

Building the evidence base: third sector values in the delivery of public services

November 2007



HM TREASURY



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INTRODUCTION

THIRD SECTOR VALUES IN THE DELIVERY OF PUBLIC SERVICES

Transforming public services

1.1 An increasing number of public services are delivered by the third sector on behalf of all levels of the government – national, regional, and local. In 2004/05 around £10.65 billion in earned and voluntary income came from the public sector. This was marginally higher as a proportion compared to income from the general public (38.5 per cent against 35.5 per cent)¹.

1.2 Discussion in recent years has seen a growing focus around the role that third sector organisations can play in delivering public services. Much of the discussion has been around the potential contribution the sector can make to the transformation or reform of services, and has highlighted the distinctive social values that organisations can bring to the mix. But increasingly also in the design and commissioning of services.

1.3 It is striking that while there is a growing literature on the roles of the sector in improving public services, there is less comparative evidence on the sector's impact; and where the evidence exists it does not tell us categorically that the third sector is a better provider. Such evidence is unlikely categorically ever to emerge. A better reflection would be that there is actually a wide range of provision across sectors – some of it good, and some of it needing improvement. But one sector is not, necessarily, always better than another in terms of quality of services or effective outcomes.

1.4 The recommendation made in the recent Third Sector Review for the establishment of a new centre to take forward the third sector research agenda will, at the very least, help to establish if, whether, and when the sector can deliver better services – or how it can simply deliver quality services.

Building the evidence base

Third Sector Review

1.5 The recent third sector review recognised the desire to be able to further demonstrate the third sector's impact in public service delivery more persuasively through a stronger evidence base, moving beyond individual examples of good practice. Better evidence is needed to understand the value of the engagement of the third sector with the citizen in dealing with complex problems and in the provision of services to them. This evidence gathering needs to focus on:

- evidence of the value (i.e. **outcomes**) that third sector add when they work with the public sector;
- evidence of the value that third sector bring to the actual **processes** of service delivery (e.g. they bring a greater culture of inclusiveness);
- evidence of distinctive or **higher quality end outputs** of service delivery – a value for money argument for using the sector; and,
- evidence of the 'distinctive' or **comparative value** that third sector bring when they work with the public sector (i.e. those things they bring that the public sector can't or generally doesn't).

¹ UK Voluntary sector almanac, NCVO 2007.

1.6 The Government recognises, however, that there may other frameworks to consider ‘value’ - either at the level of operation whereby it is created (processes, outputs or outcomes); by its nature (social, economic, environmental); or by who the value is created for, for example users, purchasers, staff or volunteers.

What works in public service reform, and how to encourage providers to deliver what works

Assessing, articulating, measuring

1.7 There is a continuing need to examine the contribution that the third sector (alongside others) can make to the improvement of public services overall, including the ways that wider contributions and outcomes might be measured and recognised as part of the broader commissioning and procurement process within government.

Supporting improved services

1.8 The Government is clear that it is not looking for evidence that a third sector organisation, simply because it is from the third sector, is necessarily more effective at delivering public services than other organisations from the private or public sector. It recognises that there are certain characteristics which make any service deliverer effective (- being close to communities, an ability to be flexible, able to respond to the needs of users etc), and therefore is keen that commissioners commission from these kinds of effective organisations, in whatever sector they may be found.

1.9 Above all consideration needs to be given to the fact that many of the identified values (improved outcomes, organisational strengths, and value for money) are not necessarily confined to any one sector – they can be seen and indeed used in the delivery of services by either the public, private or third sectors. “Comparative” or “added” value on the other hand – use of volunteers and donations and the re-investment of surpluses – is a characteristic unique to third sector organisations.

A diverse sector

1.10 Throughout it is also important to bear in mind that the third sector is an extremely diverse one, and every organisation will have its own qualities and bring its own distinctive benefits to society. To some extent, the perception of an organisation’s value will depend on priorities, perspectives and experiences² There should be no assumption that the same “distinctive” or “added” values will be found in every organisation, nor indeed should priority in the delivery of services only be given to those organisations that always offer “added value”.

² Performance Hub

INTRODUCTION

2.1 Working with the voluntary and community sector to deliver public services was the subject of two Treasury reviews in 2002 and 2004. Most recently in 2007, as part of the Comprehensive Spending Review, the Government has acknowledged the need to look at the wider ‘third sector’ – which includes social enterprise, cooperatives, and mutuals – and to consider the sector’s contribution to campaigning, building communities, and supporting enterprise alongside the role in designing and delivering services.

2.2 As the amount of public services delivered through third sector organisations continues to grow, there is a growing recognition at all levels of government (local as well as central) - as well as from the sector itself - that the contribution to be made to improved services requires better evidencing. And where there are improved outcomes, then this requires better articulation, assessment and measurement overall. Only in this way will the broader commissioning and procurement processes within government be adapted to reflect the active part that the sector can play.

HM TREASURY REVIEWS

Spending Review 2002

Cross Cutting Review

2.3 The report, *The Role of the Voluntary and Community Sector in Service Delivery: A Cross Cutting Review*, made clear that although not always inherently better than other providers “VCOs may yet have a comparative advantage in relation to other sectors in certain kinds of policy environments”. VCOs share certain distinctive common features. From this one can construct this argument:

- there are inherent structural characteristics of organisations in each sector;
- these predispose them to respond more or less sensitively to “states of disadvantage” experienced by service users; and
- VCOs may have a comparative advantage over agencies in other sectors in some areas of disadvantage because of their particular structures.

2.4 VCOs may therefore be able to deliver services more effectively to certain groups because their particular structures enable them to operate in environments which the State and its agents have found difficult or impossible. And these structures enable them to demonstrate more easily a range of specialised skills and experience needed to deliver services. These are crucial features which VCOs, at their best, may be better able to demonstrate. Particularly in addressing the severe welfare problems that might beset citizens and lead them to be incapable of benefiting from traditional supply mechanisms – the ‘socially excluded’:³

- financial – individuals who lack market power;
- personal – potential users who cannot articulate a coherent preference;

³ ‘Human services and the voluntary sector: towards a theory of comparative advantage’, Journal of Social Policy 27, Billis and Glennerster, 1998

- societal – individual or groups who are stigmatised;
- community – people who live in a community where the usual civil structures have broken down.

2.5 The argument above suggests that there are areas where the VCS may be best placed to deliver services as its structures make it easier to display the kinds of skills necessary to reach vulnerable groups. Insofar as VCOs display the features listed above then they will be well placed to deliver services to these excluded groups. Given that the specification for the delivery of certain services considers essential the kinds of feature that the VCS is said to possess, the sector, if it does possess them, will often be the preferred supplier of these services.

Added value 2.6 There is a quite separate sense sometimes given to “added value”. This sense reflects the additional benefits that the VCS may bring to service provision from the use of volunteers and donations and from the re-investment of surpluses. In such circumstances the extra welfare gain is wholly additional to the service provided under contract. Neither volunteers nor donations should be used to fund statutory services – Charity Commission guidance underlines this – but charities may nonetheless choose to fund from their own resources services that are above and beyond those contracted for by the State.

Spending Review 2004

Wider third sector delivery 2.7 The 2004 Spending Review document, Exploring the role of the third sector in public service delivery and reform, set out the potential benefits of wider third sector delivery (including social enterprise):

- A strong focus on the needs of service users;
- Knowledge and expertise to meet complex personal needs and tackle difficult social issues;
- An ability to be flexible and offer joined-up service delivery;
- The capacity to build users’ trust;
- The experience and independence to innovate.

2.8 It also suggested there were wider benefits to be gained from:

- Involving local people to build community ownership;
- Building the skills and experience of volunteers;
- Increasing trust within and across communities, thereby building social capital.

