

Funding Diversification Pilot

Progress Report 1

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Charities Information Bureau



Prepared by FourGables

ABSTRACT

The next few years will witness the end of many fund streams. Other funds will be available, but these will be reduced. For the first time in many years the voluntary, community and faith sectors face a real challenge; the need to investigate and acquire alternative forms of funding. Additionally, the funding bodies and commissioning agencies will need to find ways to ensure grant funded service provision is supported in the future.

The identification of the issues and opportunities surrounding this transition provides the focus for an on-going piece of work sponsored by the CIB. The project brief is:

To enable strategic sub-regional collaboration between commissioning agencies and the voluntary, community and faith sectors to support these sectors in the diversification of income streams and the planning for greater sustainability.

This paper details the findings from the initial round of interviews and research. It is intended to inform and to spark debate on the subject, debate which will inform the project as it moves to completion in the middle of 2006. Where people have comments they are invited to contact either :

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The headline information coming forward includes:

- People recognise the issues and opportunities and want to make progress. This issue is on people's agendas.
- There are already a mass of ideas and opinions on "what" needs to be done. What is sought is a concerted effort on the "how" it should be done.
- This is a complex set of issues that will require a range of solutions over a long period of time.

People will need to think about and do things in different ways in the future. Change in process will only be effective with related and positive changes in attitudes and expectations.

ACTIVITY

To date the main activity has been semi-structured interviews with key individuals with a stake in the overall funding diversification debate. It is important that people are able to express fully their views and ideas and that these be documented correctly so as to properly inform the project. All interviews have been and will continue to be conducted to a standard process with an agreed methodology for validation, sign off and use of the resulting information.

Interviews have taken place with the following individuals (listed in no particular order):

Mark Crowe,	Yorkshire & Humber Regional Forum
Nail Colquhoun,	COSEO
Helen Leggett,	Government Office for Yorkshire and the Humber
Miranda Miller,	Social Services, Leeds City Council (by telephone)
Graham Anderson,	Acting Head of Procurement, West Yorkshire Police
Steve Atherton,	Director, Yorkshire Purchasing Organisation
Paula Dennison,	Regional Procurement Officer, WYSE Link
Martyn Harrison,	Area Manager South Leeds Social Services, Leeds City Council
Caroline Giggall,	Procurement, Kirklees Council
Peg Alexander	CIB
Liam Murphy,	Chief Regeneration Officer, Leeds City Council
Rob Kirton,	Leeds City Council
Deborah Gaunt,	Chief Procurement Officer, Calderdale Council
Jill Campbell,	Bradford City Council
Bernadette Speight,	Bradford City Council

It is interesting to note that the procurement budgets concerned with this short list will total between £500million and £1billion per annum.

EMERGING THEMES

What is detailed below is a synopsis of the collective feedback from interviews and discussions. The information has not been analysed at this stage it is too early to move to specific option proposals. Information and opinion gathering is still the focus. The following should not be seen as a set of interim proposals, rather it is reflection of the views expressed so far organised in a simple structure. It is designed to provide a snapshot of what is being said and to stimulate further discussion, debate and ideas. Not all the detail of what has emerged is included.

Note: there are many types of organisation across a continuum spanning the purely commercial to the wholly voluntary. In the following narrative discussion is limited, for simplicity, to commissioning bodies (local authorities, etc.), infrastructure agencies (WYSE Link, CVS, etc.) and community organisations. A community organisation may be anything from a voluntary, grant funded organisation with no aspirations of further evolution to a mature trading organisation run on social principles. Where such finer definition is required it is included. Use and potential abuse of the various terms describing organisations has been a key theme in the interviews and is discussed in a later section.

The overall challenge

- There is an issue - All interviewees have a clear knowledge and understanding of the current funding situation and there is universal recognition that the expected transition, from a largely grant funded regime to a more commission based model, represents both challenge and opportunity.
- This is tough - It is also recognised that the issues and solutions are likely to be complex and that a range of activities and interventions will be required. Existing cultures, attitudes, financial and work pressures and policies and practices will need to be addressed. It is probable that long term commitment will be required.
- We want to do something - There is a general willingness to engage in both the debate and the development and deployment of solutions. People do not wish to avoid this

issue and recognise it as one requiring proactive action. Whilst there are many barriers apparent, people also see the opportunity for benefits.

