



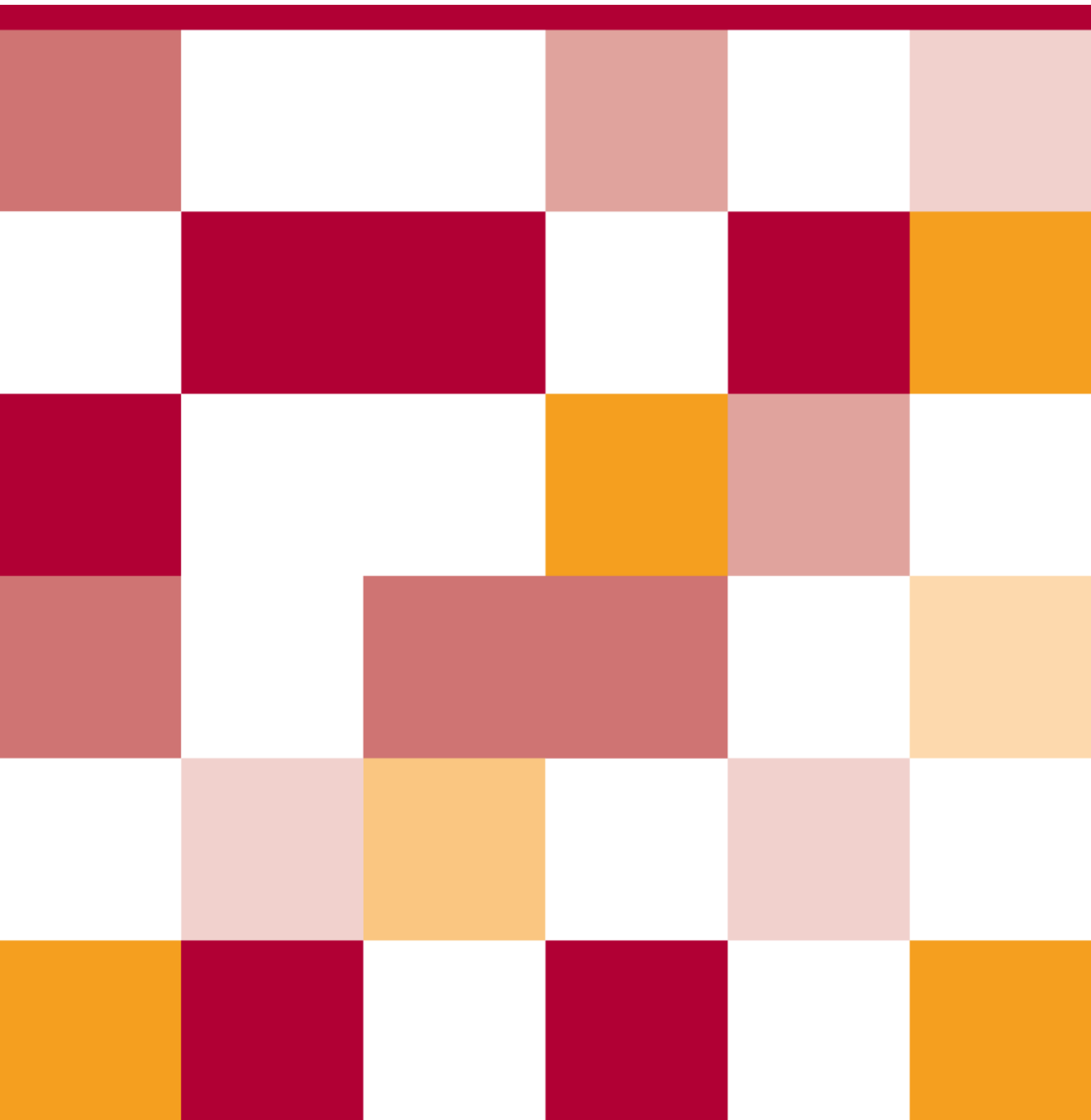
HM TREASURY



CabinetOffice
Office of the **Third Sector**

Three Year Funding

Questions and answers



Questions and Answers

Top 30 questions on three year funding

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Definitions

1. What constitutes three year funding?

Three year funding has been adopted as a proxy for multi-year funding, as referred to in HM Treasury Guidance (*Guidance to Funders*, 2006). As long as the grant has been given to the organisation for a period spanning across at least 3 financial years, then this can be included in your figures. Indicative three year funding that is subject to review based on performance should be included, though one or two year grants that may be extended if performance in the first year is satisfactory, or where commitment to the third year of funding is not definite, should not. If, in cases of indicative funding, the grant is terminated due to poor performance, this can be recorded as three year funding but you should add a note in the additional information box to outline the value that was terminated and why. In such cases you should refer to the Compact for information on expectations and undertakings in the event of termination of funding.

2. How should we define and record whether organisations are third sector?

The term “Third Sector” comprises of organisations that are non-governmental and value driven, that is, primarily motivated by the desire to further social, environmental or cultural objectives rather than to make profit and which invest their surpluses to further these objectives. A full definition can be found on page 9, footnote 6, of this briefing. This report should be based on the third sector organisation’s definition of themselves, not your analysis of them. You should not attempt to contact all organisations you have a working relationship with, but from now on, you should ensure that your funding and procurement systems allow you to capture this information as a matter of routine, allowing you to extract this information for the annual report in the future. It would be valuable to divide the third sector into: charities, voluntary and community sector organisations, social enterprises, mutuals and co-operatives. This will be useful in determining large departmental programme spends on social enterprises for example.

3. What do you mean by grant – the majority of our funding programmes are grant in aid funded – should we report that as part of the October submission?

Please see page 8 footnote 5 in the Three Year Funding Guidance document. The difference between grant and grant-in-aid is explained in *Guidance to Funders*, HMT 2006, available at: <http://www.hm-treasury.gov.uk/media/9/4/guidncefunders1505061v1.pdf>

4. What do you mean by “rationale” for not offering three year funding?

