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Northern Ireland Audit Office

Creating Effective Partnerships between Government and the Voluntary and Community Sector

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This report has been prepared under Article 8 of the Audit (Northern Ireland) Order 1987 for presentation to the Northern Ireland Assembly in accordance with Article 11 of that Order.

K J Donnelly   Northern Ireland Audit Office
Comptroller and Auditor General   15 September 2010

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In Northern Ireland the voluntary and community sector is significant and diverse providing a wide range of services

1. The voluntary and community sector (the Sector) comprises non-governmental organisations that are value-driven and which principally reinvest their surpluses to further social, environmental or cultural objectives[1]. They are involved in a wide range of roles including providing advice, advocacy, campaigning and the delivery of goods and services. At a national level, Government has increasingly sought to engage with, and harness, the contributions the Sector makes to society (**Appendix 1**).

2. In Northern Ireland the Sector's contribution to the achievement of the Executive's strategic goals and priorities is recognised in the 'Programme for Government' 2008-2011. This emphasises the importance of partnership working and *"working together with the Assembly and harnessing the talents of all the sectors – public, private, voluntary and community"*.

3. A general charities definition is widely used to define the voluntary and community sector, although not all organisations have charitable status and not all charities are voluntary and community organisations. Northern Ireland, unlike England, Scotland and Wales, does not, as yet, have a charities register. However, the Northern Ireland Charities Commission was set up, and charity commissioners appointed, in June 2009; compilation of the register of charities is to commence at the end of June 2010[2].

4. In the absence of compulsory registration it is difficult to accurately estimate the size of the Sector or the extent to which it is engaged in the delivery of public services. The best estimates of the Sector are provided by the Northern Ireland Council for Voluntary Action (NICVA)[3] through its tri-annual 'State of the Sector' research – the latest figures are summarised at **Figure 1**.

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1   *The future role of the third sector in social and economic regeneration: final report* HM Treasury and Cabinet Office, July 2007, Cm 7189
2   The Charities Act (Northern Ireland) 2008 provides for the establishment of a Charity Commission. One of its main tasks will be to validate over 7,000 charity records held by HM Revenue and Customs. These records will be used to establish an interim charity register with new registrations expected to commence at the end of June 2010.
3   NICVA is an umbrella organisation (with some 1,000 member organisations) representing the general interests of Northern Ireland voluntary and community organisations.

> ### Figure 1 Characteristics of the voluntary and community sector in Northern Ireland
>
> - there were around 4,700 active organisations in 2008;
>
> - the Sector's total income was £570 million, with some £259 million (45 per cent) of this coming from Government (2006-07) (**Appendix 2**);
>
> - 2006-07 was the first year in which the Sector's "earned" income (51 per cent) exceeded one half of its total income;
>
> - the Sector employed a paid workforce of almost 27,000 people (2008) (**Appendix 3**);
>
> - some 88,000 people volunteered on a formal basis in the Sector (2008); and
>
> - only 1 in 6 organisations were part of a larger organisation with a UK, all-Ireland or international structure (2008).
>
> *Source: State of the Sector V[4] NICVA, 2009 (latest estimates)*

Government funding has moved from being primarily grants to being weighted towards purchasing services (earned income)

5. NICVA's research indicates that almost two-thirds of government's funding of the voluntary and community sector was 'earned income' (£167m) from government purchasing goods and services (Appendix 2). The nature and level of funding to the Sector is, to some extent, dependent on whether the services funded or purchased are:

- 'public services' - services which are a statutory requirement and must be delivered on a universal basis; or

- 'services to the public' – services which may be provided, as determined by consideration of additional needs and priorities, and within finite resources.

6. There are wide variations in the scale and type of public funding provided by multiple public sector funding bodies (Appendix 2). Substantial funding from the European Union has made an important contribution to developing and sustaining the voluntary and community sector. However, reductions in European Union funding in recent years (from £58 million in 2003-04 to £11 million in 2006-07)[4], combined with the current difficult economic conditions, presents a challenge for the sustainable development of the Sector.

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4   *State of the Sector V* NICVA, 2009. This is NICVA's fifth tri-annual research paper on the Sector, providing a 'snap shot' of its profile, size, income and expenditure etc. The financial information was gathered on the 2006-07 financial year by a combination of surveys of the Sector organisations (sample of 1,606 organisations) and the public; analysis of some 530 Sector organisations accounts; and information from major funders.

http://www.nicva.org/publications/state-sector-v

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The Department for Social Development has lead responsibility for the voluntary and community sector

7.   A wide range of government departments, agencies and other public bodies interact with, form working relationships with, and provide funding to voluntary and community organisations. The Department for Social Development (the Department) is one such body, and it is also the lead government department with responsibility for the Sector. As part of its Programme for Government public service agreements, the Department undertook to promote a strong, vibrant and sustainable voluntary and community sector to enable better delivery of services. Its remit includes:

- providing advice and guidance about working with the Sector;

- supporting community development and promoting volunteering and active citizenship;

- working in partnership with the Sector;

- administering and developing policy and strategy, and researching issues affecting the Sector; and

- providing funding programmes and managing the government funders' database.

The majority of the Department's funding to the Sector is directed through the Northern Ireland Housing Executive and district councils which interface directly with voluntary and community organisations; in

2009-10 this totalled £154 million (£257 million in 2008-09). It also provided an additional £39 million in 2009-10 (also £39 million in 2008-09) by way of direct funding to voluntary and community organisations.

We have previously reported on investing in partnership with the voluntary and community sector

8.   In 2002, we reported on the policies, regulations and management of government grants to voluntary and community organisations[5], with the aim of:

- defining and promoting minimum standards of good practice across government departments; and

- focusing on key information and processes needed for proper management of public funds.

The report was intended as a practical guide for departments, to complement existing frameworks.

Scope and Methodology of this report

9.   The aim of this review is to provide a position report on the development of key aspects of the working relationship between government and the voluntary and community sector and also to provide illustrations of good practice in that working relationship, with the aim of providing renewed impetus for practical improvement in the dissemination and implementation

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5   *Investing in Partnership: Government Grants to Voluntary and Community Bodies* NIAO May 2002, NIA 78/01.
      http://www.niauditoffice.gov.uk/pubs/reports/2002/GovernmentGrants.pdf

of good practice. The report focuses on three fundamental aspects for effective partnership working:

- the relationship between government and the Sector (**Part One**);

- the role of Sector organisations in delivering public services (**Part Two**); and

- the mechanisms for funding the Sector (**Part Three**).

10. We commissioned NICVA to produce a scoping study aimed at providing background information on the Sector. We shared the findings of their work with the Department prior to commencing this review.

11. We worked closely with the Department in planning and carrying out our review, interviewing senior officials, reviewing policy papers and reports and assessing the government funders' database. We consulted with Departmental officials to agree the selection of a number of voluntary and community organisations to meet as part of our fieldwork and we interviewed senior staff in three of those organisations:

- Early Years – provides early year care and education;

- Footprints Women's Centre – aims to help women grow in confidence; and

- Praxis Care Group – promotes mental health.

We also interviewed the voluntary and community sector's joint chair of the Joint Government Voluntary and Community Sector Forum.

12. Our report includes a number of case studies and while they are not presented as the commonly shared experience of all voluntary and community organisations, they illustrate good and poor practice in key aspects of the relationship between government and the Sector. The case studies represent the views as expressed by the organisations themselves and were developed in conjunction with the individual organisations, the Department and NICVA.

Our Findings

13. The Executive values the contribution the voluntary and community sector can make to bettering society and the delivery of the goals and priorities of the 'Programme for Government'. It has also provided substantial funds to support the Sector's development and its activities, as well as purchasing services from it. The scale of this funding is indicated by the government funders' database, established in 2004 to facilitate a more co-ordinated strategic approach to funding the Sector. It records, for the six years to March 2010, some 14,500 offers of assistance totalling £1.34 billion.

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14. It was envisaged that the database would, amongst other things, enable government to better target its support through analysis of a centralised and uniform source of information and reports. However, its strategic value is limited as it does not capture details from all the major public sector funders. For example, health trusts and education and library boards are not recorded on the database although they provided some £115 million in 2006-07[4] to voluntary and community organisations, predominantly through the purchase of services.

15. In recognition of the unique contribution and importance of the Sector, the 1998 *Compact*[6] set out how public bodies' relationship with the Sector should develop (**Appendix 4**). The Department is currently working on a replacement which it plans to present to the Executive by the end of 2010. In addition, the Department has lead responsibility for developing and promoting the policies, strategies and good practice for funders implementing the *Compact*. These principles and best practice guidance are in keeping with the public sector's financial management guidelines 'Managing Public Money', and further advocated and supplemented by Department of Finance and Personnel and HM Treasury guidance, and NIAO and NAO reports. However, responsibility for implementation lies with individual funders.

16. There have been considerable developments in GB around government policy and engagement with the Third Sector[7] which have sought to develop the partnership with the Third Sector and to highlight good practice. Lessons from these should be picked up in Northern Ireland and used in developing a positive structure for the relationship in a local context. Principles will be largely the same but the important issue is that these are put into practice. This is the challenge for the public sector as different approaches and practices have led to a perception, at least, of an inconsistent strategy. This can also contribute to inefficiencies, loss of impact and reduced effectiveness.

17. While we recognise that much has, and is, being done, our review has highlighted the urgent need for these principles to be embraced throughout the public sector and given effect through practical and consistent implementation. This could be led by a refreshed relationship framework between government and the Sector – the Department proposes a 'Concordat for relationships between Government and the Voluntary and Community Sector', a replacement for the *Compact* and which is intended to be of more practical application. The principles requiring wider application include:

- maximising the Sector's contribution to the policy process from the development phase through to implementation, monitoring and evaluation;

- developing the ability of all government funders to manage the funding relationship effectively, and Sector

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6 *Building Real Partnership – Compact – Between Government and the Voluntary and Community Sector in Northern Ireland*, Northern Ireland Office, December 1998, Cm 4167. The *Compact* applies to government departments, Non-Departmental Public Bodies, Agencies and District Councils. *Compacts* or equivalents exist in the other regions of the United Kingdom (the statutory Voluntary Sector Scheme in Wales fulfils the same role as the *Compact* elsewhere).

7 Organisations are public, private or Third Sector – the non-governmental, not for profit organisations. The Third Sector include the voluntary and community sector, charities, social enterprises, co-operatives and housing associations.

organisations' ability to deliver their full potential;

- fully and consistently applying the 'good practice' resourcing and funding mechanisms including, for example, full cost recovery, timeliness of payments, and proportionate monitoring and audit; and

- developing a comprehensive dataset of Sector organisations and their sources of public sector funding; compilation of a charities register for Northern Ireland, which is planned to commence at the end of June 2010, may go some way to address this but it also requires the further development and maintenance of a comprehensive government funders' database.

