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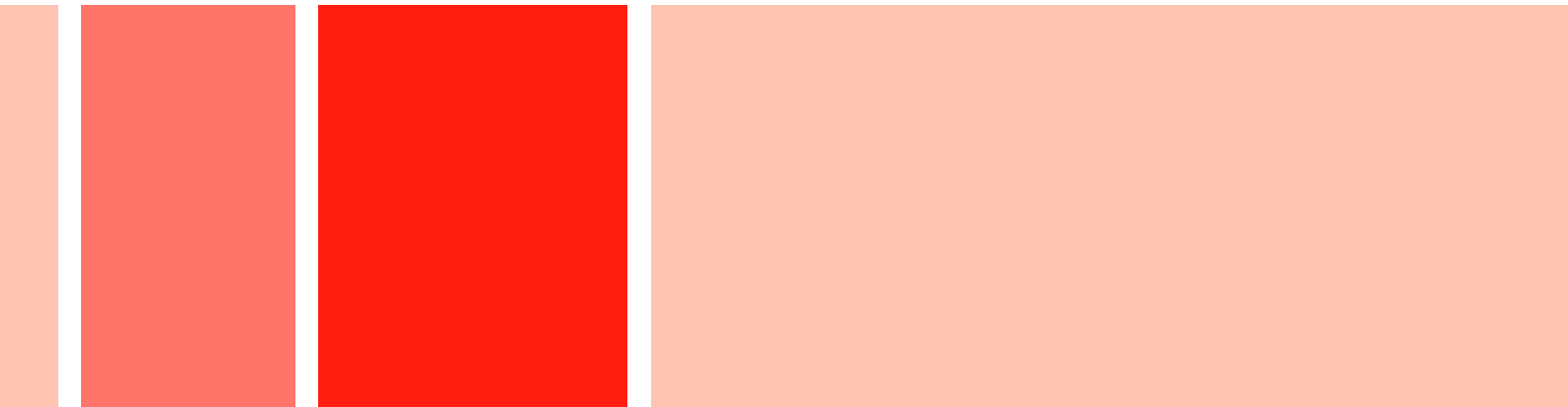
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Supporting People Programme Management Charges within Supporting People Service Provision



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Views expressed in this report are those of the researcher and not necessarily those of the Welsh Government.

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Executive Summary

1. The aim of the Supporting People Programme is to enable vulnerable people to remain living independently in the community. The current budget for Supporting People services across Wales is approximately £124 million, allocated across all 22 local authorities who commission support services from in excess of 200 service providers. The majority of service providers are voluntary sector agencies although they also include local authorities themselves, Registered Social Landlords and private sector providers.
2. Due to the severe downward pressure on Welsh Government revenue budgets, Supporting People budgets now face average reductions of 7.6% in 2015/16. This makes it even more important that as much resource as possible is directed to front line service delivery, and that costs such as management charges are minimised.
3. Our research approach deployed a mix of research methods including both qualitative and quantitative techniques and involved analysis of primary and secondary data. The range of techniques were designed to maximise engagement with the different target groups in order to achieve the best possible response rates and enabling all those stakeholders who wanted to, to be able to provide evidence and input.
4. The issue of management charges in public sector grant programmes has been the subject of a number of reports and proposals from a wide variety of bodies which are reviewed in the report. This body of work provides a rich but diverse framework of ideas within which to try to evaluate what management charges ought to cover, and how they should be applied and assessed. There is, therefore, no standard approach, and indeed there are different theoretical perspectives as to what the best approach should be.
5. However, one significant example examined as a potential role model for management charges in Supporting People projects is the Welsh Government's Communities First programme. Guidance issued by

Communities First on management charges includes cap level of 10% (gross).

Findings

6. The report includes case studies of both local authorities and providers.
The case studies demonstrate the wide variety of practice which exists in relation to management charges in the Supporting People Programme on the part of both local authorities and providers. They also show that there is a general lack of clarity on the part of many of those involved.
7. The case studies also demonstrate that there is good practice as well.
Some local authorities and some providers are thinking through the issues, and focusing on how to minimise management charges, and to ensure that they are calculated on a fair and transparent basis.
8. The problem of the definition of the management charge is one of the central themes to emerge from the analysis. There appears to be no consistent approach to identifying what kind of expenditure a 'management charge' in Supporting People should cover. Local authorities and providers utilise different definitions. Moreover, individual local authorities possess different perspectives on what they consider to be a management charge, as do individual providers.
9. A fundamental element of the definition of management charge is the type of expenditure eligible for inclusion under it. Analysis of the data and interviews shows that local authorities and providers not only differ in the types of expenditure they consider eligible under management charges, but that there are also differences in the ways in which they view different elements of project expenditure.
10. No local authority Supporting People team knowingly uses the industry standard provided by CIPFA's Service Reporting Code of Practice (SerCOP).
11. The elements of expenditure covered by a provider's management charge are almost entirely dependent upon how that organisation defines management charges.

12. The findings show the lack of consistency in the kinds of expenditure considered eligible within management charges is just as prevalent among smaller providers as larger ones.
13. The research found that very few authorities have defined policies for addressing management charges in Supporting People, and many appear to tackle the issue in an ad hoc fashion. This is compounded by the fact that providers utilise a variety of approaches in the levying of charges.
14. There is some evidence that approaches to management charges are changing as a result of the funding cuts which the Welsh Government has had to make due to increasing financial pressures.
15. The evidence indicates that very few surpluses are generated from Supporting People grant funding, either through high management charges or otherwise. In the rare case that a surplus is generated on a project, it is used either to contribute to the funding of the project the following year, or to cross subsidise other Supporting People initiatives.
16. The diversity with which local authorities and service providers define and approach management charges has a commensurate impact on the proportion of Supporting People funding used. This research found project charges ranging from 1.4% to 37% at the extreme ends of the spectrum.
17. The average amount levied for management charges in Supporting People projects in Wales is approximately 10%-15% of total project funding.
18. The survey responses received from participants indicate that local authorities have found management charges in Supporting People to be a problematic area. The data also indicates that a significant proportion of local authorities believe that the ways in which they pay management charges could be improved.
19. Evidence suggests that opinion among providers is more divided. Those seeing the need for improvement most often cited the lack of a consistent definition and the difficulty in achieving full cost recovery.

20. The findings of the study underline the importance of reviewing the issue of management charges in the Supporting People Programme. They remain a significant part of the overall cost of the Programme – the best estimate on the evidence collected for this research is that between £12m and £18m of expenditure is spent on management charges annually, even at the lower overall levels of Supporting people expenditure in 2015/16. Perhaps of more concern, it is impossible to be more precise not only because the base data is incomplete, but also because definitions and nomenclature varies to such an extent that any attempt at greater precision would not be appropriate.
21. It is important to note that where management charges are high, this does not necessarily reflect poor value for money or poor behaviours by either the providers or the local authorities concerned. But it does further underline the importance of making sure that management charges are as low as possible while ensuring the proper administrative capacity and capability to manage the grant and deliver the services to the quality standards required.
22. From the perspective of good financial administration there is considerable uncertainty which accompanies this degree of variation. The research also highlights the concern from both providers and local authorities on management charges issues, related to both accountability and fairness. Our conclusion is that some further proportionate investment of effort and cost would likely reap valuable rewards in terms of savings and re-direction to front line delivery.
23. Based on the findings of this research project, we propose a series of design principles for the management charges regime in the Supporting People Programme.
24. The report also proposes a definition of what should be included in management charges we have taken into account the results of previous technical and other work on this subject, and also some the definitions in use already amongst providers and local authorities. We see this as helping to establish a definition more readily and with greater acceptance.

25. We propose that the Welsh Government set a maximum cap limit that management charges should be not greater than 10% of the net grant to a provider. We propose this cap on the basis that many providers already do better than this, and some authorities are already achieving average levels lower than this, and on the basis that it is slightly more demanding
26. This cap should operate on the principle of 'comply or explain' so that it combines transparency and clarity with a degree of flexibility.
27. We propose that the monitoring and control of management charges should as far as possible utilise existing arrangements.
28. It is also important that providers and local authorities learn from one another as to what can and has been achieved in this area and the report makes proposals as how this may be achieved.

Dr Clive Grace OBE, Mike Bennett and Liam Whittington

September 2015

Foreword and Acknowledgements

1. Supporting People services have a major impact on people's lives through preventing homelessness and enabling vulnerable people to remain living independently in the community. Supporting People is also a major spending programme with a current budget of £124 million.
2. In order to ensure that it is making best use of funding, the Welsh Government commissioned this research into the management charges levied by Supporting People service providers. RCS is committed to supporting local and central government achieve value for money and it was a privilege to be asked to undertake this work.
3. Our report contains an overview and analysis of existing evidence, the findings from the research, and our conclusions and recommendations.
4. We thank the local authorities and providers for their help and cooperation in supplying the research team with information and candid opinions. We also thank Welsh Government for inviting us to undertake this work, and particularly Simon Prothero, Sheilah Gaughan and Lucie Griffiths for their advice and support

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September 2015

1. Introduction

1.1. The aim of the Supporting People Programme is to enable vulnerable people to remain living independently in the community. The current budget for Supporting People services across Wales is approximately £124 million, allocated across all 22 local authorities who commission support services from in excess of 200 service providers. The majority of service providers are voluntary sector agencies although they also include local authorities themselves, Registered Social Landlords and private sector providers. Since November 2012 local authorities have been responsible for commissioning all Supporting People services in their area and establishing the management charges within those contracts.

The task

1.2. The Welsh Government is committed to ensuring best use of resources. This research was commissioned to analyse the use of Supporting People Programme Grant (SPPG) following an initial survey in 2013 which indicated major variation in the nature and scale of expenditure termed as 'management charges' in Supporting People funded services across Wales. The aim was to understand how they are levied, what they consist of, whether this is in line with other grant funded schemes, and the extent to which they are consistent with Welsh Government grants management policy, as well as to contribute to future policy development and the effective use of funding.

