

Funding & Procurement Compact Code of Good Practice

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The Compact

The Compact is the agreement between the Government and the voluntary and community sector to improve their relationship for the benefit of each other and the communities they serve. It was published in 1998.

The Compact sets out:

- a shared vision and principles;
- undertakings from both sides;
- Government's commitment to respect the independence of the sector; and
- systems to help make sure that the agreement works.

The Compact has been supported by five codes of good practice, covering:

- funding and procurement;
- consultation and policy appraisal;
- volunteering;
- black and minority ethnic (BME) voluntary and community organisations; and
- community groups.

Local Compacts have been agreed in most areas to cover relations between local councils and other local public bodies and the voluntary and community sector.

The national codes of good practice inform local codes.

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Summary of undertakings

The voluntary and community sector undertakes to:

- respect confidentiality and be clear about whom they represent and how they came to their views when consulted on programme design;
- make sure that they are eligible when applying for grants;
- have clear lines of accountability, especially with joint bids;
- agree terms of delivery at the outset and be aware of risks which they are responsible for;
- have good systems in place to manage finances and funded projects, and account for them;
- be honest and transparent in reporting; and
- plan in good time for different situations to reduce any potential negative impact on both beneficiaries and the organisation if funding ends.

Government undertakes to:

- provide whenever possible an opportunity for the voluntary and community sector to contribute to programme design;
- ask for information on application forms which is relevant to deciding who will receive funding or be awarded the contract;
- discuss risks up-front and place responsibility with the public sector body or voluntary and community organisation best able to manage them;
- respect the independence of the sector;
- recognise it is legitimate for voluntary and community organisations to include the relevant element of overhead costs in their estimates for providing a particular service;
- with public procurement, avoid seeking information about management fees and overheads;
- make payments in advance of expenditure (where appropriate and necessary) in order to achieve better value for money;
- implement longer term funding arrangements where these represent good value for money;
- be proportionate in monitoring requirements and focus on outcomes;
- consider joining-up or standardising monitoring requirements; and
- give enough notice of the end of grants or contracts.

Introduction

Our shared vision

- 1.1** Both Government and the voluntary and community sector share a vision of a fair society, with strong communities and opportunity for everyone. The Government recognises that the voluntary and community sector can make a significant contribution to this vision. Many voluntary and community organisations enter into a financial relationship with Government to deliver outcomes on its behalf, either through grant funding or by supplying services purchased through public procurement.
- 1.2** It is important that the financial relationship is constructed in such a way that allows outcomes to be maximised. The achievement of outcomes can be supported if resources are released to frontline delivery and if organisations delivering them can continuously improve performance.

What the Funding and Procurement Code is

- 1.3** The current financial relationship does not always allow for the best possible outcomes to be achieved. This Code aims to influence behaviour in both the voluntary and community sector and Government to achieve this vision. The Code does this through:
- setting a framework for the financial relationship; and
 - setting out undertakings for both sides, based on what each can expect from the other.
- 1.4** The Code is based on agreed principles and guidance published elsewhere. It is consistent with the Government's duty to achieve value for money, principles in Government Accounting and European Union procurement law. Its principles and undertakings apply to both grants and contracts, but it is important to be aware that grant funding and public procurement operate under different detailed rules and the appropriate procedures should be understood and applied in each case.
- 1.5** The Compact builds relations that change how partners behave and work together. Programmes that are jointly designed or partnerships that are based on trust and mutual respect (see Appendix C) show a commitment to getting it right together for mutual advantage. This is a **Compact way of working**.

- 1.6** The aim of this Code is to contribute to a constructive dialogue to improve funding and procurement practice. The Code covers **how** programmes should be designed and delivered to achieve the vision above in the best possible way. It does not cover **what** is funded or **who** should be funded.

Who the Code is for

- 1.7** The Code is for everyone in England involved in public funding of the voluntary and community sector (including its social enterprise activity), whether distributing, applying for or receiving funding.
- 1.8** In Government, it is aimed at people developing programmes where voluntary and community organisations help deliver objectives, and at people administering these programmes, such as procurement or grant officers.
- 1.9** In the voluntary and community sector, it is aimed at people applying for or managing Government funding and contracts.
- 1.10** The Code should also influence practice in local government and local public sector bodies by informing the development and implementation of Local Compacts (see Appendix C).

How the Code is structured

- 1.11** The Code takes the reader through the funding and procurement process and includes design, delivery and conclusion of the financial relationship. Each chapter includes directions to more detailed information.

