



House of Commons
Public Administration Select
Committee

**Public Services and the
Third Sector: Rhetoric
and Reality:
Government Response
to the Committee's
Eleventh Report of
Session 2007–08**

**Thirteenth Special Report of Session
2007–08**

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The Public Administration Select Committee

The Public Administration Select Committee is appointed by the House of Commons to examine the reports of the Parliamentary Commissioner for Administration and the Health Service Commissioner for England, which are laid before this House, and matters in connection therewith, and to consider matters relating to the quality and standards of administration provided by civil service departments, and other matters relating to the civil service.

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Thirteenth Special Report

The Public Administration Select Committee reported to the House on *Public Services and the Third Sector: Rhetoric and Reality* in its Eleventh Report of Session 2007–08, published 9 July 2008 as HC 112. The Government Response was received on 24 November 2008 and is published below as an Appendix to this Report.

Appendix—Government Response

The Government welcomes the Committee's review of public services and the third sector, particularly its recognition of the capacity for the third sector to deliver excellent and innovative public services.

The Government's review of the third sector, *The Future Role of the Third Sector in Social and Economic Regeneration* (July 2007)¹ set out the Government's vision of how the state and the third sector working together at all levels and as equal partners can bring about real change in our public services. The Government is committed to supporting the growing number of third sector organisations who want to play an active role in shaping and delivering public services.

During the 2007 CSR years we are investing over £500 million through the Office of the Third Sector (OTS) to make this vision a reality. This includes, for example; providing access for third sector organisations to investment finance with a total of £215 million committed to the Futurebuilders Fund; supporting the thousands of social enterprises that deliver social and environmental outcomes using business approaches; and investing £130 million in the Grassroots Grants programme and endowing communities to help small groups build their communities and change lives.

The Government endorses the Committee's view that 'intelligent commissioning' is the key to involving the third sector more in the design and delivery of public services. Through the, £1 million a year, National Programme for Third Sector Commissioning training is already being provided to improve the practice of up to three thousand public sector commissioners to ensure they are able to get the best out of working with the third sector. This includes investment in programmes of accredited training with five of the leading university business schools to ensure that future courses on public sector management and commissioning will benefit from specific third sector modules.

The Government also acknowledges that it needs to do more to build a robust evidence base that supports the case for more public and private investment in the third sector as a delivery partner. This is why £5 million has been invested in a new third sector research centre led by Birmingham University. The centre will collect and disseminate

¹ The future role of the third sector in social and economic regeneration: final report – July 2007 HM Treasury/ Cabinet Office; <http://www.officialdocuments.gov.uk/document/cm71/7189/7189.pdf>

evidence on the third sector so that evidence is available about the true social and economic value of the contribution the sector makes and can make to society.

The Government's response to the Committee's specific recommendations is set out below.

Government and the third sector

1. It is clear that the State is commissioning more services from the third sector than ever before, and is increasingly doing so through procurement-type relationships. These commissioning trends, and their impact on the third sector, are at the heart of this report. (Paragraph 24)

The Government vision

2. If there is no common understanding of what commissioning means that can only be a barrier to effective relationships. Government and the private and third sectors need to come to a commonly accepted definition of commissioning if it is to continue to be the State's preferred method of interacting with the sector. In particular, Government needs to convince the third sector that commissioning is something distinct from procurement. (Paragraph 38)

The scale of third sector involvement

3. As our witnesses told us, third sector organisations are ill-equipped to provide universality and equity to service users. Whatever transformation of public services is about, it should not be about transferring responsibility for delivering large areas of public service out of the State and into the third sector. It appears that government accepts this. Despite the emphasis given in government publications to involving the third sector, only 2% of public service spending is on third sector delivery. The debate on the transformative capacity of the third sector is a rhetorical storm in a fiscal teacup. (Paragraph 48)

4. The Government's position has moved from actively pursuing the transfer of services to allowing a more ready transfer "where appropriate". We support that change of emphasis. However, it immediately prompts a further question: how to judge where it is indeed appropriate for services to be provided by the third sector. (Paragraph 51)

