

DECISION-MAKER:	CABINET
SUBJECT:	PROCESS FOR AWARDING GRANTS TO VOLUNTARY ORGANISATIONS FROM 2013/14
DATE OF DECISION:	12 MARCH 2012
REPORT OF:	CABINET MEMBER FOR HOUSING
STATEMENT OF CONFIDENTIALITY	
Not applicable	

BRIEF SUMMARY

This report seeks “in principle approval” to move from a traditional grants model to an outcome-based commissioned model to award grants from the Grants to Voluntary Organisations budget from 2013/14. It also makes recommendations in respect of the publication of “help in kind” such as nominal/peppercorn rents and discretionary rate relief that the council provides to the voluntary and community sector.

RECOMMENDATIONS:

- (i) To approve in principle, an outcome-based commissioned grants model to award longer term grants (2 or 3 years) from the Grants to Voluntary Organisations budget from 2013/14.
- (ii) To approve the annual publication of the value of “help in kind” contribution from the council to the voluntary and community sector from 2013/14.
- (iii) To delegate authority to the Director of Economic Development, following consultation with the Cabinet Member for Housing, to do anything necessary to give effect to the recommendations contained in this report.

REASONS FOR REPORT RECOMMENDATIONS

1. The recommendations detailed in this report will ensure that, in a time of reduced public sector funding, the council continues to have a fair, transparent and informed long term strategic decision making process in place to award grants to the voluntary and community sector. This will enable the council to ensure that council grants meet needs and strategic priorities, achieve best value for the residents of the city and provide greater access and stability for the voluntary and community sector (VCS) in Southampton.
2. The recommendations also ensure that the “help in kind” over and above grants that the council awards to the VCS is recognised and included in the overall total value of council support to the sector.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. The option of continuing the current open, competitive grant application process for awarding all grants from 2013/14 was supported by some consultation respondents (mainly those that are currently funded) but was rejected as it perpetuates the current annual short term decision making when the council needs to be making long term strategic decisions about its grant making process.

DETAIL (Including consultation carried out)

Background

4. Southampton City Council's current financial support to the voluntary and community sector is through the following main routes:
 - Allocating grants for core or project funding restricted to voluntary and community groups.
 - "Help in Kind" such as peppercorn/nominal rents and discretionary rate relief.
 - Activities and services over £100,000 are advertised and secured through a commissioned procurement process with tenders invited against detailed specifications. A contract is then awarded to the chosen provider, whether from the private, public or voluntary sector.
 - Activities and services between £10,000 and £100,000 are advertised and secured by purchase order having considered a minimum of 3 quotations.
 - Activities and services under £10,000 are secured by a purchase order against a single quotation.
5. On 23rd November 2009 Cabinet approved the continued use of grants as well as contracts and the use of the Grants Flowchart (Appendix 1) as a guide for officers to determine the most appropriate route. However, since then the difficult economic situation and reduction in public spending has resulted in huge pressures on council budgets. This, together with the increasing number of council contracts with grant aided voluntary organisations funded from service budgets, means that council needs to avoid potential duplication and achieve best value from each funding stream.
6. Following a review in 2009 changes were made to the grants process and some new grants were awarded in 2010/11. However a reduction in central government funding in the following year meant that the council had to manage a reduction to budgets including a reduction in its Grants to Voluntary Organisations budget (although at a lower percentage than many other councils). This resulted in no new grants being awarded and a number of grants being reduced or discontinued. Nonetheless, the council remains committed to opening up the Grants to Voluntary Organisations budget to new applications in future years. The council has protected the 2012/13 Grants to Voluntary Organisations budget. However, in light of the significant financial challenges faced by the council and the current economic situation the council will have to make difficult decisions in the coming years which may mean that the only way for the council to fund new applications in the future will be by reviewing some existing grants in line with changing priorities. This may result in some grants being reduced or discontinued in the future following appropriate consultation.
7. In order to consider how these various issues might be addressed Cabinet, at its meeting on 14th March 2011, delegated authority to officers "to conduct a review of whether it would be more appropriate to move towards commissioning and purchasing some of the services that are currently grant aided". The need to review current grant funding practice was also supported by responses to the stakeholder consultation undertaken in

August/September 2011 (to inform the decision on whether to roll forward 2011/12 grants into 2012/13).