1.3. The research was required to:

- Collect and analyse detailed management charge data, by local authority, provider/service type, and amount.
- Establish the definitions used to describe expenditure considered to be 'management charges' and any variations in definitions.
- Investigate what local authorities / service providers consider eligible for inclusion under a management charge.

- Investigate the extent to which local authorities and service providers generate surpluses from Supporting People grant funding and if so, how the money is used e.g. put into reserves/contingency funds, or used for other purposes.
 - Assess the proportion of funding that is used for management charges.
 - Explore the extent to which there is consistency in management charges levied within local authorities / across regions / across client category groups.
 - Assess how management charges are levied, (against individual contracts, on an ad hoc basis etc.).
 - Explore the situation with management charges on other grant funded schemes, including the use of caps.
 - Establish if funding from the management charges is used to lever in other funding resources for the programme.
 - Make recommendations for expenditure deemed to be appropriate for management charges and recommendations on monitoring and control.
- 1.4. Despite the challenging fiscal context in recent years, Welsh Ministers have protected the Supporting People budgets from significant cuts up to the current financial year. However, due to the severe downward pressure on Welsh Government revenue budgets, Supporting People budgets now face average reductions of 7.6% in 2015/16. This makes it even more important that as much resource as possible is directed to front line service delivery, and that costs such as management charges are minimised.
- 1.5. This study sets out in Chapter 2 the methods we used to explore the above issues, and then in Chapter 3 we review a range of published reports which explore them in other contexts. Chapter 4 presents a number of case studies to help convey some of the complexities of practice and approach which exist amongst both local authorities and providers. Chapter 5 then presents summary findings from analysis of the surveys, interviews, and data collection which we undertook. That

all substantially responds to the first nine of the ten questions listed above. Chapter 6 presents our brief summary conclusions and our recommendations for the tenth question - the expenditure which is appropriate for management charges and arrangements for monitoring and control.

2. Methods

- 2.1 Our approach deployed a mix of research methods including both qualitative and quantitative techniques and involved analysis of primary and secondary data. The range of techniques designed to maximise engagement with the different target groups in order to achieve the best possible response rates and enabling all stakeholders, who wanted to, to be able to provide evidence and input.

Research strategy

- 2.2 In view of the high number of providers who hold Supporting People contracts, it was necessary to set a sampling strategy to define how best to engage with and collect views from the provider population. Initial analysis showed that 18 providers held 10 or more contracts with a total value of approximately £41 million. A further 215 providers held fewer than 10 contracts worth approximately £67 million.
- 2.3 Following a set up meeting with the Welsh Government on 5 November 2014 it was agreed that the research strategy would be based around two tranches based on this threshold. Tranche 1 included (i) a survey of all local authorities and follow up interviews with them, and (ii) a survey of those providers with a substantial number of projects (10+), also together with follow up interviews. Tranche 2 included a survey of the remaining 215 providers and included interviews with a sample.
- 2.4 Analysis of Tranche 1 providers was undertaken before the start of Tranche 2 on the understanding that if significantly different views from the survey or from the interviews were found then this would lead to an even deeper engagement. Analysis of Tranche 2 showed that the issues and views were largely consistent with Tranche 1 save in respect of issues more likely to affect 'smaller' providers, and therefore there was no need to augment the initial strategy.

Research methods

- 2.5 All organisations in Tranche 1 were sent an online survey and a Call for Evidence, and were also targeted for interview. Tranche 2 organisations were sent the online survey and offered the opportunity also to follow up with a telephone interview. The number taking up that opportunity was small, being 2 only. The sample was therefore subsequently actively augmented to ensure that as well as survey data from Tranche 2 organisations there was also material from interviews with smaller providers and providers with a smaller range and size of contracts.
- 2.6 The online survey collected evaluative data using a combination of Lickert scale, multiple choice and open ended questions. Questions covered a range of issues, for example asking local authorities and providers to characterise their “approach” to management charges and to what extent the approach was guided by a policy or principles. The research also asked whether their approach to management charges could be improved and ways in which this could be done.
- 2.7 The Call for Evidence asked respondents to submit factual information about contracts they had in place; about what the value of those contracts were; what the level of management charge was for each contract; and for any policy documentation they had on management charges and apportionment of costs.
- 2.8 The interviews were semi-structured and undertaken with a topic guide agreed with the Welsh Government. The questions sought to clarify and develop evidence that had been submitted via the online survey and the Call for Evidence (where this had been returned prior to interview) or to encourage respondents to provide any data that had not yet been transmitted. Topics covered included context, management charges information, relationships and the potential for policy improvement.

2.9 In addition, a review of official documents and existing evidence in the literature was conducted. Literature concerning the evolution of Supporting People across the UK, was drawn on, including other official reviews touching on the issue of efficiency in grants administration, unit costs and management charges. The wider literature on cost recovery in the voluntary sector including documents from HM Treasury, and from a range of third sector representative bodies was also surveyed. Finally the evidence regarding the treatment of management charges in adjacent sectors, such as in the NHS, and we reviewed the professional guidance from CIPFA on overheads was considered.

2.10 The research team has also engaged with the wider public sector finance community, especially CIPFA, seeking any available benchmarking information and guidance relating to management charges.

2.11 In addition, the research included semi-structured interviews with key stakeholders using a simple topic guide. The interviewees included:

- Cymorth Cymru
- Community Housing Cymru (CHC)
- Finance Forum (CHC)
- Supporting People Information Network (SPIN)
- Regional Collaborative Committees (RCCs)
- Chartered Institute of Housing (CIH)
- Individual Third Sector Organisations
- Welsh Government
- Welsh Local Government Association (WLGA)

Research process

2.12 The Minister for Communities and Tackling Poverty wrote to local authorities and providers advising that research would be undertaken into management charges levied within the Supporting People Programme by provider bodies. A subsequent letter was then sent to all

those on the Welsh Government's database of Supporting People Leads and to Chief Executives of Tranche 1 providers. The letter set out the context for the research explaining:

Following initial survey work the Welsh Government undertook in 2013 it became clear that there is not a consistent understanding of what costs constitute a management charge under Supporting People. During times of reducing budgets, we have a responsibility to ensure Welsh Government grant is focused on front line service provision. UK Research and Consulting Services Ltd (RCS) have been commissioned by the Welsh Government to conduct independent research into management charges within Supporting People to inform future guidance on a consistent methodology for attributing costs.

2.13 The letter then set out the broad methodology, provided a link to the online Survey and asked respondents to complete their returns to the Call for Evidence. The letter made clear that the research was independent of the Welsh Government and all returns should be sent to RCS. The letter also acknowledged that some of the information being sought might require the recipient to work with colleagues in other parts of their organisation to respond to the Survey and to the Call for Evidence. In local authorities the Supporting People Leads were asked to coordinate the response to researchers, and in providers the Chief Executives were asked to nominate a senior manager.

2.14 RCS then wrote to all local authorities and Tranche 1 providers seeking dates for interviews. Interviews were then conducted over the next 2 months. Subsequently, in March 2015, a letter was sent from the Welsh Government to Tranche 2 providers containing an update on the research and a link to the online survey (which was identical to that used for Tranche 1 providers), and asking any provider who wanted to be interviewed by the researchers to contact RCS directly.

Research responses

- 2.15 Response rates to Tranche 1 were as follows. Of the 22 Local Authorities in Wales, 14 responded to the survey, 20 responded to the more general Call for Evidence (though 7 of these were in some way incomplete) and 17 interviews were completed (i.e. 5 authorities did not respond to repeated requests or cancelled interviews and were unable to reorganise).
- 2.16 In terms of the 18 providers included in Tranche 1, the response rates were as follows. In total there were 14 responses to the online survey, 18 responses to the Call for Evidence (of which 4 were in some way incomplete) and 17 interviews were undertaken.
- 2.17 In Tranche 2, 25 responses to the online survey were received(out of 215). Two requests were received for interview in response to the letter from the Welsh Government and RCS therefore actively increased this number by contacting a sample of providers. In total 8 interviews were undertaken in Tranche 2.

Analysis

- 2.18 The survey and interview responses were analysed, and the material generated through the Call for Evidence. Themes and issues were drawn out against the template provided by the questions posed, set out earlier in Section 1, which had been reflected in the survey questions and in the topic guide used in the semi structured interviews. Additional themes generated by respondents either in the survey text boxes or through interview responses, were also identified.
- 2.19 For reasons described in Sections 4 and 5, both a series of case studies and also a summary analysis of key themes have been presented, illustrated by particular survey and interview findings.

