

# **FUNDING COMMISSION**

## **The Government Funding Relationship:**

### **Its impact on the sector and the future challenges and opportunities**

**Sarah Flood, March 2010**

#### **Overview of the last ten years...**

Of all the funding relationships it is the Government Funding Relationship which has changed the most significantly in the last ten years and is likely to do so again in the next ten years.

Over the last ten years the amount of Government Funding flowing to the voluntary and community sector (VCS) has increased year on year creating an increase of over 50%. Between 2000 and 2007 resources from government have risen 50% from £8.4bn to 12bn<sup>1</sup>. Government funding has increased from £5.5bn to £12bn since Labour have been in power<sup>2</sup>. While it has increased in actual terms, it has only slightly increased relatively (as % of total sector income) from 29% in 2000/01 to 31% in 2006/07 via 37% in 01/02.

It is not just the level of government funding that has changed. The way this funding comes to the sector has changed. Grants have decreased while contracts and fees for services have increased representing a shift from voluntary income to earned income.

These changes have been driven by positive government support for increased involvement in Public Service Delivery, and consideration and agreement on good funding and procurement practice (most recent iteration in compact refresh). Going forward, there is a desire to further increase the role of the sector in Public Service Delivery. However, the scale of increased involvement and how this comes about will depend on who is leading the country. It also needs to be set against a backdrop of reduced public spending.

Finally, while the Government Funding Relationship and the role of the sector in public service delivery has dominated debate about the role of the sector it should be noted that

- only 25% of Voluntary and Community Organisations (VCOs), some 40,000 organisations, have a direct funding relationship with the state (and this has fallen slightly), of which ~ 60% are micro and small (income <£100,000); and
- this funding represents only 2.2% of state expenditure as a whole (from 0.5% in 2000/01)

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<sup>1</sup>NCVO's The State and Voluntary Sector 2009

<sup>2</sup> Rt Hon Tessa Jowell MP in her November 09 speech to ACEVO

## Drivers of change

Ten years ago we were in the first term of a new Labour Government and a new Third Way politics that put an emphasis on services being delivered by those best placed to do so.

There was strong recognition of the sectors unique social and economic contribution and the fundamental roles it plays in the development of a democratic socially inclusive society.

*“The third sector [...] has much to contribute to the Government’s goals for public services, communities and the economy.”* Paul Boateng MP, 2002 HMT Crosscutting Review

The policy agenda sought to increase the sector’s role in service delivery, with **cross-cutting reviews** in 2002 and 2005, and sought to remove the barriers preventing VCOs from taking on such roles through funding best practice and capacity building.

- Good funding and procurement practice – 2003 HMT Guidance to funders, OGC Think Smart Think Voluntary Sector; Compact / Compact refresh; 2005 NAO Working with the Sector
- Capacity building and support in the form of skills (via Change Up and Capacitybuilders) and loans (via Futurebuilders)

From the start the case for VCS involvement has rested on the concept of ‘added value’ – the wider social and economic benefits arising from VCS (and wider third sector) involvement; but it has not been clear whether commissioners are willing to pay for this or how this value should be measured. There has also been an increasing tension between efficiency and effectiveness as the main driver for commissioning, particularly since the Gershon Review, with concerns that over-specified contracts don’t recognise the wider value that a service or organisation may deliver.

### Efficiency vs Effectiveness

Both the 2007/8 Public Administration Select Committee on Public Services and the Third Sector and the 2007 HMT/Cabinet Office Comprehensive Spending Review highlighted that a narrow focus on financial efficiency and value for money in the delivery of public services may have unintended consequences for the voluntary sector's ability to help transform public services. They asked for commissioners to look at the costs and benefits of the wider effects of any service, rather than just at the outputs described in the contract.

