

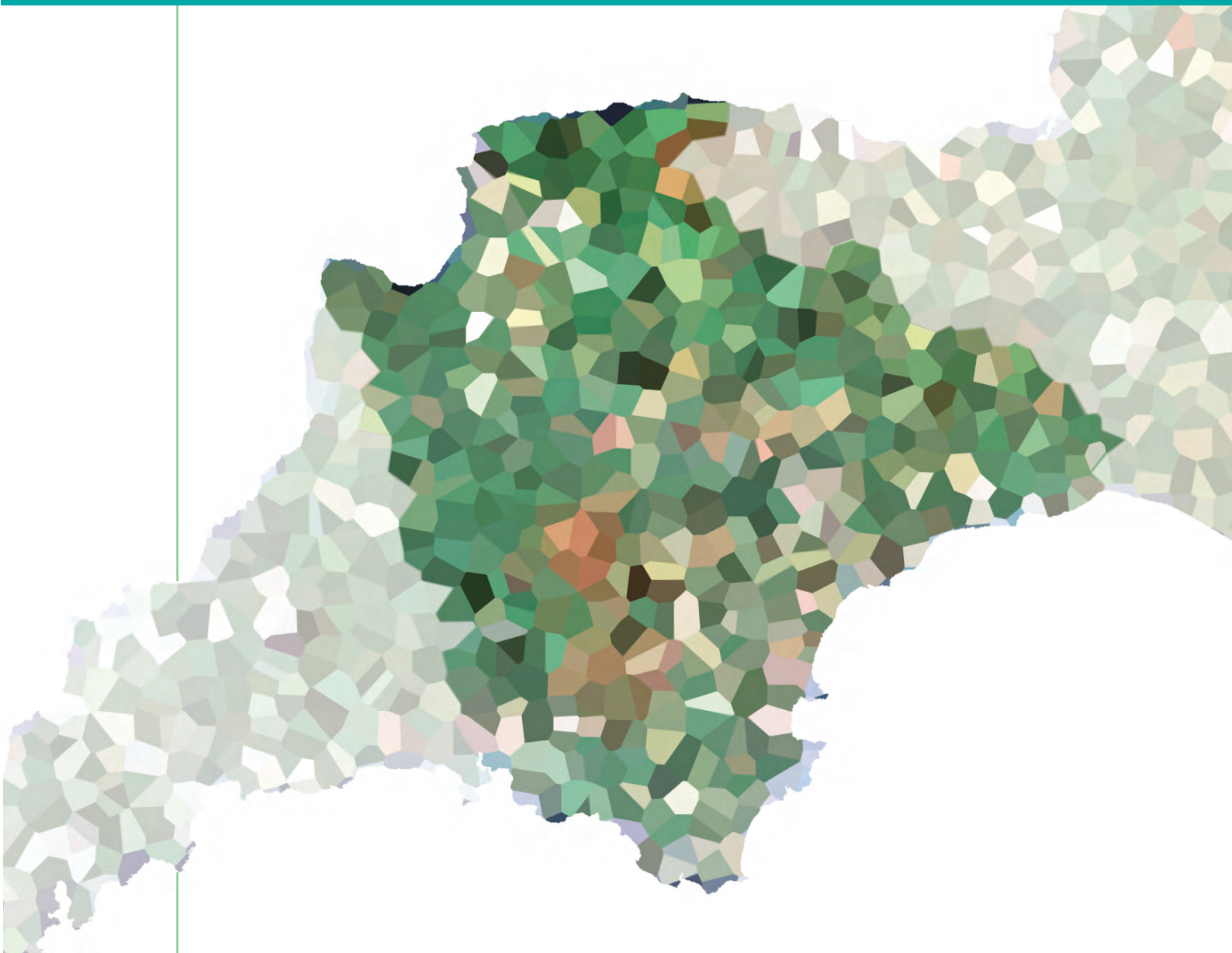


A Compact for Devon

Funding and Procurement

Code of Good Practice

November 2006



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Compact for Devon

The Compact is the agreement between the Statutory Sector (including Devon County Council, District Councils, Primary Care Trusts, now the Devon Primary Care Trust, other Healthcare Trusts, Connexions, Police, etc.) and the Voluntary and Community Sector, to improve and develop their relationship for the benefit of each other and the communities they serve. It was revised in 2005. For further details contact www.dacvs.org.uk.

