Third Sector Scheme

January 2014

Printed on recycled paper

Contents

Chapter 1. Introduction

The Statutory Position

1.1.   This Scheme is made under Section 74 of the Government of Wales Act 2006 which requires Welsh Ministers to make a scheme setting out how they propose, in the exercise of their functions, to promote the interests of relevant voluntary organisations. Section 74 is set out below. This Scheme uses the term "third sector" instead of voluntary sector and the term "third sector scheme" instead of voluntary sector scheme.

Section 74

(1) The Welsh Ministers must make a scheme ("the voluntary sector scheme") setting out how they propose, in the exercise of their functions, to promote the interests of relevant voluntary organisations.

(2) In this section "relevant voluntary organisations" means bodies (other than local authorities or other public bodies) whose activities –

(a) are carried on otherwise than for profit, and

(b) directly or indirectly benefit the whole or any part of Wales (whether or not they also benefit any other area).

(3) In determining the provision to be included in the voluntary sector scheme, the Welsh Ministers must consider how they intend to exercise such of their functions as relate to matters affecting, or of concern to, relevant voluntary organisations.

(4) The voluntary sector scheme must specify –

(a) how the Welsh Ministers propose to provide assistance to relevant voluntary organisations (whether by grants, loans, guarantees or any other means),

(b) how the Welsh Ministers propose to monitor the use made of any assistance provided by them to relevant voluntary organisations, and

(c) how the Welsh Ministers propose to consult relevant voluntary organisations about the exercise of such of their functions as relate to matters affecting, or of concern to, such organisations

(5) The Welsh Ministers –

(a) must keep the voluntary sector scheme under review, and

(b) may from time to time remake or revise it.

> (6) *Before making, remaking or revising the voluntary sector scheme, the Welsh Ministers must consult such relevant voluntary organisations as they consider appropriate.*
>
> (7) *The Welsh Ministers must publish the voluntary sector scheme when they make it and whenever they remake it; and, if they revise the scheme without remaking it, they must publish either the revisions or the scheme as revised (as they consider appropriate).*
>
> (8) *If the Welsh Ministers publish a scheme or revisions under subsection (7) they must lay a copy of the scheme or revisions before the Assembly.*
>
> (9) *After each financial year the Welsh Ministers must –*
>
>> (a) *publish a report of how the proposals set out in the voluntary sector scheme were implemented in that financial year, and*
>>
>> (b) *lay a copy of the report before the Assembly.*

1.2. This legislation requires Welsh Ministers to make a Scheme. The Third Sector Scheme is a statement of Welsh Ministers' intent in taking forward their relationship with the Third Sector and the 2006 Act does not provide that it has any binding effect. There may be circumstances where the intentions cannot be met.

1.3. The Scheme was last formally revised in 2004. Following a Welsh Government consultation – Continuity *and Change: Refreshing the Relationship between Welsh Government and the Third Sector in Wales*, (May-August 2013) – this Scheme and its Annex have been revised to bring the policy framework that underpins this relationship up to date.

1.4. Welsh Ministers expect all Cabinet members, Deputy Ministers and officials to promote the interests of the Third Sector in their work and decision making and will:
- maintain arrangements for meaningful engagement and consultation with the Third Sector (Chapter 3);
- maintain arrangements for supporting communities and volunteers (Chapter 4);
- maintain arrangements for supporting structures that allow the Third Sector to flourish (Chapter 5); and
- seek to adhere to the Code of Practice for Funding the Third Sector contained as an Annex to this Scheme.

The Code of Practice for Funding the Third Sector

1.5. The Welsh Government recognises that its Third Sector policy framework must include measures for assistance for the sector as set out in sub-section (4) (a) of the legislation above. The level of financial resources available will determine the extent of such assistance which is provided by way of grants etc., and funds will need to be targeted

according to Welsh Government priorities. The Welsh Government also recognises its role in seeking to ensure that the Third Sector has fair and reasonable access to public funds.

1.6.   Across the range of its functions, the Welsh Government is committed to establishing and maintaining procedures to ensure accepted best practice in the administration of its grant schemes and those of agencies, which administer funds on its behalf.

1.7.   The Welsh Government will maintain, use and promote the Code of Practice for Funding the Third Sector at Annex A, which, sets out the key principles that will underpin Welsh Government funding for the Third Sector as well as what the Government expects from the Third Sector in return.

1.8.   The Code of Practice for Funding the Third Sector and the terms and conditions issued at the time a grant is made provide the mechanism by which the Welsh Government will monitor the use made of any assistance provided by it to relevant organisations.

1.9.   The Code of Practice for Funding the Third Sector is monitored by the Funding and Compliance Sub-Committee of the Third Sector Partnership Council.

1.10.   The Code of Practice for Funding the Third Sector is an integral part of the Scheme. Accordingly, any re-making or revision of the Code must be done in accordance with the statutory requirements of section 74.

Defining the Third Sector

1.11.   Section 74 of the Government of Wales Act 2006 (as set out in Chapter one above) defines 'relevant voluntary organisations' as:

"…bodies other than local authorities (or other public bodies) whose activities -
*   are carried on otherwise than for profit, and

*   directly or indirectly benefit the whole or any part of Wales (whether or not they also benefit any other area

1.12.   'The Third Sector' is used in this Scheme and by the Welsh Government as an inclusive and overarching description of a very diverse range of organisations that share a set of values and characteristics. It is widely accepted that Third Sector organisations are:
*   independent, non-governmental bodies;
*   established voluntarily by people who choose to organise themselves;
*   'value-driven' and motivated by social, cultural or environmental objectives, rather than simply to make a profit;

- committed to reinvesting their surpluses to further their social aims and for the benefit of people and communities in Wales.

1.13. Even with this common values-based approach, there is a broad range of organisations which make up the fabric of the Third Sector including community associations, self-help groups, voluntary organisations, charities, faith-based organisations, social enterprises, community businesses, housing associations, development trusts, co-operatives and mutual organisations.

1.14. The Wales Council for Voluntary Action's 2013 Almanac shows that the Third Sector in Wales encompasses:
- 33,000 organisations
- 230,000 trustees
- 1.13m volunteers and people helping out in their community
- 51,000 employees

1.15. WCVA's research demonstrates that the Third Sector had an income of £1.6 billion in 2013 and was supported by 2.4% of the budget of the Welsh Government.[1]

1.16. The structures, forms and legal identities of Third Sector organisations also vary considerably. They include unincorporated organisations, registered and unregistered charities, companies limited by guarantee (which may also be registered charities), and community interest companies, charitable incorporated organisations and Industrial and Provident Societies.

1.17. Whilst individual organisations may call themselves voluntary organisations, community groups or social enterprises, the distinctions between such categories are often blurred and there remains a strong argument for viewing them collectively as a distinctive Third Sector that makes a hugely important contribution to Welsh life.

---

[1] Third Sector Statistical Resource 2013
http://www.wcva.org.uk/what-we-do/research/research-publications

Chapter 2.   The Relationship between Welsh Government and the Third Sector

Shared values and purpose

2.1.   The Welsh Government and the Third Sector share a number of common values about the role of individuals and communities in a modern democracy, which will underpin all aspects of this Scheme. These values are about a society which:

- ensures that people are not treated less favourably because of their gender, race, faith or belief, sexual orientation, age, pregnancy and maternity, being married or in a civil partnership, being a disabled person, or being transgender;
- is inclusive and enables people to participate in all its economic, social and cultural activities;
- empowers people to participate in the development of their communities and recognises the value of such a contribution;
- relies on people's voluntary action to foster community leadership and enhance local democracy;
- comprises public, private and voluntary sectors which complement each other and seek to tackle social issues in a spirit of partnership between them;
- enjoys the benefits of a healthy environment and a thriving competitive economy, alongside vibrant community life, as a result of its commitment to sustainable development.

2.2.   Welsh Government and the Third Sector recognise the challenges that public services face. Demand and expectations are increasing, and public funding is under continuing pressure. This means that preventative and community services are more important than ever. We recognise that quality of life cannot be delivered by the state alone, and we need to capitalise and build on community action and volunteering, and help communities to be resilient at the local neighbourhood level.

2.3.   We believe that the Third Sector can help to transform the way that public services meet present and future demands, by treating people and communities as assets and equals in the design and delivery of services, not only as service receivers. Some people describe this as co-production, and it means building services around the person and the community and unlocking potential resources of time, money and expertise to combine with, not replace state support. It makes resources go much further by using them in different and new ways which strengthen individuals and communities. Through this Scheme we will make sure that the arrangements for working with the Third Sector, and for designing and funding public services, support a new approach to public services based on co-production.

<u>The Nature of the Relationship</u>

2.4.   The Welsh Government is committed to recognising and promoting the Third Sector. The Welsh Government values the Third Sector for the contribution which the Sector makes to the long term economic, social and environmental wellbeing of Wales, its people and communities.

2.5.   The relationship between the Welsh Government and the Third Sector rests upon integrity, trust and mutual respect. The Welsh Government is committed to maturing this crucial relationship that has developed over a long period, for the benefit of people and communities in Wales.

2.6.   The Welsh Government recognises the need to work in partnership with the Third Sector as well as with other public services and bodies including local authorities and local health boards. Effective partnerships must be based on an appreciation of each party's distinctive contribution.

