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Finance Directors Handbook

The Changing Funding Situation

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The Changing Funding Situation

The major shift from a government that delivers services to one that buys services has been slower than anticipated. Whilst the policy is clear, the commissioning frameworks and practice have yet to develop. The delay in implementing three year grants and contracts is one area of disappointment.

The commitment remains though with principles for commissioning such as an equal playing field between statutory agencies and the voluntary sector agreed. In the next year 1,200 statutory commissioners will be trained to take forward this agenda. The pattern of funding is changing quickly. Government grants to the sector are being replaced by contracts. These have increased from 48% of funding in 2001/02 to 62% in 2004/05.

It is becoming less clear exactly what a grant is. Many of the grants that are still available have a wide range of contractual conditions attached. Some funders have begun inserting clauses that say that if the grant to you is stopped, you will be liable for all of the costs the funder incurs in finding a new provider.

Terms for grants and contracts must be checked carefully. When you are considering a contract, there are three main issues:

Issue 1: Define all terms

Within society we no longer have a shared definition of terms. Ensure you check all of the terms used in the specification and the terms and conditions.

One programme I advised on recently had a start date of four months time. The client thought this impossible. However they put together an impressive implementation plan that looked achievable albeit at the risk of several nervous breakdowns!



A call to the funder indicated that the 'start date' was not the date that clients would walk through the door but the date when payments would start linked to the appropriate stage of delivery.

Issue 2: Check that you can deliver the project

Let's consider a project in which we receive a block contract of £5,000 to train 50 people but only achieve 45. This underperformance on a grant may be acceptable especially if it is a new piece of work. However for a contract the underperformance may have major consequences as your contract may be terminated; especially so if you have a competitor that has over achieved on the targets.

Having been contracted at unit price of £100 you actually achieved a price of £111, substantially worse than the contracted level. The funder may in turn have a shortfall on the targets they have been set. If any contract is terminated by you or the funder you will normally have to declare this with the reasons why on every tender for up to seven years.

Issue 3: Agreeing the Cost and Price

The cost to deliver the project will be dependent upon the specification requirements. Do check in addition to the outputs whether there are standards or other matters that may impact upon the cost of delivery. Staff may have to be trained to a specific standard, buildings refurbished, reports provided or clients progressed within a particular time.

You will have to deliver to the standard. Delivering above the standard may mean your costs mount to the point that you are subsidising the work. It may also mean that by delivering above the standard your bid becomes un-competitive.



If you choose to subsidise a contract that is up to you. The important issue is to decide whether or not to. This question may be best dealt initially with by trustees. Charity Commission guidance is that there must be a benefit to a charities' beneficiaries. If the work you are doing is a statutory responsibility, more caution should be exercised (see Charity Commission Guidance CC37).

Do not be surprised if in the future stakeholders and commentators demand to know why donations are being used to subsidise government services. Of particular concern would be an organisation seeking to expand by offering a higher level of subsidy than its competitors and undermining the principles of full cost recovery.

Remember in grants, cost generally equals price in that you are not allowed financial advantage. It is some times difficult to work out whether you have a grant with contractual terms and condition as they are often called contracts. If you are bidding for an open tender following the European rules, remedy for breach of contract is damages and VAT is payable, then this is likely to be a contract. Cost does not equal price. You can charge what ever you wish, though of course this does not mean the funder will accept this.

In a contract you can add in a contribution to reserves and indeed if you did not there may be concerns as to your financial viability. Contracts can be the way forward to sustainability and financial security but only if you cost and price effectively. Statutory funding is all about margins, not income! Pay particular attention to output related contracts as failure to deliver outputs has resulted in some notable examples of major charities closing.



The Drive for Efficiency

Underlying the government's approach to the sector is the need to make 3% efficiency savings every year for the next three years. As the British Library and the BBC have found recently, no organisation is exempt from this requirement. Efficiency is not necessarily about doing something cheaper but is often about doing more or doing what you do better for the same money.

