area has seen a positive or a negative effect as a result of changes in funding? (NB** Ask for evidence where possible) Prompts - VCO closures? - Reduced numbers of providers? - Too few organisations 'contract-ready'? - Reduced numbers of VCOs able to access funding? - Differential 'mix' of funding proving detrimental to TSOs' service delivery and/or mission?	
	10. What kind of impact do you think changes in how you fund the third sector have had on the sector in terms of the quality of services it is able to provide? - Any evidence of any improvements? Has it not improved things? ***Have you carried out any work to assess the effectiveness and impact of your current funding arrangements?***	
	11. Are there any examples of best practice in commissioning/ grant giving processes in your own Local Authority that other LAs should know about? ***What is good about it? Where did that idea come from?*** (any guidance they take?) **Prompts** for areas where there may be good practice- - VCS Compact implementation - Full cost recovery - LSPs - LAAs - Multi Area Agreements - Third sector commissioning Other?	

	12. And finally… **Do you have any sector development priorities/strategies?** **Prompts** 'Market development' – bringing forward greater numbers of contract-ready third sector providers Embedding Compact principles (in procurement, for example) Protecting low-level grant aid for small community groups Development of particular sectors (e.g. health and social care; BME organisations; faith groups etc)	

Ends.

7.3 *Appendix B*

7.3.1 Introduction to Case Studies

Recent research by the Finance Hub explores the changing nature of Local Authority funding for the third sector. With less 'grant funding' available, and more funding for the sector being provided through commissioning and contracts, what effect is this having on organisations that have previously relied on grant income? How are third sector organisations responding to some of the new restrictions being placed on Local Authority funding?

We interviewed 15 third sector organisations across 5 English regions to understand how this has affected the ways organisations use the funding they do receive. In particular we wanted to understand how third sector organisations can ***optimise the use of different types of funding (grants, contracts etc)***. These case studies show some of the strategies being used by third sector organisations to do that.

However, before looking at these case studies it's important to note that different types of funding agreements can place different types of restrictions on those in receipt of funding. Our interviews revealed that broadly speaking both funders and third sector organisations referred to restrictions in 3 core areas (delivery, costs and outcomes).

In actual fact, a funding agreement could include any combination of the six scenarios outlined below:

Funds restricted - e.g., funding can only be used to cover a full time post for an outreach worker	Delivery restricted - e.g., funded activity can only be delivered in a way agreed up front with the funder (e.g. by the outreach worker communicating with local people in a community centre).	Outcomes restricted - e.g., 50 people using outreach services are supported/ encouraged to attend the local council's careers training service.
Funds unrestricted - e.g., funding can be used to cover a half time post for the outreach worker (which is the only time required for this activity) – and another half of an administrator	Delivery unrestricted - e.g., the outreach worker can change where she chooses to engage with local people in order to reach people that don't come to the community centre.	Outcomes unrestricted - e.g., outreach work can be used to signpost people to services that better match their requirements (e.g. 30 people to the careers training, but another 20 to a local translation service and 20 to a local GP to register).

And of course different types of funding agreement have different combinations of restriction in each of those 3 areas. So a contract may have costs and outcomes quite fixed, whereas delivery is more flexible and up to the third sector organisation to choose.

Each different combination of funding agreement can have a big *effect on the ability of a third sector organisation to build its capacity or deliver its services*.

Each of the following five case studies draws on a range of experiences from different third sector organisations and is organised in relation to one of five particular issues. The issues covered reflect case study organisations' views about the most important effects and challenges of receiving different types of funding for their organisation:

- ***Desperately Diversifying Income***: Many third sector organisations are feeling the effects of reductions in grant funding that they have traditionally received. Where organisations were reliant on grant funding, they now face the challenge of diversifying their income sources in a competitive environment.

- ***Forced marriages:*** For a number of third sector organisations, an increasing condition of funding had been the need to merge or form partnerships with other third sector organisations to deliver. Some organisations found the process very challenging and had to work hard to make the best out of that process

- ***Quality of delivery***: When delivery and outcomes were restricted, a number of third sector organisations suggested they were unable to negotiate the scope of restrictions (e.g. the best way to deliver a project) and had to find different ways to improve the outcomes of delivery.

- ***Mission Impossible***: Many organisations referred to the difficult of staying true to their mission if delivery and outcomes were restricted in their funding agreements.

- ***Core Costs***: Organisations referred to the difficulty of sustaining administrative and management roles if costs were restricted to only covering project workers for example. If the use of funds is restricted, but delivery and outcomes are not, what can be done to meet core costs?

The case studies that follow show how third sector organisations have found strategies/ approaches to responding to those five key challenges.