2.7.   The Welsh Government expects the Third Sector to recognise the primacy of Welsh Ministers in formulating policy and legislation. In turn, the Welsh Government recognises the wide scope and diversity of voluntary activity across the whole spectrum of society and the contribution voluntary and community organisations and individual volunteers make to the economic, social, environmental, cultural and linguistic life of Wales.

2.8.   The Welsh Government also recognises that Third Sector organisations are independent bodies which determine their own priorities and manage their own affairs, and that the Third Sector has an obligation to represent the interests of its constituents. It is also acknowledged that Third Sector organisations operate within the principles upon which they are founded. They are accountable to their members and the individuals and communities with whom they work, and to regulatory bodies such as the Charity Commission.

2.9.   On the basis of this mutual understanding of each others' roles, it is recognised that the Third Sector is a key partner in formulating and delivering many aspects of public policy, and as such it should develop strong partnerships with both national and local government.

2.10. In terms of practical working, the relationship between Welsh Government (and the bodies for which it is responsible) and the Third Sector is multi-faceted and includes:
- The sharing of views and information, through early identification and consultation processes, on the impact on the Third Sector of policy and future implementation and the contribution the Third Sector can make;
- Joint planning, design, monitoring and evaluation of programmes and schemes where there is Third Sector involvement;

- Funding across a wide variety of policy areas, directly and indirectly;
- A shared interest in the way that wider public services interact with the Third Sector.

2.11. Within this complexity it is possible to identify three distinct, overlapping spheres of interest that define and structure Welsh Government's interest in, and support for, the Third Sector:
- **Stronger communities** – the way most people make a voluntary contribution to the vibrancy and regeneration of their communities, provide care and help build people's confidence and skills; and the opportunities the Third Sector creates for employment and local enterprise
- **Better policy** – the knowledge and expertise the sector offers through its front-line experience to help shape policies, procedures and services;
- **Better public services** – the innovative and transforming role the Sector can play in making public services reach more people and become more sensitive to their needs.

Cross cutting themes

2.12. There are a number of cross cutting themes which impact across the Welsh Government and the exercise of its functions, to which the Third Sector is committed and makes a vital contribution. Accordingly the same themes will figure prominently in the manner in which the Welsh Government exercises its functions in relation to the Third Sector.

Sustainable Development

2.13. Sustainable development is the process that helps us make better decisions that ensure that we maximise the long term social, economic and environmental wellbeing of Wales. It provides a focus not only on current generations but on future generations and on the sort of legacy we want to leave for our children and grandchildren. Sustainable development is a central organising principle for the Welsh Government. We are committed to ensuring that sustainable development is also central to public services across Wales and that it transforms the way in which decisions are made. Our Welsh account of sustainable development embodies our values of fairness, social justice and respect for our environment.

2.14. The Third Sector has a long history in helping to embed sustainable development as a normal way of working in Wales providing support and opportunities for people to take practical action towards sustainable, resilient communities. Examples include the numerous community-owned initiatives generating triple-line outcomes such as growing and surplus food projects; community transport; energy efficiency and carbon footprint programmes; nature and heritage

conservation; and the emerging asset transfer ventures to Third Sector organisations involving land, housing stock or renewable energy generating surpluses for community investment. Many of these projects are underpinned by the awareness that community cohesion and prosperity cannot be achieved without attention to Sustainable Development principles and the engagement and partnership that this entails.

Welsh Language

2.15. The Welsh Government believes that the Welsh language is an integral part of Wales' identity and is committed to creating a truly bilingual Wales, where people can live their lives through English, Welsh or both languages. The Welsh Language (Wales) Measure 2011 confirmed the Welsh language's official status in Wales and established the role of the Welsh Language Commissioner. The Commissioner's principal role is to promote and facilitate the use of the Welsh language. The Commissioner will also monitor and enforce compliance with standards in so far as they apply to categories of bodies who form part of the Third Sector. The Welsh Government's Language Strategy – A living language: a language for living – and its Welsh Language Scheme, both look to increase the mainstreaming of the Welsh language into all aspects of the Welsh Government's work, as well as increasing the use of Welsh in the communities of Wales.

2.16. The Third Sector's contribution is vital to the survival and growth of Welsh as a community language as it provides opportunities for people to volunteer and provides voluntary services in Welsh, as well as celebrating the language and its associated traditions. Welsh Government believes that there should be equal opportunities for service users to use the Welsh and English languages in the Third Sector; that there are Welsh speaking volunteers across Wales and that the Welsh language becomes mainstreamed throughout all policy developments and funding allocations.

Equality and Diversity

2.17. The Equality Act 2010 and related Welsh specific public sector equality duties regulations impose duties on relevant Welsh authorities including the requirement to publish equality objectives. Authorities are required to publish a statement which sets out the steps taken in order to achieve each equality objective and also to monitor the progress of achieving those objectives. Welsh Government wants to create a fair society free from discrimination, harassment and victimisation with cohesive and inclusive communities. Its Equality Objectives (that sit within a Strategic Equality Plan) will help ensure that public services and employment are fair, accessible, responsive to people's needs, and that communities are inclusive. People should not be treated less favourably because of their gender, race, faith or belief, sexual orientation, age, pregnancy and maternity, being married or in a civil

partnership, being a disabled person, or being transgender. These objectives underpin Welsh Government's work, ensuring a joined up approach to achieving better outcomes for the people of Wales.

2.18. The Third Sector's contribution is vital to advancing equality and diversity, supporting people to challenge unfair treatment, and helping public bodies to improve the ways in which they meet their equalities duties. It provides advice and advocacy services, cultural activities, specialist support, and opportunities for minority and disadvantaged groups to organise, helping to build a more inclusive society.

Tackling Poverty

2.19. The Welsh Government wants to tackle poverty through everything it does. Collectively, Welsh Ministers are determined to leave no stone unturned in finding ways of preventing and reducing poverty in Wales. The Tackling Poverty Action Plan (2013) signals that, right across Government, resources will be used to help those most in need and seek to prevent future generations experiencing poverty. There are a range of programmes that enable us to reach into the communities most affected by poverty, and join up what we do across Government to help the people living there. Welsh Government is committed to do more to help improve the educational attainment of children from low income families; to help more people into jobs, especially in households where no-one has a paid job; and to meaningfully reduce the number of young people who are not earning or learning in Wales. Welsh Government will work to ensure that all people, regardless of how poor they are or how deprived the area they live in, have equal and fair access to essential services. We believe that if progress can be made in these four key areas, then this will be having a transformative impact on the lives of many people across Wales.

2.20. The Third Sector makes a significant contribution to tackling the causes and effects of poverty, through helping people to maximise benefits, to manage money and debts, housing and employment advice, employment and training schemes, foodbanks and other community services. For example independent advice providers continue to provide independent advice to people across Wales to thousands of people to mitigate the impact of welfare reform by ensuring that benefits are claimed, individuals and families have the maximum income available to them, avoid homelessness and to help them both manage their money and cope with their debts.

Chapter 3. Supporting Engagement between Welsh Government and Third Sector

3.1.   In Wales the Welsh Government and the Third Sector have enjoyed a long history of direct engagement, supported through this Scheme, which is unique to Wales. This long term strategic engagement with the Third Sector remains important in informing policy development and helping to shape services to meet the needs of people in Wales.

3.2.   It is important, therefore, that there are positive working relationships with the Sector, and effective representation at national, regional and local levels.

3.3.   The following paragraphs set out the formal arrangements for engagement under the auspices of this Scheme. These arrangements are supported by a mutually agreed Framework for Engagement.

3.4.   The Framework will:
- connect and give ownership to TSPC members in determining and tracking the process and progress.
- facilitate TSPC members in their task to engage with the wider sector
- create a process which generates shared agendas and outcomes.
- support more focused Ministerial meetings.
- enable clearer outcomes for TSPC and Ministerial meetings.
- add value to the contribution of both government and Third Sector.
- maintain interest and commitment for both Third Sector and Ministers.
- help both Ministers and Third Sector achieve their outcomes.
- bring additional resources to the table.

Dialogue and co-operation

3.5.   The Welsh Government, in conjunction with Wales Council for Voluntary Action (WCVA), will identify the relevant third sector networks and umbrella bodies with an interest in its work and agree practical arrangements for dialogue and co-operation at the operational level. In parallel, the Welsh Government expects Third Sector organisations to co-operate with each other and form appropriate networks that are able to relate to the Welsh Government collectively on common matters of policy and administration. The Welsh Government aims to meet regularly with representatives from Third Sector networks for this purpose and recognises the importance of ongoing regular dialogue and engagement with officials and Ministers.

3.6.   These arrangements will cover:
- exchange of information and views on developments in Welsh Government policies and priorities;

- the means by which all parts of the Third Sector can engage in and contribute to the work of the Welsh Government;
- informing the Welsh Government of developments and concerns identified by the Third Sector through its work;
- participation in working groups to develop new policies and strategies;
- consultation arrangements on policy or new strategic programmes;
- agreeing the parameters for co-operation in implementing such programmes, and;
- dealing with administrative arrangements for funding programmes.

Third Sector Partnership Council

3.7.   In pursuit of its intention to work collaboratively and effectively with the Third Sector, the Welsh Government will maintain a Third Sector Partnership Council as its primary mechanism for engagement with the Third Sector.