### Recognising Value

While the ‘added value’ concept sought to recognise the values that some VCOs could bring to public service delivery, it was not helpful in a commissioning/procurement context as it failed to set the terms for a funding relationship of what is of value and how this is funded. Likewise, full cost recovery sought to ensure that organisations were not subsidising services but created a focus on an income = expenditure model rather than a focus on value and price.

Debates have therefore shifted towards demonstrating and recognising value, with a focus on outcomes rather than process. Social clauses in contracts have been explored to recognise and reward wider social aims. Social Return on Investment is also gaining prominence (DOH OTS action

research looking at SROI for social enterprise in mainstream healthcare). VCS and Government need to be clear on how these will be used to ensure they deliver desired results.

More recently Payment by Results has been trialled by the Department of Work and Pensions (DWP) in relation to Welfare to Work and the Department of Health, where receiving payment is contingent on outcomes delivered.

### **Changing Funding Practice – Grants and Contracts**

In the last ten years there has been a shift in how the sector is funded with the majority of income now being earned via contracts rather than given via grants, and 2005 marks the watershed for this shift. Between 2001 and 2007 contracts to the sector more than doubled from 3.8 bn to 7.8 bn, while in contrast, grants decreased by 10% from 4.6 bn to 4.2 bn. How this plays out across different parts of the sector (subsector, size) is an area for further investigation.

The key issue here is whether the type of funding mechanism used is appropriate to the activity. Much of this shift will have been appropriate for the type of activity undertaken, and simply means that organizations that were grant funded to provide a service now do so under contract. However, as Julia Unwin has argued has the pendulum swung too far? How much is inappropriate?

In 2005 the National Audit Office (NAO) produced guidance<sup>3</sup> on getting the right funding mechanism to fit the activity and based on the current and desired future market. “Statutory funders need to be clear on when they are ‘shopping’ (buying a service), ‘giving’ (supporting a worthy cause) or ‘investing’ (building capacity in the sector) and adapt their approach to funding accordingly”. This was not taken up (nor was there was encouragement to do so) however, very recently the Department of Health<sup>4</sup> has restated value and role of grants to PCTs and NAO has launched a new decision-making tool<sup>5</sup> aimed at local authority commissioners.

And there are some examples of good practice although these are not the norm. For example, Sutton LA has guidance that recognises types of funding (grants and contracts) and types of grants (strategic and pilot funding).

The key issue from this, is what is lost if contracts are being inappropriately used instead of grant funding? For example, does a lack of strategic grant funding result in a lack of capacity to trial innovative approaches to addressing social problems or meeting users needs?

### **Changing Funding Practice - Loans**

Much of the debate has focused on grants vs contracts, but the other new entrant into the government funding mix has been loans. Initially through Futurebuilders and more recently with DOH Social Enterprise Investment Fund, these funds have been set up to enable more public service delivery by the third sector. With these funds there has been pressure to get money out of the door which raises questions around are all parts of the sector (existing or new entrants) able to benefit from increased access to capital? Are there winners and losers in terms of who can access. For example, do these funds favour large organisations or new entrants from public sector? It is perhaps too early to see how these loan initiatives are having an impact on the make-up of the sector but it is

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<sup>3</sup> 2005 NAO Working with the Third Sector

<sup>4</sup> 2009 DOH Report: PCT grant making powers to commission long term conditions self care support from third sector organisations

<sup>5</sup> 2010 NAO Successful Commissioning Decision Support Tool

important to monitor to ensure that the whole sector for whom access to capital is relevant can benefit. See separate paper on social investment.

## Impacts of the funding relationship on the sector

Looking at the sector overall there are currently issues around dependency, volatility and resilience which need to be looked at in relation to the impact of government funding to date.

The importance of the funding relationship between government and the sector varies between sizes of organisation and by sub-sector. It would be useful to have more data on trends by size and by sub-sector to fully understand the impacts the government funding relationship, particularly in areas for concern such as where there is high dependency and limited resilience.