The Compact sets out:

- A shared vision and principles.
- Actions from both sides.
- The Statutory Sectors' commitment to respect the independence of the Voluntary and Community Sector, and
- Systems to help make sure that the agreement works.

The Compact is to be supported by six codes of good practice covering:

- Funding and Procurement
- Volunteering
- Equality and Diversity
- Consultation and Involvement
- Community Groups
- Partnership

The Funding and Procurement Code, the Volunteering Code and the Equality and Diversity Code were published in November 2006. The other three Codes are planned for 2007. The Compact is informed by the Codes of Practice and together form Devon's agreed approach to Partnership working. None of the documents should be taken in isolation.

Local Compacts have been agreed in most areas to cover relations between local councils, other local public bodies and the voluntary and community sector. The Compact for Devon and this Code of Practice are informed by the national Compact on Relations between Government and the Voluntary and Community Sector in England (Home Office, 1998), a national code of good practice and numerous Codes from other places. For more information go to www.thecompact.org.uk or www.homeoffice.gov.uk. The Volunteering Code is also informed by the Working Together for Devon Code of Practice on Volunteering and Community Action.

The Compact for Devon and its Codes of Good Practice have been developed by the Devon Compact Hub, whose representation stretches across the diverse range of organisations (both voluntary & community and statutory) in the County. Individuals from organisations across the spectrum of the sectors took part in the consultation on the draft documents in a variety of ways including:

- Working groups
- Voluntary sector forums
- Postal/email questionnaires
- Local Strategic Partnership meetings
- Internal organisation meetings

Implementation of the Compact and its Codes of Practice is the responsibility of each organisation. The Compact Hub sees the Compact and its codes as living documents that will be used as the basis of continued partnership working between the two sectors.

The Devon Compact Hub is responsible for carrying out regular monitoring and an annual review of the Compact for Devon and its Codes of Good Practice. For a list of Compact Champions and their contact details please go to www.dacvs.org.uk or telephone 01392 202057.

Rurality

The Compact for Devon recognises the issue of rurality and the impact that this has on providing services in rural areas.



Good Practice Checklist

- New Contracts need to comply with the Compact and its Codes of Practice. Existing contracts need to be made compliant at the next review.
- Specifications or funding agreements need to clearly state agreed arrangements covering:
 - what is to be delivered and by when (focusing on outcomes)
 - payment arrangements (payment in advance where possible)
 - how underspends will be treated
 - risks and how these are to be managed
 - what happens if outcomes or objectives are not being met
 - what happens if the funding
 - ▶ ends early
 - ▶ ends on time
 - ▶ is extended
 - appropriate monitoring and reporting arrangements – which are not burdensome. VCS organisations undertake to report with honesty, transparency and timeliness
 - if funding is given by a partnership, what happens if one of the partners withdraws funding?
- Funding arrangements or specifications should be longer term where possible.
- As soon as it is known that cuts are possible, the VCS should be consulted about priorities.
- Where VCS organisations represent the sector in partnership working they need to be remunerated for time and expenses.
- Clarity and agreement at the beginning of the process reduces the capacity for misunderstanding and disagreement later.
- Grants and contracts should be costed according to the principle of Full Cost Recovery (see Appendix, page 19).
- Statutory organisations need to promote funding opportunities widely and pro actively to ensure VCS organisations have equal opportunity to apply. However, where services are working well, consistency in funding avoids unnecessary applications and gives better value for money.
- An on-going dialogue throughout the period of the funding arrangements should allow any problems to be highlighted early.
- The minimum notice period for the end of the contract or funding arrangements should be three months (other than in exceptional circumstances).
- Clear reasons for the early ending of funding agreements should be given.

1 Introduction

1.1 Our shared vision

The statutory agencies and voluntary and community sector organisations all share a vision of a fair society, with strong communities and opportunity for all. The agencies recognise 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 the agencies to deliver outputs or outcomes on their behalf, either through grant funding or by supplying services purchased through procurement processes.

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 those delivering them can continuously improve performance. The emphasis of this document is on a more open and mature relationship between funders and service providers – prioritising communication and consultation.

1.2 What the Funding and Procurement Code is

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

This Code:

- Sets a framework for the financial relationship
- Sets out undertakings for both partners, based on what each partner can expect from the other

This Code is based on agreed principles and guidance. It is consistent with the public agencies' duty to achieve value for money, and the principles in Government Accounting and EU procurement law (see Appendix). Whilst its principles and undertakings apply to both grants and contracts, it is important to be aware that grant funding and public procurement operate under different rules and the appropriate procedures should be understood and applied in each case.