8. Following consultation an officer delegated decision was taken on 27th October 2011 to
 - Suspend the grant application process for awarding grants from the corporate grants budget for 2012/13 and
 - Renew 2011/12 grants at current levels, excluding any paid notice, for a further year until 31st March 2013 subject to satisfactory monitoring
9. This provided stability for current grant aided organisations and ensured that there was sufficient time to review, develop and consult on options for the future allocation of grants and to give notice of and implement any changes for 2013/14 and beyond.

Outcome-based commissioned grants

10. This situation is not peculiar to Southampton and many other councils have reviewed or are reviewing their grant making practices. Some authorities (Westminster) have transferred most of their grants budget/s into their procurement budgets and outsourced small grants. However, others (Bristol, Isle of Wight) have moved to various hybrid models of outcome-based commissioned grants where the council clearly states, but does not specify in detail, what outcomes (linked to strategic priorities, plans and key areas of work) it wants to achieve and then requires applicants to demonstrate clearly how those outcomes will be achieved.
11. The main difference between this model and Southampton's current model is that it is proactive in what can be funded rather than reactive to requests for core or project funding that meet the organisation's rather than the council's identified needs and priorities. This approach allows for good ideas, new initiatives and innovation, but expects them to be in support of the outcomes the council wants to achieve.

Consultation

12. The council's current grant making process and practice has been in place for many years. Therefore stakeholders need to be informed of any significant changes over a 12 week consultation period. A consultation exercise (open to anyone who wished to participate) was therefore undertaken between 8th November 2011 and 3rd February 2012. Two meetings (one during the day and one in the evening) held at Southampton Voluntary Services (SVS) were attended by 46 people representing 35 voluntary organisations (28 currently funded and 18 not funded). The online consultation attracted 16 responses, 9 from voluntary and community organisations (8 funded and 1 unfunded), one from SVS as the umbrella body for the local voluntary sector and 6 from council staff and other statutory agencies.

Key findings of consultation

13. Most respondents agreed that outcome-based commissioned grants are a suitable way to allocate the budget, with a minority voicing reservations about the general principle. However, most felt that "the devil was in the detail" of the final process and raised many queries and concerns about how it would

work in practice. Consultation details, model and responses are attached at Appendix 2. Concerns expressed included

- the process could increase bureaucracy for both the voluntary sector and the council
- the process could be difficult for smaller organisations especially those without a dedicated fundraiser or paid staff
- Transfer of Undertakings (Protection of Employment) Regulations (TUPE) issues
- whether there is a need for change (for the most part raised by currently funded organisations)
- whether the model would result in some areas of an organisation's work not being funded

Suggestions for improvement included

- encouraging collaboration between voluntary organisations and joint applications
- consulting with and involving voluntary organisations in agreeing the outcomes against which grants will be funded as they have knowledge of the needs
- involving community representatives (residents) in the grant allocation process

14. Most council staff who responded agreed in principle with outcomes-based commissioned grants but raised concerns about

- whether the model would result in sufficient change or perpetuate the status quo
- increased workload

Suggestions for improvement included

- some long standing grant aided services should move to contracts
- the budget should be held by directorate grant appraisers/commissioners rather than corporately

15. In the light of these findings it is recommended that in principle an outcome-based commissioned grants model is adopted to award longer term (2 or 3 year) grants from the corporate Grants to Voluntary Organisations budget from 2013/14. These grants would take the form of 2 or 3 year funding agreements that would be subject to annual review in line with budget approvals.