7.4 Desperately Diversifying Income

Funds Restricted	✓
Delivery Restricted	
Outcomes Restricted	
Funds Unrestricted	
Delivery Unrestricted	✓
Outcomes Unrestricted	✓

Introduction:

This is one of series of case studies reflecting the challenges identified by third sector organisations, as an outcome of research commissioned by the Finance Hub into the status of grant funding. The full report can be found at (link to FH16 report XXXX). As Local Authorities move towards commissioning approaches, how do third sector organisations (that have traditionally received grant income to achieve their objectives) cope? If there is flexibility in the outcomes they achieve or the way they deliver services what can be achieved?

The Challenge:

A number of third sector organisations surveyed, stated that they were feeling the effects of reductions in unrestricted funding (grant funding) that they had traditionally received. As a result some are desperately relying on one or two particular sources of income to help keep their organisation a-float (e.g. Big Lottery money which is of course very competitive). Because of the reliance on grant funding, these organisations were left in a position where they were running out of time to think more critically about how they might diversify their income sources more widely (partly because they don't have the resources or expertise to undertake the bid-writing process).

Example of Strategies used by the Third Sector:

The following ideas have been drawn from our case study examples:

- Work with trustees to help you to write bids for funding sources that you have not traditionally considered. For example, one organisation used a board member that had a good knowledge of the housing sector to do this for them.
- Develop a trading arm to make best use of the assets that you currently have. As one organisation said "We've been thinking of doing social enterprise type activity (for example providing community translators) to help generate income – now we have to!"

Key Lessons:

- Use your existing income wisely (e.g. appoint a post in an area of growth matched to funding trends?)
- Is there an opportunity here to collaborate? How many other local organisations are in a similar situation to you? By collaborating, you could access new income sources? This could be good time to start viewing collaboration as an opportunity rather than as a threat?
- Watch local funding trends – you can't afford to be caught out. Keep an eye on the external environment and the impact it can have on your organisation.

> Use your time well. Don't be tempted to take short cuts – identify the right types of funding for you – and don't forget to look long term.

7.5 Forced Marriages

Funds Restricted	
Delivery Restricted	✓
Outcomes Restricted	
Funds Unrestricted	✓
Delivery Unrestricted	
Outcomes Unrestricted	✓

Introduction

This is one of series of case studies reflecting the challenges identified by third sector organisations, as an outcome of research commissioned by the Finance Hub into the status of grant funding. The full report can be found at (link to FH16 report XXX). This case study highlights strategies used by third sector organisations when funders prescribe a collaborative delivery approach, but there is flexibility in the outcomes they achieve and the way they use their funding.

The Challenge

Our research showed that increasingly funding is given on the condition that third sector organisations partner with each other to deliver local services. Some organisations have found this condition of 'collaboration' very challenging – especially when there is no history of previous partnership working.

Example of Strategies used by the Third Sector:

The following ideas have been drawn from our case study examples.

- Say no – we often forget this is an option. One organisation told us 'if we can't see the synergy in the partnership, we will turn round and say no'.
- Invest in understanding your skills – this is so obvious, yet many organisations do not take the time to understand the strengths of their partners. This is critical if delivery is to be successful.
- Investing in reporting arrangements – ensuring that reporting arrangements are clear across partnership organisations. This can help all organisations in the partnership produce the right kinds of evidence and avoid reporting pitfalls, which can often make funders feel that there investment is unsecure.

Key Lessons:

- You're financial and administrative staff need to understand that you are working together and be clear about the reporting requirements.
- Draw up a clear delivery plan, with the roles and responsibilities of key partners included.
- Meet with your partners to understand not only what you are delivering together, but also your respective organisations. This can make the partnership stronger.

> We were encouraged to merge with two other centres. We've now got only two in the area. The council won't fund all of the organisations separately. This is not having a good effect on our ability to deliver. The council have been putting a lot of pressure on us to work in partnership.

Funds Restricted	✓
Delivery Restricted	✓
Outcomes Restricted	✓
Funds Unrestricted	
Delivery Unrestricted	
Outcomes Unrestricted	

7.6 Quality of Delivery

Introduction:

This is one of series of case studies reflecting the challenges identified by third sector organisations, as an outcome of research commissioned by the Finance Hub into the status of grant funding. This case study highlights strategies that have been used by third sector organisations in an environment where funders dictate all the terms – how much they will pay, what they will pay for, how they want projects delivered and the outcomes they expect for their investment.

The Challenge:

A number of case study organisations felt unable to negotiate the scope of funding restrictions with their funder. This was despite the fact that in their view, restrictions sometimes had a detrimental or limiting effect on the overall quality of services provided. For example, one organisation had previously received funding for a full time worker to provide after school support for disadvantaged young people, but that level of support was no longer provided "this will inevitably mean you have to cut corners sometimes to try and deliver work of an appropriate standard (but this becomes harder as funding is reduced)."

