



Why grants are important for a healthy local VCS

A study of four local authorities' policies

Sally Cooke on behalf of NAVCA
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This report was written by NAVCA (the National Association for Voluntary and Community Action).

NAVCA is the national voice of local voluntary and community sector infrastructure in England. Our 360 members work with 140,000 local community groups and voluntary organisations which provide services, regenerate neighbourhoods, increase volunteering and tackle discrimination in partnership with local public bodies.

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Introduction

This report explores the grant funding relationship between local government and the voluntary and community sector (VCS) as part of the local funding mix. It provides snapshot examples of the grant funding relationship and grant funding practice of four very different local authorities, each of which recognises a need for, and has demonstrated a degree of commitment to, on-going grant provision. These examples attempt to shed light on the nature of this commitment, the drivers for it and the perceived outcomes of it. The intention is to provoke discussion at national level and amongst local partners who are seeking to address VCS funding issues responsibly.

There are a number of policy drivers causing local authorities to review the way in which they fund the sector. Not least of these is the emphasis that Government has placed on the sector's service delivery role in recent years. Local authorities, like the rest of the public sector, are under increasing pressure to make efficiency savings and to demonstrate value for money in the way they utilise their resources. For some authorities, the combined effect of these drivers has meant a shift away from grant funding toward an increasingly contractual relationship with the VCS.

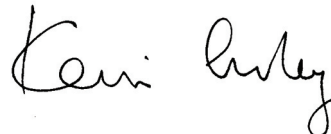
There are, of course, good reasons for this in some cases. Contracts provide a degree of clarity on both sides of the relationship which can be helpful to both parties. Properly negotiated agreements can help to define the relationship, manage expectations and ensure a level of service and quality that meets mutually held objectives. However, there is significant concern in the VCS about the loss of more flexible grant funding in some localities as a result.

Where there is a move away from grant funding, this is likely to have particular implications for smaller and newer organisations that do not have the capacity to meet service delivery specifications but who, none the less, add value locally by: addressing the needs or interests for specific groups within the community; building social capital; improving quality of life; and providing a sense of community and belonging. The end of Single Regeneration Budget funding and the increased demand on EU resources from Eastern Europe means that the potential loss of local authority grant funding is an even greater concern for the sector at the present time.

The interim report of the Third Sector Review¹ accepted that:

‘Government needs to understand better when it is appropriate to offer contracts to third sector organisations, when investment is required, and when Government should be offering grant funding.’

The Department for Communities and Local Government committed, in the recent Local Government White Paper, to consider steps that may be necessary to ensure the continued use of grant funding where appropriate at local level. Based on interviews with NAVCA members and key personnel within four local authority areas, this report: highlights some current local thinking on these issues; identifies some of the challenges in the local funding relationship; and explores the issues at stake for both sectors. This report also provides a checklist against which local authorities can benchmark their approach to grant funding as part of the local funding mix.



Kevin Curley
Chief Executive, NAVCA

¹ The future role of the third sector in social and economic regeneration: Interim Report (Dec 2006)

Gloucester City Council

Overall funding relationship

Gloucester City Council's grants budget is £841,544 which represents approximately 5% of the authority's total revenue budget. This includes £72,930 in small grants under £5,000 and a further £10,000 in very small one-off Neighbourhood Pride and training grants. Most organisations receiving over £5,000 have a three-year funding agreement or a service level agreement. The £5,000 threshold relates primarily to the complexity of monitoring requirements. Much of this grant funding goes toward funding organisations' core costs.

The council has, in recent years, monitored the leverage potential of the money it puts into the sector and estimates this to have increased to a ratio of 8:1. There is not a significant contractual relationship between the VCS and the council.

Commitment to grant funding

In December 2006, the council put forward some fairly radical plans for the review of its funding relationship with the sector. These proposals are intended to encourage greater:

- sustainability within the sector;
- simplicity and clarity in the grants process; and
- accessibility of grant funding for different types of organisation and activity.

The council proposes to maintain the overall level of resources into the sector and to continue grant funding but also to shift to commissioning in some service areas. There are three elements to the proposals:

New criteria for sector support – a matrix of criteria will be used, based on Gloucester's revised community strategy (which reflects county local area agreement (LAA) priorities) and three cross-cutting themes of: community action and engagement; community cohesion and equalities; and shared and joint working.

A sustainability fund – initially around £10,000-£20,000, this pot will come with officer support for organisations going through the process of change, which might include: greater collaboration; shared functions/use of premises; or mergers.

Changing mechanisms for funding and support – there are three proposed models of future funding. These include:

- county-wide joint commissioning;
- a unified grants process; and
- one-off, time-limited activity grants linked to outcomes such as community engagement.

The new matrix of funding criteria will apply to all funded activity regardless of the model. There will be no upper or lower limit for these funding models, although joint commissioning is clearly intended for more substantial funding of services delivered across the county. The areas proposed for commissioning are: Community Transport, Advice, Infrastructure Support, Equalities and Neighbourhood Projects².

The Review Steering Group which drew up these proposals identified that although the local authority's funding in the past had encouraged a wide range of organisations to develop, many of these struggled to attract sufficient committee members or sustainable levels of resource. The council wants to shift the balance away from core funding organisations on the basis of their purpose, to grant funding which relates to their activities. The council is clear that the shift to commissioning will only be appropriate for certain types of organisation and if it can be done in collaboration with other authorities in the county. Any resources saved in this process will be ring-fenced for grant funding and the sustainability pots.

