



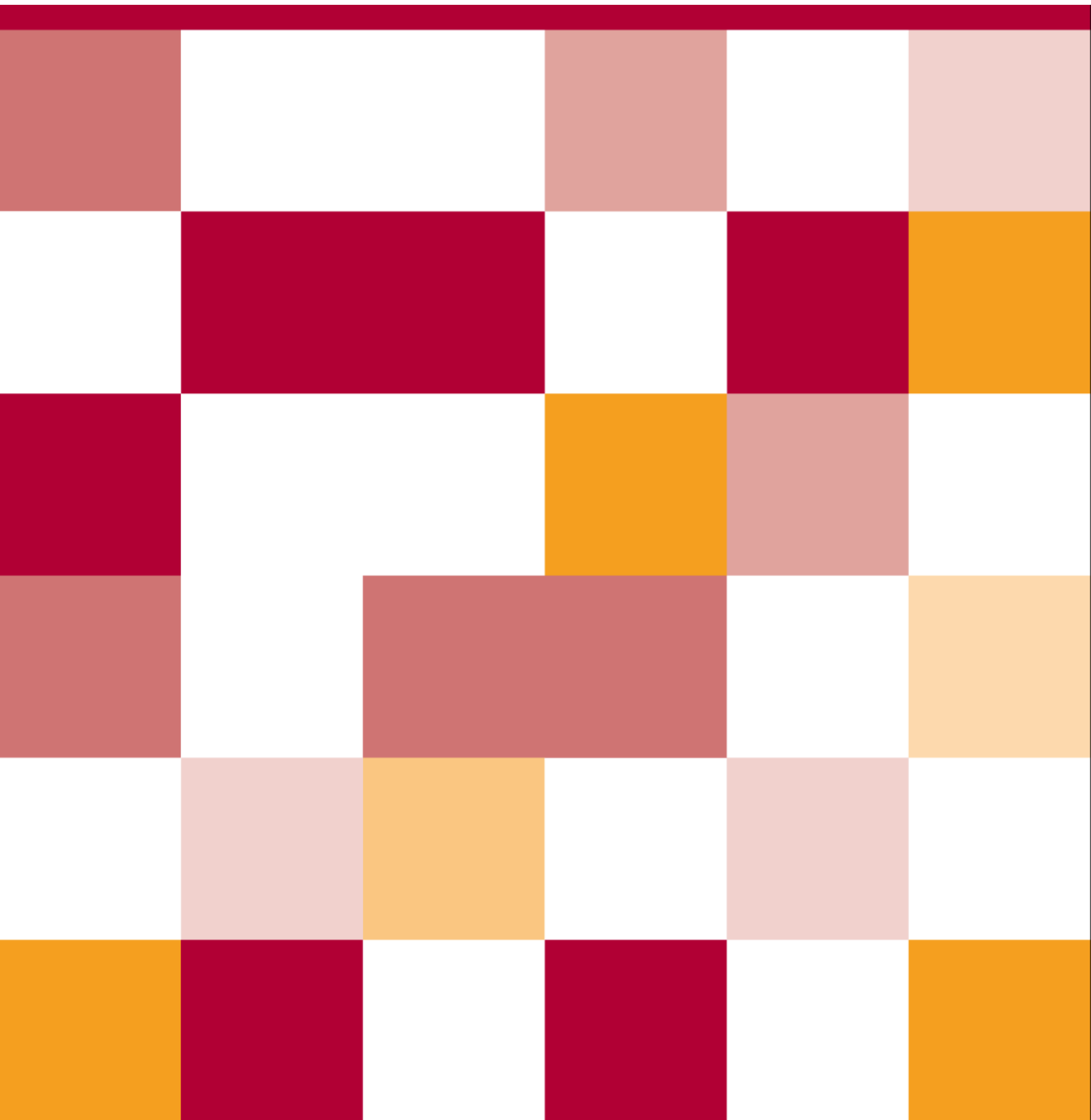
HM TREASURY



CabinetOffice
Office of the **Third Sector**

Three Year Funding

Guidance for central Government departments on implementing the three year funding commitment – first stage of report: October 2008



Foreword by the Chief Secretary to the Treasury and the Minister for the Third Sector

Our shared vision is of a stable, sustainable and productive relationship between Government and the third sector: one that enables third sector organisations to thrive and to deliver social and environmental benefits for the communities they serve. Underpinning the sector's capacity to deliver these outcomes is a need for sustainable funding, so that organisations can plan, grow and innovate.