- There are change issues - As with any change, there will be issues with denial. Many people still believe that new grant funding will turn up “because it always has”. There is a general fear of change and the unknown.
- “How” not “What” - As can be seen below, the interviewees are full of ideas on what needs to be done. Whilst further ideas may be required the drive will probably be in mobilising all interested parties in a concerted manner to leverage the collective resources and thinking. A fragmented approach will produce fragmented results and will not be strong enough in the face of such a large change agenda.
- This is serious and immediate - There is a real risk that useful voluntary sector capacity will be lost through the transition. Work is required to minimise such a loss.
- What is Out There? – There is a great need for information on the current state of the market. Few organisations have detailed information to hand on numbers of community organisations, the services they are capable of providing, the contracts that are in place. Few reported a comprehensive assessment of their organisations exposure to the sector and the risk that might bring through transition.
- Who Will Pay? – More imaginative and innovative procurement will mean more work for each procurement process. Making the linkage between this additional cost and potential additional advantages will be a challenge, particularly if such advantages benefit another department or, even, organisation.

The changes taking place

- There are a number of changes taking place and expected. Many of the changes listed result from other changes. All those noted in interviews are noted:
 - * Grant to Commission - A need for community organisations to move from grant dependence to a mix of funding options which could include taking commissions.
 - * Who decides - As more activities are funded by commissions rather than grants the decisions on what should be done moves from the community organisations to the commissioning bodies. Thus, for the community organisations, the linkage between the motivation to act and the activity may be stretched or broken.
 - * Doing to Managing - The shift, for community organisations, from being good at doing to becoming good at getting it done. This reflects a perceived need for community organisations to develop stronger management and leadership skills and capacity. This creates a challenge as community groups will need people capable of both “vision” and “doing”.
 - * Doing good works to doing good business - Community organisations may increasingly be asked to look at market need rather than community need. This also highlights a change in who might be considered “the customer”.
 - * More leverage from Procurement Spend – In some organisations there is recognition of the potential additional social, economic and environmental benefits that can be gained from imaginative procurement policy. Procurement is increasingly viewed as a potential “front line” delivery channel rather than a support operation. Including procurement at the heart of strategy and policy planning would be a significant shift with wide ranging implications.

The challenges/opportunities for the community organisations

- Beliefs & Attitudes – The culture of “entitlement to funds because we do worthy things” needs to change.
- Management Skills and Capacity - Many Management Boards in community organisations are strong; however, the interviews report that many are not. Where there is a weakness it is generally an absence of business and business and people management skills. Boards are tasked to challenge and support paid staff (usually via a General Manager function), however, in many cases the support aspect is lacking. Finding a way to point this out to failing Boards has been a challenge reported by a number of interviewees.
- Understanding Motivation - There is the opportunity to re-evaluate the “reason to be” of the organisation and to reaffirm personal and organisational motivation. To some this is seen as a challenge. Understanding and maintaining their independence and being clear about their differential value and appeal to commissioning bodies are noted as important.
- Becoming a “Business” – the whole business of becoming more business like is a challenge to many organisations. Some even doubt there is a need. Others do not know how. Business planning and operational process are common themes along with acquiring the right skills through learning or bring in different/additional people.
- New Relationships - Partnership working may be required to allow organisation to jointly bid for larger contracts. Understanding how such collaboration might be brokered, documented and operational managed is a challenge. Options cited include working with private companies (as partner or sub-contractor to take advantage of the private company’s business skills), consortia of community organisations and large, proven community enterprises “spinning off” new community enterprises.

- Customer Focus – community organisation will need to invest energy in building a customer relationship before and during tendering. They will also need to get better at customer service after successful tendering.

The challenges/opportunities for the commissioning agencies

- Contract Risks & Conditions - Interviewees encourage commissioning organisations to make contracts appropriate to the size and risks associated with any requirement. Many contracts for smaller sums carry the contract burdens of much larger contracts. Restricted and arrears payments put delivering organisations at risk and alternatives, in line with dealings with private companies, should be adopted.
- Contract Size - Many suggest that contracts need to be issued in smaller packages.
- Contract Deliverable – the extra value-add of community organisations needs to be considered and, where appropriate and legitimate, should be included in the tender.
- Policy Changes - Evaluation criteria and procurement processes should be reviewed to “community enterprise proof” such policy and procedure. Many current policies preclude smaller and start up enterprises. A balance needs to be struck as “positive discrimination” is often illegal.
- Wider Policy Context – work is required to meet potentially conflicting central government policy statements.
- Procurement Positioning – the strategic value of procurement needs to be re-evaluated and repositioned. Associated cultural and procedural changes will be required.
- Transition Management – finding the resources to assist with and manage the transition both internally and externally.