12. We have already noted that the Government is not looking to transfer any set proportion of services to the third sector. At most, it has identified certain services which it believes third sector organisations may be particularly well placed to provide. This is a more nuanced approach and more sensible than attempting to claim general merits across the whole third sector. Given the absence of useful evidence, too, it is entirely sensible that the Government should no longer set numerical targets for the sector's contribution to public service delivery. (Paragraph 87)

51. While the scale of third sector involvement in service delivery remains close to its current small-scale level, many of the risks to the sector which were identified in our inquiry appear to us to have been overplayed. (Paragraph 229)

53. Caution is needed because progress must be on the basis of trialling in certain areas, through better use of commissioners' legitimate discretions, towards the collection of an evidence base. We do not want to see a mass transfer of services without significantly stronger evidence that this would be beneficial, and we are heartened that the Government does not appear to support such a mass transfer. Ultimately, it must be right to judge all prospective service providers on their merits. To do that, we need a vigorous mixed economy of provision, capable of eliciting the various distinctive strengths of different organisations in different sectors. (Paragraph 231)

The Government's review of the third sector in 2007 set out the Government's vision of how the state and the third sector working together at all levels and as equal partners can bring about real change in our public services. The Government is committed to supporting the growing number of third sector organisations who want to play an active role in shaping and delivering public services but, as the Committee recognises, in doing so the Government is not looking at a wholesale transfer of services to the third sector.

Through the Government's National Programme for Third Sector Commissioning training is already being provided to improve the practice of up to three thousand public sector commissioning and procurement officers. This includes raising awareness of the Government's principles of good commissioning and increasing understanding of how to get the best out of working with the third sector as detailed in the Public Services Action Plan.² Investment in a programme of accredited training with five of the leading university business schools will also ensure that future courses on public sector management and commissioning will benefit from specific third sector modules.

Third Sector distinctiveness

5. One of the most commonly cited characteristics of third sector distinctiveness—almost its unique selling point—is the sector's focus on service users. Yet user focus is not unique to the third sector, and indeed what little research there is suggests that this user focus can be lost when organisations provide services to a large, general population. (Paragraph 69)

6. If the test of distinctiveness is that the third sector offers more specialist knowledge and expertise than other sectors, then we have not been provided with sufficient evidence to prove that claim. (Paragraph 69)

2 Partnership in Public Services : An action plan for third sector involvement ; Cabinet Office;December 2006;
http://www.cabinetoffice.gov.uk/-/media/assets/www.cabinetoffice.gov.uk/third_sector/psd_action_plan%20pdf.ashx

7. There is some evidence that third sector providers in certain fields provide more flexible, joined-up services. However, flexibility of services seems very dependent on good commissioning practice. (Paragraph 70)

8. The many fine examples of innovative practice in the third sector do not add up to conclusive evidence that the sector is inherently more innovative. (Paragraph 71)

9. In certain areas, it appears that third sector organisations may indeed be more likely to secure users' trust than public sector counterparts. It is equally apparent, though, that this is not universal across all forms of public service provision. Nor is it clear that it is a third sector-specific strength. It may be more accurate to suggest simply that certain types of service users, or would-be service users, may be apprehensive of dealing with the State. (Paragraph 72)

10. Added value has many facets, from generating social capital and voluntarism to levering in additional income or providing other unexpected but tangible benefits. Third sector organisations are often likely to be best placed to provide some of these benefits; but this may say less about the capability of other sectors than it does about the weakness of commissioning processes. Unless commissioners ask for added value, we cannot really know if it is a distinctive third sector strength. (Paragraph 82)

11. The evidence is simply not there to judge conclusively whether there are shared characteristics across all third sector organisations, arising from their commonality of origins or ethos, which might make them particularly suited to the provision of public services. Indeed, there is widespread consensus that this evidence base does not yet exist. Will Werry of the Commissioning Joint Committee put it most succinctly when he told us that "it is surprising that a major national exercise is based on ... supposition". (Paragraph 86)

13. The real question in each service should be what characteristics are needed to get the best outcomes for users and for citizens. This might give commissioners an evidence base when they consider what characteristics they might look for when deciding how to commission a service. It is in this direction that research should focus if the policy of encouraging third sector provision is to be pursued. (Paragraph 88)

The Government shares the Committee's view that there is a need for a more robust evidence base to attract more public and private investment into the third sector.