3. Strategic Context - Management Charges in Public Sector Grant Programmes

- 3.1 The issue of management charges in public sector grant programmes has been the subject of a number of reports and proposals from a wide variety of bodies which we review in this chapter. This body of work provides a rich but diverse framework of ideas within which to try to evaluate what management charges ought to cover, and how they should be applied and assessed. A number of the reports highlight a variety of issues and concerns about the management charges associated with Government grants. The implications of the findings of these reports are that efficiencies might be achieved in management charges levied under grant programmes in Wales without materially affecting front line service delivery.
- 3.2 For example, in 2011 the Auditor General for Wales (AGW) report on grants management stated that grants' administration costs represented at least 10 per cent of the total funds awarded on some schemes. The AGW's report suggested that it was reasonable that the Welsh Government should seek to identify efficiencies on a larger scale (Wales Audit Office, 2011). A recent review of the £7 million s180 Homelessness Grant for the Welsh Government (Welsh Government, 2014)¹ found that management charges were generally higher than 10% and presented a significant opportunity for efficiency gains.
- 3.3 The National Assembly for Wales Public Accounts Committee report on Grants Management in Wales (Public Accounts Committee, 2013) also made recommendations on this issue, proposing that no more than 5% of total grant funding goes towards grant administration. However, it must be emphasised even at this early stage that the 5% figure for grants administration floated by AGW is almost certainly based on a

¹ This review was undertaken by RCS

different set of criteria than the 10%+ figure arrived at by the Welsh Government for grant management charges.²

Transparency and full cost recovery

- 3.4 In 2002 the HM Treasury's cross-cutting review on the role of the voluntary and community sector in service delivery (HMT, 2002), introduced a commitment to implement full cost recovery across its contracts with third sector providers, including charities, voluntary and community organisations and social enterprises. This commitment was intended to address a concern among third sector groups that government funders' reluctance to pay for all attributable overhead costs was resulting in an effective subsidy of public service delivery by the third sector's own charitable funds. Subsequent reviews, however, have found that this commitment has been difficult to implement, with the National Audit Office stating that full cost recovery should not be rolled out "in a mechanistic way" where the grant is limited and demand is high. As others have concluded "Full cost recovery is complex and there are no easy answers." Furthermore, there are different perspectives as to what full cost recovery ought to mean in practice.
- 3.5 In 2006, HM Treasury issued further guidance, (HMT, 2006) in which it argued that: "Fixed percentages without any evidence base do not provide a sound basis for the calculation and award of relevant overhead costs. Clear and consistent allocation of relevant overhead costs can provide a more accurate guide to funders of the true cost of delivering a service or output."

² Issues of grants in the public sector are a UK wide concern. For example, the Cabinet Office established a taskforce to collect more information on the UK government's use of grants. Following the taskforce's exploratory work, the Cabinet Office set up the Grants Efficiency Programme in October 2012, designed to reduce costs and losses from government grants and to make them more effective. Furthermore, in July 2014 the NAO published a major review of *Government grant services* - Government grant services, NAO, 2014.

- 3.6 However, in contrast, representatives of the voluntary sector have argued that cost recovery must be based on notional rather than actual attribution of costs. According to the Big Lottery Fund and ACEVO: “One crucial, often overlooked point is that full cost analysis only ever provides an approximation of the true cost of a project or service. Organisations’ cost allocations will change over time as they grow or shrink. Funders must therefore accept that the quoted cost can only ever be a reasonable estimate, based on a forecast of likely activity” (Big Lottery/ACEVO, 2006).
- 3.7 Whether or not the allocation of costs is approximate, the National Audit Office’s (NAO) Office for the Third Sector argues that cost transparency is important for providing assurance over the sustainability of a service as well as overall value for money. Being transparent also helped provide “a better understanding of how the service being offered would work” (NAO, 2007).
- 3.8 A key distinction, of course, can be made where contracts are being award in a contested market. It is reasonable to assume that where prices are regulated by competition there is less public interest in the internal level and allocation of costs. As the NAO argues, “In contested contracts, having cost visibility for assurance on value for money is a less legitimate argument. Suppliers offering poor value, or those ‘trying it on’ with excess overhead cost levels should be flushed out by more efficient market competitors. [However,] Where procurement relations with any provider are uncontested, high levels of cost visibility are legitimately required to give the purchaser the ability to negotiate on costs and profit margins and secure value for money outside of competition” (ibid).

Definition of “management charges”

- 3.9 While there is a long standing concern with management charges in UK public administration, there is no single, shared definition or accounting standard. Furthermore, some treatments are quite cursory while others are significantly more developed. Importantly in this context, however,

their starting points, premises and presumptions are often inconsistent and incompatible. The following examples illustrate this diversity.

3.10 The Welsh Government's existing Guidance on "Central Management Overheads" in Supporting People (Welsh Government, 2013a) contains four points:

- *"Average x % (to be established by benchmark exercise).*
- *There should be a general understanding that realistic full cost recovery principles should apply.*
- *These will include for example, office costs, stationary, rent, advertising, communal furnishings, cyclical repair and redecoration etc.*
- *Consider economies of scale."*

3.11 The definition provides a commitment to full cost recovery extending to a range of non-staff costs including those associated with running an organisation. While it does not mention costs associated with managerial staff these are presumably implicit. However, this is to be compared with the guidance given on the Community First Programme in Wales (Welsh Government, 2013b):

"Management charges/fees – the maximum level allowable is 10% of the overall funding required and a full analysis must be provided. Clusters may include LDB [Lead Delivery Bodies] management costs, including all or part of a post's salary costs, or a management charge, but the costs should not exceed 10%. Management charges for third sector organisations acting as delivery agents within the programme are eligible up to a maximum of 10% but the LDB should not claim a management charge in addition to this."

3.12 This definition provides no mention of or commitment to full cost recovery, and provides no definition of what kinds of expenditure should be levied within management charges, other than to say that part or all of a post's salary could be included. However, it does set an overall cap

of 10%. Furthermore, while it asks for a “full analysis” of what is claimed as a management charge, it does not specify that this ought to be on the basis of an actual allocation rather than a notional apportionment.

3.13 Another public body, the Department of Health in England, published a paper on management costs in Primary Care Trusts which takes as its premise: “The basis of the detailed definition of PCT management costs is that it is based on staff costs only. The non-staff costs elements, including headquarters and infrastructure costs, will not be counted towards PCT management costs” (DH, 2010). This definition - and the further detail provided in the paper - assumes full cost recovery based on its definition of management costs as covering the expenditure on management by staff. It explicitly establishes what is legitimate and what is not and sets no cap.

3.14 By contrast, the Charity Commission, which takes quite a different view again, defines the full cost of a service as follows: “The full cost of a service includes both its direct costs and also the indirect costs (sometimes called overhead, administrative or ‘core’ costs) associated with it. Core costs include the share of management costs (such as senior staff time and board meetings), research and development costs (including training) and other support costs (including premises and utility costs) that can be fairly allocated to the service” (Charity Commission, 2007). This definition advocates full cost recovery based on by far the widest range of costs - both staff and non-staff. It suggests no cap.

3.15 Our own research into the Welsh Government’s s180 homelessness grant programme (Welsh Government, 2014) also found a variety of approaches in practice that reflect these different models. Some - primarily the larger organisations - apply a standard percentage charge and the size of this varies significantly between providers (10-20%). Others, especially those organisations where the same staff are responsible for core delivery and management or administrative support,

levy no separate charge. Furthermore, a small number do try to attribute actual costs through resource accounting.

- 3.16 This experience accords with other research. For example, the Scottish Government's study of unit costs in its Supporting People programme (Wood et al, 2007) found that central costs were generally charged on the basis of a flat percentage that varied according to the local authority's funding policy, rather than on the basis of actual costs: "The typical approach to setting central admin costs, and often travel costs, was to apply a percentage to the direct staff cost. In some cases, a series of percentage add-ons could be applied, with respect to local admin costs, travel, central admin, and so on – with each fee percentage applied to the cumulative total. There is no evidence that the fees/charges being set are related to actual costs – indeed, we know that national organisations will charge different percentages in different local authority areas, depending on the policies of the authority. There needs to be a clear understanding of what central costs should apply to, how much these should be, and how these should be applied."
- 3.17 We have also explored this issue through CIPFA's guidance on standard accounting practice (CIPFA, 2014). The Service Reporting Code of Practice (**SeRCOP**) refers to Apportionable Overheads and/or Administrative Overheads and states in paragraph 2.15.14 that: "Two features define apportionable overheads. One is that they end up charged, allocated or apportioned to direct services, as defined in Section 3 [i.e. the Services Expenditure Analysis sections of SeRCOP], rather than having a final service expenditure heading of their own. The second is that they are 'overhead' in nature. In other words, they include service management, support services and certain other costs, such as insurance premiums, but they do not include costs such as grounds maintenance or other direct costs which, for convenience, are initially accounted for within a holding or trading account". Paragraph 2.15.5 informs that: "Administrative overheads arise in service departments as well as in central departments. Service management costs also arise in

all departments and these, like all overheads, require apportionment across the range of divisions of service affected. Costs which fall within the Corporate and Democratic Core (CDC), including both Corporate Management (CM) and Democratic Representation and Management (DRM), are not overheads for this purpose (para 2.15.4).” CIPFA have indicated (in an email to RCS) that there appears not to be any specific benchmarking of such expenditure.

3.18 There is, therefore, no standard approach, and indeed there are different theoretical perspectives as to what the best approach should be. It is difficult not to agree with the Charity Finance Directors Group when they say that “there is no absolute definition of what [‘management charges’, ‘administrative costs’ or ‘overheads’] should contain” (Charity Finance Director’s Group, 2007)

3.19 This provides an important context for reviewing management charges associated with what is one of the Welsh Government’s most significant grant programmes.

Communities First: A ‘Management Charges’ Role Model for Supporting People projects?

3.20 One significant example to take as a potential role model for management charges in Supporting People projects is the Welsh Government’s Communities First programme. We have already referred above to the Guidance issued by Communities First on management charges, and noted the cap level of 10% (gross). In discussions with Welsh Government officials it appeared that this cap had worked well, albeit under rather different circumstances in that control of Communities First grants is directly in the hands of the Welsh Government, rather than being disbursed through the agency of local authorities, and grants are deployed in clusters which are generally larger than Supporting People grants.

3.21 Welsh Government officials conducted an analysis of the non-salary costs contained in cluster bids for 2015/16 and identified an average cost of management charges at 5.2%, against the cap of 10% (Welsh Government, 2013b). They also identified significant variations (from less than 1% to more than 12%) but were able to explain the differences with reference to the different practices in the various clusters in respect of where certain salary costs fell, such that they did or did not score against the category of 'management charges'. Nonetheless, the clarity of the position, and the fact that they were able to document and explain the differences, suggest that there is a good level of understanding of the position, and of monitoring and control such that outliers can be readily identified and interrogated. As will be seen, this is in striking contrast to the position with respect to Supporting People.