Principles

The following principles should apply at all stages of the financial relationship.

- **Focus on outcomes** – the achievement of outcomes should be used as a key indicator of the success of funding.
- **Simplicity and proportionality** – processes should be as simple as possible and in proportion to the amount of money involved.
- **Consistency and co-ordination** – funders and purchasers should endeavour to join-up or standardise parts of the funding or procurement chain to minimise burdens on organisations and ensure a focus on delivery.
- **Timeliness** – allowing time for planning, decision making and action so they have real effect.
- **Transparency and accountability** – allowing informed decisions about spending priorities to be made and for both Government and the sector to learn from previous work.
- **Discussion and dialogue** – this helps build trust and can identify and overcome problems before they impact on the delivery of outcomes.
- **Empathy** – understanding each other's needs and requirements should help avoid problems and help achieve outcomes.

2. Programme design

2.1 This chapter is about planning the best way of achieving intended outcomes.

What we are trying to achieve

2.2 Many Government programmes can achieve their intended outcomes by involving voluntary and community organisations in design. Well-designed programmes consider how the voluntary and community sector can work most effectively with Government and the long-term impact of sector involvement. Long-term impact is improved if those organisations have more certainty about their income.

The benefits for the voluntary and community sector

2.3 The voluntary and community sector benefits from good programme design. Programmes:

- are more relevant to the voluntary and community sector;
- allow organisations to effectively contribute to public policy objectives;
- maximise agreed outcomes; and
- allow organisations to grow and develop and become more effective in the long term.

The benefits for Government

2.4 Government benefits from good programme design by having programmes that:

- are defined and realistic, and can be delivered;
- are clear about the reasons why an organisation is receiving funding; and
- strengthen the voluntary and community sector supplier base and its ability to deliver in the long term.

What the voluntary and community sector needs to do to achieve this

2.5 The voluntary and community sector should contribute constructively to the design of programmes and focus their contribution on the needs of end users or beneficiaries. **The voluntary and community sector undertakes to respect confidentiality and to be clear about whom they represent and how they came to their views.**

2.6 Voluntary and community organisations should also consider what would happen if or when the financial relationship ends and plan for this at an early stage (see chapter 7).

What Government needs to do to achieve this

2.7 Government's financial relationship with voluntary and community organisations usually has one of three overall objectives:

- Project funding – to pay for a particular project or service, usually through a contract or grant.
- Development funding – to invest in new capacity or new organisations to develop their ability to contribute to public policy objectives, usually through a grant or loan. Loans range from commercial rate loans to “patient capital” which may include reduced rate or interest free loans and flexible payments terms.
- Strategic funding – to organisations recognised to be of strategic importance and whose work is considered to be significant, usually through a grant.

2.8 Longer term planning and financial arrangements often represent better value for money than one year agreements by providing greater financial stability and by reducing the amount of time and effort wasted on applying for new funds or renegotiating contracts. For grants, this includes roll-forward multi-year agreements.

2.9 **Government undertakes to provide whenever possible an opportunity for the voluntary and community sector to contribute to programme design.**

This should help identify:

- risks to delivery of programmes and how risks can be passed to the public sector body or voluntary and community organisation best able to deal with them;
- barriers to delivery (for example, unrealistic timeframes or slower development of delivery or demand in the early part of the programme);
- the optimum size of grants or contracts – by ensuring that sizes are small enough to help secure a diverse supply base and to allow smaller organisations to compete;
- which aspects of the programme would most benefit from voluntary and community sector involvement; and
- whether further guidance is needed to support distributors of Government funding and regional or local delivery agents, to ensure that they take on board the principles of this Code.

- 2.10** Programme design should also consider how the outcomes of the programme can best be sustained and contribute to long-term capability of voluntary and community organisations. This means making sure funding reflects the full cost of the service, including the legitimate portion of overhead costs (see Appendix D).

Partnerships

Many programmes are delivered through local partnerships. The growth of partnership programmes has been accompanied by a requirement for effective voluntary and community sector participation. Successful partnership programmes maximise delivery by investing in the process. Contributing to the partnership process for voluntary and community organisations takes time and resources, especially for those organisations that lack dedicated policy staff. In developing partnership programmes Government should consider:

- (1) **Funding** – meeting the specific costs of involvement in a new programme from the outset, including resources for the voluntary and community sector's infrastructure and capacity to keep pace with Government policy.
- (2) **Consultation** – consult early in the process and not just at the end.
- (3) **Time** – this should be adequate for both preparatory work and partnership building.