- Of the 40,000 VCOs with a direct funding relationship 59% are micro or small organisations, 33% are medium, and 8% are large or major. However it is the medium and large organisations that are the most dependent on government funding.
- Over 75% of statutory funding goes to large and major organisations.
- For medium organisations 40% of their income is from statutory sources, yet they receive just one fifth of total government funding.
- Small organisations receive about 1/5 of their income from statutory sources which is primarily from central government, so we can't assume small and local are synonymous.
- Social services receive more than any other subsector (£4.2 billion in 06/07), but many VCOs working in social services do not receive any money from government.
- Employment and training receive 71% of their income from the statutory funding.

### Dependency

There are some groups of organisations who are heavily reliant on government funding which requires close attention.

One in six organisations (some 25,000) are heavily reliant (>75% of their income) on government funding, particularly medium and large organisations. Reliance does not always equate to volatility as organisations can have multiple funding relationships to provide a sustainable funding mix. However, even with multiple contractual relationships volatility can still exist. A 'March 2011 abyss' has recently been highlighted caused by public spending only being committed upto April 2011<sup>6</sup>. The organisations Kids are nearly 90% dependent on contracts and report that all but one are due to end in March 2011. Ten years ago there were concerns around organisations being too grant dependent, now being contract dependent is equally as concerning.

Sub-sectors with a high proportion of statutory income include: Employment and training, law and advocacy, education, housing, social services, umbrella bodies, and health. In the next few years the indication is that Education and Health budgets will be protected but that all other public services will be subject to spending cuts.

### Volatility

There is sizeable volatility among a significant number of organisations of all sizes including those with incomes >10m. It can mean organisations income increasing or decreasing two or four fold.

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<sup>6</sup> Keeping the Show on the Road by Richard Gutch, Third Sector, 9 March 2010

A key question is how much of this volatility is down to the government grant funding relationship such as through the commissioning or decommissioning of services?

## **Resilience**

During this period of increased government resources flowing to the sector there has been a diminishing asset base. Critically, has increased government interest in public service delivery led to a diminished asset base? The sector's resilience has always been fairly weak, as most organisations have been funded on a financial model where income = expenditure and contributions to reserves have not been recognised as a necessary part of a funding relationship. This diminished asset base might imply that contributions to reserves are still not being recognised or are not being costed into the price of contracts.

The key issue here is whether charitable resources are being used to subsidise the state – and the implications of this. And more worryingly, are organisations using reserves to develop their earned income base but are then not earning enough income to build their reserve levels back up to increase their resilience to future changes in funding and to support future development (innovation)?

Looking at the period 2001 to 2006<sup>7</sup> the sector's income grew 50%, primarily from earned income (public service delivery and traded income), and expenditure also grew almost 50%. At the same time assets grew by 16% but liabilities nearly doubled from 6bn to 11bn. As the sector has grown, the measure of resilience of total funds to expenditure has dropped from 4.6 years operating costs to 2.9 years.

Sub-sectors with the lowest level of reserves are umbrella bodies, law and advocacy, and employment and training organisations, who also happen to be three of the sub-sectors most reliant on statutory funding. Their dependence on government funding and lack of resilience is a huge concern given the public spending environment we are about to enter. It also raises the question of why are their reserve levels so low in the first place? Why have they not been able to put funding aside for the rainy day scenario we are about to enter? It also raises questions of their ability to compete for contracts on such a low asset base.

The inclusion of umbrella bodies on lists of medium-sized, lack of reserves and high dependency is a particular worry and one that warrants further investigation. Currently they receive 47% of their funding from statutory sources, yet represent a relatively small proportion of total spend in the sector. It raises concerns about their dependence and their resilience and is particularly pertinent in light of public service reforms and public sector spending cuts. Who will be supporting the sector to adapt to the new funding environment?

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<sup>7</sup> Based on NCVO 2002 almanac and NCVO 2008 almanac figures

## How will current trends impact on the funding relationship?

Two major drivers will impact on the government funding relationship in the next ten years: cuts in public expenditure and public service reform. When cuts happen and how public service reform is engineered will depend in part on who wins the next election and many of the potential opportunities and challenges will need to be revisited once this outcome is known.