1.3 Who the Code is for

The Code is for everyone in Devon involved in public funding of the voluntary and community sector, whether distributing, seeking or receiving funding.

In statutory agencies, it is aimed at those developing and commissioning projects and services where voluntary and community organisations help deliver objectives, including those administering grants and managing contracts.

In the voluntary and community sector, it is aimed at those applying for grants or managing and delivering contracts.

Organisations are asked to consider how this policy needs to be implemented appropriately in their own organisation. The Appendix contains guidance and information to help.

1.4 How the Code is structured

The Code goes through the funding and procurement process from specification through to delivery and to the conclusion of projects or contracts.

1.5 Principles

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

- **Focus on outcomes** – the end benefit for individuals and communities is the ultimate aim of expenditure so that value for money is achieved.
- **Simplicity and proportionality** – processes are as simple as possible and proportionate to the size of the organisation and the amount of money involved.
- **Consistency and co-ordination** – funders and purchasers should endeavour to join up or standardise elements of the funding or procurement chain to minimise burdens on voluntary organisations and enable funding to focus on outcomes.
- **Timeliness** – allowing time for planning, decision making and action at the right stage so that each has real effect.
- **Transparency and accountability** – the public needs to know how their taxes are being spent. Transparency and accountability also allow informed decisions about spending priorities to be made and for the agencies and the voluntary and community 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 the needs and requirements of the other partners should help avoid problems and achieve the outcomes they both desire. Voluntary and community organisations are independent organisations, and this adds value to their delivery of public services. Statutory agencies are accountable to the taxpayer for the proper use of public money.

2

Service or activity design

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

2.1 Shared objectives

Many statutory agency objectives can best be achieved by involving voluntary and community organisations in design. Well designed objectives consider how the voluntary sector can work most effectively with statutory agencies and the long-term impact of voluntary and community sector involvement. Long-term impact is helped if those VCS organisations have more certainty about their income.

2.2 Shared benefits

The statutory and voluntary & community sectors both benefit when service objectives and grant programmes:

- are more relevant to the voluntary and community sector
- enable VCS organisations to effectively contribute to public policy objectives
- achieve the best outcomes for service users, carers and the public
- enable VCS organisations to grow and develop and become more effective in the long term
- are defined and realistic and can be delivered
- are clear about why a VCS organisation is receiving funding

2.4 Achieving these objectives and benefits

2.4.1 Consultation and Involvement

Statutory organisations should, wherever possible, constructively involve the voluntary and community sector in setting objectives, priorities and commissioning strategies. Consultation should have a clear process and timescale and organisations should be clear about whether they represent their own interests or those of service users (if the latter there should be a clearly defined system for this which also addresses issues of confidentiality.) This consultation should help identify:

- Risks to service delivery (what could go wrong and how it will be handled)

- Barriers to service delivery (e.g. unrealistic timeframes or higher/lower demand than expected in the early part of the grant or contract period)
- 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 objectives of the funding programme would most benefit from voluntary and community sector involvement

2.4.2 Longer term planning

Longer term planning and financial arrangements often represent better value for money than one year agreements by providing greater financial stability and by reducing unnecessary wastage of time and effort on applying for new funds or renegotiating contracts. This also strengthens the VCS supplier base and its ability to deliver in the longer term. For grants, this includes roll-forward multi-year agreements where these represent good value for money. Any contract specification should clearly state any options for extending contracts on a rolling basis where these exist. Longer term financial arrangements are encouraged where possible.

2.4.3 Full Cost Recovery

Funding needs to reflect the full cost of the service or activity, including the portion of legitimate overhead costs – (see Appendix). This is to ensure transparency about project costings and to avoid projects being effectively ‘subsidised’ from other places.

Funding arrangements should also consider the financial implications of the end of a project (see section 7) and include appropriate costings for this (e.g. redundancy payments and equipment leases). Plans for tapered funding should be clear in the service specification. VCS organisations need to be fully aware that funding arrangements cannot be expected to automatically continue beyond the contract or grant period. Appropriate time needs to be given to planning for the end of a project or service (see section 7).