'Rather than reducing funding we are trying to find ways to maintain it and encourage greater sustainability in future'

Sue Oppenheimer

Grant funding practice

Gloucester's grant funding is centrally managed. The process is transparent and written grant assessments are shared with applicants in advance of decisions being taken. Standard terms and conditions are used to promote good practice and local authority officers support organisations to meet these. The grants framework sits within the aims and objectives of the community strategy. Previous equalities audits have led to some redistribution of funding toward BME groups, with associated community development support to encourage applications. The Neighbourhood Pride Fund is a one-off fund providing small amounts of money, and matched financial or in-kind support from

² Of which there are four in the city and 10 across the county as a whole.

local business, to support community-led environmental initiatives.

The new proposals will offer grant-funded groups three-year agreements linked to simple, negotiated service level agreements (SLAs). There will also be more opportunity to fund specific time-limited activities on a one-off basis. A single application form and simpler monitoring requirements are intended to reduce bureaucracy. Both commissioned services and grant-funded projects will be resourced on a full cost recovery basis.

‘We see grant funding as a way to work more closely with communities’

Sue Oppenheimer

Engagement with the sector

Gloucester has a history of sound engagement and communication with the VCS. The local strategic partnership (LSP) involves the VCS in both the partnership and delivery of the community strategy. The local authority funds Gloucester Association for Voluntary and Community Action (GAVCA) to facilitate this engagement through a VCS forum which is funded by the LSP.

Council officers are working in a variety of ways to develop the capacity for engagement and voice at a community level. Gloucester also funds a community development outreach post within GAVCA. The Community Strategy Team has recently worked with the sector to access lottery funding for play initiatives, which included capacity building for groups to deliver the resulting play rangers scheme.

Six elected VCS representatives sat on the Review Steering Group which developed the new funding proposals. These proposals have since been subject to a 12-week consultation, including a consultation event organised by GAVCA. The consultation showed broad support for the principles of change. Most comments related to aspects of implementation, the majority of which will be addressed in the process. The new funding proposals mean that the council will take a more engaged role in its funding of the sector. The council’s Community Development Team will work to support the VCS through the process of change.

‘The relationship here is one of trust based on good communication’

Sally Pickering

‘It is very much about partnership’

Sue Oppenheimer

Views of the future

There are a number of drivers prompting Gloucester to take bold steps in its funding relationship with the sector. The council remains committed to local VCS development and delivery but sees its on-going support for the multiplicity of organisational structures as unsustainable. Following consultation on the new funding proposals, which came to an end on 2 March 2007, more detailed plans for implementation will be put in place. The council recognises that successful implementation of these proposals will require better partnership working within the public sector and within the VCS as well as between the two. It is proposing to take an informed and collaborative lead on both fronts.

‘Successful implementation will take a lot of communication and support through the process of transition’

Sally Pickering

Interviewees:

Sue Oppenheimer, Assistant Director: Community Engagement, Gloucester City Council
Alison Kite, Community Development Manager, Gloucester City Council
Sally Pickering, Chief Executive, Gloucester Association for Voluntary and Community Action

Local authority

Type: Shire District
Region: South West
Politics: No overall control/
Minority Conservative
Administration
Rating*: fair
LAA**: Phase 3 (County level)

* / ** See Notes on page 18.

Local statistics

Population: 109,885
BME population: 7.46%
Estimated number of VCOs: 350+

Newcastle City Council

Overall funding relationship

Newcastle City Council's mainstream grants budget is just over £4 million, including £500,000 which is distributed in small grants via ward-level committees. A further £3-4 million each year is channelled into the sector from various external sources where the local authority is the accountable body (e.g. Neighbourhood Renewal Fund). There has been a significant contractual relationship with the sector, particularly through Social Services, since the Community Care Act and Compulsory Competitive Tendering were introduced in the 1980s. The full extent of the contractual relationship has yet to be measured. However, recent research by Newcastle CVS (NCVS) identified £4.27 million worth of local authority contracts held by a sample of 123 of their member organisations.

NCVS estimates that the total income of the sector in Newcastle may be anything up to 14 times what the council puts in. Although not directly attributable as leverage, the funding practice of the local authority certainly encourages a vibrant and robust local sector.

'The VCS is fundamental to the place we want this city to be.'

George Kelly

Commitment to grant funding

Newcastle is currently conducting a review of its relationship with the VCS, of which the funding relationship is a part. VCS representatives on the Compact Review Group made a robust case for grant funding to be maintained as part of the funding mix. The review team universally concluded that a balance between direct procurement activity and grant aid within the commissioning cycle was essential.

Newcastle City Council recognises that the sector adds value, helping the council to achieve both corporate and service objectives more effectively. It sees a sound business case for grant funding, recognising that:

- the local authority gets more from its relationship with the sector with greater flexibility; and
- the funds it puts into the sector are important but small compared with the overall level of resource the sector brings to the city.

The review is, however, being conducted in tight financial context. Having largely protected the VCS

from significant cuts so far, a reduction target of 14.25% over three years³ has been agreed with sector representatives. Every effort will be made to ensure that reduction is targeted where efficiency savings can be made. The process will be managed in consultation with the sector and in line with the Compact.

Alongside this, the council has ring-fenced £100,000 for each of the next three years to:

- invest in internal capacity to manage the relationships with the sector better;
- provide additional resources for NCVS information and advice to the sector; and
- match money put in by the Regional Centre of Excellence to encourage a more robust approach to procurement and reduce barriers to VCS involvement.

Grant funding practice

Newcastle recognises three types of grant funding set out in its Compact Funding Code. These are:

- Strategic – a contribution to core funding strategically important organisations;
- Project – for one-off pieces of work or pilot initiatives for a fixed time period; and
- Development – investment in the capacity of voluntary or community groups.