There are currently a number of key trends which influence in different ways:

- Gershon efficiency agenda where central government (particularly DWP) is moving towards fewer larger contracts
- Localism / Total Place means more funding decisions happen at the local level, including opportunities for a holistic approach.
- Personalisation: again potential role for VCS both in relation to choice and voice, but only if the transition to a more individualised market place is supported.

As yet, it is unclear how these different developments will play out in practice and in relation to each other. The efficiency agenda points towards larger (possibly private sector) organisations dominating the market place whereas localism/personalisation implies a potential role for specialist / niche providers. There are also new funding mechanisms being explored where funding is based on outcomes delivered and therefore payments come after work has been delivered.

Both Labour and the Conservatives want to explore new funding mechanisms that help address long term or 'entrenched' social problems. Gordon Brown<sup>8</sup> wants to pilot social bonds and in December 2009 the Government announced support for the first Social Impact Bonds (SIB) pilots, led by MOJ to reduce reoffending<sup>9</sup>. Social Impact Bonds are explored in a separate paper. The DEL: AME switch is also being explored in March 2011 where providers invest upfront and get paid from the savings they deliver in lower benefit bills. David Cameron<sup>10</sup> wants to use payment by results for welfare dependency, addiction, debt, poor schooling and family breakdown. Like the transition to personalisation, a shift to a payment by results or DEL:AME means organisations will need access to working capital (and possibly development capital) if they are going to be able to compete; currently larger VCOs and private sector has better access to capital and will therefore be likely to be better placed to win contracts.

In addition, the make-up of 'Third Sector' will change as services previously delivered as part of the public sector become independent organisations either via mutualisation or via asset transfer such as publicly owned leisure facilities becoming trusts. This raises questions around will future growth for the sector rest on new players (formerly public sector providers) coming into the sector rather than organic growth from within? Will these organisations be better resourced, better able to reach scale more quickly? Will these orgs be in competition for funding? Or might it mean increased recognition and resources for the sector?

### Mutualisation

Currently this is happening in community health services where workers have 'right to request'<sup>11</sup> to set up as social enterprise. The idea of 'right to request' or mutualism now has cross-party interest

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<sup>8</sup> 2009 Gordon Brown *Smarter Government* Speech

<sup>9</sup> 2009 HMG *Putting the frontline first: smarter government*

<sup>10</sup> 2010 David Cameron *Good Government costs less with the Conservatives* Speech

<sup>11</sup> 2008 Darzi Review: *High quality care for all*

interest for how it can be applied in other service areas however while the Labour Party<sup>12</sup> are investigating its potential, the Conservative Party<sup>13</sup> have made this a central plank of their Public Service Reform Policies and it is therefore likely that the process would be sped up under a Conservative Government.

### **Efficiency vs Localism (Super-commissioning vs Micro-commissioning)**

At one end of the spectrum the efficiency agenda has led to some statutory funders incorporating services for different client groups into one generic contract with an expectation that the prime contractor will subcontract to specialist providers. It means that VCOs then need to negotiate with a prime-provider rather than the statutory funder who will have a different perspective on the value placed on outcomes. There are concerns that this model leads to services failing people with more complex needs as the easiest clients are targeted and 'harder to help' clients are placed with smaller delivery partners without sufficient recognition of increased costs. Recent concerns around the negative impact of subcontracting on charities and public services led the DWP to publish a code of conduct governing subcontracting.