Joint Integrated Commissioning

16. The council and Health have been working over a number of years in successfully commissioning jointly, on an integrated basis, services for particular groups of clients. These arrangements have included a number of joint funded commissioning posts and pooled budgets. This work with Health will be further strengthened by the integration of Public Health when these responsibilities transfer to Southampton City Council from April 2013. To maximise support to the voluntary and community sector at a time of reduced resources, it is proposed to explore opportunities with Health for developing a joint outcome-based commissioned model for grants to the voluntary and

community sector. A further report will be brought to Cabinet in June 2012 providing details of the final model and timescales for implementation.

“Help in Kind”

17. The council also supports the voluntary and community sector with “help in kind” such as nominal/peppercorn rents and rate relief. As this support is less visible than grants and contracts, Cabinet delegated authority on 14th March 2011 to progress work to establish the value of this “help in kind”.

Nominal/Peppercorn Rent

18. Local Authorities are required to obtain best consideration when disposing of land (including selling and leasing). However an exception can be made for amounts of less than £2M provided the following factors are formally considered when the decision is made:
- The purpose should be to secure the promotion or improvement of the economic, social or environmental well being of the area
 - The council must have robust and consistent decision making processes in place in order to regulate undervalue disposals
 - Clear and realistic professional valuation advice must be obtained to verify the actual amount of any proposed undervalue transaction
 - Consideration of accountability and fiduciary duty to local people
 - Consideration must be given to the Community Strategy
 - Compliance with all normal and prudent commercial practices
 - Compliance with State Aid Rules
19. Generally any decision to award a nominal/peppercorn rent is approved by Cabinet and the income is lost to the budget of the Portfolio with responsibility for the specific property in question. The circumstances under which they have been granted in the past include
- To retain a facility
 - To contribute to the regeneration of an area
 - To access external funding
 - To tenant an otherwise empty building
 - To support a volunteer run activity
 - To host a partner service
20. Some arrangements commenced many years ago and will continue for many years to come. Others are “holding over” i.e. the term has ended and the arrangement continues on a year by year basis. Responsibility for repair and maintenance can rest with either the tenant or the council.
21. Appendix 3 (based on a February 2010 Capita report) shows that 77 statutory, voluntary and community organisations rent council land and/or buildings at less than market value. The value of this support/loss of income to the council is estimated to be some £715,600 per annum (£720,000 market rent less the £4,400 peppercorn rent that is actually received). It must be emphasised that this is an estimate as there is no commercial demand for buildings such as museums and swimming pools hence a notional figure for

such properties has been included.

22. Six of the 77 organisations currently receive grants from the council whilst some others have contracts with the council. The grants to some voluntary and community organisations contribute to market rents paid to the council and other landlords.

Reviewing existing nominal/peppercorn rents

23. Should the council wish to review existing nominal/peppercorn rents, given the various different existing nominal/peppercorn rent lease arrangements and many voluntary and community organisations that currently benefit, any such review would need to be on a case by case basis.
24. The exception is for groups of similar organisations such as scouts/guides and community centres where a ‘best consideration’ determination would result in a consistent standard approach. These organisations are generally run entirely by volunteers and income from subscriptions, charges and fund-raising usually only covers running and activity costs but not market rents.
25. Work is underway to develop a standard nominal/peppercorn rent lease for these groups which will enable them to access external grants and funding and demonstrates the council’s support for such grassroots groups.
26. To review the other more disparate range of nominal/peppercorn rents requires an audit of individual leases to identify those where the income from any increased rent is likely to exceed the cost of renegotiating the lease. Furthermore, renegotiation may not be possible where a lease fixes the rent contractually for the whole of the term granted with no review provision as the lease holder would have no incentive to replace a nominal/peppercorn rent with a market rent.
27. Therefore the more realistic option is to review those leases that are “holding over” or have provision for renegotiation when they come up for renewal or reach a break clause and consider whether a full or partial market rent is appropriate. Where consideration is given to a market or increased rent it will be done in full consultation with the tenant involved.