At the Pre-Budget Report in December 2006, the Prime Minister, then Chancellor, announced that when central Government departments received their Comprehensive Spending Review settlements for 2008/09 to 2010/11, they would be expected to pass on the certainty of three year funding to the third sector organisations they fund as the norm rather than the exception.

Three year funding benefits organisations by providing greater stability and flexibility, enabling them to plan their service delivery and growth. It also benefits funders by reducing the costs associated with repeated funding rounds.

From the beginning of the Comprehensive Spending Review period, the Government has committed to report annually to Parliament on its progress in implementing this commitment, as part of its annual review of the Compact (the partnership-working agreement between Government and the third sector in England).

This document provides guidance for central Government departments so that progress on implementing the three year funding commitment can be reported to Parliament in a credible and transparent way.

We would like to thank you for your continued support in promoting a successful partnership with the third sector, which provides a vital contribution to Britain's society, economy and environment.



Yvette Cooper



Phil Hope.

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Executive Summary

What is this guidance about?

This document provides guidance on the central Government departmental reporting requirements necessary to demonstrate progress towards the Government's commitment to three year funding for the third sector. Departments are requested to provide responses to the Office of the Third Sector by 31 October 2008 so that the Minister for the Third Sector can report to Parliament.

Who is it for?

It is expected that Third Sector Liaison Officers in each department will coordinate their departmental response. However, policy, finance, procurement and legal staff, and anyone else who has a working or funding relationship with third sector organisations may also have an interest in understanding this process.

What are departments being asked to do?

The guidance sets out how each department should complete the template provided at Annex A and return it to the Office of the Third Sector by 31 October 2008. The template requests information on the amount of grant finance the department provides to the third sector organisations it supports, and the proportion of grants that are for three years or more. This first report on central Government department grant-funding arrangements does not include spending by NDPBs or agencies. Next year, information on NDPBs and agencies, and also on contract funding, will be incorporated into the reporting process.

How is this information going to be used?

Based on the reports by departments, the Minister for the Third Sector will make a statement to Parliament on progress against the commitment to pass on three year funding arrangements as the norm rather than the exception, as part of the annual review of the Compact in 2008.

For further information, please contact Maria Nyberg at the Office of the Third Sector:

Maria.Nyberg@cabinet-office.x.gsi.gov.uk

After 15 September 2008, please contact Lara.Rose@cabinet-office.x.gsi.gov.uk

Three year funding policy context

The importance of three year funding

As set out in the document, *Improving Financial Relationships with the Third Sector: Guidance to Funders and Purchasers* (May, 2006)¹ produced in consultation with the National Audit Office and the Office for Government Commerce, longer-term funding can help third sector organisations deliver better services by:

- reducing the time and resources spent on making funding applications;
- increasing the ability of organisations to carry on with core functions and produce benefits for often highly vulnerable client groups;
- enabling organisations to plan ahead in retaining and recruiting staff; and
- enabling organisations to be sustainable, innovative and develop new services and activities, as well as to engage in longer-term planning, borrowing and investment.

The advantages for funders are that longer-term funding:

- increases the probability of funders achieving better value for money because organisations can concentrate on longer-term results;
- ensures effective delivery of objectives and outcomes through managing risk, providing stability and ensuring that organisations have the capability to deliver; and
- reduces transaction costs associated with annual funding rounds.

In identifying these potential benefits, *Guidance to Funders* also set out some of the factors to be taken into account when determining the use of longer-term (three years or more) funding:

- the length of funding should be tied to length of objective – there should be no

¹ Available at www.hm-treasury.gov.uk. Previous work by the National Audit Office (*Working with the Third Sector*, NAO, 2005) had concluded that many funders still perceive barriers to setting up longer-term funding arrangements, while the Gershon efficiency review, (*Releasing Resources for the Frontline: independent review of frontline efficiency*, 2004) had concluded that contracts for service delivery by voluntary and community organisations tended to suffer from an unnecessarily short term approach.

standard length of contract;

- value for money must be the overriding principle that determines whether or not longer-term funding is appropriate;
- longer-term planning and funding arrangements often represent better value for money than one year funding agreements;
- funding arrangements should be agreed with all parties to be effective and offer the right incentives to deliver value for money;
- the historical tendency to fund for a certain period is not an acceptable reason for maintaining short-term funding arrangements – however, neither should longer-term funding arrangements be embarked upon for their own sake; and
- departments should consider fully the opportunities for cascading multi-year funding to NDPBs and agencies.