18. In addition, it is clear that, with changes in organisational roles and responsibilities as a result of the Review of Public Administration, combined with tightening of public sector funds, significantly reduced resources available from European Union PEACE and other structural funds, pressures on both funders and the voluntary and community sector will continue to increase. However, this provides an opportunity for the public sector to examine and clarify its intentions regarding priorities and funding of the Sector. With 4,700 active organisations ranging widely in size (83 per cent of organisations have income below £250,000 (Appendix 3)) and objectives it is also an opportunity for the Sector to reflect on sustainability

and the potential for rationalisation. This is important given the impact this has on the cost of administration to both funders and recipients. The Department told us that it was encouraging the Sector to look seriously at its size and functions.

Our Conclusions

19. Principles and commitments for partnership working have been agreed between government and the voluntary and community sector, and substantial good practice guidance exists. While it is clear that there are examples of where this is working, it has not been widely or consistently applied.

20. In our view, this will require clearer understanding of government strategy in relation to working with the Sector and improved co-ordination and co-operation across public bodies. At a practical level, this should include a comprehensive government funders' database, the managed rationalisation of support services for the Sector, focus on impacts and outcomes, better understanding of funding mechanisms within funding bodies and the voluntary and community sector, and improved working relationships between funders and funded bodies. In addition, lead Sector organisations can play an important role in developing and furthering the relationship with government, and in working with government to achieve the most effective solutions in response to the need for restructuring within the Sector.

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21. Our Recommendations

On managing the relationship

If the proposed Concordat (replacing the *Compact*) is to lead to effective partnerships, it must be championed and underpinned not only by good practice guidance, but by a robust framework for oversight and enforcement. This framework should include procedures and controls aimed at regularly monitoring the implementation of the Concordat and related guidance; a mechanism for receiving and adjudicating on concerns about implementation of the Concordat and guidance; and an advisory and reporting mechanism - it is important that both the Sector and government have confidence in this framework.

On the policy process

If the Executive's vision and objectives are to be achieved, public bodies need to more fully harness the Sector's extensive and varied experiences and expertise throughout all stages of the policy process. While this is a key theme running through the 'Partners for Change' strategies aimed at implementing the *Compact*, the Sector's involvement has largely been limited to the development phase of the policy process.

On the government funders' database

The Executive should have strategic and co-ordinated data on funding to the Sector. It should therefore reinvigorate its commitment to completing the roll out and planned development of the government funders' database. Because the database is of such strategic significance, its development and implementation should be regularly monitored and reported to a body responsible for its operation. The current arrangements clearly have not been effective. The Department recognises that further development of the Database is now required and has set up a project team to take this work forward.

On Support Services and Information and Communication Technology (ICT) strategies

The Department should work with other stakeholders to ensure that effective strategies for support services and ICT in the Sector are established as quickly as possible. Further delays only prolong the widely recognised weaknesses and inefficiencies in these areas, which impact adversely on the Sector and lead to higher costs to the taxpayer.

On funding

While voluntary and community organisations are responsible for managing their own affairs and mission, public sector bodies must be aware of the potential effects of their procurement arrangements on the Sector, and guard against any unintentional and unwelcome alteration to voluntary and community organisations' roles.

Funders should also ensure, through regular monitoring and reporting, that they adhere to the best practice guidance. In our view there needs to be a greater focus on:

- avoiding unnecessary bureaucracy, in all aspects of the funding mechanism (which can increase costs for both funders and funded bodies) – in applications and renewals; timeliness of payments; and monitoring and audit. In this respect we will work with the Department and others to establish and promote practical guidance for monitoring and auditing Sector organisations;

- better communication – through improved liaison and contact between public sector funders and voluntary and community sector organisations. In particular, greater clarity about the funders' monitoring and reporting requirements; and greater sharing of information and assessments of organisations between public sector funders; and

- outcomes - the work being done to develop, for example, 'Social Return on Investment' measures should assist in this.

Part One:
The relationship between government and the voluntary and community sector

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The relationship between government and the voluntary and community sector

The *Compact* is a long standing framework promoting the relationship between government and the voluntary and community sector

1.1   Nearly all Sector organisations, irrespective of size and mission, will have contact with government and the public sector at some time. While relationships will be formed and developed between individual funders and funded bodies, the *'Compact'* agreed by the government and the Sector, and endorsed by the Northern Ireland Assembly in December 1998, sets out principles and commitments aimed at improving the broader relationship between the two sectors (Appendix 4).

1.2   There are also a number of representative organisations for the Sector, for example NICVA, a membership body which represent the interests of the Sector (paragraph 4). Representatives from the Sector and government departments also meet regularly through a range of fora, including the Joint Government Voluntary and Community Sector Forum (Joint Forum)[8]. This was established in 1998 to promote discussion of general issues of common concern.

Implementation of the *Compact* has been mixed

1.3   Following the introduction of the *Compact*, the Department led on the development of two cross-departmental 'Partners for Change' strategies setting out how departments would put the *Compact* into practice. The first Strategy (2001-04) consisted of 212 actions and included good practice guides on community development, funding and volunteering.

1.4   An external evaluation of this Strategy in 2004[9] concluded that there were benefits from having a centralised partnership strategy. However, organisations in the Sector considered that there was a long way to go in developing relationships. The evaluation also found examples of good practice but concluded that more could be done to enhance its dissemination.

1.5   The second Partners for Change strategy (2006-08)[10] detailed departments' planned actions under three key themes:

• building communities and promoting active citizenship;

• shaping policy development and working together; and

• investment in the Sector and capacity building.

1.6   Targeting disadvantage was a key objective cutting across all three themes. A total of 112 'action points' or commitments addressing the themes were presented by departments. This Strategy was also informed by 'Positive Steps', the Government's response to resourcing the voluntary and community sector[11] (**Figure 2**).

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8   Comprises representatives from all departments including the Northern Ireland Office, the Social Services Inspectorate and senior managers from the Department's Voluntary and Community Unit and 15 representatives from the Sector nominated through a process managed by NICVA.
9   *Evaluation of 'Partners for Change' Final Report* PricewaterhouseCoopers LLP June 2004.

Figure 2: Positive Steps key themes

Funding the Sector	Community Development	Supporting change
• Longer-term funding and planning framework • Measuring outcomes • Dormant accounts[1] • Social economy • Information on funding • Reserves	• Community Investment Fund	• Modernisation
Service delivery	**Cross cutting policy areas**	**Internal governance, management and accountability**
• Full cost recovery • Quality standards	• Departmental leads	• Accreditation systems • Lead funder • Good governance development programme • Charities regulation
Relationship between the government and the voluntary and community sector	**The Sector Support and Development Services**	
• Joint Forum (comprises government and Sector representatives) • Linkages with the Sector • Lead Minister • Policy development	• Strategy for support services • Networking centres • Community accounting services • ICT strategy • Skills strategy • Training and development	

Note 1: A 'dormant account' is a bank or building society account where there has been no customer-initiated transaction for 15 years. It is proposed that funds from dormant accounts are utilised for social and environmental purposes commencing in 2010.

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10 Published July 2007 - delay in its launch was in part due to the need to reflect the commitments in *'Positive Steps'* aimed at change and investment in the Sector (paragraph 1.6)

11 *Positive Steps*, the Government's response to *Investing Together: Report of the Task Force on Resourcing the Voluntary and Community Sector*, Department for Social Development March 2005.

Part One:
The relationship between government and the voluntary and community sector

The *Compact* is being reviewed

1.7   In England, an independent Commission for the Compact was established to improve awareness of the *Compact*[12] and the codes of good practice[13] that underpin it, and to address the barriers to its adoption and implementation. In May 2009 the Commission began work on an annual baseline survey measuring the level of awareness, knowledge, use and understanding of the Compact within government departments and non-departmental public bodies.

1.8   Following a request from Government and *'Compact Voice'* (a body which represents the Sector), and after a period of consultation, the Commissioner for the Compact re-launched the *Compact* in England, in November 2009.

1.9   In November 2008 the Assembly called on the Executive to strengthen its relationship with the voluntary sector[14], as the NI *Compact* was viewed as an aspirational document and more practical action was needed to underpin its principles. The Department is currently undertaking work to establish the principles and key elements of a new framework, which will be informed by the evaluation of the Partners for Change strategy (2006-08).

1.10   We recognise that much effort has gone into establishing a framework promoting the relationship between government and the Sector – the *Compact*, the Joint Forum, and the Partners for Change strategies. However, more than ten years after the *Compact* agreement, there is now widespread recognition that the relationship has not fully developed in accordance with its principles. We consider that relationships between organisations will not develop or achieve their full potential without substantial understanding, commitment and endeavour from government, public sector bodies and the Sector.

1.11   The Department informed us that there had been little or no attempt to promote the *Compact* across departments. However, it expects a replacement for the *Compact*, the 'Concordat for relationships between Government and the Voluntary and Community Sector' (the Concordat), to be in place by late 2010. This will provide an agreed vision, establish commitments for all signatories and facilitate the issue of codes of best practice.

1.12   We welcome the Department's assurance that the Concordat will take into account the changing environment within district councils and the health and education sectors, the Compact Refresh process in England and the relationship frameworks in Wales, Scotland and Ireland.

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12   *Compact on Relations between Government and the Voluntary and Community Sector in England*, Secretary of State for the Home Department, November 1998, Cm 4100.
13   The *Compact* is underpinned by codes of good practice on – funding and procurement; consultation and policy appraisal; ethnic minority voluntary and community organisations; volunteering; and community groups.
14   The Northern Ireland Assembly, Official Report, 25 November 2008.

The Sector's involvement in government's policy processes has been limited

1.13 Working together and shaping policy, through the development, implementation and monitoring of policy, is a theme running through both Partners for Change strategies. However, while the evaluation of the first strategy (paragraph 1.4) reported that departments were more aware of the role of the Sector in the context of policy development, it found that the extent of their involvement varied between departments and did not always extend beyond the planning stage. It also concluded that the Sector's involvement had been driven to a large extent by Section 75[15] and New Targeting Social Need[16] policy rather than by the Partners for Change strategy.

1.14 Some of the wider issues for Sector organisations engaging with government are highlighted in a Criminal Justice Inspection (CJI) 2006 report on the Sector[17]. In considering the consultation process, CJI reported that:

- while the Sector was keen to make an input to policy and consultations, it cannot afford the extensive staff time required;

- there were issues about one or two organisations being seen as 'representatives' of the Sector; and

- the significance attached by government and its agencies to consultation feedback was questioned.

It recommended that government establish an 'overview group', to outline policy plans and gauge feedback, to make consultation with the Sector more effective. However, to-date this has not been taken forward.

1.15 An effective policy process, including policy development, monitoring and evaluation, is fundamental to ensuring that government's objectives are delivered. Harnessing the extensive and varied experiences and knowledge of the policy area is key to the process. However, there is evidence that the full potential of stakeholders is not being harnessed.

1.16 We consider that individual public sector bodies should review the operation of their processes in relation to the Sector's contribution to the policy process. In particular they need to consider how their Sector stakeholders can contribute to the monitoring and evaluation of policy.

1.17 The Department told us that it agreed in principle with our conclusion and considered its consultation processes, both formal and informal, are indeed key to the policy formulation process. It proposed that stakeholder involvement in its development of key strategies in Advice Services and Volunteering are evidence of its inclusive approach. It added that it intends that the refreshed Joint Forum and Interdepartmental

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15 Section 75 of the Northern Ireland Act 1998 places a statutory obligation on public authorities in carrying out their various functions relating to Northern Ireland, to have due regard to the need to promote equality of opportunity.