4. The Case Studies

- 4.1 Supporting People is a substantial and a complex programme funded through all 22 Welsh local authorities and delivered by a wide variety of organisations. The local authorities take a range of approaches in relation to management charges, and the delivery organisations are of different sizes and have a range of different purposes. Understanding this complexity and variation is essential in grasping how the issue is experienced and dealt with in local authorities and their delivery partners. For this reason a number of case studies have been assembled from the data, surveys, interviews and analysis in order to convey how both local authorities and providers approach and perceive the issue of management charges in the Supporting People Programme. These examples demonstrate both the variety and the range of approaches which currently exist. The case studies are presented anonymously, first from a local authority and then a delivery organisation perspective.

Local Authority Case Studies

- 4.2 Local authority one ('LA1') distributes more than £10m of Supporting People funding annually through approximately 40 contracts and a similar number of providers. Whilst there is some variety, the majority of providers levy a 10% charge, but a significant proportion levy 20% or higher. LA1 has no defined formal policy with regard to management charges in Supporting People projects. Instead, the authority broadly follows the principles established within the Supporting People guidance documentation. The Supporting People team works to a general rule of thumb that the use of 80% of total project funding on staffing costs and 20% on overheads is reasonable. Management charges should comprise 10% (i.e. half) of the 20% overheads figure. The authority does not possess a formal organisational definition of management charges. The Supporting People team assess project expenditure on a case-by-case basis and exercise their professional judgement as to whether the

charges levied against the project are reasonable in relation to the service provided and the impact it has.

- 4.3 The authority operates both 'legacy' and tendered Supporting People services. Any newly commissioned Supporting People service is subject to some form of competitive process (a tender or another process). At interview the LA1 representative commented that while greater consistency in relation to management charges across the range of Supporting People projects would be useful, this could be difficult to achieve. However, consistent interpretation of different types and categories of Supporting People costs across the whole scheme throughout Wales would be helpful.
- 4.4 LA2 distributes more than £5m annually across approximately 50 contracts and 15 providers, with providers levying an average of 7% in management charges. The authority does not have a formal policy with regard to management charges in Supporting People projects. Instead, the Supporting People team broadly follows the principles established within the Supporting People guidance documentation and has developed a general benchmark principle that management charges should comprise approximately 7%, and central overheads (which for most other projects would be defined as 'running costs') 10%, of total project funding. Although LA2 does not have a formal policy in relation to management charges in Supporting People, the authority does have this working organisational definition of management charges. The Supporting People team conducts internal value for money assessments of Supporting People projects to determine their cost effectiveness. If management charges and other indirect project costs are determined to be abnormally high or an area of concern, the team works with service providers to either bring the costs of an existing service down, or remodel the service. The authority operates both legacy and tendered Supporting People services, although tendering is used relatively infrequently. Rather than putting an existing service to tender, the Supporting People team prefers to work with existing providers to remodel services if there are issues of project impact or cost. The value

for money studies undertaken have revealed high management charges in some legacy projects, and this has enabled the Supporting People team to work with services providers to bring these charges down.

- 4.5 LA2 commented that there should be greater consistency in the definition and categorisation of direct and indirect project costs in the Supporting People programme. They also expressed their wish for the introduction of consistent benchmarking for management charges across the programme, but recognised that this may be difficult to achieve on a national basis due to regional economic and demographic variation.
- 4.6 LA3 distributes more than £15m annually across approximately 40 projects and providers, who levy management charges of between 10% and 15%. The authority has no defined policy nor any informal rules with regard to the charges levied in Supporting People funded projects. Many services were established during the tariff system, and many of the management charge arrangements established at the inception of projects have remained the same since. Aside from a Welsh Government mandated review into Supporting People management charges undertaken in 2013, the authority has never systematically monitored or investigated the management charges in Supporting People projects closely. The only exception to this is those schemes which are put to competitive tender. LA3 also has no organisational definition of a management charge. They focus on service outcomes and whether projects represent value for money for stakeholders overall. There is little focus on management charges themselves and the priority for the authority is ensuring that high quality, value for money services are delivered.
- 4.7 The authority operates both legacy and tendered Supporting People services. Few of their Supporting People services have been put to tender in the past three years, although the Supporting People team expects the amount of tendered services to increase in the near future.

The tender process ensures that there is more scrutiny on management charges in these services than in legacy projects, but these charges are not a particular focus. At interview the representative suggested that in order to improve the ways in which management charges are addressed in the Supporting People Programme, all providers should apportion charges using the same methodology to allow for greater comparison and competition between them.

- 4.8 LA4 distributes more than £5m annually across approximately 40 projects and providers, who levy between 10% and 12% in management charges. The authority operates with a defined policy on management charges in Supporting People contracts. The majority of the management charges are calculated on a costs/volume basis (i.e. hourly rate). Some other projects have their management charges calculated on a real cost recovery basis, typically accommodation schemes that allow for a detailed breakdown of the charges against project funding. The authority operates both legacy and tendered Supporting People services, and utilises a Supporting People project cost calculator. Providers are required to complete and return this to the Supporting People team to enable them to review and assess the management charges levied. Other cost calculators are used for accommodation and floating support services. The authority representative interviewed expressed a wish for greater consistency in the way in which the Supporting People programme is administered throughout Wales, and specifically a clearer definition of what a Supporting People management charge is.

Provider Case Studies

- 4.9 Provider one ('P1') receives approximately £11m in Supporting People funding annually across nearly 100 projects and 80 contracts. The organisation levies a standard 15% for management charges across all Supporting People projects. It operates Supporting People projects on behalf of a total of 12 local authorities in Wales, and possesses both legacy and tendered Supporting People contracts, although the vast majority of its Supporting People projects are legacy services. The standard Management Charge of 15% consists of 4.5%-5% scheme overheads, and 10% central overheads. Scheme overheads are defined as the expenditure on the local costs in relation to running a project. Central overheads is the expenditure relating to the central organisational costs of the operation, i.e. management charges. Therefore the comparative figure is in fact 10% as against providers who define 'scheme overheads' separately. Other providers would instead classify these costs as running costs (or categorise them in a similar fashion) outside of the management charge. The 5% scheme overheads portion of the management charge covers the local costs necessary to operate a project. This includes the expenditure on areas such as area office costs, training, and supported housing management costs. The 10% central overheads portion of the management charge which covers the central organisational costs includes portions of the costs of areas such as: insurance; legal and governance; finance; training; HR; and IT, amongst other corporate functions.
- 4.10 This provider is currently undertaking a central management recharge review in order to align its recharging procedures with industry guidelines and government recommendations. The organisation has engaged an industry benchmarking and consultancy organisation to facilitate this process to enable them to gain a better understanding of their management charges policy in relation to other organisations in the sector.

- 4.11 P2 receives approximately £2m annually across some 20 projects and contracts, and levies an average 7% management charge. The organisation operates Supporting People projects on behalf of a total of 6 local authorities. It possesses both legacy and tendered Supporting People contracts. The majority of its Supporting People projects are legacy services, but in the past three years the organisation has won a total of three Supporting People contracts as a result of tendering.
- 4.12 This provider calculates the actual central management costs for each individual Supporting People project and levies a management charge according to this calculation. Consequently, there is some variation between the management charges levied from project to project. The finance department completes a detailed budget breakdown for each Supporting People project, distinguishing between different elements of expenditure such as direct costs, running costs, and management charge. The organisation's management charge is comprised of two elements: the costs of central corporate services; and the costs of a proportion of a director's time spent of corporate governance responsibilities. The central corporate services portion of the management charge covers the central organisational costs incurred by a project. This includes the expenditure on areas such as: finance; HR; internal audit; procurement and facilities; health and safety; IT; and payroll. The corporate governance responsibilities portion of the management charges covers the costs of the time spent by a director on activities such as overseeing senior managers, providing corporate direction, and attending board meetings.
- 4.13 The management charges levied by P2 on Supporting People projects range from 6.38% to 12.39%. The majority of its management charges, however, are less than 10% of total project funding. This actual cost calculation approach is utilised across all of the services they deliver, both Supporting People and non-Supporting People.

4.14 P3 receives some £5m annually across 50 projects and 10 contracts, and levies an average of 6% for management charges across all of its Supporting People projects. The organisation operates Supporting People projects on behalf of a total of 9 local authorities and possesses both legacy and tendered Supporting People contracts. The majority of its Supporting People projects are legacy services, but in the past three years the organisation has won a total of three Supporting People contracts as a result of tendering. This provider apportions the management charges it levies on its Supporting People projects on the basis of the number of Full Time Equivalent (FTE) staff on each individual project. This process applies to all of its Supporting People projects. Consequently, there is some variation between the management charges levied from project to project. Broadly, for each project the organisation distinguishes between direct costs and other expenditure. Other expenditure is comprised of indirect costs, such as training and office costs, and central/governance costs. The management charges levied pay for these central/governance costs, the costs associated with central organisational operations. The central/governance costs covers central organisational expenditure on areas such as: a portion of the salary of the Chief Executive; HR; finance; legal; senior management; the Board of Trustees and their associated costs; and some costs of the central headquarters.

4.15 The management charges levied range from 3.06% to 10.4%. The FTE apportionment method used to calculate management charges in its Supporting People projects is also used in non-Supporting People funded projects. The interviewed representative stated that the organisation believe this is the fairest approach to take to management charges, particularly as it works across several different regions of Wales with different economic circumstances.