Government commitments to three year funding

The Local Government White Paper, *Strong and Prosperous Communities* (June 2006),² set out a clear expectation that Local Authorities, where appropriate, pass on three year grant funding settlements to their third sector partner organisations. Building on this, in December 2006, the then Chancellor set out in the Pre-Budget Report his expectation that central Government departments should pass on the stability and certainty of their 2008/09–2010/11 Comprehensive Spending Review settlements during the Comprehensive Review period (2008/09-2010/11) *as the norm rather than the exception*.³

² Available at www.communities.gov.uk

³ The full speech is available at www.hm-treasury.gov.uk

Three year funding reporting process

Reporting requirements for three year funding

The Government's review of the third sector, *The Future Role of the Third Sector in Social and Economic Regeneration* (July, 2007)⁴ sets out that the Minister for the Third Sector will report to the Chief Secretary to the Treasury and the Chancellor of the Exchequer on an annual basis on progress in delivering the overall funding commitment for key grant programmes and contract areas. This will be based on submissions from Government departments, which will be requested to ensure that all departures from three year funding arrangements are fully justified. As part of the annual review of the Compact, a regular report will be presented to Parliament on three year funding arrangements in order to encourage consistency and transparency in the process.

The reporting process

In January 2008, the Minister for the Third Sector wrote to central Government departments to ask them to provide some initial information on their funding arrangements, by way of a *stock-take* of departmental positions.

The next step is to establish a *baseline* against which to measure progress towards meeting the three year funding commitment. To achieve this, **all departments are required to fill in the template attached at Annex A**, and to return it to the Office of the Third Sector by **31 October 2008**.

In order to work with departments in a staged approach to reporting, in this first report to the Minister for Third Sector, departments are only being asked to include information on their *grant* funding arrangements, rather than their *contract* funding arrangements.⁵ Departments are also not required, in this first year, to report on

⁴ Available at www.hm-treasury.gov.uk

⁵ HM Treasury's *Guidance for Funders* (May 2006) defines **grants**, **grant-in-aid** and **contracts** as follows: "A grant is a financial transfer used to fund an activity because that activity is in broad alignment with the funder's objectives. Grant-in-aid is a payment by a Government department to finance all or part of the costs of the body in receipt of the grant-in-aid and is paid where the Government has decided, subject to parliamentary controls, that the recipient body should operate at arms' length. Procurement is the acquisition of goods and services in line with the Government's policy of value for money, normally achieved through competition." *Guidance for Funders* is available at www.hm-treasury.gov.uk

their NDPBs' and agencies' funding arrangements. Therefore, in 2008, the template attached at Annex A requests information on:

- a) the total amount of grant funding that they provide to third sector organisations (as a sum total for the department);⁶
- b) the proportion of grants made to third sector organisations that is for three years or more (as both as a value and as a percentage);⁷ and
- c) in instances where grant funding is provided for fewer than three years, an explanation of the rationale for this.

In future reports to the Minister for the Third Sector, departments will be required to include information on contract funding, and on the arrangements of their NDPBs and agencies. Therefore, *this year*, the template asks departments to indicate what measures they have taken to ensure that they can report on contracts as well as grants from October 2009-10, and similarly what preparations they have made to ensure they can report on the grant and contract arrangements of their NDPBs and agencies.

The Office of the Third Sector will provide further guidance on reporting arrangements for 2009 onwards and will work closely with departments and NDPBs in the lead up to the second report to ensure that there is a clear understanding of the requirements.

Timing of the first report

The first report, due on 31 October 2008, will be an in-year report – i.e. information submitted will relate to the financial year 2008-09. If departments have not allocated or committed all their funds this stage, please submit information on funds *committed to date*.

The timing of the report relates to the timescales for the annual review of the Compact.