16 A re-launch in 1999 of the original Targeting Social Need initiative aimed at reducing inequalities and the promotion of opportunities for all.

17 *Added Value? A Review of the Voluntary and Community Sector's Contribution to the Criminal Justice System* Criminal Justice Inspection Northern Ireland (CJINI), November 2006. CJINI is an independent statutory inspectorate, established under the Justice (Northern Ireland) Act 2002. It is funded by, and reports to, the Secretary of State for Northern Ireland.

Part One:
The relationship between government and the voluntary and community sector

Group structures (paragraph 1.2) will address this issue once new Concordat arrangements have been finalised; this will include the continuing relevance of the Partners for Change key themes.

Progress has been made on implementing Positive Steps

1.18 A review of the second Partners for Change strategy (paragraph 1.5) has not yet been completed. However, the final report on the implementation of Positive Steps[18] reported that there had been progress against a majority of the commitments made in that document. Responsibility for monitoring the implementation of commitments which had not been achieved was being transferred to the Joint Forum. The outstanding commitments include:

- need for senior officials to take responsibility for ensuring implementation of and adherence to the *Compact* - policy development work is continuing on a new framework for the relationship between government and the Sector (paragraph 1.11);

- streamlining the delivery of statutory funding to the Sector organisations – the Department, working with other departments and the Sector stakeholders, will pilot new funding procedures and ensure that guidance and best practice are developed and disseminated across departments, their agencies and the Sector; and

- introducing audit and accountability requirements that are proportionate to the size and turnover of organisations (paragraphs 3.18 to 3.23).

1.19 However, the Sector's overall perceptions[19] are that, while progress has been made, government needed to take "giant steps" to fully implement all of the recommendations. Findings included:

- fewer than 1 in 4 organisations believed that Positive Steps had a great deal or some impact on how they operated and interacted with government;

- the vast majority of organisations believed that too little is seen to be happening on implementing the recommendations; and

- just 1 in 12 respondents felt that Positive Steps would have a great impact over the next 5 years.

1.20 In our view Positive Steps and Partners for Change have identified actions which are aimed at building an effective relationship between government and the Sector. However, progress in many areas has been slow and the working relationship between government bodies and the Sector could be improved (not least by addressing the concerns/perceptions of the Sector by understanding them and developing constructive solutions to improve relationships). In Part 3 of this report, we also highlight examples where practice has not met the standards to which government is committed.

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18 *Government's Final Report on the Implementation of Positive Steps* Department for Social Development, November 2009. A cross-departmental implementation group was established in 2005 to oversee and report on the implementation of the Positive Steps commitments.

19 *Positive Steps, Final Monitoring Report* NICVA 2008. The third in a series of annual reports by NICVA, drawing on a survey of its membership and views from a panel of Sector organisations.

Future developments in partnership workings

1.21 Government's future partnership working with the Sector in England is set out in a HM Treasury and Cabinet Office report of July 2007[20]. It established a framework for partnership for the next ten years, based on four common goals and three cross cutting themes (**Figure 3**). In addition, new measures would be developed including providing greater support for grant funding of small organisations, a new skills strategy, and a new drive to improve research on the Sector.

Figure 3: Future developments in central departments and local authorities partnership workings with the Third Sector in England

Four Common Goals

Enabling voice and campaigning – ensuring Third Sector organisations are able to play a growing role in civic society, better engaged with decision makers and not hindered from speaking out and representing their members, users and communities;

Strengthening communities – enabling Third Sector organisations to foster greater shared action between different sections of the community, and work with local government, public services and others to promote understanding and relationships across society;

Transforming public services – ensuring, in the right circumstances, the Sector can deliver services where it is placed to do so, as well as drawing on its understanding and experience in the design and development of public services; and

Encouraging social enterprise – to create the conditions for the development of thousands more social enterprises and enabling those organisations that wish to diversify their income streams to undertake more trading activity.

Three Cross Cutting Themes

Working with a fuller range of organisations and supporting a wider range of activities by the Sector – to build stronger communities and enable greater campaigning, alongside continued work on public service delivery, social enterprise and volunteering;

A greater emphasis on investing in the long term sustainability of the Sector's work – including shifting more resources to investing in the underlying strength of the Sector and by ensuring that specific partnerships are for a sufficiently long period e.g. ensuring that three year funding relationships becomes the norm; and

A greater focus on local partnership working – through greater incentives for good local partnerships, between Local Government and the Sector, and also focus on capacity building with the Sector and public agencies at the front line.

Source: HM Treasury and Cabinet Office report[20] (July 2007)

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20 *The future role of the third sector in social and economic regeneration: final report,* HM Treasury and Cabinet Office, July 2007, Cm 7189.

1.22 The Department told us that it had kept abreast of the review in England. It also confirmed its full support for the intent of the report, as strengthening the partnership is part of the Executive's commitment to creating 'a fair and prosperous society'.

1.23 The Department also stated that it was encouraged that, in broad policy terms, many of the report's issues and approaches were recognised, or are already committed to tackling, through Positive Steps. It recognised that there were a number of recommendations where government had diverged from, or fallen behind, England in terms of policy and practice. These included youth volunteering, the promotion of social enterprise, the enhanced role for sustainability of the Sector through the delivery of public services and the promotion of charitable giving and philanthropy.

1.24 However, during the course of our audit work there has been a number of advances in some of these areas. For example, a volunteering strategy has been developed for Northern Ireland and the Department together with the Department for Enterprise, Trade and Investment have launched a refreshed social economy strategy. The Department of Finance and Personnel also told us that its Central Procurement Division has produced a Guide for Social Economy Enterprises to help these enterprises increase their knowledge, understanding and capability to compete successfully for public sector business.

1.25 The Department told us that it has had discussions with NICVA on the HM Treasury and Cabinet Office report, but considers that it merits further discussion internally within government.

1.26 The future development of relationships between government and the voluntary and community sector will clearly need to reflect the current and projected economic and funding environment. With the tightening of public sector funds and reduced resources from EU PEACE and other funding sources, pressures on both government and the Sector will continue to increase.

Part Two:
Public Service Delivery through the voluntary and community sector

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Public Service Delivery through the voluntary and community sector

The Sector plays a key role in delivering public services but the extent of this can only be estimated

2.1   The Executive's *'Compact'* commitments include support for a strong and effective infrastructure for the Sector, and the provision of services by the Sector. However, the commitments were made subject to the availability of resources and other priority needs, and government's general policy[21] of doing business with whoever will best achieve its objectives and deliver best value for money.

2.2   In response to an identified need for a central database to provide a more co-ordinated, strategic approach to funding the Sector[22], the Department took responsibility for the development and management of the government funders' database. Initially populated using NICVA's membership details, funders have a shared responsibility for updating the database. The database, which became operational in April 2004, holds:

- details of individual voluntary and community sector organisations, including contact details, aims and objectives; and

- funding details, including the name of the funder, programme/project and the amounts requested, awarded (letters of offer) and allocated.

A Positive Steps (2005) commitment, on information on funding, was for government to work to roll-out the funding database beyond government departments. Also in 2005, the Department of Finance and Personnel advised departments of the information that should be entered onto the funding database.

2.3   At March 2010, the database recorded details of around 6,400 Sector organisations and over 14,500 letters of offer totalling £1.34 billion. This includes awards from all Northern Ireland central government departments (including the Northern Ireland Office), some non-departmental public bodies, and covers a number of years[23]. The database shows the Department as the single largest funding department, making awards of £678 million (75 per cent of the total) and paying £645 million (78 per cent of total spend) in the four year period 2006-07 to 2009-10 (**Figure 4**).

21   *Equality of Opportunity and Sustainable Development in Public Sector Procurement*, Equality Commission for Northern Ireland and the Central Procurement Directorate of the Department of Finance and Personnel DAO(DFP), May 2008.

22   A common database for funding the Sector was proposed in 2000 through the *Consultation Paper on Funding for the Voluntary and Community Sector* (the Harbison Report), Department for Social Development. The key benefits envisaged when establishing government funders' database included: a centralised and uniform source of accessible information and reports; the ability to better target government support through analysis of the information; and greater transparency in terms of where government grants are going.

23   Some departments included awards made prior to the April 2004 start date of the database, and some awards extend into 2010-11.

Figure 4: Government Funders' Database information (April 2010)

Year	Letters of Offer[1]		
	Numbers	**Award (£m)**	**Paid (£m)**
Before April 2004	Government did not collect this information prior to the database being established		
2004-05	A full set of data is not available		
2005-06	A full set of data is not available		
2006-07	3100	172	151
2007-08	3400	260	238
2008-09	3400	242	220
2009-10	1700[2]	228	203

Source: the Department
Note 1:   excludes EU funding; EU awards totalling £90 million were recorded on the database but there is no record of the amounts paid.
*   2:   while the 2009-10 figures may be incomplete at April 2010 (there is no official deadline for updating the database), there appears to be a substantial decrease in the numbers of letters of offer while the overall amounts have been largely maintained.*

2.4   There are a number of limitations to the Database, including:

- it does not include information from a number of major funders of the Sector e.g. health and social services trusts, education and library boards, and local government;

- the type of funding is not explicit - there is no differentiation in the database between 'earned income' and grants;

- the information is not independently validated (individual bodies are responsible for the accuracy of their information on the database); and

- it does not record the 'deliverables', performance targets/indicators or the actual outcomes, for the public sector funding.

2.5   An alternative dataset is provided by NICVA's most recent research of the Sector for 2006-07 (paragraph 4). It estimates that almost two-thirds of government's funding was as 'earned income' (£167m) for the purchase of goods and services; and most (£188m (72 per cent)) of government's funding came from non-departmental public bodies and statutory agencies such as the health and social services trusts and education and library boards (Appendix 2).

2.6   In our view, the Database is not sufficiently comprehensive and does not offer an assured record of the public sector funding of the Sector. As a result, the extent to which it can support a more co-ordinated,

strategic approach to funding the Sector is limited.

2.7   The Department told us that the original intent of the Database was not to simply establish a database list of applications and contracts with the Sector, but to create an interactive system whereby organisations could submit applications on line, track progress of their applications and submit monitoring information if in receipt of funds. Also, all money, whether grant or contract, from central government, trusts, boards, non-departmental public bodies and local government was to be recorded.

2.8   The Department also confirmed that the extension of the system to bodies outside central government has been slow, despite the technical mechanisms and 'firewall' protections associated with IT systems having been established. It added that, while it is the overall administrator of the system, the Database has to be owned and supported by all government departments if it is to be successful and reliable.

2.9   We consider that the original concept of the government funders' database needs to be refreshed and developed if it is to fulfil its original intent. This could be informed by the findings of a survey of stakeholders' views on the dataset, including the nature and extent of usage of the database.

2.10   The Department told us that further development of the Database is now required and it has established a project team to carry this work forward. It is intended that the review will include

establishing current usage and developing future potential of the database, and consider the roll-out beyond central government departments and the merits of a stakeholder survey. However, the Department considers that the success of the database is dependent on the level of buy-in and commitment from other public sector funders.