Where to look for further information

- Guidance to Funders – chapter 3
- Think Smart ... Think Voluntary Sector – sections 7, 8 and 9
- Consultation and Policy Appraisal Code
- Better Policy Making
- Compact Community Groups Code – chapter 4
- Compact Black and Minority Ethnic (BME) Voluntary and Community Organisations Code

3. Application and tender process

- 3.1 This chapter covers the process of inviting, applying for and assessing grant applications and tender bids and giving notice of decisions.

What we are trying to achieve

- 3.2 A well-managed application and tender process means that organisations best able to achieve the aims of a programme will apply. Well-managed processes mean that resources are focussed on delivering outcomes rather than on the application or tender process itself.

The benefits for the voluntary and community sector

- 3.3 A well-managed application or tender process allows the voluntary and community sector to access opportunities to deliver. If organisations have enough time to apply they will be able to make a well-informed and considered application or tender. They will also benefit from not having to spend disproportionate resources on application processes.

The benefits for Government

- 3.4 Government can know that the chosen organisation is the one best able to achieve the intended aims and that expenditure is focussed on achieving outcomes rather than the application process.

What the voluntary and community sector needs to do to achieve this

- 3.5 The sector needs to be aware of opportunities and should seek to understand the timescales and decision making process. When applying, **voluntary and community organisations undertake to make sure that they are eligible**; that their suggested work meets the aims of the programme; and that they understand the requirements.
- 3.6 The voluntary and community sector recognises that there are competing demands for public spending and that there may be more organisations applying than money available. The sector recognises that the final decision is the funder's. **Voluntary and community organisations undertake to have clear lines of accountability, especially with joint bids** and will properly allocate costs so that full cost recovery can be achieved (see Appendix D).

What Government needs to do to achieve this

- 3.7** Government should promote opportunities widely and consider proactive approaches to encourage organisations to apply or become suppliers. A proactive approach may be particularly important for voluntary and community organisations who may not have applied for funding in the past, including black and minority ethnic organisations, faith groups and community groups. Organisations should have enough time to respond, particularly to larger pieces of work or those involving joint working (for example, consortium bids).
- 3.8** Information and forms should be clear and accessible and include all relevant information so that voluntary and community organisations can make an informed decision about whether to apply. The process should be proportionate to the amount of money available. Departments and Agencies should consider using standard questions or seek to co-ordinate application forms.
- 3.9** **Government undertakes to ask for information on application forms which is relevant to deciding who will receive funding or be awarded the contract.** Forms should include a contact person for enquiries.
- 3.10** Assessment needs to **recognise it is legitimate for voluntary and community organisations to include the relevant element of overhead costs in their estimates for providing a particular service.** With procurement, voluntary and community organisations cannot be given preferential treatment but are entitled to decide their own price in competition. Contracts should be awarded on the basis of value for money. Purchasers should avoid seeking information about management fees and overheads but do not have to accept bids if they are not satisfied that they offer value for money.
- 3.11** Applicants should be kept informed of the process. Notification of decisions needs to be timely and give adequate notice in advance of the expected date of setting up provision. This should be at least three months for new programmes. Smaller organisations or those newer to delivery will need longer notice. Feedback on the reasons for decisions should be provided.

Where to look for further information

- Guidance to Funders – chapter 4 (Wider Funding Context)
- Think Smart ... Think Voluntary Sector – sections 7, 9, 10, 11, 12 and 13
- Getting Better Delivery
- Compact Community Groups Code
- Compact Black and Minority Ethnic Voluntary and Community Organisations Code

4. Agreeing terms of delivery

- 4.1 This chapter is about agreeing outputs and outcomes and the appropriate designation of risk in funding agreements.

What we are trying to achieve

- 4.2 Effective terms of delivery assign risk in such a way that positive incentives are created, thereby ensuring that the best possible outcomes are achieved.

The benefits for the voluntary and community sector

- 4.3 Effective terms of delivery give clear expectations of what is to be delivered and by when, so organisations can plan and deliver effectively. The sector benefits from having terms of delivery that are proportionate, thereby allowing a focus on the outputs or outcomes to be achieved. They also ensure the sector is responsible for the risks that it can manage.

The benefits for Government

- 4.4 Effective terms of delivery ensure that the best possible outcomes and outputs are achieved for the amount given. Risks need to be recognised and understood, agreed, and placed with the public sector body or voluntary and community organisation best able to manage them. Effective terms of delivery also contribute towards developing an effective working relationship with the funded organisation.