2.4.4 Partnerships

Many services or objectives are delivered through local partnerships. The growth of local partnerships has been accompanied by a requirement for effective voluntary and community sector participation. Successful partnerships achieve objectives 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 partnerships, statutory agencies will:

- Work with VCS organisations collectively to agree how capacity for partnership working can be improved, whether this is through service level agreements with infrastructure organisations or by other means of meeting additional costs incurred.

- Aim to meet the specific costs of VCS involvement in a partnership from the outset, (including preparatory work, meeting attendance, partnership building, feedback and consultation. Resources for sector's infrastructure and capacity to keep pace with policy development need also to be considered). (See forthcoming Code of Practice on Partnership working.)
- Consult early in the process and allow time and resources for meaningful consultation within the voluntary sector. The proposed Code of Practice on Consultation and Involvement is intended to contain more detail on this.

2.4.5 Joint Commissioning

Where a contract with a VCS organisation (or organisations) is jointly commissioned the specification needs to clearly address what happens if one of the commissioning partners withdraws funding. The responsibility of the other statutory partners must be clarified so that the VCS partners know what to expect. Costs for ending the joint contract for any reason must be agreed in the specification.

2.4.6 Support in kind

Statutory agencies should consider all forms of support which can be given to VCS agencies in addition to funding, e.g. support for managing finances, access to free training places, advertising for VCS organisations, etc.

Common types of funding

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 public policy objectives, **usually through a grant.**

Strategic funding – for infrastructure organisations recognised to be of strategic and importance, **usually through a grant or service level agreement.**

3

Application and tender process

This section covers the process of inviting, applying for and assessing grant applications and tender bids and the notification of subsequent decisions.

3.1 Shared objectives

- A well managed application and tender process which ensures that organisations best able to achieve the aims of a programme apply. Well managed processes ensure that resources are focused on delivering outcomes rather than on the application or tender process itself.

3.2 Shared benefits

- A well managed application or tender process allows the voluntary and community sector to access opportunities to deliver.
- Adequate time to apply will enable organisations to make a well informed and considered application or tender. They will also benefit from not having to spend disproportionate resources on the process.
- Statutory agencies can know that the chosen organisation is the one best able to deliver the intended outcomes and that expenditure is focused on achieving outcomes rather than the process.
- For some services (e.g. advocacy) the VCS is clearly best placed to provide services. For some activities there may only be one possible VCS provider and therefore no need to tender.

3.4 Achieving these objectives and benefits

3.4.1 Statutory agencies should promote funding opportunities widely and consider pro-active approaches to encourage VCS organisations to apply or become providers. A pro-active approach may be particularly important for organisations who may not have applied for funding in the past, including black and minority ethnic organisations, faith groups and community groups. In some cases statutory agencies may need to use preferred bidders – this may be to maintain continuity or to meet other objectives (e.g. preference for a ‘user-led’ provider organisation).

3.4.2 For small grants clear information about priorities for funding should be available – both on statutory agencies websites and by appropriately available and easily accessible paper information. Small grants information on statutory agencies websites should offer links to the web pages, offering similar information, from other agencies. Statutory agencies should consider the possibility of using a voluntary sector organisation to manage delivery of

objectives for that programme. This should include appropriate support to small voluntary and community sector organisations in how to make an appropriate application. It should also mean that administrative procedures are not a barrier to funding good quality service provision.

3.4.3 Adequate time is needed to respond, particularly for larger pieces of work or those involving joint working (e.g. consortium or partnership bids).

3.4.4 Information and forms should be clear and accessible and include all relevant information so that an informed decision about whether to apply can be made. The process should be proportionate to the amount of money available. Statutory agencies should consider the use of standard questions or seek to co-ordinate forms across agencies. VCS organisations will give full, clear and accurate information.

3.4.5 Statutory Agencies undertake to only ask for information on application forms that will genuinely be used to help decide who will receive funding or be awarded a contract. Information should include a clear contact person for enquiries about each programme.

3.4.6 Grant Assessments need to recognise it is legitimate for providers to include the relevant element of overhead costs in their estimates for providing a given service. With procurement, voluntary and community organisations cannot be given preferential treatment but are entitled to determine their own price in competition (see Appendix.) VCS organisations undertake to give accurate information and fully and clearly costed bids.

3.4.7 Contracts should be awarded on the basis of value for money, i.e. cost and quality. Commissioners are not obliged to accept bids if they are not satisfied that these offer value for money. Both sectors should recognise the opportunities for match funding which the VCS can attract to maximise outcomes

3.4.8 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 whenever possible. Smaller organisations or those newer to delivery will need longer notice. Feedback on the reasons for decisions should be provided.