Intelligent commissioning can be important to developing the Sector's role in delivering public services

2.11 An Audit Commission review in GB[24] concluded that, in order to strengthen the voluntary sector's ability to deliver public services, there needed to be improvements in the use of good partnership working (see Part 1) and appropriate funding mechanisms (see Part 3), and that capacity building (see paragraphs 2.19 to 2.23) should complement good commissioning practice by public sector bodies.

2.12 The Review identified that the public sector's commissioning practice can develop the Sector's ability to deliver public services. It considered that:

- a few, highly effective commissioners adopt intelligent commissioning, rather than offering special treatment, to get the best from the Sector

  - they maintain a detailed understanding of what services their users need, and involve voluntary organisations in identifying them

  - they run an effective procurement process, balancing the need for short-term efficiency gains with longer term market development objectives;

- in commissioning intelligently, the chosen funding mechanism should help to achieve the objectives

  - by aligning with the objectives of the funding

  - when grant funding voluntary organisations to deliver services, commissioners and bidders should ensure that the amount paid in grant makes the provision sustainable; in the absence of competition, there should be a pragmatic approach to full cost recovery; and

- commissioners need to develop a better evidence base to demonstrate value for money – commissioners should collect and analyse financial and performance data in a form that enables them to make robust judgements on the value for money delivered by service providers from all sectors.

2.13 The Public Administration Select Committee at Westminster has reviewed Government's commissioning of public service delivery from the Third Sector[25]. It concluded that factors previously thought to hinder the Sector competing for the delivery of public services, for example, the size and length of contracts and 'risk transfer', were not specific to the Sector and did not require sector-specific solutions. It also

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24 *Hearts and minds: commissioning from the voluntary sector* The Audit Commission, July 2007
25 *Public Services and the Third Sector: Rhetoric and Reality* Public Administration Select Committee, House of Commons, July 2008, HC 112-1.

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considered that while capacity building was important, the most effective way of increasing the Sector's delivery of public services was intelligent commissioning, by aligning services with Sector organisations' distinct qualities. The NAO considered that government had three types of funding relationship with the Sector (**Figure 5**).

Figure 5: The types of funding relationship with the Sector

NAO *(Working with the Third Sector, 2005)* developed an idea of Julia Unwin[26] that there are three essential types of relationship between public sector bodies and Third Sector organisations:

- Giving – where the funder provides support towards a specific project or in support of the organisation's general objectives;

- Shopping – where a purchaser designs a specification for a service it requires or is statutorily obliged to provide and seeks a supplier to provide that service; and

- Investing – where the funder provides support towards a specific internal organisational change, such as an enhancement in an organisation's managerial capacity.

NAO has also noted (*Implementation of Full Cost Recovery*, 2007) that HM Treasury guidance *Improving Financial Relationships with the Third Sector: Guidance to Funders and Purchasers* (2006) also makes a similar distinction between purchasing (shopping) and funding (giving and investing).

NAO's 2007 report recommended, in the context of full cost recovery, that departments, their agencies and sponsored bodies should review their major programmes, procurement opportunities and funding streams, to reach more explicit judgements on how full cost recovery should be adopted for fairer funding. It suggested that the results should be publicised and discussed with the Sector to establish mutual expectations. NAO provided a framework to assist departments and other public bodies with this task.

Source: NAO

Delivering public services can impact on the Sector's other roles

2.14   The Sector performs many valuable roles with the aim of delivering social outcomes. It is important to recognise the independence of the Sector and to ensure that it continues to have the capacity to develop new ideas and is able to constructively challenge government practice and policies. However, the 'business framework' requirements associated with the delivery of public services may not align with the more traditional cultural view of the Sector held by some of its organisations and staff.

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26   *The grantmaking tango: Issues for funders* Julia Unwin, Baring Foundation, June 2004

2.15 The Public Administration Select Committee has raised concerns that government's shift from grant towards procurement, and the competitive approach this requires from organisations, might damage the Sector's other roles[25]. Support for this view is evident in the Charity Commission for England and Wales research[27] which indicates that delivering public services influences charities. It reported that only 26 per cent of charities delivering public services agreed that they are free to make decisions without pressure to conform to the wishes of funders; and they are less likely to agree that their charitable activities are determined by their mission rather than by funding opportunities.

2.16 The Charity Commission also published new guidance[28] emphasising that:

- trustees have a responsibility to comply with charity law and the requirements of the charity's governing document;

- public service delivery presents both opportunities and risks – it is important to recognise and manage risks;

- charities should stick to their mission – and all their activities must be within their objects and powers;

- charities should guard their independence – trustees must act solely in the interests of the charity; and

- charities should know their worth – understand the full cost of their services, recognise their scope and limitations, and identify any unique or distinctive qualities of their services.

2.17 It is for Sector organisations to set their mission and direction, and determine whether they engage in public service delivery and embrace the associated business framework requirements. However, government must be aware of the potential effects of its procurement arrangements on the Sector, as demonstrated by the Charity Commission's survey findings, and guard against any unintentional and unwelcomed alteration to the Sector organisation's roles.

2.18 The Department informed us that it noted our recommendation and, while policy responsibility for procurement lies with DFP, it would, in discharging its role as lead department for the Sector and sponsor Department for the Northern Ireland Charity Commission (paragraph 3), represent this view at appropriate inter-departmental working groups.

Government has aimed to build the Sector's capacity through a range of measures

2.19 Positive Steps set out a range of commitments aimed at change and investment in the Sector to help ensure it is better placed to cope with social and economic change, and a changing funding environment. This included commitments aimed at addressing the Sector's 'capacity' – skills, knowledge, infrastructure and resources - which was seen as constraining its contribution to the delivery of public

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27 *Stand and deliver – The future for charities providing public services* The Charity Commission for England and Wales, February 2007, RS15.
28 *Charities and Public Service Delivery: An Introduction and Overview* The Charity Commission for England and Wales, February 2007, CC37.

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services. The initiatives aimed at tackling this include:

- a range of new and additional funds;

- a strategy, led by the Department, for support services including benchmarks and performance standards; and

- a proposed information and communication technology (ICT) strategy, led by the Sector.

Supporting Change: Modernisation Fund

2.20 The Department has a range of funding programmes aimed at developing the regional infrastructure of the Sector; supporting local communities' development and activities; and supporting volunteering and active citizenship (**Appendix 5**). Of these, the Modernisation Fund (**Figure 6**) was specifically aimed at enhancing capacity and strengthening the Sector's role in public service delivery through improving operational performance and better governance.

Figure 6: The Modernisation Fund

Modernisation Fund - £18 million budget

Capital programme - £15 million budget

- 475 applications (totalling £196 million) received by October 2007 deadline

- following assessment, 77 projects were taken forward to economic appraisal

- at April 2010, 56 contracts totalling £11 million had been awarded, with £8.3 million drawn down; a further 6 projects have yet to be issued with contracts.

Revenue programme - £3 million budget

- 168 applications (totalling £17 million) received by January 2007 deadline

- following assessment 18 projects were selected for support and £2 million was allocated (the balance of £1 million was to be used to fund other modernisation projects)

- at April 2010, some £1.55 million of the £2 million allocation had been issued.

Source: the Department

2.21   The Modernisation Fund closed for applications in 2007. By April 2010, £11 million of the £15 million capital budget had been awarded while £2 million of the £3 million revenue budget had been allocated to recipients such as the IMMPACT Project (**Case Study 1**). An evaluation of the revenue programme, originally planned for summer 2009, is now due to commence in summer 2010.

CASE STUDY 1 - Modernisation Fund (Revenue)
Social Economy Agency's IMMPACT Project

The Social Economy Agency (SEA) is a company limited by guarantee whose principal activity is that of fostering, supporting and encouraging greater awareness of the principles, concepts and benefits of co-operatives, community enterprises and other forms of employee ownership as a means of economic and business generation.

The IMMPACT project is aimed at providing face to face mentoring and advice, and the use of workshops and seminars, to promote the monitoring and improved outcome and mission performance of Sector organisations, alongside financial sustainability. IMMPACT was based on the general approach developed by the Sustainable Funding Project (SFP) of the National Council for Voluntary Organisations and draws on the experience gained during the implementation of SFP.

In January 2006, SEA submitted an application for Modernisation Fund (Revenue) support for its IMMPACT project. This was approved in February 2007, and £172,326 was awarded to deliver support to groups for strategic planning, funding diversification and earned income strategies. Additionally SEA would work with groups to develop social audit frameworks and provide a website with modernisation support and resource facilities.

The expected benefits of supporting SEA's IMMPACT project include:

- SEA will accumulate skills, experience and development of competencies in delivering IMMPACT;

- the Department will have assisted the implementation of a programme which develops the skills and knowledge base within a significant number of Third Sector organisations; and

- the Sector organisations will be able to improve their sustainability through increasing awareness of funding opportunities and acquire the tools, skills and knowledge resources to analyse and implement sustainable approaches to funding.

As part of monitoring the Modernisation Fund (Revenue) support, SEA has confirmed that the website was launched in May 2008 and through working with frontline organisations, it has delivered on the four key areas of strategic planning, funding diversification, earned income and quality and impact. This is in-keeping with the targets set when approving the application.

Independent evaluation of the Modernisation Fund (Revenue) Programme is planned to commence in summer 2010 and will examine potential best practice delivery of this process across the Sector.

Source: Department for Social Development

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2.22   NAO's recent report on capacity building[29] found that Futurebuilders (the English equivalent of the Modernisation Fund) had brought about positive change, with improvements to organisations' governance, strategy and premises, and increasing recipients' ability to compete for contracts. However, it also reported that:

- less than 50 per cent of all funds awarded were actually drawn down by the recipients; and

- new targets require investment in organisations that will use the funds promptly and will win at least a specific number of public service contracts.

2.23   It is important that the lessons from the NAO report on capacity building are learned. We welcome the assurance from the Department that it had considered Futurebuilders in developing its policy on the Modernisation Fund and that it would consider the findings of the NAO report in its review of its revenue and capital programmes.

The Sector's Support and Development Services: a strategy for support services is not yet in place

2.24   In 2005 Positive Steps gave a commitment that the Department would lead on the development of a strategy for support services which will address benchmarks and performance standards for support organisations[30] to help ensure consistency of service provision. Action to deliver this commitment commenced in May 2006 with plans for a mapping exercise, research within government, liaison with the Sector, and a draft strategy to be produced and consulted upon by March 2007. As part of the preparatory work to inform the strategy, research in 2007[31] identified and surveyed some 240 support organisations in the Sector in Northern Ireland. However, the researchers recognised that the total may not be complete. It also reported that support may not be evenly or fully available. It also noted that:

- there was perceived under-provision, over-provision and inconsistent levels of support across particular sub-sectors and geographical areas; and

- organisations may not have been able to fulfil all the support activities they had claimed to provide.

The researchers considered the current provision, which they described as "messy", had developed with limited strategic oversight and co-ordination by both the support organisations and funders. It concluded that there was a need for change in the Sector's support infrastructure.