2.9 Improved understanding of the third sector and its merits relative to the public and private sectors needs to be backed up by a solid and dependable evidence base wherever possible. Three areas are of particular importance:

- Improving the statistical evidence base;
- Developing the tools to measure the impact of the third sector; and
- Increasing comparisons at European and international level.

Comprehensive Spending Review 2007

Co-production of outcomes 2.10 The Third Sector Review, part of the 2007 Comprehensive Spending Review, reiterated the messages from earlier reviews, but also underlined the contribution to be made through the concept of ‘co-production’ - referring to the process through which people and their public services work together to create outcomes that are really valued: for example, learning, good health, safe neighbourhoods.

2.11 The third sector’s often close relationships with the users of its services enables it to promote ‘co-production’ of outcomes, where users are equal partners with professionals in transforming services to suit their needs. By functioning as intermediaries between people and public services, third sector organisations can often improve the interaction between the two. This can help to drive innovation, to give people a democratic voice and to enable active citizenship. The third sector can also promote accountability, by providing a challenge and advocacy role on behalf of citizens at the margins of society.

CENTRAL GOVERNMENT

Varney Review

Transforming Government 2.12 The review carried out by Sir David Varney on service transformation in 2007⁴ also considered the specific contribution that can be made by third sector organisations, recognising “a number of considerable strengths on offer to government”:

- the sector is well placed to provide feedback on the suitability of government provision from the perspective of the citizen;
- the third sector is effective in providing personalised services, particularly for the most vulnerable individuals and groups. This enables them to be particularly effective intermediaries, providing services on behalf of government direct to individuals; and
- the sector has considerable experience in highlighting users’ needs and suggesting new service models to meet those needs in innovative and effective ways. Drawing Face-to-face services third sector organisations into the public service marketplace increases its strength, range and depth. Government can build on third sector best practice and aim to include it from the design stage of end-to-end service provision.

Prime Minister’s Strategy Unit

Public Services Policy Review 2.13 In March, the Prime Minister’s Strategy Unit published its report⁵ looking into how to improve public services, setting out the rationale for action:

“The Government wants to improve public services because people who are in pain deserve rapid relief; because good public services, funded collectively, are a way of embodying fairness in society; and because people should be treated equally and well, regardless of whether or not they can pay the bill themselves.”

⁴ Service Transformation: A better service for citizens and businesses, a better deal for the taxpayer, 2006.

⁵ Building on progress: Public Service., PM Strategy Unit, March 2007.

2.14 It noted that the most conspicuous lesson of recent years is that the best outcomes are achieved when reforms bring together more money with more effective ways to make public services responsive to the needs of citizens. It set out the five steps that are needed to ensure that they really become better tailored to the needs of the citizens who use them. The Government must:

- empower all citizens;
- open up the supply of public services to the best available providers;
- engage with the public service workforce as partners and foster workforce innovation and development;
- help the hardest to reach; and
- balance rights and responsibilities.

A wide pool of suppliers and providers

2.15 It noted that the third sector has the potential to “inject more diversity into the supplier base, but which faces significant barriers to entry when it comes to public sector provision”. The sector has a number of strengths:

- Average outcomes can be better, although there are important exceptions to this pattern.
- The sector is particularly effective in working with disadvantaged groups.
- The sector has a strong record in working with users to jointly address healthcare, education and other needs.

LOCAL GOVERNMENT

Strong and Prosperous Communities

Local Government White Paper

2.16 The Local Government White Paper⁶ published in July 2006 again set out the Government’s belief that including the voluntary sector among the suppliers of public services can generate benefits for service users, communities and taxpayers, as well as contributing to the place-shaping agenda. This is done in the following ways:

- Including voluntary sector provision alongside public and private sector provision can make for a larger, more diverse and more competitive supply base for public services.
- In some service areas, voluntary sector organisations may have a particularly good understanding of users’ needs or a distinctive delivery capability. This is likely to produce high-quality services, well targeted to the specific needs of diverse groups of service users.
- A healthy voluntary sector can make valuable contributions in a local area, beyond the delivery of public services, notably to public participation, social inclusion and community engagement.

⁶ *Strong and prosperous communities*. Dept for Communities and Local Government, July 2006.

3

VALUE AND IMPROVED OUTCOMES

INTRODUCTION

3.1 Increasingly the Government is looking to see how it can deliver an agenda which supports the transfer of power from government and service providers to the citizen, in order to achieve the outcome of ‘fair for all, personal to each’ – ultimately requiring that services be better tailored to individual needs. The thinking behind this is that for public services to be fair, they must be personal.

3.2 There are two key areas often cited whereby the third sector is seen to add value when they work with the public sector in order to deliver quality outcomes. These are:

- A strong focus on the needs of service users; and
- Increasing trust within and across communities, thereby building social capital.

IMPROVING OUTCOMES

Citizen engagement

3.3 People who are accustomed to high standards of service in all aspects of their lives will not tolerate lower levels in public services⁷. There has also been a revolution in standards in most aspects of people’s everyday lives. For example, speed of service is now highly valued. Three components therefore underpin this agenda:

- that public services should respond to citizens.
- they should be designed with the public’s needs in mind and should serve the public’s requirements; and
- services must be of a high quality and must continually improve.

3.4 Citizens demands therefore act as one of the ways in which services can be challenged to improve. The freedom and flexibility from institutional pressures frequently enjoyed by third sector organisations, positions them well to offer a positive contribution. The third sector can often offer responsive services which are user-centred as they are not driven by budgets and targets in the same way as the public sector. At their best they can be flexible and innovative, rather than prescriptive.

⁷ Building on progress: Public Service., PM Strategy Unit, March 2007.

Case study I:**SASS (Supporting Young Unaccompanied Asylum Seekers in School)**

SASS (Supporting Young Unaccompanied Asylum Seekers in School) is a partnership between The Asphaleia Project and the West Sussex Looked After Education Department which aims to help raise the level of educational attainment and facilitate social inclusion of looked after children, particularly unaccompanied asylum seeking children. It was sponsored by the Home Office and awarded £154,000 from Treasury's Invest to Save Budget.

The project provides mentoring support for looked after children and young asylum seekers, providing support in schools, allowing them access to statutory education and promoting their greater inclusion within the local community. SASS has been innovative in bringing together a charitable organisation with the Local Education Authority and individual schools, supporting the recent trend towards developing community partnerships to improve the delivery of public services.

It provides an important and valuable additional resource that is well targeted to the particular needs of unaccompanied asylum seekers and refugees and other looked after children. The learning mentors have established excellent relationships with their designated pupils in schools, reflected in 100 per cent mentoring session attendance. The project has also led to mentees being more involved in the wider sphere of school activities.

Mentees are receiving one-to-one support on a weekly basis and their feedback indicates this has been a vital part in their academic and social experience. SASS has produced a guidance handbook for refugee friendly schools and also a citizen teaching pack called 'Respecting Our Differences'. The lessons learnt through SASS promise to provide further knowledge and workable methods and resources to impact on large numbers of children and schools alike.

Building social capital

Increasing trust within and across communities

3.5 While third sector organisations aim to make prudent or efficient use of their resources in a business-like manner, they differ from the private sector in that they are not seeking a return on shareholder value. Instead, being mission driven, their objective is to achieve a social, environmental or economic impact. This difference is reflected in their governance structure and the roles and responsibilities of trustees. NCVO⁸ among others have argued that it is these qualities that must be valued by the statutory sector if it truly wants to see a new approach in public service delivery.

