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Herefordshire Health and Social Care
Funding and Procurement
Code of Good Practice



Herefordshire **NHS**
Primary Care Trust



Working collaboratively for improved health and care services in Herefordshire

Foreword

We are pleased to add our personal support to the publication of this Funding and Procurement Code of Good Practice. The Health and Social Care sector in Herefordshire is leading the field with this guide to good practice. The code signals the commitment of both the third sector and the public sector to the development and strengthening of high quality and user focussed service provision throughout Herefordshire.

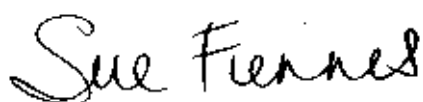
The contemporary funding environment requires flexibility and innovation from all sectors. This guidance heralds significant changes in working practices for all, to improve the funding relationship, righting long standing imbalances, and so that it is efficient, open and transparent. This will encourage third sector organisations to continue, expand and extend their vital contribution to service delivery, where they are able and willing to do so.

The success of an initiative such as this depends upon robust implementation. There are difficult issues to deal with, and seeing through all of the changes will be challenging. Further work will be undertaken over the coming months to flesh out the details so that there is full readiness to put the code into practice.

Equally, all those involved will need to be equipped with adequate information, understanding and skills to be prepared for the task. Essential training will be provided for all those affected by the changes. Along with the thorough development and consultation phases already undergone, these steps should ensure that the implementation runs smoothly.

The changes will happen over time and maintaining stability alongside a clear programme of change will be a priority.

The strong commitment to the code, therefore, must be tempered with due caution, as we move together towards implementation. We are starting from a strong position, building on the partnership that has developed the code and the many other successful partnerships that already exist. We are confident that this provides the sound foundation from which the full potential of the code can be realised.



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Executive Summary

Improving the funding relationship

The code sets ambitious goals for bringing about significant improvements in the funding relationship between third sector organisations and their public sector funders. The aims, the scope of the code, who it is for and the principles that will guide its implementation and development are all set out.

Committing to change

Funders and the third sector must move forward together to achieve their shared aspiration of securing better public services. The success of this code depends on both parties taking action to change the way they work. Joint and separate undertakings necessary to turn the commitments in the code into practical action, are declared.

Planning services jointly

The commitment to continuing to involve third sector organisations in the planning, design and commissioning of services, as a pre-cursor to their being deliverers of services, is under-lined. This enables their experience and distinctive contribution to service delivery to be captured at an early stage. Commissioning plans for all services, and a Code of Good Practice covering policy appraisal, planning and service design, and consultation, will be published by April 2007.

Moving to longer term contracts

Types of funding, and which is appropriate for different purposes, are described. Procurement through contracts will be the principal and preferred method of funding service delivery. To avoid confusion, the term 'service level agreement' will be replaced by 'contract'. Funders will, whenever practicable, introduce longer term contracts from April 2006.

Covering costs

A well managed and transparent procurement process will bring clarity, fairness and consistency to the purchase of services from the third sector. The process for procuring services from third sector organisations will primarily be by closed tender. Full cost recovery will be introduced, and the 'added value' that the sector can bring to service delivery will be factored in to procurement, where relevant. The stages of procurement are outlined.

Achieving savings through streamlining contracts

Good practice in contracting will be adopted, including in how contractual relations will be conducted. Contract terms of delivery will apply to all service providers. The different components of a contract are set out, along with what constitute effective terms of delivery. A focus on outcomes and active, but not over-bearing, contract management are more likely to assist the delivery of the contract. A reduction in the transaction costs of negotiating and managing contracts will be realised, to assist in meeting national efficiency targets.

Allocating risks fairly

Risks will be actively managed and appropriately apportioned, and provision is made for payments to be made in advance of expenditure.

Clarifying use of grants

Grants can be a useful method of funding some activities, although grants are rarely used to fund health and care services. Remaining grants will be converted to contracts, where appropriate. Policies will be

drawn up for the appropriate use of grants. The availability of grants, criteria and application procedures will be widely publicised. The grants process will be as simple, accessible and effective as possible, with the terms of the grant clear at the outset.

Focussing on implementation

The next steps in the process are laid out. Change on the scale indicated in the code will not happen all at once. Clear guidelines will be issued about managing the transitional period to April 2007. It will also be important for all those affected to have the information, understanding and skills, in preparation for the task ahead. A robust implementation plan, to include widespread dissemination, training and monitoring, is essential. The plan will draw together the action points in each section of the code.

Championing good practice

The code, taken in its entirety, should ensure that there is a real improvement in the funding and procurement of services by public sector bodies from third sector organisations. Its fitness for purpose and effectiveness will be kept under review. The wider adoption of the code in both the public and third sectors will be championed.

1. Aims and Principles

The code sets ambitious goals for bringing about significant improvements in the funding relationship between third sector organisations and their public sector funders. This section sets out the aims of the code, who it is for and the principles that will guide its implementation and development.

1.1 Aims

1.1.1 The aim of the Code is to ...

- Bring clarity to the funding relationship
- Achieve a common approach to funding arrangements
- Streamline processes to reduce bureaucracy and make savings
- Improve sustainability of service provision through longer term funding
- Encourage the development of a strong and efficient third sector in Herefordshire
- Sustain and extend the sector's role in service delivery
- Strengthen the 2004 Health and Social Care Compact

1.2 What the code is

1.2.1 The code sets the framework for the financial relationship between third sector, that is voluntary, community and non profit distributing organisations, (TSOs), providing health and care services and their public sector funding agencies, Herefordshire Primary Care Trust, (PCT), and Herefordshire Council's Children's Services Directorate and Adult and Community Services Directorate.

1.2.2 Council restructuring has led to new alignments of services within these two Directorates. The Code applies immediately to social care for adults and children, and to strategic housing, and will be extended by agreement to cover the whole of the new Directorates.

1.2.3 The 'third sector' describes the range of institutions which occupy the space between the State and the private sector. These include small, local community and voluntary groups, registered charities both large and small, foundations, trusts and the growing number of social enterprises and co-operatives. TSOs share common characteristics in the social, environmental or cultural objectives they pursue; their independence from government and in the re-investment of surpluses for those same objectives.¹

1.2.4 The code is based on nationally agreed principles and guidance to implement the Compact² between government and the voluntary and community sector. In particular, it draws on the Funding and Procurement Code.³

1 'Exploring the role of the third sector in public service delivery and reform: a discussion document' HM Treasury, Feb 2005

2 'The Compact on relations between government and the voluntary and community sector' Home Office November 1998

3 'Funding and Procurement: Compact Code of Good Practice' Home Office and National Compact Working Group March 2005

- 1.2.5 It is a best practice agreement designed to benefit both parties, and promote good partnership working.
- 1.2.6 The code will be used by funders and TSOs when conducting any aspect of a funding relationship.
- 1.2.7 It will be implemented during 2006/07 and be fully operational by April 2007. Implementation will be preceded by preparation and training for both public sector staff and third sector staff and directors/trustees.
- 1.2.8 There is provision for the code to be adopted by other public bodies.