2.25   The Department told us that while a Support Services Strategy was drafted in April 2009 there are no immediate plans to issue it for consultation. It explained this was because the fundamentals had changed since the 2005 commitment - there have been considerable changes

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29   *Building the Capacity of the Third Sector* NAO February 2009, HC 132
30   Support organisations are Sector organisations whose primary purpose is the provision of infrastructure functions (support and development, co-ordination, representation and promotion) to frontline Sector organisations.
31   *Department for Social Development, Voluntary and Community Sector – Support Services Strategy Report,* Deloitte MCS Limited, February 2007.

in the economic and funding climate, combined with the Review of Public Administration and the transfer to local government of community development responsibilities, Neighbourhood Renewal, the Community Support Programme and Community Investment Fund. There is now a need for a more integrated approach to supporting the Sector at regional, sub-regional and local levels that is based on a much more rigorous evidence base than previously. It stated that the foundations for this integrated approach were being established through the proposed Concordat for relationships; preparations for the planned transfer of responsibilities to the new Councils in 2011[32]; and new or developing strategies on regional infrastructure, volunteering and voluntary advice services.

2.26   A recent review[29] of 'ChangeUp', a £231 million programme aimed at improving support services for frontline Third Sector organisations in England, found that it had been a significant factor in establishing better partnerships between local support providers which has benefited frontline organisations. However, it reported a number of weaknesses, including the failure to establish a clear baseline and criteria for measuring success. This prevented Government assessing its effectiveness in the early years. Also, poor programme management had led to wastage and reduced the beneficial impact of the programme.

2.27   We are concerned about the delays in developing the Sector's support services strategy; these only prolong the inefficiencies of the current arrangements. They do, however, provide Northern Ireland with the advantage of learning from the experiences in England and it is important that the lessons and recommendations emerging from the NAO's review of the ChangeUp programme are taken into account in developing the strategy. It is also important that the Department's strategy is subject to early consultation and revision where appropriate.

Gaps remain in the Sector's skills training and development, and there has been limited progress on an ICT strategy

2.28   In 2008 NICVA, in collaboration with nine Sector Skills Councils[33], completed a skills survey of the Sector[34]. It concluded that a number of commonalities exist amongst organisations in relation to skills needs, training and development, but that a single solution did not exist. The research found that:

- recruitment is difficult for organisations, with almost one half (48 per cent) of respondents having difficulty filling vacancies; and

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32   In June 2010 it was announced that the reorgainisation of councils would not go ahead in 2011.
33   Sector Skills Councils are independent, employer-led, UK-wide organisations designed to build the skills system and workforce driven by employer demand.
34   *Northern Ireland Voluntary and Community Sector Skills Sector 2008- Summary report* NICVA website. The research was funded by the Department for Employment and Learning.

- one in eight respondents reported skills gaps (employees not fully proficient at their jobs); this was primarily due to a lack of funding and time for training and development. The most significant skills gaps were reported in management and leadership.

2.29 In relation to ICT, a draft strategy has been developed by NICVA that is intended to deliver a more coherent approach to ICT provision, with more effective procurement, and provide an opportunity to develop common core support skills across the Sector. However, NICVA has stated that it has had to suspend formal work on the strategy because of a lack of resources.

2.30 The Department, with its lead role on the cross-departmental Partners for Change strategy which made the commitment to the development of an ICT strategy for the Sector, should engage with NICVA to move forward and resolve the difficulties surrounding implementation of this important strategy and address significant skills gaps in the Sector.

Part Three:
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Good practice guidance is available but there is a risk to value for money when it is not followed

3.1 Government's 'Managing Public Money' manual recognises that, while it is important that public resources are not misused and that good value for money is delivered, restrictive terms can frustrate the ability of funded bodies to deliver objectives. It gives some flexibility in the terms of the working relationships with the Sector, provided that good value for public money can be secured. These include:

- *proportionality* – controls should always be proportional to the level and risk to funds;

- *risk management* – funders should assess prospective partners and adjust their controls to share risk fairly; and

- *attention to outcomes* – funders need to have assurances, but without damaging the value for money of projects.

3.2 Extensive best practice publications and guidance exist to supplement Managing Public Money. These include:

- NIAO's report, 'Investing in Partnership' 2002 (paragraph 8);

- the Department's 'Setting Standards, Improving Performance' (2005)[35] best practice manual on finance and governance for Sector organisations; and

- HM Treasury's 'Guide to Funders' (2006)[36] aimed at improving the financial relationship with the Sector (**Appendix 6**). This was formally adopted as policy guidance for Northern Ireland in November 2007.

3.3 NICVA's research indicates that more needs to be done. Its membership surveys, over the period 2006 to 2008, have consistently found approximately one half of respondents felt there has been very little improvement in the funding relationship.

3.4 The consequences of not following best practice principles are unnecessary costs for both funders and funded organisations. For funded organisations with multiple funders these costs can be considerable (**Case Study 2**).

Public bodies must have the capacity to manage the funding relationship

3.5 The shift from grant funding towards contracts will increase the focus on the quality of outputs and the working relationship between government and the Sector. In this respect it is important that public bodies have the capacity to effectively manage funding programmes and monitor projects. The Department's Good Practice Guide on Funding states that departmental officials should:

- have a sound knowledge and understanding of the key regulatory instruments; and

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35 *Setting Standards, Improving Performance… Best Practice in Finance and Governance in the Voluntary and Community Sector* Department for Social Development, 2005. The manual was developed jointly between the Department, the Department of Finance and Personnel and representatives from Sector organisations.

36 *Improving financial relationships with the third sector: Guidance to funders and purchasers*, H M Treasury, May 2006 – adopted by the Department for Finance and Personnel on 1st November 2007 (DAO (DFP) 15/07). The Treasury guidance was endorsed by the Cabinet Office; Office of Government Commerce; and the National Audit Office.

- receive clear, consistent guidance and any necessary related training, including

  - relevant desk instructions and procedural guidance, and

  - challenging, practical training to reinforce the key requirements of Managing Public Money and European funding rules.

CASE STUDY 2 - Funding issues within the Sector
MENCAP

MENCAP provides a range of direct services for children, young people and adults with a learning disability and their families throughout Northern Ireland. It has over 30 funding arrangements with a range of funders, including government departments and health service organisations.

The organisation stated that it experiences administrative inefficiencies, difficulties recovering all appropriate costs, and delays in cost recovery in some public sector and EU funded programmes. For example, MENCAP said:

- it incurs considerable costs meeting the different information, vouching, reporting and audit requirements of funders, for example facilitating each funder checking the same overhead costs;

- it does not recover all appropriate costs as some funders do not pay for a proportion of MENCAP's central management costs, or a proportion of the local administration, staff training or insurance costs because they do not accept the organisation's allocation of costs;

- it does not claim for some small amounts because of the administrative costs it would incur dealing with the funders' verification process;

- it has many annual contracts for services which are renewed each year, but despite the long-term relationships with funders, a number of them do not pay for the ongoing service provision after a contract has finished until the next year's contract prices have been agreed – this can be some months into the new contract period and can have a material effect on the organisation's cashflow; and

- some funders will delay payment on a claim until satisfied on the total amount - they do not make interim payments covering elements of the claim that they can verify.

MENCAP considers that the funding relationship between MENCAP and its funders would be substantially improved:

- if an organisation would take on a 'lead funder' role, carrying out risk assessments and providing assurances, that other funders could take reliance from and reduce their monitoring and audit; and

- if funders applied their 'guidance' as such, rather than treating it as rules which have to be strictly adhered to. Often inefficiencies or difficulties arise because funders find it difficult, within the terms of their guidance, to accommodate/evaluate MENCAP's wider controls and checks.

Source: MENCAP

Part Three:
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3.6 **Case Study 3** provides an example of what is considered to be effective management of the funding relationship.

CASE STUDY 3 - Managing the funding relationship
Shelter Northern Ireland

Shelter NI, which was founded in 1980, started campaigns for homeless people and for the right of all to access affordable, high quality housing with secure tenure. Shelter NI receives Supporting People funding from the Northern Ireland Housing Executive (NIHE).

NIHE, through the Supporting People programme, acknowledges the scale of homelessness and the challenges which providers of services to homeless people in the sector face. NIHE introduced a new contract management process for Supporting People in the west of Northern Ireland, in April 2009, with the overall aim of providing a supportive framework in which providers can deliver excellent services in partnership with Supporting People. In preparation for the new contract management process, NIHE held an information day for service providers based in the west of Northern Ireland and is rolling out other similar stakeholder events in the coming months.

Shelter NI feels this is an indication of NIHE's desire to work with the sector as the contract management process changes:

- NIHE was open about the availability of future funding and the contract process;

- NIHE addressed some of the uncertainty of the future in a positive way giving reassurance to organisations that there was no hidden agenda regarding mergers, closures or competition for contracts;

- NIHE confirmed that it was undertaking research projects to look at the benefits of Supporting People to the overall public purse in Northern Ireland and to examine the different models of support available;

- NIHE staff were available to answer questions from service providers; and

- there were discussions about the new organisational assessment procedures and the use of proportional auditing.

Shelter NI considers that the move towards proportional auditing is a practical development.

NIHE's information day has given Shelter NI a clear outline of how the new contract management process is likely to affect it, and provides it with time to invest in any new procedures, which will be reviewed under the new monitoring and evaluation system.

Source: Shelter Northern Ireland

3.7   **Case Study 4** sets out an example of the contrasting nature of the relationships between funding bodies and the Sector.

CASE STUDY 4 – Working Relationships
Footprints Women's Centre and the Volunteer Development Agency[1]

Footprints Women's Centre (Footprints) was established in 1991 to provide quality childcare, support, education and training for women from the Colin neighbourhood in West Belfast. It receives income from a wide variety of sources, including a number of public sector bodies.
In 2006-07 it received a three year funding award from the Volunteer Development Agency (VDA).

Key to the good working relationship between Footprints and VDA is the clarity and consistency of the funding requirements, for example VDA:

• spent time getting to know Footprints prior to providing funding;

• set out clear funding objectives and monitoring requirements; and

• has been consistent in its dealings with Footprints and brought about 'equality' in the relationship.

This is in contrast to the frustration experienced, and additional costs incurred, by Footprints when working with some other public sector funders, where there can be

• retrospective requests for information which had not been routinely collected;

• a lack of detailed explanations in support of deductions from grant payments; and

• frequent breaks in the continuity and knowledge of Footprints because of the turnover of staff in the funding body.

Footprints has had to employ a full time Finance Officer, paid for through its own income generating activities, primarily to respond to funders demands.

Source: Footprints Women's Centre

Note 1: VDA's mission is to promote and develop volunteering to build stronger communities. It receives funding and support from a number of public and private sector organisations; the Department for Social Development provides core funding and support to VDA. On 1 April 2010 VDA merged with 9 volunteer centres to form Volunteer Now.

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Further progress is required to put the principles of full-cost recovery into effect

3.8   All organisations have indirect (overhead) and direct costs associated with the delivery of goods and services; failure to cover overheads may lead to an organisation shrinking or collapsing. HM Treasury, in 2002[37], recognised the legitimacy of Sector organisations including relevant elements of overheads in their costings – known as full-cost recovery - and directed that government departments' procurement policies reflect this. HM Treasury's 'Guide to Funders' addresses full cost recovery and provides further advice (Appendix 6).