Bridge the authority divide

3.6 Many third sector groups celebrate the fact that they have access to the wider community without carrying the institutional baggage of the State. Public service workers can often be perceived as representatives of an authority which certain groups have learned to mistrust, even though this may seem unfair. The third sector, however, is independent of government and therefore free to be unequivocally on the user's side. Organisations often excel in involving service users, ex-services users and volunteers from the wider community in planning and delivering services. Joyce Moseley, Chief Executive of the charity Rainer explained when dealing with young adults in the 14-25 age group that, "Many of them, because of the difficulties they are getting into, see authority figures in whatever state as something they want to avoid"⁹.

⁸ *How voluntary and community organisations can help transform public services*. NCVO, 2006.

⁹ PASC. Thursday 7 June 2007, Uncorrected Transcript, House of Commons website

3.7 The arguments apply equally to whole sections of the community who aren't fully engaged by the State, for example, in youth services where the Russell Commission research showed that young people would be put off volunteering if it was "a government thing".

Trust in charities

3.8 A study on trust in charities by the Charity Commission in 2005¹⁰, produced an overall moderate mean trust score of 6.3 (on a 0-10 scale). It found that the main factor driving trust is an 'inherent belief' that charities will spend wisely and effectively, i.e. that they will employ ethical and efficient practices and enable maximum funds to reach the end cause, thereby making a positive difference. However, they also cautioned that this belief is grounded in faith rather than any rationally based expectation, as the majority of people do not know how charities are run and most people do not scrutinise charities when they give money.

3.9 The Commission concluded that trust in specific individual charities is boosted by their reputation and a belief in the cause, but bad news stories and concerns for how money is raised and spent means that some individual charities are trusted less. Finally, there is an extremely strong endorsement of the role of charities in society today – 29 per cent of those questioned responded that their role is extremely important and 34 per cent say it is very important. However, caution should be exercised. People have a narrow definition of what constitutes a charity and do not always appreciate the full range of benefits that they receive from charities.

Citizen empowerment

Suiting personal needs

3.10 Empowering all citizens will ultimately mean that they have a greater choice over the service that they receive, or at least an improved say in how or when it is delivered. In other cases, citizens will have an opportunity to make their views heard, about both the initial design of a service and its subsequent administration. Therefore the Government¹¹ has acknowledged that opening up the supply side and encouraging the development of a greater diversity of organisations capable of providing high-quality services is an important means of enabling citizens to find services that best suit their personal needs. The key message being around equality of outcomes – "it's not the resources you put in, it's the quality of the service that you get out."

3.11 It is also important to bear in mind that many of the outcomes sought from public services require changes in individual behaviour, for example, better health requires healthier lifestyles. In some cases this will require the state to intervene more forcefully – for example the Government has introduced Drug Treatment and Testing Orders to compel people to accept treatment for drug addiction.

Improving outcomes for citizens

3.12 It is likely therefore that third sector organisations can play a crucial role as intermediaries in improving understanding within communities of government's aims and objectives because they will often work closely with vulnerable or targeted groups; and in return shape government action in order to make it most effective. This is dependent on ensuring that providers and public service workers both have the freedom and the skills to respond to local needs and improve outcomes for citizens.

¹⁰ Report of findings of a survey of public trust and confidence in charities, The Charity Commission, November 2005.

¹¹ Building on progress: Public Service., March 2007.

Reflecting need, improving choice

Improving performance at the local level

3.13 In its recent report, Hearts and Minds, the Audit Commission underlined the need for local commissioners in particular to understand what services their users require, and what particular features of those services users value most, for example: choice; flexibility; cost; timeliness; and value for money. It suggests the development of satisfaction surveys as one way to measure user-focused criteria appropriately for specific service areas, and then to set these alongside considerations of cost effectiveness when evaluating the impact of different forms of provision¹².

Building the partnership with commissioners

3.14 The Audit Commission also maintains that sector organisations can help commissioners perform their task more effectively, through their advocacy role, speaking for target populations of service users. They can help commissioners understand the specific needs of these users and understand the most cost-effective ways of meeting their needs. Finally they also recommend that sector organisations themselves can help by providing commissioners with a better evidence base for assessing the actual value they can provide, both against commissioners' objectives for service delivery (including value for money) and against wider considerations. By demonstrating the value they can bring they will increase their opportunities to contribute to public services and to the wider community.

3.15 Thought should also be given as to the areas where the third sector can add real value in improving outcomes by using their links to communities, and understanding of needs. Research by the Commission for Social Care Inspection (CSCI) has shown that voluntary sector providers meet a greater proportion of the national minimum standards than in-house or private sector providers in the field of social care. However, the picture is mixed – the data does not show that the sector provides improved outcomes in every service area.

¹² Hearts and minds: The voluntary sector in 2007. Audit Commission, 2007.

4

ORGANISATIONAL VALUE

INTRODUCTION

4.1 In principle, the public sector (or the private sector) could deliver the benefits of a strong focus on service users. This is not the unique preserve of the third sector. Some argue, however, that the third sector does possess organisational characteristics that could give it a comparative advantage that take it one step further in delivering quality outcomes. These are a result of the way the organisation has been set up, the direct personal experiences of those working for the organisation, and the organisation's independence from government.

4.2 Looking at the value that the third sector can bring to the actual processes of service delivery, many commentators point to the following:

- The sector's knowledge and expertise to meet complex personal needs and tackle difficult social issues.

TRANSFORMING PROCESSES

Organisational structure

Governance 4.3 Historically at least, many third sector organisations have been founded by people with direct experience of the issue they are seeking to address. Not only that, but the direct involvement of users in governance structures – with direction from trustee boards, or amongst members or staff – helps to root the organisation firmly in a social or environmental issue, and can provide an awareness of the local context which is crucial to the “place shaping” agenda.

The cooperative model 4.4 Co-operatives provide a useful example. As voluntary organisations, cooperatives are often open to all persons able to use their services and willing to accept the responsibilities of membership. It is a principle of the Cooperative Movement that members should be able to actively participate in setting policies and making decisions. Those that serve as elected representatives are then accountable to the membership. Members also contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. The potential contribution of the cooperative experience in governance is enormous if it can be developed fully in the context of public services¹³.

4.5 As a result, there are many third sector organisations that have a strong track record in generating innovative learning about people's real needs and in creatively designing and delivering services that reflect those needs. This has particularly been the case with the needs of diverse and disadvantaged communities¹⁴.

¹³ Supporting evidence: *Mutuals and Cooperatives*, Rt Hon Alun Michael, July 2007

¹⁴ NCVO, 2007

Case study 2:**Playtots Childcare**

Playtots Childcare Ltd began in Plymouth in January 1999. The service was set up as a worker cooperative and company limited by guarantee, by two childcare workers who realised that the local provision was far from satisfactory and had long waiting lists.

Playtots is a nursery and pre school that also provides breakfast, after school and holiday club services. There are currently 17 members of staff and 58 children's places which will soon extend to 70. Initially the service was given guidance and financial support from the Pre School Learning Alliance, the Local Authority and the Local Prison Charity Fund. After contacting Co-Active, the regional cooperative development body in their area, a successful bid was made for neighbourhood nursery funding. Support continued and more recently the service has received financial support for more staff training through Business Link.

Problems were encountered along the way, but the founders overcame these by inviting organisations and individuals to become personally involved. They did this through encouragement to visit the service at various stages, explaining how far they had come and what help they now needed to meet their goals.

Playtots Childcare Ltd has extended from its original 26 places for care in term time to its current size in only five years. In addition, its family support services include antenatal classes, childminder training, courses run by health visitors, drop-in sessions with a school nurse and an inclusion drop in is about to start to support children and families with special needs. Jobcentre Plus hold a session every two weeks. The center has formed partnerships with organisations such as Social Services and the Childminders Association and this supports them in their bid for Children's Centre status.