There are also questions as to whether sub-contracting is the most efficient mechanism to involve specialist providers. Richard Williams, the chief executive of youth charity Rathbone, estimates that the charity will have to develop new relationships with 80 different local authorities in the next two years. Is this an efficient approach when cost implication of all those negotiations will increase cost of service?<sup>14</sup>

At the other end of the spectrum, there is a drive for localised decisions on spending, including the new Total Place<sup>15</sup> agenda which looks at local public spending as a whole. This has the benefit of a more holistic approach although removes ring-fenced budgets. While it identifies the Third Sector as crucial to its success there will need to be careful consideration as to how we ensure we don't lose benefits of national networks in focus on individual localities. For example, Legal Services Commission's desire to pool their funding with local authorities' to establish Community Legal Advice Centres and Networks, has already resulted in the loss of funding to Hull CAB, where a commercial partnership of A4E and a solicitors' firm won the tender. The specification for the service was very narrow and did not include any concept of community benefit or recognition of how each service combined creates a holistic approach<sup>16</sup>.

Commissioners will require the skills and knowledge of the market place to be able to balance between these competing agendas and ensure that the value the VCS can bring is not lost. This has been touched on in the Mental Health experience of Payment by Results (see below).

### **Personalisation**

Personalisation is currently being implemented through individual and personal budgets in adult social care. Personalisation has cross party support and is already extending into other public services. For example, in offender rehabilitation and education there are some voucher schemes in place for users to purchase specific services. It should be recognised that personalisation is a wider concept and there are multiple roles VCS can play.

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<sup>12</sup> 2009 Tessa Jowell *The mutual moment* Speech

<sup>13</sup> 2010 George Osborne *Power to public sector workers* Speech

<sup>14</sup> Commissioning Under Fire by Richard Gutch, *Third Sector Article*, Nov 2008

<sup>15</sup> 2010 DCLG *Total Place*

<sup>16</sup> Commissioning Under Fire by Richard Gutch, *Third Sector Article*, Nov 2008

The move towards greater choice and control means that there may be a shift in demand for certain types of services, for example a move away from day and residential care as people want to live more independently. Balancing investment between new and existing services is important to ensure that people who want to continue receiving their traditional provision are not disadvantaged.

Successful involvement of the VCS in supporting the personalisation agenda will require commissioners to invest in and build the capacity of the provider market to ensure that new services are developed in line with changing demands. VCOs will need investment to ensure that they can adapt their organisation's services and administration processes to move away from congregate services without destabilising the organisation or the local market. Maintaining financial support and funding channels for VCOs will be vital to help them, and service users through the transition.

### **Payment by Results**

Payment by Results (PBR) was first introduced as a concept in 2000 by the NHS and by DWP in 2008. While there is still debate as to whether payment by results will deliver the desired efficiency and quality<sup>17</sup> it is being rolled out from acute health care<sup>18</sup> to mental health and possibly beyond, depending on the election outcome.

The sector has a lot to offer in delivering payment by results both in helping define the outcomes and in delivering services to deliver outcomes. For example, VCS developed mental health recovery star was identified as a potential evaluation tool within mental health services<sup>19</sup>. However, the ability of the VCS to contribute will crucially depend on how service units and tariffs are defined and set and how a transition to payment by results is supported.

Identifying service units and tariffs is a critical part of the debate. It was difficult in mental health to produce national currencies because a singular link between intervention and outcome is not always clear. This will be equally so in other service areas. Jay Kennedy, Director of Social Change, said<sup>20</sup> "youth offending offers a particularly good example [...] who determines what a 'good' result is? How can you quantify the umpteen factors that influence a particular person's life that could lead to antisocial behaviour or offending which are outside of the charity's control?"

Key points for consideration (from mental health experience but applicable to all areas):

- PBR does not necessarily mean paying full cost, as prices are fixed. Will VCOs be fully funded to work with people who require additional support? RNID pulled out of DWP contract because the additional costs of working with their client group were not recognised.
- Need to be clear on currency and outcome evaluation methods. Organisations will need to realign their business to units of currency which might require investment.
- Need to ensure financial stability of potential providers during transition from a system of payments in advance to one where payments are made once results have been delivered. Can smaller organisations shoulder the cash-flow gaps of PBR?
- Thought also needs to be given locally to how any sub-contracting arrangements will work. The currency model is focused on paying for individuals, not individual services.