4.16 P4 receives about £0.3m annually across 2 projects with a single local authority/contract. The organisation levies 0% for management charges for these 2 projects. Typically, in other services they deliver, this

provider levies management charges against its projects on the basis of an apportioned calculation. Each service bears its calculated share of overheads, operating costs, and non-activity specific staff costs, and through this management charge pays for the expenditure of the central functions of the organisation. However, because the Supporting People funding awarded does not cover the costs of providing the service, they do not levy any management charges on these projects. The Supporting People funding to provide the services does not adequately cover project staff costs and has not done so for several years. The shortfall in funding is subsidised from the organisation's general reserves.

- 4.17 P5 receives some £36,000 annually for one project through one contract with one local authority. The organisation levies approximately 10% for management charges. This is a very small provider which operates a supported housing project accommodating 8 individuals with mental health issues who are homeless. The Supporting People grant money provided to supply this service is the only source of funding the organisation receives. It does not calculate a traditional management charge. Project expenditure is calculated on the basis of actual costs. The organisation distinguishes between the direct (staffing) costs, and indirect costs of their project. For the purposes of this research exercise, they identified and grouped together the areas of indirect expenditure that could be considered a 'management charge' on the project. These are the costs for: insurance; accountancy fees; and legal.

Reflections on the Case Studies

- 4.18 The case studies help to demonstrate the wide variety of practice which exists in relation to management charges in the Supporting People Programme on the part of both local authorities and providers. They also show that there is a general lack of clarity on the part of many of those involved. The lack of clarity extends even to significant nomenclature variations – what one calls 'central overheads' another calls 'running costs'. The content of management charges also varies. The lack of

clarity is not generally valued – on the contrary, many would prefer a clearer and more certain framework to help them navigate the potential complexities.

4.19 However, the case studies also demonstrate that there is good practice as well. Some local authorities and some providers are thinking through the issues, and focusing on how to minimise management charges, and to ensure that they are calculated on a fair and transparent basis. They also highlight some differences between small and large providers which have a bearing on how a policy on management charges might need to be differentiated between them in order to be fair to all.

4.20 We return to these points later in our conclusions and recommendations following an assessment of the survey and interview material in relation to the key themes of the study.

5. Findings

5.1 In this Section the findings are reported under the following headings:

- Definitions of management charges
- Expenditure eligible under management charges
- Approaches to management charges
- Surpluses
- Percentage of Supporting People Grant used for management charges.

5.2 Generally under each issue local authorities and providers are examined separately, as well as addressing common issues. The findings also distinguish where appropriate between larger and smaller providers, recognising that on some issues different considerations need to be brought to bear. All the material generated through the interviews and the surveys has been drawn upon, although as appropriate the findings identify the specific findings of the surveys of local authorities and providers undertaken.

5.3 Separate surveys were developed for local authority and provider respondents, who completed their respective survey online through Google Forms. The data was then collated and analysed, and compiled with the other material to give a composite picture on each key theme. The reason for this was that not all authorities completed the survey (although 14 of the 22 responded). Whilst the survey results were consistent with the overall results there is not an exact alignment because the interview was conducted as a semi structured interview supported by a topic guide and so did not generate precisely comparable data sets. This is partly because the overall analysis is also derived also from interviews with 17 of the authorities and the responses of 20 authorities which responded at least in part to the Call for Evidence. There was greater but also not complete alignment between

the data sources amongst the Tranche 1 providers (14 completed the on-line survey, 18 responded to the Call for Evidence, and 17 were interviewed). Nonetheless some of the survey results are of interest in their own right because they represent standardised responses to particular questions, and so are highlighted in the analysis which follows.

Definitions of Management Charges: (Establish the definitions used to describe expenditure considered to be 'management charges' and any variations from definitions)

- 5.4 The problem of the definition of the management charge is one of the central themes to emerge from the analysis. There appears to be no consistent approach to identifying what kind of expenditure a 'management charge' in Supporting People should cover. Local authorities and providers utilise different definitions. Moreover, individual local authorities possess different perspectives on what they consider to be a management charge, as do individual providers. Not only did the research find variation in the definitions used by different actors in the Supporting People Programme, it also found a general lack of clarity on what management charges are, what they should be, and how much can be reasonably levied against the grant for these charges.
- 5.5 The historical development of the Supporting People Programme, and the fact that the methods through which funding has been distributed has shifted over the years, is one of the factors which the research suggests may have contributed to a lack of transparency on management charges. The findings of the research make it clear that many of the currently funded Supporting People services are 'legacy' projects, the terms for which were established under the tariff system. The management charges for these initiatives were established at project inception, and have in many cases remained unchallenged since. While management charges are (necessarily) far more transparent in tendered Supporting People contracts, the charges levied in legacy services are more problematic. The findings of the research suggest

that local authorities may be less likely to be aware of these charges and to have addressed them in these projects.

- 5.6 *Local Authorities:* The evidence indicates that definitional issues are particularly prominent amongst local authorities. Of the 17 authorities interviewed, only five had an established internal definition of management charges in Supporting People projects. Typical comments were that: 'We have no formal definition [of management charges]. We work on the basis of distinguishing between direct and indirect project costs' [LA] and 'We don't have an authority definition. We only use the management charges guidance in the Supporting People documentation, which is a bit vague.' [LA] Another linked their lack of a definition with their own general approach: 'We don't really have a definition of MCs because we don't ask our providers about them.' [LA]
- 5.7 There is also variation between local authorities as to what they consider management charges to be. A number of those authorities that do not work with an internal definition of a management charge approach the issue on a project by project basis – that is, the expenditure for each project is assessed by members of the authority's Supporting People team to determine whether the amount levied for management charges is reasonable. This is the case in at least three local authorities. In this approach, the emphasis is less on what the management charge consists of, but whether the amount charged (and project expenditure as a whole) is reasonable and represents value for money.
- 5.8 *Providers:* The overall research findings suggest that on an individual level, Supporting People service providers do generally possess either institutional/organisational definitions of management charges, or defined areas of expenditure that are considered to comprise the management charge. Although less than half of the providers that completed the online survey provided an explanation of their definition of management charges within the questionnaire, the written and interview evidence indicates that the vast majority of providers who responded

know what their management charges are and what costs they cover. In this respect, there is greater clarity on what management charges consist of amongst providers than amongst their local authority partners.

5.9 Thus although one provider said that: 'We don't really have an organisational definition because we are bound by what each LA we work with defines them to be' [Provider], others were able to articulate both that they had one, and something about what it contained. One said: 'Management Charges pay for the central costs of the organisation necessary to operate the projects.' [Provider], and another: 'Our MCs pay for our internal corporate services, including a proportion of the director's time spent on corporate governance (corporate direction).' [Provider]

5.10 However, there is considerable variation between the definitions used by different providers, and the areas of expenditure which management charges cover. While many providers stated that the management charge broadly covered the 'central costs' of the organisation necessary to operate the Supporting People projects, the specifics of what is covered by this head of expenditure varies. For example, one organisation's management charge covers both the costs of central corporate services and the costs of a proportion of the time spent by a director on corporate responsibilities. In contrast, another's management charge covers both a portion of the strategic management of senior strategic management across the whole organisation, and project directors for each area in which it provides Supporting People services. Furthermore, what expenditure is included in provider management charges may depend upon local authority policies. A representative of another organisation commented at interview that some elements of the organisation's management charge and running costs expenditure are interchangeable, due to the need to meet the requirements of the different local authority partners with which they work.

5.11 Differences in the ways in which management charges are defined occur across the Supporting People Programme, regardless of the size of a provider or the amount of Supporting People funding they receive. Smaller providers (or those that receive smaller amounts of Supporting People funding) are just as varied in their definitions of management charges and the expenditure they cover as large organisations (or those that receive large amounts of Supporting People funding). Analysis of the data and interview results from smaller providers suggests that some of those organisations or individuals for whom the provision of a Supporting People service is their only activity do not even levy a management charge at all, but instead simply calculate direct and indirect project costs.

Expenditure Eligible Under Management Charges: (Investigate what local authorities/service providers consider eligible for inclusion under a management charge)

5.12 A fundamental element of the definition of management charge is the type of expenditure eligible for inclusion under it. Analysis of the data and interviews shows that local authorities and providers not only differ in the types of expenditure they consider eligible under management charges, but that there are also differences in the ways in which they view different elements of project expenditure, and with different levels of granularity.

5.13 *Local Authorities:* Local authorities have different perspectives on the types of expenditure eligible for inclusion under management charges, although some effectively have no perspective at all, as reflected in: 'I've never thought about criteria. It's not something I have ever really considered.' [LA]

5.14 There is variation in the perspectives authorities have on project expenditure and the ways in which they address it. Three authorities, for example, distinguish only between direct project costs and overheads,

while other authorities make a distinction between direct project costs, overheads, and management charges. Some of the general areas of expenditure considered eligible for inclusion by the majority of authorities include: HR; finance; legal; health and safety; some portion of staff management; payroll; training; and other corporate functions. But the exact areas of eligible expenditure depend on the authority in question. There are also a small number of outlier authorities. In one 'outlier', for example, Supporting People team members assess whether the areas of expenditure included in a management charge are eligible on a case-by-case basis, taking account of the size and reach of both provider and project: 'Our position is that management charges cover the expenditure that is needed to provide the front line service that is not a front line cost. We determine if a management charge is fair on a case-by-case basis.' [LA] Another considers 'management support' costs - the expenditure on day to day operational management (arranging rotas, attending meetings etc.) – as the only area of expenditure eligible under a management charge.

5.15 Local authorities were also asked: "Do you use CIPFA's SeRCOP definition of apportionable overheads in grant giving?" The answers provided by participants clearly indicate that the majority of LAs do not use the SeRCOP definition, with 10 stating 'No' and 4 that they did not know.

