



The voice of the voluntary and community sector



**Northumberland**  
Strategic Partnership

# **The Northumberland Compact Funding and Procurement Code**

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## 1. Introduction

- 1.1 This Compact Funding Code makes up part of the Northumberland Compact which is an agreement between statutory sector organisations and the voluntary and community sector to improve their relationship for the benefit of each other and the communities they serve.
- 1.2 Better financial arrangements are key to any improved relationship and understanding between the two sectors. Both stand to gain from the better use of public money.
- 1.3 The aim of this Funding Code is to establish a sustainable, stable and fair system for funding the voluntary and community sector. This does not preclude individual statutory sector bodies developing their own funding code<sup>1</sup>, which details their own arrangements in collaboration with the voluntary and community sector. But this code sets the framework on which they will be based.
- 1.4 This code further aims to make a positive impact on the funding relationship between statutory sector public bodies and the voluntary and community sector in Northumberland. It is based on the national Funding and Procurement Compact Code of Good Practice<sup>2</sup> and embodies the key points for an effective funding framework identified in the Northumberland Compact.
- 1.5 It governs all statutory sector funding to the voluntary and community sector in the county. That includes all grants and contracts and covers service level agreements and services purchased through public procurement. It includes both revenue and capital financing.
- 1.6 Statutory sector organisations recognise the importance of their role as a provider of resources to the voluntary and community sector and aim to work in partnership, to enable all groups to generate additional funding and mobilise voluntary effort.

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<sup>1</sup> The Northumberland NHS Care Trust's Funding and Procurement Code of Good Practice with the voluntary and community sector was published in summer 2006.

<sup>2</sup> See Appendix 1

## 2. Ten key points for an effective funding framework to ensure a Compact way of working

It is recognised that although the two sectors have different accountabilities, governance arrangements and motivations they share a number of common principles and ambitions.

Value for money. This means demonstrating:

- 2.1 efficiency - delivering the right things at the best price, not necessarily the lowest price  
effectiveness - in delivering policies;
- 2.2 respect for the independence of the voluntary and community sector;
- 2.3 procedures which are consistent with the principles of good regulation and the need to ensure effective protection and proper accountability for public money;
- 2.4 commitment to boost involvement of the voluntary and community sector in shaping services as well as delivering them;
- 2.5 improved sustainability and longer-term planning, for example, through multi-year funding;
- 2.6 recognition of core costs and the need to fully fund the costs of delivery;
- 2.7 support for voluntary and community sector infrastructure and network development;
- 2.8 fair access to strategic, project and development funding;
- 2.9 clarity in application and tendering processes;
- 2.10 a joint approach to monitoring and evaluation, with the aim of making a positive difference to the funding relationships.

## 3. Undertakings

- 3.1 **The voluntary and community sector** recognises that receipt of public funds carries with it particular responsibilities. The sector undertakes to:
  - 3.1.1 respect confidentiality and be clear about whom they represent and how they came to their views when contributing to programme design;
  - 3.1.2 make sure that they are eligible when applying for grants;
  - 3.1.3 have clear lines of accountability, especially with joint bids;

- 3.1.4 agree terms of delivery at the outset and be aware of risks for which they are responsible;
  - 3.1.5 have good systems in place to manage finances and funded projects, and account for them;
  - 3.1.6 be honest and transparent in reporting;
  - 3.1.7 be aware of the constraints placed on some public bodies to fund organisations for certain campaigning activities;<sup>3</sup>
  - 3.1.8 provide equality of opportunity in both employment practice and service provision.
- 3.2 The statutory sector** is committed to establishing and maintaining best practice in the way in which it funds the voluntary and community sector. It undertakes to:
- 3.2.1 provide an opportunity for the voluntary and community sector to identify need, and contribute to service design;
  - 3.2.2 ask for information on application forms and Pre-qualification Questionnaires which is relevant to deciding who will receive funding or be awarded contracts;
  - 3.2.3 discuss risks up-front and place responsibility with the public sector body or the voluntary and community organisation best able to manage them;
  - 3.2.4 respect the independence of the sector and its right to campaign, irrespective of any funding relationship that might exist;
  - 3.2.5 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;
  - 3.2.6 make payments in advance of expenditure (where appropriate and necessary) in order to achieve better value for money;
  - 3.2.7 implement longer term funding arrangements where these represent good value for money;
  - 3.2.8 be proportionate in monitoring & evaluation requirements, focus on outcomes and consider joining-up or standardising monitoring requirements;
  - 3.2.9 give adequate and agreed notice of the end of grants or contracts.