3.9   However, further progress is required to put full cost recovery fully into effect. In Northern Ireland only 30 per cent of Sector organisations indicated that their funding included all relevant costs (NICVA survey, 2008[38]). In England, NAO considered there were practical difficulties with implementation, with some funders unclear as to how to apply the guidance[39], and it was considered to be too blunt an instrument with the potential to mislead people into thinking that all costs will be recovered in all situations[40].

3.10   The final report on the implementation of Positive Steps (paragraph 1.18) stated that, as part of the delivery on the commitment for full cost recovery, the Department will work with other key stakeholders to examine the extent to which full cost recovery has been implemented, and then lead on the development of additional best practice guidance. The Department told us that this work to ensure the implementation of full cost recovery principles across government is being taken forward as part of the development of the new framework for government and Sector relationship (paragraph 1.11).

3.11   **Case Study 5** sets out one organisation's experience in relation to full cost recovery.

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37   *The Role of the Voluntary and Community Sector in Service Delivery: A Cross Cutting Review*, HM Treasury, 2002.
38   *Positive Steps, Final Monitoring Report* NICVA 2008. The third in a series of annual reports by NICVA, drawing on a survey of its membership and views from a panel of Sector organisations.
39   *Working with the Third Sector*, National Audit Office, 2005.
40   *Office of the Third Sector – Implementation of Full Cost Recovery*, National Audit Office, 2007.

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CASE STUDY 5 – Full Cost Recovery
The Woodland Trust

The Woodland Trust (the Trust) is the UK's leading woodland conservation organisation. It employs 280 staff across the UK of which six are based in Northern Ireland. The turnover of the Trust in Northern Ireland is approximately £0.5 million a year.

The Trust receives core funding from the Northern Ireland Environment Agency (NIEA; an agency of the Department of the Environment) on a three-yearly basis, as well as NIEA funding for individual projects. The Trust is aware of the full costs of running its projects through management information and budgeting systems, allowing it to allocate salaries and the running costs of the office. It also has a good working relationship with NIEA, whose grant officers are available to advise on what are allowable costs in advance of a project application. NIEA has always honoured the principle of full cost recovery.

The Trust has a range of other funding from charitable trusts, EU funding, corporate sponsorship and membership funding. It has found it more difficult to incorporate the principle of full cost recovery in the EU funded projects for example, in one EU funding application the organisation had been informed that it could include staff costs in the application bid, however the funder disallowed these costs during the project. The Trust felt that as the funding came through an intermediate funding body, rather than the Department of Agriculture and Rural Development, it was difficult to resolve issues.

Source: The Woodland Trust

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Short-term funding agreements can present problems for Sector organisations

3.12   There are a number of disadvantages associated with short-term funding of the Sector, including limiting the full potential of the financial investment, and creating difficulties for Sector organisations' long-term planning and employment security[41]. However, the Department reported in 2008[42] that good progress in the implementation of the Executive's commitment to actively promote a longer-term (7-10 year) outcome-focused approach; and the final implementation report on Positive Steps (2009) reported that three-year funding is the norm across departments. The Department told us that there is some misunderstanding of what the 7 to 10 year outcome-focused approach means in practical terms and that it does not automatically equate to longer-term contract funding.

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41   *Positive Steps – The Government's Response to Investing Together: Report of the Task Force on Resourcing the Voluntary and Community Sector*, Department for Social Development, March 2005; and the *Independent Review of Public Sector Efficiency: Releasing resources to the front line*, Sir Peter Gershon OBE, July 2004

42   *Updating Progress – Government's report on the implementation of Positive Steps* Department for Social Development, April 2008

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3.13 HM Treasury's 'Guide to Funders' sets out the principles for determining the duration of funding (Appendix 6). **Case Study 6** highlights the benefits of longer funding agreements for Cancer Lifeline. In contrast, **Case Study 7** highlights the difficulties that can result for Sector organisations when long-term funding is less certain.

CASE STUDY 6 – Longer term funding agreements
Cancer Lifeline

Cancer Lifeline, set up in October 1999, provides a range of user-led support services for those coping with cancer, and their families, in North Belfast.

Following an independent evaluation of its services, in 2007 Cancer Lifeline entered into a three-year core funding relationship with the Eastern Health and Social Services Board (£50,000 a year). The organisation also has a five year funding relationship with The Big Lottery which started in 2007 (£500,000).

These long-term funding arrangements have assisted the organisation to develop services. As a consequence of this stability, working relationships have been developed with the Belfast Health and Social Care Trust (Belfast City Hospital) to develop services such as complementary therapy and counselling provision. Without such funding arrangements the organisation said it would be very difficult to actively pursue further contracts.

Cancer Lifeline is also funded under the Neighbourhood Renewal programme, with funding renewed on an annual or 18-month basis. Until 2007 the organisation was heavily reliant on Neighbourhood Renewal funding. The organisation states that it has had a positive and well established working relationship with the Department for Social Development through Making Belfast Work, Belfast Regional Office and Neighbourhood Renewal which has assisted Cancer Lifeline in securing core funding from the Eastern Health and Social Services Board. However, the short-term funding arrangements of the Neighbourhood Renewal process necessitated Cancer Lifeline decreasing its reliance on this funding. Delays in decision making accentuated the problem. Diversifying the funding base with longer term funding arrangements has lessened the impact of this delay in terms of the operations of the organisation.

Cancer Lifeline applied to The Big Lottery Reaching Communities Fund in 2007 to diversify its funding. The organisation has concerns that diversifying the funding base to generate stability will disadvantage it during negotiations for future funding with the Department of Health, Social Services and Public Safety (DHSSPS). It hopes that DHSSPS will recognise the decision to apply for funding from The Big Lottery was a strategic one based on the benefits of having a secure, long-term funding base.

Source: Cancer Lifeline

CASE STUDY 7 – Uncertainty over long-term funding
NI Music Therapy Trust

NI Music Therapy Trust (the Trust) is a charity specialising in the provision of clinical music therapy to children, young people and adults with a range of profound communication difficulties or disabilities. Music therapy is a postgraduate trained, state registered allied health profession regulated by the Health Professions Council, London.

The Trust receives both core funding and funding through the Children's Fund from the Department of Health, Social Services and Public Safety (DHSSPS) and funding from the Office of the First Minister and Deputy First Minister through the Community Relations Council. In addition, a significant proportion of funding for the Trust is provided by three of the five health and social care trusts for music therapy services.

The Trust believes that a move to longer term agreements is essential; the clients it supports often have long-term disabilities and the short-term funding of music therapy services does not assist it to serve their clients. The Trust states that all of the funding it receives is renewed on an annual basis. Even in instances where, for example, core funding is applied for on a three-year basis, annual funding letters and agreements have to be issued and agreed. This has a major impact on the Trust, as it makes strategic planning for the future almost impossible. The Trust feels that despite being consistently funded by a range of sources for many years, it continues to take all the risks of employing and investing in staff, yet the funder reserves the right, on a year on year basis, to decide if funding is to be approved and at what level. The Trust recognises the need for good quality and governance procedures and has been categorised as "low risk" following DHSSPS verification and audit visits. However this has not altered its funding relationships.

Cost efficiency saving targets in the current Programme for Government have recently led many funding bodies to apply cuts in funding by not passing on inflationary uplifts, reducing funding or requiring additional service activity for the same level of funding. The Trust believes that these reductions are difficult for small charitable organisations to absorb as capacity and cash flow are limited and, in its view, conflict with undertakings that efficiency savings should not correspond to 'cuts' in frontline services. Overall the Trust believes that the process of applying for and contracting and negotiating for funding is very bureaucratic. Currently the process can drag on for at least seven months in any one financial year before contracts and funding agreements are signed off and only a few months later the Trust is required to start the process again.

The Trust states that it has had to work with the one-year contract system to date and has successfully done so on the basis of the key relationships it has established and the effort it applies to maintaining these and working with large statutory bodies. However, in its view, this is not a robust method for sustaining services or the spirit of true partnership working.

Source: NI Music Therapy Trust

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The timeliness and efficiency of the funding application and renewal processes

3.14   Grant applications and renewals place demands on both grant-makers and applicants which impact on their overhead costs. In addition, delays in agreeing funding can lead to less effective use of resources if funds have to be spent within a reduced timeframe. A 2007 consultant's review[43] found the Department's funding procedures to be robust, largely in line with best practice, and without significant levels of bureaucracy. However, the review found that staff were reluctant to exercise the discretion allowed under the guidance, claiming this was in case they were subsequently criticised by audit. This resulted in significant administrative inputs and delays in the process, which were a concern for Sector organisations.

3.15   The Guide to Funders promotes simplicity and proportionality in the funding process and commonality and co-ordination where possible between funding bodies in order to reduce the burden of bureaucracy (Appendix 6). **Case Study 8** sets out the contrasting experience of 'Focus on Family' in the handling of its funding application and renewal process.

CASE STUDY 8 – Timely funding application and renewal processes
Focus on Family

Focus on Family provides a number of services for families in the Coleraine area, including a crèche facility, parenting and nurturing programmes, complementary therapies, dealing with domestic violence and essential skills courses.

It considers the funding application and renewal process for the government funded Sure Start programme has worked well because of the active partnership arrangements that have been established:

• the manager of Focus on Family sits on the Sure Start Directories Partnership, which meets on a monthly basis, and the organisation is identified as a key partner in the Sure Start Action Plan 2008-10 for the Coleraine area;

• Sure Start has given the partners a guarantee that as long as they deliver on their set objectives and the policy remains in place they will be funded for the duration of this action plan. Funding is renewed on an annual basis, in advance of the start of each financial year. Renewal of the annual contracts is based on the ongoing monitoring of quarterly returns which are straightforward to complete, and are based on information which Focus on Family routinely collects; and

• the partnership arrangements have enabled Focus on Family to be kept well informed and to build a positive relationship with the funders. The Sure Start office is based in the local area and the staff members are very approachable.

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43   *Department for Social Development, Urban Regeneration and Community Development Group (URCDG): Review of Grant Administration Procedures* PricewaterhouseCoopers LLP, Final Report July 2007

CASE STUDY 8 – Timely funding application and renewal processes
Focus on Family (Continued)

Focus on Family also receives annual funding from the Department for Social Development (the Department) under its Neighbourhood Renewal programme. It is a member of the Department's Neighbourhood Renewal partnership and features in the Partnership's action plan which runs to 2010. The renewal process is based on detailed monitoring information. Notification of the award of the last two contracts was only received a few days before the new contract period commenced, which necessitated placing some staff members on protected notice.

Focus on Family has recently secured The Big Lottery Reaching Communities funding for five years. While this process was resource intensive, it was proportionate to the large amount of funding being applied for.

Source: Focus on Family

3.16   Where an organisation receives funding from more than one funding body, or from different parts of the same funding body, establishing a 'lead funder' arrangement can serve to streamline application processes and co-ordinate monitoring and inspection arrangements, thereby rationalising both the administrative requirements on funding bodies and the control burden on the funded organisations. The lead funder approach is recognised as good practice, and is promoted in Positive Steps and more recently by the Department of Finance and Personnel in its guidance of 2007.