5.16 *Providers:* The elements of expenditure covered by a provider's management charge are almost entirely dependent upon how that organisation defines management charges. Moreover, a number of providers break down elements of expenditure in a greater level of detail than others. For example, some providers include within their management charges elements of expenditure which other organisations and local authorities may regard as running costs, and therefore treat as a separate area of expenditure. Thus for one provider: 'The management charges pay for a portion of the central costs of things like administration, insurance, legal, quality assurance, policy

development, HR, and Finance.’ [Provider]. For another: ‘Central management costs – corporate functions that are essential to the project’s overall operation but are not direct project costs. Things like Chief Executive’s salary, HR, central finance’ [Provider].

- 5.17 However, some providers find that they have to adjust the elements of expenditure covered by management charges because of the local authority they are working with: ‘Whether areas of expenditure are placed under running costs or central overheads depends on the requirements of each LA we work with.’ [Provider]. This can lead to conflict in some cases: ‘Sometimes we have disagreements with local authority Supporting people staff about what costs can be attributed to management charges.’ [Provider]
- 5.18 The data from the online survey indicates that the majority of providers do distinguish between management charges and charges for grant administration – 34 of the 43 providers who completed the survey confirmed this. But there is extensive variation in the ways in which different organisations make this distinction.
- 5.19 Despite these caveats, the findings show management charges usually cover the costs (or a portion of the costs) associated with central operation/organisation of the provider which are necessary for the provision of the service (corporate costs). This includes, but is not limited to, areas of expenditure such as: insurance; legal; governance; finance; training; HR; payroll; IT; portions of Chief Executive’s, Director’s, or central management costs; costs of the central HQ; auditing; communications and media; health and safety; procurement and facilities; publicity; administration; quality control; marketing; and PR and public affairs. The specific areas of expenditure each provider apportions to the management charge, and the amount levied, varies. Furthermore, the research found that providers who work with different local authorities may be required to tailor their management charges according to the areas of expenditure that an authority considers eligible.

The research found that the differences between providers with regard to the ways in which they apportion management charges presents a significant challenge to the local authorities who are required to identify and disaggregate the areas of expenditure to ensure value for money.

5.20 The findings show the lack of consistency in the kinds of expenditure considered eligible within management charges is just as prevalent among smaller providers as larger ones. The survey of smaller providers suggests that, as with their larger counterparts, the management charges of smaller providers usually cover the central costs necessary for the provision of a service, but that there is significant variation in the specifics of each organisation's charge and the expenditure it covers. Some of the differences between the management charges of larger and smaller service providers, for example, are associated with the scale and reach of the organisation. Very small providers, or organisations established to supply a single Supporting People service, often do not have the same management and organisational capacities as larger providers.

Approaches to Management Charges: (What differences are there in the approaches taken to management charges)

5.21 The variety in the definitions of what management charges are and the expenditure that they cover is also reflected in the ways in which the issue is approached on a practical level by both local authorities and service providers. The research found that very few authorities have defined policies for addressing management charges in Supporting People, and many appear to tackle the issue in an ad hoc fashion. This is compounded by the fact that providers utilise a variety of approaches in the levying of charges.

5.22 *Local Authorities:* Definitional issues have an impact on the management charge policies of local authorities in relation to Supporting People projects. Although 10 of the 14 authorities who completed the

online survey indicated that they expect the Supporting People providers they contract with to calculate and account for actual costs including for direct staff costs and expenses, the written and interview evidence suggests that the diversity of ways in which this process is undertaken is extensive. Only three of the 17 authorities interviewed function with a formally defined internal policy on management charges in Supporting People. The majority of the remaining authorities operate on the basis of an 'informal rule' or 'rule of thumb', such as, for example, management charges should represent no more than 10% of total project funding.

5.23 Broadly, local authorities do not appear to operate with a consistent corporate approach to accounting for management charges in grant giving. Five of the respondents to the online local authority survey stated that they do not operate with a corporate approach at all, while an additional three stated that they only operated with such an approach to a small extent. Only three respondents stated that they operate with a corporate approach to a great extent. Authorities that do not possess a formal management charge policy tend to draw on the direction provided in the Welsh Government's Supporting People guidance documentation, although it must be noted that some interviewed representatives stated that this guidance was unhelpfully vague. For some authorities, management charges have never been a focus and consequently they have never undertaken any systematic monitoring or investigation of what charges are levied and what they cover. Other authorities reported having conducted internal value for money review processes that have focused on management charges. This further serves to illustrate the complex and diverse picture of the current approaches taken to management charges in Supporting People. It extends to the work processes, paperwork requirements, and monitoring arrangements of authorities.

5.24 *Providers:* The findings show that individual service providers are relatively consistent in the way in which they apply their approach to management charges across the Supporting People services they

supply, particularly where they operate multiple projects. Survey participants were asked to provide their organisation's definition of management charges, if they had one. Of the 43 respondents, 16 answered this question and supplied a definition. Generally the definitions provided by respondents stated that management charges covered elements of cost such as: the central costs of the organisation essential to the operation of projects overall; direct and indirect management; governance; and non direct project costs.

5.25 However, as discovered via interviews and other evidence, the specificities of exactly what management charges consist of and how they are levied vary significantly between providers in the survey data. There is little consistency in the approaches used by different providers in their levying of management charges. Some service providers apply a standard rate management charge to all Supporting People projects. One provider, for example, applies a 15% charge to all of their 98 Supporting People projects. Another said: 'We use a benchmark of 80% [of total project funding] on the frontline service; 10% on running costs; and 10% on central overheads.' [Provider]. Some use the 10% guideline: 'We charge approximately 10% of total project funding for MCs across all of our SP contracts.' [Provider]. However others utilise some form of real cost calculation in the levying of charges, such as one which calculates the actual central management costs for each project and levies a charge on this basis: 'For our charges, we look at the costs for a project and calculate the actual central management costs incurred by that scheme.' [Provider]

5.26 While these two approaches are relatively common industry practices, some providers develop less usual methods. Another provider, for example, levies management charges on the basis of the number of full time equivalent staff on a project: 'Our management charges are calculated through a flat apportionment based on the number of Full Time Equivalents on a project.' [Provider]

5.27 The range of different approaches was also reflected in the variety of methodologies selected by those who completed the online provider survey. The most commonly identified provider approach in the survey was the application of a standard rate across the organisation to cover direct staff costs and expenses, but this option was only selected by 12 respondents. The next most frequent approach was calculation and accounting for actual costs including for direct staff costs and expenses (resource accounting) with 9 respondents, followed by the application of a standard rate to all contracts across the organisation to cover direct staff costs, but with expenses charged at actual cost with 7 respondents. A very small group of two respondents stated that they did not levy management charges, while a single participant indicated that they followed different procedures with different authorities.

5.28 Additionally, 9 respondents indicated that their organisation took another approach, and a small number provided a brief explanation within their returns. For example, one respondent stated that most of the grants their organisation receives have established set allowable amounts for management charges, and if they do not the organisation apportions them on the basis of the staffing hours of a project. Another stated: “we work out management fees based on the time involved in managing the cost and the costs associated with individual projects - these differ across projects”

5.29 Furthermore, the research reveals that provider representatives were generally unaware of the methodologies utilised by other providers to levy management charges, which may be attributable to the competitive nature of tendered Supporting People and other services. This competitive aspect may have an effect on the variety of approaches used in the levying of charges. Both the divergent nature of the ways in which providers define their management charges, and the different methodologies they use to levy charges, would appear to contribute to the overall lack of consistency and transparency about management charges in Supporting People.

5.30 The multiplicity of approaches used to levy management charges against the Supporting People grant extends to both larger and smaller providers alike. As noted above, a small proportion of the smallest providers do not calculate a specific management charge, levying only direct and indirect project costs, while other small providers calculate charges on a standard rate or real cost calculation basis. A number of other bespoke approaches are also used by providers of a smaller range of projects. The management charge levied on the two Supporting People services supplied by one local authority itself, for example, covers the costs of the salaries of the direct managers of the project only.

5.31 *Changing approaches?:* There is some evidence that approaches to management charges are changing as a result of the funding cuts which the Welsh Government has had to make due to increasing financial pressures. This point was trenchantly made by one provider in particular, who is very experienced in the field, but was also echoed by some other provider representatives to a degree: 'The conversations have moved on from management charges - the more important debate for providers now is how to avoid a race to the bottom on costs. There is a trend towards commercialisation and a VFM approach. If there are outliers these would be tackled quickly.' [Provider]

5.32 The suggestion from this respondent is that due to the current funding environment, management charges are not a local authority focus any more. Emphasis is instead placed on quality of service and overall value for money. Local authorities, it is said, are far less interested in how a project budget is broken down, and more on whether a provider can supply the service for the amount of money available. The suggestion is that in the current context of tightening budgets and increasingly competitive tendering if providers are an 'outlier' on management charges then they will be identified quickly and asked to reduce them.

5.33 It is also suggested that the significant spending cuts and increasing competitiveness are forcing both local authorities and providers to adopt a more consistent approach to management charges across the board. With regard to the Regional Collaboration Committees, these bodies tend to be far more focused on the overall problems presented by the cuts, and looking into how services can be provided more economically overall, rather than the specifics of issues such as management charges.