The council has made a commitment to the principle of three-year funding, with SLAs for those who have funding agreed for this period. The council recognises the mutual advantage that greater stability of funding brings, in terms of more effective business planning, better service delivery and fundraising on the part of the funded organisation. The local authority recognises all of these to be in its own best interests now and in the longer term.

The move to three-year funding has meant less flexibility in the mainstream grants budget. However, the small grants and externally funded grants pots allow greater flexibility to fund new and innovative projects. The council has a good track record in utilising development funding to help organisations delivering strategically important niche services (e.g. Black Women's Refuge) to develop internal procedures and good practice. The Ward Committee budget funds community festivals and other activities including ones linked to the Year of Exercise and Sports in 2006.

³ In real terms (including the cost of living increase over the three-year period) which equates to an actual reduction of around 7%, in line with Newcastle's overall efficiency targets.

There has been a common application form and standard agreement for grant funding for many years. Adherence to these procedures, and to the Compact, is managed centrally although grant programmes are directorate led. Newcastle's efficient grants administration is praised by grant recipients and sector representatives. All funding opportunities and allocations are published on the web.

'We recognise the massive contribution the sector makes to the quality of life of the City and its inhabitants'

George Kelly

Engagement with the sector

Newcastle has a long history of engagement with the sector, particularly around issues of social welfare, dating back to the 60s/70s. A Health and Community Care Forum has been in place since the 1980s and a Regeneration Forum was set up in the mid-90s which has since become a formal partner to the LSP. Representatives are elected from this group onto the LSP board and theme groups. Newcastle's Compact was one of the earliest, agreed in 2001. Funding and other codes have since followed. The Compact Review Group includes six elected representatives from the VCS and six from the local authority, including four of the ten members of the Council Executive (Leader, Deputy Leader, Lead Member for Social Care and Health and the Lead Member for Education). The Compact Review Group usually meets twice a year (more frequently at present due to the VCS review). Each meeting includes a review of disagreements in relation to the Compact and an opportunity for VCS partners to present a paper on a key local or national issue for debate and either separate or joint response.

'We have a long history of being taken seriously here in Newcastle.'

Carole Howells

Views of the future

Newcastle is looking to move forward with grants and procurement as part of a more sophisticated approach to commissioning based on performance and outcomes. The revised Compact funding code will clarify the difference between grants and procurement and encourage a more systematic understanding of

the strategic, project, and development grant funding options. Work to make procurement processes more 'sector friendly' will be done in collaboration and consultation with the sector.

It is early days for Newcastle's LAA. It is recognised that new ways of working will refocus some priorities and that this will have an impact on the VCS. In pooling budgets, the local authority is keen to ensure that the detailed knowledge, varied expertise and range of relationships from which it currently benefits are preserved in the new governance arrangements.

'We see the sector as a vital component in shaping the future of the City. Not just now but in the future'

George Kelly

Interviewees:

Carole Howells, Director, Newcastle Council for Voluntary Service
 George Kelly, Head of Policy & Programme Integration, Regeneration Directorate, Newcastle City Council

Local authority	Local statistics
Type: Metropolitan District Region: North East Politics: Lib Dem Rating*: 3 Star LAA**: Phase 3	Population: 259,536 BME population: 6.88% Estimated number of VCOs: 2000
* / ** See Notes on page 18.	

Nottinghamshire County Council

Overall funding relationship⁴

Nottinghamshire's total grant aid budget across directorates is estimated to be £4.25 million. This includes around £0.5 million of infrastructure funding to a range of organisations, including volunteer centres, five district CVS, the Race Equality Council and a community accounting service. Within the £1.76 million Social Services grant aid budget, grants range from £100 to £70,000 and may be one-off or on-going. Grants at the lower end of this scale tend to fund issue-based groups for community activities including networking, advice and support. The county funds some capacity building posts within the sector (e.g. within Age Concern) and has recently distributed around £1 million of Link-Age money, through a competitive grants process.

The contractual relationship, which is primarily in social care, is approximately £2.5 million. Where opportunities to tender for service delivery have arisen, the number of responses from the VCS has often been disappointing. This may reflect the sector's view of the opportunities or their capacity to respond to them. The council is aware that the nature of tendering documents and processes are likely barriers.

Commitment to grant funding

Nottinghamshire has a commitment to partnership with the sector and a history of grant funding on which it hopes to build. Grant funding enables the council to respond to proposals where VCOs have identified activities that are of benefit for their community or interest group. VCOs are seen to be particularly adept at providing services at the preventative end of the local service spectrum. These activities are seen to complement the council's objectives. The council recognises that the sector contributes significantly to quality of life in the county, and that there would be cost implications for them if many of these sector-led services and activities were lost.

'The sector is able to deliver in ways the local authority may not be so good at'

Wendy Young

⁴ The emphasis of this example is on Social Services grant aid and corporate grant funding for VCS infrastructure. The officer with lead responsibility for the grants framework and the relationship with the sector is based within Social Services.

Nottinghamshire is in the process of conducting a Corporate Grant Aid Review which is looking at grant aid across the authority. The review working party, reporting to the Deputy Leader, has highlighted the following as priorities:

- To maintain a mix of funding.
- To review contracting processes with reference to the VCS.
- To unify grant aid under a common transparent framework.

As a significant funder of infrastructure, the county is also working with the East Midlands Funders Forum to join up thinking on the future of infrastructure funding. This work will build on research conducted by the infrastructure consortium.