What the voluntary and community sector needs to do to achieve this

- 4.5 **Voluntary and community organisations should seek to agree terms of delivery at the outset and be aware of the risks which they are responsible for, in particular, the risks associated with the delivery of outputs or outcomes.**
- 4.6 The voluntary and community sector recognises it is legitimate for grant funders to ask for public recognition of their funding by funded organisations in appropriate circumstances.

What Government needs to do to achieve this

- 4.7** The Government undertakes to explain and agree terms of delivery (such as success and performance criteria) with the voluntary and community organisation before the contract or funding agreement is entered into. This should include the actions that will be taken if the voluntary and community organisation is failing to deliver. Departments and Agencies should be sensitive to the impact which changes in the contract can have. They should ensure that there is a simple and pre-agreed process for controlling change and that account is taken of comments from the voluntary and community organisation on the changes required.
- 4.8** **The Government undertakes to discuss risks up-front and place responsibility with the public sector body or voluntary and community organisation best able to manage them.** In particular, Government should consider and address the risks associated with the demand for a particular service.
- 4.9** Intended outcomes should be kept in mind and conditions must relate to achieving these outcomes. Terms of delivery should be broadly consistent across Government and in proportion to the size of the grant or contract.

Where to look for further information

- Guidance to Funders – chapter 2, page 15 (“Bringing It All Together”)
- Think Smart ... Think Voluntary Sector – section 17
- Good Grant Making Practice
- Managing Risks with Delivery Partners

5. Agreeing payment terms

- 5.1 This chapter is about the arrangements for the payment of grants or for work under contract.

What we are trying to achieve

- 5.2 Payment terms that allow the service to be funded in the most effective way so that the best possible long-term outcomes are achieved.

The benefits for the voluntary and community sector

- 5.3 The sector benefits by being able to deliver the best possible service for beneficiaries. It also allows them to plan and develop for the future so they can improve the way they deliver services.

The benefits for Government

- 5.4 Government benefits from payment terms that enable organisations to develop, which in turn helps ensure there is a continued wide range of potential suppliers and helps develop effective working relationships. Sensible payment terms help the stability of voluntary and community organisations and create positive incentives to perform.

What the voluntary and community sector needs to do to achieve this

- 5.5 **The voluntary and community sector undertakes to have good systems in place to manage finances and funded projects, and account for them.** Voluntary and community organisations should agree a clear understanding about payment terms, including the treatment of underspends in grants.

What Government needs to do to achieve this

- 5.6 Government will consider the timing of payments to create the right incentives for delivery. **Government undertakes that payments to voluntary and community organisations can and should (where appropriate and necessary) be made in advance of expenditure, rather than in arrears, in order to achieve better value for money.** Departments and Agencies should agree a clear understanding with the provider about the treatment of underspends in grants.
- 5.7 **Government undertakes to implement longer term financial arrangements when these represent good value for money.** Government has introduced three-year settlements for both Departments and Local Authorities – the rationale for three-year settlements applies equally for voluntary and community organisations.

5.8 Departments and Agencies should make payments on time (in line with the Late Payment of Commercial Debts Act, which covers contracts, and the Better Payments Practice Code).

Where to look for further information

- Guidance to Funders – chapters 1, 2 and 3
- Think Smart ... Think Voluntary Sector – section 14
- Getting Better Delivery
- Better Payment Practice Code

6. Agreeing monitoring and reporting

- 6.1** This chapter is about ensuring that the voluntary and community organisation is delivering agreed outputs and contributing towards meeting intended outcomes within a process that allows resources to be focused on frontline delivery.

What we are trying to achieve

- 6.2** Effective monitoring focuses on outcomes, is proportionate and not burdensome, and ensures transparency about the use of funds and what they have achieved.

The benefits for the voluntary and community sector

- 6.3** The voluntary and community sector benefits from a focus on outcomes rather than spending time on unnecessary reporting. Good management information allows the provider to respond to changes or problems and to build a trusting relationship with the funder or purchaser.

The benefits for Government

- 6.4** Government benefits from assurance that it is getting value for money from its expenditure. Government also benefits from a good relationship with the voluntary and community organisation. A good relationship with effective agreed monitoring will help make sure information is shared at an early stage if there are changes or problems. Monitoring and reporting also provides information that is useful for the planning and development of public policy, drawing on evidence from existing or past programmes.