Supporting the socially excluded

Hard to reach groups **4.6** There is a small group – estimated at around 2.5 per cent of the population, where the reach of public services has been limited. A greater awareness of this group has led to recognition that it is likely to have multiple problems that will vary significantly from individual to individual. To make an effective impact, these particularly disadvantaged individuals will require services that are tailored to their specific needs to an even greater extent than the general population¹⁵.

4.7 Research by Futurebuilders England suggests that third sector organisations are often best placed to engage in service delivery (especially, although not exclusively) with people who are at risk of social exclusion. This is not only because of the quality outcomes they can bring, but because they also frequently have an overall stronger relationship with and physical proximity to the communities within which they work. Ex-addicts working on a drug rehabilitation programme or ex-offenders working with young criminals provides direct experience of the user perspective, and perhaps a better awareness of what will work in order to achieve improved outcomes. Half of the Futurebuilder investees surveyed said that offering services to groups who are likely to mistrust business or state providers was central to their role¹⁶.

¹⁵ *Building on progress: Public Service.*, March 2007.

¹⁶ *Is Futurebuilders Working?* July 2007.

Case study 3:

Closing the Revolving Door

This project in partnership with Kirklees Borough Council and the Treasury’s ISB fund (£156,000) employed two key link workers who sought to engage substance misusers before release from prison and work to achieve a post release plan of activity to challenge patterns of re-offending behaviour on release. Those who were abstinent on release from prison were offered appropriate medical intervention to prevent relapse into opiate use.

The project was effective in terms of not focusing on people as 'drug users', but by providing individuals with an opportunity to step outside of their drug use and do different activities. The mechanisms impacting on drug use have been identified through interviews with clients. This includes those that negatively impact on outcomes (disabling) as well as those that are enabling, and all can be placed within six themes: motivation; responsibility; action; everyday occupation; sense of self; and support.

Success has been agreed against the project's aim to 'treat people as adults' with an emphasis on choice and control. 'Policing' was another important approach taken by the project and has been successful in terms of being as unobtrusive as possible. 'Not talking about drugs' is a key part of the project, and although some individuals found this hard and wanted to talk, it was felt overall that this was successful in encouraging individuals to develop identities outside of being a drug user. Of the 13 individuals interviewed, 8 who started the project clean or still using on and off left the project clean. The remaining 5 continued to use drugs.

Involving local people to build community ownership;

4.8 Some in the sector continue to argue¹⁷, however, that if the Government wants individuals and communities to become more engaged within public services they also have to be given the skills and support to take on these new roles. This includes empowering users to be able to make choices and to express their preferences at the point where services are being designed, as well as at the point of delivery.

**Providing
advocacy and
advice**

4.9 In many cases the third sector is well placed to provide the support and capacity building to enable people to engage more effectively. Advocacy and advice and information giving have always been as much a part of its role as direct service delivery. The sector can support people to understand and make the most of the choices available to them: if one of the mechanisms to achieve transformation is the provision of greater levels of choice, it will only be effective if all service users are capable of expressing their preferences and of making informed choices.

4.10 Many organisations specifically argue that the type and quality of services they provide is directly influenced by their knowledge of their users and the information they receive from them. Equally, they argue that their campaigning and advocacy work is strengthened and has legitimacy because they also have direct service delivery experience.

**Strengthening
local
legitimacy**

4.11 The Government will continue to build strong, autonomous public service organisations that are locally accountable (such as foundation trust hospitals), and will continue to encourage the development of social enterprises with strong community links. By involving individuals from local communities and staff within their

¹⁷ How voluntary and community organisations can help transform public services. NCVO, 2007.

governance, such institutions have the ability to respond more directly to their local communities and will be freer to develop creative solutions to their local situations¹⁸.

¹⁸ Building on progress: Public Service., March 2007.

5

DISTINCTIVE VALUE

INTRODUCTION

5.1 Third sector organisations are certainly well placed to provide joined up services. They can do this because of their greater knowledge of clients needs and greater organisational flexibility. While an organisation may specialise in a particular field, it is likely to focus around a particular client group or community and to provide its services to that group in a joined up way. As a result, third sector organisations are often able to deliver joined-up services across governmental boundaries. In the third sector, “outcomes based collaboration” is already emerging as an important concept and government is well placed to benefit from this.

5.2 There has been continued interest from government and public funders over the value for money argument for working through the third sector. This is based on the claim that the sector has:

- an ability to be flexible and offer joined-up service delivery; and
- the experience and independence to innovate.

Specialised and niche services

5.3 In many cases services provided by the sector have been developed in areas where neither the state nor the market have been able or willing to operate. Third sector organisations provide specialist knowledge, of an issue or client group, to help fill niche markets. They have also pioneered services, by being the first to identify and meet a need and then successfully arguing that the state should take responsibility for making those services universally available¹⁹.

5.4 However some argue that a major challenge for person-centred services such as those delivered by many third sector organisations is that purchasers still do not place enough value on joined up services in their contract specifications. As a result, these purchasers often struggle to capture adequately such distinctive value in the procurement process²⁰. This could be usefully countered perhaps by a better focus on outcomes and getting potential users and suppliers more engaged in setting those outcomes and the specifications for contracts to deliver them.

BEING DISTINCTIVE

Value for money

5.5 Government policies for the third sector are based on the often-claimed assumption that the sector adds value. However, among others, the Audit Commission believes there is still no firm evidence either for or against the argument that, at an aggregate level, third sector organisations provide better or worse value for money in the provision of public services than either public or private sector providers. Even if such aggregate assessments were possible, they do not think they would necessarily be helpful.

¹⁹ NCVO, 2007.

²⁰ Is Futurebuilders working? 2007.

Evaluating cost and quality **5.6** Data from the Commission for Social Care Inspection (CSCI) does not reveal the cost of achieving a higher proportion of minimum standards, nor whether reaching a higher proportion of minimum standards leads to a better quality service for end users. There is likely to be as much variation in cost and quality within each sector as there is between sectors. Commissioners should not base individual commissioning decisions on an aggregate assessment of the relative merits of the sectors²¹.

Social, economic and environmental impacts **5.7** The Audit Commission found very few councils able to assess reliably the relative costs or the wider social, economic, and environmental effects of commissioning services from particular providers. This is difficult for the following reasons:

- councils and third sector organisations do not have a common definition or means of measuring important concepts such as value for money, added value or social impact;
- fair comparison is hard where different providers are providing different services; and
- a rigorous assessment of value for money requires an understanding of the links between inputs, outputs and outcomes, and the measurement of all three.

National Consumer Council research **5.8** Some recent research by the National Consumer Council²² looked at three service areas: employment, domiciliary care, and social housing. Among nearly 500 users of employment services it found mean satisfaction with third sector providers to be 4.2 (where 5 is very satisfied), compared with an average of 3.8 among users of private sector providers and 3.1 among public sector providers. Overall the evidence seemed to suggest that some third sector organisations are better in some respects, but not that the sector as a whole is qualitatively better than other sectors.

INNOVATION

Institutional flexibility **5.9** Third sector organisations are often well positioned to innovate; developing, piloting and implementing new ways of working and delivering services. They are not constrained by institutional pressures and have a flexible organisational structure to respond quickly to new opportunities or take risks to test new ideas²³. They are also frequently not bound by structures or rules in the ways in which more traditional public sector agencies are. They are independent and so can try to deliver services in new and innovative ways²⁴. However, one must be careful in concluding that all third sector organisations are necessarily more flexible than private or public sector bodies.