'Council recognition of the importance of a mixed economy of funding, including grant aid, to support sustainability is highly valued by the sector'

Sharon Clancy

Grant funding practice

Social Services have a standard grant application form and guiding standards for funded organisations. Three-year – in principle – grant aid agreements were introduced in 1999. These agreements are subject to monitoring and review on an annual basis and are updated to reflect inflationary increases and other minor changes but require no reapplication. Service level agreements have been introduced for some organisations over the last ten years. This has enabled the county to maintain a grant aid relationship and has helped to clarify what the county is funding. The lines between grant aid, SLAs and contracts however are not clear or consistent across the authority. Due to the grant aid review, existing agreements have been extended for each of the last two years.

Processes and Guiding Standards are updated regularly in consultation with the sector. They are designed to reflect and promote good VCS practice which is mutually beneficial. The county council has, for example, worked with organisations to improve the quality of annual reports, which have been used as the main monitoring mechanism for grants, and which are helpful to organisations when seeking funding from other sources. The standard application form is

being tailored to make it more proportionate for small as well as large organisations. The grant aid process is being updated to include more frequent reporting. The Guiding Standards are used by a number of local authority departments but have not been adopted universally.

The threshold for light touch monitoring of Social Services grants has been raised from £2,500 to £5,000 to reduce the administrative burden, particularly on small organisations. Work is also underway to rationalise monitoring requirements for those VCOs receiving income from more than one source in the department. This has not always proved easy but the longer term aim is to extend this approach across the authority.

Engagement with the sector

Nottinghamshire has two key mechanisms for maintaining regular on-going dialogue with the VCS. The Voluntary Sector Liaison Group meets every eight weeks and brings together the County's VCS lead officer, the Strategic Director for Adult Social Care and Health and the Chief Executives of all the VCS infrastructure organisations in the County. This group deals with broad sector issues and sets the agenda for the Voluntary Sector Partnership Forum (VSPF). The VSPF is an open forum for all VCOs, whether they are funded by the County or not. It meets two-three times a year and combines information giving with discussion designed to engage smaller groups in dialogue on key issues. There are plans to align this forum more closely with the LAA themes.

The County is working with the Voluntary Sector Liaison Group to update the Compact which was originally signed in 2001. It is intended that the revised version be adopted by the County Partnership responsible for the LAA. Nottinghamshire's LAA includes three sector-related targets:

- to increase volunteering (stretch target);
- to increase VCS public service delivery; and
- to develop a stronger VCS.

The VCS is engaged on the management group and across all the blocks of Nottinghamshire's LAA. The Older People and Health block is chaired by a VCS representative. The county council also has a history of secondment into the sector, including into Networking Action for Voluntary Organisations (NAVO) which co-ordinates VCS engagement in these processes.

'The authority sees the relationship as one of positive partnership, crucial to prevention and building social capital'

Wendy Young

Views of the future

This is a period of uncertainty for the VCS in Nottinghamshire. Structural changes within the authority and the task of introducing an LAA in a two-tier area are both placing pressure on officers' time. For the sector too, the LAA and the ChangeUp agenda are proving time consuming. It is hoped that in summer, the grant aid review, and the wider VCS strategy to which it links, will provide a sound basis from which to move forward.

Interviewees:

Wendy Young, Head of Voluntary Sector Liaison Service, Nottinghamshire County Council
 Sharon Clancy, Chief Executive, Mansfield Community & Voluntary Service

Other contributors:

Ian Bradford, Rushcliffe Council for Voluntary Service
 Mike Newstead, Director, Bassetlaw Community & Voluntary Service

Local authority	Local statistics
Type: County	Population: 748,510
Region: East Midlands	(1,015,498)*
Politics: Labour	BME population: 2.60%
Rating*: 4 Star	(5.88%)
LAA**: Phase 2	Estimated number of VCOs: (5400 – 7400)
* / ** See Notes on page 18.	*Figures in brackets relate to Nottinghamshire as a whole, including the City of Nottingham, which is governed by a separate unitary authority

Reading Borough Council

Overall funding relationship

Reading Borough Council has a corporate Core Grants budget of £2.5 million drawn from across the authority and administered by a Voluntary Sector Support Unit in the Chief Executive's Directorate. This includes a £30,000 annual Small Community Grants pot. The local authority also provides in kind support in the form of accommodation, payroll services and staffing to the value of £318,000. Grant allocations range from £100 to £200,000. The extent of the contractual relationship between the local authority and the VCS is estimated to be £6.7 million.

Reading also has an External Funding Team which supports both the local authority and the VCS to access external funding from UK and European sources. Well networked with other local and regional funders, this team provides a range of information, direct support and awareness raising and networking events. The authority is aware of considerable additional resources being brought into the local economy by the sector.

Commitment to grant funding

Reading's political leaders are strongly committed to the VCS and to grant funding. The local authority's commitment to mixed funding is set out in the local Compact. This commitment builds on a long history of community development and support for children's services in particular. The links between community action and political action are clearly evident in Reading. Councillors see engagement with the sector as an important part of their local leadership role.

Reading finds that being a grant funder gives it insight into the community. The range of organisations coming forward, and the nature of their work, can indicate changes, some of which flag up future service priorities. Reading's small grants pot allows for a degree of risk taking, funding small scale activities which help to build community. Funding small organisations enables the local authority to link these into the wider agenda and encourage high standards by signposting groups to sources of support.

The current policy environment has raised questions about the 'best fit' form of funding for different activities. Supporting People, in particular, led officers to tease out what should be contracted and grant funded. This proved complex, and problematic in some cases, where direct cost comparisons did not reflect organisations' added value. The locally funded women's refuge, for example, was found to

be relatively high cost compared with others around the country. Over and above accommodation and support, which Supporting People would commission, the refuge also provides highly valued preventative outreach and resettlement support and is actively engaged in the local strategic partnership with regard to the domestic violence agenda and associated stretch targets. For this, the refuge receives on-going grant funding.