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<sup>17</sup> King's Fund Briefing on Payment by Results, October 2007.

<sup>18</sup> 2006 Department of Health *Reforming NHS Financial Flows: Introducing Payment by Results*

<sup>19</sup> 2009 NHS Practical Guide to Preparing for Mental Health Payment by Results

<sup>20</sup> Conservative Party Conference 2008, Fringe Event on Payment by Results in Youth Offending

Commissioners may want to specify that particular providers e.g. VCS offer some elements of care to an individual whose needs are principally being met by another provider.

## **How is the sector responding to these developments?**

The sector has been responding to these developments in various ways.

### **Membership consortia for delivery**

Membership organisations are starting to be established to bid for contracts on behalf of their members. These consortia enable organisations to unite around particular service delivery objectives and enable smaller organisations to deliver contracted services on a level appropriate to their size. For example:

VC Train, est. in 2000 is a collaboration of over 120 Third Sector organisations based in South Yorkshire aimed at helping marginalised and disadvantaged people to engage fully and on equal terms with the rest of society through the provision of training.

Aspire Foundation, est. in 2006, is a charity that specialises in supporting social enterprises tackling homelessness and disadvantage through enterprise and employment. They support a network of social enterprises across England and recently won a Future Jobs Fund tender.

Sheffield Wellbeing Consortium, est. in May 2008, to enable members (over 50 VCOs) who deliver health and wellbeing services to have a better prospect of securing contracts, joint service planning, and enhanced training and development support for smaller members.

3SC (Third Sector Management Consultancy), est. July 2009, is a bidding consortium where interested TSOs can sign up as members and then 3SC puts in bids. To date 420 organisations have joined 3SC and the consortium has recently won DWP Future Jobs Fund tender to deliver 4,000 jobs.

### **Private sector sub-contracting**

While examples of this are currently limited, it has occurred where third sector organisations were too small to deliver over the whole contract area, or because the whole contract was not in line with the charities expertise and charitable objectives. It could become more common where VCOs are not able to shoulder the cash-flow gaps associated with payment by results.

Examples include: 4 Children and ContinYou providing services to Serco for their Together for Children contract, Turning Point and Catch 22 providing welfare to work service for ex-offenders to Serco, and Nacro in bid to provide resettlement services to GS4, as part of their bid to run prisons.

### **New Models of Support**

A new range of infrastructure bodies focussed around particularly service areas:

Realliance CIC provides development support, representation, guidance and information for voluntary, community and social enterprise organisations working to manage resources sustainably.

Voices, an umbrella body for children's organisations in Cambridgeshire, brokers collaborations, build collaborative capacity and conducts 'health checks'.

Paradigm is the UK's leading consultancy and development agency, whose mission is to support services, people and families to ensure that people get the life they want. Paradigm helped create In Control, a leading social enterprise in personalisation.

## **Future challenges and opportunities**

### **Recognition of the roles of the sector outside of public service delivery**

In 1998 recognition of the multiple roles the sector can play were enshrined in the Compact. While not all roles necessitate a direct funding relationship, in 2010 the shift from grants to contracts raises concerns that the focus is now primarily on delivering defined public services. In 2005, Jane Lewis<sup>21</sup>, argues that better terms and conditions have been secured for VCOs providing services, and that large and umbrella organisations have more impact on the implementation of central government policy. However, the more equal partnership required for a policy-shaping role in the sense of agenda-setting is likely to remain elusive, and that at the local level there are tensions between the idea of voluntary organisations as agents of 'civil renewal' and as service providers. Written five years ago this still feels pertinent with the shift to contracts and decreases in grant funding happening at the local level. Relaunch of the NAO decision-making tool for local authority commissioners is welcome but needs to be embedded, particularly with imminent public spending cuts that will make future grant funding even more vulnerable.