5.10 Part of the process of creating more personalised services involves unlocking the ingenuity of staff. Where potentially entrepreneurial staff are held back by regulations, created for a long-forgotten reason, those barriers need to come down. This will mean that some of the established demarcations between professionals will change. For example, nurses are now already doing more of the work that has traditionally been left to doctors and technological developments will allow classroom assistants to do a lot

²¹ Audit Commission, 2007

²² Delivering public services: Service users experiences of the third sector, June 2007

²³ IS Futurebuilders working? 2007

²⁴ NCVO, 2007

more to support teachers than was the case even very recently²⁵. In such an environment, the third sector has the potential to flourish.

Case Study 4:

StartHere

StartHere was founded as a “one-stop information and signposting service” whose mission is to connect people in need to available help and resources. It is an online information service – an easy-to-use starting point for information on a range of health, housing, education, employment and social issues.

It was established after research highlighted the gap in the information chain between those needing help and the support that is available. StartHere aims to bridge that information gap by providing an online self-help service that connects people, quickly and easily, to the information and services they need. In particular, it is able to direct hard to reach and socially excluded groups, who often feel distrustful of government, to the public services they most need.

StartHere also provides an accessible introduction to digital technology for people who would not normally have the confidence, skills or opportunity to use it.

www.starthere.org

The nature of innovation

5.11 Innovation is more than a new idea or invention. Many definitions exist about what constitutes an innovation – from implementing new ideas at work to the creation and implementation of new processes, products, services and methods of delivery which result in significant improvements in outcomes, efficiency, effectiveness or quality.²⁶

Understanding and appreciating innovative practice

5.12 Innovations can also vary in scale, from relatively minor changes in existing processes or services, to continuous improvement or, at the far end, radical and ‘breakthrough’ change resulting in an effect that is large enough to affect the nature of not just the process or the service being delivered, but also result in organisational change. Innovations are thus sometimes described as being incremental, systemic or transformative, or radical. However, the most important aspect of any innovation is the implementation of the new idea or thing, though this does not always result in a successful implementation.

²⁵ PM’s Strategy Unit, 2007

²⁶ *Innovation in the Public Sector*, Geoff Mulgan and David Albury. October 2003

Case study 5:**Skills For Life**

Funded by the ISB (£98,000) and led on by Bridgewater College, this project was successful in piloting a life skills training initiative – a community based personal development programme which addresses skills needs, confidence and motivation through team working, leadership and individual accountability - focused on first time offenders that tackled the skills shortages and social issues that lead to repeat offending.

The main project objective was to address the root causes of crime by tackling the social, attitudinal, vocational and educational factors that impact upon crime and the instances of repeat offending. Partners included DfES, Job Centre Plus, Avon and Somerset Magistrates Courts, Defence Advocate Avon, and Somerset Constabulary

The project was highly successful, securing high levels of progression of participants into employment and learning. All participants had the opportunity to undertake vocational action planning and all have completed the 13-week Prince's Trust Team. 63 per cent of participants progressed into employment, voluntary work, education or training. 100 per cent of participants felt they had benefited from the course.

The project led to a direct reduction in the cost of crime and the fear of crime. Of the 73 per cent of participants interviewed, 64 per cent had resisted crime for 6 months after completion of the programme. If this continued for a full year, cost savings would total £383,104. The project also led to the development of a strategically important partnership – bringing criminal justice, education and employment agencies together to work with first time offenders.

Innovation and public service delivery

Innovation as core activity

5.13 Innovation drives productivity and efficiency. Without it, public services costs tend to rise faster than the rest of the economy. Government support for innovation can enhance productivity by allowing step changes in the quality of its own public services. Effective government and public services depend on successful innovation – developing better ways of meeting needs, solving problems, and using resources and technologies- in order to contain cost pressures an increase efficiency and to improve outcomes. Innovation should be seen as a core activity, not an optional luxury, in order to increase the responsiveness of services to local and individual needs and to keep up with public needs and expectations²⁷.

5.14 There are, however, barriers to innovation in public service delivery. It is generally considered that the public sector is less innovative than the private or third sectors, and imputed reasons include a lack of competitiveness or incentives; a culture of risk aversion; bureaucracy and the unwillingness of staff to change, especially at mid to senior manager level. Other barriers also include:

- regulation and statutory constraints – creating an environment where there is a great aversion to risk taking;
- not doing proper risk analyses- the risks of change may have been identified, but the risks of keeping the status quo have not been properly examined;

²⁷ Mulgan and Albury.,October 2003

- target meeting and pressures of time – targets can sometimes be too prescriptive, where having time to innovate and experiment, or allow a new process to bed down and learn the lessons are considered a luxury;
- the inability to measure outcomes other than in pure monetary terms;
- lack of organisational capacity or resource to deliver innovation;
- mind- set and status quo of management relationships²⁸ – where a cultural shift is needed by the organisation as a whole towards new ideas and where management is open to newcomers with new ideas/methods of doing things. Very often innovations come from the front line - bottom up, rather than top down.

Gershon Efficiency Review **5.15** The Gershon efficiency agenda also places the onus on public sector bodies to seek out opportunities to deliver services more efficiently and by more joined up approaches at local level. The review found that the burden of public policy funding and regulation could be reduced on front line delivery bodies and the third sector so they could devote more of their own resources to service delivery²⁹. Being more innovative could be a key driver towards improving current practices or making processes or services better value for money.

Learning from the third sector

Ability to listen to users **5.16** Certain principles can translate across sectors, for example, replicating the reach and the ability to listen which third sector organisations have can be done in the public sector by listening to the views of users and the frontline staff that deal with them. Research generally suggests that innovation does not come from top down, but rather from the front line. Other things government can do to improve the chances of more innovation in service delivery include:

- having systems in place that can capture the ideas in a department or organisation about new ways of working, service improvement or delivery of new services;
- enabling and empowering this by developing the capacity of staff to think creatively, allowing them the space to do so and resources to try out their ideas; and
- encouraging creativity and providing resources to design and test new ideas, but also celebrating honourable failures³⁰ and protecting employees from punishment, sanctions or media criticism, if their innovations do not succeed.

²⁸ Geoff Mulgan, The Young Foundation, Innovation Focus, National Audit Office, December 2006.

²⁹ *Releasing resources to the front line*, Independent Review of Public Sector Efficiency. Sir Peter Gershon, CBE. July 2004

³⁰ *The Challenge of Innovating in Government*, Sandford Borins. February 2001

Case study 6:**Primary Care as a Community Resource**

Led by the Doncaster Health Authority, this ISB-funded project provided advice, support and referral to a range of statutory and voluntary services initially within six GP Practices across Doncaster. The information and access to services is delivered to individuals via an electronically networked system which is available to a dedicated advice worker and other members of the Primary Healthcare Team.

At current levels of utilisation, the Advice Support Worker initiative is unlikely to be a cost-saving initiative. However, if fully utilised, ASW would have to stop approximately just two GP consultations to prove a cost saving strategy. For some people, the meeting with ASW appears to have been a turning point, with the provision of advice that has given them options that were not previously available. When these people are seen, the service and project meets its goals and objectives.

The Health and Social Care Online Patient Evaluation and Referral Database: This aspect of the project is the most innovative and could save considerable time and money for the statutory sector and ensure that clients are dealt with appropriately, thus preventing undue stress that may have a detrimental effect on health. The system has been described as “excellent”, but usage is still low and there is qualitative evidence that people are confused over the use of the system as a means of stopping inappropriate referrals to Social Services.

Competing against the third sector

5.17 NESTA³¹ have suggested that public services remain poor at learning from better models. Government could do more to scan the hinterlands from which new ideas can come, such as the third sector. They can also recruit proven innovators and provide resources – innovation needs money for research, trials, pilots and evaluations. But, government should not compete with the third sector – a common complaint from third sector organisations has been that their successful innovations are sometimes simply copied by government, where not only are the originators not compensated, but they also risk being put out of business by competition from much better financed public agencies³². Innovative approaches include:

- flexible and holistic service delivery;
- taking preventative approaches to social problems with the aim of reducing the pressures and costs of recourse to statutory services; and
- facilitating access to services for particular groups and communities through the provision of independent advice, mentoring and advocacy support.