1.3 What it covers

- 1.3.1 The code covers all funding of TSOs and affects all organisations who hold health and social care contracts or are in receipt of a grant, for all services for children, young people and adults.
- 1.3.2 It details changes in arrangements for the procurement (buying) of services and grant making.
- 1.3.3 There are joint undertakings, based on shared objectives, to make the changes happen. There are also undertakings for both parties so that each knows what to expect from the other.
- 1.3.4 The code also sets out how services should be designed and delivered in order to maximise outcomes and achieve value for money, while minimising bureaucracy.
- 1.3.5 Further work will be needed on some of the topics and this is indicated in each section.

1.4 Efficiency Savings

- 1.4.1 The code is being finalised in the wider context of constraints on public finance and in a climate of the requirement to make savings. A report produced for the Government as part of the Spending Review 2004, by Sir Peter Gershon,⁴ made a series of recommendations for efficiency savings that would release resources to front line services.
- 1.4.2 As a consequence, all public sector organisations are required to make year on year efficiency savings, releasing resources equivalent to 2.5% for front line services.
- 1.4.3 An important aim is to recycle savings from reducing backroom costs, such as in procurement, on transactional costs, and in monitoring and regulation.
- 1.4.4 The report made specific recommendations in respect of the voluntary and community sector, see Box 1 below.

Gershon recommendations on the voluntary and community sector

- Improving stability by moving to longer-term, multi-year funding arrangements where possible;
- Considering carefully the appropriate assignment of risk between the statutory body and the provider when contracting for service provision;
- Making further progress towards acceptance of the principle of full cost recovery, ensuring that the contract price reflects the full cost of providing the specific service that is being contracted; and
- Streamlining and rationalising monitoring, regulatory and reporting requirements.

Box 1

⁴ 'Releasing resources to the frontline: Independent review of public sector efficiency' Sir Peter Gershon CBE HM Treasury July 2004.

1.5 Key Principles

- 1.5.1 The code will be underpinned by the following principles, which will apply at all stages of the funding relationship:
- **Focus on outcomes** – the achievement of outcomes will be used as a key indicator of the success of funding
 - **Simplicity and proportionality** – processes will be as simple as possible and in proportion to the amount of money involved
 - **Consistency and co-ordination** – funders and purchasers will try to join-up or standardise parts of the funding chain to minimise burdens on organisations and ensure a focus on delivery
 - **Timeliness** – time will be allowed for planning, decision making and action, so that they have real effect
 - **Transparency and accountability** – informed decisions about spending priorities will be made and both the third sector and the public sector will learn from previous work
 - **Discussion and dialogue** – there will be ongoing communication; this helps to build trust and can identify and overcome problems before they affect service delivery
 - **Empathy** – efforts will be made to understand each other's needs and requirements, which should help to avoid problems and help achieve outcomes
- 1.5.2 These aims and principles provide the foundation on which the new working practices will be built, further work undertaken and against which progress in implementing the code can be assessed.

2. Undertakings

Funders and the third sector organisations must move forward together to achieve the shared aspiration of securing better public services. The success of this code depends on both parties taking action to change the way they work. This section summarises the joint and separate undertakings made by public bodies and third sector organisations to turn the commitments in the code into real change.

2.1 Shared Undertakings

- Set clear outcomes and terms of delivery at the outset.
- Agree outcomes which capture the 'added value' which results from third sector delivery of a service.
- Share risks fairly between the funder and the provider, ensuring that any risks fall on those best able to manage them and be clear about this in contracts.
- Plan in good time for the conclusion of a funding relationship, including contingency planning, to reduce the impact both on services and users.
- Give enough notice of the end of grants or contracts.
- Be aware of the charitable and legal constraints on third sector organisations, especially regarding the use of charitable funds.
- Encourage and implement good practice in the management and recruitment of volunteers and the provision of access to training and support.
- Work with the breadth of third sector organisations to embrace diversity, improve community cohesion and reduce inequalities.
- Understand the views of citizens and communities and create opportunities for them to influence policies.

2.2 Undertakings by public sector bodies

- Respect the independence of third sector organisations, including their right within the law to campaign and to challenge policies.
- Consult widely and early, with a minimum of twelve weeks, wherever possible, on issues likely to affect the sector.
- Continue to give the third sector the opportunity to contribute to strategic planning and commissioning.
- Use a procurement process and contracts, wherever feasible, rather than grants, when funding the third sector to deliver services.
- Whenever practicable, implement longer term, multi-year funding agreements
- Recognise that it is legitimate for third sector providers to include the relevant element of overhead costs in their estimates for providing a service.
- Require the same information regarding fees and overheads from private, public and third sector organisations in any competitive tendering process.

- Make payments promptly, offering payments in advance of expenditure where appropriate.
- Introduce joined-up or standardised monitoring and audit arrangements, proportionate to funding and focused on outcomes.

2.3 Undertakings by third sector organisations.

- Operate through open and accountable organisations.
- Respect confidentiality and be clear whom is being represented when consulted on programme design. Ensure that policy positions and views really reflect those of stakeholders and constituents.
- Have clear lines of accountability, especially with joint bids.
- Establish eligibility before applying for funding.
- Have a real understanding of cost bases and the application of full cost recovery.
- Have robust financial management systems which provide accurate and timely information to funders and account for public funds.
- Be honest and transparent in monitoring, reporting and evaluation systems.
- Implement a performance management and quality assurance system that is relevant and appropriate for the service provided.

3. Strategic planning and commissioning

This section outlines the importance of involving third sector organisations in the planning, design and commissioning of services, as a pre-cursor to their being a deliverer of services. The broad approach to involvement in planning and service design is explained. This will be further developed in a separate code of good practice, to cover policy appraisal, planning and service design, commissioning and consultation.