### **Public Service Reform Opportunities**

In the plans for public service reform the VCS has a lot of expertise to offer to help drive and deliver transformed services: focus on outcomes, holistic approach, personalised services. However careful thought needs to be given to how to enable a transition to new models without destabilising organisations and services. Commissioners need to be able to consider what they value both from individual organisations and the market place, and therefore what the most appropriate funding mechanism is to deliver what is valued. Investment will be required to build the capacity of both commissioners and the VCS to support a transition to new models. Investment will also be required to enable VCOs to participate in supporting these new models for public service delivery. While public spending cuts make the case for the need for reform, they also make the case for reforming quickly which could see VCOs without sufficient reserves unable to transition and their expertise lost.

The case for investment is particularly important against backdrop of public spending cuts and a sector whose resilience and access to resources have decreased.

### **Polarisation and 'Charitisation' as an increased role for social enterprise dominates**

As VCOs deliver more services under contract, and with new social enterprise entrants from the public sector, 'charitisation', the prominence of VCS public service delivery will increase. There is the potential for the sector to become polarised between those who deliver public services and those who do not. Current trends will drive this polarisation, unless resources are made available to support organisations through a transition to new funding mechanisms, as only those organisations large enough or with sufficient reserves will be able to manage the transition.

What 'charitisation' means for the sector in terms of perception is outside scope of this paper. What it means for overall sector resources is uncertain at this time. On the one hand it could mean

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<sup>21</sup> New Labour's Approach to the Voluntary Sector: Independence and the Meaning of Partnership by Jane Lewis, Dept. of Social Policy, LSE, 2005

increased competition for the same pot of funding or it could mean an increased level of resources overall as the model becomes more recognised and more services are contracted out.

### **Squeezed middle**

With the growing shift in commissioning to achieve economies of scale there is a concern that medium sized organisations will lose out to larger voluntary – and private – sector organisations in terms of procurement. And, will also lose out on grant funding available to support smaller predominantly volunteer-led VCOs. The Funding Commission needs to look at who these organisations are as a matter of priority, particularly in relation to Infrastructure given its dependence and lack of resilience and particularly given plans for public service reform. It is unclear whether there will be future investment in Government Capacity Building Programmes post March 2011. Without suitable investment these organisations may not be there to help enable the provider market to shift to new models of delivery.

## **Conclusions**

The Government Funding relationship has come a long way in the last ten years with a supportive policy framework recognising the value of the sector, good funding and procurement practice and capacity building support. There is much that can be built on and learnt from as we move to a period of significant public spending cuts.

Embedding good funding practice needs to be the focus in the next ten years. Particularly grants need to be seen as a necessary and integral part of the funding mix and not an optional extra. The case for what will be lost if grant funding is cut needs to be made.

Supporting transition needs to be the other priority. While the sector has been adapting we need to ensure that it can continue to adapt given we are about to enter a period of significant change. We need to ensure that all organisations, regardless of size or sector, have the support they need (investment and skills) to shift to new models of working whilst still maintaining existing services. This is not an attractive position at a time of decreasing public spending but is essential to ensure that the value that the VCS can deliver is not lost.

Finally, there is some further analysis to be done by sub-sector and size of organisation. A big concern is that the sector is seemingly less resilient despite higher levels of funding than ever. What are the influences that have led to this and which parts of the sector are most vulnerable and why? What has happened to reserves? Have they been used to subsidise services? In particular, infrastructure needs to be looked at a priority.

It is encouraging that many of the current policy agendas (total place) and new funding mechanisms (Social Impact Bonds, Payment by Results) mean that organisations using a holistic approach or focussed on long-term impacts could address some of the issues of funders working in silos or focussing on outputs. However it will be the implementation of these agendas and mechanisms that is key and ensuring that they work in a way for the whole sector and not just those who currently have resources.

**Sarah Flood**

## **Sarah Flood**

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