Specific ideas emerging & support and assistance that may be useful

- * Development of a generic infrastructure support for community organisations. For example to provide accounting, fund stream monitoring, HR, physical distribution services.
- * Transition funding and resources are required.
- * Help for community organisations in their mission review and transition planning. This will include facilitation, business planning, etc
- * The adoption of full cost recovery.
- * Community organisations need to contribute pro-actively to the development and delivery of Local Area Agreements (LAAs). This will help them market their value by linking this to LAA goals.
- * Switch the default for procurement criteria from “cheapest” to, something like, “most economically advantageous”.

Observations & Comments

- The difference between “journey” and “destination” needs to be clear and understood. Many organisations see becoming, say, a Community Interest Company (CIC) as the destination, however, it is simply part of the journey.
- Things are already happening and information and other resources are already “out there”, however, little is co-ordinated or mobilised around a common forward agenda.
- “What we’ve always done around here” will be a significant drag factor to any interventions on all sides.
- Many departments are prepared to pay a premium for the additional or tailor-made services.

A QUESTION OF LANGUAGE

One consistent feature of the interviews was questioning designed to investigate people’s understanding of various common terms. Social enterprise, commissioning, grant funding (and the differences between these two) and contracting were among the terms discussed. However, in many cases interviewees took this further and questioned our understanding of other words like “sustainability” and “development”.

Whilst no conclusions are being drawn at this stage regarding the overall project, it is thought that work on having agreed definitions for terms in common usage will be useful as the project progresses. Many interviewees noted a need for a consistent vocabulary where terms are clearly understood and understood by everyone in the same way.

Interviewee comments on each term are as follows. Update suggestions are invited. The intention is to use these definitions as a basis of discussion at the February Focus Group Workshop and to include a short glossary in the final report.

The Voluntary Sector

- * Tend to be innovative, do a lot with a little, do the more difficult things.
- * Not covered by statutory regulation.
- * No funds “of right”.
- * Not for profit.
- * Likely to retain any surplus to support operations and development.
- * An opportunity to save money and/or get something for nothing

Note: it has been observed that some perceive no difference between a voluntary organisation and a social enterprise. It suggests that labels describing what you are may be less defining than what you do.

Social Enterprise

In a small number of cases interviewees referred to the DTI definition. This is:

"A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners."

Comments from interviews included:

- * Social enterprise is "part and parcel" of the voluntary sector.
- * Social enterprises are further along the continuum towards businesses.
- * Social enterprises should not be any different to the private sector (in respect of operational and financial management considerations)
- * To many in the Voluntary and Community Sector (VCS) social enterprises are not part of the VCS ("they are something else")
- * They are for "more than profit".
- * They do not exist to maximise profit for shareholders.
- * Social enterprise is a term that should be jettisoned or replaced.
- * Social enterprise is not a panacea; grant aid will still be needed for some areas of delivery.

Contracting

- * Contracting is part of both grant and commissioning processes. It can, therefore, be a confusing term.
- * An area where community organisations need to get better at in terms of negotiating to get the best match of contract to social aspiration. Both "sides" need to get better at making it more of a dialogue.

Grant Funding

- * The term suggests that the idea for what is to be done has come from (or been heavily influenced by) the receiving organisation.

Commissioning

- * Where the commissioning agency defines the job to be done, how it will be done and when.

Trading

- * Offering and marketing a product or service in a market where clients are able to make choices regarding the offer and the offering organisation.
- * Evidence of enterprise.

Sustainability

- * Independent and viable.
- * Money in the bank, people doing work, good management.
- * Self contained, not vulnerable.
- * Is the appropriate lifetime of the organisation.

Entrepreneur

- * Someone with a determination to succeed.

NEXT STEPS

Interviews Continued

The interview programme will continue in the New Year with planned contacts and with those mentioned by interviewees.

Desk Research

Many information sources have been highlighted and detailed desk research will continue in the New Year.

Forum Planning

To date, everyone interviewed has committed to attend the planned Forum in February '06. Preparation for the event and associate pre- and post- activity will begin in the New Year.

Regional Forum Liaison

Close contact with the Regional Forum, which is conducting a related study, will continue.