'The local authority is a mature enough funder to recognise that the sector is often best placed to make decisions for itself'

Mike Martin

Grant funding practice

Reading has a clear application process and regular cycle for its grant programmes. Monitoring requirements are proportionate to the amount of funding. Those with grant funding above £10,000 have negotiated three-year service level agreements (which the local authority is clear are not intended to be contracts). SLAs follow a standard format and increase in complexity proportionate to the amount of funding. There is a two-week appeal window for those unhappy with the outcome of their grant application. Last year this resulted in two out of five appeals being upheld. Where organisations do not receive funding they may be offered in-kind support or help from the External Funding Team where appropriate. The Voluntary Sector Support Unit publishes an annual report which sets out grant allocation against corporate targets and service priorities.

Three-year funding provides a degree of stability within the sector and nurtures some of the authority's key strategic relationships. It does, however, limit scope to extend grant aid to a wider range of groups without an increase in budget. The Community Grants pot allows for greater turn over of applications from different groups. In recent years this budget has been linked to community festivals, providing funding to VCOs catering for Reading's diverse community. The local authority administers all its own grant distribution. It is proud to be a grant funder and is keen to be seen as such by local people.

'Grant funding allows flexibility, brings added value and respects the sector's independence'

Irene Cameron

Engagement with the sector

Reading has a healthy and vibrant VCS which is an active partner in the LSP, making up one third of its membership. The local authority and primary care trust (PCT) jointly fund a partnership management post within Reading Voluntary Action to facilitate engagement and provide training for VCS representatives who are elected and accountable back to a VCS forum. The sector is fully engaged in community plan discussions and development of the community strategy and LAA. The VCS contributes to achievement of key targets, including those on volunteering, domestic violence and benefit take-up.

Reading's Compact was first signed in 2000 and has since brought the PCT on board. Quarterly Compact meetings allow for discussion of funding issues and feedback on the impact of changes in policy and practice e.g. Children's Centres and Supporting People. Officers attend in order to respond to questions. The local authority listens to the sector's view on key local issues including recent research which highlighted the contribution of faith groups to provision of community networking and the provision of volunteering opportunities and community space.

'We have a high profile and well organised sector which plays an important role in representing local interests.'

Cllr Tony Page

Views of the future

Reading is aware of the service delivery potential of the sector, particularly amongst larger organisations. Some organisations, including a children's information centre and a local day nursery, have recently made the transition from grant funding to a contractual relationship. There is a procurement and partnerships post within the local authority working to make procurement processes inclusive of all sectors on the basis of best value. Localism is important in Reading and all parties are keen to ensure that local commissioning and sub-contracting are encouraged.

Reading's political leadership and the local sector agree, however, that contracts are not the way forward for the majority of local funding relationships. The local authority appreciates that different approaches are required for different sizes and types of organisation. The council recognises the sector's added value, in

building social capital and providing complementary services. The authority values the networks and communication that it has built up over years. It works hard to make sure it is clear what it gets for its grant funding and is determined not to lose this by taking a blanket approach to contracting.

Interviewees:

Mike Martin, Chief Executive, Reading Voluntary Action
Irene Cameron, Voluntary Sector Support Manager, Reading Borough Council
Cllr Tony Page, Lead Member for Community Action and Chair of Compact Group

Other contributors:

Beryl Pickford, Bidding Information Officer, External Funding Team, Reading Borough Council

Local authority

Type: Unitary
Region: South East
Politics: Labour
Rating*: 3 Star
LAA**: Phase 3

* / ** See Notes on page 18.

Local statistics

Population: 143,096
BME population: 13.18%
Estimated number of VCOs: around 1000

Feedback from grant recipients

As part of this study, around 30 local authority grant recipient organisations were asked to complete a brief questionnaire. Eighteen responses were received and although these are unlikely to be a representative sample they provide some useful insight into grant recipient views of the local authority grant funding they receive. The annual income of responding organisations ranged from £9,000 - £2.26 million. The local authority grant, as a proportion of total income, ranged from <1%-93%. All had either a grant letter or a service level agreement or both outlining the purpose of the grant. Organisations' grant-funded activities included:

- projects and activities designed to empower vulnerable individuals, provide culturally appropriate activities to sections of the community or promote well being;
- direct service delivery, particularly in the areas of advice, support and counselling;
- provision of voice, representation and advocacy; and
- infrastructure support and access to community facilities.

The majority of grants contributed towards core costs. When asked what the grant funding enabled them to do, several respondents said that it enabled their organisation project or service to exist. Others indicated that it enabled them to:

- reach a wider range of groups or individuals;
- provide a wider range of activities;
- improve the responsiveness, quality or accessibility of what they do; or
- enhance campaigning, networking or preventative work.

One organisation talked about being a gateway to other services. Most reported that their grant funding gave them some stability, enabled them to attract resources from elsewhere and, in particular, gave them credibility with other funders.

Two thirds said that they would consider delivering services under contract to the local authority in future if the opportunity arose. It is not clear whether this is an active desire or a response to the current funding climate. Some, like Age Concern, were already contracted for some service delivery in addition to their grant. Not all felt they had the skills or knowledge required to compete for such contracts. However, it seems unlikely that the local authorities concerned

would (or indeed could or should) contract on a full cost recovery basis all the services and activities provided by these organisations. As both grant recipient organisations and interviewees pointed out, many VCOs are able to make a big difference with relatively small sums of money. Several interviewees referred to local authority grant funding as a platform or starting point from which organisations are able to draw in resources from elsewhere.

