



DEPARTMENT OF JUSTICE

**VOLUNTARY COMMUNITY AND SOCIAL
ENTERPRISE SECTOR FUNDING MODEL**

Consultation Document

July 2016

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BACKGROUND

1. We in Government recognise that in order to deliver high quality and efficient public services, we cannot do this alone. The Voluntary Community and Social Enterprise Sector (VCSE) make a major contribution to delivering public services and the Department of Justice commissions a wide range of supporting services from the sector.
2. The Department works in partnership with the VCSE valuing and benefiting from its experience and expertise. The sector is well developed and respected across the justice system. They not only deliver high quality services, but also contribute to policy development and decision making. This partnership is something that the Department values greatly.
3. The draft Programme for Government places particular importance on Government wanting “to work with local government, the private sector, voluntary and community sectors and beyond to maximise what we can achieve collectively.¹” The document also sets out that the “new approach focuses on the impact on our people rather than the actions we take within Government”, with a stronger focus on outcomes.
4. Taking account of the new approaches set out in the draft Programme for Government Framework, the Department is reviewing current arrangements with the VCSE to develop more outcomes based approaches to planning, securing and measuring the delivery of services. As part of this work, the Department is developing a new system to fund the VCSE, founded on the principles of outcome based accountability and commissioning.
5. The Department’s annual spend on services provided by the VCSE is in the region of £5 million. This does not include funding of approximately £3 million disbursed by the Policing and Community Safety Partnerships. The new approach will focus on impact rather than the amount of money spent or the number of programmes, interventions or services introduced. It is envisaged that the new system for funding the VCSE will help to strengthen partnerships with the VCSE and ensure that commissioned services are better focused on the Department’s strategic outcomes. This should also secure best value and promote services which better deliver the Department’s objectives and help bring about effects for a generation rather than the duration of the service.
6. The Department is working to develop a new system for funding the VCSE by Autumn 2016, enabling sufficient lead time for the sector to prepare as the new system takes effect from April 2017.
7. This consultation document sets out proposals for a new system of funding to the VCSE. The concepts shared here have been subject to early considerations by

¹ Draft Programme For Government Framework 2016-21, Northern Ireland Executive.

representatives from the sector (Annex A), who have provided valuable insight to ideas, thinking, and helped shape the proposals in this document. Co-design work will continue over the summer months in tandem with this consultation.

8. We welcome your views on these proposals and encourage you to submit your views early, and keep checking the DOJ, NICVA and CO3 websites for further information.

Purpose of the new Funding System for the VCSE

9. The new system has been developed in line with the Government's stronger focus on outcomes, as set out in the draft Programme for Government Framework, and the Department's drive to create a system which will disburse funding in a fair, equitable and transparent way. It is equally important that that funding is targeted on Departmental priorities, and provides opportunity for greater strategic partnership working with the VCSE.
10. Given the prevailing financial climate, which is likely to remain for the foreseeable future, it will be essential that funding is effectively targeted to deliver the greatest impact. The introduction of outcome based accountability will ensure that Departments can demonstrate the impact that is being achieved through its investment.
11. In establishing a new system of funding for the VCSE the Department wishes to secure a number of objectives. These include:
 - funding to reflect outcomes focused service;
 - providing greater transparency in funding decisions; providing all VCSE organisations with fair and equitable access to funding;
 - increased flexibility and responsiveness to priorities;
 - promoting and securing the development of high quality services and best value; and
 - developing opportunities for collaborative work and better partnership arrangements.
12. The new funding system will provide a structure for future funding arrangements and ensure that resources are targeted towards the Department's top priorities. Where appropriate, and the opportunity arises, the new system will secure other funding opportunities and complement broader Government collaboration. This may involve securing funding from EU programmes, charitable bodies or other sectors, and other Government funding through departments or their associated bodies. In particular, the Department is keen to encourage collaborative working

across the VCSE and, the use of consortia or other cross sector arrangements in delivering effective outcomes.

