



HM TREASURY

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Dear Accounting Officer

FINANCIAL RELATIONSHIPS WITH THE THIRD SECTOR

This letter advertises revised guidance entitled *Improving financial relationships with the third sector: Guidance to funders and purchasers*¹. This new guidance revises and places the guidance announced in DAO (GEN) 12/03, which is now withdrawn.

Action

2. Accounting Officers are asked to make the relevant people in their organisations and sponsored bodies aware of this document.

Contacts

- *specific issues relating to the guidance*: Michael Contaldo, Charity and Third Sector Finance Unit, 020 7270 5932 or michael.contaldo@hm-treasury.x.gsi.gov.uk
- *regularity and propriety issues*: Jim Duncan, TOA, 020 7270 4833 or jim.duncan@hm-treasury.x.gsi.gov.uk.

The new guidance

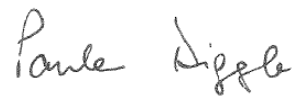
3. The government believes that its objectives can often be delivered effectively and economically by working with and through bodies in the charitable and voluntary sectors. This includes funding third sector bodies to carry out specific activities. This revised version of *Guidance for funders and purchasers* aims to set out best practice in such funding, consistent with proper public accountability.

¹ http://www.hm-treasury.gov.uk/spending_review/spend_ccr/spend_ccr_guidance.cfm

4. These requirements are less onerous than is sometimes thought. In particular, there are four areas where the document clarifies good practice:

- stability in the funding relationship: longer-term funding arrangements can be appropriate if the term matches the government's policy objectives;
- timing of payments: payment in advance can avoid imposing unreasonable risks on third sector partners if they would otherwise face upfront borrowing costs;
- full cost recovery: it is reasonable for third sector organisations to recover overhead costs associated with providing a particular service; and
- reducing the burden of bureaucracy: streamlining access and performance management requirements for multiple, and often very small, funding streams.

5. Supporting this guidance, the National Audit Office has developed a new web-based *Decision Support Tool*². It takes funders and purchasers through a structured series of decisions about the design of funding programmes. The aim is to ensure that funding programmes both achieve their objectives and comply with the Compact Funding and Procurement Code.³



Paula Diggle
Treasury Officer of Accounts

² www.nao.org.uk/better_funding.

³ <http://www.thecompact.org.uk/>