3.8.   Wales Council for Voluntary Action will facilitate the election of the Third Sector representatives and ensure that, as far as possible, they reflect a cross section of Third Sector interests and activities. Welsh Government may invite representative from other sectors to attend meetings. Officials of the Welsh Government and officers of Wales Council for Voluntary Action will support the Third Sector Partnership Council.   The Council will be chaired by the Welsh Minister responsible for the Third Sector Scheme.

3.9.   The Third Sector Partnership Council will:
- consider issues that relate to the strategic objectives and functions of the Welsh Government and which engage the interests of the Third Sector, and make recommendations to the Welsh Government
- agree, monitor and review the Framework for Engagement
- advise on the implementation, monitoring and review of the Third Sector Scheme including establishing indicators by which the Scheme shall be evaluated;
- facilitate consultation with relevant Third Sector organisations and Public Sector bodies on the Scheme's implementation, operation and review;
- assist in arrangements for reviewing the Scheme from time to time.

3.10.   The composition and working arrangements for the TSPC will be jointly agreed by the Welsh Government and the Third Sector.

Ministerial meetings

3.11.   The Welsh Ministers engage with the Third Sector very frequently through a variety of means. Examples include: meetings about specific issues; visits to organisations and communities; attendance at events

and conferences; and via correspondence. The importance to the Third Sector of being able to meet with Ministers to discuss issues of concern is recognised, and is a key part of the relationship between Welsh Government and the Third Sector.

3.12.   Under the auspices of this Scheme, this normal engagement will be complemented by Ministerial meetings which focus more tightly on high level issues that affect more than one Third Sector organisation, and that merit Ministerial engagement.

3.13.   These meetings will not seek to cover the whole range of a Minister's portfolio at once, but each meeting will:
   - normally relate closely to the outcomes which the Welsh Government and the Third Sector have identified as priorities and to the work of the TSPC;
   - focus on one or a few, linked, strategic issues which are related to those outcomes and to a significant number of Third Sector organisations;
   - be clearly action focused and timed to maximise the likelihood of enabling progress on the issues under discussion.

3.14.   The arrangements for Ministerial meeting will be set out in the Engagement Framework agreed by the Welsh Government and the Third Sector.

3.15.   The Welsh Government's Third Sector Team will monitor and review the pattern of all Ministerial meetings and report on this to the TSPC and, through the Third Sector Scheme annual report, to the National Assembly for Wales.

Third Sector involvement in policy development

3.16.   The Welsh Government will ensure that it takes into consideration, at a formative stage, the implications for the Third Sector of new policies or changes in policy. The Third Sector will understand that Welsh Ministers must take into account a range of perspectives and contributions in taking final decisions on policy making.

3.17.   The Welsh Government will seek as far as possible to avoid or to mitigate any undesirable impact on the Third Sector and to identify and encourage opportunities for Third Sector organisations to be informed and involved in discussions at the earliest opportunity and before formal consultation where possible. The diverse interests of Third Sector organisations mean that it is not possible to specify every area of policy that might be of concern to the Third Sector; however, detailed guidance will be developed and published separately to help in assessing the potential impact of policies on the Third Sector. Any such guidance will not form part of this Scheme.

3.18. The Third Sector may be affected by directives and proposed legislation arising out from the European Union as well as out of domestic legislation and policy. The Welsh Government will seek to ensure that the same considerations are applied to policy developments in these areas.

3.19. The Welsh Government will establish and maintain an internal liaison group comprising representatives of each Welsh Government department having contact with the Sector, to exchange information and ensure that the principles and commitments of the Scheme are being upheld.

Consultation

3.20. The Welsh Government is committed to setting out agreed procedures for consultation on policy changes and new policy developments which affect the Third Sector which include:
- opportunities for continuing discussion between Third Sector , volunteering interests and Welsh Government to foster early understanding and involvement in policy development;
- consultation arrangements that normally allow adequate time for wider consultation with networks and service users;
- supporting the role of umbrella bodies and intermediaries in facilitating consultation;
- feedback to respondents on the replies to and outcomes of the consultation;
- opportunities for the sector to continue to be involved at the implementation and evaluation stages of the policy.

3.21. The Welsh Government will ensure that these commitments are fully reflected in guidance to its staff to be followed when undertaking consultation exercises. These procedures will be detailed in the guidance issued to Welsh Government officials and will be the subject of periodic consultation with the Third Sector.

Chapter 4.   Supporting Communities and Volunteers

4.1.   The Third Sector is made up of thousands of organisations and groups involving and supporting communities of place and communities of interest. As identified earlier in this Scheme, there is a strong argument for viewing these collectively as a distinctive Third Sector. Whilst this is the case, we must also acknowledge the diversity of the Sector, and within it the vital role of small, volunteer led community groups. It is important that the relationship between Welsh Government and the Third Sector takes account of this diversity, and serves to highlight the importance of strengthening grass roots organisations that focus on local and small scale delivery.

4.2.   The Welsh Government's focus is very much on the philanthropic and social action taking place at a community level that contributes to a rich civil society and improves people's quality of life in Wales. This local community action highlights the importance placed on responding to experiences and needs on a daily basis. It is often at this very local neighbourhood or family level that Third Sector organisations can make the greatest difference. Its accessibility and responsiveness is one of the sector's greatest strengths.

4.3.   With this in mind, the Welsh Government recognises community development as 'people working together, on issues they identify, to bring about change through collective action'. It is a process, translating into actions to improve the social, economic and environmental well being of communities, meeting the needs and aspirations of those communities through the combined efforts of the community and the organisations which serve it.

4.4.   The Welsh Government believes that the collective strength of communities and their partners needs to be harnessed to find shared solutions to shared problems. This is at the heart of co-production. The problems that face our communities rarely have one cause or affect only one part of people's lives. It is recognised that communities themselves are often best placed to identify problems with existing services or gaps in services. Welsh Government supports seeking collaborative solutions, whereby people and communities work with service providers to design, deliver, and monitor and evaluate the service (this is widely recognised as co-production).

Promoting Community Engagement

4.5.   Welsh Government has endorsed the National Principles of Public Engagement in Wales, a set of ten principles aimed at increasing an effective and consistent approach to Public Engagement across Wales.

4.6.   The high level principles are set out below, but for more detailed information see: http://www.participationcymru.org.uk/principles

The National Principles of Public Engagement in Wales
1. Engagement is effectively designed to make a difference.
2. Encourage and enable everyone affected to be involved, if they so choose.
3. Engagement is planned and delivered in a timely and appropriate way.
4. Work with relevant partner organisations.
5. The information provided will be jargon free, appropriate and understandable.
6. Make it easier for people to take part.
7. Enable people to take part effectively
8. Engagement is given the right resources and support to be effective.
9. People are told the impact of their contribution.
10. Learn and share lessons to improve the process of engagement.

4.7. These principles complement the Welsh Government's National Standards for Children and Young People's Participation.

Supporting Volunteering

4.8. The Welsh Government values volunteering as an important expression of citizenship and as an essential component of democracy. It is the commitment of time and energy for the benefit of society and the community and can take many forms. It is undertaken freely and by choice, without concern for financial gain.

4.9. The Welsh Government will maintain a Volunteering Policy [to be published separately and not part of this Scheme]. This will be developed jointly with the Sector through the TSPC, and will:
- seek to improve access to volunteering for people from all sectors of society;
- support efforts to ensure that unnecessary barriers do not deter people from volunteering;
- make it easier for people to participate in volunteering;
- encourage the more effective involvement of volunteers;
- raise the status and improve the image of volunteering.

Chapter 5.   Supporting structures to allow the Third Sector to flourish

5.1.   The Welsh Government has made a long term commitment to the development of the Third Sector in Wales. It recognises the need to support community and grassroots organisations to grow and develop which, in turn, will support a fair, just and inclusive society where communities can build capacity in individuals to tackle poverty, skills, unemployment and sustainability.

5.2.   Welsh Government recognises that these organisations require support and it commits to maintaining a joined up infrastructure. This support is delivered by an integrated support structure known as 'Third Sector Infrastructure' which comprises Wales Council for Voluntary Action (WCVA), County Voluntary Councils (CVCs) and Volunteer Centres (VCs). Moving forward, it is expected that the Infrastructure will develop in line with new models of public services and structures to support national, regional and local working, taking full account of the principles set out in Chapter 4 of this Scheme.

5.3.   This infrastructure covers all of Wales and is widely recognised, within Wales and beyond, as a strength of the Third Sector in Wales, providing an agreed set of core services which are accessible to very many people and organisations throughout the country. The infrastructure bodies are in regular contact with not only their own members, but also many other groups in the sector through their services and networks. Through them, they reach out to every community and many thousands of individuals. An essential characteristic of the infrastructure is its membership and accountability to the sector. Infrastructure organisations have a broad and inclusive membership, open to any type of third sector organisation; and trustees elected by their members. This ensures that their services and activities are accountable to and reflect the needs of the Sector.

5.4.   The Welsh Government recognises that this Infrastructure's role is in:
   - Enabling other Third Sector organisations to grow and develop;
   - Supporting individual volunteers and collective voluntary action;
   - Promoting good and safe governance across the Third Sector;
   - Supporting Public Service design and delivery;
   - Providing voice and representation for the wider sector; and
   - Sharing good practice and innovation.