13. Funding decisions will be driven by, and support the achievement of, Departmental priorities and enable clear accountability of spending. The system will seek to minimise administrative burdens on the VCSE balanced against effective control over the release and use of funding. We are seeking to ensure a level of accountability which is commensurate to the level of funding. This will reflect directions set out in the Code of Practice – Reducing Bureaucracy in Grant Funding to the Voluntary and Community Sector².
14. Access to funding will be subject to competition and all awards will be published on the Government Funding Database. The Department will engage a co-design approach to commissioning, which will assist in providing greater transparency regarding the objectives being sought, promote open and informed competition, and assist VCSE organisations in understanding what the Department wishes to secure. The co-design approach and publication of successful funding awards will provide a robust, consistent and transparent commissioning process.
15. The Department will put in place a commissioning process that will incorporate a co-design approach, which will assist the Department to secure provisions best suited to meet its needs. In addition to securing best value, the Department considers that the process will also provide an environment where it can establish a stronger business relationship with providers and put longer term partnerships in place. In taking this approach the Department wishes to contribute to increased stability for VCSE organisations helping them to retain high quality people and deliver better outcomes.
16. The greater emphasis on outcomes based approaches is central to the new funding system, helping to drive forward positive impacts across the community. The outcomes based approach is reliant on effective measurement of impacts being in place and will be a key determinant to evaluating and awarding funding. The new commissioning process will highlight the importance of VCSE organisations providing effective measurement and demonstrating the impact that their services are or can make.
17. To promote greater accessibility to available funding the Department will require all VCSE organisations to use a Full Cost Recovery approach to costing their bids. This approach to costing will enable organisations to compete on an equal basis within the commissioning process. In effect, it will assist in creating a level playing field and open up opportunities to all organisations in the sector. Importantly, it will help address any imbalance associated with those organisations that may already be in receipt of core funding.

² <https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/daodfp0815att.pdf>

Consultation Questions

18. Do the policy aims behind the proposed funding system provide a robust approach to enabling the VCSE to deliver services which support and achieve key departmental objectives?
19. Will the new funding system better enable the Department to prioritise and direct available funding to key areas to be delivered by the VCSE?
20. Will the new funding system provide greater opportunity for wider participation from the VCSE in the commissioning of services?

Full Cost Recovery is a costing approach that includes all costs involved in running a project. This includes direct project costs and a proportionate share of the organisation's overheads. See Glossary for full definition

Key Components of the proposed new Funding System

21. To ensure the effective operation of the new system, and the achievement of the Department's policy objectives, a number of key system components have been identified. These components are considered essential to delivering a fair, equitable, consistent and transparent approach to funding the VCSE. The components and their functionality are set out below:

Departmental Priorities

22. The new system will ensure that resources are aligned to priorities and that the Department can demonstrate the impact of its investment. The Department's priorities will flow from the Programme for Government and be set out in the Department's business plans (2016 – 2021). In line with identified priorities the Department's commissioners will commission provisions designed to address the key priorities.

Full Cost Recovery

23. To promote open and inclusive competition for funding the Department will require all future VCSE applications for funding to be based on Full Cost Recovery³. The purpose of using Full Cost Recovery is to ensure that direct comparisons can be made between applications, and more objective assessment made by the Department. Full Cost Recovery will include all overheads and on-costs in addition to programme specific delivery costs, allowing for comparison to be made between new organisations and organisations already in receipt of funding, including Core Funding. This approach will also ensure that VCSE organisations have fully considered all relevant costs for delivering a particular service.

³ Improving financial relationships with the third sector: Guidance to funders and purchasers. HM Treasury, May 2006

Outcome Based Accountability

24. Using available resources to greatest effect is fundamental to the award of funding. Outcome Based Accountability is the Government's chosen approach to measuring impact. The new system will require the identification and securing of appropriate and effective impact measures. The significant importance on effective measurement cannot be overstated and will be crucial to funding decisions. The Department, like all Government Departments, will be looking for population measures at a strategic level, and performance measures at project level, to determine the real benefits for those engaging with projects.

Co-design

25. The Department will employ the use of co-design approaches in the commissioning process. This will facilitate and support the new funding system in a number of positive ways. Co-design will aid the identification and securing of bespoke provisions that the Department considers necessary to meet identified need. It will enable organisations with an interest to participate in future service planning and develop an understanding of what the Department wishes to secure in the form of outcomes: helping organisations to both understand and shape the brief. Such an approach may also encourage collaboration across different providers and consortia to bring proposals where VCSE bodies can bring different skills to a commission. The co-design process will assist the Department in better understanding issues around delivery and identification of suitable measures, enabling the Department to make better informed decisions.

Co-design is an approach that actively involves stakeholders in the design process to help develop services designed to meet identified needs.

Strategic Funding Panel

26. The Department will ensure a consistency of approach by establishing an internal funding panel, to periodically check the application of the new funding system. It will not be bureaucratic in operation and not slow down decision making. It will provide advice and direction for longer term funding agreements, and help facilitate commissioners redirecting underspend, should it arise.

