The death of grants?

So you think grants are dead? Think again, says Jay Kennedy.

As central government departments bartered and battled with the Treasury during the spending review, what does this mean for the voluntary sector? Cuts in public spending will impact charitable beneficiaries across many policy areas - in particular recipients of welfare benefits and key public services. However, the fate of local government, and the related communities and local government department (DCLG), will be a key aspect for charities, in terms of the future viability of not just particular services but organisations with close links to councils.

Accounting for around a quarter of all public expenditure according to local government financial statistics, and with centrally imposed council tax caps holding down revenues, local government is under severe pressure. Local authorities have already experienced five years of on average 20 per cent spending cuts, with the most deprived areas being hit even harder, as reported by the Institute of Fiscal Studies. They are prioritising core statutory services like social care, and this threatens any remaining grant funding for local groups, which is seen as non-essential.

So the received wisdom is that it is only a matter of time before public grant funding for services run by voluntary sector organisations dies out. The data in NCVO's *UK Civil Society Almanac 2015* shows that grants from public bodies now make up £2.25bn of total voluntary sector income, just over a third of what they were in 2003-04, whereas contracts now amount to just over £11bn. The majority of this income is from local government, and in total it is declining.

In fact the public sector grants decline has been such that the foundation sector now provides more grant funding than public bodies. Nevertheless, central government still provides around £0.5bn each year in grants to organisations that are identifiable as part of the voluntary sector, as opposed to, for example, larger, more institutional charities like housing associations, major museums and universities.

Over the past five years, the commissioning dogma that has prevailed for over a decade has become enmeshed with the austerity agenda. This holds that contracting (at scale) delivers more and better for less; that it ensures better accountability; and that outsourcing to the private sector will drive innovation and efficiency.

But the dogma is just wrong. It has never been based on solid evidence. There are countless examples of public sector contracting that is wasteful, bureaucratic, inefficient, and simply fails to deliver for people – even if you exclude the full system inefficiencies imposed on delivery organisations by the process (ie charity CEOs spending half their time managing contract red tape). And far from enhancing accountability, contracting often muddles it by deliberately outsourcing risk away from the public body, blurring it in ever-longer supply chains and increasingly complex and legally dubious contract terms and conditions.

Payment-by-results

One example is the increasing but unproven use of payment-by-results (PBR) contracts. The National Audit Office, hardly a bastion of radical policy critique, recently criticised the government over its use of PBR. It reported that while contracts account for £15bn of public spending, neither the Treasury nor the Cabinet Office have evidence of how PBR is used across government, nor of how effective it is, despite the significant financial commitment it has received.

Charities have been relentlessly pushed to adapt to this ideology – to change the way they do things to accommodate it, rather than to demand that they be engaged in a way which helps them to be most effective. Charities are told they must invest in teams of people who can bid for and manage complicated contracts (more overheads; inefficiency; waste) to get in the game. They are told to form sub-contracting relationships with private sector behemoths which have little interest in social outcomes, still less in the charity's viability, in the hope of getting some secondary

benefit (but too often leading to delivery failures and mission drift). Smaller charities, usually forced out by these conditions, are exhorted to develop consortia to compete – but this is just a response to the dysfunctional system rather than an ideal approach based on what best facilitates their unique offer or good services for people.

In tandem with this push, grants as an effective way of achieving social outcomes have been under sustained attack – increasingly so following the Kids Company collapse, which commentators and policymakers cite as evidence for the shortcomings of public grants. But calls from politicians for more control and tougher monitoring reveal their own ignorance. Anyone who has ever managed a grant from a public body knows they are accompanied by reams of KPIs, terms and conditions and inflexible monitoring diktats. These are often ineffective at demonstrating impact, and the data collected may not be interrogated or even used at all. But that misses the point – the Kids Company case was idiosyncratic and arguably about political patronage and adept lobbying circumventing the established system, not the real problems of the public sector grantmaking system itself.

The truth is that when done well, grants work. For many reasons, but chiefly because they can enable a more constructive relationship between funder and funded. One which allows social needs to be articulated upwards from the beneficiary to the funder, via the applicant charity, rather than to be determined and imposed from the top down by people in distant offices who are not close to the real issues.

We know grants work because thousands of charitable grantmakers give them all the time – to the tune of nearly £3bn a year in the UK – as do key organisations like the Big Lottery Fund. When it comes to complex social outcomes, giving can be more effective and yes even more efficient than buying. It's just that most government agencies have generally never bothered to learn how to do it well. As a rule they don't seek to learn from the good practice of our leading charitable funders or the Big Lottery Fund. Yet because they often make grants badly does not mean they should not make grants. It doesn't even mean that grants should be ruled out as a solution to current crises either – quite the contrary.

The truth is that grants can be accountable. When viewed in terms of full system costs they can be more efficient than contracts. They can be targeted specifically at voluntary sector organisations which deliver effective, high-quality, localised interventions, rather than chucking precious funds into the gaping maws of private sector corporations.

Crucially, flexibility can be built into the grant relationship, which can facilitate responsiveness to changing conditions, rather than rigid adherence to legal rules that are no longer relevant. Importantly, grants are almost always the best way to financially support small organisations – without forcing them to merge, collaborate or expand inappropriately – and can help those organisations deliver real impact and great value.

For years DSC has felt the commissioning debate is a broken record. There are constant calls for intelligent commissioning but what we get is just different shades of lipstick on the pig. Practice tinkers around the edges but ultimately goes nowhere because the starting point is based on dogma not an evaluation of first principles. How can we change the music?

DSC and our partners are launching the Grants for Good campaign to promote the value and effectiveness of grantmaking to public bodies, politicians and specifically commissioners. We have identified seven areas where grants can demonstrably make a difference, and want charities and fundraisers to take these messages to commissioners at all levels. Grants are dead. Long live grants.

Grants are good for:

- Adapting to change – responding to changing priorities, conditions and beneficiary needs.
- Investing in local economies – helping to leverage other resources and keeping the benefits of investment in the local area.
- Supporting community – enabling small organisations to mobilise community resources.

- Empowering people – putting trust in individuals to respond to needs in their area.
- Sustaining services – investing in organisational development and capacity, which supports more sustainable services.
- Saving time, effort and resources – avoiding costly commissioning bureaucracy, which saves overhead costs – benefiting commissioners, providers and ultimately beneficiaries.
- Nurturing flexibility and innovation – affording space for organisations to adapt and explore new solutions without fear of losing income. ■

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