What the voluntary and community sector needs to do to achieve this

- 6.5** **The voluntary and community sector undertakes to be honest and transparent in reporting.** It recognises that public accountability inevitably requires some level of reporting. Voluntary and community organisations will give early notice of budget and delivery progress (for example, if there are likely to be underspends in grants).

What Government needs to do to achieve this

6.6 Government undertakes to be proportionate (to size of funding, size of provider and perceived risk) in monitoring requirements and to focus on outcomes.

6.7 Government will consider joining-up or standardising monitoring requirements so organisations that receive funding from a number of sources, and funders themselves, are not overburdened. Monitoring should only include information that is needed or will be used to assess performance. Before the grant agreement or contract is signed, Departments and Agencies should discuss with the provider the information that will be required. Discussion will also help in agreeing how to monitor outcomes. Departments and Agencies should consider what to do if there is likely to be a failure to meet delivery targets and how intended outcomes might be met in other ways.

Where to look for further information

- Guidance to Funders – chapter 4
- Think Smart ... Think Voluntary Sector – section 17
- Getting Better Delivery
- Good Grant Making Practice

7. Concluding a financial relationship

7.1 This chapter is about managing the conclusion of a financial relationship. It includes when:

- the grant or contract finishes;
- funding ends earlier than the intended closure where delivery targets are not met; and
- funding ends as a result of a review of strategic or development funding.

What we are trying to achieve

7.2 A well-managed process minimises negative impact on beneficiaries, the provider organisation's long-term stability and the relationship between the funder and the organisations receiving funding.

The benefits for the voluntary and community sector

7.3 A well-managed process minimises the impact of the conclusion of a financial relationship and helps organisations to prepare contingency plans and identify potential alternative income. This will enable beneficiaries' needs to be met and ensure that organisations adhere to their duties as good employers (for example, by giving adequate redundancy periods). A well-managed process will also support the long-term stability and sustainability of organisations.

The benefits for Government

7.4 Government benefits from minimising any potential impact on beneficiaries. Government also benefits from maintaining good working relations with voluntary and community organisations so that they can continue to have a constructive relationship beyond the particulars of the grant or contract. The long-term stability of the sector benefits Government in that voluntary and community organisations can continue to make an effective contribution to the achievement of public policy objectives.

What the voluntary and community sector needs to do to achieve this

7.5 The voluntary and community sector recognises that funding may end as priorities change or if outcomes are not delivered. **The sector undertakes to plan in good time for different situations to reduce any potential negative impact on both beneficiaries and the organisation.**

What Government needs to do to achieve this

- 7.6 Government undertakes to give enough notice of the end of grants or contracts.** This should be a minimum of three months. This helps voluntary and community organisations fulfil their duties as good employers and prepare alternative plans. Notices will give the reasons for the end of the funding agreement or contract and allow the provider organisation to respond to proposals to change or end an arrangement.
- 7.7** If a voluntary and community organisation is not meeting targets, Departments and Agencies should first discuss with the organisation what action can be taken to improve delivery (for example, the possibility of a revised action plan). Should performance not improve and the effective use of public funding be at risk, it is legitimate for funding to be withdrawn or the contract terminated early. Departments and Agencies should consider how the original outcomes might alternatively be met.

Where to look for further information

- Guidance to Funders – chapter 4
- Think Smart ... Think Voluntary Sector
- Compact Black and Minority Ethnic Voluntary and Community Organisations Code – chapter 6

8. Taking the Code forward

- 8.1** The voluntary and community sector's Compact Working Group will put this Code into practice in partnership with Government. The Code applies to voluntary and community organisations in England¹ as recipients of Government funding and payments for the delivery of services. The Compact Working Group will promote the Code to voluntary and community organisations so that they know, use, understand and follow its undertakings and recommendations.
- 8.2** The Code applies in England² to all central Government Departments; 'Next Steps' Executive Agencies; Non Departmental Public Bodies; Government Offices for the Regions; Regional Development Agencies; National Lottery distributors; and agencies contracted to distribute Government funds to the voluntary and community sector. Departmental Compact champions and voluntary and community sector liaison officers will advance the Code in Government. Government will promote this Code as good practice for all funders and make suitable mention of it alongside the Compact and Local Compacts in relevant publications and communications.
- 8.3** Local government and local public sector bodies are expected to take appropriate notice of the principles of this Code as recommended best practice in their work. This Code should inform the development and implementation of Local Compacts (through local codes of good practice on funding and procurement).
- 8.4** The Compact Annual Review Meeting will review progress on use and implementation of the Code. This will draw on Departments' own reporting for the meeting and the survey of the voluntary and community sector carried out by the Compact Working Group. The Compact Annual Review Meeting agrees the Joint Action Plan for the Compact. This sets out targets to achieve full implementation of the Compact and Code in Government and the sector. Copies of the Annual Report and Action Plan are available from the Active Communities Directorate in the Home Office (www.activecommunities.homeoffice.gov.uk) or the Compact Working Group (www.thecompact.org.uk). A key implementation test for the voluntary and community sector will be awareness of the Compact and Code, reported through the Compact Working Group's Annual Sector Survey. The 2004/2005 Compact Action Plan calls on Departments to report on implementing good practice in funding and procurement. The Home Office's State of the Sector Panel will also report on evidence of improvements in funding and procurement practice.