3.1 Why involve the third sector?

- 3.1.1 There are sound reasons for involving the sector from the earliest stages in service planning and design.
- 3.1.2 Too often, in the past, the first that TSOs have learned about changes to services has been when details of a new contract are publicised, or a provider is informed that their service is no longer going to be funded. This has meant that sometimes proposed new services may not take account of what the third sector can best offer, and the lack of advance notice can be a barrier, particularly for smaller organisations, to the sector delivering the service.
- 3.1.3 TSOs can contribute their experience as deliverers of services to planning and comment on the quality of the users' experience. The added value that third sector delivery brings to a service can be identified, and the capacity and willingness of the sector to adapt or extend its role can be explored.
- 3.1.4 This should result in well designed programmes that take into account how the sector can work most effectively with funders to deliver services.
- 3.1.5 Both funders and third sector organisations can benefit from this.
- 3.1.6 For third sector organisations it should lead to:
 - services that are relevant and attractive to the sector
 - the ability to grow and develop and become more effective over the longer term
 - clarity about what outcomes a service is to deliver and how to maximise these
 - more certainty about income over the longer term
 - an effective contribution to policy making.
- 3.1.7 For funders it should lead to:
 - realistic, clearly defined and deliverable services
 - greater clarity about why organisations are receiving funding and the outcomes expected
 - a stronger third sector with which to contract for services

- 3.1.8 There is also value in consulting with TSOs, even when they are not expected to play a significant role in the delivery of a service. Insufficient consultation at an early stage may lead to a situation where a service is planned without due regard to existing service provision. This, in turn, may lead, at best, to local services that are not integrated, or complementary, or, at worst, to small voluntary organisations and charities being squeezed out. It can also lead to serious gaps in provision if public funding subsequently dries up.
- 3.1.9 The joint strategic planning and commissioning process should deliver commissioning plans for all service areas, which spell out the services that are required, the degree of priority they have and the resources to be allocated to them. From these, providers will know what will, and will not be funded, and can plan accordingly.

3.2 Planning arrangements

- 3.2.1 The PCT publishes a three year Local Development Plan.⁵ The Children and Young People's Partnership Board (CYPPB), will publish a Children's Plan by April 2006. A commissioning plan for people with a learning disability is in place. Commissioning plans for services for older people and for carers are in preparation. Others need to be completed.
- 3.2.2 The third sector is engaged in the planning arrangements in Herefordshire, to varying effect. Greater consistency in both the arrangements and the sector input should result from new structures recently put in place.
- 3.2.3 TSOs have access to the planning, design and commissioning process through the Alliance, which has a seat on the Joint Commissioning Group, (JCG), the CYPPB and other planning boards. It will use this seat to forward the views of Interest Groups of Alliance members on service design and related issues.
- 3.2.4 Funders will consult third sector organisations through the Alliance and via local planning fora. When appropriate, funders will work with potential or existing providers during the planning, service design and commissioning phase.
- 3.2.5 Commissioners will give timely notification of service priorities and requirements. Information will be widely disseminated and given to the Alliance to be published on their website, (see Section 5: Procurement).

3.3 De-commissioning services and commissioning different services

- 3.3.1 Circumstances change. Good practice in service delivery continues to evolve, needs alter, new targets are set, or new government programmes are introduced. Any or all of these factors can mean that a service is not required any more, that it can be delivered better in a different way, or that a new service is needed.
- 3.3.2 Funders must retain the right to make changes to the pattern of service delivery, by de-commissioning some services (effectively terminating funding), and commissioning others, (by entering into new funding agreements). Sometimes, this will entail funding 'pilots' over a specific period, to try out alternative ways of delivery services.

⁵ Local Development Plan 2005/06 to 2007/08. Herefordshire Primary Care Trust January 2005

- 3.3.3 It is vital for funders to assess the impact of any proposed changes, primarily on the users of those services, but also on the viability of the provider organisation, especially if the organisation is also providing other services as well, before any decisions are taken. Provider organisations will be concerned to do the same.
- 3.3.4 It is important that such decisions are taken in an open, transparent, planned and timely way, and follow discussion and consultation through the appropriate channels and with all those affected.
- 3.3.5 All parties will work together to manage change effectively and notice periods will be consistent with this principle.

3.4 Partnerships

- 3.4.1 Many services are now delivered through partnership arrangements, which require their own funding and reporting protocols. TSOs may also form partnerships and consortia to deliver services, which can result in more cost effective and higher quality services.
- 3.4.2 Public sector bodies will consider delivering programmes through local partnerships and consider funding the specific costs associated with this.
- 3.4.3 Working in partnership to design an effective programme will not prejudice the applications of TSOs.

3.5 Code of Good Practice

- 3.5.1 The government and Compact working group published a national code of good practice on consultation and policy appraisal in 1999, to support the implementation of the Compact.
- 3.5.2 The Alliance is charged with publishing a local version of this code. The intention is to do this during 2006/07, again jointly with funders. The points made in this section will feed into that code.

What we will do

- Publish commissioning plans for all services by April 2007.
- Publish a Code of Good Practice on policy development, service design and consultation by April 2007.

4. Types of Funding

Types of funding and which is appropriate for different purposes are described in this section. Procurement through contracts will be the principal and preferred method of funding service delivery. To avoid confusion, the term 'service level agreement' will be replaced by 'contract'. Remaining grants will be converted to contracts, where appropriate. The use of grants for health and care services will be clarified.

4.1 Funding

- 4.1.1 Funders must decide which type of funding, a grant or a contract, is most likely to achieve the desired outcome. Considerations include the degree to which the funder wishes to specify how the money is used.
- 4.1.2 Different types of funding are suitable for different purposes, and can sometimes be used together to good effect. Organisations also have different needs at different stages of their development, including the balance between capital and revenue funding.

4.2 Procurement

- 4.2.1 Procurement is a technical word for purchasing, (buying), a service. It is defined as 'the acquisition of goods and services from third parties under legally binding contractual terms, where all the conditions necessary to meet a legally binding contract have been met.'⁶
- 4.2.2 Funders, as purchasers, have a specification for what they want to buy, a recognised process for identifying and selecting suppliers, and the purchase is agreed in a written contract. Both the funder and provider will identify and agree the detail of the service(s) being purchased and the range of monitoring, reporting and audit regimes that can demonstrate that the required outcomes are being delivered, and that value for public money is being achieved. Ultimately, the funder has control over the contract continuing, subject to availability of funds, commissioning priorities and/or the provider's level of performance.
- 4.2.3 Contracts as a method of securing funding are not new for TSOs. It is fifteen years since the NHS and Community Care Act 1990, which initiated their widespread use, as purchasers were obliged to buy a certain percentage of services from the private and voluntary, or so called 'independent' sector. In that time, much has been learned about the application of the procurement process and appropriate forms of contracting. It has been recognised that a crude purchaser/provider relationship is not the best way of securing sustainable, high quality services from the third sector. Relational contracts, which both parties can influence, are more likely to achieve the desired result.
- 4.2.4 Procurement through contracts will be the principal and preferred method of funding service delivery. On going work will continue to ensure that both the procurement process and the contracts used are 'fit for purpose'.