Review Points

27. The Department will manage longer term funding agreements through review points to ensure that available resources are being used effectively. Review points will be agreed by commissioners and will take place throughout the funding period. They will be timed relevant to the lifecycle of the provision or services and take cognisance of expected outcomes. At each review point

commissioners will confirm that funding will continue - subject to achieving agreed targets.

Commissioners

28. The Department's commissioners will ensure that objective open competition is employed in the commissioning process, ensuring equality of opportunity for all interested organisations across the VCSE. Commissioners will ensure that complementary funding opportunities are encouraged and considered, such as EU funding programmes, cross-departmental funding, or other sources, to help maximise available funding. Commissioners will manage funding agreements and maintain internal records to monitor spend, ascertain progress through effective measurement, and consider continued funding at review points.

Commissioning in the context of the proposed system means the process of specifying, securing and monitoring services to meet identified needs. Full definition provided in the Glossary

Types of Funding

29. The Department will employ two forms of funding. The first and main funding approach will be the award of funding based on full cost recovery to an organisation to provide a given provision or service over a determined period. This funding approach will be used to address the Department's priorities and will be the predominant funding approach for the foreseeable future. Over the planned implementation period the Department will work with organisations already in existing funding agreements to change to a full cost recovery costing approach.
30. The second form of funding will be an innovation fund, based on a 'core funding' approach, for a shorter period to test or develop novel ideas, services or other provision. This funding approach will be particularly focused on developing new thinking with proposals that seek to address Departmental objectives. Such awards are likely to be in the form of grants. Innovation grants will help to stimulate the generation of new ideas and means of delivering more effective provisions, and it is considered that funding approach will help promote competition across the sector. It may also provide those organisations with no previous experience of working with the Department with an opportunity to do so.

Consultation Questions

31. Will the new system improve confidence in the consistency and transparency of how funding is awarded?
32. Do you consider that embedding a culture of co-design in the new funding system will better harness the knowledge and skills of the VCSE and lead to the design and delivery of more effective services being delivered for the public?

33. Do you consider that the use of Full Cost Recovery costing will provide greater opportunity for more VCSE organisations to compete for funding?

Implementing the proposed new Funding System

34. The Department, in designing and implementing its new funding system, will take steps to introduce the new system in a manner that will minimise disruption across the VCSE and avoid undermining the stability of organisations in current funding arrangements.

Incremental Implementation

35. The Department plans to introduce the new funding system on a phased approach, establishing the new system in Autumn 2016 and putting it into operation with effect from April 2017. It is proposed that the commissioning of new provisions will be rolled out over a three year period, to take account of the end dates of current funding arrangements. Over this period, organisations in receipt of core-funding will be expected to identify and assign overheads or on-costs to specific programmes, services and other provisions, and provide that information to relevant commissioners. This in effect will turn core funding arrangements into full cost recovery projects. This will be required to enable organisations to compete for further funding.

Notification of Priorities

36. Although the Department's priorities will be set out in the Programme for Government (which is expected to be finalised later in the year), and the Department's business plans, the Department will take further steps to ensure priorities are effectively communicated. Commissioners will publicise priorities, and indicate the focus of the provisions required, in a manner that promotes equality of opportunity and ensures transparency in the commissioning process.
37. Commissioners will develop a commissioning framework to reflect agreed priorities, and identify outcomes based target areas for which provisions will be required. The new system will involve commissioners issuing a notice of intent with sufficient lead time to enable the VCSE to prepare for engagement with the Department.

Market Engagement

38. Commissioners will consider best ways of engaging the market. This may involve pre-engagement events and the use of approaches that will help to manage the market, support a more responsive market, encourage the market to develop innovative solutions and promote greater opportunities for the wider VCSE.

39. Engagement approaches will seek to ensure open, fair and objective competition. Such approaches might include 'meet the buyer' events, market sounding exercises, and product exploration clinics. In effect these approaches can be useful in establishing the feasibility of new products and the capability, maturity and capacity of the market. It is hoped that by employing a co-design culture through these options we will also encourage greater collaboration between organisations across the sector.

Co-design Culture

40. More effective engagement will contribute to widening competition, improving value for money, and the application of a co-design approach across the commissioning process will help deliver a range of benefits across the VCSE and the Department. Working through a co-design approach will enable the Department to determine a realistic understanding of the issues to be addressed and manage expectations. It will enable VCSE organisations to fully appreciate the commissioner's brief and provide a thorough understanding of the desired impact being sought by the Department. Using the co-design approach in market engagement events can help encourage the development of innovative and collaborate applications from the VCSE.
41. Co-design will build a more open and effective partnership arrangement, both with the Department and between VCSE organisations. There may be opportunities to establish co-production between the VCSE and the Department or its bodies to provide a more integrated delivery. Ultimately this approach will result in more effective delivery.