¹ Separate Compacts apply in Wales, Scotland and Northern Ireland.

² Separate Compacts apply in Wales, Scotland and Northern Ireland.

8.5 The Compact sets out a general framework for improving the relationship between Government and the voluntary and community sector. As far as possible, disagreements over the application of that framework should be resolved by both sides. To assist this process, if both sides agree, mediation may be a useful way to try to reach agreement, in line with the Government's commitment to use alternative dispute resolution methods. The Compact Mediation Scheme is available to help in these situations. Where behaviour which contravenes this framework constitutes maladministration, a complaint may be brought to the Parliamentary Ombudsman in the usual way. Cases involving Local Government may be referred to the Local Government Ombudsman.

Understanding the voluntary and community sector

- A1** The public sector provides £6.6 billion of the voluntary and community sector's annual income³ (of which black and minority ethnic groups receive about 3%). This income helps the sector play a full role in society, including:
- using their expertise to inform and implement Government policy;
 - promoting equality and social cohesion, reducing poverty and improving the quality of life;
 - building social capital, which includes developing, supporting and empowering service users, volunteers and communities;
 - providing opportunities for voluntary action and enabling individuals to participate in public life;
 - devising cost-effective solutions to intractable social problems;
 - identifying new needs and better ways of meeting existing ones including risk-bearing innovation and pioneering models for different or specialised services;
 - providing high quality services complementary or additional to public services; and
 - delivering public services on behalf of Government and public sector bodies, often in a less bureaucratic but more responsive and cost-effective way than other sectors.
- A2** Much of the “added value” of the voluntary and community sector (as outlined above) depends on its independence. Recognition of the voluntary and community sector's independence is therefore the cornerstone of the Compact. It is important that people in Government working with voluntary and community organisations understand that independence and what it means in practice when funding organisations to carry out work. Departments and Agencies should consider how to improve understanding of the voluntary and community sector – for example, through training, briefings, guidance and review of current practice.

³ Figure for England only. From the UK Voluntary Sector Almanac, NCVO, 2004

Voluntary and community sector infrastructure

A3 National, regional and local infrastructure is vital for the sector to be effective and achieve its full potential. It underpins good governance and trusteeship, skills development and performance improvement. It provides the information, advice, training and other support needed to enable voluntary and community organisations to carry out the work that they do, participate in partnerships and networks and engage with Government and public bodies. It builds capacity by enhancing the sector's knowledge, structures and resources. Infrastructure funding needs include the black and minority ethnic and community sectors, faith groups, rural areas, volunteering, and Local Compact development.

Understanding Government and Government Accounting – types of payment, procurement and European Union rules

Government Accounting

- B1** Government Accounting provides guidance on how to use and account for public funds. The advice Government Accounting contains falls into three broad categories:
- parliamentary requirements;
 - Treasury administrative controls; and
 - best practice.
- B2** Government Accounting should be interpreted as setting both the high-level controls and requirements public sector bodies should follow, and the general principles needed to help protect public funds from misuse, promote good practice and achieve value for money for the taxpayer, whilst allowing a degree of flexibility within this overall framework to achieve these ends through the most sensible means.
- B3** Government Departments must ensure that the money allocated to them is spent in a proper and effective way. They need to be satisfied that the organisations they fund have in place appropriate controls to support this requirement. There are three main principles in Government Accounting which should enable funding bodies to meet that requirement:
- regularity: ensuring that funds are awarded and used only for authorised purposes;
 - propriety: ensuring that funds are awarded fairly and free from undue influence; and
 - value for money: ensuring that funds are spent in a way that minimises costs; maximises outputs; and achieves intended outcomes.
- B4** In order to maximise value for money, funding bodies should consider the following when assessing the level and scope of controls required:
- proportionality;
 - well-managed risk taking; and
 - attention to outcomes.