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<sup>3</sup> As set out in the Local Government Act 1986 and the Code of Recommended Practice on Local Authority Publicity.

## 4. Type and purpose

There are two main types of funding: grants and contracts. The balance between grants and contracts allows for a variety of funding objectives and enables a wide range of voluntary and community groups to flourish. Without this mix of funding there would be a danger that a number of very valuable small groups as well as a number of larger voluntary organisations would be threatened leading to negative impacts on community engagement and involvement, representation, advocacy, campaigning etc.

Although grants and contracts have different legal status, they share certain common features and principles. These include: full cost recovery, payment in advance and multi-year funding (see 7, Stability).

- 4.1 **Grants** are subsidies paid to a voluntary and community organisation because its activities are in broad alignment with the funder's objectives. They can be given for general purposes or particular projects. Conditions can be applied to the grant identifying the basis on which the grant is given but they should not specify the services to be delivered.

In recent years grants have been awarded following competitive bids for funding resulting in agreements which could result in legally binding contracts. To avoid confusion and unpredicted liabilities, clarity as to the precise nature of the funding is important to both funder and recipient.

When it comes to grants, as a general rule, and one accepted by the National Audit Office, "costing rather than pricing, is likely to be the more appropriate basis for funding decisions"<sup>4</sup>. The basis for calculating and allocating overhead costs should be the same as that used for contracts (see Funding the Full Cost, Appendix 2).

- 4.2 **Service Level Agreements (SLAs)** sometime muddies the waters. They are often viewed as mid-way between grants and contracts but according to HM Treasury have "no legal form". SLAs therefore fall within the area of grant aid, not contracting. Although undoubtedly helpful in managing funding arrangements within organisations, SLAs are likely to be phased out in favour of either grants or contracts for funding relationships between organisations.
- 4.3 **Contracts** involve an exchange of specified services delivered to the purchaser in return for specified payments. So contracts underpin all public procurement of services.

Bids for contracts should be based on a clear understanding of all costs which need to be covered including all overheads. If costs have not been properly calculated, the bidder is unlikely to offer good value for money because the higher risks associated with sustaining the delivery of the intended outcomes.

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<sup>4</sup> Quoted in 5.19 *Improving relationships with the third sector: Guidance to funders and purchasers*, HM Treasury, May 2006

**4.4 Procurement**, for the purposes of this code, is the whole process of identifying the need for and then acquiring & evaluating the necessary services from VCS supplier organisations. It will involve legally binding contractual terms where all the conditions necessary to form a legally binding contract have been met. The statutory sector organisation seeking to purchase services in this way requires a contractual relationship to manage the risk of a third party delivering what could be a statutory service.

Public sector organisations have their own rules and procedures for tendering opportunities which are all underpinned by EU and national legislation. The following common principles should determine each process.

- openness
- transparency
- fairness
- equality

The voluntary and community sector does not seek nor expect special privilege over the public or private sectors when it comes to procurement opportunities. However, to obtain best value in service provision, the process must be VCS friendly. The sector can make a significant contribution to the LM3<sup>5</sup> agenda by reducing the flow from the sub-region's leaky 'bucket'. Local providers, with knowledge of local needs, commitment to place and accountability to the community can be legitimately rewarded in the tendering process and not in any way challenge national or European procurement rules. The aim must be to remove real and perceived barriers.

POTENTIAL BARRIERS	WAYS OF OVERCOMING THEM
Contracts too large	Reduce to smaller bundles
Too short a period for application	Extend period
Insufficient skills & knowledge	Further training
Service not well designed & overly bureaucratic	Greater VCS input in service design
Tender process forces acceptance of given terms & conditions	Opportunity to negotiate terms
Contract delivery period too short	Greater VCS input in service design
Concern over intervention in operations, unilateral decision making & unreasonable resort to 'variations'.	Clarity of roles & powers in mutually binding contract

**4.5 A framework agreement** is an arrangement where the purchaser selects providers in advance so that it can speedily order services during the lifetime of the agreement (usually for a maximum of four years). It follows normal procurement processes but the terms and prices are usually fixed at the start of the period. However, providers will not know in advance what the purchaser wants or when and, because there are within a pool of providers, they might still be in competition. So framework agreements offer no guarantee of business.