Innovation in local public services

5.18 While it may be possible to measure the quality of service delivery, it is difficult to quantify the intangible benefits such as greater flexibility, innovation, knowledge, and expertise. Nevertheless the Audit Commission’s recent report on innovation in local public services shows that engaging with partners helps councils to access innovative ideas, which may help them to meet the increasing demand for personalised services, within their limited resources.

³¹ *Ready or not? Taking innovation in the public sector seriously*. NESTA. Geoff Mulgan. April 2007

³² *ibid*

6

COMPARATIVE OR ADDED VALUE

INTRODUCTION

6.1 The hardest to reach will often be those for whom early action and preventative measures will be the most effective. Prevention means reducing the risk that individuals or families will experience problems later in life. Early intervention can prevent a problem from escalating, while bringing new and diverse providers into public services can bring high standards and good value for money. The manner in which this is done, however, has to be carefully managed and considered case by case.

6.2 A lack of evidence remains as to whether the third sector as a whole is comparatively better at providing services than the public or private sectors. However, such evidence is unlikely ever to emerge. A better reflection would be that there is actually a wide range of provision across sectors – some of it good, and some of it needing improvement. But one sector is not, necessarily, always better than another in terms of quality of services or effective outcomes.

6.3 Third sector organisations do, however, have a strong track record in designing and delivering preventative services. They are also able to bring a unique quality because of their voluntary nature:

- Building the skills and experience of volunteers.

VOLUNTEERS

6.4 Many service commissioners often define “added value” as the value achieved when an agency or council gets more for its wider community than it actually funds. For example, the Audit Commission found that some councils perceive that they get added value when volunteers deliver the service instead of paid staff, or when third sector organisations secure match funding for a service partially funded by the council.

The contribution of volunteering

6.5 A study in Greater Nottingham³³ found that there were up to 4,600 voluntary organisations in the area. At least 100,000 volunteers and community activists were active in the area, contributing to the equivalent of up to 8,000 full-time jobs. The study found that for each £1 the local council invested in the form of grant funding, the voluntary sector was able to lever in approximately another £6. Based on an estimate of the economic value of a volunteer’s time, the study estimated that the local voluntary sector contributed the equivalent of an additional 1.7 per cent to local gross domestic product.

Impact of volunteering - Red Cross report

Red Cross/ CSV report

6.6 A more detailed report into the impact of volunteering on public service delivery was produced in 2006 by CSV and the Red Cross³⁴. It found that volunteers can help to reduce isolation and loneliness for many of the people they support through the human contact they provide and the social interaction that results – which is often otherwise very limited. They also provide a boost for service users – often simply through demonstrating that ‘someone cares’ and actually wants to spend time with that person.

³³ Audit Commission

³⁴ Making a difference through volunteering: The impact of volunteers who support and care for people at home, March 2006.

This boost in confidence and self esteem in turn can lead to improved physical and mental wellbeing.

6.7 Service users particularly appreciated and valued the flexibility of volunteers, and their ability to respond to their particular needs and personal circumstances in order to provide the things they needed the most – a listening ear and companionship. This was seen as being in contrast with other providers of services, where a proscribed range of support within very strict time limits was described. Service users often reported that they had more trust and confidence in volunteers than in other service providers. There is a clear opportunity, therefore, for those commissioning public services – from whatever provider – to recognise the actual requirements of users.

6.8 The report noted that volunteers often provide complementary services to statutory organisations or services, which the latter are unable to provide. However, systems and mechanisms that enable joint working across sectors and different providers are crucial in ensuring that holistic ‘packages’ of services are delivered, based on individuals’ needs, circumstances and preferences – and this needs to be reflected in the commissioning and contracting process. Nevertheless, the report concluded that the absence of clear outcome measures and meaningful qualitative indicators of effectiveness was striking, and further work is required to address this gap.

Providing value for money

6.9 It is essential that both commissioning organisations and service providers can, and do, measure the full impact of volunteer services – and for this impact to be more widely understood by all parties involved in commissioning, funding, providing, volunteering (or potentially volunteering), using (or potentially using) and referring other people to these services. Volunteer services often provide excellent value for money – but should not be seen as a cheap alternative. It is crucial that robust and effective structures are in place to support and develop volunteers and the services they provide, and that these are fully costed and considered when services are planned and developed.

SPECIALIST SERVICES

Comparing cost-effectiveness

6.10 Third sector organisations provide many specialised services and tend to fill gaps left by the public and private sectors. They may provide services to hard-to-reach groups or deliver services that the private sector does not consider commercially viable. For example, community transport services are extremely important in rural areas, but are not profitable for commercial bus operators. The fact that public, private, and third sector suppliers rarely provide the same service in given areas and to the same users, makes it difficult therefore to compare the relative cost effectiveness of service provision across the three sectors.

6.11 A recent learning report compiled by Futurebuilders England³⁵ noted that as many as 75 per cent of their full investees deliver services that are in some way niche or highly specialised, and that are targeted at specific groups of clients. In addition, these investees insisted that being committed to the needs of service users “is one of the most important factors in enabling them to deliver high quality public services”. This can be achieved because of their specialised knowledge, acquired expertise, and the building of strong relationships with communities.

³⁵ Is Futurebuilders Working? July 2007.

Understanding local needs 6.12 The characteristics that make services distinctive may be hard or even impossible to compare, as may their impact on wider objectives. As such, it is particularly difficult to make meaningful value for money comparisons between such services. Therefore, the Audit Commission recommends at the local level that councils must ensure that they have gathered relevant, accurate, and timely information on the composition, needs, and aspirations of their target populations. They also need to have a clear and defensible basis for the difficult judgments they must make about resource allocation.

Case study 7:

RIZER

RIZER³⁶ is an impartial and confidential web-based information gateway which provides information to young people (specifically 11-17 year olds) about the consequences of being involved with crime. The website focuses on how offending and the criminal justice system as a whole impacts upon, and applies to, young people, whether they have been involved in crime or not. The project was designed to tackle the roots of social problems caused by young offenders' alienation in society and lack of access to neutral information on the judicial processes which affect them.

The RIZER website incorporates material designed by ex-offenders and video-streamed advice and guidance, communicating messages in a form that engages young people and retains their interest (for example, through interactive games and music).

This project funded by the Treasury's ISB has been very successful - Youth Offending Team workers, Connexions, Youth Service Workers, Drug Action Team members and schools are all using the RIZER website as a key tool for working with young offenders in the Nottinghamshire area. The Legal Services Commission has also informed all its duty solicitors in Nottinghamshire to recommend the website to the young people they work with.

³⁶ www.rizer.co.uk

INTRODUCTION

7.1 The Government has been keen to emphasise that third sector service delivery is a “good” thing for society, improving outcomes for the end user. Nevertheless there is a strong voice within the sector itself that suggests service delivery may risk compromising the sector’s independence, undermines public trust, stifles innovation, and could have a detrimental impact both upon giving and volunteering levels. There is a risk that the very values that are sought by government from the sector to deliver or transform public services will actually be lost if the issue is not handled carefully.

UNDERSTANDING THE RISKS

Breaking trust

7.2 While there can often be high levels of scepticism with regards to public institutions and processes, anecdotally at least there remains the perception that the third sector enjoys strong levels of public trust – particularly as a result of its charitable work. Once lost, trust may be difficult to recover, and fears are widely expressed that closer relationships with the State (at all levels) will compromise the position of the Sector in relation to the end user, and fatally undermine trust. Service users could view Sector deliverers as simply another ‘arm’ of government, rather than as organisations that really understand and value their clients.