⁶ 'Think smart, think voluntary sector! : Good practice in procurement of services from the voluntary and community sector.' Home Office Active Community Unit and the Office for Government Commerce June 2004

4.3 Contracts

- 4.3.1 It is recognised that over time, some confusion has grown over the terms 'Service Level Agreement' (SLA) and 'Contract'. In part, this is because contractual documentation drafted by funders has often been labelled 'Service Level Agreement'. In actual fact, a Service Level Agreement is a contract.
- 4.3.2 To avoid such confusion, all future contractual documentation will be headed up 'Contract' and the term 'Service Level Agreement' will no longer be used.

4.4 Grants

- 4.4.1 Grants in their purest form, are 'giving', the award of a grant demonstrates the goodwill of the funder towards an organisation, and general support for what it does.
- 4.4.2 The public body, as grant giver, is not contracting for a service. It is offering financial support to an organisation, for purposes put forward by the organisation, which it wishes to sponsor. The activity to be carried out by the TSO which receives the grant would be deemed to add value to the funding body's overall aims and objectives.
- 4.4.3 Grants may be awarded to contribute towards the general running costs of an organisation, or for specific pieces of work or projects. They can be made as strategic grants to organisations of particular importance, or to fund development activity in order to help organisations get started, adapt or expand.
- 4.4.4 Grants are either one-off or for a specified period, usually one to three years; many are non-recurring. They often cover only part of the costs and are used alongside other resources, sometimes as matched funding.
- 4.4.5 The public body making the grant must be confident that the organisation is of good standing and has the capacity to manage the grant. General conditions may also be attached to grants, such as the purpose for which it can be used, and handing it back if it is not spent within a given period. Beyond this, the organisation in receipt of funds may have no specific legal obligations to the awarding body, and enjoy considerable freedom in using the funds. Any monitoring is limited and light touch. Many organisations appreciate that grants given in this way reinforce the independence of their organisation.
- 4.4.6 Grants can be useful for trying out new ways of delivering services, or for pilot projects, or as part of a wider funding package or to build the capacity of an organisation to adapt or extend its service delivery role.
- 4.4.7 Effective, simple and flexible access to funding for small, new projects is a way of encouraging innovation and the development of new providers.
- 4.4.8 Clear and consistent policies are needed for the appropriate use of grants for funding health and care services. Social care for adults within the Adult and Community Services Directorate does not make grants. The PCT makes some grants. Remaining grants will be converted to contracts, where appropriate.
- 4.4.9 The PCT will also continue to provide funds for the Small Grants Scheme of the Partnership Fund, (currently £50,000 per annum).

- 4.4.10 Small grants made locally should not be confused with major government grant programmes, such as the Carers' Grant, (£185m Department of Health money for England), allocated to local public bodies to commission services. The services can be provided in house, or by contracting with local providers. Such government grants are subject to specific audit requirements and this may mean additional reporting by organisations in receipt of the funds. (See section 7: Grants)

4.5 Longer term funding

- 4.5.1 The 2002 cross-cutting review of the voluntary and community sector's role in service delivery⁷ identified short term funding arrangements as one of the main barriers to TSOs extending the scale and scope of their service delivery, see Box 6 below.
- 4.5.2 Short term contracts carry heavy overheads, considerable risk, and do not allow time for providers to demonstrate what they can do. Crucially, they militate against sustainable services. Altogether, they do not offer good value for money over the longer term.
- 4.5.3 The review recommended the introduction of longer term contracts. This is reinforced in recent government guidance which advises that, for public service delivery, a sensible length of contract to generate results would normally be a minimum of three years, where appropriate and consistent with the objectives of the service and the requirements of its service users.

Stability in the funding relationship

'Lack of long term funding arrangements is a continuing problem for the voluntary and community sector. As far as service delivery goes, the use of renewable one year contracts is the principal cause for concern. This can lead to the diversion of valuable voluntary and community sector resource into bidding to retain (or renegotiating) contracts and away from delivering better services. Funders have sometimes complained that longer term contracts reduce flexibility.

The move to three year spending settlements then combined with end year flexibility means that departments have considerable flexibility. Funders should consider carefully the benefits of entering longer term relationships subject to satisfactory performance.'

Box 2

What we will do:

- Funders will, whenever practicable, introduce longer term contracts from April 2006.
- Further work will be undertaken to ensure that both the procurement process and the contracts used are the most suitable for the purpose.
- Draw up policies for the appropriate use of grants for funding health and care services.

7 The Role of the Voluntary and Community Sector in Service Delivery: a cross cutting review' HM Treasury July 2002

5. Procurement

A well managed and transparent procurement process will bring clarity, fairness and consistency to the process of purchasing services from the third sector. It will give organisations every opportunity to submit well-informed, considered and timely bids. Equally, funders will be able to make decisions based on the best possible information, and be confident that the providers selected can deliver the outcomes and offer the best value for money in doing so. This section explains the procurement process, the stages involved and recommends good practice. Two key issues for TSOs, costing for contracts and 'added value' are explored.

5.1 What is procurement?

- 5.1.1 Procurement is the process whereby funders secure services. Once plans have been made and specifications drawn up, the procurement process can begin.
- 5.1.2 The aims of procurement are to:
- Focus on the outcomes of the service to be delivered, not the process itself;
 - Receive high quality, well informed and considered proposals;
 - Select the provider organisation best able to deliver the service outcomes;
 - Provide stability of funding for the selected provider; and
 - Provide and receive timely feedback, to improve the process for the funder and provider organisations.
- 5.1.3 There are different ways in which procurement can operate, see Box 3 below

Models of procurement

Open tender: the purchaser initiates an open, competitive process to select a provider. The invitation for 'Expressions of Interest' is publicised widely.

Closed (or restricted) tender: the purchaser invites individual organisations which are registered as 'fit for purpose' providers to tender for the provision of a service.

Preferred Provider (or negotiated procedure): the purchaser awards a contract for a unique or specialist service where no other potential provider exists, or renews a contract with a preferred provider with no other providers involved.