Funding market rent from overall income

28. Whilst the council bears the full cost of nominal/peppercorn rents, some of the organisations that benefit are funded from various sources including earned income, contracts and grants from the council and other funders. One council is moving away from such rents by asking organisations to apportion their overheads including rent across all their income/funding streams. This means that the cost of rent is borne by all the funders, not just the council as the landlord. However, this is not recommended as an option as it is recognised that few funders fund on a full cost recovery basis and a nominal/peppercorn rent can often help an organisation to “lever in” other funding. .

Funding market rent from the Grants to Voluntary Organisations budget

29. The corporate grants budget is over subscribed and grants for market rents can only be awarded if other grants are reduced or the income from the market rent is credited to the budget. This “recycling” of budgets internally

would be bureaucratic and increase administration costs. Furthermore grants are usually awarded annually whilst leases cover a longer period leaving organisations and trustees with a long term expenditure commitment but no corresponding guaranteed income. This is not, therefore, recommended as an option.

Being transparent about nominal/peppercorn rents

30. A number of other local authorities continue to support organisations with nominal/peppercorn rents but make the support explicit and transparent by publishing a list of all organisations supported in this way. They also include the value of the support in their overall calculation of voluntary and community sector support. It is proposed that Southampton follows this practice and publishes a list of recipients and values of nominal/peppercorn rents from 2013/14.

Guidelines for considering nominal/peppercorn rents

31. Paragraph 19 details the circumstances under which nominal/peppercorn rents have been awarded in the past. To ensure that a consistent corporate approach is followed work has been undertaken to codify the guidelines currently applied by the council to requests for peppercorn or nominal rents. These guidelines are attached at Appendix 4 to this report. It should be noted that the Asset Transfer Policy that is currently being developed will need to be consistent with these guidelines. It will also be necessary to be clear about the impact of the new Community Right to Buy once the Government Regulations are published.

Rate Relief

32. The two elements of rate relief advertised on the council's website are mandatory and discretionary relief:
- 80% Mandatory Rate Relief - any registered charity is entitled to receive this and the cost is met by an allowance against a local authorities contribution to the National Non Domestic Rates (NNDR) pool. This means the only cost to the council is the administration cost. 206 registered charities (including schools and higher education establishments) receive this support to the value of some £6.6M.
33. There is a robust application process and criteria (based on national regulations) in place to determine which groups receive this support, administered by the council's Local Taxation Service (part of the Capita contract). Decisions in respect of Mandatory Rate Relief are clear cut in that an organisation is either a registered charity or not and the costs are mainly borne by central government. It is therefore in the Council's interests to encourage as many registered charities as possible to apply.
34. Discretionary Rate Relief - non-profit making organisations that are not registered charities but have charitable objectives can apply for up to 100% discretionary rate relief. Registered charities already in receipt of mandatory 80% relief can also apply for discretionary relief on the remaining 20%. 75% of discretionary relief is met by an allowance against a local authority's contribution to the NNDR pool and the remaining 25% is funded by the local authority. Therefore of the £57,000 awarded by the council in 2010/11

largely to sports groups £43,300 was funded from the NNDR and £14,500 by the council.

35. There is also a robust application process and criteria (based on national regulations) in place to determine which groups receive this support, also administered by the council's Local Taxation Service (part of the Capita contract). However, decisions in respect of Discretionary Rate Relief (made by the council's Revenue and Benefits Client Team Manager) are not so clear cut and with 25% of the cost falling to the council it is proposed that a review of groups that currently benefit is undertaken and that criteria for future applicants is strengthened. Notice of any changes would have to be given to existing recipients.
36. It is also proposed that the support provided by the council is made explicit and transparent by publishing a list of recipients and values of discretionary rate relief from 2013/14.