The aspects of local authority grant funding practice that grant recipient organisations found particularly helpful have contributed to the list below.

Aspects of good grants practice

- Clarity and transparency of process
- Widely published grant funding opportunities and outcomes
- Proportionate application and monitoring
- Three-year funding (except where the need or project is shorter term)
- Inflationary increase on multi-year funding
- Minimum standards for grant-funded organisations
- Quality information and officer support
- Availability of small grants with minimum monitoring requirement
- Proportionate and responsible negotiation of SLAs
- Timely processes and payments
- Advance notice of grant decisions or any change in grants practice
- Appeals procedure for grant funding decisions

Common themes

The four local authorities featured in this report are each taking different approaches to grant funding as part of their overall financial relationship with the VCS. All have made some degree of commitment to the continuation of grant funding as part of that local funding mix. Most are also planning or carrying out specific work on procurement to reduce barriers to VCS public service delivery. These authorities currently engage in a range of funding activities which could be described as giving, investing and shopping⁵. These include:

- pure grant funding in support of organisations or activities proposed by the sector where light touch monitoring is applied (including small grants);
- grant funding toward the running cost of infrastructure or other strategically significant organisations;
- grant funding for particular types of activity or service, often subject to a service level agreement, in some cases located through competitive grants processes;
- funding designed to capacity-build or improve practice within organisations;
- procurement of specific services under contract.

All the study areas show commitment to their relationship with the VCS and structures which facilitate genuine and on-going dialogue about sector issues. It is striking that these four local authorities were all amongst the first to develop local compacts, not because there was any requirement to do so, but because it made sense in terms of their relationship and local culture. All have a strong history of grant funding and have introduced three-year agreements and inflationary increases to encourage stability and sustainability in most, if not all, of their grant aid relationships. Most also have a strong history of community development work. The commitment to grant funding has meant that VCS grant aid budgets were amongst very few growth items in last year's financial plans despite some tight financial circumstances and some significant internal cuts in most cases.

The longevity of the funding relationship and the quality of the dialogue appears to have fostered a culture of co-operation and trust in each case. Although none of the participating authorities would claim to have their financial relationship with the VCS absolutely right, and all face some challenges in this, interviewees presented

a range of very valid reasons why local authorities might want to continue grant funding in future (see below).

Reasons to grant fund – the sector's added value

- Nurtures complementary and preventative services
- Increases the signposting of potentially vulnerable individuals to appropriate services
- Builds social capital and connections within the community
- Builds capacity for community self help
- Breeds a culture of co-operation, communication and networking
- Encourages diversity and responsiveness
- Enables leverage of resources into the locality from elsewhere
- Provides insight into local communities
- Enhances potential for engagement with communities
- Contributes to local democracy
- Nurtures an independent sector capable of responding to current and future service needs

⁵ Grant Making Tango: Issues for funders, Julia Unwin, Barings Foundation (2004)

Key challenges⁶

Policy drivers

The pressures of efficiency and LAA targets, the heavy emphasis on the role of the VCS in public service delivery, and the current wealth of generic commissioning guidance (which takes no account of the possibilities of grant funding), all seemingly deter local government officers from giving proper consideration to the purpose and the possibilities of grant funding. Together, these drivers encourage an instrumentalist view of the sector which potentially undermines its broader role in the locality and society more widely. Where this tendency has arisen in some of the areas featured here, it has been the corporate (and in some cases the strong political) commitment to grant funding which has prevented this form of funding from being abandoned. Where there is a central role with responsibility for grants policy and practice, even if grants themselves are directorate led, it is this which has enabled a more considered approach to be taken.

There are a number of areas of confusion which local authorities and local VCOs are grappling with, all of which have implications for the future of grant funding:

Full cost recovery

The dominant VCS public service delivery agenda has brought the principle of full cost recovery⁷ to the fore. The application of this principle locally, however, is not proving to be straight forward. This is not surprising when you consider the range of different financial relationships local government has with the VCS. These include:

- small one-off grants for community activities;
- project funding for time-limited and pilot initiatives;
- development funding to enhance quality or range of services or activities;
- core funding for staff, administration or premises;
- grant funding for infrastructure and other strategically significant organisations;
- co-created voluntary/public sector delivery partnerships; and
- contractual relationships for the deliver of specific services, in some cases competitively tendered.

⁶ The views expressed here are NAVCA's, informed by experience of the four participating authorities and others elsewhere. These views do not necessarily represent those of individual interviewees.

⁷ The principle that VCOs can legitimately recoup full costs (including direct costs and an appropriate proportion of associated overhead costs) where they deliver public services on behalf of the public sector.

The difficulty lies in identifying when the public sector agency is funding in support of an activity or service and when it is wholly purchasing that service. At either end of this spectrum there is a degree of clarity. Small grants, for example, tend to be pure funding relationships where the money is given in support of an activity entirely defined by the VCO in question. At the contractual end too, the relationship is relatively clear cut. The purchasing organisation defines what it wants, potential providers decide whether they want to compete and, if successful, deliver the purchased service under contract. In all other cases the relationship is less clearly defined. There is input from both sides on what is to be delivered and to a greater or lesser extent there is negotiation.

Full cost recovery primarily applies to the purchasing relationship⁸. However, it is not always easy to make a distinction between what is funded and what is purchased. This confusion is exacerbated by the inconsistent use of service level agreements.