Box 3

5.2 Tendering

- 5.2.1 The word 'tender' can be misunderstood and cause alarm, with its connotations of a hard edged, competitive, commercial process. Not all tendering is like this, and funders have no intention of putting all existing services delivered by the third sector out to open, competitive tender.
- 5.2.2 The process for procuring services from TSOs will be primarily by 'closed tender'. There may be an element of competition to secure some contracts, where there are several providers interested and able to provide the service.

5.2.3 Equally, for some highly specialised services, there may be only one 'preferred provider'.

5.3 Register of Approved Providers

5.3.1 The closed tender model will utilise the Register of Approved Providers which the Alliance is charged with establishing for this purpose. From April 2007, all TSOs funded by Herefordshire PCT and Herefordshire Council Children's Directorate and Adult and Community Services Directorate, to deliver health and social care services, and that are not currently subject to national registration, will be required to be on the Register. This applies to all providers, regardless of size and track record, and across all service areas, for children, young people and adults.

5.3.2 Inclusion on the Register, however, cannot guarantee that contracts will be forthcoming. As has already been stated, funders must retain the right to de-commission services and commission different ones. There must also be room to ensure that smaller and niche providers can continue, and that new providers can gain contracts.

5.3.3 Providers organisations will be expected to adopt this code as part of the registration process.

5.4 Stages of Procurement

5.4.1 There are several stages to the procurement process, see Box 4 below.

Stages in procurement

- **Publicising service contract opportunities:**
Making information available in good time about upcoming contracts. The Government's agenda to extend the scale and scope of the third sector's role in service delivery requires funders to routinely consider the possibility of TSOs as deliverers of choice.
- **Seeking expressions of interest:**
A preliminary stage in which anyone can respond and submit an outline proposal for meeting the published specification.
- **Inviting full proposals:**
The funder decides which organisations should be invited to proceed to putting in a full proposal. This can include being interviewed by, and making a presentation to, an evaluation panel.
- **Evaluation of proposals:**
The panel makes its selection.
- **Notification of outcome:**
The successful provider is notified of the outcome. There is no obligation to provide feedback to those who are unsuccessful but it is good practice to do so where requested.
- **Establishment of the contractual arrangement**
The funder(s) and TSO will agree the subsequent contractual documentation, and its contents will be appropriate to the service being provided.
- **Gathering feedback, and learning from the experience:**
Hearing from those who participated in the process about their experience, helps to improve practice in the future.

Box 4

5.5 When the closed tender list will be used

- 5.5.1 Responses to tenders issued by Social Care within Herefordshire Council's Adult and Community Services Directorate and Children's Directorate for new, or significantly re-designed services, will be invited in accordance with European Rules and the Council's Standing Orders. The Council's Standing Orders for the Regulation of Contracts are issued as a supplement to this code.⁸
- 5.5.2 Similarly, Herefordshire health services are bound by the same EU regulations and by NHS standing Financial Orders.⁹
- 5.5.3 Tenders will not normally be sought in the case of contracts with a value of less than £50,000.
- 5.5.4 Consideration will also be given to the optimum size of contracts to ensure that contracts are small enough to develop a diverse supply base and ensure that smaller organisations can compete, but without risking undue fragmentation.
- 5.5.5 A multi-stage process will be used, to minimise the amount of information requested before full proposals are submitted.
- 5.5.6 The Standing Orders make provision for funders to:
- adhere to the same timetables for all forms of tendering
 - require the same financial information, with competitive tenders, of private, public and third sector bidders including a percentage allocated for overheads and fees. Government advice, recently up-dated, is to request two years accounts or, if these are not available, other appropriate information.¹⁰

There are *two matters* of particular importance to TSOs considering bidding for or entering into contracts to deliver services.

5.6 One: Costing for contracts

- 5.6.1 All organisations in the public, private and third sectors have indirect overhead costs as well as direct costs associated with the delivery of goods and services. To operate efficiently and effectively, TSOs must be able to understand all their costs including indirect and support costs. No activity can be undertaken without the need for support functions, and funding bodies have an interest in ensuring that organisations are able to manage and administer activities properly.
- 5.6.2 The main reason for the lack of 'core' funding within the third sector is that debate has historically and typically been based on a false principle that 'core' costs are somehow unrelated to an organisation's 'real work'. Many funders have traditionally paid only for the marginal costs of the services they are seeking. But, if funders follow this practice, necessary overhead costs cannot be met, or will have to be met from donations and other sources of income which were not intended for this purpose.
- 5.6.3 Funders recognise that it is important to meet the full cost of services, including the overheads that relate to the activities they have commissioned. **The assessment of proposals will, therefore, recognise that it is legitimate for third sector providers to include the relevant element of overhead costs in their estimates for providing a particular service. This is called 'full cost recovery'.**

8 Hereford Council Standing Orders for the Regulation of Contracts May 2005

9 Health Standing Financial Orders (SFOs) can be viewed at www.herefordshire.nhs.uk

10 Think smart, think voluntary sector!

- 5.6.4 Third sector providers, though, cannot be given special treatment in the procurement process; this is about a level playing field, but they are entitled to decide their own price for services.
- 5.6.5 Contracts will also be awarded on the basis of **value for money**. Purchasers do not have to accept proposals if they are not satisfied that they offer value for money. In other words, while accepting the principle of 'full cost recovery', the actual level of those costs will still be subject to challenge and negotiation.
- 5.6.6 Funders and the third sector acknowledge that there are implications of moving to full cost recovery, and there is understandable nervousness about this. For instance, purchasers anticipate that the cost of services will rise, and that, as a consequence, levels of service could well fall if the contractual arrangements are not reviewed. In addition, third sector providers foresee that they may be seen as too expensive, if they include all their costs and not succeed in winning contracts.
- 5.6.7 Clearly, there needs to be a cautious approach to implementation, and sound preparation will be needed to avoid creating instability and unintended consequences. Further work will be undertaken to identify and manage the change in order to maintain stability and the continuity of services. In particular, agreement will be needed on how full cost recovery should be calculated and what should be paid for, see Section 6: Contracts.
- 5.6.8 Securing value for money through the procurement process does not mean only accepting the lowest price. It also means securing a certain quality in the service.
- 5.6.9 Good contracting also delivers value for money. Funders recognise that longer term contracts can be more efficient and give providers a measure of financial security, leaving them to focus on the quality of service and its long term development.

5.7 Two: 'Added value'

- 5.7.1 'Added value' is the term used to describe the distinctive contribution that TSOs can make to service delivery: examples of this are given in Box 5 below. Funders recognise these strengths and that they can be a significant bonus to the services they are purchasing from third sector organisations.

Value the voluntary and community sector can add in service provision.