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<sup>5</sup>LM3 is a simple evaluation tool and stands for local multiplier 3. 'Buy local, keep money circulating locally, help money go further'. LM3 Progress Report, June 2005. Balance And The Bucket

**4.6 Purpose** The main determinant of the financial relationship between the sectors is the nature of the intended outcomes. There are three main forms:

- project funding (a specific project or outcome)
- development funding (start-up support or expansion)
- strategic funding (where organisations continued existence and activities are considered beneficial)

In those circumstances where outcomes are relatively specific, and clear indicators are available for measuring both quality and quantity, a procurement route is becoming increasingly common. Where VCS organisations' activities are aligned to statutory sector organisations' objectives, a grant regime is more suitable. In this respect development funding and strategic funding lend themselves to grant support.

## 5. Voluntary and Community Sector Infrastructure

The presence of vibrant, effective and locally based, controlled and managed infrastructure support is essential if the potential of the sector in Northumberland is to be achieved. It underpins good governance, provides funding advice and training, liaises with outside bodies, nurtures and encourages networks and ensures all corners of the county are reached applying the principles of community development. It leads the sector in the development of the Northumberland Compact and plays an important role in the VCS Consortium. Statutory sector organisations recognise its value and commit to adequately resourcing it.

## 6. Making and notifying decisions

Statutory sector organisations commit to:

- acknowledging applications in writing, letting applicants know who is dealing with their application and when they can expect a decision;
- inform applicants in writing of the decision and the reasons for it;
- provide in writing what they will be paid, when and any conditions attached if funding is awarded.

## 7. Stability

**7.1 Multi-year funding:** If the voluntary and community sector is to develop and contribute in the way envisaged, plan for the long-term, and be more flexible and entrepreneurial in its approach, it must be able to plan for the future.

The Gershon efficiency review concluded that "contracts for service delivery by voluntary and community organisations (VCOs) tended to suffer from an unnecessarily short-term approach" and recommended "moving to longer-term, multi-year funding arrangements where possible"<sup>6</sup>.

Central Government has accepted that funding for periods of longer than 12 months is essential if its agencies and local government are to enjoy the financial stability necessary to deliver the outcomes desired.

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<sup>6</sup> *Independent review of public sector efficiency: releasing resources to the frontline, Sir Peter Gershon OBE, July 2004*

The 2004 Spending Review announced the phased introduction of full three year settlements for local authorities, and departments. In turn they were expected to cascade these multi-year budgets to Non Departmental Public Bodies (NDPBs) and agencies<sup>7</sup>. They now all have the opportunity to transfer this enhanced financial stability to the VCS and its beneficiaries by introducing longer term multi-year funding arrangements. Providing it fulfils the objectives and represents good value for money “there is no fiscal barrier that prevents funding bodies from agreeing longer-term funding arrangements”<sup>8</sup>.

The rationale for the three year funding settlements also applies to the VCS which has tended to operate in a much more volatile financial climate. The gains to be won in terms of improved strategic planning, resources no longer diverted into annual bidding rounds and avoidance of the inefficiencies associated with short-termism, would therefore be proportionately greater.

When the contract involves the provision of buildings a 15-25 year security of tenure would be appropriate.

- 7.2 Timings of Payments:** The timing of payments must be considered in collaboration with, and not imposed upon, the funded organisation.

Funding bodies should make a commitment to pay within a specified time period or on specific dates and honour that commitment.

- 7.3 Payments in advance of expenditure:** They can and should (where appropriate and necessary) be made in order to achieve better value for money. These can act as real incentives to VCS organisations. They make delivery feasible for VCS organisations which either have limited liquid reserves or are unable to service a loan if they were forced to borrow in advance of an arrears payment, or, as is most likely, both.

- 7.4 Risk Allocation:** The timings of payments to the VCS of a service is part of any bundle of incentives but so too is the way in which risks are allocated. Gershon concluded in relation to the voluntary and community sector that contracts “...place an excessive burden of risk on service providers.”<sup>9</sup>

The risks associated with incorrectly predicting the demand for a particular service, or repair & maintenance of buildings cannot normally be controlled by either party. The additional costs of meeting these risks should therefore be fairly allocated. For example, although conditional on a particular level of demand, the risks of failing to deliver the required outcomes generally fall on the provider. To manage these risks effectively, regular discussions must occur between the two parties to ensure a thorough understanding of responsibilities, risk allocation and ownership.

- 7.5 Capital Expenditure:** The requirement for capital investment is a feature for any service provider. Predominantly non-market trading organisations find raising capital particularly onerous. The move to promote community management and ownership of assets and the consideration of introducing a “community right to first refusal” creates new impetus to ensure that the voluntary and community sector have the capacity in terms of both skills and know-how and access to capital resources.