Separate from the State

7.3 The position may not be helped by 'institutionalisation', where previously charities were viewed as models of direct civic action and altruism, now more as viewed as 'businesses'. It's likely that people will begin to demand greater levels of accountability as a result. The basis for the sector's trust comes from the fact that its' agenda is separate from the State. However, if charities become too involved in administering sanctions - for example in the withdrawal of benefits - then they could find their core purpose compromised by close involvement in a system that could penalise their client group.

Challenging government

7.4 David Varney³⁷ has warned that although the Government has recognised the value of third sector organisations - particularly when acting as ‘intermediaries’ – if this role is to develop further then the potential conflict between the responsibility of the sector to act as a challenge to government, and its task in working with government to deliver services, must be reconciled.

Maximising positive outcomes

7.5 There is a question as to whether there may be limits to services delivered by the third sector if it is to preserve its distinct character - perhaps avoiding taking on the role of the State in relation to sanctions, penalties, or regulatory legal functions which would hurt the end user. But the fact is that some organisations already do engage quite widely, and experience few problems. The Shaw Trust has, for example, reported no significant difficulties with checking whether claimants had fulfilled conditions for the receipt of Incapacity Benefit. The role of the sector in advising on or designing services should also not be forgotten on those occasions where delivery might be left to someone else. Finally, people are more likely to trust those who show they can deliver

³⁷ *Service Transformation: A better service for citizens and businesses, a better deal for the taxpayer, 2006.*

good services in a way that maximises positive outcomes for the end user. This remains the real challenge for the provider.

The challenge of being ‘professional’

7.6 Increasingly in the drive to bid and deliver on formal contracts, third sector organisations will need to be ‘professional’ in a way that could create a tension between ‘doing good’ in an ethical sense and ‘doing well’ in an organisational sense. Especially as contracts will be regulated by precise, measurable and binding standards that are clear and place emphasis on performance measurement and output controls.

Management style **7.7** The management style within an organisation is likely to be influenced by its purpose and values, especially when it comes to internally setting and attaining goals. Closer relations with the State could place a strain between ‘espoused purpose and values’ and ‘operative purposes and values’³⁸. This could affect how an organisation operates at a practical level, and potentially pull it away from its core objectives.

Reconciling being professional with core objectives **7.8** However, if handled properly then it is not clear that an organisation needs to be pulled in two directions. The third sector can be both professional and fulfil its core objectives. Among good social enterprises, for example, running a professional outfit is essential to being able to deliver the social objective. It is true that there may be tensions around how that professionalism is achieved - whether some activities are compatible or not - and some failures may occur, but this suggests that the two are not mutually exclusive concepts.

Preserving diversity

Big versus small **7.9** Some continue to express concern at the risk of larger, more ‘professional’ organisations, consolidating their position and winning not just national but also more local contracts across the country. This would then squeeze out smaller, more specialised or localised organisations who simply don’t have the capacity to compete – particularly for national contracts or to scale - and will disappear if there is any further move away from grants. This is compounded by a trend towards aggregation. Loss of diversity could ultimately also mean a loss for the end user, who will have less choice in the services that are delivered and a reduction in innovative practices. This is a particular problem where delivery contracts are big or complex.

Challenges of scale and aggregation **7.10** It’s certainly true that over two thirds of income received by general charities goes to 3,200 organisations. And within this have emerged 14 ‘super-charities’, each with an income of £100 million pa (or 10 per cent of the Sector’s total income). There remains the difficulty for many third sector organisations in delivering government services on a national scale, while the fact that many third sector organisations operate on a franchise basis makes it difficult to monitor and guarantee service quality on a national scale³⁹. In addition, providing niche and specialised services makes services more effective, yet it can also hamper growth, as the market for these services by their nature will be limited. The problem is exacerbated by the pressures on purchasers to opt for fewer large contracts⁴⁰.

7.11 This need not mean, however, that local organisations stop playing a part in transforming public services. Instead procurement processes need to be open to local

³⁸ Paxton, Pearce, Unwin, & Molyneux, 2006

³⁹ *Service Transformation: A better service for citizens and businesses, a better deal for the taxpayer*, 2006.

⁴⁰ Is Futurebuilders Working? July 2007.

influence, with funders ensuring local organisations recognise the contribution they might make - especially through the design and commissioning process. Thought must be given as to whether the sector can respond effectively to this. There may be a gap around support to the sector to participate in the design of services locally. Those that engage need to have the capacity to do so - and there needs to remain investment to develop capacity through appropriate training opportunities. Funders and commissioners also need support, resources and training to help them create new commissioning processes, and identify the new providers.

Encouraging partnership working

7.12 Ever-larger contracts do not necessarily equate to greater efficiency or better value for money. The Government should continue to consider how it can encourage partnership and collaboration within the third sector. In the past the Sector benefited from an open and sharing relationship between organisations that allowed the spread of best practice. But that's certain to be lost as organisations come into direct competition with one another when bidding for contracts. Conditions might be placed on larger organisations, for example, when contracting to specifically work alongside smaller organisations in delivery.

Co-operation at all levels

Transforming commissioning

7.13 Finally there is some concern that if the public sector continues to design and commission public services in the same ways it has always done, and simply offers contracts, making third sector organisations copy practices already used by the public or private sectors, then it will be difficult for the sector to bring additional benefits to the service⁴¹. Nothing will change for users. Instead, commissioners need to address the issue of 'independence' and 'voice' by actively recognising what it is they value in Third Sector service delivery, and how they can use the procurement process to incentivise it.

Recognising the role and benefits of advocacy

7.14 Commissioners must understand that the roles of advocacy and giving advice can contribute positively to service delivery. Many organisations argue that the type and quality of services they can provide is directly influenced by their knowledge of what their users want - equally their campaign and advocacy work can be strengthened from the legitimacy offered by direct service delivery experience. In particular the role of advocacy organisations will need protection and enhancement, if the sector is not to become too identified with the role of provision.

Intelligence in practice

7.15 Where issues of conflict of interest and competitive advantage do arise, (for example where an organisation has been consulted about how a service should be designed, and then bids for the contract to deliver that service), these should be acknowledged and managed through an intelligent commissioning and procurement process. Nevertheless there is a real risk that wider engagement with the sector on design and commissioning could mean that successful solutions promoted and piloted by the sector move into the 'mainstream' and are adopted by the public and private sectors. Ultimately if it results in a better service for a larger number of people then it is still a successful outcome for both the Third Sector and those with whom it works.

⁴¹ How voluntary and community organisations can help transform public services. NCVO, 2007.

INTRODUCTION

8.1 It is arguable whether the evidence over ‘value’ is not stronger because of the structure of the funding regime, where the inefficiencies associated with short-term, stop-go, disproportionate monitoring, with services provided below cost makes it difficult to build in medium-term systems to demonstrate impact. Pressure is building, however, from local authorities and other providers of public services to find ways of measuring the impact of their expenditure in ways that capture more of the impact than simple financial returns – and hence to open up public services to a wider range of organisations that deliver greater community impact.

Government policy statements

8.2 Government policy statements have consistently advocated the wider use of tools to measure wider social impact. In 2002, for example the DTI⁴² made clear that:

‘The ability to prove that social enterprise is meeting both its financial and its social bottom lines – reconciling its mission and its money – will be increasingly important if social enterprises are to play an expanding role in the delivery of public services.’