As a demonstration of the Government's commitment to building a strong evidence base to help inform the work of the third sector and support evidence based policy, it has invested £5 million in a new third sector research centre led by Birmingham University. The new centre is also backed by The Economic and Social Research Council (ESRC) and The Barrow Cadbury Trust. It will collect and disseminate evidence on the third sector so that evidence is available about the true social and economic value of the contribution the sector makes and can make to society. The centre represents a step change in the size of resources concentrated on the sector and follows the establishment

of the ESRC Centre for Philanthropy and Charitable Giving, which also receives significant government funding.

The Government also recognises that because of the breadth and depth of activity carried out by the third sector there will continue to be a need for a range of tools to evaluate impact. Use of these tools is currently limited and there is a need to promote social reporting more widely within the sector and to increase understanding of the range of tools across the public sector and the third sector.

The OTS is tackling this through a new, three year programme on measuring social value. It will be supporting the development of new guidance, training and infrastructure for Social Return on Investment (SROI), which is a tool to help define and explain the achievement of social value. The OTS will be working with investors, grant makers and commissioners, and with the third sector, to ensure that SROI becomes an accessible, affordable and well understood route for articulating the social value they create.

The OTS is also supporting Government Departments to undertake action research into areas where social enterprises can contribute to public policy objectives.

Levelling the playing field

14. Public bodies should not be attempting to claw back surpluses from third sector organisations in contractual arrangements. (Paragraph 99)

15. Too many service delivery contracts still appear to be unnecessarily short. Nobody seems to be claiming that one-year contracts are generally sensible. Although there are disadvantages of overlong contracts too, in that it is harder to secure accountability to commissioners, there are clear practical problems with the length of many contracts currently. Repeated changes of provider are bad for staff; more importantly, they are bad for service users, who often need to build up relationships with service providers. Nor is it to anyone's advantage if service delivery organisations are unattractive places to work. (Paragraph 105)

16. Government has talked for some time of a three-year norm for contracts, and longer where appropriate. It is time that this was translated into changed practice. However, we understand that this is not easy. The National Audit Office reported in 2005 that good intentions here were being lost as funding flowed through the delivery chain. The decisions on contract length are made by individual commissioners and not by central government. The priority for the Office of the Third Sector, therefore, must be getting the message through to commissioners on the ground. (Paragraph 106)

The Government's review of the third sector set out that the Minister for the Third Sector would report to the Chief Secretary to the Treasury and the Chancellor of the Exchequer on an annual basis on progress in delivering the overall three-year funding commitment for key grant programmes and contract areas. This will be based on

submissions from Government Departments, which will be requested to ensure that all departures from three-year funding arrangements are fully justified. As part of the annual review of the Compact, a regular report will be presented to Parliament on three-year funding arrangements in order to encourage consistency and transparency in the process. The first reports will be available early in 2009, following the Compact Annual Review in December 2008.

The great majority of third sector organisations operate locally. Getting the policy framework and support mix right at the local level is key to ensuring that third sector organisations can make a full contribution to strong, active, cohesive communities. This is why the Government set out in *Creating Strong, Safe & Prosperous Communities*³ (the statutory guidance to the Local Government & Public Involvement in Health Act) a new local government performance framework which requires the systematic involvement of the third sector in all areas.

The new performance framework for local government includes National Indicator 6 (participation in volunteering) and National Indicator 7 (the environment for a thriving third sector). Nearly two-thirds of councils in England have chosen to make their work with the sector a top priority in the new Local Area Agreements. All localities must perform against these, third sector focused, performance indicators and progress will be measured from April 2009 by the joint inspectorates through the new Comprehensive Area Assessment. In addition, the involvement of the third sector and engagement of communities in setting local priorities will be assessed via the Duty to Involve.⁴

17. Commissioners need to lose the habits of grant funding when dealing with third sector organisations in competitive procurement processes. The onus should always be on the bidding organisation to decide how much they want to charge. The responsibility of the commissioner is to ensure that there are neither arbitrary barriers preventing them from doing this, nor discriminatory requirements to compel them to charge their full costs where they may not wish to do so. (Paragraph 111)

18. It is important to recognise that full cost recovery is not a right—it has to exist in a competitive context. While bidding organisations should not be prevented from pricing their full costs into a bid to provide a particular service, commissioners will always retain the right to reject that bid in favour of a cheaper competitor. Government's commitment to full cost recovery does not, and should not, immunise the third sector from the pressures of efficiency and competition. (Paragraph 112)

20. In designing each procurement exercise, the challenge of the commissioning body is to try and determine the trade-off between affordability and service quality to the best possible extent. (Paragraph 118)

3 Creating Strong, Safe & Prosperous Communities: Statutory Guidance Department for Communities and Local Government – 9th July 2008 <http://www.communities.gov.uk/documents/localgovernment/pdf/885397.pdf>

4 A 'Duty to Involve' is included in the Local Government and Public Involvement in Health Bill <http://www.parliament.the-stationery-office.co.uk/pa/cm200607/cmbills/016/07016.i-v.html>

47. Horses for courses is right. Where service outcomes are clearly defined and their achievement is paramount, then it is unrealistic to expect government to avoid forming contractual relationships with providers who can guarantee that the outcomes will be delivered. If outcomes are less well defined, though, commissioners may place a higher premium on innovation and flexibility. In those circumstances they retain the option of funding those outcomes through a grant, either for a specific project or more broadly in support of an organisation's overall objectives. The current funding mix does not appear to us to be unsustainable. Ultimately, though, it is up to government to use the variety of funding mechanisms available to pursue its objectives (on behalf of service users and the public) in what it judges to be the most effective way. (Paragraph 219)

The Government remains committed to building a more sustainable funding base for third sector organisations. Since the 2002 Cross Cutting Review⁵ – *The Role of the Voluntary and Community Sector in Service Delivery*, increasingly, government departments have recognised and supported the overhead costs for third sector organisation that they fund.

However, an NAO review into full cost published in June 2007⁶ acknowledged that Departmental practice towards full cost recovery will vary with the purpose of the funding and the environment it takes place in. The OTS and HM Treasury accept the recommendation in the report to develop more sophisticated statements on full cost recovery that reflect funders' responsibilities for fair treatment and risk management.

The Government also recognises that the onus lies with the third sector in terms of accurately and fairly reflecting the full cost of providing a service, and that public sector commissioners must make a decision based on value for money and the quality of services.

The Government agrees with the Committee that a funding mix of grants, investment loans and service delivery contracts, underpinned by three year funding where appropriate, is needed in order to ensure sustainable funding arrangements for third sector organisations. In accordance with HM Treasury guidance and the principles of the Compact, the form of funding and the length of funding should be tailored to the objectives and funders should jointly agree both the form of funding and terms and conditions with the relevant third sector organisation before work commences.

One recent example of a mixed approach to funding is the Grassroots Grants programme. The Budget 2007 announced an £80 million small grants fund available over four years to provide funding to grassroots community organisations, some of whom will be engaged with public services. To build sustainability into local grant making, the third sector review also announced capital grants of £50 million to endow

5 The Role of the Voluntary and Community Sector in Service Delivery, <http://www.official-documents.gov.uk/document/cm71/7189/7189.pdf>

6 Office of the Third Sector – Implementation of Full Cost Recovery – National Audit Office, June 2007; http://www.nao.org.uk/publications/nao_reports/06-07/third_sector_cost_recovery.pdf