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<sup>7</sup>A framework for strengthening the third sector's role in local public service delivery, Phil Woolas, Minister for Local Government, speech to ACEVO, June 2006

<sup>8</sup>Improving financial relationships with the third sector: guidance to funders and purchasers, HM Treasury, May 2006

<sup>9</sup>Sir Peter Gershon OBE, July 2004

## **8. Promoting fair access to funding**

Both sectors undertake to:

- 8.1 make details of funding programmes as widely available as possible - through, for example, the press, umbrella and intermediary organisations, sector networks, directories, newsletters, and the internet;
- 8.2 consider how funding policies, procedures and practices will impact on community organisations and give positive encouragement to applications from new and emerging groups and those VCS sub-sectors which have tended to have limited access to funds;
- 8.3 consider training needs and provide detailed briefings for advice givers in support organisations. With some programmes, direct training or briefing sessions with potential applicants will be more practical or appropriate. Greater clarity about the funding programme will assist potential applicants in determining whether or not to apply and this in turn should reduce the numbers of inappropriate applications and requests for explanations or clarification;
- 8.4 publicise a named, single point of contact dealing with funding matters;
- 8.5 keep the application requirements and process appropriate to the size and scope of the funding available;
- 8.6 use plain English and keep paperwork as user-friendly as possible and to provide regular and timely updates on what funding & procurement opportunities are available;
- 8.7 publish an annual list of who get what in the VCS;
- 8.8 consult relevant sector organisations on the development of new funding programmes and the evaluation of existing programmes. By working in this way it is much easier to establish aims and objectives for funding programmes based upon local knowledge of the subject area;
- 8.9 give appropriate advance notice of new funding programmes before the application process starts;
- 8.10 review annually the adequacy of arrangements for ensuring fair access to funding.

## **9. Training Needs**

Both sectors undertake to ensure that those involved in funding and contracting are aware and understand the particular needs and capacity of the respective sectors.

## **10. Resourcing the Compact: Funding Formula**

Annexe C of the national Compact & procurement proposes this funding formula for local Compacts:

- Local public bodies: to share costs of Compact development and partnership building
- Partnership boards: to include contributions in spending plans and funded programme bids
- The VCS: to provide a package of support in kind

## **11. Ending financial relationships**

Where a statutory body chooses to significantly reduce the level of funding, or to cease funding, to a project or programme, at least 6 months notice of this intention will be given for grants of over £5,000 to allow organisations and groups to plan for this situation.

Contracts will contain a termination clause, which is agreed by both parties and clearly states the notice period required.

## Appendix 1

### National Funding and Procurement Compact Code of Good Practice

This national code makes specific reference to its links to local areas.

“8.2 The Code applies in England 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...”

“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).”

“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 to broadly 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.”

## Appendix 2

### Funding the full cost

The principles of sustainability and fairness are the drivers behind the need to recover the full cost of the work. Grant or contract income is not sustainable without a clear understanding of the full costs of delivering a project. It is fair because it avoids subsidising the service by having to rely on other sources of income which were not intended for this purpose.

Full costs clearly include a share of all overhead costs. This principle of including a relevant element of overheads in cost estimates for providing services and outcomes is now accepted by Government, Local Authorities, NDPBs and agencies. Where grants are involved funders are usually unable to rely on the market to help determine value for money, so must rely on costings to understand whether resources are being used efficiently. So, as the Treasury guidance makes clear, full cost recovery is “relevant for both funders and purchasers under both grant-making and procurement regimes”.

Competitive contracts, won on the basis of value for money, take both quality and price into account. A voluntary and community organisation must have knowledge of its full costs to enable it to make an informed decision as to what price to bid. It might wish to offer a price above cost to enable it to build up a surplus for reinvestment or even below cost in order to establish a longer term, beneficial financial relationship.

Funders should avoid seeking detailed information about management fees and specific overhead costs but be satisfied that the system used for allocating central costs is fair and reasonable. In determining full costs the following should be taken into account:

- The method should be simple and proportionate
- It should be equitable where there are several funders of different services being provided.
- Costs should be recovered only once

Using fixed percentages in the form of a ‘cost-plus’ system have been used in the past and are attractive because of their simplicity. But the method poses real dangers of underestimating true costs.

For further information see:

Full Cost recovery: A Guide and toolkit on cost allocation, ACEVO 2004.

**[www.acevo.org.uk/main/publications.php?content=pubcatalog](http://www.acevo.org.uk/main/publications.php?content=pubcatalog)**

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