5.34 For some providers relationships with local authorities have in some cases become increasingly strained as funding cuts have begun to have impact over recent years. As a result, it's reported that communication processes have become less effective, and generally the management charges issue has become less transparent. The progressively competitive atmosphere has increasingly encouraged different providers to become more secretive of their budgeting processes, especially as local authorities move more and more towards tendering. Some providers are keen to get consistency of thinking: 'We all need to be singing from the same hymn sheet on management charges.' [Provider]. Others see a more general risk in the increasing tendency towards formal procurement methods: 'I wouldn't want to see every Supporting People contract go out to tender. That would be a nightmare.' [Provider]

Surpluses: (Investigate the extent to which local authorities and services providers generate surpluses from Supporting People grant funding, and if so, how the money is used)

5.35 The evidence indicates that – now, at any rate - very few surpluses are generated from Supporting People grant funding, either through high management charges or otherwise. In the rare case that a surplus is generated on a project, it is used either to contribute to the funding of the project the following year, or to cross subsidise other Supporting People initiatives. In the context of recent and projected cuts to Supporting People funding, few, if any, surpluses are likely to be generated in the

near future. This remains a potentially contentious issue. For one provider: 'I've found it difficult to have conversations about surpluses with Local Authority and Welsh Government Supporting People staff.' Another argued that: 'Providers should be able to have full cost recovery, but this doesn't always happen.' [Provider] – full cost recovery would more likely create the possibility of generating a surplus.

Proportion of Supporting People Funding Used for Management

Charges: (Assess the proportion of funding that is used for management charges)

5.36 *Local Authorities:* The diversity with which local authorities and service providers define and approach management charges has a commensurate impact on the proportion of Supporting People funding used. This research found project charges ranging from 1.4% to 37% at the extreme ends of the spectrum. Some of the higher project charges may be attributable to the fact that particularly specialist services have higher central costs, and that smaller providers that are less able than larger ones to reduce their central costs often operate these types of service. A number of local authorities make individual assessments of project expenditure, and may determine that even if a project has management charges significantly higher than the 10% suggested in the Supporting People guidance, the service represents value for money regardless. Some authorities reported having undertaken reviews of Supporting People project expenditure and negotiated lower management charges with providers, particularly with legacy projects whose fees were originally established under the tariff system.

5.37 Broadly, the average amount levied for management charges in Supporting People projects in Wales is approximately 10%-15% of total project funding. There is some variation between different authorities. In two authorities, for example, the average percentage is lower, 5% and 7% of total project funding respectively. At interview, the majority of local authority representatives stated that they worked to the principle that

management charges should be approximately 10%. It should be noted that only 10 of the local authorities surveyed in the research were able to provide an average percentage for the cost of management charges in their Supporting People projects. A number of authority representatives stated that they were unable to provide an average due to the variation between the charges levied on the services under its purview. Thus one said: 'I can't give an average because there are extremes [projects with very high or very low management charges].' [LA]. Another said: 'I think that [our management charges] are lower than 10% or generally around that level, but we don't compare projects because they are so different.' [LA]

5.38 *Providers*: The vast majority of providers levy management charges of 10%-15% on Supporting People services. As one said: 'Our working policy is that charges are no less than 10% and no more than 15% of total project funding.' [Provider]. There are exceptions to this, particularly with more specialist services, and the evidence suggests that projects in which significantly higher management charges are levied tend to be centred in a particular area. One authority, for example, has a total of six services whose management charges are above 20%, with three of these services over 30%. Moreover, the evidence indicates that those providers that undertake some form of real cost calculation in the levying of their management charges often levy fees higher or lower than the 10%-15% average. The majority of providers interviewed regarded management charges of 10%-15% as an industry standard, and indicated that local authorities generally expect them to meet this benchmark. But others do aim lower: 'We have a benchmark of 10% for management charges and we try to stay under that. We have an average of 6.8% across the organisation. [Provider]

5.39 There appears very little difference between smaller and larger providers in relation to the proportion of Supporting People funding allocated to a management charge. The evidence does suggest, however, that smaller providers (or those that receive the smallest amounts of Supporting

People funding) are more likely than their larger counterparts to not impose any management charge at all on the grant funding. This is most prevalent with sole traders or organisations for whom the Supporting People grant is their only source of funding. It should be noted, however, that only a relatively small proportion of providers levy no management charges against the grant, and that in their evidence returns several stated that they do not do so because the funding received does not adequately cover project costs in the first place.

- 5.40 Many small providers consider that the differences between smaller and large Supporting People providers need to be recognised by both LAs and Welsh Government. Large providers may be better equipped to deal with funding cuts and can lower their central costs more easily, as they often have diverse sources of funding or can spread central costs over a wider range of projects. This means that their management charges can be pushed lower, something which smaller providers who rely solely on Supporting People funding do not have the capacity to achieve.

Challenges and Improvements

- 5.41 At this point in the analysis, and before moving onto our conclusions and recommendations, it is useful to pause and summarise the extent to which both local authorities and providers have themselves found the issue of management charges challenging, and the improvements they would like to see.
- 5.42 The survey responses received from participants indicate that local authorities have found management charges in Supporting People to be a problematic area. Over half of the respondents (8 of the 14) stated that this was the case in answer to the question: “Have Management Charges under Supporting People been an area of financial or administrative difficulty?”. When they were asked to explain why, two interrelated issues were identified. The first is extensive variation between service providers in terms of what they include in management charges – ‘organisations including different costs in the management

charges and others under the service costs'. The second, inherently related, problem identified is the lack of a consistent definition of what constitutes a management charge in Supporting People.

5.43 Interestingly, the survey suggests that opinion on whether service providers find management charges to be an area of financial difficulty is evenly divided. Those participants who answered 'Yes' to the above question identified a number of common interrelated problems which, if addressed, would improve the situation. The lack of clear guidance on how providers should levy management charges was cited most frequently, by 7 respondents, followed by the lack of the application of a consistent definition of management charges across different authorities (four respondents). Respondents also cited a lack of funds so that service providers find it difficult to achieve full cost recovery, despite having increasing costs as a result of increased monitoring/reporting requirements (also 7 respondents).

5.44 The data also indicates that a significant proportion of local authorities believe that the ways in which they pay management charges could be improved. When asked: "Could the way in which your organisation pays management charges be improved?", 8 respondents stated 'Yes'. Those respondents who indicated that they did think the way in which their authority paid management charges could be improved were asked to elaborate on this and identified two primary mechanisms - five respondents cited the need for the establishment of an appropriate, consistent management charges rate across the whole of the Supporting People Programme in Wales. Another three commented that a more consistent definition of what constitutes a management charge would facilitate improvement.

5.45 Again, to a far greater extent than their local authority counterparts, a significant proportion of providers do not believe that the ways in which they levy management charges can be improved. While 8 respondents stated 'Yes', 20 respondents stated 'No'. Those who replied 'Yes' cited

inconsistency over definitions and differences between local authorities and uncertainty as to what to charge as an acceptable rate to charge as the major areas for improvement. Provision of clear guidance and an acceptance that 'no one size fits all' were also cited as important ways to improve the situation.

6. Conclusions

- 6.1 The findings of the study underline the importance of reviewing the issue of management charges in the Supporting People Programme. They remain a significant part of the overall cost of the Programme – the best estimate on the evidence collected for this research is that between £12m and £18m of expenditure is spent on management charges annually, even at the lower overall levels of Supporting people expenditure in 2015/16. Perhaps of more concern, it is impossible to be more precise not only because the base data is incomplete, but also because definitions and nomenclature varies to such an extent that any attempt at greater precision would not be appropriate.
- 6.2 Some providers suggested that a focus on management charges is no longer appropriate because the tighter financial climate is leading to a greater concentration on overall value for money as well as cost reduction. The effect is said to be that the level of management charges is being subsumed under wider considerations and no longer warrants detailed separate attention. But there is also over-whelming evidence from this research that management charges may well be higher than they need to be, and that the approaches needed to both minimise them and to make them more accurate and transparent are not yet in place.
- 6.3 To give an illustration of what may be achievable, if management charges could be reduced from 10% gross to 10% net then front line services could benefit by more than £1m a year. Yet the difference between a gross and a net figure of 10% of management charges was not one which was widely appreciated. In fact, the difference in the % of management charges actually levied ranged from averages of 7% to well beyond 10%.
- 6.4 It is important to note that where management charges are high, this does not necessarily reflect poor value for money or poor behaviours by

either the providers or the local authorities concerned. In some cases they are quite possibly justified or justifiable. The Supporting People Programme addresses the very complex and important needs of very vulnerable people. Many of the current grant arrangements are 'legacy' grants, which have rolled forward for many years under circumstances in which the need for services has easily outstripped the supply, and where providers have had to make significant reductions in overheads in order to protect the front line wherever they could. But this further underlines the importance of making sure that management charges are as low as possible while ensuring the proper administrative capacity and capability to manage the grant and deliver the services to the quality standards required.

Summary of findings

6.5 The research was required to collect and analyse detailed management charge data, by local authority, provider/service type, and amount. We collected a considerable volume of data in each of these areas, and used it to explore the other issues to be addressed. Although the data sets could not be made complete, for reasons explained earlier, we had sufficiently good response rates and sufficient consistency between the different data sources to have a high degree of confidence in the findings. Below is a summary of the findings relating to all but one of the key research questions that formed the basis of this research. They have been substantially responded to in Sections 4 and 5. In summary, they are:

- Establish the definitions used to describe expenditure considered to be 'management charges' and any variations in definitions: The definitions used are outlined above, and also, more importantly, this research identified the significant variations between those that are used by and between local authorities and by and between providers.
- Investigate what local authorities / service providers consider eligible for inclusion under a management charge: the research identifies some of

the constituent elements of what is considered eligible, and also the extent to which the foundations for the varying approaches are not strongly founded on clear policy or technical guidance.