8.3 A procurement guide published by the Social Enterprise Unit in 2004 also recommended social accounting as a way in which social enterprises could demonstrate their added value when delivering public services. Support for the development of impact measurement tools has come from the Small Business Service who have supported the work of the Social Enterprise Partnership (GB) Limited in developing “Proving and Improving – a quality and impact toolkit for social enterprise” www.proveandimprove.org.uk

Treasury Guidance

8.4 In the 2004 Spending Review cross-cutting review on the voluntary and community sector (VCS), the Treasury said:

‘It is important that methodologies and tools are developed that allow such impact evaluation – both for the benefit of third sector organisations who can make clear the impact they have on society (especially when competing for funding), and for government in understanding the benefits of third sector involvement in the delivery of public services’. More recently, Guidance to Funders and Purchasers, published in May 2006, included information on ways to measure social returns’.

8.5 Nevertheless, the way in which value is assessed does not traditionally cover the wider social and environmental impacts that the third sector delivers, and its comparative advantage in engaging communities. There are some tools that have emerged in recent years which can better support third sector organisations and public funders to evaluate the impact the projects and programmes on user outcomes.

⁴² Social Enterprise – a strategy for success, Department for Trade & Industry, 2002.

Illustrative examples such as the Social Return on Investment, Local Multiplier 3, and emerging ISB-funded projects are set out below⁴³.

Drivers, risks, and challenges

Drivers for change **8.6** Policy developments – particularly at the local level – will begin to act as potential drivers to encourage change. The Local Government Act 2000 gave local authorities new powers to maximise social, environmental and economic well-being in their areas. Community Strategy documents enshrine local authorities’ role in place making which logically extends to a concern for the wider social and environmental impact of local authority spending. The legislation creating the new form of social enterprise, the Community Interest Company, requires such companies to report annually on their community benefit. Finally, there is the wider movement towards ethical consumption and the increasing practice in the private sector of social accounting and audit as a way of demonstrating corporate social responsibility.

Tackling barriers **8.7** Nevertheless, a number of barriers to the wider use of measurement tools remain and will need to be tackled otherwise there is a risk that greater use of these approaches could be drowned out by moves towards aggregation, economies of scale and the structural capacity of the third sector to respond to service delivery opportunities. A real effort needs to be made to embed measurement, impact and outcomes in wider reforms to commissioning and procurement:

- cost and complexity;
- weak management information systems and data availability;
- assumptions that opportunities to create social benefit detract from financial performance; and
- the practical challenges in applying the tools more widely, for example, training.

8.8 Third sector organisations that can demonstrate that they are delivering value against commissioners’ objectives will be in a much better position to secure more service contracts. Similarly, those organisations that can make the case for receiving capacity-building finance, based on the likely impact on market competitiveness, may be more likely to secure the necessary support.

8.9 The Audit Commission has argued that it is not just the responsibility of commissioners to drive the transformational change required for innovative new models of provision involving third stream providers to become a mainstream option. Third sector organisations also need to demonstrate to commissioners their potential to deliver services, and communicate their unique selling points in the context of government’s vision for more flexible and responsive services.

SOCIAL RETURN ON INVESTMENT (SROI)

Social, economic and environmental **8.10** Recognising that conventional financial returns might not fully capture the social and environmental benefits of projects and programmes, the new economics foundation (nef) developed an innovative new approach to measure the ‘social return on investment’. SROI was pioneered by REDF, a San Francisco-based venture

⁴³ A fuller description and assessment of the tools, including a number of quality frameworks not included below can be found at www.proveandimprove.org

philanthropy fund. The concept has been developed by nef for a UK context and has evolved into a widely used, global framework⁴⁴.

8.11 nef found that expenditure by government in pursuit of public policy interventions may create further gains or losses to the public purse. For example, it is useful to be able to assess the full extent of the costs and savings created by introducing a crime prevention strategy or further resourcing of a preventative public health agenda as compared with further expenditure on policing or acute care. SROI is a process of understanding, measuring and reporting on the social, environmental and economic value that is being created by an intervention, and provides a valuable framework for measuring the long-term change

8.12 Although based on traditional financial and economic tools such as Return on Investment and Cost Benefit Analysis, SROI challenges those methods because it has a formal approach to identifying and monetising the things that matter to stakeholders - particularly those delivering and using services. It encourages those designing and delivering services to enter into an ongoing dialogue with their stakeholders and to seek to continuously maximise the value that they are creating for them.

8.13 However, there will be some benefits that are important to stakeholders but which cannot be monetised. An organisation must therefore be clear about its mission and values and understand how its activities change the world. If an organisation seeks to monetise its impact without having considered its mission and stakeholders, then it risks choosing inappropriate indicators, and as a result the SROI calculations will be of limited use.

LOCAL MULTIPLIER 3

Capturing local economic impact

8.14 LM3 is another tool developed by nef that provides a simple and easy to use way to measure the economic impact of organisation or initiative⁴⁵. nef determined this was needed in order to get people thinking about local money flows and how to practically improve an organisation's local economic impact, as well as influencing the public sector to consider the value of social enterprise. It was designed to be quick and relatively easy, and to highlight where an organisation can improve its impact.

8.15 The measuring process starts with a source of income, and follows how it is spent and then re-spent within a defined geographic area (the 'local economy'). The 'multiplier' is an economics concept that puts a label on a concept understood intuitively: money that enters an economy has a multiplied impact based on the way people spend and re-spend money. More re-spending in the local economy means a higher multiplier effect because more income is generated.

LM3 analysis stages

8.16 There are five general stages to an LM3 analysis. Firstly to determine what the 'local' area is, then to identify what the income source is. Following this is to determine the break down of spend within the local area, and then to survey the businesses and people money is spent on. Responses are collated, and a calculation made. The process is quick and easy relative to other forms of economic evaluation and uses numbers to show the organisation's impact. It also highlights for the organisation where it can improve its impact. LM3 shows external bodies (funders, public bodies) the value of funding or contracting with the organisation in terms of local economic regeneration.

⁴⁴ http://www.neweconomics.org/gen/z_sys_PublicationDetail.aspx?pid=241

⁴⁵ The Money Trail: Measuring your impact on the local economy using LM3: http://www.neweconomics.org/gen/uploads/The_per_cent20Money_per_cent20Trail.pdf

Benefits and limitations **8.17** LM3, however, only captures economic impact, and does not focus on social or environmental impacts. Within economic impact, the multiplier only captures the impact of cash, and shows income generated but does not directly show savings. It is therefore most appropriate for use in areas experiencing economic disadvantage. Increasing the multiplier effect in wealthy areas can lead to ‘overheating’ and further inequalities with deprived areas. LM3 helps an organisation to measure the effect on its defined ‘local’ area, and not on the other areas in which it operates or brings income. It has proven to be a useful tool for promoting transparency - as organisations using the model share budget expenditure – and enabling public sector procurement officers to better understand the impact of their supply chains. It has promoted and environmental sustainability through localising supply chains.

SOCIAL AUDIT MODELS

8.18 Social accounting (or social audit) models establish a framework for ongoing monitoring, evaluation and accountability to stakeholders both internal and external to the organisation. The process of social accounting can help an organisation to investigate its performance against social, environmental and economic objectives, and ensure that it is working in accordance with its values. In the private sector, social accounting is aligned with corporate social responsibility.

8.19 Such audit models can be traced back to the late 1970s – when the Industrial Common Ownership Movement designed a model for workers’ co-operatives. Models were then developed through the 1980s by Strathclyde Community Business into “The Scottish Model”. The social audit models embrace seven principles: it must be multi-perspective; comprehensive; inform organisational learning and performance; be undertaken regularly and embedded in the organisation; independently verified; and inform continuous improvement.

8.20 As social accounting examines the social, environmental and economic performance and impact of an organisation, it can offer an organisation a method for obtaining a holistic and regular process of examining both how it is doing, and what its effects are on people, communities, and the environment. Customers, service users, or clients can also be involved with the process, and feed their own perspectives into the organisation’s planning and measurement process. