Addressing Bureaucracy

A report on tackling bureaucracy in government funding to the Voluntary and Community Sector

April 2013

Northern Ireland Executive

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FOREWORD

The Voluntary and Community Sector (VCS) makes an important and valued contribution to all aspects of community life here in Northern Ireland. Not surprising therefore that all the Executive Departments should seek to work in partnership and build constructive relationships with the VCS in seeking to deliver on key priorities as identified in the Northern Ireland Executive's Programme for Government. In many instances the VCS takes responsibility on behalf of Government (through a grant funding arrangement) for the delivery of important and vital services to often marginalised and disadvantaged communities.

Disproportionate bureaucracy in grant administration, which has grown up over time, has been identified as a cross cutting issue for Government for some time. The publication of the Northern Ireland Audit Report; *'Creating Effective Partnerships between Government and the Voluntary and Community Sector'* and the subsequent associated Public Accounts Committee's report created a fresh impetus to tackle this issue. In response, DSD led the establishment of a cross Departmental 'Addressing Bureaucracy Project' in March 2012. Given the complex nature of this issue, senior representatives from the DFP, the NI Audit Office and the VCS, together with representatives from across Government accepted key roles within the Steering Group, Project Board and the Project Team taking forward this work.

This report '***Addressing Bureaucracy: A report on tackling Bureaucracy in Government funding to the Voluntary and Community Sector'*** has now been produced and forms, I believe, a sound basis for ensuring that bureaucracy in grant administration is proportional, without compromising governance and control. Going forward, I fully recognise that the production of the report is only the first step, but is a key one in that it has established a common platform from which we can move to implementing the key recommendations. In doing so, it is absolutely vital that we work collectively across Government, and with the VCS, if we are to make a real difference in tackling disproportionate bureaucracy. The next stage will be harder, as together we work through the detail. We very much seek your support and collaboration in this task.

WILL HAIRE

Permanent Secretary DSD.

TABLE OF CONTENTS **PAGE**

Executive Summary and list of recommendations

i. The Public Accounts Committee (PAC), which heard evidence from stakeholders on the Northern Ireland Audit Office's report *Creating Effective Partnerships between Government and the Voluntary and Community Sector* (2010), published its own report in January 2012. That report recommended that the Department for Social Development (DSD), as the lead department for the voluntary and community sector (VCS), give further consideration to reducing bureaucracy in public funding to the VCS and improving working relationships between public bodies and the VCS.[1]

ii. In March 2012, DSD gave a commitment to work closely with key stakeholders to consider actions which will deliver greater proportionality of administration and monitoring in public sector funding to the VCS, by way of a cross-departmental project to deliver a final report by March 2013. A formal project was established in March 2012, with the objective:

> *"to identify improvements that can be made in public sector funding to the voluntary and community sector, which will deliver greater proportionality of administration, reduce duplication of effort or deliver better value for money."*

iii. **The scope of the project** covers the totality of public sector grant administration, including application, appraisal, financial verification, progress reporting and evaluation across central government and its NDPBs/agencies. Local government funding and the requirements attached to European funding were considered to be outside the scope of the project. However, any potential good practice identified will be communicated to the Special EU Programmes Body (SEUPB), the Northern Ireland Local Government Association (NILGA) and the Society of Local Authority Chief Executives (SOLACE).

iv. In taking forward the project as defined above, this report is based on **three overarching principles**, that:

- Both government and the voluntary and community sector **have the same underpinning aim**: the delivery of high quality services that make a real difference to our society;

- Government is **required to ensure** that its funding support to the voluntary and community sector is managed in line with **the principles set out in Managing Public Money NI**;

[1] Public Accounts Committee, *Report on Creating Effective Partnerships between Government and the Voluntary and Community Sector* (2012).

- The voluntary and community sector has a right to expect that **central government and its agencies will work in cooperation** to ensure that the administrative requirements on the VCS in respect of public funding are proportionate and reflect the level of risk.

v. In practice, this means that there are a number of considerations that span all of the proposals in this report:

   a. The first of these is that both government and the VCS should continue to be aware that **administration carries a cost**.
   b. It is important that government reflects on **its risk appetite in respect of relations with the voluntary and community sector,** at both a strategic and operational level, to ensure that the shared principles in relation to the development of standards of good practice and accountability agreed in the Concordat between the VCS and the NI Government can be implemented.
   c. While each department remains accountable for its expenditure, **there exist tried and tested good practice methods of working together** including deriving assurance from other departments.
   d. The **primary aim of government funding to the sector is that it will deliver outcomes**. Ensuring that money is spent properly is vital, but it is not the primary aim.
   e. Any proposals for reducing bureaucracy will only be as effective as **the means by which they are communicated to and implemented by all funders**. Success will be measured by how widely the proposals are taken up.

vi. **Full Cost Recovery** is an issue that is regularly raised by VCS organisations. Government accepts that it is legitimate for service providers to factor in the relevant element of overhead costs into their cost estimates for services and in bids for grants.

vii. There exist well-developed systems (e.g. the Big Lottery Fund model) for determining when it is appropriate to use full cost recovery, what are considered eligible costs, at what financial level it is applied, and templates to assist organisations.

viii. However, it is clear that further work remains to be done to support voluntary and community organisations in cost allocation, as well as supporting funders in understanding its application. The communication and engagement plan linked to this report will be a key vehicle for taking this work forward.

ix. Although one of **the key drivers of this project** has been the Public Accounts Committee's report "*Creating Effective Partnerships between Government and the Voluntary and Community Sector"* and subsequent Memorandum of Reply, there are two other **key influences that the project has sought to take account of: -** the establishment of **the Charity Commission for NI (CCNI)** and the upcoming **reform of local government.**

x. The **Charity Commission for NI** (CCNI) is the new independent regulator of charities in NI, established as an NDPB supported by DSD. Its functions include maintaining an accurate and up-to-date register of charities, encouraging the better administration of charities, and identifying and investigating any alleged misconduct or mismanagement in the administration of charities.

xi. The **reform of local government** under the Review of Public Administration **(RPA)** is likely to impact upon the issues considered in this report, insofar as some functions may transfer from central to local government. The current expectation is that the transfer of functions to local government will happen in 2015.

xii. There is a clear case for aligning the recommendations in this report with the new duties of the Charity Commission NI which will impact on the VCS and also with the likely wider impacts of local government reform on future funding to the VCS.

xiii. The project team's research on **central government funding to the voluntary and community sector** made use of the Government Funding Database (GFD) and NICVA's *State of the Sector VI* as indicators of the nature of government funding to the VCS. It should be noted that the figures quoted are estimates only, which depend on the accuracy of data in the Government Funding Database or that collated by NICVA. Further more detailed information is available at section 3 of this report.

xiv. ***State of the Sector VI*** estimates that VCS income from all main sources in 2009/10 was in the region of £740M with 53% of this income (£392 million) managed by public sector funders.

xv. **Our analysis of the Government Funding Database**, focusing on 2011/12, shows that 73% of contracts are for £30,000 or less, with only 88 contracts (2% of the total) being over £500,000. Many of these are NIHE contracts for Supporting People or capital payments to Housing Associations.

xvi. Our analysis also shows that contracts with a value of £30,000 or less make up only 6% of total funding going to the sector from government departments/NDPBs.

Contracts for £30,000 to £500,000 make up 30% of funding to the sector; and contracts over £500,000 make up 65% of total central government grant funding to the VCS.

xvii. **This raises two key issues for government funding:** the first is that the largest amount of funding (i.e. the high value contracts) carries the highest amount of risk, in terms of the management and governance of funds. However, it should be noted that high-value contracts of this type are more carefully scrutinised than lower-value contracts. This raises the second issue, which is that of proportionality: lower value contracts carry significantly lower risk, and should therefore require less administration, in proportion with their value and the likely reduced level of risk to public funds.

xviii. Some analysis was undertaken of **groups in receipt of multiple funding**, again on the understanding that central government funding is on the database, but not funding from health and education bodies or local councils.

xix. The analysis showed that **67% of funded VCS organisations hold one contract only**. One third (33%) hold multiple contracts, but of these, the majority have multiple contracts with one department (though this could be separate business areas, with separate administration and verification teams). In total, 88% of all funded organisations receive funding from one department only. **Only 12% of organisations are funded by more than one department**.

xx. It could be concluded that **the issue of cocktail funding** – multiple revenue streams of grant funding provided to a single organisation – is therefore not as widespread as had previously been assumed. However, it remains the case that those organisations managing this type of funding mix experience very real difficulties in meeting the requirements of different funders.

xxi. In order to address the project objective this report makes **the following recommendations**:

Recommendation 1:

It is recommended that copies of an organisation's policies and procedures should not be collected routinely as part of appraisal and decision making arrangements. Instead, the Head of the organisation seeking funding would sign a declaration at application stage that relevant policies and procedures are in place, up to date and fit for purpose.

Recommendation 2:

It is recommended that the rationalised list of information, as detailed at Annex A, should form the core list of information needed to inform appraisal and decision making.

Recommendation 3:

It is recommended that core information be collected once by the first funder and then shared with other public sector funders, potentially via the Government Funding Database (GFD). It is recommended that we pilot the use of the GFD to share key documents (provided by VCS organisations) across public sector funders to support their funding decisions. At each subsequent application for funding the potential funder would ask the VCS organisation to confirm (by signed declaration) that all relevant documentation stored is up to date and/or provide the latest versions

Recommendation 4:

It is recommended that DSD work with DFP and other Departments to progress the use of the of the Government Funding Database to record public sector funding to the voluntary and community sector and to promote across Departments and their Agencies.

Recommendation 5:

As the work of the Charities' Commission NI (CCNI) develops, there should be a clear fit between public sector funders' procedures and the governance checks employed by the CCNI. It is recommended that, when CCNI registration is complete, appraisal and decision making procedures be reviewed to ensure there is no duplication with CCNI activities.

Recommendation 6:

Public sector funders should review existing funding streams and rationalise these wherever possible, to ensure more efficient, joined up delivery against government objectives and minimise any identified gaps in funding provision.

Recommendation 7:

Longer-term funding, in line with Comprehensive Spending Review cycles, should be implemented, where appropriate, as a means of reducing bureaucracy in public sector funding.

Recommendation 8:

It is recommended that a common systems-based approach to financial verification, specifically the Financial Systems and Control Assessment in use by DSD (risk management approach), should be implemented by all public sector funders. For organisations with robust governance systems this approach will enable quicker payment of grant claims and facilitate a reduction in financial verification checks.

Recommendation 9:

For organisations rated as 'robust' a retrospective vouching check on the supporting documentation should be completed for a proportionate sample (e.g. 10%) of claims within each financial year of continuous funding for a project. Particular focus should be placed on those areas where there is a higher risk of potential manipulation of documentation.

Recommendation 10:

In recognition of the importance of having a single system across government, it is further recommended that when a funder completes a risk assessment of a VCS organisation this assessment should be shared via the Government Funding Database. This will eliminate duplication by ensuring that the assessment does not need to be repeated again by other funders.

Recommendation 11:

It is recommended that, in circumstances where there are two or more funders of a VCS organisation, a lead financial verification approach should be adopted. Arrangements for lead verification, to include a decision as regards who should take on the lead role, should be agreed by the funders involved and set out in a formal Memorandum of Understanding on a case by case basis. Further guidance is available in DFP's Dear Finance Director letter FD 08/06, "Accountability for Joined Up Projects".

Recommendation 12:

It is recommended that whilst funders will require detailed cost estimates as part of appraisal and decision arrangements, when funding is awarded funded organisations should be granted discretion to manage running costs to deliver the project outcomes as flexibly as possible in response to changing circumstances and any emerging resource constraints, provided that a record of any funding reallocations is kept. This approach should be piloted to test arrangements, etc.

Recommendation 13:

Public sector funders should be flexible, where appropriate, to accept standard reporting formats from funded organisations and to reduce the frequency of progress reporting required to minimise the bureaucracy associated with grant funding.

Recommendation 14:

Where public sector funding is provided for salaries, appraisal and decision making arrangements should be complete at least 3 to 4 months prior to the end of an existing project, thereby avoiding the need for VCS organisations to put staff on protective notice with the associated bureaucracy. To facilitate this, an interim project evaluation should be completed six to nine months in advance of any potential continuation funding period.

Recommendation 15:

An impact-based (outcomes-focused) approach should be piloted to examine how effective it can be in terms of reducing bureaucracy and increasing the focus on delivery of project objectives.

Recommendation 16:

Once complete, the lessons learned from the work of the Concordat Action Team on "Outcomes" should be communicated widely across public sector funders to allow for potential further reductions in bureaucracy.

Recommendation 17:

It is recommended that existing best practice guidance and resources on Full Cost Recovery are disseminated widely through communication and awareness activities across both the public and voluntary and community sectors.

Recommendation 18:

Guidance re the prompt payment of grant funding, including as appropriate target payment timescales and subsequent monitoring and reporting-back arrangements, to be agreed and issued. This should be informed from the outset by an assessment of the current position through a pilot study.

Recommendation 19:

An implementation plan including a communication and engagement plan will be delivered to embed the key principles of the NIAO and PAC reports and to communicate the proposals of this report.

Conclusion

xxii. In summary the recommendations in this report support the high-level principles set out above, specifically that both government and the voluntary and community sector share the common aim of delivering high quality services that make a real difference to our society.

xxiii. There exist tried and tested methods of working together in delivering public sector funding to the VCS, but these methods tend to be the exception rather than the norm. While it is vital that departments retain accountability for their own funds, it must be recognised that the failure to work together effectively is, in and of itself, inefficient. A change in approach is required, at every level of central government, to move towards better sharing of information, greater coordination of effort, and – subject to assessment of risk – increased willingness to take assurance from other departmental funders.

1. BACKGROUND AND INTRODUCTION

1.1 The Northern Ireland Audit Office's report "*Creating Effective Partnerships between Government and the Voluntary and Community Sector"* (2010) set out a number of recommendations for managing the funding relationship between the public sector and the voluntary and community sector (VCS).[2]

1.2 This report was considered by the Public Accounts Committee, which took further evidence from stakeholders before publishing its own report in January 2012. **That report recommended that the Department for Social Development (DSD), as the lead department for the VCS, give further consideration to reducing bureaucracy in public funding to the VCS, and improving working relationships between public bodies and the VCS**.[3]

1.3 A Memorandum of Reply was presented to the NI Assembly by the Minister of Finance and Personnel in March 2012, in which DSD gave a commitment to work closely with key stakeholders to consider actions which would reduce bureaucracy in the administration of public sector funding to the VCS, by way of a cross-departmental project to deliver a final report by March 2013.

1.4 A "Reducing Bureaucracy" project was established at a project initiation meeting in March 2012, with the key objective:

> ***"to identify improvements that can be made in public sector funding to the voluntary and community sector, which will deliver greater proportionality of administration, reduce duplication of effort or deliver better value for money."***

1.5 The authority for the project was provided by a Corporate Steering Group and the Project Board, whose members are identified in Annex B.

1.6 The Project Initiation Document (PID) also identified the commitments contained within the Memorandum of Reply that would be addressed within the project as follows:

(a) DSD accepts the need to take the lead to address the disproportionate bureaucracy often associated with multiple streams of revenue funding, commonly known as ' cocktail funding' ... DSD will work closely with key stakeholders to consider actions which will deliver greater proportionality of

[2] Northern Ireland Audit Office, *Creating Effective Partnerships between Government and the Voluntary and Community Sector* (2010).
[3] Public Accounts Committee, *Report on Creating Effective Partnerships between Government and the Voluntary and Community Sector* (2012).

administration and monitoring in public sector funding to the VCS (under PAC recommendation 4);

(b) DSD will continue to promote long-term funding in its dealings with both funding bodies and the Sector. It will work with other stakeholders to produce good practice guidance and ensure its dissemination across both the public and voluntary and community sectors (under PAC recommendation 6);

(c) DSD will work closely with relevant stakeholders to agree an appropriate payment target and promote implementation and monitoring of such a target across the public sector which will be published in the Concordat Annual Report (under PAC recommendation 7);

(d) DSD will work closely with the Sector and other relevant stakeholders to ensure that revised guidance on the application of full cost recovery is available and that there is an agreed understanding on full cost recovery across both the public and voluntary and community sectors (under PAC recommendation 9).

1.7 The scope of the project therefore covers the totality of public sector grant administration, including application, appraisal, financial verification, progress reporting and evaluation across central government and its NDPBs/agencies. Local government funding and the requirements attached to European funding were considered to be outside the scope of the project. However, any potential good practice identified will be communicated to the Special European Union Programmes Board (SEUPB), the Northern Ireland Local Government Association (NILGA) and the Society of Local Authority Chief Executives (SOLACE).

1.8 Although the key driver of this project has been the PAC report and subsequent MoR, there are two other key influences that the project has sought to take account of: - the establishment of the Charity Commission for NI (CCNI) and the upcoming reform of local government.

1.9 The **Charity Commission for NI** (CCNI) is the new independent regulator of charities in NI, established as an NDPB supported by DSD. Its functions include maintaining an accurate and up-to-date register of charities, encouraging the better administration of charities, and identifying and investigating any alleged misconduct or mismanagement in the administration of charities.

1.10 Establishment of CCNI is in its early stages: registration of charities is likely to commence on a phased basis in late 2013. As part of registration, CCNI will review each charity's governing document or constitution and its financial information, the detail of which will depend on its annual turnover (within three audit thresholds of below £100K, £100-500K, and above £500K).

1.11 The **reform of local government** under the Review of Public Administration **(RPA)** is likely to impact upon the issues considered in this report, insofar as some functions may transfer from central to local government. The current expectation is that the transfer of functions to local government will happen in 2015. The potential implications of this for the proposals in this report will include:

- A greater quantity of funding issuing from local government than is currently the case;
- The case for streamlining funding procedures – at central and local government levels – while preparing for and managing this transition.

1.12 There is a clear case for aligning the recommendations in this report with the new duties of the Charity Commission NI which will impact on the VCS (though it should be noted that there is not 100% overlap between organisations that will be registered as charities, and the VCS), and also with the likely wider impacts of local government reform on future funding to the VCS.

1.13 Both the prospective role of the CCNI and the wider impacts of RPA are developing areas which will be subject to change for some time. Arrangements for implementation of the recommendations in this report must be flexible enough to allow for effective alignment with the ongoing structural changes arising from local government reform and the work of CCNI in due course.

1.14 It is important to note that the majority of this report's recommendations to reduce bureaucracy are predicated on the rollout of DSD's Financial Systems Control Assessment across funders and will apply only to those funded organisations whose control systems have been rated "Robust". Those organisations whose control systems have been rated "Adequate" will not benefit from the streamlined processes proposed and will continue to be subject to more stringent financial checking until such times as their control systems are rated "Robust". Equally a funded organisation with a "Robust" rating will be aware that a failure of their finance and governance systems may well lead to an "Adequate" rating and a return to more stringent financial controls.

2. OVERARCHING PRINCIPLES

2.1 In taking forward the project as outlined above, this report is based on three overarching principles, namely;

- Both government and the voluntary and community sector **have the same underpinning aim**: the delivery of high quality services that make a real difference to our society;

- Government is **required to ensure** that its funding support to the voluntary and community sector is managed in line with **the principles set out in Managing Public Money NI**;

- The voluntary and community sector has a right to expect that **central government and its agencies will work in cooperation** to ensure that the administrative requirements on the VCS in respect of public funding are proportionate and reflect the level of risk.

2.2 In practice, this means that there are a number of considerations that span all of the proposals in this report. The first of these is regardless of the control systems in place, there is always a risk of poor management practice, lack of compliance with requirements, or even fraud. This report supports the 'Department of Finance and Personnel Anti-Fraud Policy and Fraud Response Plan' with its zero tolerance approach to fraud and will not therefore tolerate any level of fraud or corruption. All suspected frauds and allegations (anonymous or otherwise) will be thoroughly investigated with instances of fraud reported to the police as necessary and all appropriate steps will be taken to recover monies lost as a result of fraud perpetrated against public funds. The report is also committed to ensuring that opportunities for fraud and corruption are reduced to the lowest possible level of risk. While it is important that there are effective controls in place to ensure that public funding is managed in line with appropriate guidance and controls, it should be noted that, based on the available evidence[4], the cases of fraud reported in government funding to the VCS are relatively small, both in the number of suspected and actual cases (**17** for 2011/12) and by value (£**147,391** over the same period). Whilst any fraud is unacceptable this rate is relatively low when viewed in the context of the approximately 2,200 contracts issued for grant funding to the VCS in the same year, and £250M in public money provided in funding to the sector. When issues of poor management practice, non-compliance or fraud are identified, it is important that any lessons learned are communicated across government to allow

[4] Extracted from the Annual Theft and Fraud Report 11/12 compiled by DFP. The report does not purport to be a complete or absolute record of all cases of theft or fraud perpetrated against the NI public sector during the stated period.

controls to be reviewed in light of experience. It is also important for government to accept that the tendency to add further controls in reaction to a particular example of a lapse or circumvention of existing controls must be balanced against a thorough evaluation of the actual level of identified risk. **It is important that government reflects on its risk appetite in respect of relations with the voluntary and community sector, at both a strategic and operational level**, to ensure that the shared principles in relation to the development of standards of good practice and accountability agreed in the Concordat between the VCS and the NI Government can be implemented.

2.3 The second consideration is that both government and the VCS should continue to be aware that **administration carries a cost**. For government, this involves a recognition that the true cost of grant funding is not only the total grant paid out (which may include the administrative costs incurred by the VCS in delivering a project), but also the administrative cost to departments of providing that funding. If departments were to identify, monitor and, where necessary, reduce their own administrative costs to an agreed level, there would be a measurable saving to the public purse and a continued incentive to ensure that grant administration is as efficient and proportionate as it can be, while maintaining effective controls over the use of public money.

2.4 The third consideration that spans all proposals in this report is that, while each department remains accountable for its expenditure, **there exists tried and tested good practice methods of working together** including deriving assurance from other departments. Whilst departments provide a wide variety of levels and types of funding to the sector, there may be scope for standardising the agreements through appropriate Memoranda of Understanding, taking into account how working together can reduce unnecessary bureaucracy both for the VCS and the funding organisations concerned. DFP's Dear Finance Director letter FD 08/06, "Accountability for Joined Up Projects", brings together existing guidance on best practice re Joined Up Projects and highlights the scope for its application in specific circumstances.

2.5 The fourth consideration is that, in line with HM Treasury guidance, the **primary aim of government funding to the sector is that it will deliver outcomes**. Ensuring that money is spent properly is vital, but it is not the primary aim. The recommendations in this report are based on the principle that it will improve the delivery of services (both within government and by the VCS) if there is a greater focus on what is delivered by grant funding, and a reduced or separate focus on the financial verification that money has been spent as it was intended. This need not mean an automatic relaxing of financial controls, but rather a shift in attitude so that commensurate effort is directed to the primary aim (achievement of outcomes), rather than a preoccupation with detailed financial verification. For departments, this requires a clearly stated and evidenced policy, supported by a strategy for implementation that defines the outcomes that programmes are expected to achieve and how they can be measured; this forms the basis for funding support to the VCS to deliver against these outcomes.

2.6 The final consideration is that any proposals for reducing bureaucracy will only be as effective as the means by which they are communicated to and implemented by all funders. Success will be measured by how widely the proposals are taken up. As part of a broader implementation plan it will be vital to deliver **a communication and engagement strategy,** the detail of which would establish how any common procedures would be agreed, communicated and applied consistently. This activity would take account of relevant policies and structures for engagement, particularly the Concordat between the Voluntary and Community Sector and the NI Government.

3. STRAND 1 - RESEARCH & ANALYSIS OF GOVERNMENT FUNDING

3.1 This strand of the project has taken stock of current funding from government to the voluntary and community sector, with a particular examination of the extent of cocktail funding – an issue highlighted within the PAC report.

3.2 The project team's research on government funding to the voluntary and community sector made use of the Government Funding Database (GFD)[5] and NICVA's *State of the Sector VI report* as indicators of the nature of government funding to the VCS.

3.3 It should be noted that the figures quoted in this section are best estimates only, based on the GFD and/or that collated by NICVA. **In respect of the GFD, it is acknowledged that funding issued by the health and social care and education sectors is not currently recorded on the database, and that only limited local government information is recorded.**

3.4 NICVA's *State of the Sector VI* estimates that VCS income from all main sources in 2009/10 was in the region of £740M[6], broken down in the following table, and depicted in Figure 1 below: with central government and the general public being the largest individual contributors.

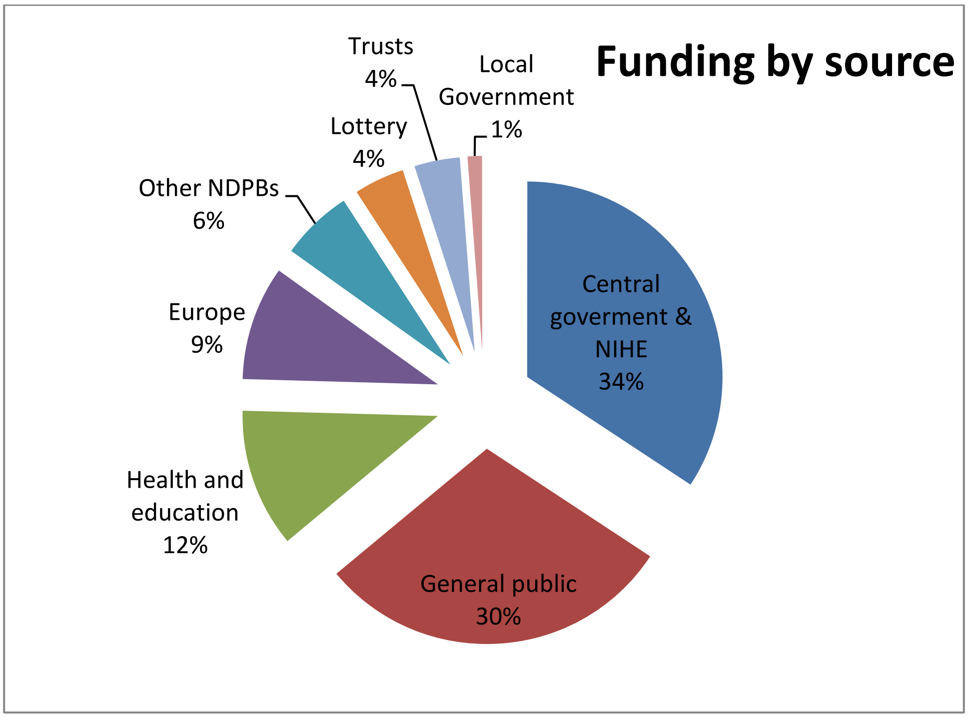
Departmental (including NIHE) funding to VCS in 2009/10

	£m
Direct departmental funding (including NIHE)	254
Statutory Education and Health Funders	85
HSC Trusts	28
Other NDPBs	44
Local Government	9
Big Lottery	31
EU Funding	70
Public Contributions	219
TOTAL	**740**

3.5 There is a trend towards earned income making up the majority of the income of the sector, with around 58% of the VCS's income coming from the sale of goods and the delivery of services.

[5] James Elliott of Voluntary and Community Unit in DSD undertook a detailed analysis of the GFD.
[6] NICVA, *State of the Sector VI* (2012).

Figure 1: Funding by source (from *State of the Sector VI*)



3.6 There is a potential risk that health and social care funding is significantly higher than the estimate in *State of the Sector VI*. DHSSPS colleagues have indicated their willingness to ensure the ongoing availability of accurate data on the commissioning of services from, and grant funding to, the VCS. To this end they are working closely with DSD colleagues responsible for leading the Government Funding Database roll-out project.

3.7 Further analysis was undertaken of the Government Funding Database, focusing on 2011/12 as the most recent full year for which information is available. It should be noted that as a live database, funding is being added to the GFD on an ongoing basis and therefore the figures below represent a snapshot of funding on the database in September 2012, when the analysis was undertaken.

Figure 2: Who is funding the sector?
from GFD (as at Sept 2012) broken down by %, based on grant spent by department, and showing the NIHE separately due to the scale of its capital and other funding

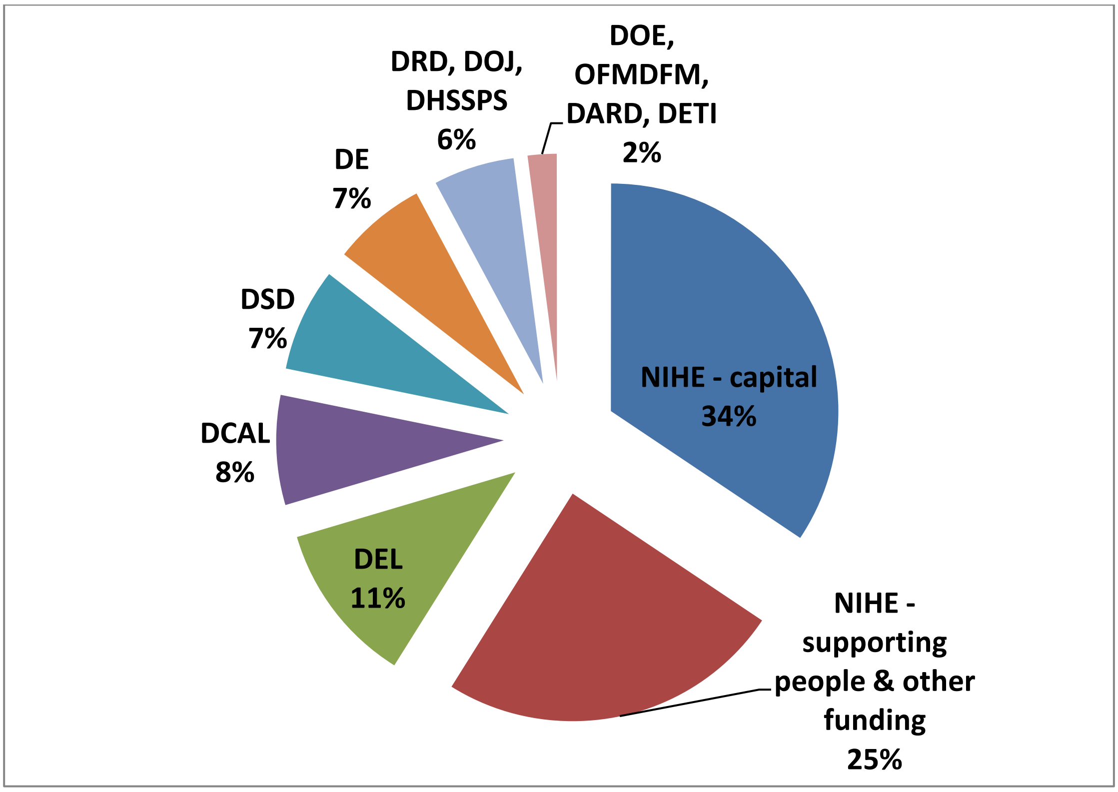
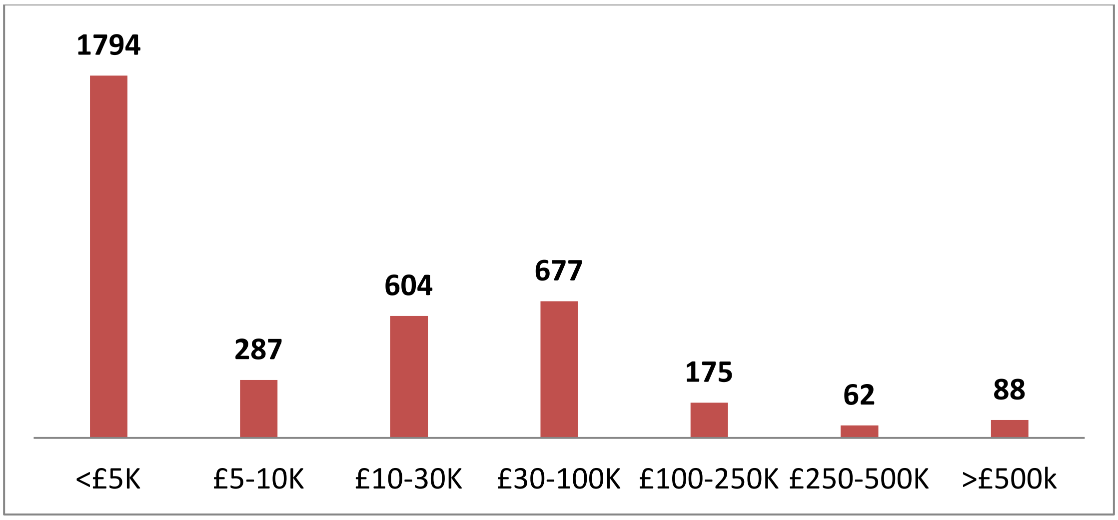


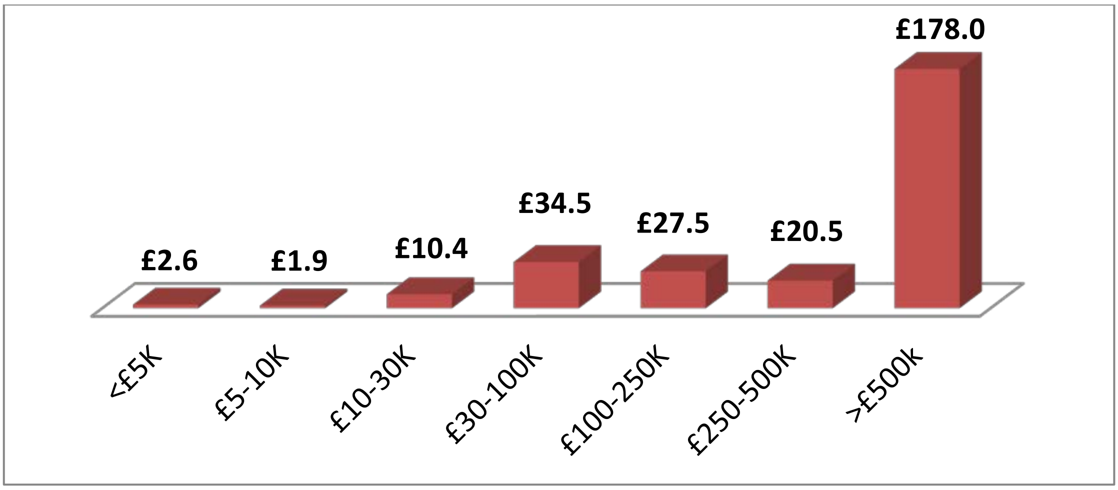
Figure 3: What is the size of funding contracts[7] awarded?
(from GFD, broken down by size of contracts issued)



[7] 'Contract' is used in this analysis as a generic term for a written agreement under **either** grant funding or procurement arrangements. Where the procurement regulations apply, the terms used are 'procurement' or 'commissioning of services'.

3.8 The above table shows that 73% of contracts recorded on the GFD are for £30,000 or less, with only 88 contracts (2% of the total) being over £500,000. Many of these are NIHE contracts for Supporting People or capital payments to Housing Associations.

Figure 4: What is the scale of actual funding?
(from GFD, broken down by total value of contracts issued)



3.9 The above table shows that contracts with a **value of £30,000 or below** make up only 6% of total funding going to the sector from government departments/NDPBs. Contracts for £30,000 to £500,000 make up 30% of funding to the sector; and contracts over £500,000 make up 65% of total government department grant funding to the VCS.

3.10 This raises two key issues for government funding: the first is that the largest amount of funding (i.e. the high value contracts) carries the highest amount of risk, in terms of the management and governance of funds. However, it should be noted that high-value contracts of this type are more carefully scrutinised than lower-value contracts. This raises the second issue, which is that of proportionality: lower value contracts carry significantly lower risk, and should therefore require less administration, in proportion with their value and the likely reduced level of risk to public funds.

3.11 In summary, the top 2% by contract size deliver 65% of the funding, while the lowest 73% by contract size deliver 6% of the funding. Further analysis of the database indicates that the 100 highest-funded VCS organisations account for 65% of all funding recorded.

What is the VCS' experience?

3.12 Some analysis was undertaken of VCS groups in receipt of multiple funding, again on the understanding that central government funding is currently recorded on the GFD, but not health and education bodies or local councils.

3.13 The analysis showed that **67% of funded VCS organisations hold one contract only**. One third (33%) hold multiple contracts, but of these, the majority have multiple contracts with one department (though this could be separate business areas, with separate administration and verification teams). In total, 88% of all funded organisations receive funding from one department only. **Only 12% of organisations are funded by more than one department**.

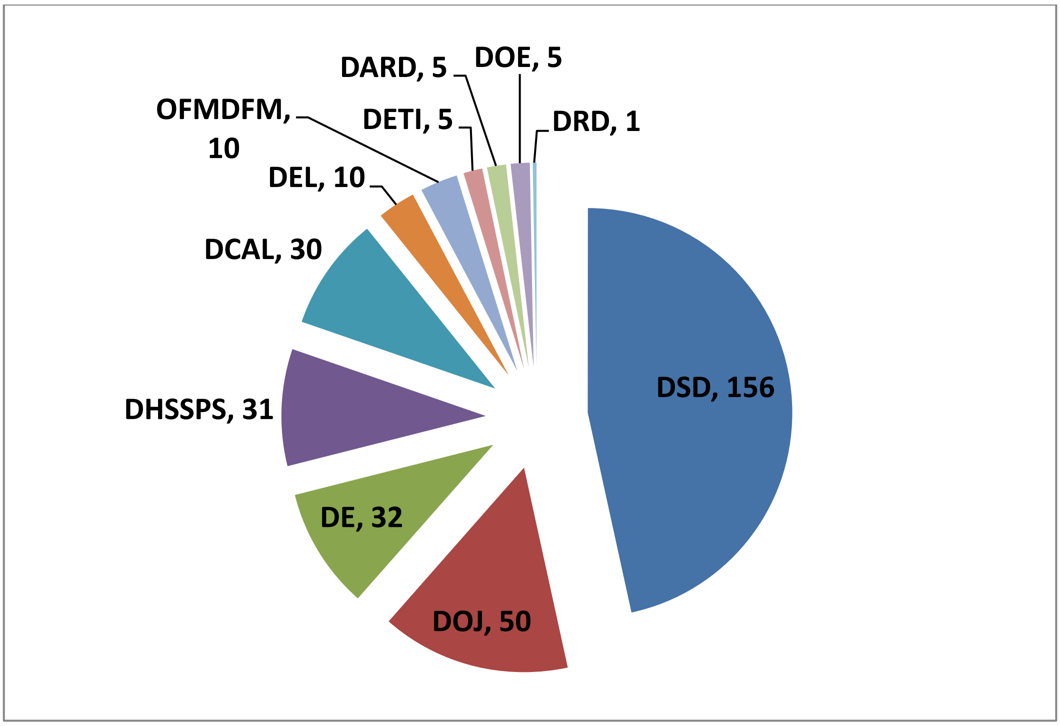
3.14 Multiple funding on the GFD includes a mix of revenue and capital funding; a range of grant awards (e.g. an organisation may receive one large award, potentially involving salary costs, and two or three smaller awards); and involves a wide range of funding programmes across departments. DSD, reflecting it's voluntary and community sector leading role, and its Neighbourhood Renewal programme, is a key funder of organisations which are multi-funded.

3.15 An analysis of the 100 VCS organisations in receipt of £100,000 or more in total from multiple funders showed that 82 organisations had contracts with 2 departments or NDPBs; 16 organisations had contracts with three departments or NDPBs; and only two organisations had contracts with four departments / NDPBs.[8] Some of these contracts were relatively small: approximately one third of contracts were for figures below £10,000, or the grant was awarded but not spent (i.e. £0).

[8] The organisations may have held more than two / three / four contracts in total in each case, e.g. by holding numerous contracts with one department.

Figure 5: Which departments tend to multi-fund?

(From GFD, showing number of contracts by department, where grant awarded was actually spent, for organisations receiving over £100,000 in grant funding in total, from more than one department)



3.16 If this issue (of organisations with a mix of small and large contracts) is analysed by removing all awards where grant spent was below £10,000, there were only 88 organisations in total that had contracts over £10,000 with more than one department. Of these, 80 organisations had contracts with two departments, 7 with three departments and only one had contracts with four departments.

3.17 It could be concluded that the issue of cocktail funding – multiple revenue streams of grant funding provided to a single organisation – is therefore not as widespread as had previously been assumed. However, it remains the case that organisations managing this type of funding mix experience very real difficulties in meeting the requirements of different funders

3.18 In summary, the key findings from our analysis are as follows:

a. **the top 2% by contract value recorded on the GFD comprise 65% of the overall funding, while the lowest 73% by contract value comprise 6% of the funding;**
b. **The 100 highest funded VCS organisations account for 65% of total funding to the VCS;**
c. **67% of funded VCS organisations hold one contract only;**

d. **33% of funded organisations hold multiple contracts, but of these, the majority have multiple contracts with one department (though this could be separate business areas, with separate administration and verification teams);**
e. **Only 12% of organisations are funded by more than one department.**

4. STRAND 2 - ARRANGEMENTS FOR APPLICATION, APPRAISAL & DECISION MAKING.

4.1 This strand is aimed at examining arrangements for application, appraisal and decision making, with a view to identifying key opportunities to reduce the burden of bureaucracy.

Collecting and sharing documentation

4.2 At present, it is common for public sector funders to collect key documents from VCS applicants as part of appraisal arrangements, but these are rarely shared, or stored in a way that facilitates sharing with other public sector funders. As a result, documentation can be collected over and over by different government funders. The required documentation varies across departments and funding programmes but there are significant areas of commonality. Key documents likely to be requested include:

i. Copy of constitution / memorandum of association
ii. List of office bearers or Board of Governors
iii. Organisation chart
iv. Copy of audited financial statements
v. Annual report
vi. Strategic / operational plan
vii. List of relevant policies in place (e.g. fraud prevention, statutory requirements, health and safety, child protection, data protection, document retention, volunteering, reserves, etc.)
viii. Job descriptions for posts to be funded

4.3 For example, DSD's Urban Regeneration and Community Development Group (URCDG) can collect over 30 pieces of evidence and/or policies in support of a funding application. Going forward it is proposed that public sector funders should no longer collect and store copies of an organisations policies and procedures. Alternatively, the Head of the organisation will be required to sign a declaration that relevant policies and procedures are in place and fit for purpose. There will however be some core information which funders must have sight of as part of appraisal and decision making arrangements. A recommended list of core information required is detailed at Annex A.

4.4 If information collected by one funder could be accessed by others, this would remove the need for funders to request it directly from the VCS organisation for each separate funding application. In support of this, the Government Funding Database (GFD), managed by DSD's Voluntary and Community Unit, holds details of grant applications and grant awards and could also provide a mechanism for sharing key documents across public sector funders thereby ensuring that core information is collected just once.

4.5 There is a facility within the GFD to allow current public sector users to attach documents. This would enable sharing of key documents across different funders and reduce the number of times that organisations are required to supply key information. There are some issues to be clarified in terms of the IT resource required to support this approach, and around ownership and timescales for uploading documents, but in principle there is a quick solution available.

4.6 The GFD has been available to trained staff in all NI Executive departments and the Northern Ireland Office from 1 April 2004. A project to roll it out to councils and health care trusts is ongoing with the aim that all government funding will be recorded on it by 2015.

Recommendation 1:

It is recommended that copies of an organisation's policies and procedures should not be collected routinely as part of appraisal and decision making arrangements. Instead, the Head of the organisation seeking funding would sign a declaration at application stage that relevant policies and procedures are in place, up to date and fit for purpose.

Recommendation 2:

It is recommended that the rationalised list of information, as detailed at Annex A, should form the core list of information needed to inform appraisal and decision making.

Recommendation 3:

It is recommended that core information be collected once by the first funder and then shared with other public sector funders, potentially via the Government Funding Database (GFD). It is recommended that we pilot the use of the GFD to share key documents (provided by VCS organisations) across public sector funders to support their funding decisions. At each subsequent application for funding the potential funder would ask the VCS organisation to confirm (by signed declaration) that all relevant documentation stored is up to date and/or provide the latest versions.

Recommendation 4:

It is recommended that DSD work with DFP and other Departments to progress the use of the of the Government Funding Database to record public sector funding to the voluntary and community sector and to promote across Departments and their Agencies.

Recommendation 5:

As the work of the Charities' Commission NI (CCNI) develops, there should be a clear fit between public sector funders' procedures and the governance checks employed by the CCNI It is recommended that, when CCNI registration is complete, appraisal and decision making procedures be reviewed to ensure there is no duplication with CCNI activities.

Rationalising funding streams

4.7 In line with current DFP guidance[9] one of the most straightforward ways to streamline funding administration is for government funders to combine funding streams, where appropriate. Recent examples of streamlining include:

- DSD and DARD's Regional Infrastructure Support Programme [geared to provide VCS organisations with important generic support they need to function effectively, including ensuring better coverage by bringing rural and urban funding together in one programme]
- DSD and 26 District Councils' Community Support Programme and work currently underway in the Belfast Community Investment Programme (BCIP).

Recommendation 6:

Public sector funders should review existing funding streams and rationalise these wherever possible, to ensure more efficient, joined up delivery against government objectives and minimise any identified gaps in funding provision.

Longer term funding

4.8 Departments are required to appraise applications for funding from VCS organisations in line with the NI Guide to Expenditure, Appraisal and Evaluation and Managing Public Money NI. Funding periods tend to be short (often only one year) and normally limited to a specific Comprehensive Spending Review period.

4.9 In line with HM Treasury guidance, the length of funding should be tied to the length of the objective. There should be no standard length of contract. Value for money must be the overriding principle that dictates whether or not a longer-term funding arrangement is appropriate. Historical tendency to fund for a certain period is not an acceptable reason to maintain short-term funding arrangements. Equally, there is a need to guard against advocating longer-term funding for its own sake.

[9] Section 6 "Improving financial relationships with the third sector: Guidance to funders and purchasers" adopted by DAO (DFP) 15/07

4.10 If departments were to appraise projects for longer periods of funding than at present, one potential impact would be that VCS organisations would be in a better position to manage ongoing staff costs, need to make fewer applications for funding over time with the potential for improved focus on service delivery, and departments would use fewer resources on appraising applications and undertaking post project evaluations for each period of funding.[10] One potential impact of longer-term funding is that there might be an increase in the number of projects exceeding Departmental Delegated Limits and therefore requiring Department of Finance and Personnel approval of Economic Appraisals and quality assurance of Post Project Evaluations. However, if DFP was content with the quality of such work, amendments could be considered to the levels of delegation, without increased risk.

4.11 Where value for money can be demonstrated, introducing longer funding periods along with appropriate in-project monitoring and evaluation arrangements would give departments more time to plan for future funding periods and reduce the uncertainty that VCS organisations, their staff and their clients experience.

Recommendation 7:

Longer-term funding, in line with Comprehensive Spending Review cycles, should be implemented, where appropriate, as a means of reducing bureaucracy in public sector funding.

[10] Clauses could be built in to contracts to the effect that grant will be dependent on forthcoming Ministerial decisions / funding being available.

5. STRAND 3 - ARRANGEMENTS FOR FINANCIAL VERIFICATION.

5.1 This section focuses on how arrangements for financial verification might be streamlined for both the VCS and funding bodies.

5.2 A key message from the HM Treasury guidance on reducing the burden of bureaucracy in financial relationships with VCS organisations is as follows: *"Funding bodies should seek to minimise the monitoring and inspection burden on the recipients of funds to a level proportionate to the level of funding and risk, and which maintains proper control of public monies...**Where bodies are multi-funded, co-operation between both internal and external auditors should be encouraged, and the audit burden on funding recipients minimised**."*[11]

5.3 Evidence provided to the NIAO and the PAC indicates that active cooperation by departmental funders to reduce the financial checking burden has, to date, been piecemeal and a source of some frustration for funded VCS organisations.

Financial verification: a systems-based approach (Risk Management)

5.4 The Financial Systems and Controls Assessment (FSCA) was introduced by the Urban Regeneration and Community Development Group in DSD in 2007, to streamline its financial verification activity for revenue funding.[12]

5.5 DSD previously checked 100% of all claims for payment from funded VCS organisations, through examination of all original supporting documentation. It then paid claims on a quarterly basis, in arrears.

5.6 Under the FSCA approach, DSD includes consideration at the economic appraisal stage as to whether the organisation has the capability to manage public funds. When the Department issues its contract for funding, the organisation is considered to have an adequate level of financial governance to enable it to manage public funds.

5.7 In a clearly defined and staged process, DSD undertakes an assessment of the VCS organisation's financial controls, its recent history of accurate and timely claims for payments, and its compliance with previous / current project objectives. The organisation is then rated either as 'adequate' or 'robust'.

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[11] HM Treasury, *Improving financial relationships with the third sector: Guidance to funders and purchasers* (2006).

[12] This approach is not appropriate to capital build programmes, EU programmes, Intermediary Funding Bodies or statutory bodies.

5.8 Organisations rated as ‘adequate’ continue to forward 100% of supporting documentation with all claims for payment.

5.9 Organisations rated as ‘robust’ forward all claims for payment without supporting documentation. (Claims continue to be checked for accuracy, adherence to conditions, etc. in line with DSD’s processes.) A retrospective vouching check is done on the supporting documentation for one payment quarter of each financial year of continuous funding for a project. Organisations are not given advance notice of the payment quarter for which they have to provide the supporting documentation. This, in effect, is a vouching check against a 25% sample of claims for payment from the organisation. It may be possible, with management agreement, to consider reducing this sample to a proportionate sample size e.g. 10% of claims.

5.10 The advantages of the FSCA approach are that payment checking is quicker, with fewer resources required by the funder; there is reduced potential for loss of documentation; payments to ‘robust’ rated groups are made more quickly; support is given to ‘adequate’ groups to improve their financial systems; and adequate provisions are in place to manage the risks involved. Feedback from VCS organisations on their experience of the FSCA has been positive on the basis that this approach reduces the administration required around vouching and can speed up payments.

5.11 For the FSCA approach to be implemented across public sector funders, there will need to be some elements agreed across departments to ensure consistency, for example in order for departments to place reliance on the ‘adequate’ or ‘robust’ rating of another department, or, in contrast, how to determine consistency for VCS organisations in the event that funding departments arrive at different FSCA ratings. Implementation of this process would standardise the financial verification practice across government and the experience for multi-funded organisations.

Recommendation 8:

It is recommended that a common systems-based approach to financial verification, specifically the Financial Systems and Control Assessment in use by DSD (risk management approach), should be implemented by all public sector funders. For organisations with robust governance systems this approach will enable quicker payment of grant claims and facilitate a reduction in financial verification checks.

Recommendation 9:

For organisations rated as ‘robust’ a retrospective vouching check on the supporting documentation should be completed for a proportionate sample (e.g. 10%) of claims

within each financial year of continuous funding for a project. Particular focus should be placed on those areas where there is a higher risk of potential manipulation of documentation.

Recommendation 10:

In recognition of the importance of having a single system across government, it is further recommended that when a funder completes a risk assessment of a VCS organisation this assessment should be shared via the Government Funding Database. This will eliminate duplication by ensuring that the assessment does not need to be repeated again by other funders.

Multiple funding in VCS organisations

5.12 The current approach to public sector funding places the greatest burden on those VCS organisations that are in receipt of multiple funding streams. Initial analysis of the Government Funding Database indicates that in 2011/12, **only 12%** (280 in number) **of VCS organisations held grant funding contracts with more than one department**. There is therefore a strong case to target effort at reducing administration costs for these organisations specifically.

5.13 For those organisations which have ***multiple contracts with one department***, there is a clear case for streamlining verification to ensure that teams within a single department are not requesting duplicated information or undertaking separate and un-coordinated verification requests or visits to its grant recipients. This is a change that can be readily implemented internally within departments without the need for specific proposals in this report.

5.14 For those organisations which have ***multiple contracts with more than one public sector funder,*** there needs to be more detailed consideration of how the management of this grant funding can be streamlined, with one department taking assurance from the work of another. Effectively this means that one funder acts as a 'lead financial verifier' of all funding (or, under a systems-based approach, a sample of all funding) provided to a VCS organisation.

5.15 This work involves the financial **v*erification alone:*** *progress against performance targets woul*d continue to be managed by relevant funders. However, it will remove duplication, because financial checking will only be undertaken by one funder, and it will enable a greater focus on performance, because non-lead departments will focus on progress against targets rather than financial checking. Collaboration will be required between funding departments, to agree a common approach and put in place Memoranda of Understanding. Precedents and good practice examples for this approach already exist and can be promoted more widely.

Recommendation 11:

It is recommended that, in circumstances where there are two or more funders of a VCS organisation, then a lead financial verification approach should be adopted. Arrangements for lead verification, to include a decision as regards who should take on the lead role, should be agreed by the funders involved and set out in a formal Memorandum of Understanding on a case by case basis. Further guidance is available in DFP's Dear Finance Director letter FD 08/06, "Accountability for Joined Up Projects".

Refine existing grant funding allocation and claims verification processes

5.16 This proposal envisages an allocation of revenue funding that is less prescriptive than at present for some grant funders[13]. This change would mean that grant funding may continue to be allocated for Salaries and Running Costs but, for "Robust" rated organisations, funders would not break down and monitor running costs against the myriad of sub-categories that some currently do. Once the funded organisation's budget is agreed at the start of a funding period it will be up to that organisation to manage their budget. Funded organisations and funders can focus on the delivery of outcomes rather than completing and checking detailed claim forms against multiple categories of running costs.

5.17 There would continue to be a financial verification check based on an appropriate sample at year end.

Recommendation 12:

It is recommended that whilst funders will require detailed cost estimates as part of appraisal and decision arrangements, when funding is awarded funded organisations should be granted discretion to manage running costs to deliver the project outcomes as flexibly as possible in response to changing circumstances and any emerging resource constraints, provided that a record of any funding reallocations is kept. This approach should be piloted to test arrangements, etc.

[13] It's worth noting that there are currently a range of different approaches by different grant funders.

6. STRAND 4 - ARRANGEMENTS FOR MONITORING AND EVALUATION

6.1 The National Audit Office and Northern Ireland Audit Office have repeatedly highlighted the importance of **proportionality** in monitoring funding to the VCS.[14] HM Treasury guidance on monitoring emphasises the need to *"minimise the monitoring and inspection burden ... to a level proportionate to the level of funding and risk, and which maintains proper control of public monies."*[15]

6.2 In terms of value for money, HM Treasury guidance is clear that ***"the primary concern for funding bodies should be whether the framework they develop for funding decisions contributes to achieving the outcomes desired for those funds."*** It is recognised that funding bodies need to focus commensurate attention on the process of awarding funds and on the appraisal, evaluation and financial verification requirements they wish to apply, but the primary concern is achieving outcomes.

Monitoring Progress against deliverables

6.3 A report by New Philanthropy Capital, *Turning the Tables*[16], has attempted to estimate the cost of monitoring to VCS organisations. The average cost of reporting back to the funder – admittedly using a small sample of Scottish VCS organisations – was 4.5% of each grant. In some cases, the cost rose to over 9%. The report noted that *"putting an estimate on the average burden of monitoring and reporting provides an economic incentive for both funders and charities to change the system. If they know the size of the burden, then they know how much money can potentially be saved."* The reporting burden was found to be highest for small grants, indicating that funders do not sufficiently vary their reporting requirements to reflect the size of grants.

6.4 It is accepted that there will be elements of monitoring that both funder and funded require in order to effectively carry out their role. The key issues are agreement on what is necessary and a move towards better-defined outcomes. Additional costs only arise in relation to the element of monitoring that is unnecessary, i.e. that which is demanded by the funder and has no further value.

6.5 The main risk for government under current arrangements may be that disproportionate effort is directed towards financial checking rather than ensuring that the desired outcomes are achieved. This may be linked partly to an issue of

[14] NAO, *Intelligent Monitoring: An element of financial relationships with Third Sector organisations* (June 2009); NIAO, *Creating Effective Partnerships between Government and the Voluntary and Community Sector* (September 2010).
[15] HM Treasury, *Improving financial relationships with the third sector: Guidance to funders and purchasers* (2006).
[16] New Philanthropy Capital, *Turning the Tables: Putting Scottish charities in control of reporting* (2008).

ready availability of evidence: financial checks can be quantified in a way that outcomes often cannot, or there may be a perception that auditors or others may want to see all expenditure verified by funders. However, this does not remove the need to focus the greater part of funders' efforts on ensuring the achievement of outcomes, through a shared understanding with the funded organisation of the funding objectives, targets, outputs and outcomes required.

6.6 In terms of reducing the administrative burden of **progress monitoring and reporting**, **as against financial verification requirements addressed in section 6 above**, such monitoring should be proportionate, reflective of risk and tied to the length of expected outcomes. There are options to enable organisations in receipt of more than one contract to develop a reporting format to cover all of their activities, to meet both their own needs and those of all funders, thereby removing the need to produce separate or different reports to individual funders. However, this requires flexibility on the part of the funders. A further option is to vary reporting requirements, including the frequency of progress reporting (e.g. quarterly, six-monthly or annually to meet the timing of significant deliverables). This could reduce administration for both funders and funded organisations, particularly relevant where there is a move towards longer-term funding contracts. However, it is important to recognise that monitoring should be proportionate and reflective of risk.

Recommendation 13:

Public sector funders should be flexible, where appropriate, to accept standard reporting formats from funded organisations and to reduce the frequency of progress reporting required to minimise the bureaucracy associated with grant funding.

Evaluation

6.7 In respect of **evaluation**, Post Project Evaluation (PPE) is mandatory for all projects and programmes, and is essential in determining if the public funding provided for a project has achieved the desired results, proved to be value for money and, where appropriate, provided lessons learned which can be applied in future similar cases. Some information may be required from funded organisations for this purpose, but the bulk of the work is undertaken by funders based on approved monitoring reports. Departments have developed evaluation templates to suit their respective business requirements and, like appraisal, commensurate effort principles should be applied. Evaluations (PPEs) are subject to quality assurance by DFP (where appropriate) and by departmental Economists. There is little scope for reducing the current level of administration at PPE stage. Nevertheless there may be some potential for reducing effort by introducing longer-term funding where that is appropriate and/or using commensurate evidence depending on the risk or monetary value involved.

6.8 Where there is a potential to continue funding, using existing monitoring reports, an interim evaluation should commence at least 6 months before the expiry of a contract to improve the timeliness of decision making re whether or not to continue to fund. This would allow discussion on any amendments to future objectives/targets to be agreed and in some cases avoid the situation where staff in VCS organisations, are placed on protective notice.

Recommendation 14:

Where public sector funding is provided for salaries, appraisal and decision making arrangements should be complete at least 3 to 4 months prior to the end of an existing project, thereby avoiding the need for VCS organisations to put staff on protective notice with the associated bureaucracy. To facilitate this, an interim project evaluation should be completed six to nine months in advance of any potential continuation funding period.

Moving towards an impact-based approach

6.9 In recent years there has been an increased focus on moving towards an impact-based (or outcomes-focused) approach to grant funding. At its broadest definition, this can mean simply adding high-level outcomes to the inputs, activities and outputs that are agreed between funders and funded organisations at the outset of any funding period. If it is more narrowly defined, this approach can mean that a set of outcomes are agreed, proportionate to the scale of the project and the timescale of the funding. The focus is more on checking progress against outcomes than checking financial expenditure.

6.10 A Concordat Action Team (CAT) on "Outcomes" has been tasked with delivering the Concordat commitment: *"to work together to implement an outcome focussed approach to funding".* It is recommended that the lessons learned from the work of the "Outcomes" CAT should be communicated widely across public sector funders to allow for potential further reductions in bureaucracy.

6.11 In the meantime it is proposed that an "Addressing Bureaucracy" Implementation Project should include a number of pilots to examine the pros and cons of an outcome-focused approach to funding.

6.12 It is proposed that this “outputs/outcomes only” approach would:

i. Move away from vouching robust organisations;
ii. Place reliance on an organisations own systems and controls;
iii. Empower organisations to “manage the grant”; and
iv. Focus only on outputs / outcomes being delivered.

Recommendation 15:

An impact-based (outcomes-focused) approach should be piloted to examine how effective it can be in terms of reducing bureaucracy and increasing the focus on delivery of project objectives.

Recommendation 16:

Once complete, the lessons learned from the work of the Concordat Action Team on “Outcomes” should be communicated widely across public sector funders to allow for potential further reductions in bureaucracy.

7. ADDITIONAL COMMITMENTS IN THE MEMORANDUM OF REPLY

Full cost recovery (FCR)

7.1 Full cost recovery refers to the direct and indirect (i.e. overhead) costs incurred by organisations. Direct costs are incurred as a direct result of running a cost or service, and overhead costs are incurred by an organisation in order to support the projects that it runs. The full cost of the organisation includes both the direct costs of all projects and services and all overheads. Therefore, the full cost of each project within an organisation includes both the direct costs and a portion of overheads.

7.2 Government accepts that it is legitimate for service providers to factor in the relevant element of overhead costs into their cost estimates for services and in bids for grants.

7.3 HM Treasury guidance notes that there is no reason why service procurers should disallow the inclusion of relevant overhead costs in bids. They would not do so for a private sector bidder, and the playing field should be level for the voluntary and community sector. Equally, the same level of information should be requested of third sector organisations as private and public sector bodies.

7.4 Under a procurement regime, purchasers require some understanding of whether bids are properly costed in order to demonstrate that they are sustainable, do not put the delivery of the intended outcomes at risk and therefore represent good value for money.

7.5 Under a grant-making regime, bidders are not necessarily in direct competition to deliver the same service or the same outcomes, so funders cannot rely solely on market mechanisms to set a price which represents value for money. Funders need to turn to cost structures to understand whether public resources are being employed efficiently and effectively. Further guidance on this, adopted as policy by DFP, is available.[17]

7.6 There exist well-developed systems (e.g. the Big Lottery Fund model) for determining when it is appropriate to use full cost recovery, what are considered eligible costs, at what financial level it is applied, and templates to assist organisations.
The Project Team has identified existing good practice guidance and online resources that explain what full cost recovery is and how it can be achieved.