5.5.   The overall approach to support local, regional and national working includes a commitment by Welsh Government to supporting WCVA, the national infrastructure body to represent a range of voices within the Third Sector. WCVA's role includes working with the Third Sector Partnership Council and providing services which are appropriate at a national level, for example engagement and representation; provision of online and other information resources for the sector; managing the

national volunteering database and resources for volunteer-involving organisations; research; training; governance and trustee support; and involvement in managing the Infrastructure grant and other funding schemes.

5.6. As well as the infrastructure bodies that make up the generic infrastructure there are other third sector umbrella bodies support specific parts of the sector, which have specialist policy expertise in a given area and offer support to the sector in different ways. Some of these are supported by Welsh Government, and where this is the case such support is expected to complement the core services of the Infrastructure bodies and facilitate the delivery of Government priorities.

5.7. The Welsh Government will also support the Third Sector through its Third Sector Team, which will promote knowledge and understanding of the Third Sector in Wales and will:

- work cross-departmentally to share information with other Welsh Government departments, with particular attention to those policies and priorities that relate to the Third Sector;
- maintain inter-governmental relations to keep abreast of wider third sector issues
- support and monitor the working of the engagement structures set out in this Scheme and co-ordinate the preparation of the Annual Report on the Scheme.

Reviewing and reporting arrangements

5.8. The Welsh Government designates the First Minister to have overall responsibility for the Third Sector Scheme and a Welsh Minister to have specific responsibility for the interests of the Third Sector.

5.9. In consultation with the Third Sector, Welsh Government will develop and maintain mechanisms to monitor the performance of the Scheme effectively.

5.10. The Third Sector Partnership Council will consider and make recommendations on the measures needed to improve the performance of the Welsh Government, its agencies and sponsored bodies and the third sector. Examples of good practice will be promoted.

5.11. The implementation and impact of the Scheme will be assessed annually and a report will be laid before the National Assembly for Wales.

5.12. The Third Sector Partnership Council will attempt to resolve disputes between the Third Sector and the Welsh Government. Complaints will be referred to the Welsh Government's complaint procedures.

Annex to the Third Sector Scheme

Code of Practice for Funding the Third Sector

Llywodraeth Cymru
Welsh Government

January 2014

Introduction

Section 74 of the Government of Wales Act 2006 requires Welsh Ministers to make a scheme that sets out how they propose to promote the interests of the Voluntary Sector and how Welsh Ministers propose to provide assistance to relevant voluntary organisations. This is called the Third Sector Scheme (referred to as the 'voluntary sector scheme in the 2006 Act).

The Code of Practice for Funding the Third Sector sets out the key principles that will underpin Welsh Government funding for the Third Sector and what the Government expects from the Third Sector in return.

The Code of Practice forms part of the Scheme required by section 74 of the 2006 Act.

All Welsh Government Departments must comply with this Code. Welsh Government Sponsored Bodies (WGSBs) will be required to comply through their funding agreements. All other public bodies (including NHS bodies and local authorities) must comply with this Code in cases where Welsh Government has awarded them hypothecated funding. It is also expected that Welsh local authorities' and where relevant local health boards' adherence to these principles (as indicated above) will be reflected in local Third Sector Compacts.

All Welsh Government funding for the Third Sector will reflect the priorities of Government and Ministerial priorities set out within Welsh Government's Programme. Funding decisions made over time will reflect the changing context and priorities and any changing, new or emerging policy direction will be shared with the Third Sector through an ongoing dialogue.

Following this introductory section, the Welsh Government sets out its understanding of the variety of organisations that make up the Third Sector (see page 3).

There are, then, three distinct parts to this Code of Practice:

1. Part one sets out seventeen **Principles** which govern Welsh Government Funding to the Third Sector. This section includes Welsh Government's own statement of intent as well as what is expected from the Third Sector in return (pages 24-34);

2. Part two of the document focuses on **funding and commissioning**, (pages 35-43) and offers details of which methods Welsh Government use to fund the Third Sector. This section also explores some of the differences between grants and procurement and provides information on the role of the Welsh Government's Grants Centre of Excellence and of its Value Wales Division;

3. The final part of the of the code is made up of a number of **appendices** that offer further information on key components of grants and contracts, further links to the Welsh European Funding Office, a list of bodies that should comply with the Code (as indicated above), Welsh Government procurement thresholds and a list of useful contacts and links (pages 44-50).

Defining the Third Sector

This Code of Practice for Funding the Third Sector does not attempt to re-define the term Third Sector, not least because the term itself is not easy to describe or define.

Section 74 of the Government of Wales Act 2006 defines 'relevant voluntary organisations' as:

> "…bodies (other than local authorities or other public bodies) whose activities -
> - are carried on otherwise than for profit, and
> - directly or indirectly benefit the whole or any part of Wales (whether or not they also benefit any other area)

'The Third Sector' is used as an inclusive and overarching description of a very diverse range of organisations that share a set of values and characteristics. It is widely accepted that Third Sector organisations are:
- Independent, non-governmental bodies;
- Established voluntarily by people who choose to organise themselves;
- 'Value-driven' and motivated by social, cultural or environmental objectives, rather than simply to make a profit;
- Committed to reinvesting their surpluses to further their social aims and for the benefit of people and communities in Wales.

Even with this common values-based approach, there is a broad range of organisations which make up the fabric of the Third Sector including community associations, self-help groups, voluntary organisations, charities, faith-based organisations, social enterprises, community businesses, housing associations, development trusts, co-operatives and mutual organisations.

The Wales Council for Voluntary Action's 2013 Almanac shows that the Third Sector in Wales encompasses:
- 33,000 organisations
- 230,000 trustees
- 1.13m volunteers and people helping out in their community
- 51,000 employees

WCVA's research demonstrates that the Third Sector had an income of £1.6 billion in that year and was supported by 2.4% of the budget of the Welsh Government.

The structures, forms and legal identities of Third Sector organisations also vary considerably. They include unincorporated organisations, registered and unregistered charities, companies limited by guarantee (which may also be registered charities), and community interest companies, charitable incorporated organisations and Industrial and Provident Societies.

Whilst individual organisations call themselves voluntary organisations, community groups or social enterprises, the distinctions between such categories are often blurred and there remains a strong argument for viewing them collectively as a distinctive Third Sector that makes a hugely important contribution to Welsh life.

---

[2] Third Sector Statistical Resource 2013
http://www.wcva.org.uk/what-we-do/research/research-publications

PART ONE: WELSH GOVERNMENT FUNDING PRINCIPLES

This chapter of the Code sets out the principles which underpin Welsh Government funding of the Third Sector.

I.   <u>Delivery of strategic policy objectives</u>

Welsh Government expects that funding will support the delivery of its strategic policy objectives. Ongoing engagement with the Third Sector will be needed to ensure mutual understanding of these objectives, as they develop over time, and will inform the basis of what Welsh Government funds and the Third Sector's role in delivering agreed outcomes.

The role of the Third Sector, the needs of government and the needs of society, will be taken into account as part of this engagement. There are likely to be many areas of mutually agreed policy objectives, but Welsh Government policy objectives will inform all funding decisions. Issues must be worked through as part of policy development processes, underpinned by dialogue to foster continued understanding of how we can work together and what we can achieve.

Welsh Ministers will expect Third Sector organisations putting forward funding proposals to have taken account of the priorities of Government set out in its strategic policy documents.

Where the principles of this Code are being applied at local and regional levels, for example, grant funding from local authorities to the Third Sector, account may need to be taken of locally defined outcomes and priorities that contribute to Welsh Government's national priorities.

II.   <u>Respect for the sector's independence</u>

Welsh Government recognises that Third Sector organisations are independent, non-governmental bodies established voluntarily by people who choose to organise themselves. They are value driven, motivated by social, cultural or environmental objectives and committed to reinvesting their surpluses to further their social aims and for the benefit of people and communities in Wales. Welsh Government respects the sector's independence.

Welsh Government also acknowledges that some Third Sector organisations have a variety of roles including, for example, providing advice for their members and supporting the development of policy as well as delivering services on behalf of Welsh Government or other funders. The Third Sector has the ability to raise funding through non-statutory routes and delivers services that complement or are additional to statutory funded services.

Co-operation between Welsh Government and the Third Sector will promote a relationship based on reciprocity, recognising the desire to achieve the same outcomes for people and communities in Wales. This should include mutual

respect for each other's ways of working, the sharing of information and a willingness to collaborate to achieve these shared outcomes.

Formal funding relationships are necessary to ensure the effective distribution of public funds and so that agreed outcomes are achieved. At the same time, Welsh Government values the contribution that the independent Third Sector provides to policy development and it is important that this relationship continues and is not undermined by any funding agreement.

Third Sector organisations in receipt of public funding are expected to clearly articulate the range of roles they undertake and contribute constructively to all aspects of the relationship with Welsh Government including upholding funding agreements.

III.   Early and constructive dialogue

This principle recognises that early discussions between Welsh Government and the Third Sector are helpful in supporting a strategic approach to delivering key objectives and allows for better planning of services.

Welsh Government will seek to provide opportunities to discuss proposals well in advance of any formal application deadlines and early in the budget planning cycle. Explanations need to be made to account for instances where this is not achievable.

It is expected that in return, the third sector should engage constructively in this dialogue and respect the limitations on dialogue imposed by the need to ensure fairness and transparency in respect of competitive funding decisions.