- Investigate the extent to which local authorities and service providers generate surpluses from Supporting People grant funding and if so, how the money is used e.g. put into reserves/contingency funds, or used for other purposes: The research has established that this is not a significant issue, especially in the light of expenditure reductions and the general tightening of funding.
- Assess the proportion of funding that is used for management charges: The findings illustrate the considerable variation in the proportions of funding which is applied to management charges, both in overall variations in the percentage levied, and also the variations in the averages within individual authorities.
- Explore the extent to which there is consistency in management charges levied within local authorities / across regions / across client category groups: the research reveals that there is limited consistency.
- Assess how management charges are levied, (against individual contracts, on an ad hoc basis etc.): the research identified variations in how charges are levied, as outlined in the case studies.
- Explore the situation with management charges on other grant funded schemes, including the use of caps: Section 3 reports on the wider practices, including the 10% cap deployed in the Communities First Programme. Indications are that this is working fairly well, albeit under rather different funding arrangements.
- Establish if funding from the management charges is used to lever in other funding resources for the programme: The research found no evidence that this was happening.

Areas for consideration and recommendation

- 6.6 The research brief set out the requirement for the research also to make recommendations for expenditure deemed to be appropriate for management charges and recommendations on monitoring and control.

That question is outlined below, together with some additional considerations which are essential to creating both the best overall regime for management charges and also to help ensure that it is reflected in good practice on the ground. After some preliminary important points which arise from the findings of the study, some proposed design principles for a revised management charges regime in the Supporting People Programme are set out, based on the findings of the research. A definition of what management charges can be, and a cap limit on the management charges that can be levied is then proposed. Some suggestions for monitoring and control are also made. Finally, there are suggestions about learning from best practice between and amongst local authorities and providers in relation to management charges.

- 6.7 Management charges remain a significant issue in the Supporting People Programme from a number of perspectives. From a financial perspective the degree of variation, and the extent to which management charges are often levied above 10% of gross grant funding indicates that there is more that could be done to reduce them. From the perspective of good financial administration there is considerable uncertainty which accompanies this degree of variation. The research also highlights the concern from both providers and local authorities on management charges issues, related to both accountability and fairness. Our conclusion is that some further proportionate investment of effort and cost would likely reap valuable rewards in terms of savings and re-direction to front line delivery.
- 6.8 The research suggests that the context of the management charges issue is changing in terms of a tighter focus on savings, a greater concern for value for money, and activity such as increased use of competitive tendering and a shift towards commissioning and contracts rather than 'traditional' grants. As a result, some issues relating to management charges are less problematic. In particular the issue of surpluses (one of the original prompts of this study) is now a minor and

decreasing concern. Moreover, the changing context does have variable impact, and whilst the significance of the issue of may be shrinking for some, for others it is creating increased concern. Our conclusion is that the changing context is important but that it does not point only in one direction. It should be taken into careful consideration as changes and improvements are made to the management charges regime.

6.9 The two issues of transparency and guidance go hand in hand. As long as there is confusion and lack of clarity about what constitutes management charges and about what the policy is then transparency becomes illusory, however much information providers make available. There is no firm basis for comparison, and the variations which exist can only be understood through detailed analysis of individual projects. There is, in any event, a real and widespread request emerging from the research for clearer guidance on precisely what management charges in Supporting People are, and can be, and the types of expenditure they cover. This is needed to clear up grey areas and make the system fairer and more transparent. Clarity around some basic distinctions could go a long way to helping everyone be more explicit, and we make suggestions on this below.

6.10 There are clearly very significant differences in the sector between the small and the large providers. Although both articulated common themes in relation to management charges, as reflected in the analysis in Section 4, the size of a provider can clearly make a significant difference in how they manage grants and account for various costs. Therefore, any guidance should take account of these differences, including the possibility that smaller providers with few projects may find it more difficult to reduce central costs.

Design Principles

6.11 Based on the findings of this research project, we propose the following design principles for the management charges regime in the Supporting People Programme:

- Management charges should be as low as possible consistent with maintaining sustainable services and operating according to appropriate quality standards and internal controls and management, coupled with a cap beyond which management charges would not normally be payable. Some providers think that the Welsh Government needs to provide direct and unequivocal (i.e. not open to interpretation or confusion) guidance, but our view is that a policy with some flexibility is required;
- Management charges should be based on actual costs as far as can reasonably be ascertained and calculated, and should not be on the more generous full cost recovery basis having regard to the era of general severe tightening of expenditure to which all public services are subject;
- As far as possible providers should be able to operate their own accounting arrangements and principles and not be forced to apply particular approaches, but they must be transparent about the approaches which they do apply;
- Local authorities should not be required to observe one particular accounting principle for accepting management charges levied by providers but they must be clear about the principles which they do apply, and why;
- There should be a clear definition of what management charges are permitted to consist of, coupled with transparent learning and sharing of any revisions to that definition as issues arise and are resolved;
- There should be downward pressure on management charges to help incentivise lower costs and the adoption of best practice, including the growing advantages of cost efficiency in back office services achievable through digital delivery and shared services;

- Both the amounts of management charges and the processes of setting and monitoring them should be subject to the principle of ‘comply or explain’, which is to say that local authorities and providers would all be required to observe the new framework but that if they do not or could not do so in certain respects then clear and justifiable explanation should be given as to why. Valid reasons, subject to the particular circumstances, might be that the services in question were specialist and required one-off consideration, or that an authority was operating an alternative and better set of arrangements, or that the services had been subject to a rigorous competitive tendering regime, or that the provider was small and lacked capacity to provide information at the required level of detail, or that the grant itself was small and that requiring detailed information would be disproportionately costly or disruptive; and,
- Monitoring and control arrangements should be as straightforward and low cost as possible to avoid burdening either providers or local authorities unnecessarily, and where possible should utilize existing instruments of control and monitoring.

Definition

6.12 In working towards a definition of what should be included in management charges we have taken into account the results of previous technical and other work on this subject as reviewed in Section 3, and also some the definitions in use already amongst providers and local authorities. We see this as helping to establish a definition more readily and with greater acceptance. We propose that all providers in their budgets and financial reporting, and local authorities should distinguish:

- front line delivery costs (mainly consisting of relevant salary costs but potentially involving other costs as well depending on the project);
- overhead costs associated directly with delivery (‘other running costs’ including items such as printing, transport, travel and subsistence, training of front line staff, etc); and,
- indirect and central overhead costs (management charges).

6.13 In respect of the management charges part, we consider that the relevant principle to be applied is that for each funded project a provider should charge a fair proportion of central and indirect overhead costs according to a declared and transparent principle, be this:

- spreading all such costs proportionately to all their project activity on an overall cost or FTE staffing basis;
- apportioning actual estimated or assessed costs for particular projects, especially where there is marked variation between their projects in this regard; or,
- any other reasonable basis.

6.14 In terms of the actual elements, these would normally include a fair proportion of:

- central management and governance costs, including their own direct and indirect overheads such as training and support services;
- back office support services such as HR, finance, legal, and communications;
- depending on the provider and the project, elements such as procurement, facilities, audit, IT, insurance, quality control and quality assurance, publicity and marketing, policy development and public affairs, health and safety, and administration and records.

6.15 Providers would be required to indicate which of these elements were contained in the management charges they levy, and the relevant amounts levied for each.

Cap Limit

6.16 We propose that the Welsh Government set a maximum cap limit that management charges should be not greater than 10% of the net grant to a provider. We propose this cap on the basis that many providers already do better than this, and some authorities are already achieving average levels lower than this, and on the basis that it is slightly more demanding

6.17 This cap should operate on the principle of ‘comply or explain’ so that it combines transparency and clarity with a degree of flexibility. Where providers exceed the cap they should be required to provide full information breakdowns of relevant expenditure with associated explanations of why they amount to an overall level higher than the cap, and the actions they have taken to reduce expenditure.

Monitoring and control

6.18 We propose that the monitoring and control of management charges should as far as possible utilise existing arrangements, and should be as follows:

- the Welsh Government’s conditions of grant to local authorities for Supporting people should include a requirement that the authority observe the regime set out here or as amended and adopted by the Welsh Government, and should incorporate corresponding requirements in the grant conditions applied by the authority to providers;
- the annual returns of the authorities to the Welsh Government in respect of Supporting People grant should require them to confirm that they have applied the regime, or to provide an explanation as to why they have departed from it in particular instances or more generally;
- in their reports to authorities, providers should confirm that they are within the relevant limits, supported by sufficient information to evidence that; and,
- grants to providers should also require them to instruct their auditors to add a note to their annual audit confirming that in respect of Supporting People grants they have observed the limit and the associated information requirements.

Learning from good and best practice

6.19 The approach proposed above is intended to establish (flexibly) a maximum limit on management charges whilst improving transparency and placing downward pressure on them, consistent with sustainable

and safe management. However, it is also important that providers and local authorities learn from one another as to what can and has been achieved in this area. This might relate to new ways to reduce back office costs through digital delivery or shared services, or better control and monitoring, or new ways of doing business. There is already some good and best practice in relation to management charges, amongst both local authorities and providers. Some local authorities have a firmer grip on the issue, give projects clearer direction and support, and manage to keep them consistently lower than the 10% net grant benchmark. Others use helpful tools which enable them and their providers to be clearer and more transparent about where their costs fall, and their scale. Similarly, some providers are using transparent and good practice approaches in calculating and levying management charges. This good and best practice needs to be spread actively across all local authorities and providers – obviously not on an imposed basis, but on the basis of active learning and sharing.

6.20 We would envisage a small initial set of perhaps four workshops consisting of two each for authorities and providers respectively in both the north and the south, led either by Welsh Government officials or by authorities and providers themselves, followed perhaps by a smaller all-Wales meeting of both some authorities and some providers.

6.21 We would suggest that two authorities which achieve lower levels of management charges overall, and another which has developed a clear 'cost calculator' could provide key input to the workshops for the authorities. Providers who have already achieved low levels of management charges across a range of projects, or who have recently undertaken a systematic internal review of their practice against industry standards, could provide the input to the provider workshops. We will pass the identities of candidate authorities and providers to the Welsh Government with the permission of those concerned.

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