We mean the reason behind the decision not to give three year funding in any particular programme. We are not looking for a breakdown of rationale per funding stream or programme – but broad reasons as to why x% of programmes do not give three year funding.

5. What does the “norm rather than exception” mean? Will you be setting a baseline or target for three year funding to which you expect departments to perform?

In the second year we will be able to look at what the norm across government is (recognising that it will vary between departments) – and based on this information work with government departments to improve their financial arrangements and relationship with the sector where that is needed and appropriate. Three year funding is not appropriate in all circumstances and it will not be applied as a rule. However, departments should aim to give three year funding in the majority of circumstances where that represents best value for money. Whilst it is not our intention to create a league table, information supplied will be subject to Freedom of Information requests and Parliamentary scrutiny.

Process and practicalities

6. The majority of funding for the third sector is local – what are you doing about this?

The NCVO Almanac 2008 confirms that this is indeed true¹. The three year funding commitment relates to central government, but we realise that this represents only part of

¹ *Local government provides the most statutory income to general charities*, The UK Civil Society Almanac 2008, NCVO 2008

the picture and if we are to give an accurate picture of how funding is being cascaded we will need local reports as well as central. Work is currently on going to look at how local government and the NHS could meaningfully report on this commitment in as streamlined and non-bureaucratic manner as possible.

7. Why are you asking for *de minimis* grants as opposed to a selection of the largest funding programmes per department only?

This has been considered, but there is a perception that three year funding is being given to larger and more stable organisations, leaving the smaller organisations behind with one year funding arrangements which is not the intention behind the funding commitment. As such it is important to get the complete picture of how funding is cascaded. That is not to say that this could not be considered in the future.

8. Why is the reporting staged, so that contracts are only reported on in the second year?

The OTS has been working closely with departments to ensure that the process implemented is proportionate, light touch and takes challenges in terms of data collection into account in order to ensure that the bureaucratic burden does not increase. Through numerous discussions with departments it has been made clear that systems for recording this information are currently not in place. In order to give sufficient time to revise and put such processes in place, a staged approach was agreed. This decision was taken by Third Sector Champions in all departments as well as by the Cabinet Committee overseeing the process.