IV.   Timely decisions

This principle relates to ensuring that Third Sector organisations receive notice of their funding in a timely way to support continuity and sustainability of services.

The Welsh Government recognises that early decision making in respect of funding can support better business and workforce planning. Welsh Government also acknowledges the impact that uncertainty about future funding can have on the delivery of services, on the people receiving those services and on staff morale. Welsh Government is mindful in particular of statutory requirements regarding redundancy procedures and wishes to guard against these difficult situations.

The Welsh Government's commitment, as a requirement of all grants, is the notification of decisions about future funding at least three months prior to the expiry of an existing funding agreement. For example, for a grant spanning a financial year (April to March), notification and clarification about what happens next must be given by 31 December prior to the start of the relevant financial year. Full compliance is expected and any exceptions must be

accounted for. If an offer in principle has been made, this must also be confirmed three months prior to the expiry of the current funding.

The Welsh Government's Third Sector Unit and the Grants Centre of Excellence will monitor grants to ensure compliance with this principle in particular, and will provide reports to the Funding and Compliance Sub-Committee of the Third Sector Partnership Council (TSPC). It is also expected that Third Sector organisations will inform the Sub-Committee if this commitment is not upheld.

V.   Security of funding

This principle recognises that in a climate of reducing resources and escalating need, security of funding is an issue felt across all sectors.

Welsh Government acknowledges that sometimes, short term funding can cost more administratively and longer term funding commitments should be made wherever possible and appropriate, which will help to minimize administration costs.

Ongoing dialogue can help to reduce uncertainty and any resulting disruption to services. If a strategic long term commitment is made in principle, this must also be confirmed at least three months before the expiry date of the current funding.

VI.   Fair funding levels

Increases in Welsh Government funding levels, due to cost of living or inflation, should normally be applied fairly and equitably to third sector funding recipients.

If Welsh Government departments have received an increase in funding due to the cost of living, this should be considered and applied on a fair basis to third sector organisations. This should take place in a timely fashion and not more than one year in advance of the period that funding will apply to. There may, however, be some Welsh Government increases that do not apply to the Third Sector and vice versa. Similarly, when Welsh Government funding is under constraint, it is reasonable to expect that this will also be applied in relation to the Third Sector where appropriate.

Third Sector organisations are expected to reflect estimated cost of living or inflationary rises in funding applications at the time of application; year on year inflation costs should not be added to future budget lines when they are unknown.

VII. Value for Money

Value for money in government is about ensuring that taxpayers' money is used economically, efficiently and effectively. The principle is to achieve the best possible level of outputs and outcomes of acceptable quality at the lowest cost. This applies to all of the Welsh Government's activities and to the purchase of goods and services from external suppliers.

Welsh Government commits to optimise value for money by:

- Establishing a **clear need for intervention** – a case for change
- Setting **clear objectives** – what we want to achieve from our investments
- Considering a **wide range of potential solutions** – selecting the option which meets the objectives with the optimal balance of benefits, cost and risk
- Putting the arrangements in place to **successfully deliver** the proposal
- Putting arrangements in place to **evaluate activities** – identifying and disseminating lessons learned and good practice.

Third Sector organisations are expected to ensure the economic, efficient and effective use of public money.

VIII. Full Cost Recovery

This principle recognises the need to include all costs associated with delivering a project or service.

For any project or activity, there are two types of costs - direct costs that are incurred as a direct result of running a project or service, and overhead costs that are incurred by an organisation in supporting the projects that it runs. Full Cost Recovery means securing funding for, or 'recovering', all of these costs.

Welsh Government commits to levels of funding based on and reflecting the principles of Full Cost Recovery when developing their grant programmes.

It is expected that all applicants will use a Full Cost Recovery model for project funding to ensure all costs associated with the project are identified and met. Third Sector organisations are expected to use a suitable model that fits with the individual business model.

Further details on the principles of Full Cost Recovery and guidance on appropriate models for calculating a fair contribution to overheads can be found here http://www.wcva.org.uk/media/715957/wcva_amended_overheadsfcr_paper_final.docx and see http://www.thinknpc.org/publications/full-cost-recovery-2/

IX. Commissioning Principles

Commissioning is a broad concept and there are many definitions. A simple way of describing commissioning is as an ongoing process used to decide which products or services are needed to deliver desired outcomes for people. It includes decisions about how to obtain services that offer the best value for citizens and taxpayers and how to monitor and evaluate these services.

Most definitions of commissioning paint a picture of a cycle of activities at a strategic level. Commissioning services encompasses the entire cycle of:

- assessing the needs of people in a local area,
- designing services
- delivering services
- reviewing services

In the development of any service focussed on our citizens a useful service commissioning road map can be found within the Welsh Government's commissioning principles for social care as set out in its *Fulfilled Lives; Supportive Communities – Commissioning Framework* (see section 4)*.

This emphasises the importance of:

a) The need to focus on client group needs across agencies.
b) The process of analysis, planning, security of service and review are equally important.
c) The activities following sequentially.
d) Commissioning driving funding methodology
e) The need for the procurement experience to inform the ongoing development of the commissioning strategy.
f) An on-going dialogue with service users/carers, case/care managers, providers and the third sector.

It is expected that these best practice principles are applied to wider commissioning to ensure full engagement in each stage of the Institute of Public Care's commissioning cycle described above, of Analyse; Plan; Secure Services; Review.

Welsh Government commits to upholding these principles in its commissioning of services from the Third Sector. And when facilitating the provision of services by others from the Third Sector, through specific funding programmes, the Welsh Government will require them to adhere to these principles.

It is expected that Third Sector organisations commit to engage fully in commissioning processes.

X. <u>Payments</u>

The Welsh Government's policy is that payments should be made in arrears (i.e. after the grant recipient has incurred the expenditure); however, it recognises that most Third Sector organisations do not hold large reserves and do not have the resources available to undertake work and receive payment afterwards. Therefore provision of funding for committed expenditure may be considered in advance of payment, but only where evidence of need is clearly established.

The Welsh Government's Grants Centre of Excellence has developed a template for Third Sector organisations to demonstrate their need for payment in advance in order to make the process transparent. This template was agreed with the Third Sector Partnership Council's Funding and Compliance Sub-Committee. If any changes are deemed necessary, then the changes will be agreed with the Sub-Committee prior to implementation.

The payment in advance template is available on request from Welsh Government's Grants Centre of Excellence.

The introduction of other specific payment arrangements (e.g. Payment by Results) will be discussed with the Third Sector in advance to ensure that the sector is not excluded or disadvantaged.

XI. <u>Fair and reasonable treatment</u>

The Third Sector Scheme commits Welsh Government to consult openly and meaningfully with the Third Sector on policy changes and new policy developments, both on specific proposals and services and more generally. It is accepted best practice that there should be a 12 week consultation period where possible. Similarly, it is expected that a 12 week notice period should be given before any policy changes or decisions are made which would lead to a withdrawal or significant reduction of grants.

In return, Third Sector organisations are asked to co-operate fully during this consultation / notice period and use it as an opportunity to positively contribute to the discussion with departments or policy / service areas.

The Welsh Government upholds the need for clarity in what is funded or purchased by defining and agreeing outcomes with recipients of funding. These outcomes should be set out transparently in funding agreements to ensure fair and reasonable treatment of organisations and shared and agreed expectations for service delivery.

XII. <u>Joint approach to monitoring, evaluation and audit</u>

Monitoring is the regular and systematic collection of data (information) which is then used to help manage a project. The data is usually numerical and relates to finances or to other indicators, but will include qualitative or other data. Such data is processed and reviewed to measure progress against

objectives agreed from the outset, for example in relation to baselines and forecasts.

Evaluation is wider in scope than monitoring. It includes making an assessment of the overall achievements of a project. An evaluation addresses questions such as:

- Have the objectives of the project been met?
- How efficiently were the outputs and results achieved?
- What would have happened without the provision of service?

Monitoring of grants and contracts must be consistent, proportionate and reasonable. Welsh Government monitoring officers will use a range of tools and methods to achieve this. Each department must make clear their own requirements and provide support and training where appropriate to support third sector engagement in monitoring and evaluation.

Audit and Inspection
In grant terms and conditions, there will normally be a provision made for the formal audit of Welsh Government funding. Recipients will be required to comply with Terms and Conditions of funding which will set out individual audit arrangements.

All organisations in receipt of funding are expected to maintain clear accounting records identifying all income and expenditure in relation to the funding as specified within their Terms and Conditions.

Third Sector organisations must operate mindful of the fact that their organisation's use of grant funding could be audited. Organisations must allow, without charge, Welsh Government, Wales Audit Office or European Commission officials or their representatives, to visit their premises to inspect any activities or records relating to the use of grant funding.

Under the Government of Wales Act 2006, the Auditor General for Wales has extensive rights of access to documents and information relating to monies provided by Welsh Government. Recipients of funding agree to give assistance, information and explanation to the Auditor General or its officials should it be required, as a condition of funding.

The Welsh European Funding Office (WEFO) is part of the Welsh Government and manages the delivery of the EU Structural Fund programmes in Wales. The Welsh Government's European Funds Audit Team (EFAT) is responsible for auditing a sample of European funded projects to verify the substance of expenditure declared to the European Commission. For further information, please see Appendix 1.

