



A SUMMARY GUIDE: IMPROVING FINANCIAL RELATIONSHIPS WITH THE THIRD SECTOR GUIDANCE TO FUNDERS AND PURCHASERS

The wider funding context

- The main determinant of the nature of the financial relationship is the nature of the intended outcomes.
- Social issues can legitimately be incorporated into the purchasing cycle where they are relevant to the subject of the contract.
- A grant is a financial transfer used to fund an activity that is in broad alignment with the funder's objectives. Grant-in-aid is a payment to finance the costs of a body operating at arms' length. Procurement is the acquisition of goods and services in line with the government's policy of value for money, normally achieved through competition.
- Funding bodies must be clear with recipients about the nature of the financial relationship they are entering into, both up front and as the relationship develops.
- Contracts and grants should be jointly agreed in writing before the work commences.

Stability in the funding relationship

- 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.
- Longer term planning and funding arrangements can often represent better value for money than one year funding agreements.
- Funding arrangements should be agreed between all parties if they are to be effective and offer the right incentives to deliver value for money.
- 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 long-term funding for its own sake.
- Departments should consider fully the opportunities for cascading multi-year funding arrangements to NDPBs and agencies.

Balance of risk and the timing of payments

- It is vital that the timing of payments is considered in collaboration with, and not imposed upon, the organisation responsible for providing the service.
- Funding bodies should agree the timing of payments with funding recipients at the beginning of a programme.
- Funding bodies should make a commitment to pay within a specified time or on a specified date or dates, and such commitments should be fully honoured.
- In specific circumstances, Government Accounting allows for payments to be made in advance of expenditure.
- Payments in advance of expenditure to third sector organisations should be made on the basis of need and therefore can and should, where appropriate and necessary, be made in order to achieve better value for money.

Full cost recovery

- There is no reason why service procurers should disallow the inclusion of relevant overhead costs in bids. Furthermore, funders or purchasers should not flatly reject or refuse to fund fully costed bids. Funding bodies must recognise that it is legitimate for third sector organisations to recover the appropriate level of overhead costs associated with the provision of a particular service.
- When grant-making, funders should assess in a simple, proportionate and equitable manner whether third sector organisations have allocated relevant overhead costs and ensure that costs are recovered only once.
- Under a competitive procurement regime, purchasers should be clear that they expect third sector providers to be aware of the risks of not bidding on a full cost recovery basis. A third sector organisation unwittingly subsidising a public service is unlikely to represent good value for money, particularly in the long term.
- Fixed percentages without any evidence base do not provide a sound basis for the calculation and award of relevant overhead costs. Clear and consistent allocation of relevant overhead costs can provide a more accurate guide to funders of the true cost of delivering a service or output.

Reducing the burden of bureaucracy

- Funding bodies should ensure that their application procedures are clear, and wherever possible, as simple as they can be.
- 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.
- Where organisations are multi-funded it is good practice to appoint a lead funder to streamline application processes, co-ordinate monitoring and inspection arrangements and to minimise the number of evaluation systems and visits.

Publicly funded assets

- In providing public funds for the purposes of acquiring or developing an asset, funding bodies should, where appropriate, retain a financial interest in the asset, particularly in relation to disposal or alternative use.
- Whilst seeking to safeguard taxpayers' interests, funding bodies should be pragmatic and realistic in setting charges over an asset.
- Conditions should be flexible, and not create barriers to wider policy objectives.

The full text of this document is available at www.hm-treasury.gov.uk

For further information contact the Correspondence and Enquiry Unit, HM Treasury
public.enquiries@hm-treasury.gov.uk