3.17   The report on the implementation of Positive Steps concluded that, in relation to the commitment on a lead funder approach, work is still ongoing but good progress has been made. NIVCA research[44] has found that a minority of Sector organisations had witnessed a positive change in relation to the introduction of a lead funder approach – in 2008, 10 per cent of survey respondents and 38 per cent of organisations it interviewed in-depth, considered there was a great deal or some positive change in relation to a lead funder approach. **Case Study 9** provides details of an organisation's experience of having a number of funders.

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CASE STUDY 9 – Lack of a Lead Funder
Women's Resource and Development Agency (WRDA)

WRDA is a regional organisation with a mission to advance women's equality and participation in society by working to bring about social, political and economic change for women. The organisation's main funders are the Department for Social Development (DSD) and the Department of Health, Social Services and Public Safety (DHSSPS).

WRDA considers that where a recipient receives funding from more than one funding body, it is good practice, where practical, to appoint a 'lead funder' to streamline and co-ordinate monitoring and inspection arrangements. WRDA sees little evidence of its funders taking steps to implement the concept of a lead funder in this funding relationship. Furthermore, both funders require different monitoring systems and there has been no evidence of any attempts to streamline this process or co-ordinate monitoring. WRDA has been identified by DSD as "low risk" and as such is audited once a year. If the principle of lead funder was being implemented, WRDA considers that this low risk status could be used as a form of 'passporting' for DHSSPS.

While both funders require quarterly monitoring returns to be submitted, the detailed information required by the two differs. For DHSSPS, WRDA completes a detailed action form at the beginning of the project which is used as the basis for monitoring. This makes WRDA's monitoring returns straightforward to complete and outlines clearly what DHSSPS will pay for in service delivery. In contrast, WRDA finds that there have been times with DSD when the monitoring has not been closely aligned with the original objectives.

WRDA makes budget projections to funders each year and throughout the year cost variances can occur. While the process of re-profiling budgets with DHSSPS has been relatively straightforward, WRDA has found the process with DSD much more cumbersome. In a recent example WRDA states that DSD took three weeks to respond to a re-profiling request. WRDA feels that DSD does not take account of its low level risk status in this process.

Source: Women's Resource and Development Agency

Monitoring and auditing should be proportionate

3.18   The key assurances required on the use of public money are in relation to:

- *Regularity* – money and other resources are used only for the purposes authorised by the Executive;

- *Propriety* – the use of resources should respect the Executive's intentions, conventions and control procedures; and

- *Value for Money* – the optimum combination of whole-life costs and quality.

3.19   Funding bodies must ensure that the objectives of regularity, propriety and value for money are met. They must also ensure that monitoring and control processes are not so onerous as to discourage organisations, which have the capacity to deliver effective projects, from applying for and taking up funding opportunities. Disproportionate and onerous administration and monitoring arrangements have the potential to adversely impact on the effectiveness of programmes and to increase costs and inefficiency. NAO guidance on proportionate monitoring states that … *"where the funder, by requiring the provider to carry out some monitoring, imposes a cost on the provider, the funder should pay for this, through full cost recovery if making grants and through price if contracting. Often, that is a normal and acceptable part of the cost of managing the programme."*

3.20   In seeking these assurances, funders will place demands on funded organisations. Gershon's efficiency review found that these demands amounted to significant additional delivery costs for Sector organisations, and concluded that government needed to streamline and rationalise its monitoring, regulatory and reporting requirements to reduce these costs[45].

3.21   Although the principle of effective and proportionate monitoring has been widely promoted, the commitment in Positive Steps to introduce audit and accountability requirements that are proportionate to the size and turnover of Sector organisations remains outstanding. **Case Study 10** examines monitoring and focuses on the development of outcome measures for monitoring purposes for the NOW organisation.

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CASE STUDY 10 – Outcomes
NOW organisation

NOW has been in existence since 2000. It provides training and employment services for people with learning difficulties, primarily living in north and west Belfast, and operates a social enterprise business (Loaf Catering).

NOW's training and employment service is funded through the European Social Fund (ESF) programme, with match funding from the Department for Employment and Learning (Disablement Advisory Service) and the Belfast Health and Social Care Trust.

NOW's main funded ESF programme requires a monthly financial claim and activity monitoring returns. The emphasis is on financial compliance and information on programme participants. This includes the number of learners, qualifications gained, number of training completers and number of people into paid employment or further education. While NOW feels the auditing and monitoring required is proportionate, it has sought to develop outcome measures. These outcome measures include measuring reduction in reliance on day care provision, distance travelled towards accredited training or paid job, increased well being, increased income into people's pockets and/or the local community.

The organisation invested in the development of Social Return on Investment (SROI). The pilot of the SROI was supported by the Belfast Local Strategy Partnership and then the work to embed SROI in the organisation was supported by the Department for Social Development's Modernisation Fund. NOW is developing SROI as a consultancy social enterprise which was launched in September 2009.

NOW produces a SROI report annually, detailing its objectives, outputs, outcomes and SROI ratio. This is submitted as part of the annual return to funders. It has stated that the latest impact report indicates a SROI ratio of 1:3.7, which means that for every pound invested in NOW over 12 months, its training and employment programme will return an amount of £3.70 over the next five years.

In recent months funders have shown an increased interest in the information SROI provides. Staff members from NOW have had discussions with representatives from the Departments of Enterprise, Trade and Investment, Employment and Learning, Finance and Personnel and Health, Social Services and Public Safety who are looking at different ways that social enterprises can use SROI or similar tools.

NOW considers that it is a strategically focused organisation that has taken a positive approach to auditing and monitoring, and the support of funders to develop SROI for the organisation could ultimately ensure its long-term sustainability, as well as benefit other organisations in the Sector.

Source: NOW

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46   the Cross-Border territorial Cooperation Programme for Northern Ireland, the Border region and Western Scotland, 2007-13, 256m Euros.
47   Peace and Reconciliation Programme, 2007-13, 333m Euros.

3.22 In relation to EU funding, the Special EU Programmes Body (SEUPB) is the Managing Authority for 'INTERREG IVA'[46] and PEACE III[47], the main EU funds open to the Sector organisations. To ensure that EU funding complies with the Council of the European Union regulations that govern it, SEUPB obtains assurances through a combination of system, finance and administrative verifications of funded organisations. These verifications follow the detailed guidance for the 'first level of control'[48]. Funded bodies may also be subject to second and third levels of control[49].

3.23 Case study 2 highlights the difficulties that high levels of extensive checking can create on Sector organisations, and the views expressed to us have been that the levels of checking are often onerous.

Payments to the Sector should be made within agreed timescales

3.24 Traditional systems of checking 100 per cent of every claim for payment and making payments in arrears can cause cash flow problems for Sector organisations[50]. An alternative payment process, based on risk assessments, can ease grant administration for both grant-maker and recipient organisation and allow for timely payments of claims.

3.25 The Department piloted a risk assessment process for grant verification in 2006-07. Following evaluation and enhancement, the process is now being applied by the Department to all revenue awards to the Sector, with the exception of EU Programmes and cases where Intermediary Funding Bodies are involved (the process is not applied to capital build programmes). The approach, which only applies after an organisation is subject to 'traditional checking' for six months, includes:

- a risk assessment visit and information gathering to determine an indicative risk rating;

- a case conference, involving staff from the risk assessment team and the business area, to agree the organisation's risk rating;

- payment verification arrangements specific to the risk rating; and

- a formal re-assessment within 18 months, with earlier re-assessment in response to indicators of increased risk.

At March 2010, there were 223 groups funded by the Department which have been risk assessed, with the vast majority (199 (89 per cent)) receiving a low risk rating. The Department informed us that its risk ratings have been noted on the

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48 EU guidance on management verification specifies that managing and certifying authorities and intermediate bodies should:
   - have guidance for the verifications to provide adequate assurance of the correctness, regularity and eligibility of claims on community assistance;
   - seek to prevent errors arising by working with beneficiaries at the start of each operation e.g. by providing training and guidance on appropriate systems and what constitutes eligible costs; and
   - although verification of 100 per cent of the applications for reimbursement is required by the Regulations, for practical purposes verification may be done by a sample basis, taking account of risk factors such as the value of the items, types of beneficiaries and past experience.
49 '2nd level of control' can be undertaken by the 'Certifying Authority' within SEUPB and the 'Audit Authority' DFP Internal Audit; '3rd level of control' can be undertaken by the European Commission Auditors and European Court of Auditors.
50 *The Role of the Voluntary and Community Sector in Service Delivery: A Cross Cutting Review*, HM Treasury, 2002

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government funders' database since August 2008, and that no other funders noted risk assessment on the database.

3.26 An internal evaluation of the process found: it was effective, with quicker processing of payments; there was a reduction in the administrative burden on groups and the Department's staff; there was an improvement in the governance processes

in a number of groups; and there was no obvious increased risk of potential fraud.

3.27 The Guide to Funders includes specific guidance on the timing of payments (Appendix 6). **Case Study 11** on the Fermanagh Rural Community Initiative Ltd demonstrates issues surrounding the timing of payments to Sector organisations.

CASE STUDY 11 – Timeliness of payment
Fermanagh Rural Community Initiative Ltd

Fermanagh Rural Community Initiative Ltd has a three-year funding contract for European Social Funding (ESF), administered by Department for Employment and Learning (DEL). In the first round of ESF funding the organisation was required to produce audited returns twice a year. The difficulties this caused the organisation were raised with DEL - the high cost, how resource intensive it was, and how delays in getting information from the organisation's accountant to DEL caused delays in payments. Changes in the payment processes for the second round of ESF funding processes have been beneficial to the timely payment of funding. The organisation is now required to submit statistical returns on a quarterly basis, which are followed-up by visits from DEL's case officers to make independent checks. Payments are then generally made within two weeks of the submission to the funder.

The organisation is also a sub-contractor of the South West College (which is funded by DEL) to deliver part of the Steps to Work Programme. There is no formal documented contract in place between the organisation and the college, but the organisation has stated that at an initial meeting the college gave assurances that there would be rapid payment after work is completed. The college's initial difficulties with recruiting staff and developing IT payment systems resulted in delays in payment to the organisation, as well as to others. While the organisation receives some payments on a monthly basis, it states that its claims are 4-5 months in arrears due to internal issues with the funder. At November 2009, the organisation was owed approximately £90,000, but has been able to draw on reserves and other funding sources as an interim measure.

Source: Fermanagh Rural Community Initiative Ltd

3.28 While there is much guidance for funders on best practice, not all Sector organisations have had good experiences. In our view there needs to be a greater focus on:

- outcomes (the work being done on the 'Social Return on Investment' should assist in this (case study 10));

- reducing the burden of bureaucracy, and unnecessary transaction costs, in all aspects of the funding mechanism – in applications and renewals; and monitoring and audit. In this respect we will work with the Department and others to establish and promote practical guidance for monitoring and auditing Sector organisations;

- timeliness of payments; and

- better communication – through improved liaison and contact between the public sector funder and Sector organisations; in what is required from Sector organisations; and the sharing of information and assessments of Sector organisations between public sector bodies.