XIII. Identifying Expertise and Developing Capability to Deliver

Welsh Government recognises that there is a wide range of knowledge and skills within the Third Sector in Wales which can and does make a major

contribution to the achievement of Government priorities and to improving the lives of Welsh people and communities. Third Sector organisations do, however, need support to ensure that their potential is fully realised and good practice is shared as widely as possible across the sector and beyond.

Welsh Government is committed to working with the Third Sector to identify areas of expertise and support organisations and individuals to take the lead in or contribute to the implementation of new policies. Funding mechanisms will be designed with this aim in mind, and the funding of Third Sector infrastructure bodies in particular will include building the capability of Third Sector organisations at all levels to ensure effective delivery of their services.

XIV. Diversity

Welsh Government recognises the diverse needs of people and communities across Wales and the variety of services required to meet these needs.

Welsh Government seeks to strengthen and encourage partnerships and linkages across all sectors and acknowledges the complementary roles played by public sector, third sector and private sector in providing these services. Welsh Government believes that maintaining the right balance of these diverse services must be considered.

Diversity in this context is about maintaining a range of accessible services to meet a variety of individual and collective needs; locally based and run services, as well as larger services; different models of services to meet different needs; and ensuring that no one type of service or service provider dominates the system. The aim is to ensure equitable provision of high quality services across all locations, and across the breadth of interests, and to take account of the difficulties of providing services in remote or rural areas or for people with particular needs including language.

The Welsh Government believes that the Welsh language is an integral part of Wales' identity and is committed to creating a truly bilingual Wales, where people can live their lives through English, Welsh or both languages. The Welsh Language (Wales) Measure 2011 confirmed the Welsh language's official status in Wales and established the role of the Welsh Language Commissioner. The Commissioner's principal role is to promote and facilitate the use of the Welsh language. The Commissioner will also monitor and enforce compliance with standards in so far as they apply to categories of bodies who form part of the Third Sector.

The Third Sector's contribution is vital to the survival and growth of Welsh as a community language as it provides opportunities for people to volunteer and provides voluntary services in Welsh, as well as celebrating the language and its associated traditions. Welsh Government believes that there should be equal opportunities for service users to use the Welsh and English languages in the Third Sector; and that the Welsh language becomes mainstreamed throughout all policy developments and funding allocations.

Welsh Government is keen to support small and medium sized organisations / services to ensure that funding practices are proportionate and do not create unintended barriers for smaller organisations. Welsh Government is particularly mindful of issues around accessibility for user-led groups who may have limited resources, or face particular barriers that make it difficult for them to engage in these funding processes.

XV. <u>Innovation</u>

Welsh Government is committed to working with the Third Sector, other funders, partners and agencies to identify innovative practices that improve the delivery of public services in Wales, including exploring new funding models where appropriate. This commitment to innovation needs to be balanced with recognition that, in many cases, continuity of services is also valuable.

Welsh Government will engage in dialogue about innovative approaches to address emerging community issues and needs. Where appropriate, opportunities to share these approaches with other Government departments funding the Third Sector will be explored, as will opportunities to work with other Third Sector organisations.

XVI. <u>Good Governance and Due Diligence</u>

This principle promotes the need for good governance and due diligence.

- Governance is the systems and processes concerned with ensuring the overall direction, effectiveness, supervision and accountability of an organisation
- Due diligence is reviewing these systems and processes to evidence that requirements are met under areas such as Board, Strategy, People, Finance and Legal duties.

The seven Principles of Public Life (sometimes known as the "Nolan Principles") emerged from the Committee on Standards in Public Life set up in 1994 under the chairmanship of Lord Nolan. While the Committee's work focused initially on the role of politicians and others in high profile positions, the principles apply much more widely and are relevant to anyone working in the area of public service, including Third Sector organisations. More information about the work of the Committee can be found at http://www.public-standards.gov.uk/

The Principles are:
- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership

Good Governance; a Code for the Third Sector in Wales
reflects the Nolan Principles and sets out six principles for good governance that can be applied across the Third Sector (see http://www.wcva.org.uk/advice-guidance/trustees-and-governance/publications).

An effective board / governing body of an organisation will provide good governance and leadership by:

1. Understanding their role
2. Ensuring delivery of organisational purpose
3. Working effectively both as individuals and a team
4. Exercising effective control
5. Behaving with integrity
6. Being open and accountable.

Welsh Government will apply the principle of good governance and due diligence in its funding of the Third Sector. It is expected that Third Sector organisations will apply these principles in their work, and when supporting or advising other Third Sector organisations.

XVII. Monitoring the Code of Practice for Funding the Third Sector

This principle is essentially about compliance with this Code of Practice.

Welsh Government will put robust monitoring processes in place for this Code of Practice to be effective and ensure that they remain relevant and are kept up to date.

The Grants Centre of Excellence undertakes 'spot checks' to ensure that grant funding is provided appropriately and compliantly. Grants officials are required to produce, without notice, documentary evidence of their compliance. Although spot checks are not specific to the implementation of the Code, they include compliance with the Code in terms of notification of funding, the funding agreement and funding duration.

Compliance with the Code is included in the minimum standards for grant management. The minimum standards are the processes that must be undertaken and evidenced by all grant managers to demonstrate that the grant is operated in an appropriate and compliant way.

Compliance with this Code will also be made clear in Grant Offer Letters and Terms and Conditions of hypothecated grants made to public bodies.

An annual exercise is also undertaken to determine whether all Third Sector grant recipients have been provided with sufficient notice of funding arrangements. The findings are reported back to the Funding and Compliance Sub-committee of the Third Sector Partnership Council (TSPC).

The TSPC Funding and Compliance Sub Committee is a key mechanism for monitoring the Code, along with the Annual Report on the Welsh Government's own compliance with the Third Sector Scheme and the Code.

There is a commitment to address non-compliance. Where there is non-compliance, an explanation of the circumstances will be provided to the Funding and Compliance Sub-Committee and action will be taken where appropriate. Third Sector funding recipients are also expected to be open and forthcoming in the identification of non-compliance to of this Code, to enable the Sub-Committee to fulfil its function of monitoring the Code.

PART TWO: FUNDING AND COMMISSIONING

I. <u>Welsh Government's Commissioning Framework</u>

As described above in principle IX, there are many different definitions of commissioning and procurement, emphasising different aspects of the tasks involved, depending upon the context in which they are set. As stated in that principle, the Welsh Government's established model of commissioning for social care can be found in *Fulfilled Lives; Supportive Communities – Commissioning Framework.*

The Framework seeks to ensure that outcomes drive services. Outcomes-based commissioning means putting in place a set of arrangements whereby services are defined and paid for on the basis of an agreed set of outcomes or results.

The starting point and main focus of this approach must be the ***outcomes*** that are the intended results of the activity, intervention or service commissioned, and not the activity itself.

Following Welsh Government's consultation with the Third Sector (May – August 2013) it was established that outcomes based commissioning would follow these stages:

- o Defining the problem that needs solving and the desired outcome (the change that is needed);
- o Co-designing a range of options that will work to address the issues identified and testing them against the defined outcome;
- o Funding an option / range of options to deliver the desired result (funding method to be agreed);
- o Evaluating what works well and what could be improved further and looking for a phased approach to introducing that service on a longer term basis;
- o Ensuring that the final service can be competed for on an equal basis by all potential providers.

II. Funding Mechanisms

Grants

What is a grant?

Grants are funding that can be provided by the Welsh Government and other public bodies as a means of offering financial support to third sector organisations to enable them to undertake activities the Welsh Government and other public bodies wish to support.

Grants may be aimed at assisting with the core costs of running and developing an organisation or more specifically to help it carry out a particular project or services. The grant giver is not contracting for a service that forms part of its own business.

What is hypothecated and unhypothecated grant funding?

Grant funding is sometimes classified as hypothecated and unhypothecated:

- hypothecated grant is ring fenced, project focused and has to be spent in accordance with the specific purposes agreed at the grant award stage;
- unhypothecated grant is not ring fenced and receiving bodies can spend it at their discretion -this includes Revenue Support Grants paid to local authorities. Very few grants are awarded on an unhypothecated basis.

What is core funding?

Core funding is very difficult to define as there are many variations as to what constitutes core funding depending on the context, such as the size or nature of an organisation. Generally, core funding is for financing a Third Sector organisation to carry out activities that the Third Sector organisation chooses within broad parameters agreed with a public body. Core funding is used when there is a high level of trust between the public body and the Third Sector Organisation.

Under core funding, the management relationship between the Third Sector organisation and the public body is deliberately arm's length. Typically, the public body gives a steer on its priorities once a year. In a core funding relationship, monitoring and evaluation of the Third Sector organisation by the public body should be light touch and accountability arrangements should emphasise the accountability of the trustees (or equivalent).

In general terms, core funding allows the funded body to conduct their key activities as defined by their governing document. Core funding is usually provided for a given period (up to 3 years) but awarded on an on-going basis. Although funding agreements are unlikely to be longer than three years, there

is commitment to maximise the period of funding where ever possible, to minimise any administration costs and improve efficiency of the funding

What is project funding?