4

Agreeing terms of delivery

This section is about agreeing outputs (usually numbers), outcomes (results and impact) and the appropriate management of risk in funding agreements.

4.1 Shared objectives

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

4.2 Shared benefits

- Effective terms of delivery identify risks to the delivery and ensure that such risk is appropriately recognised and managed.
- Effective terms of delivery give clear expectation of what is to be delivered and by when, so organisations can plan and deliver effectively.
- Effective terms of delivery ensure that the best possible outcomes and outputs are achieved for the sum given/received.
- Both sectors benefit from having terms of delivery which are proportionate, thereby allowing a focus on the outputs or outcomes to be achieved.
- Effective terms of delivery also contribute towards the development of a constructive working relationship between organisations.

4.3 Achieving these objectives and benefits

4.3.1 Specifications need to contain clear, agreed terms of delivery from the outset.

4.3.2 This should include named people from each organisation who are responsible for the implementation of the specification, and achievement of the outputs/outcomes (i.e. the success) of the service.

4.3.3 Delivering outcomes has risks for both parties, including failure to make best use of money, failure to deliver objectives, loss of credibility for each as well as the impact of failure on users of the service. Risks should be identified and the management of these risks agreed and clearly stated. In particular there should be consideration of the risks associated with the demand for a particular service, what happens if funding is withdrawn or if the service provider fails to deliver.

4.3.4 Statutory agencies need to recognise the impact on VCS agencies if contract requirements change. There should be a simple and agreed change control process.

4.3.5 Conditions should relate to the achievement of the outcomes of the service.

4.3.6 Terms of delivery should be proportionate to the size of grant or contract

4.3.7 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.

4.3.8 Compact for Devon

All contracts should make reference to the Compact and to this Funding and Procurement Code as a basis for a positive relationship between statutory agencies and VCS organisations (see Appendix for a typical form of wording).

5

Agreeing payment terms

This section is about the arrangements for the payment of grants or for work under contract.

5.1 Shared Objectives

- Payment terms that allow the service to be funded in the most effective way, to enable the best possible long term outcomes for service users to be achieved.

5.2 Shared benefits

- Ability to deliver the best possible service for beneficiaries on a stable and secure basis, allowing VCS organisations to plan for the future and develop in a sustainable way so they can improve their delivery of services over time.
- Payment terms which allow VCS organisations to develop sustainably also help ensure a continued diversity of potential service providers.
- Payment terms which help foster constructive working relationships.
- Payment terms which create positive incentives to meet objectives.

5.2 Achieving these objectives and benefits

- The voluntary and community sector undertakes to have good systems in place to manage finances and funded projects and account for them.
- Statutory organisations may be able to offer support to VCS organisations to enable this to be done appropriately.
- Contract specifications should clearly state mutually agreed payment terms including
 - ▶ when the payments will be made
 - ▶ how underspends will be treated.
- Recognition of the needs of the VCS mean that statutory agencies should strive to make contract payments in advance in accordance with national guidance (Funding and Procurement Code of Good Practice – see www.thecompact.org.uk or www.homeoffice.gsi.gov.uk/comrace/active/compact/publications.html).
- Statutory agencies will, wherever possible, make grant payments in advance of expenditure, rather than in arrears, in order to achieve better value for money.

- A clear understanding of the treatment of underspends in grants should be mutually agreed in advance.
- Statutory agencies undertake 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 VCS organisations.
- Statutory agencies should make payments on time (at the agreed time – in line with the late payments of Commercial Debts Act which covers contracts and the Better Payments Practice Code).

6

Agreeing monitoring and reporting

This section is about ensuring that the provider is delivering agreed outputs and contributing toward meeting intended outcomes within a process that allows resources to be focused on frontline delivery.

6.1 Shared objectives

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

6.2 Shared Benefits

- The voluntary and community sector benefits from a focus on outcomes rather than spending time on unnecessary reporting.
- Good management information enables the VCS provider to respond to changes or problems and to build a trusting relationship with the funder or purchaser.
- Statutory agencies benefit from assurance that they are getting value for money from their expenditure.
- Statutory agencies also benefit from a good relationship with the provider. A good relationship and effective agreed monitoring will help ensure early sharing of information if there are changes or problems.
- Good 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.