9. There are several budget holders and teams across our department who have funding relationships with third sector organisations – who would be best placed to complete our submission?

In most departments, finance teams will be the most appropriate place to start, as they will have oversight of the total departmental spend. Third Sector Liaison Officers (TSLO) and other relevant staff (procurement, partnerships etc) should contact their finance team as early on in the process as possible to ensure that a collaborative approach is taken and

finance teams are aware of reporting requirements so that systems can be amended and revised.

Application of three year funding

10. What are examples of good reasons where three year funding may not be appropriate?

If a department is piloting new services or testing the ground with new providers, or funding particular one-off events such as festivals etc, one-year funding (or less) would be appropriate. We are not saying that three year funding should always be the norm, but that multi-year funding generally represents best value for money. The funding should always be tied to the objective – this is the acid test that HMT has set.

11. What are examples of initiatives that should be funded for three years or more?

If a third sector organisation is delivering services where the length of the objective is greater than the length of the funding, the department should consider moving to a three year funding arrangement instead. Funding third sector organisations to provide voice, for example through a strategic partners programme, is a good example of where three year funding should be used.

12. Can we make commitments that transcend spending periods?

We would expect departments to commit to funding programmes that are not simply limited to one spending review period. Departmental strategic direction will not be limited to spending review cycles, therefore funding should reflect this where it ties in with delivery of these objectives.

13. What does the introduction of personal budgets mean for three year funding?

Where service users have personal budgets, demand for services may change and funding arrangements may exist at a community or individual level. As such, this represents a circumstance when three year funding may not be appropriate. However, early indications are that changes in demand are gradual rather than revolutionary.

Departments should seek to establish funding arrangements that offer the greatest level of stability to providers through this period of transition. For example, some local funders have made longer-term investments in the capacity of the third sector to respond to changing service user demands and funding arrangements. Where it is possible to identify the amount associated with personal budgets that are for three years or more, it would be helpful to include these in the return.

Reporting or not reporting

14. All our grant funding goes to NDPBs for three years – should we report this?

There is no need to report this in the October 2008 report. Spending by NDPBs and agencies should be included in departmental reports from October 2009.

15. All out funding goes to NDPBs, some of which are themselves third sector organisations – should we report these?

If a NDPB is a third sector organisation, this should be included in the October 2008 report.

16. We do not have a grants programme – all our interaction with the sector is through contract – do we have to report in 2008-09?

A nil return outlining the reason would be helpful.

17. We give grants to UK-based third sector organisations that operate overseas – do we need to report these as part of our submission?

Yes please.

18. We give grants to overseas third sector organisations – do we count these as part of our submission?

No.

19. Do we report on 2008-09 in-year, i.e. funds that have already been committed (at the time of the submission) – or do you also want us to include an estimate of remaining funds and how these will be spent?

The report should outline commitments to date (as at October 2008), not estimates as to the remainder of the year. We will not follow up on this in subsequent years, but departments are invited to send updates or corrections the following year if the figures supplied deviate significantly from reality.

20. Should we break down our figures for three year funding into particular funding programmes or programme budgets or will an overall figure suffice?

For the report, an overall figure will be most helpful. If departments feel that the most accurate way of describing their funding arrangements with the sector is by breaking them down by programme budget, that will of course be welcome, but an indication should be given as to the average percentage of programmes that give three year funding so that a consistent picture can be given for the report to Parliament.

21. We don't have much engagement with the third sector – as such we don't record any of the information you require. What should we do?

Please see departmental lessons available on the Office of the Third Sector website or contact Maria.Nyberg@cabinet-office.x.gsi.gov.uk for further assistance. **After 15 September 2008, please contact Lara.Rose@cabinet-office.x.gsi.gov.uk**

22. Some of our grant programmes are outsourced to a third party, in some cases to a private company and therefore managed at arms length – do we calculate the amount we pass on to them to cascade to third sector organisation in our submission?