⁶ The Government defines the third sector as non-governmental organisations that are value-driven and which principally reinvest their surpluses to further social, environmental or cultural objectives. It includes voluntary and community organisations, charities, social enterprises, cooperatives and mutuals. **For the purpose of this report, the status of a particular organisations should be based on the organisation's own definition** – i.e. whether they see themselves as a third sector organisation or not.

⁷ Three year funding has been defined as the **norm rather than the exception** when it comes to funding for the third sector. However, in order to be clear, it should be pointed out that **multi-year funding arrangements extending beyond three years should also be included in the report.** For the purpose of reporting, indicative budgets which extend to three or more years should also be included.

The Office of the Third Sector does not anticipate contacting departments for an actual end of year figure in relation to three year funding, but there will be an opportunity to enter relevant information in the report for the following year if previous information supplied is incorrect and significant departures from the figures have been made.

How the information will be used

Based on the information gathered in the first year of reporting, the Office of the Third Sector will aim to establish a baseline identifying where the norm lies across central Government departments against which future reports can then be measured. The intention is not to regulate activity, but where there are significant outliers, there may be a need to explore whether best practice is being adopted.

The information that departments and their agencies, NDPBs and arms-length bodies collect should help inform their relationship with the third sector.

Further enquiries

If you have any queries in relation to this report, please contact Maria Nyberg at the Office of the Third Sector at Maria.Nyberg@cabinet-office.x.gsi.gov.uk. **After 15 September 2008, please contact** Lara.Rose@cabinet-office.x.gsi.gov.uk

You may find it helpful to check the supplementary Q&A and the departmental lessons on reporting on three year funding, both of which are available on the Office of the Third Sector website at: <http://www.cabinetoffice.gov.uk/thirdsector>

For further information on Third Sector Liaison Officers, Third Sector Champions in departments or the process for developing local reporting, please contact Tracey Sisley at the Office of the Third Sector at Tracey.Sisley@cabinet-office.x.gsi.gov.uk

Annex A: Template for reporting on departmental progress on the three year funding commitment

Departmental update to the Minister for the Third Sector – October 2008

Name of Department:

Submitted by [name and division]:

Signed off by [name and title]:

- 1. What is the sum total allocated by your department *in grants* to third sector organisations in 2008-09?**

Please enter this as a figure (£s) and as a percentage. Please exclude contract arrangements.

- 2. What proportion of this total grant sum is allocated for three years or more?**

Please express this as a percentage of the total grant allocation to the third sector.

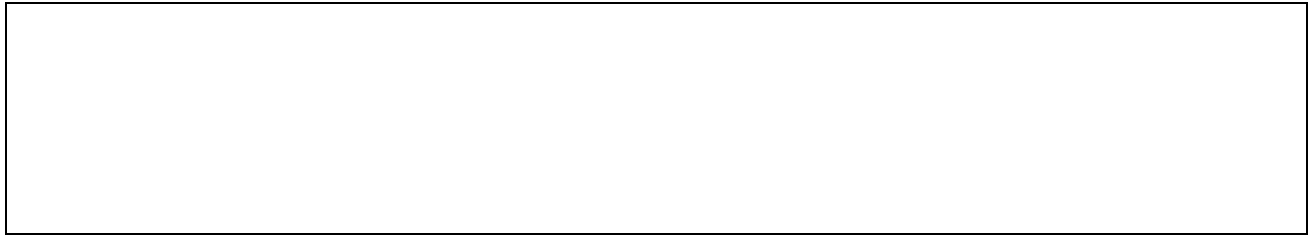
- 3. Where funding has been awarded for fewer than three years, what has been the rationale behind this decision (e.g. pilot funding)?**

- 4. What further information do you think would be helpful in terms of providing a contextual narrative of your department’s funding arrangements and general relationship with third sector organisations?**

We are keen to ensure that the final report to Parliament is as balanced as possible and does not just provide an overall percentage of funding for three years across government departments. Any information that you think is relevant and which contextualises the figures you have provided above would therefore be helpful.

- 5. Please outline what preparations your department has made in order to ensure you can also report on contract funding arrangements with the third sector from 2009-10**

- 6. Please outline what preparations your department has made to ensure you can report on the grant and contract arrangements of your NDPBs and agencies from 2009-10.**



Many thanks for your help in compiling this information.

Please return the completed form by no later than **noon on 31 October 2008** to:
threeyearfunding@cabinet-office.x.gsi.gov.uk