In the context of grant funding, project funding refers to monies paid towards achieving outcomes as a result of an individual project within a grant funding programme. Project funding can be used for revenue costs e.g. salaries and day to day running costs, and/or capital costs e.g. costs associated with the development or purchase of capital items such as buildings. Funding for project activities is time limited. Where a distinct project is time limited (often less that 12 months) and outside the cycle of a financial year, three months notice of funding prior to project commencement will not always be realistic or desirable.

Grant or Procurement?

This is a very complex area. Often there is no hard and fast answer to the question of whether a Government requirement involving the use of public money should be grant funded or procured.

Grant funding is awarded to external bodies to fund or reimburse expenditure for agreed activities or items. Grants can be allocated competitively in cases where the demand for funding exceeds available resources and can be used to core fund some organisations. Procurement is the acquisition of goods and services from third party suppliers, usually through tender arrangements, under legally binding contractual terms.

A key determinant of whether a grant funded or procured approach should be used is linked to the proximity of the purchase to Government business needs or Government policy. In general terms, a grant funding approach should be used where Government wants to financially support external bodies to undertake activities to help meet its policy objectives and priorities. A procured approach, however, should apply where Government specifically defines the goods and/or services it requires for its direct benefit or use.

Indices of which approach might be the most appropriate can be gleaned from answers to key questions, some of which are given below:

Q Does Government have the legal power to carry out works to secure desired outcomes i.e. to employ staff to carry out the work directly?

A If Government does not have the legal power to undertake the work itself, it is unlikely that it would have the authority to acquire them under contractual arrangements. Therefore, in respect of this particular indicator, it is likely that Government would pursue its objectives through grant funding.

Q   Are desired outcomes intended to benefit Government directly in furtherance of its functions or policy objectives?

A   Where the intention is to secure a direct service for Government either in the supply of goods and services (e.g. office supplied) or in direct furtherance of its functions or policy objectives (e.g. recruiting consultants) then a procured approach is likely. The recruitment of research consultants, for example, can have a wider secondary interest or benefit, but the question of whether the research outcomes are primarily of direct benefit to Government remains relevant.

Q   Is Government proposing to provide all the funding to meet requirements for which funding is being paid?

A   If it is, then this would be a factor in favour of a procurement route. Often grant funding covers only a part of the cost of a project or activity with funding also coming from other sources. This means that other funders also have a stake in determining the direction and outcomes of the work.

Q   What degree of control does Government wish to exercise in achieving outcomes?

A   The more prescriptive Government wishes to be about specifying the service required or the outputs to be secured, the greater the presumption there is for proceeding via procurement.

Rapid Response Team

The Rapid Response Team is comprised of representatives from relevant disciplines within Government and can be quickly convened where a situation is particularly complex and a decision whether to grant fund or to procure cannot be reached. Its aim is to recommend the most appropriate way forward to achieve best value for money.

Grant Management and the role of the Grants Centre of Excellence

Grants are very important in Wales. The Welsh Government use grants as a mechanism to deliver policy objectives; they enable the public sector and the Third Sector to provide services which directly impact on the lives of people in Wales.

To improve the way Welsh Government grants are managed, a **Grants Centre of Excellence** has been established to provide expert advice, support and guidance for anyone working with grants across the organisation. The Grants Centre of Excellence is a key source of advice, training and corporate guidance in the management of grant funding in the Welsh Government, aimed at increasing compliance, consistency and quality in Grants Management in Wales. Together, Centre of Excellence staff have a depth and breadth of grant funding experience gained from working on grant programmes in the third, public and private sectors

The Centre of Excellence has introduced a number of grant management improvement measures. For example, it has:

- developed a set of minimum standards for grant funding
- provided detailed operational guidance
- introduced a template award letter to increase consistency, compliance, and clarity in the funding agreements between Government and funded bodies
- rolled out mandatory training for senior grants officials, e-Grants system users and Grant Managers to ensure public money is managed in an effective and responsible manner
- produced a dedicated intranet site offering a central source of grant-related news, advice and guidance

Whilst the primary role of the Grants Centre of Excellence is to undertake activities to improve grant practices by promoting compliance with its minimum standards, it also acts as a point of contact for external bodies, including those from the third sector, which have queries or concerns about Government's management of their grants.

Minimum Standards

The Grants Centre of Excellence minimum standards reflect Welsh Government's approach to managing and administering grant funding by setting out the minimum processes and procedures that should be followed at each stage of the grant funding cycle.

Adherence to the standards will help ensure that grant programmes are compliant with Welsh Government governance requirements and relevant law, policy and good practice. This will help produce open, consistent and accountable grant services which are focussed on delivering results whilst providing assurance of regularity and probity to the public purse.
You can access the Standards via this link:
http://wales.gov.uk/funding/grants/contact-us/?lang=en

Applying the standards

The extent to which the minimum standards can be applied in practice depends upon a range of factors the most significant being the type of grant funding allocation method used.

There may be other justifiable reasons why, at times, it is not possible or advisable for all grant programmes to be compliant with the standards. Decisions about the management and administration of a grant programme are ultimately a local matter (i.e. for individual Welsh Government departments). Departments, however, must have due regard of these standards in reaching their decisions.

Performance measures

Welsh Government departments should establish clear performance measures to ensure grant programme aims and objectives are achievable and focused on making a measurable difference.

There is a strengthened focus on delivery and achieving results within Welsh Government. One approach to planning activities and assessing their performance that focuses on the results or outcomes they are intended to achieve is by using Results Based Accountability (RBA). Centre of Excellence minimum standards, guidance and grants training reflects this approach and require that, as a minimum, performance should be monitored and outcomes and impacts evaluated.

You can find out more information on RBA at
http://www.resultsaccountability.com/ or http://www.raguide.org/

Procurement

The Welsh Government's definition of procurement is the process whereby organisations meet their needs for goods, services, works and utilities.

In undertaking its procurement activity the Welsh Government operates in full accordance with the Welsh Public Procurement Policy launched by the Minister for Finance in December 2012 which can be found here: http://wales.gov.uk/about/cabinet/cabinetstatements/2012/welshprocurement/?lang=en

Welsh Government has agreed and adopted these policy principles and in carrying out procurement activity, the Welsh Public Sector in Wales is expected to adopt the following policy principles:

1.   *Strategic* - Procurement should be recognised and managed as a strategic corporate function that organises and understands expenditure; influencing early planning and service design and involved in decision making to support delivery of overarching objectives.

2.   *Professionally resourced* – procurement expenditure should be subject to an appropriate level of professional involvement and influence, adopting the initial benchmark of a minimum of one procurement professional per £10m of expenditure.

3.   *Economic, Social and Environmental Impact* - Value for Money should be considered as the optimum combination of whole-of-life costs in terms of not only generating efficiency savings and good quality outcomes for the organisation, but also benefit to society and the economy, whilst minimising damage to the environment.

4.   *Community Benefits* – delivery of added value through Community Benefits policy must be an integral consideration in procurement.

5.   *Open, accessible competition* – public bodies should adopt risk based, proportionate approaches to procurement to ensure that contract opportunities are open to all and smaller, local suppliers are not precluded from winning contracts individually, as consortia, or through roles within the supply chain.

6.   *Simplified Standard Processes* – procurement processes should be open and transparent and based on standard approaches and use of common systems that appropriately minimise complexity, cost, timescales and requirements for suppliers.

7.   *Collaboration* – areas of common expenditure should be addressed collectively using standardised approaches and specifications to reduce duplication, to get the best response from the market, to embed best practice; and to share resources and expertise.

8. *Supplier Engagement and Innovation* – dialogue with suppliers should be improved to help get the best from the market place, to inform and educate suppliers, and to deliver optimum value for money.

9. *Measurement and Impact* – in accordance with good management practice, procurement performance and outcomes should be monitored to support continuous improvement, and examples of good and poor practice openly shared.

What is a contract?

A contract is: 'a legally binding agreement between two or more parties'

Contracts can be created, amended or terminated in three ways:
- in writing;
- by word of mouth; or
- by the action of the parties.

A good contract will:

- Define the goods, services or works purchased.
- Provide a record of delivery, price and inspection requirements.

Contract Management and The Role of Value Wales

The Welsh Government is committed to achieving best value for money in all our public services. The Value Wales Division of the Welsh Government has the role of supporting public sector organisations in making the Welsh pound go further.

Value Wales acts as a catalyst for change, providing leadership, strategic direction, procurement training and best practice guidance to help public sector organisations in Wales achieve real and sustainable improvements. To help ensure organisations deliver effective and efficient procurement Value Wales has developed Procurement Route Planners when purchasing the following commodities:

- Goods and Services
- Social Care
- Food

Route Planners provide procurement advice and guidance through the procurement journey from identification of need to purchase and contract management.

These can be accessed at http://prp.wales.gov.uk/

Joint Bidding

A Guide to Joint Bidding has been produced jointly by the Welsh Government, the Wales Council for Voluntary Action and the Wales Co-operative Centre. It has been written for the attention of both public sector buyers and businesses and Third Sector organisations considering bidding for public sector contracts as a consortium.

The guide is structured in 18 short chapters around the different stages of the procurement cycle, from strategy formation through planning to contract award. The guide can be found here http://wales.gov.uk/topics/improvingservices/bettervfm/publications/jointbidding/?lang=en

Other funding mechanisms

Other types of funding other than grants and procurement are also available from the Welsh Government, it should be noted that these are usually programme specific and are not available to all bodies under every grant programme. Alternative funding routes include:

Sponsorship - a sum of money paid for the rights to a public association with an activity, item or property in return for a set of benefits. This could include event sponsorship, media sponsorship or collaborative communications.