Not in the first report in October 2008, but arrangements should be made to include these details from October 2009 onwards. Where central government funding is passed on to the sector, it needs to be included. But arms length bodies only need to report from 2009.

Outcome

23. We are confident that our funding models for the sector are fit for purpose and deliver value for money, but the majority of funding is not allocated for three years or more – is this going to look bad?

In terms of providing an overview of what and how government departments are doing, figures alone may look misleading. This is why we are asking departments to include a rationale where three year funding is not given, so that we can present fuller and more realistic picture of the state of play. It is important to note that three year funding by itself is not a cure for any funding relationship and that mature relationships will depend on other factors, including full cost recovery, capacity building etc. The intention of the report should be to given an overview of three year funding within this context.

24. Will short-term capacity building programmes and start-up grants, where three year funding is not appropriate, reflect badly on the department?

Not necessarily. If the intention is to help third sector organisations department engage with build capacity over time which will enable them to bid for contracts in the medium to long term, this is to be encouraged. The aim of these programmes should be included in the report the department makes (free text) in order to contextualise the information.

25. We are really concerned about reporting including NDPBs as we have a large number of NDPBs and will need to agree separately with each and every one of them to report on three year funding from next year on. This will be both costly and resource intensive.

We understand and appreciate that these discussions may be difficult. The intention is not to create undue burdens, however, this is a ministerial commitment which needs to be reported on in an open and transparent manner. The information collected on three year funding will enable both departments and NDPBs to evaluate their funding relationship with the sector and assess whether it is fit for purpose. We will endeavour to hold individual meetings with NDPBs to resolve any concerns and agree a workable solution.

26. Will this mean an increase in bureaucracy and monitoring?

The information collected is not designed to be burdensome or bureaucratic. It is about increasing efficiencies and helping departments and NDPBs have more stable and mature funding relationships with third sector organisations – and managing these financial relationships. This is therefore not a data collection for the sake of data collection but an important indicator of the state of health with the sector.

27. Will three year funding as the norm leave departments sufficient flexibility to ensure they deliver value for money and apply the best funding models for projects?

It is important that departments apply HMT guidance (Guidance to Funders) and adopt a flexible approach to their funding relationship with the sector in order to get the most out of it and not stifle innovation and progress. Termination clauses can be included in contracts and should come with a reasonable notice period. The Compact states that this should be a minimum of three months. Ending funding relationships where they no longer provide value for money or deliver according to agreed outcomes or objectives is therefore ok as long as sufficient notice is given and the third sector organisations has been informed and involved throughout the monitoring process.

28. Will this be a starting point for looking more widely at the department's funding relationship with the third sector?

The OTS has a wider programme of work in place in order to ensure that the longer term funding arrangements are stable, sustainable and that departments get the help they need in order to revise their grant programmes, so that they are fit for purpose and can deliver. We do not want to create a bigger reporting burden on this though, which is why we have focused on three year funding only, using this as a starting point for further work. The longer term aim is to help departments put systems in place that will record information on third sector spending that can be used multiple times, thereby reducing the admin burden associated with reporting.

Sharing good practice

29. We are carrying out a review on our wider partnership with the third sector – what advice and guidance can I turn to for this?

This is exactly what we are hoping departments will do with emerging information. Your starting point should be the OTS who can help by putting you in touch with other departments who are doing similar things, with third sector organisations who may be able to help or by pointing you in the direction of relevant guidance. A number of departments and agencies are already assessing their grant programmes, looking at Compact compliance etc and there is a lot of knowledge to be tapped into and shared. Please contact the OTS who can put you in touch with relevant contacts.

30. We have some important lessons from our engagement with third sector organisations that we feel would be helpful to share with other government departments – how do we disseminate these so that experiences are shared?

You should contact OTS – this can either be discussed at TSLO or Champions meetings and even flagged up as good practice on the OTS website. We would be happy to facilitate greater dialogue.