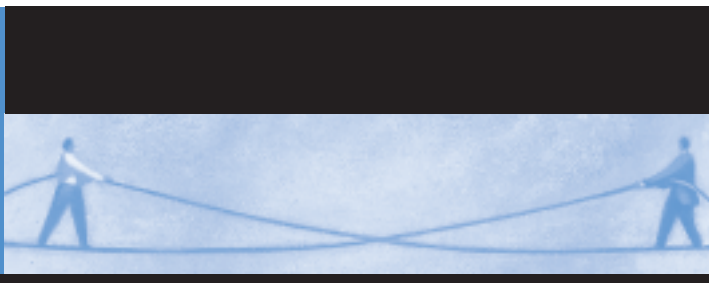


The Research: Executive summary



- Voluntary sector organisations delivering public services typically do so with unstable, short-term funding. These arrangements place an excessive burden of risk on organisations and inhibit the expansion of public service delivery. Funding regimes are also overly bureaucratic. Organisations waste resources satisfying stringent application and reporting requirements. As a result, purchasers of services do not achieve value for money.
- There is a compelling case for action to address these inefficiencies. All parties stand to gain.
- The *Surer Funding Framework* outlined in this report provides a way to address these problems. At the centre of the framework is a series of principles to guide commissioning. Should these principles on their own fail to motivate improvements in contracting, the framework proposes a secondary system of incentives to encourage funders to shift towards better practice.
- The analysis presented in this report is grounded in a hard-headed examination of shortcomings in current practice. It is not a plea on behalf of the voluntary sector.

The problems

- 'Risk' in this report describes the funding insecurity faced by charities and other not-for-profit organisations delivering public services; the chance that the costs incurred whilst delivering a service exceed the funding revenues. This report looks at the funding agreement (grant or contract) as the mechanism for the distribution of risk between funder and provider. The research shows that risks are overwhelmingly loaded onto voluntary sector providers. Some of these risks are rightly borne by organisations. Others cause needless problems.
- The most common mechanism for off-loading risk to the provider is by using funding agreements that commit the funder to short-term funding only. A second common mechanism for off-loading risk is by using variable payment contracts where providers receive payment related to particular variables over which they may have little or no control.
- Short-term and insecure funding is plaguing many organisations by making their operations overly risky. This risk has a cost, making it difficult to recruit and retain staff, to access bank finance and to plan sustainably for the future. A high burden of risk also necessitates increased levels of reserves. As a consequence, the delivery of public services becomes more expensive or lower quality than if given a better balance of risk.
- A related problem is the excessive bureaucracy that faces many organisations delivering public services. These processes divert considerable resources away from frontline services. Excessive reporting requirements are related to the funder's attitude towards risk – they reflect a reluctance to bear the risk of trusting the organisation to deliver a service, even where they have a long track record of success.

The objective – efficiency in service delivery

- This report addresses two questions. First, what is the best distribution of risk to ensure that services deliver value for money for the funder? And second, how can funders and providers achieve a more appropriate cost for application and reporting?
- Risk cannot be destroyed but has to be managed within the funding relationship. Most efficient service delivery is achieved when risk sits with the party best placed to manage it. The report highlights two examples of organisations with inefficient contracting arrangements: Marie Curie Cancer Care and John Grooms. Tackling the inefficiencies faced by each would lead to more reliable and higher quality services, as well as opening the possibility for an expansion in service provision.

- A degree of bureaucracy is required to ensure providers remain fully accountable in their use of public funds. However, efficient service delivery requires that these costs are proportionate and do not become overly burdensome. Tackling inefficiencies would free resources for greater investment in frontline services, producing a better service for users and for taxpayers.

Principles and incentives – the Surer Funding Framework

- Government guidance already reflects good funding practice. The problem is that this guidance is not practiced. This report outlines a *Surer Funding Framework* to offer government and the voluntary sector a way of bridging the gap between the rhetoric of better funding practices and the reality.
- The *Surer Funding Principles* are at the centre of the framework. Seven principles address better balancing risk in the funding agreement and ensuring sensible levels of application and reporting costs. If applied across all statutory bodies, these principles will ensure that inefficiencies are removed. In the event that these principles are not enough to change behaviour, *Surer Funding Incentives* offers a second possibility through creating financial incentives to encourage funders to move to more stable funding.
- Under *Surer Funding Incentives* funders a choice between managing uncertainties more effectively, and paying a 'risk premium'. They can either accept the risks they are best placed to manage, or pay an additional risk premium to shift them onto providers. The premiums contribute to a risk pool, which would compensate organisations for the financial losses caused by the risks passed to them.
- The extra cost that comes with poor contracts would incentivise funders to share risks more efficiently, moving to more efficient funding arrangements and benefiting taxpayers and service users. The extra security provided by the pool would provide organisations with enough security to invest in and deliver high quality services, with better value for money.
- *Surer Funding Incentives* poses a number of questions. How will funders and providers decide on which risks are transferred and which risks are retained? How will the level of the risk premium be set and what will the level of payouts be? Who will implement and operate the mechanism? To develop *Surer Funding Incentives* into a workable solution, these questions require further investigation.

The imperative for change

- *Surer Funding* is a call to government to take the needs of voluntary sector service providers seriously. At present, taxpayers are not getting value for money. Inefficient funding impairs the quality of services and limits the scope for expanded service delivery by voluntary sector organisations. This demands action by government.