Type of payment

- B5** This document is applicable to payments made as a result of contracts as well as grants and grants-in-aid. *Guidance to Funders* set out a basic summary of the main types of payments an organisation can receive including contracts, grants and grants-in-aid.
- B6** The National Audit Office study of Government Funding of the Voluntary and Community Sector will examine Departmental progress in implementing the 2002 Treasury Cross-Cutting Review *The Role of the Voluntary and Community Sector in Service Delivery*. The study will consider funding arrangements for the sector and will look at the complex boundaries between grants, grants-in-aid, contracts, procurement and service level agreements. Publication is expected in the summer of 2005.

Procurement

- B7** European Union procurement rules set out procedures for awarding contracts above certain values. Their purpose is to open up the public procurement market and to ensure the free movement of goods and services within the European Union, thereby increasing opportunities for competitive suppliers, contractors and service-providers. The Office of Government Commerce is responsible for procurement policy. Each Department is subject to European Union procurement rules and responsible and accountable for achieving value for money.

The local dimension

Policy on Local Compacts

- C1** When the Compact was published in 1998 it contained a joint commitment for its extension to local level. The Treasury Cross Cutting Review (2002) and Compact Annual Reports to Parliament (2003 and 2004) set out action directed at all local authority areas agreeing Local Compacts, building on the reality that most had already published or were developing one. The first edition of this Code was influential at local level, paving the way for this revised Code to help improve funding arrangements as an important part of continuing effective Local Compact development throughout England.
- C2** The Government and the Compact Working Group will encourage local public bodies to adopt and adapt this Code together with the Compact and its other Codes. They expect individual Local Compacts and their associated local funding codes broadly to reflect the values, standards and ethos of this Code. External inspectors and regulators should recognise this as the default Funding Code for areas yet to agree their own.

Compact engagement for the whole sector – nationally and locally

- C3** While the Compact is an agreement between the whole voluntary and community sector and national Government, most of the sector operates locally where funded organisations (including both infrastructure and service providers) often look to local public bodies for their basic support. Much of this funding is initially allocated by the Treasury through Government Departments. Central Government funders should look to this Code when considering their own guidance covering the administration of such funding by other bodies.

Significance of local funding levels

- C4** This appendix should inform local authorities when jointly reviewing the adequacy and financial durability of sector infrastructure as part of their best value exercises on voluntary and community sector support. Local infrastructure generally has failed to keep pace with partnership growth and this impinges on the sector's capacity to engage with national Government on policy or participate in Government programmes (see *ChangeUp*, Home Office 2004). Local Compacts (especially countywide Compacts) should address how local public bodies share this funding responsibility.

Local Partnerships

- C5** Local Partnerships are often the interface between national Government programmes and local statutory and voluntary agencies. Effective local partnerships should include the following characteristics:
- partnership boards include an adequate number of supported sector representatives appointed by mainstream, black and minority ethnic, faith and community organisations;
 - relationships between partners are based on trust and mutual respect, valuing what each brings to the partnership, and supported by leadership that enables rather than controls;
 - good governance including jointly agreed, open and accessible processes and procedures with effective mechanisms for treating all partners equally, including sharing roles, joint decision-making, addressing concerns raised and managing conflict resolution positively;
 - clear policies and procedures equally applied to manage potential conflicts of interest;
 - considering regularly whether allocations from funds deployed by the partnership are fair and adequate and allow voluntary and community groups to run projects;
 - collective accountability of all partners to a range of stakeholders including the community, ensuring members and staff of all partner organisations are kept informed;
 - using Local Compacts as a tool to underpin good partnership working;
 - annual review of how the partnership itself is working (and not just the outcomes) linked to an annual public interactive meeting; and
 - investment in partnership building including joint training and continuing Local Compact development. Local Strategic Partnerships should ensure that Local Compact development and partnership building is properly resourced. All public bodies should share the cost and include contributions in partnerships' spending plans and applications for Government funding programmes. The voluntary and community sector should contribute a package of support in kind, for instance, time, expertise, and use of network and community links.