6.3 Achieving these objectives and benefits

- Monitoring and reporting arrangements need to be mutually agreed upfront (in the contract specification or grant payment arrangements).
- Statutory agencies undertake to recognise that monitoring and reporting arrangements need to be proportionate (to the size of funding, size of provider and perceived risk) and should focus on outcomes.
- The voluntary and community sector undertakes to be honest, transparent and timely in reporting.
- The VCS recognises that public accountability will require appropriate reporting.

- Voluntary and community organisations will give early notification of budget and delivery progress (for example if there are likely to be underspends in grants).
- Where a project is funded by more than one agency, joining up or standardising monitoring requirements should be considered so that those providers in receipt of funding from a number of sources are not overburdened.
- Where an organisation is grant funded by more than one public agency for providing similar services, monitoring should be conducted by a single lead agency.
- Monitoring should only include information that is needed or will be used to assess performance. Information about what will be required and when should be clearly available in grant application information and agreed in each contract. This will require consultation with the voluntary and community sector about what monitoring is appropriate and proportionate.
- Discussion will also help in agreeing monitoring of outcomes. There should be agreement in advance about the process for dealing with a failure to meet outcomes (see section 4).

7

Concluding a funding relationship

This section is about managing the conclusion of a financial relationship. It includes where the term of the grant or contract finishes; where funding terminates earlier than the intended closure where delivery targets are not met; or where funding ends as a consequence of a review of strategic or development funding. It may also include planned tapering arrangements.

7.1 Shared objectives

A well managed process which minimises negative impact to service users, and strengthens the provider organisation's long-term stability and the relationship between funder and funded.

7.2 Shared benefits

- A well managed process minimises the impact of the conclusion of a financial relationship and enables organisations to prepare contingency plans and identify potential alternative income.
- This will enable clients' needs to continue to be met and ensure that the duties of good employers towards staff can be met (for instance adequate redundancy periods).
- A well managed process will also support the long-term stability and sustainability of VCS organisations.
- Both sectors benefit from minimising any potential impact to service users.
- Both sectors also benefit from maintaining good working relations so that they can continue to have a constructive relationship beyond the particulars of the grant or contract.
- The long-term stability of the VCS benefits statutory agencies in that voluntary and community organisations can continue to make an effective contribution to the achievement of public policy objectives.

7.3 Achieving these objectives and benefits

- The voluntary and community sector recognises that funding may end as priorities change or if outcomes are not delivered.
- VCS organisations undertake to plan in good time for different scenarios to minimise any potential negative impact on both service users and the organisation.

- An 'exit strategy', i.e. implications and actions, should be clearly agreed in advance for dealing with the funding arrangements:
 - ▶ ending early
 - ▶ ending on time
 - ▶ being extended.
- If the voluntary and community sector provider is not meeting targets, contract managers should first discuss with the provider what action can be taken to improve delivery (for instance the possibility of a revised action plan). However, 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. Statutory agencies should consider how the original outcomes might alternatively be met. Notice for the withdrawal of funding or the termination of the funding agreement should be of a minimum of three months and should give clear reasons for this.
- There should be an on an on-going dialogue throughout the length of the funding arrangements.
- Other than in exceptional circumstances the minimum notice period for the ending of any funding agreement should be three months.
- Clear reasons for the early ending of the grant should be given.
- There should be a full and open consultation at a strategic level with the voluntary and community sector as soon as it is known that funding cuts are possible or likely. This dialogue needs to agree joint priorities for protecting essential services (whichever sector they are provided by) and to clearly consider the impact of funding withdrawal or closure of services on service users in advance of any such decision being taken.



Appendix

Information and sources of support

Wording for Contracts

“The signatories to this contract/agreement are committed to implementing the Compact for Devon and its Codes of Practice.”

Funding the full cost of work (Full Cost Recovery)

The purpose of this section is to set out the principle and logic of full cost recovery for voluntary and community organisations to use as a means of ensuring appropriate and sustainable funding of the sector to the mutual advantage of funder and funded.

All organisations in statutory, private and voluntary and community sectors have indirect overhead as well as direct costs associated with the delivery of goods and services. In the voluntary and community sector, funders can be reluctant to fund these overhead or ‘core’ 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.