- ✓ Established links with the wider community.
- ✓ Specialist knowledge and experience to bring to service provision which benefits users and funders.
- ✓ Independent and free from institutional pressures.
- ✓ Flexible and highly innovative.
- ✓ Services which involve stakeholders are highly responsive to the needs of users and are able to adapt appropriately.
- ✓ Economies of scale- savings which can be made by large or specialist voluntary and community organisations.
- ✓ Services for niche markets for whom no other services are available.

Source – 'Think smart...think voluntary sector!'

Box 5

- 5.7.2 The added value that the third sector brings to service delivery will be taken into account and specifically detailed in funding arrangements. However, there is not as yet a recognised way of doing this. Further work will be undertaken to identify 'added value' and how to incorporate this into the procurement process and subsequent contracts.
- 5.7.3 The cross cutting review defined another, quite separate sense in which the concept of added value can be understood, see Box 6 below.

Added value – another sense

'This sense reflects the additional benefits that the third sector may bring to service provision from the use of volunteers and donations and from the re-investment of surpluses. In such circumstances the extra welfare gain is *wholly additional* to the service provided under contract. Neither volunteers nor donations should be used to fund statutory services– Charity Commission guidance underlines this– but charities may nonetheless choose to fund from their own resources services that are above and beyond those contracted for by the State.'

Source: Cross cutting review

Box 6

What we will do:

- Agree a method for calculating full cost recovery.
- Agree a way of identifying 'added value' and how to incorporate this into procurement and contracts.

6. Contracts

This section sets out good practice in contracting and how contractual relations will be conducted. The aim is to use contract terms which will apply to all service providers. The different components of a contract and what constitute effective terms of delivery are explained. Active, but not over-bearing, contract management is more likely to assist the delivery of the contract. A reduction in transaction costs and in negotiating and managing contracts will contribute to achieving the national targets for efficiency savings.

6.1 Length of contracts

- 6.1.1 Contracts will normally be for three years with appropriate break and change clauses.
- 6.1.2 Contractual arrangements will also ensure flexibility through:
 - the appropriate use of longer or shorter contracts for some services, as well as the use of 'rolling contracts'; and
 - for instance, a shorter contract where the funder and TSO have agreed to 'pilot' a potential new service.
- 6.1.3 It is recognised that current public sector funding regimes do not assist in applying best practice in funding arrangements. Funders will, wherever practicable, ensure that where contracts are to be renewed, funding levels for the following financial year will be confirmed at least three months prior to the end of the contract.
- 6.1.4 Funders and TSOs will work together to improve on this position.

6.2 Terms of delivery

- 6.2.1 The contract lays the foundation for the working relationship between funder and provider. Clear terms (and conditions) of delivery in the contract are fundamental in achieving a productive and trusting relationship between the two parties. Terms of delivery are listed in Box 7 below.

Terms of delivery

- What is to be delivered (description of the service, its aims and objectives, together with relevant outcomes and milestones)
- Responsibilities of both parties, including the allocation of risk
- Price
- Payment arrangements
- Audit and reporting requirements
- How performance is to be monitored (rewards and penalties)
- Review procedures, break clauses, and how to handle changes
- Notice periods and termination

Box 7

- 6.2.2 Effective and appropriate terms of delivery also ensure that:
- the best possible outcomes are achieved for the contract value;
 - there are incentives to perform well;
 - there is stability in funding, which encourages longer term planning and the development and improvement of services; and
 - a framework exists to share concerns or highlight changes at an early stage.
- 6.2.3 TSOs can often be deterred from bidding for contracts because the terms are unattractive, complex or demanding. The terms of delivery should be simple and straightforward, proportionate to the contract value, and agreed at the outset.
- 6.2.4 The move to funding **outcomes** has removed the necessity for copious information in the contract about activities. Instead the focus is on what will be achieved. It is helpful to identify milestones along the way, which mark the completion of the various stages of the process. Payments can be linked to these.

In the past, TSOs have identified *two further issues* issues of particular concern in negotiating contracts.

6.3 One: Allocation of risk

- 6.3.1 Inevitably, there are risks associated with all forms of contracting. Service providers may face risks such as price increases or that demand for a service may be less than expected, although costs have already been incurred. Similarly, funders face risks if service providers under-perform or become insolvent.
- 6.3.2 TSOs have identified the disproportionate balance of risk towards them as a key barrier to developing their role in service delivery. The Government's Better Regulation Task Force advocates a greater involvement for TSOs in the development of funding objectives and arrangements as part of a move towards 'mutuality of risk'.
- 6.3.3 Effective policies are needed to share risks, reduce uncertainty and increase efficiency. **Risks in delivering a service will be discussed and considered as part of the contract negotiations, and steps will be taken within the contract to mitigate them, and/or allocate them with the organisation best able to control and manage them.** Some risks may be shared.
- 6.3.4 Getting the right payment arrangements in a contract can also go a long way towards mitigating risk, especially for smaller organisations.
- 6.3.5 **Funders will make payments, where appropriate and necessary, in advance of expenditure, rather than in arrears, in order to achieve better value for money, and not expose providers to risk.**
- 6.3.6 HM Treasury has sought to clarify the confusion which often exists between payment 'in advance of expenditure' and payment 'in advance of need.'¹¹ 'In advance of need' refers to the need for the service, which has already been established through the specification, allocation of resources and letting of the contract, not the need for advance payment. Payments cannot be made in advance of need. Once the need is established, it is quite legitimate to make payments 'in advance of expenditure'. This is one way of meeting an organisation's 'need' for the money up front, because of a lack of reserves, working capital, or of an insufficient cash-flow, which is often the case, so reducing risk and achieving better value for money for public funds.

¹¹ 'Guidance to Funders: improving funding relationships for voluntary and community organisations.' HM Treasury September 2003

- 6.3.7 To ensure the payment process run smoothly:
- The timing of payments over the whole contract period will be agreed at the outset;
 - The payment process will be specified in the funding agreement;
 - Invoices will be submitted in a timely manner; and
 - Payments will be made on time, with invoices settled within 30 days of receipt.

6.4 Two: Overhead costs

- 6.4.1 As described in 5.6.3, costings for contracts will take into account the full cost of delivering the service. This includes a relevant proportion of overhead costs, and will include an adjustment for inflationary increases if the contract extends for more than a year.
- 6.4.2 The key factors in the chosen method of allocating overhead costs should follow the following principles:
- It should be simple. Both funders and service providers should be able to calculate the amounts without disproportionate resource;
 - It should be equitable between providers where there are several funders of different services;
 - The costs should be recovered only once. So where, for example, a funder provides a grant specifically for what have until now been called 'core costs', those costs should not be taken into account again.
- 6.4.3 Many TSOs use an arbitrary fixed percentage 'core cost' add-on to the direct costs of the service. Whilst this has the appeal of simplicity and is appropriate in some circumstances, there can be some risks. Arbitrary fixed percentages can be driven by what the funded organisation thinks it can 'get away with' and can lead to true costs being distorted. If organisations clearly calculate and allocate their direct and overhead costs to services these problems can be avoided.

6.5 Contract management

- 6.5.1 A well managed contract benefits all parties; it minimises the negative impact on users, enables providers to fulfil their responsibilities, especially to employees and avoids damage to the funder-provider relationship.
- 6.5.2 Effective monitoring, evaluation and reporting arrangements are the key to sound contract management.
- 6.5.3 Monitoring and reporting requirements will focus on the outcomes to be achieved and be proportionate to the funding, the size of the organisation and the perceived risks involved. The information required, and how best it can be obtained, will be agreed as part of contract negotiations, and included in the contract.
- 6.5.4 Providers have a responsibility to be accurate and transparent in their reporting, and give early notice of budget and delivery progress.
- 6.5.5 Any increases in costs which result from further monitoring requirements being added to the contract should be reflected in the overheads and contract price.
- 6.5.6 Funders and providers will identify potential efficiency savings in monitoring, evaluation and reporting by standardising or joining-up processes or using a lead funder approach.

6.5.7 There will be a simple and agreed programme for reviewing the contract and for making changes to the contract.

6.6 Ending a contract

- 6.6.1 The decision to end a contract may be made by either the funder or the service provider. All parties to the contract will wish to give an appropriate **notice period** that reflects the characteristics of the service and funding arrangements. Every effort will be made to give as much notice as possible of the end of a contract.
- 6.6.2 Existing contracts in place at the commencement of this code will be extended, where appropriate, to a minimum of three years or an appropriate negotiated end date.
- 6.6.3 Other than for time limited contracts, those with a specific end date, funders will use their best endeavours to provide six months notice from the next anniversary of the start date of the contract, whenever they intend to terminate a contract and therefore funding.
- 6.6.4 Funders wishing to continue funding a service beyond the contract's end date will enter into negotiations with the service provider six months prior to that end date. Where funding does not continue, the parties will aim to effect a managed closure of service provision to minimise any adverse impact upon the service provider and its users.
- 6.6.5 Particular attention needs to be paid to, and plans made for the ending of funding with short term national initiatives, to ensure the continuity of service where the service is of strategic relevance.

6.7 Performance

- 6.7.1 If a service provider is failing to meet its targets, funders will first discuss with the organisation what action can be taken to improve delivery, with a timescale.
- 6.7.2 Where funding is ended due to a failure to meet delivery targets, a constructive discussion should identify causes and possible solutions which could be used to avoid a similar situation recurring.

6.8 Reducing transaction costs

- 6.8.1 The steps outlined in this section implement the principal recommendations of the Gershon review. There are other ways in which transaction costs could be reduced, see Box 8 overleaf.
- 6.8.2 In addition, a model contract with standard terms and conditions could be used. Information on organisations on the Register of Approved Providers will only be collected once. The introduction of e-procurement which local authorities will be implementing from 2006, is also intended to yield efficiencies.
- 6.8.3 Partners to this code will work together to identify how these and other measures could streamline and rationalise all stages of the contracting process to reduce the transaction costs further, to achieve the efficiency target set by central government.

Efficiency savings through transaction costs

Transaction costs are high due to a number of factors, these all need to be identified and managed to increase efficiency:

- **The number of funding bodies** – Multiple funding bodies may fund a single service; costs could be reduced through a lead-funder approach to monitoring.
- **A lack of consistency and uniformity between funders** – Contracting methods and information requirements vary between funders. Costs would be reduced if funders joined-up or standardised requirements and practices.
- **A lack of flexibility in the procurement process** – Often, even trusted providers must undergo lengthy and expensive negotiations when renewing a contract. Costs can be reduced by longer contracts.
- **Stringent regulatory regimes** under which service providers are accountable to multiple regulators increase the costs of providing a service.
- **Demands for information and reporting requirements** should be proportionate to size of funding and risk to funder.

Source: 'Surer Funding,' Association of Chief Executives of Voluntary Organisations (ACEVO).

Box 8

What we will do:

- Identify risks and how they are to be allocated in contracts.
- Agree the terms of payments in advance of expenditure.
- Agree a model for allocating overhead costs.
- Work to reduce transaction costs.

7. Grants

Section 4.4 explained that grants are not generally used to fund health and social care services. Nevertheless, grants can be useful under some circumstances and where they are used the process should be as simple, accessible and effective as possible, with the terms of the grant clear at the outset. The focus will be on the outcomes of what the money is to be used for, not on the process itself. This section sets out how this will be done.

7.1 Application process

- 7.1.1 Funders will make clear what grant funding is available for the following financial year, with criteria and application procedures, as soon as is reasonably practicable. This will be done by wide dissemination, including notifying the Alliance.
- 7.1.2 Criteria for grants and the application process will be published with a closing date of a minimum of two months.
- 7.1.3 The application form will be as simple as possible and be designed so that less experienced applicants are not disadvantaged.
- 7.1.4 Funders will only ask for information that is relevant to their decision.
- 7.1.5 Applicants will be required to provide a contact person, in case of further enquiries.
- 7.1.6 Applicants will ensure that they meet the eligibility criteria and will contact the funder if there is any doubt.
- 7.1.7 Applicants should be clear about the period of time any grant made might cover and ensure that they plan ahead for when grant funding ceases.
- 7.1.8 Funders may undertake due diligence checks on the standing and capacity of the applicant organisation.
- 7.1.9 Funders will make it clear when decisions are to be made and inform the applicant of the outcome of the application as soon as possible after this, and within one month.

7.2 Agreements

- 7.2.1 Agreements should be clear, simple, in writing and proportionate to the sums involved.
- 7.2.2 Agreements should include:
 - the purpose for which the funding is being given;
 - the length of time the grant is to cover, or one-off;
 - how the grant is to be paid;
 - any requirements to acknowledge the funder in publicity etc.;
 - circumstances under which the grant may be withdrawn;
 - circumstances under which grant monies might have to be repaid; and
 - the evidence that the applicant must provide to the funder to account for how the grant has been spent.

What we will do:

- Publicise grant programmes in advance and agree a timetable for doing so.