Housing Revenue Account (HRA)

37. On 14th March 2011 Cabinet delegated authority "to explore the possibility of additional grants being made available to voluntary organisations from the Housing Revenue Account (HRA) for activities of benefit to council tenants".
38. The HRA records all income and expenditure in relation to the provision and management of council owned homes in the city. Expenditure from the HRA must be linked directly to the Council's landlord function. Part II of Chapter 68 of the Housing Act 1985 enables a local authority to "provide in connection with the provision of housing accommodation by them such welfare services, that is to say, service for promoting the welfare of the persons for whom the accommodation is so provided, as accords with the needs of those persons".
39. The council already funds some welfare work/projects and contributes to some specific housing related grants from the HRA. Any new grant application can be considered for HRA funding using the criteria detailed in the paragraph above. Where it is appropriate to use HRA funding for new work or projects that contribute to the welfare of council tenants a case can be made so that the affordability to the HRA can be assessed and prioritised against other budget demands. Approval for the use of HRA funds in this way will be given by the Senior Manager, Housing Services in consultation with the Director of Environment. If it is decided to go ahead and allocate HRA funding in this way the budget can be transferred to the Grants for Voluntary Organisations cost centre within the General Fund.

Allocation of 2012/13 Reserve

40. On 13th February 2012 Cabinet approved the renewal of 2011/12 grants at current levels, excluding any paid notice, for a further year until 31st March 2013. Cabinet also delegated authority to the Manager of the Communities Team, following consultation with the Cabinet Member for Housing, to allocate the unallocated balance of £31,721 of the budget during 2012/13 as grants to voluntary organisations for crisis funding, exceptional projects or any ad hoc grant applications received during the year that meet the council's funding priorities. Officers are now finalising the criteria and application process for this reserve. Details of how voluntary organisations can register

an interest in this funding are currently available on the Grants and Funding pages of the council's website. Full details will be available in early April 2012.

RESOURCE IMPLICATIONS

Capital/Revenue

41. There are no capital implications contained within this report and any revenue implications will be contained within existing budgets.

Property/Other

42. The property implications in this report in respect of help in kind detailed in paragraphs 18-33 will not require any increased resources.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

43. The review of the grants process is undertaken in accordance with Section 1 of the Localism Act 2011. The exercise of this power is subject to any pre-commencement restrictions or prohibitions contained in the statutory powers used to award individual grants as detailed in Appendix 1 of the 2012/13 Grants to Voluntary Organisations report to Cabinet dated 13 February 2012.

Other Legal Implications:

Notice

44. In order to introduce the new model and comply with consultation and notice requirements it will be necessary to ensure that sufficient formal notice is given to currently funded organisations of the council's intention to end the current grant schemes. This will ensure no expectations of continuing grants and allow equal opportunity for voluntary organisations to apply for a grant whether currently funded or not.

45. The council recognises its equalities duties and in making decisions will pay due regard to the need to eliminate discrimination and promote equality and to undertake Integrated Impact Assessments (IIAs).

POLICY FRAMEWORK IMPLICATIONS

46. Grant recommendations relate to the relevant policy framework plans and the services provided by the grant-aided organisations will assist the council in meeting the overall aims of its policy framework including the objectives set out in the Southampton City Council Plan 2011-14.

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KEY DECISION? Yes

WARDS/COMMUNITIES AFFECTED:	All
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SUPPORTING DOCUMENTATION

Non-confidential appendices are in the Members' Rooms and can be accessed

on-line

Appendices

1.	Grants Flowchart
2.	Results of consultation on process for awarding Grants to Voluntary Organisations from 2013/14
3.	Analysis of Buildings Let at Less than Market Rent
4.	Guidelines for Awarding Nominal/Peppercorn Rent
5.	Integrated Impact Assessment (IIA), Stage 1

Documents In Members' Rooms

1.	None
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Integrated Impact Assessment

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	Yes, attached – Appendix 5
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Other Background Documents

Integrated Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
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1.	2011/12 Grants to Voluntary Organisations Report to Cabinet 14.3.2011	
2.	2012/13 Grants to Voluntary Organisations Report to Cabinet 1.8.2011	
3.	2012/13 Grants to Voluntary Organisations Delegated Officer Report 27.10.2011	
4.	2012/13 Grants to Voluntary Organisations Report to Cabinet 13.2.2012	