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 organisations’ ‘real work’. Two flawed practices derive from this false principle. The first flawed practice is the use of an arbitrary fixed percentage core cost add-on to the direct costs of the service. The arbitrary fixed percentage cost approach has the appeal of simplicity. But logically, arbitrary fixed percentages have no grounding in reality and are often driven by what the funded organisation ‘thinks it can get away with’. Arbitrary fixed percentages therefore threaten either the under-estimation of the true cost of delivering a service or output, or the double funding of overhead costs (when two funders pay for the same overhead costs). As such, arbitrary fixed percentages are corrosive: they undermine transparency and trust between funders and the funded, threatening the sustainability of both funded activity and organisations. The second flawed practice is marginal costing. Marginal cost is the additional cost incurred directly as a result of taking on that activity. Marginal costing approach has the appearance of efficiency. But it adds activity without building corresponding organisational capacity to support that activity. Marginal costing is, ultimately, unsustainable.

The principle of full cost recovery recognises that organisational overhead costs are inextricably linked to the delivery of front line activity and that

appropriate overhead costs should therefore be fully funded in order to sustain that activity beyond the short-term. The good practice upon which this principle depends is the clear and consistent calculation of average cost. Average cost represents the true cost of delivering a service or output. The marginal cost of providing an activity is the additional cost incurred as a result of taking on that activity. Average cost takes into account indirect and support costs. For example, the marginal cost of an extra bed in a hospice is the cost of the bed, food and any additional nursing and building costs. Average cost takes into account the building and existing staff costs. The average cost of existing beds in the hospice includes all building and staffing costs, apportioned across all the beds. Average cost therefore represents the full, or true, cost of front line activity. Indirect costs need to be clearly apportioned to front line activity and allocated in funding applications so that each unit of activity is fully costed and properly funded. In this way funders will be able to satisfy themselves that they have a clear understanding of the true costs of front line activity that they fund, and front line activity itself will not be dependent on and put at risk by increasingly under-funded support structures.

In line with HM Treasury's Cross-Cutting Review of 2002 of the role of the voluntary sector in public service delivery (see www.ncvo-vol.org.uk/policy/funding/index.asp?id=2697) funders must accept it is legitimate for voluntary and community organisations to include the relevant element of overheads in their cost estimates for providing services and outputs. This is because funding the true and clearly calculated cost of activity is a more transparent and sustainable means of funding important work than arbitrary fixed percentages and marginal funding.

www.wobbleproject.org has a Full Cost Recovery tool for VCS organisations.

Government Accounting 2000, HM Treasury

www.government-accounting.gov.uk/current/frames.htm

Government Accounting provides guidance in the context of proper use of, and accountability for, public funds. The advice Government Accounting contains falls into three broad categories:

- Parliamentary requirements.
- Treasury administrative controls.
- Best practice.

Government Accounting should be interpreted as setting both the high level controls and requirements public 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.

Public agencies must ensure that the money allocated to them is spent in the proper and effective way. Therefore 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.
- **Value for money:** ensuring that funds are spent in a way that minimises costs; maximizes outputs, and achieves intended outcomes.

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
- Attention to outcomes

HM Treasury's Guidance to Funders

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

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. Statutory agencies will have their own procedures based on this guidance.

European Commission Procurement Rules – Office of Government Commerce

www.ogc.gov.uk/index.asp?id=1000084

European Commission (EC) procurement rules set out procedures for the award of contracts above certain values throughout the community. Their purpose is to open up the public procurement market and to ensure the free movement of goods and services within the EU, thereby increasing opportunities for competitive suppliers, contractors and service-providers. Responsibility for procurement policy rests with the Office of Government Commerce. Each statutory agency is subject to EC procurement rules and responsible and accountable for achieving value for money.

Other useful documents

Code of business conduct Devon County Council
www.devon.gov.uk/index/democracymunities/decision_making/constitution/part5/elements_arranged.htm

Code of Practice for Contracting and Commissioning Care and Support Services Devon County Council
www.devon.gov.uk/index/democracymunities/decision_making/constitution/part5/code_of_practice_for_contracting_and_commissioning_care_and_support_services.htm

Think Smart – Think Voluntary Sector (Good Practice Guidance on Procurement of Services from the Voluntary and Community Sector, Home Office 2004, www.homeoffice.gov.uk

The Far South West National Council for Voluntary Sector Child Care Organisations (NCVCCO) has done some important work with the Children's Trust on Funding and Procurement.

For details contact www.ncvcco.org.

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This Code of Practice can be made available in alternative formats.

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