8. Next Steps

Change on the scale indicated in this code will not happen all at once. The transitional period will need to be carefully managed. It will also be important for those affected to have the information, understanding and skills in preparation for the task ahead. This section sets out how widespread implementation of this good practice will be achieved through effective dissemination, training and monitoring. This should ensure that there will be a real improvement in practice in the funding and procurement of health and social care services from third sector organisations, and that the Compact way of working is further embedded in local practice.

8.1 Dissemination and education

- 8.1.1 The Code will be widely distributed throughout public sector bodies and the third sector. Information sessions will be held within funding bodies, and among staff and directors/trustees of TSOs.
- 8.1.2 This will be followed by a joint training programme in advance of the implementation of the code. Topics to be covered will include full cost recovery, risk analysis and allocation, contract terms of delivery, Transfer of Undertakings for Employees (TUPE) requirements, and monitoring and reporting arrangements.
- 8.1.3 £15,000 has been allocated for the training programme from the Small Grants Fund.
- 8.1.4 Funders and TSOs will give consideration to appointing a 'Compact Champion' within their organisation to take lead responsibility for ensuring that the organisation is fully prepared to implement the Code.

8.2 Implementation.

- 8.2.1 There will be a lead time while existing contracts run their course, and before April 2007, when contracts consistent with this code are in place. Clear guidelines will be issued about how the changeover period will be managed.
- 8.2.2 New contracts, consistent with this code will be registered with the Alliance, in order to monitor progress towards full implementation of the code.
- 8.2.3 Members of the Alliance make a commitment to the Compact when joining the organisation. A commitment to this code of good practice will form part of the registration process for member organisations seeking inclusion on the Register of Approved Providers, and will be reviewed periodically within the review process for that registration.

8.3 Review

- 8.3.1 In order for the code to be as effective as possible, there will need to be ways of resolving differences as it is implemented, and for reviewing the code, so that it can be improved for future use.
- 8.3.2 The Compact Working Group will oversee the adoption of the Code and its periodic review.
- 8.3.3 The group will review its terms of reference and membership to ensure that it has the right membership for implementation from April 2006.
- 8.3.4 All partners to the code will have the opportunity to be involved in a full review of the code every three years.
- 8.3.5 There may be a need to provide mediation in the event of the code not being implemented, or in cases of breach. A separate, local Compact Mediation Group may be needed for this purpose.

8.4 Compact way of working

- 8.4.1 Partners to the code will spread the good practice of the code, in an effort to encourage its wider use, and the adoption of the Compact way of working more generally.
- 8.4.2 Other public sector funders and TSOs will have the opportunity to sign up to the code, If an organisation is opting-in after April 2007, a timescale will be set by which its funding practices will be consistent with this code.

What we will do:

- Put an implementation plan in place, bringing together all the action points in the code, and including a programme of events to prepare people for implementation.
- Issue guidelines for managing the transitional period.
- Put in place appropriate mechanisms for the monitoring and review of the code.
- Spread the good practice embodied in the code.

Appendices

Appendix A: Compact Working Group

Appendix B: Glossary

Appendix C: References

Appendix A: Compact Working Group

Andrew Strong, Chair	Herefordshire Mind and Alliance Director
Gerry Harrison	Herefordshire Council
Chris Lewis Davies	CLD Youth Counselling Trust
Magda Prail	Age Concern Herefordshire and Worcestershire
David Rudge	Herefordshire Council
Paul Ryan	Herefordshire Primary Care Trust
Martin Smith	Herefordshire Council
Rach Thompson	Deaf Direct and Alliance Director
Jessica Stewart	Alliance Compact Officer (until 3rd September 2005)

Appendix B: Glossary

Added Value – The extra benefits which result from the provision of a service by a third sector organisation. There are two senses in which the term is used.

Alliance – Third sector organisations in health and social care working together to provide structured input to strategic planning and commissioning; to establish a register of approved providers; and to improve working relationships.

Audit

Reporting requirements to account for public funds

Charitable Law (funding note) – All charities are bound by Charity Commission regulations. Charities may not use charitable funds to subsidise statutory services which they provide under agreement.

Children and Young People's Partnership Board – The inter-agency strategic planning group for services for children and young people.

Contract – A legally binding agreement which sets out how funds must be used and what should be done if either party does not abide by the agreement.

Evaluation – The assessment of the outcomes that a project, piece of work or service has achieved.

Full cost recovery – Apportioning legitimate overhead costs to the costs of a service in the contract price.

Funders – Public bodies in the health and social care sector that engage in the procurement of services from the third sector.

Interest Groups – Older People; Children and Young People; Carers – Groups of Alliance members whose services benefit similar users, which provides a channel for expressing views on relevant issues and combined input to the planning process.. The Interest Groups are convened by the Alliance.

Joint Commissioning Group – The over-arching PCT/Social Care group which plans health and social care services for adults in Herefordshire. This is achieved through effective commissioning and allocation of resources.

Lead Funder – Where an organisation is funded by more than one funder, one of the funders takes the lead on behalf of all funders over the administration of the funding.

Local Development Plan – A three year plan that health trusts are required to publish, detailing the scope of, and priorities for local services.

Monitoring – The routine collection and recording of information, sometimes against statutory performance indicators, on the activities of a provider.

Provider – An organisation which enters into funding agreements to provide services.

Profile Funding – The staging of payments over the whole length of a contract. (For instance, funding may be in equal instalments, or front loaded for development, or end loaded for increased long term demand).

Appendix B: Glossary (continued)

Preferred Provider – An approved provider of services. Preferred providers may be directly offered the opportunity to provide services when there will be significant added value in them doing so.

Procurement – the acquisition of goods and services from third parties under legally binding contractual terms, where all the conditions necessary to meet a legally binding contract have been met.

Programme Board

Client based strategic planning and commissioning groups.

Register of Approved Providers – The Register of all 'fit for purpose' third sector providers of health and social care services not already subject to national registration.

Service Level Agreement – A legally binding agreement which details how funds should be spent and accounted for.

Tender – Where a provider submits a proposal for the provision of a service, in response to an approach from a funder, or on response to an advertisement.

Third sector – Non profit distributing, voluntary, community and charitable organisations which provide health and social care services in Herefordshire.

Transaction costs – The expenses incurred by funders when planning and buying services from the third sector, and costs incurred by third sector organisations when they tender for a contract. These normally contribute to management fees and overhead costs. Such costs also apply to the on-going management of the contract.

VCO – Voluntary and community organisation

VCS – Voluntary and community sector.

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