Effective Measurement

42. The new approach to funding will be heavily reliant on evidence and effective measurement. Determining impact and a project's capacity to make a difference is fundamental to targeting resources at provisions that can deliver the desired impact. Organisations will need to develop and produce effective measures in developing proposals for funding. Co-design approaches will better enable the area of measurement to be explored, identified and appropriate measures identified. The Department will review measures set out in proposals and the robustness, reliability and provenance of measures will be important factors in awarding funding.

Full Cost Recovery

43. The new funding system will be based on Full Cost Recovery, which will help ensure a more objective and fairer assessment of funding applications. In addition to being the main means of costing it will also reflect how future funding awards will be structured. The use of Full Cost Recovery should not inhibit VCSE organisations from securing other funding sources and the Department would

encourage this in aiding the organisations sustainability. The new funding approach will be phased in as the use of core funding is phased out over time. It is anticipated that organisations in receipt of core funding will apply for further funding. In these instances applications will need to be based on full cost recovery and the equivalent element of core funding taken into account. This phased approach will enable better comparison of costs when considering funding awards, and help safeguard against undermining the financial stability of the organisation.

Funding Agreements

44. The new funding system will provide an open, fair and competitive approach to securing funding. The system will be flexible in that the award of funding may take several forms. Funding may be awarded in the form of grant-in-aid, a grant, or contract. The means of award will take into account the nature of the provision or service to be provided, the tenure of the agreement, the nature of the measurement of impact, and be commensurate to the level of funding. All agreements will set out the provision being provided, measurement targets and timescales, and detail the funding cycle. The funding agreement will take the form which the Department considers best reflects the level of accountability required. All funding agreements will be published on the Government Funding Database.

Integrating New Provisions

45. The Department is keen to encourage and support innovation. This will promote competition and stimulate new developments and ways of addressing the Department's priorities. Innovation funding will help enable providers to develop proposals and seek full funding if the supporting evidence indicates a greater impact across the Department's priorities. Recognising limited available resources it is likely that any innovative funding will form only a small portion of the overall funding budget. Where innovative approaches indicate a greater impact and dependent on the strength of proposals, the Department will consider whether, or not, these could substitute the new approach for an existing service provision.

46. **Consultation Questions**

47. Do you agree that the use of a Full Cost Recovery approach will promote greater understanding within VCSE of the costs involved with delivering specific projects, and therefore ensure VCSE organisations do not deliver services at a loss?
48. Will the incremental approach to implementation provide sufficient safeguards against negative impacts on VCSE organisations during the three year transitional period?

Equality Screening

49. The Department's new VCSE funding system is designed to ensure objectivity, accessibility, fairness and consistency of funding decisions and funding agreements. The system is concerned with the effective disbursement of available funding that is targeted specifically on the Department's priorities. The system will draw on an outcomes based approach which is heavily dependent on data and performance measurement, and it will provide effective accountability and greater transparency behind funding decisions.
50. The proposed system has been equality screened and the Department believes the new system does not have any negative equality impacts. The new system will provide greater equality of opportunity, by providing a more open approach to securing interest, providing a more objective way of costing, and through co-design approaches to enable all organisations to effectively compete for available funding without bias towards those organisations already in receipt of funding.
51. All funding agreements will be published on the Government Funding Database.

Consultation Questions

52. Will the funding model provide equality of opportunity to all VCS bodies seeking to bid for funding?
53. Do you envisage the implementation of a new funding model will negatively impact on any particular groups?

Consultation Process

54. The Department is keen to secure your views on the proposed new approach to commissioning, awarding and disbursing funding to the Voluntary, Community and Social Enterprise sector. The consultation period will run for a 12 week period closing on 23 September 2016. Throughout the summer period the Department will engage with the sector to provide information on the proposals and encourage the sector and those with an interest to submit your views early.
55. The consultation document and supporting information will be provided via the Department's website and can also be found on NICVA and CO3's websites. The consultation document sets out a number of questions, and a proforma (Annex B) has been provided to aid the structure of responses. The Department would encourage you to submit your views in electronic format, but is content to receive views in a format that is preferred by you.
56. Should you require the consultation document in a different format, please contact the Department to organise this.
57. Contact Information:

Address: The Legacy Unit

Department of Justice

Massey House

Stormont Estate

Belfast BT4 3SX

Phone: (028) 9016 9555

Email: VCSEfunding@justice-ni.x.gsi.gov.uk

Website: <http://www.justice-ni.gov.uk>

Annex A

The Department established a Reference Group to assist it in the development of a new VCSE Funding system.