Service level agreements

Introduced over the last decade to clarify what public sector funders are grant funding, service level agreements (SLAs) vary enormously in their level of detail. At one end of the scale they outline the key objectives of the funded activity or service (which are shared objectives negotiated between the funded organisation and the funder). At the other they have become quasi-contractual service specifications, often disproportionately prescriptive for the level of funding involved. This variation makes it difficult now for local authority officers and VCOs to be clear about the 'best fit' form of funding in various circumstances i.e. where grant funding is appropriate and where the public body is purchasing a service. When trying to make a distinction between what is funded and what is purchased, local government should be clear that it cannot wholly prescribe and only partially fund the service in question.

Treasury guidance to funders⁹ suggests that 'SLAs are being phased out in favour of grants and contracts, particularly where procurement processes are being made clearer and further improved'. However, the same guidance goes on to say that grants and grant-in-aid (which may be accompanied by SLAs) are more likely to be suited to supporting VCS activity aligned with government objectives such as generating social

⁸ Although it may also be applied to some project funding or aspects of other grant relationships.

⁹ Improving financial relationships with the third sector: Guidance to funders and purchasers, HM Treasury (March 2006)

capital and advocacy roles. At a local level however, many organisations playing these roles combine them with some form of service delivery or activity which may or may not be publicly funded or purchased now or in the future.

Treasury guidance goes on to say that:

Despite the trend towards open competition and contractual relationships between funding bodies and the third sector, procurement does not necessarily always represent the optimum value for money option – there is clearly an ongoing role for strategic or development funding, most commonly channelled through grants or grants-in-aid.

Not all those services and activities currently grant funded and subject to SLAs are appropriate for competitive purchasing through procurement, not least because some are unique to the organisations currently delivering them. Nor are the organisations concerned necessarily large enough or financially secure enough to take on the risks involved. Despite some considerable progress, procurement processes are not yet at a stage where they could be said to present a level playing field for local VCOs or to be proportionate (and therefore value for money) to some of the relatively small amounts of money involved here.

Contracting

Clearly some services currently grant funded and subject to SLAs may be better purchased and placed under a contractual agreement. However, to 'phase out' all SLAs, and with them, the grant-funding relationships to which they relate, would be potentially disastrous not just for the local VCS but also for public sector partners. If grant budgets are effectively transferred into contractual service budgets now, the option to grant fund in future will be lost. Putting the local public/voluntary sector relationship on a purely contractual footing based on today's priorities potentially constrains the sector and makes VCOs vulnerable in the wake of continual change to which the public sector is seemingly subject. Change which, due to their size,

many local VCOs would be ill equipped to bear. Two valuable features of VCOs that the Treasury's original review of the sector's role in service delivery¹⁰ identified were:

- **Independence from existing and past structures/ models of service.** VCOs are not bound by structures or rules in the ways in which more traditional public sector agencies are. They are independent and so can try to deliver services in new and innovative ways.
- **Freedom and flexibility from institutional pressures.** The sector can offer responsive services which are user-centred as they are not driven by budgets and targets within the public sector. At best they can be flexible and innovative rather than prescriptive.

In the past, grant funding has been one of the sources of income which has enabled VCOs to maintain this independence and flexibility. Both of these are under threat if significant sources of grant funding, including local authority grant funding, dry up. All four areas participating in this study see value in continued grant funding, and the use of SLAs (though some would have them renamed) to provide clarity in some of these grant funding relationships. As one interviewee put it 'we are determined not to lose the option of grant funding by accident'.

Clearly, local government cannot purchase on a full cost recovery basis every valued local service or activity that the VCS provides and from which the local authority and the local community benefit. This should not, however, preclude local government from grant funding in support of these services or activities if they are complementary to local public sector objectives, beneficial to the local community or potentially cost saving to the public sector further down the line.

EU procurement rules

The fact that the VCS has been placed so firmly in the spotlight of public service delivery has given rise to concern that any form of financial support to the sector through grant aid might be deemed anti-competitive and therefore counter to EU procurement rules. The tension here is often between procurement officers and those at the service end who have more knowledge and experience with the VCS, with the two often finding that they are speaking 'a completely different language'. It is understandable in a risk averse culture

¹⁰ The Role of the Voluntary and Community Sector in Service Delivery: A Cross Cutting Review, HM Treasury (September 2002)

that some local authority officers find it difficult not to see grant funding and purchasing as an either/or choice where both have previously co-existed. The authorities featured in this study clearly see a need and a rationale for both.

These are all important issues that warrant further exploration and indeed explanation¹¹.

Community engagement and active citizenship

There also appears to be something of an inconsistency between the ambition for greater community engagement and active citizenship and the shift in financial relationships away from grant funding and toward a more contractual one where specified services are purchased. The types of local organisation likely to be hit by the reduction or withdrawal of grant funding are often those involving most volunteers in their activities. In terms of community engagement also, it is in part the existence of local volunteer-led organisations and community groups which provides potential points of access to these communities. Few people engage with public institutions purely for the love of the experience; many more will contribute their views if approached through routes in which they have already freely chosen to engage, including, for example, via community groups and voluntary organisations, the primary purpose of which may well not be representation. Supporting a vibrant and active VCS, in part through the provision of grant funding, can be a valid and cost effective means of:

- accessing communities and encouraging co-operation and engagement;
- increasing volunteering opportunities;
- increasing social capital and community capacity for self help;
- nurturing activities and services which have preventative impact; and
- enhancing quality of life for local people.