Funders expect that effective organisations will deliver better value for money over time. However few organisations have yet to put in place effective mechanisms to ensure that what they do today will automatically be better in the future.

It's not uncommon to find organisations where resources including management time are overwhelmingly committed to delivery with limited time given over to reviewing and improving the service. Just because a manager is busy doesn't mean they are moving forward. Significant improvements in efficiency rarely take place by tinkering at the edges.

This is why the process leading to major improvement is often described as re-engineering. A number of organisations have been delivering the same tired old services for too long. In a competitive environment they stand to be the big losers. We need to improve the drive for best practice, sharing skills and expertise and really engaging to identify and meet service users needs.

In my time as an assessor I have all too often come across organisations that cannot demonstrate that they co-operate and share good practice with organisations that are their neighbours let alone the best in the field.

Quite rightly the voluntary sector demand that services should be joined up around the needs of service users. In their own practice, this is not always demonstrated. Often funding decisions are strategic decisions which improve an organisation's fundability. The recent move to reconsider the value of partnerships at every level and develop consortia is one such strategic decision that will pay dividends.



Developing Quality Products

The current situation was once described as; ‘a market characterised by buyers not knowing what to buy and sellers not knowing what to sell’. Buyers have begun to get their act together but sellers less so.

If you are aiming to sell your products in the marketplace then buyers need to know what you can offer. Having this knowledge means they may be in a position to specifically commission your type of service. In an ever more competitive situation, it will be necessary to actively market your organisation to demonstrate what added value you can provide over and above your competitors. For the seller it means providing a service at an agreed price to an agreed standard and with a track record of achievement.

Once on a work experience assignment at Unilever I asked them why people pay over the odds for a packet of Birds Eye peas when they can buy cheaper. The response was that it was a mix of the perception of quality and standards. The consumer recognised the value of the brand. Just as importantly they saw quality in terms of consistency. They never had the risk of eating a dodgy pea! If you are selling an existing service to a new funder, the funder likewise wants a consistent proven product.

KeyRing, where I am Chair, has achieved double digit growth every year for 12 years. Up until now its volunteer based support programme for vulnerable people was its only product bought for around £35,000. Over 100 Networks are now purchased by over 40 Local Authorities. Replicated through sister organisations in Scotland and Australia it demonstrates that even the smallest organisation with a relatively low value product can be successful.

Standardisation is not always beneficial. Services must always be able to respond to evidenced local need and offer flexibility. It does however have some major advantages for a funder where the systems underpinning delivery are consistent. The funder can rely upon common quality assurance, risk assessment, as well as project planning policies and procedures.



What it wants to see is that there are systems in place backed by formal procedures that staff can be trained to implement to a consistent standard. A policy has to demonstrably achieve something for both the organisation and the beneficiary. Specific procedures can then be evidenced on previous projects to demonstrate the process in a new project.

Relying on evidence

The Performance Hub in their excellent Future Focus Series, considered in a concise and readable way what the future will be for the sector. One of their funding drivers for change is stronger expectations of evidence. They state ‘funders are seeking better information to help them select the organisations...they expect better evidence of what their money could or already has achieved’. Contracting at its essence is about proving your track record in terms of not only your project outputs but also of the systems that underpin these.

This has great resonance for me as much of what I see in tender applications are opinions rather than evidence. Whether work is described as ‘high quality or ‘proven quality’ it’s still an opinion unless it can be substantiated. The evidence for your future applications must be gathered now to prove that you have a track record. Once you can prove your track record, your bid will need to demonstrate how you can build on this track record.

Every organisation will have a different understanding of need and of the way it responds to this need through delivery. Never take your model of delivery for granted. Ensure that it is clear to the funder why based on your expertise, model of delivery, skills, knowledge and partnership you can deliver better than your competitors.

Remember good bid writing is based on persuasion; a combination of clarity and substantiation!