The Reference Group has and will continue to contribute to the policy and system's design, advise on the application of a new system and inform the transitional arrangements necessary to ensure continuity of service.

Membership of the Reference Group:

Brian Grzymek	DOJ (Chair)
Seamus McAleavey	NICVA
Nora Smith	CO3
Louise Cooper	DOJ
Veronica Holland	DOJ
Gary Wardrop	DOJ

Annex B**Consultation Response to Department of Justice: VCSE Funding Model****Name of Organisation:**

Consultation Question	Response
Do the policy aims behind the proposed funding system provide a robust approach to enabling the VCSE to deliver services which support and achieve key departmental objective?	
Will the new funding system better enable the Department to prioritise and direct available funding to key areas to be delivered by the VCSE?	
Will the new funding system provide greater opportunity for wider participation from the VCSE in the commissioning of services?	
Will the new system improve confidence in the consistency and transparency of how funding is awarded?	
Do you consider that embedding a culture of co-design in the new funding system will better harness the knowledge and skills of the VCSE and lead to the design and delivery of more effective services being delivered for the public?	
Do you consider that the use of Full Cost Recovery costing will provide greater opportunity for more VCSE organisations to compete for funding?	
Do you agree that the use of a Full Cost Recovery approach will promote greater understanding within VCSE of the costs involved with delivering specific projects, and therefore ensure VCSE organisations do not deliver services at a loss?	

<p>Will the incremental approach to implementation provide sufficient safeguards against negative impacts on VCSE organisations during the three year transitional period?</p>	
<p>Will the funding model provide equality of opportunity to all VCS bodies seeking to bid for funding?</p>	
<p>Do you envisage the implementation of a new funding model will negatively impact on any particular groups?</p>	
<p>Please provide other comments and views on the proposed new VCSE Funding System:</p>	

Email to: VCSEfunding@justice-ni.x.gsi.gov.uk

Annex C**Glossary of Terms****Outcomes Based Accountability**

Outcome Based Accountability (OBA) is a conceptual approach to planning services and assessing their performance that focuses on results (or outcomes) that the services are intended to achieve. It is a way of embedding outcome based decision making into planning, delivery and reporting for projects, groups and populations.

Outcomes Based Commissioning

Deciding how to use resources available to improve the outcomes for the service users in the most efficient, effective and sustainable way. The commissioning approach shifts the focus from measuring success based on numbers of users receiving services (process) to the outcomes the service achieves (impact).

Commissioning

The process of specifying, securing and monitoring services to meet identified needs. "The process of commissioning is fundamentally different from procurement or purchasing, which are functions not usually concerned with the identification and specification of outcomes, system design or the exploration of alternative service models." *Professor G L Sturgess, University of NSW. "Policy and Delivery: A paper for the National Commission of Audit". March 2014*

Grants

Funding made for specific purposes, paid on evidence of need or qualification, depending on the grant scheme.

"A financial transfer used to fund an activity that is in broad alignment with the funder's objectives." – *Improving Financial Relationships with the third sector: Guidance to funders and purchasers (HM Treasury - May 2006)*

Grant in Aid

Funding providing more general support, usually for a Non Departmental Public Body, with fewer specific, but more general controls on the body, and less oversight by the funder. Significant sums should be phased through the year in instalments designed to echo the recipient's expenditure pattern.

Core Funding

Grant in aid funding of a body for operating costs (include administrative overheads), which may include funding to enable it to develop, expand and deliver services that are broadly in line with the Department's aims and objectives.

Full Cost Recovery Funding

Full cost recovery means funding for all the costs involved in running a project or service. This will include funding for direct project costs and a proportion of the organisation's overheads.

Direct project costs are the costs that relate directly to a project.

Overheads are costs that partly support the project, but also support other projects or activities that the organisation provides. This can include a proportion of salaries of core staff such as administrators, rent, and utility costs (sometimes referred to as on-costs). <https://www.biglotteryfund.org.uk/funding/funding-guidance/applying-for-funding/full-cost-recovery>

Further definition is provided in: *Improving Financial Relationships with the third sector: Guidance to funders and purchasers (HM Treasury - May 2006)*

On-Costs

On-cost is an expense that can be traced directly to (or identified with) a specific cost centre or cost object, such as a department, process, or product. For example, a cost that an employer has when they employ someone, in addition to the cost of paying the person's salary or wages – on-costs include pension contributions and payroll tax.