3.29 The Department informed us that much work on these issues had been taken forward through the Positive Steps process. It also stated that the new Concordat agreement currently being developed proposes establishing formal commitments for Government and the Sector dealing with delivering better outcomes, improving communication and reducing bureaucracy (paragraph 1.11). Implementation and achievement against these commitments will be subject to formal review and reporting.

3.30 We welcome the Department's proposals in relation to the Concordat. However, we are disappointed that departments have not done more to ensure that the principles contained in Positive Steps and the Guide to Funders (adopted and promoted by the Department of Finance and Personnel in 2007) are being fully applied. This would provide a robust basis to inform further guidance and policy developments.

Appendices

Appendix One
(paragraph 1)

Matching public service requirements with Third Sector organisations' strengths

Public Service Requirement	Third Sector Strength	Reason
The quality of service being provided is difficult to specify, measure and monitor.	User focus.	Private providers may have an incentive to reduce quality to increase profit. The Third Sector has no such incentive.
The demands of service users are highly differentiated.	Flexibility, innovation and 'joining-up'.	Public and private providers are geared to provide services for large numbers of people. The Third Sector has the flexibility to deal with individual needs.
When services have to be directed at localities or sections of the community that have been excluded from traditional service provision.	Knowledge, expertise and experience.	Third Sector organisations are often established by members of the excluded community in response to a perceived gap or inadequacy in service provision.
Labour-intensive services where the flexibility and commitment of volunteers can be an asset.	User focus.	Volunteers tend to spend more time providing a higher quality service, especially for disadvantaged people.
Services directed at users that do not trust businesses or the government.	Trust and accessibility.	Third Sector providers have no hidden agendas and higher credibility with disaffected users.
Service users are likely to require a co-ordinated portfolio of services.	Flexibility and 'joining-up'	Third Sector providers spend more time on bringing services together for the user.
Users often have difficulty engaging with service providers (multiple disadvantages)	Flexibility and 'joining-up'	Wider stakeholders allow the Third Sector to focus on overlapping disadvantage.

Source: Public Services and the Third Sector: Rhetoric and Reality Public Administration Select Committee, House of Commons, July 2008, HC 112-1

Appendix Two
(figure 1 and paragraph 5)

Analysis of the Sector's Income

Sources of Income, 2006-07

Source of Income	Amount £m	% of Total Amount
Government	259	45
General public	180	32
Voluntary	54	9
Lottery	29	5
Internal	17	3
Business	11	2
Europe	11	2
Other	9	2
TOTAL	570	100

Source: State of the Sector V, NICVA 2009

Government funding to the voluntary and community sector, 2006-07

Source of Income	Earned Amount £m	Voluntary Amount £m	Total Amount £m (%)
Central Government	14	40	54 (21%)
Non-departmental public bodies/statutory agencies	150	38	188[1] (72%)
Local Government	3	14	17 (7%)
TOTAL	167 (64%)	92 (36%)	259 (100%)

Source: State of the Sector V, NICVA 2009
Note 1: £115 million of this was from the Health and Social Services Trusts and the Education and Library Boards.

Appendix Two
(figure 1 and paragraph 5)

Profile of voluntary and community sub-sectors by government funding (2006-07)

Sub-sector	% of organisations	Overall income £m	Government funding £m	Government funding as % of the sub-sector's funding
Advice and information	9	29	14	49
Arts, culture and heritage	8	12	3	23
Community development	27	57	18	32
Disability	7	90	74	82
Education and training	7	28	23	83
Environment and conservation	3	8	2	28
Health and well being	7	121	16	13
Housing and homelessness	1	26	20	76
Older people	5	24	18	75
Volunteer development	1	9	6	60
Women	6	13	8	61
Young people and children	19	84	40	48
TOTAL	100	501[1]	242[1]	

Source: State of the Sector V, NICVA 2009
Note 1: classification issues means that the overall totals do not match the Sector totals.

Appendix Three
(figure 1)

Sector by economic size and paid workforce

Organisations Income Band	% Sector organisations[1]	Paid Workforce[2] %	Paid Workforce[2] Number
<£1,000	13	-	-
£1,001 - £10,000	22	1	97
£10,001 - £100,000	36	11	2945
£100,001 - £250,000	12	12	3313
£250,000 - £500,000	9	14	3665
£500,001 - £1 million	4	10	2635
>£1 million	4	52	14082
TOTAL	100	100	26737

Source: State of the Sector V, NICVA 2009
Note: [1] 2006-07; [2] 2008 (60% of the paid workforce were Full time)

Appendix Four
(paragraph 15)

Summary of the *Compact*[51]

The *Compact* was a jointly-prepared, agreed statement of the general principles and the shared values which were to govern the further development of the relationship between Government[52] and the voluntary and community sector in Northern Ireland.

On their respective *Roles* - government and the Sector both understand that their roles, whilst different, are complementary, interdependent and mutually supportive. The role of government in relationship to the Sector was to:

- work for the good health and continued growth of an independent and creative Sector;

- promote the value of the Sector within and outside of government;

- work in partnership with Sector organisations to achieve common aims and objectives; and

- provide for the participation of the Sector in the development of public policy.

On *Shared Values* - both government and the Sector value:

- accountability - being answerable to all relevant stakeholders in relation to the propriety of policies, actions and use of resources;

- active citizenship - participation of people in society;

- community - people working together in localities or interest groups to strengthen and improve their lives;

- democracy - a society that enables its citizens to participate, sharing rights and responsibilities;

- equality - of opportunity in relation to employment and services, and access to resources and decision-making processes;

- partnership - creative relationships between the Sector and public and private bodies;

- pluralism - upholding the rich diversity within society; and

- social justice - cherishing all citizens equally.

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51   *Building Real Partnership – Compact – Between Government and the Voluntary and Community Sector in Northern Ireland*, Northern Ireland Office, December 1998, Cm 4167.
52   Government was defined as both central and local, including departments, non-departmental public bodies, statutory agencies, and District Councils.

On *Shared Principles* – government and the Sector agreed the key principles are:

- interdependency – recognising their distinct yet complementary roles, and acknowledging that government funding and support is important for strengthening the Sector's capacity and ability to contribute to the attainment of government objectives;

- co-operation – acknowledging that effective partnerships can bring added value, and that successful partnerships must be based on openness, trust, and recognition of constraints on other partners;

- participation – encourage active citizenship through volunteering, community development and self help; support community development; and intersectoral working;

- representation – respect the Sector's right to comment on, to challenge and seek to influence Government policies; recognise the Sector's roles in advocacy and campaigning and in addressing issues of social justice and equality; and

- good practice – recognise the need to develop standards of good practice; and accept the need to promote, identify, record and disseminate good practice where it occurs.

Appendix Five
(paragraph 2.20)

The Department for Social Development's grant schemes/programmes for the voluntary and community sector
aims to support volunteering, community development, social enterprise, fundraising, capacity building, public service delivery, the infrastructure, Third Sector innovation or research, etc.

People and Place - A Strategy for Neighbourhood Renewal.

Launched in 2003. Anticipated spend of £60 million over 2008-11.

The strategy is intended to provide the strategic direction for all government departments and agencies which have a role in helping deprived communities. In particular, the strategy was designed to enable better coordination of funding and spend on community development. Neighbourhood Renewal operates in areas which are within the worst ten per cent of urban wards.

European Union Structural Funds

Between 1997 and 2006, the Department received £100m and was involved in four programmes:
- Building Sustainable Prosperity
- Peace II and Peace II Extension
- Interreg IIIA
- Urban II.

Community Investment Fund.

Launched in 2006, expected to run for six years. Total £3 million.

The Fund aims to deliver a longer-term, strategic commitment to supporting community development.

Regional Infrastructure Programme

Launched in 2006 and is ongoing. Total £4.6 million.

This programme supports the core costs of regional infrastructure organisations involved with voluntary and community sector organisations where policy responsibility lies with DSD.

Areas at Risk Pilot Programme

Launched in 2006, to run for three years. £1 million per year.

To promote, amongst other things: increased community cohesion and capacity; strengthen community infrastructure; and a sustainable approach to community participation and development.

Appendix Five
(paragraph 2.20)

Volunteer Bureau Initiative

Launched in the early 1980s, with funding secured to March 2010. £1.1 million annually.

Aims to encourage and facilitate volunteering in the community. Grants are delivered via the Volunteer Development Agency.

Modernisation Fund

Launched in 2005 (revenue) / in 2007 (capital). Total of revenue and capital budget £18 million.

The fund comprises two distinct programmes, revenue and capital. Both are designed to modernise and enhance Sector organisations and the way in which they deliver services.

Community Support Programme

Launched in 1975, Community Support Plans ran until 2009. £4.6 million per annum.

The programme aims to strengthen local communities, increase community participation and promote social inclusion through the funding of community groups, activities within communities and local advice/support services.

Urban Development Grant

Launched 1982, with no specific end date. £1 million per year.

Initially operated in inner city commercial areas and Enterprise Zones in Belfast and Londonderry. As the commercial and residential market in Belfast and Derry city centres have improved, grants have been increasingly targeted towards neighbourhood renewal areas.

Source: the Department

Appendix Six
(paragraph 3.2)

HM Treasury *Improving financial relationships with the third sector: Guidance to funders and purchasers* May 2006
(formally adopted in Northern Ireland, November 2007)

Summary of the main guidance:

On full cost recovery:

- funders must recognise the legitimacy of Sector organisations recovering appropriate level of overhead for a service;

- assessment of overheads should be simple, proportionate and equitable, and ensure costs are only recovered once; and

- funders should be clear that they expect Sector providers to be aware of the risks of not bidding on a full cost recovery basis.

On longer-term funding agreements:

- 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 the appropriate funding arrangement; and

- departments should consider the opportunities for multi-year spending plans with the Sector.

On the timeliness and efficiency of the funding application and renewal:

- application procedures should be clear and, where possible, simple;

- information gathered to assess the potential applicant and its proposal should be proportionate to the amount of funding and the ultimate objective;

- applicants which rely on several funders would be helped if common application forms or standard terminology and classifications were used; and

- where recipients receive funding from more than one body, it is good practice to appoint a lead funder to streamline the application processes.

On monitoring and auditing:

- the burden on the recipient of funds should be proportionate[53] to the level of funding and risk;

- the audit burden on multi-funded organisations should be minimised, and co-operation between internal and external auditors should be encouraged; and

- it is good practice to appoint a lead funder where organisations are multi-funded, to co-ordinate and minimise the number of evaluations.

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53 The principles, along with practical guidance, on implementing proportionate monitoring have been recently set out in *Intelligent monitoring: An element of Financial relationships with Third Sector Organisations* National Audit Office, June 2009

On the timing of payments:

- it is vital that this is considered in collaboration with, and not imposed upon, the service provider;

- this should be agreed with funding recipients at the beginning of a programme; and

- funding bodies should commit to pay within a specific time or on a specified date or dates, and such commitments should be honoured in full.

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Review of the Health and Safety Executive for Northern Ireland (HSENI)	–	8 September 2010