Loans - a sum of money that is provided by the Welsh Government to external bodies with the expectation that the sum provided will be repaid in full (with/without additional interest element).

Equity Funding - provided by Welsh Government to external bodies in return for an equity stake as an alternative to loan stake.

Support to Credit Unions - Credit unions can act as an alternative to pay day and other instant loan companies. Welsh Government continues to support credit unions in Wales to build their capacity to assist more people.

There are also other mechanisms for funding the Third Sector that are currently under development, for example, newer models such as Social Impact Bonds.

Welsh Government encourages organisations funding the Third Sector to consider the range of opportunities and mechanisms available.

PART THREE: APPENDICES TO THE CODE OF PRACTICE FOR FUNDING THE THIRD SECTOR

Appendix 1: Key components of grants and contracts

<u>Key Components of Grant Terms and Conditions</u>

The Grants Centre of Excellence developed a model template award letter to help safeguard Welsh Government's accountability to the public purse by using legal documentation that is consistent, compliant and reviewed on a regular basis. The model letter is also an efficiency measure as it can be readily adapted by Grants Officials to suit the requirements of different grant funded activities.

The letter contains 22 sections which are supported by schedules which contain the detailed requirements linked to a particular funded activity. Key sections of the letter are:

- **What you must use the Funding for** - it is important that both the Government and Funded body are clear about their respective roles and responsibilities in the use of grant funding.

- **Funding pre-conditions** - the conditions that a funded body must satisfy before funding will be released.

- **How to claim the Funding** - this is an important section as it sets out when payments will be made and what funded bodies must do to satisfy Grant Officials that funding has been (or in some cases, will be) used responsibly and for intended purposes only.

- **Your general obligations to us** - refers to the areas for which funded bodies must implement measures to prevent fraud, ensure compliance with all relevant law and regulations, manage risk, and generally co-operate with Welsh Government officials seeking assurance as to the proper use of grant funding.

- **Declarations** - this is the funded body's formal agreement that it will comply with all the terms and conditions of funding set out in the award letter.

- **Notification Events and their consequences** - funded bodies must comply with the provisions of this section where one or more prescribed event occurs (e.g. grant has been overpaid or the funded body has failed to comply with funding conditions - a full list is contained in a schedule to the letter). The section also stipulates what Welsh Government may do in response to such notification.

- **Audit requirements** - as recipients of public monies, it is right and proper that funded bodies account for, and demonstrate appropriate and responsible use of, such monies. Where necessary, they must give access to Welsh Government, Wales Audit Office or European Commission officials

(or their representatives) to inspect any funded activities and associated documentation.

<u>Key Components of a Contract</u>

The Contract

- Comprises all documents (and correspondence) which fall within the scope of 'offer and acceptance'

- **Terms and Conditions (Conditions of Contract)**
  - Contractual rights and obligations relating to performance e.g. insurance requirements, administrative procedures etc.

- **Specification**
  - Translates the business need into a set of contractually binding requirements which tenderers can understand and price.

- **Key Performance Indicators (may or may not be part of the contract)**
  - Must be drawn from business needs (the specification) and reflect the priority of needs
  - Measures actual performance in specific areas against agreed targets
  - May be linked to incentives and controls

- **Payment**
  - This should set out the form, method and any timescales around payment.

Appendix 2: Welsh European Funding Office

The Welsh European Funding Office (WEFO) is part of the Welsh Government and manages the delivery of the EU Structural funds programmes in Wales. The broad principles within this Code of Practice apply to WEFO, but where there is WEFO specific guidance or further detail required, you will find an electronic link to information. For guidance see: http://wefo.wales.gov.uk/publications/guidance/?lang=en

Monitoring and Evaluation

For European programme funding, you must ensure that your monitoring and evaluation plan and procedures are sufficient to meet the requirements of WEFO and the European Commission, outlining the systems and indicators you will use, and how your evaluation activity will be implemented. You will be expected to prepare a monitoring and evaluation plan during the project development process, with WEFO on hand to provide advice at the relevant stage of your project's development. For WEFO guidance see: http://wefo.wales.gov.uk/publications/guidance/monitoringandevaluating/?lang=en

Audit and Inspection

The Welsh Government's European Funds Audit Team (EFAT) is responsible for auditing a sample of European funded projects to verify the substance of expenditure declared to the European Commission. For more information see: http://wefo.wales.gov.uk/publications/guidance/projectinspectionandaudit1/controls/?lang=en

The Welsh European Funding Office's Project Inspection and Verification team reviews a sample of WEFO funded projects to ensure they are complying with the EC and WEFO regulations and requirements. Where non compliance is identified, they may be required to recover all or part of the project's funding. For further details on the scope of a PIT review see the following link.
http://wefo.wales.gov.uk/publications/guidance/projectinspectionandaudit1/verificationvisits/?lang=en

Appendix 3: Compliance with the Code of Practice

All Welsh Government departments must comply with this Code.

Welsh Government seeks to promote and influence best funding practice and advocates that other bodies funding the Third Sector adopt the principles of this Code.

Where Welsh Government has provided hypothecated funding or funding through a framework agreement, grant recipients will be required to comply with this Code as set out in Terms and Conditions of funding.

Bodies who must accordingly comply with the Code in respect of hypothecated or framework funding include:

All Local Authorities

Welsh Government Sponsored Bodies:

Arts Council of Wales
Care Council for Wales
Higher Education Funding Council for Wales
National Library of Wales
National Museum Wales
Natural Resources Wales
Local Government Boundary Commission for Wales
Royal Commission on the Ancient and Historical Monuments of Wales
Sports Council for Wales

NHS Local Health Boards:

Abertawe Bro Morgannwg University Health Board
Aneurin Bevan University Health Board
Betsi Cadwaladar University Health Board
Cardiff and Vale University Health Board
Cwm Taf Health Board
Hywel Dda Health Board
Powys Teaching Health Board

NHS Trusts:

Public Health Wales
Velindre NHS Trust
Welsh Ambulance Services NHS Trust

Community Health Councils (CHCs):

Abertawe Bro Morgannwg CHC
Aneurin Bevan CHC

Betsi Cadwaladr CHC
Board of Community Health Councils
Brecknock & Radnor CHC
Cardiff & Vale CHC
Cwm Taf CHC
Hywel Dda CHC
Montgomery CHC

Appendix 4: Procurement thresholds

When undertaking procurement activity, the Welsh Government applies the following thresholds to the purchase of goods, services or works.

Value	Requirement	Action
£0 - £4,999	One written quote	Source suppliers registered on www.sell2wales.gov.uk
£5,000 - £24,999	Three written quotes	Source suppliers registered on www.sell2wales.gov.uk
£25,000 - £113,057. (Goods and Services)	Full and open competition	Publish requirement through www.sell2wales.gov.uk
£25,000 - £4,348,350 (Works)	Full and open competition	Publish requirement through www.sell2wales.gov.uk
£113,057 and above (Goods and Part A Services)	Full and open competition	Publish requirement through Europe via www.sell2wales.gov.uk
£4,348,350 and above (Works)	Full and open competition	Publish requirement through Europe via www.sell2wales.gov.uk

Organisations should note that higher thresholds may be applicable to the European Procurement threshold activity that they undertake. They should seek appropriate professional advice on applicability and level of these thresholds in regard of their procurement activity.

These thresholds do not apply to local authorities who will follow their own local procurement policies.

Further guidance on the current European Procurement thresholds applicable can be found at
http://prp.wales.gov.uk/planners/general/framework/euprocurementlegislation/euprocurementthresholds/

Appendix 5: Useful Contacts and links

Welsh Government

The Third Sector Unit: Thirdsectorqueries@wales.gsi.gov.uk

The Chair of the TSPC Funding and Compliance Sub Committee can be contacted via the Third Sector Unit:

Third Sector Unit
Communities Division
Welsh Government
Merthyr Tydfil Office
Rhydycar
Merthyr Tydfil
CF48 1UZ

The Grants Centre of Excellence: Grantsqueries@wales.gsi.gov.uk

Value Wales: http://www.sell2wales.gov.uk/Default.aspx

Welsh European Funding Office: www.wefo.wales.gov.uk

The office of the Welsh Language Commissioner:
post@welshlanguagecommissioner.org

Tackling Poverty Unit: TacklingPoverty-MinisterialBusiness@wales.gsi.gov.uk

Third Sector

WCVA: www.wcva.org.uk

County Voluntary Councils and Volunteer Centres:

 http://www.wcva.org.uk/members-partners/county-voluntary-councils

Additional guidance documents:

Grants and contracts: Guidance for third sector organisations and public authorities has been jointly produced by the Wales Council for Voluntary Action (WCVA) and Swansea Council for Voluntary Services (SCVS) and can be found here:
http://www.wcva.org.uk/media/666585/wcva_grants___contracts_e.pdf

Welsh Language Commissioner's *Grants, loans and sponsorship: Welsh language considerations* can be found here:
http://www.comisiynyddygymraeg.org/English/Publications%20List/20120402%20DG%20S%20Dogfen%20Cyngor%20Grantiau%20f1.pdf