Funding the full cost of work

- D1** The purpose of this appendix is to set out the principles for full cost recovery for voluntary and community organisations, in line with the conclusions of HM Treasury's cross-cutting review of the role of voluntary and community organisations in public service delivery. This review concluded that it is legitimate for these organisations to include the relevant element of overheads in their cost estimates for providing services and outputs.
- D2** All organisations in the public, private and voluntary and community sectors have indirect overhead as well as direct costs associated with the delivery of goods and services. To operate efficiently and effectively, voluntary and community organisations must be able to understand all their costs including indirect and support costs. No activity can be undertaken without the need for support functions, and funding bodies have an interest in ensuring that organisations are able to manage and administer activities properly.
- D3** The key reason for the lack of 'core funding' within the voluntary and community sector is that debate has historically and typically been based on a false principle that 'core' costs are somehow unrelated to an organisation's 'real work.' Many funders have traditionally paid only for the marginal costs of the services they are seeking. But if funders follow this practice, necessary overhead costs cannot be met, or are met from donations and other sources of income which were not intended for this purpose.
- D4** It is important therefore that funders agree to meet the full cost of services, including the overheads that relate to the activities they have commissioned. HM Treasury and the Home Office will be issuing a revised version of *Guidance to Funders* to help public sector funders identify relevant overhead costs and encourage efficiency by voluntary and community organisations.
- D5** The methodology chosen by voluntary and community organisations to allocate relevant overhead costs should follow these principles:
- the method should be simple. Both funders and service providers should be able to calculate the amounts without disproportionate resource;
 - the method should be equitable between providers where there are several funders of different services; and
 - the costs should be recovered only once. So where for example a funder provides a grant specifically for core costs, those costs should not be taken into account when calculating the amounts due from other funders.

D6 Many voluntary and community organisations use an arbitrary fixed percentage core cost add-on to the direct costs of the service. Whilst this has the appeal of simplicity, and is appropriate in some circumstances, there can be some risks. Arbitrary fixed percentages can be driven by what the funded organisation thinks it can ‘get away with’ and can lead to true costs being underestimated. If voluntary and community organisations clearly calculate and allocate their direct and overhead costs to projects, these problems can be avoided. Guidance is available to the voluntary and community sector on ways to achieve this (see Appendix E for further information).

Further information

Guidance to Funders: Improving funding relationships for voluntary and community organisations

Author: HM Treasury

Date: 2003 (to be updated in 2005 to include information about full cost recovery)

Link: www.hm-treasury.gov.uk/spending_review/spend_ccr/spend_ccr_guidance.cfm

Think Smart ... Think Voluntary Sector: Good Practice Guidance on Procurement of Services from the Voluntary and Community Sector

Author: Office for Government Commerce and Home Office

Date: 2004

Link: www.homeoffice.gov.uk/comrace/active/funding/index.html

The Compact on Relations between Government and the Voluntary and Community Sector in England (and Codes of Good Practice on Consultation, Volunteering, Black and Minority Ethnic Sector and Community Organisations)

Author: Compact Working Group and Home Office

Date: 1998 (and 2000–2004)

Link: www.thecompact.org.uk

Getting Better Delivery: Guidance for Effective Working with Frontline Providers

Author: Department for Education and Skills

Date: 2003

Link: www.dfes.gov.uk

Good Grant Making

Author: Association of Charitable Foundations

Date: 1997

Link: www.acf.org.uk/public_print/trusts_guidelines.htm

ABI Guidance to Departments: Guidance on the design and co-ordination of area based initiatives and local partnership based programmes

Author: Regional Co-ordination Unit, ODPM

Date: September 2003

Link: www.rcu.gov.uk/abi

Government Accounting

Author: HM Treasury

Date: Updated 2003

Link: www.government-accounting.gov.uk

Full cost recovery: A guide and toolkit on cost allocation

Author: Association of Chief Executives of Voluntary Organisations

Date: 2004

Link: www.acevo.org.uk/main/publications.php?content=pubcatalog

Better Policy Making

Author: Centre for Management and Policy Studies, Cabinet Office

Date: 2001

Link: www.cmps.gov.uk/publications/downloads/better_policy_making.pdf

Better Payment Practice Code

Author: Better Payment Practice Group

Date: 1998

Link: www.payontime.co.uk/downloads/download_bpp.html

Managing risks with delivery partners: A guide for those working together to deliver better public services

Author: Office of Government Commerce and HM Treasury

Date: 2004

Link: www.ogc.gov.uk/sdtkdev/new_content/ManagingRisksDeliveryPartners.pdf

This publication is available on the Compact website at
www.thecompact.org.uk

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