7.7 However, it is clear that further work remains to be done to support voluntary and community organisations in cost allocation, as well as supporting funders in

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[17] HMT *Guidance to funders and purchasers* http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/media/9/4/guidncefunders1505061v1.pdf

understanding its application. The communication and engagement plan linked to this report will be a key vehicle for taking this work forward.

Recommendation 17:

It is recommended that existing best practice guidance and resources on Full Cost Recovery are disseminated widely through communication and awareness activities across both the public and voluntary and community sectors.

Timely grant payment performance

7.8 The PAC in its January 2012 report recommended that :

> *"Payments to Sector organisations must be made in a timely manner, whether these are for the provision of contracted services or in respect of grant or grant-in-aid. The Committee recommends that all public bodies contracting services from Sector organisations should confirm, through their annual report and accounts, that they have applied the principles of the prompt payment policy. In addition, public bodies making grant or grant-in-aid payments, should establish a target for such payments and monitor and publish performance in their annual report and accounts"*

7.9 In the Memorandum of Reply (MoR), being the Government's formal response to the PAC's recommendations, an undertaking has been given that:

> *"DSD will work closely with relevant stakeholders to agree an appropriate payment target and promote implementation and monitoring of such a target across the public sector. As regards the publication of such a target, the Concordat Annual Report is considered to be an appropriate vehicle, as this would ensure that relevant information is published, annually and in a document specifically for the purpose of reviewing all aspects of Government's relationship with the Sector".*

7.10 There is currently no requirement to report performance in relation to timely grant payment, although some departments do publish this on a voluntary basis. For instance, DSD's Urban Regeneration Group initiated a pilot with a target of payment of grant within 30 days from the receipt of requests for payment. Initial results for 2010/11 indicate that in 98% of cases this target was met. The PAC has expressed a wish to see this initiative rolled out across the NICS.

7.11 Addressing this entails:

- Assessing how quickly payments are made at present, once all eligibility conditions have been met so as to gauge the true scale of the problem of timely payment.

This could be achieved by a pilot approach, using DSD's current VCU information base;

- Informed by the above, agreeing an appropriate payment target for grant payments following confirmation that all grant eligibility conditions have been met;

- Promoting implementation of timely payment performance across the public sector, whilst emphasising the important reciprocal role of the VCS in securing the objective of timely payment;

- Monitoring performance against the target across the public sector; and

- Publishing performance against the timely payment target in the Concordat Annual Report.

Recommendation 18:

Guidance re the prompt payment of grant funding, including as appropriate target payment timescale and subsequent monitoring and reporting-back arrangements, to be agreed and issued. This should be informed from the outset by an assessment of the current position through a pilot study.

8. BUILDING RELATIONSHIPS: COMMUNICATION AND ENGAGEMENT

8.1 Communication and engagement on good practice in grant funding is vital in ensuring consistency among funders in terms of how they support the VCS. The focus in this section of the report is determining how best to communicate and engage across central government and the voluntary and community sector to embed the key principles of the PAC and NIAO reports, and to share and learn from good practice. There is likely to be a need for short and medium-term programmes of engagement activity to maintain momentum.

8.2 The PAC report highlighted the need to communicate good practice in respect of:

- **longer-term** funding (PAC recommendation 6 & associated MoR);
- **timely communication** of funding decisions (PAC recommendation 6 & associated MoR);
- **embedding good practice** (PAC recommendation 8 & associated MoR); and
- agreeing an understanding of **full cost recovery** (PAC recommendation 9 & associated MoR).

8.3 Some of this learning is primarily for the public sector (e.g. benefits of longer-term funding and timely communication of funding decisions), but some is for both the public and the voluntary and community sectors (embedding good practice and agreeing an understanding of full cost recovery).

8.4 A **communication and engagement plan** linked to this project will embed the key principles of the PAC and NIAO reports, and communicate the proposals of this bureaucracy project report.

Recommendation 19:

An implementation plan, including a communication and engagement plan, will be delivered to embed the key principles of the NIAO and PAC reports and to communicate the proposals of this report.

9. IMPLEMENTATION ARRANGEMENTS

9.1 A formal implementation project with appropriate governance and delivery structures will be established following sign-off of this report by the Corporate Steering Group and the Project Board, the Permanent Secretaries Group and the Social Development and Public Accounts Committees.

10. CONCLUSION

10.1 The recommendations in this report support the high-level principles set out above, specifically that both government and the voluntary and community sector share the common aim of delivering high quality services that make a real difference to our society.

10.2 There exist tried and tested methods of working together in delivering public sector funding to the VCS, but these methods tend to be the exception rather than the norm. While it is vital that departments retain accountability for their own funds, it must be recognised that the failure to work together effectively is, in and of itself, inefficient. A change in approach is required, at every level of central government, to move towards better sharing of information, greater coordination of effort, and – subject to assessment of risk – increased willingness to take assurance from other departmental funders.

11. GLOSSARY

Contract is used in this report to refer to a written arrangement that may result from either public procurement exercises or grant funding / grant-in-aid.

Evaluation is an 'after the event' activity which examines the outturn from a project and seeks to learn lessons from past experience in order to help with future project design, content and management.

Financial Systems and Controls Assessment (also known as a 'risk-based assessment' or 'risk management approach') is a focused, independent assessment of an organisation's financial systems and controls upon which reliance can be placed to give an easement in terms of the amount of supporting documentation it has to provide in support of claims for payment.

Financial verification / financial monitoring is the process of checking that the grant funds awarded have been spent in compliance with the funders' requirements (i.e. the requirements of Managing Public Money NI but also any further conditions that may be applied in specific funding contracts).

Monitoring has two functions. One is the monitoring of the targets and objectives in relation to the project (referred to in this report as **progress reporting**) and the other is financial monitoring in relation to the vouching of expenditure (referred to in this report as **financial verification**).

Outcomes are the expected results of a project, programme or scheme. They are usually related to the overall aims of the project. They can be difficult to measure or attribute to a particular project / intervention and require engagement between funders and funded organisations to reach agreement on what the desired outcomes are, and how they can be meaningfully measured.

Outputs are the agreed tangible things that a project or scheme will deliver, either on completion or during its lifetime. A project's outputs will be measured against agreed targets.

Progress reporting / monitoring is the process of verifying that the activities undertaken by a funded organisation meet the output or outcome requirements agreed in the funding contract.

ABBREVIATIONS

CAT	Concordat Action Team
CCNI	Charity Commission Northern Ireland
DARD	Department of Agriculture and Rural Development
DFP	Department of Finance and Personnel
DHSSPS	Department of Health, Social Services and Public Safety
DSD	Department for Social Development
FCR	Full Cost Recovery
FSCA	Financial Systems and Control Assessment
GFD	Government Funding Database
HSCB	Health and Social Care Board
MoR	Memorandum of Reply
NDPB	Non Departmental Public Body
NIAO	Northern Ireland Audit Office
NICVA	Northern Ireland Council for Voluntary Action
NILGA	Northern Ireland Local Government Association
PAC	Public Accounts Committee
PID	Project Initiation Document
PPE	Post Project Evaluation
RPA	Review of Public Administration
SEUPB	Special European Union Programmes Board
SOLACE	Society of Local Authority Chief Executives
URCDG	Urban Regeneration and Community Development Group
VCS	Voluntary and Community Sector

Annex A

KEY DOCUMENTATION WHICH FUNDER MUST HAVE SIGHT OF AS PART OF THE FUNDING DECISION

Copy of applicants constitution/memorandum of association
List of Office Bearers or Board of Governors
Organisation Chart
Other funders Letters of Offer
Copies of applications for funding
Copy of Audited Accounts or Financial Statement
Rental Agreement/lease or evidence of ownership

Annex B

PROJECT MANAGEMENT STRUCTURE

Corporate Steering Group

Name	**Organisation**
Will Haire	Permanent Secretary, DSD
Stephen Peover	Permanent Secretary, DFP
Kieran Donnelly	Comptroller and Auditor General, NIAO
Seamus McAleavey	CEO, NICVA

Project Board

Name	**Organisation**
Tracey Teague	Voluntary and Community Unit, DSD (SRO – from Oct 2012)*
Fiona Hamill	Treasury Officer of Accounts, DFP
Peter Toogood	Finance Director, DHSSPS
Seamus McAleavey	CEO, NICVA
Keith Morrison	DARD
Brandon McMaster	NIAO

*SRO role undertaken by Catherine McCallum from March 2012 and Michael Donnelly from July 2012

Project Team

Name	**Organisation**
Michael Donnelly	Voluntary and Community Unit, DSD (Project Manager – from Oct 2012)*
John Johnston	DSD
Alasdair MacInnes/Paul Skillen	DHSSPS
John McGinnity	DFP
Peter Murchan/Colin Small	DSD Internal Audit
Una McKernan	NICVA
Pamela Matthews	NILGA
Brian O'Neill	NIAO
Eileen Kennedy	HSCB

*Project Manager role undertaken by Heloise Brown from March to October 2012