Example of Strategies used by the Third Sector:

The following ideas have been drawn from our case study examples.

- If costs, delivery and outcomes are restricted, you may feel you have no choice, other than to do exactly what it says on the tin. However one organisation demonstrated how they still ensure that their organisation's core principles and aims are still embedded in the work that they did by – making sure that the funding is a decent match with your aims and objectives in the first place.
- Planning the work extremely well to make sure that you are able to deliver the funded activity as efficiently as possible, so that it doesn't infringe upon other aspects of your organisation's core business.
- Capture additional outcomes as a way to evidence the need for more flexibility in the future.

Key Lessons:

If you are not convinced that the contract on offer will deliver the best outcome – ensure that you develop a better evidence base for delivery, and use this when reporting progress to your funders. Ensuring that they are kept in the loop against a prescriptive contract, could mean that you have more leeway when it comes to negotiating a new one.

> They never ask us what works. It's so frustrating when we know what will work on the ground.

7.7 *Mission Impossible*

Funds Restricted	
Delivery Restricted	✓
Outcomes Restricted	✓
Funds Unrestricted	✓
Delivery Unrestricted	
Outcomes Unrestricted	

Introduction:

This is one of series of case studies reflecting the challenges identified by third sector organisations, as an outcome of research commissioned by the Finance Hub into the status of grant funding. This case studies highlight strategies used by third sector organisations, when what is offered doesn't sit comfortably with the mission of the organisation.

The Challenge:

Funders place conditions on your delivery and the outcomes they want to see. This combination of factors can mean that third sector organisations are placed in a position where they are not in agreement with the prescribed delivery approach or the outcomes that funders wish to see and as a result question the 'fit' with their overall mission. For example, if the organisation strongly believes that the best way to get young, unemployed people in employment is through personal development strategies, and a funder is offering opportunities for it to deliver employer placements – third sector organisations can be placed between 'a rock and a hard place'. This is a fairly simplistic example, but the point is - how do you manage the funding you receive in the circumstances where you are unable to negotiate delivery or outcomes?

Example of Strategies used by the Third Sector:

- Even if delivery and outcomes are prescribed by the funder, one organisation clearly pointed out that they were still in charge of their costs! They made efficiency savings on the delivery of their contract, enabling them to re-direct funding into other areas of work which was more beneficial to their client group, and therefore was a better match for their mission.
- Mix and Match: One organisation gave an example of two separate contracts which they were able to use to compliment one another for the benefit of the client. In doing so they felt that they did not compromise their mission and values and their beneficiaries still received a good outcome.

Key Lessons:

- If you can save on delivery costs, any surplus could be used to fund core mission and values.
- Taking time to plan delivery and include other contracts as part of this process, could mean that you can get a better outcome for clients.

> Our approach is not parochial, but entrepreneurial

7.8 Core Cost

Funds Restricted	✓
Delivery Restricted	
Outcomes Restricted	
Funds Unrestricted	
Delivery Unrestricted	✓
Outcomes Unrestricted	✓

Introduction:

This is one of series of case studies reflecting the challenges identified by third sector organisations, as an outcome of research commissioned by the Finance Hub into the status of grant funding. This case study highlights strategies used by third sector organisations in cases where funds were restricted to delivery costs only – and did not cover the full operational costs.

The Challenge:

Even with the compact guidelines on full cost recovery, funders are still offering funding which is limited to delivery costs. This means that overheads, such as management time, accommodation costs and administration, are not included as part of the funding for the project.

Example of Strategies used by the Third Sector:

- One organisation was able to re-negotiate the contract so that the delivery costs were reduced, to include their much needed infrastructure costs. Although the total value of the work didn't change, this organisation felt that at least their funder was clear about the real costs and therefore the real value of their organisation's work.
- Another organisation gave an example of where they were planning to 'offset' the costs of administration against another project. Although this wasn't ideal, it did allow them to deliver the project without incurring additional costs

Key Lessons:

- Ensure funders know the full costs of your work. Even when you know that administrative costs are not being funded, make sure funders appreciate that your organisation is contributing these costs towards the delivery of the project.
- Again, be creative about your delivery, ensuring that you can plan the administrative and reporting requirements to fit with other projects.
- Negotiate a reduction on your delivery, so that a percentage of the contract can legitimately be utilised to support overheads.

> We've redesigned our budgetary process to meet these challenges. We've recognised we're not always going to be able to get core funding. Although we are receiving some funding for core costs, we have a system so we can identify core costs in other projects too.