Local leadership and place shaping

There is no doubt that, as substantial funders and partners of the VCS, local government has significant influence over the environment in which the local VCS operates and therefore its capacity to grow, develop and do the things it does best. Funders leave their footprint on the sector much as modern day travellers do on the landscapes and cultures they seek to

explore¹². If not undertaken with a degree of awareness, understanding and engagement with those

they fund, funders too can damage the very thing they seek to benefit from. As a number of interviewees observed, a vibrant, effective and engaged local sector is something that takes years to build up but which could easily be lost in a few careless moves. In their local leadership role, local authorities have a responsibility to give due consideration to the way in which their funding practice (and that of their public sector partners) impacts on the local VCS. As LAAs potentially create more flexibility between budgets and as central government is less inclined to ring-fence resources for distribution to the VCS, local authorities have greater responsibility for addressing this crucial financial relationship themselves. In their place-shaping role, local authorities are responsible for creating places where people want to live, work and socialise. NAVCA strongly believes that nurturing a vibrant and thriving local VCS is a part of this, and that it is best achieved through a mixed financial relationship with the sector which includes aspects of giving, investing and shopping with 'best fit' forms of funding identified in each circumstance.

This report attempts to give local authorities and their VCS partners the basis for a mature discussion about these issues. The recommendations that follow are intended to inform and support this.

¹² Funders' Footprints: Impressions from the Voluntary and Community Sector of funding and its delivery, South West Foundation (2006)

¹¹ The National Audit Office's forthcoming report on the Implementation of Full Cost Recovery should help to resolve some confusion.

Policy recommendations

- The Office of the Third Sector (OTS) and the Department for Communities and Local Government (DCLG) should reflect on the combined impact of central government policy on the financial relationship between local government and the VCS. If it is not central government's intention to see local authority grant funding cease, then these departments should issue a joint statement clarifying this and making clear that grant funding remains a viable and legitimate option in the local funding mix.
- The DCLG task group developing guidance for local authorities on funding the third sector should work with OTS, Treasury and local government representatives to ensure that this guidance provides clarification on the application of full cost recovery and implications of EU procurement rules with regard to the full range of financial relationships between local government and the VCS.
- Umbrella bodies for the VCS and local government should work together with representatives from both sectors to: articulate the case for grant funding; clarify the range of circumstances in which grants are the most appropriate form of funding; and establish a shared view of what constitutes good local authority grant funding practice.
- Local VCS infrastructure organisations should use the checklist opposite as the starting point for discussion with their local authority about the approach being taken to grant funding as part of the local funding mix.

Checklist - Maintaining grants in the local funding mix

Influenced by the experience of the four areas featured in this study, the following list of questions provides a checklist against which local VCS infrastructure organisations can assess local practice and start a dialogue about the approach being taken locally to grant funding as part of the funding mix.

Checklist for local infrastructure organisations

1. Does your local authority have a corporate commitment to grant aid?
2. Does this commitment encompass strategic, project and development grants?
3. Does your local authority have a clear grant aid policy?
4. Does your local authority have an understanding of the sector's added value?
5. Does your local authority have a sound understanding of the leverage potential of the sector?
6. Does your local authority understand the implications of different funding modes e.g. grants, contracts?
7. Does your local authority understand when each of these might be the most appropriate form of funding, i.e. when giving, investing and shopping?
8. Does your local authority have a genuine understanding of the implications of full cost recovery?
9. Does your local authority have a Compact funding code?
10. Does your local authority comply with this code in its grant funding relationships?
11. Does your local authority comply with Compact best practice regarding consultation when reviewing its funding relationship with the sector?
12. Does your Compact group include senior representatives from the local authority?
13. Is there a lead political member with responsibility for VCS and grant aid issues?
14. Is there a lead local authority officer with responsibility for VCS and grant aid policy?
15. Are there local authority officers within each directorate who take a lead on the directorate's financial relationships with the VCS?
16. Do these lead funders meet to share best practice and discuss funding issues?
17. Does the local authority take a leadership role amongst its public sector partners in relation to VCS funding including grant aid e.g. through the LSP or the development of the LAA?

Good grant funding programmes:

- are strategically aligned;
- provide stability and nurture independence;
- encourage diversity amongst recipients;
- allow for flexibility and innovation;
- encourage good practice and high standards; and
- respond effectively to incidents of organisational failure.

Summary of common abbreviations

VCS	voluntary and community sector
VCO	voluntary and/or community organisation
SLA	service level agreement
LAA	local area agreement
LSP	local strategic partnership
OTS	Office of the Third Sector
DCLG	Department for Communities and Local Government
EU	European Union
NAVCA	National Association for Voluntary and Community Action

Notes

* Local Authority Rating: – Introduced following the 2001 Local Government White Paper, Comprehensive Performance Assessment (CPA) carried out by the Audit Commission results in a rating for each local authority. Originally based on five categories (excellent, good, fair, weak and poor) CPA now uses a five star system, rating all local authorities between 0 and 4 stars.

** Local Area Agreement Phase – Local Area Agreements (LAAs) are agreements between local and central government and are effectively the delivery plans which underpin local Sustainable Community Strategies. LAAs have been introduced in three phases: Phase 1 introduced LAAs in 21 pilot areas from Autumn 2004; Phase 2 extended this approach to a further 66 areas from June 2005; and Phase 3 has rolled LAAs out in all remaining areas from April 2006.

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This report was researched and written by Sally Cooke on behalf of NAVCA in June 2007.

It can be downloaded from:
www.financehub.org.uk or
www.navca.org.uk/whygrants

NAVCA, with nine other national charities, also published, in June 2007, *Sustaining Grants: why local grant aid is vital for a healthy voluntary and community sector and thriving local communities*. This can be downloaded from: www.navca.org.uk/sustaininggrants

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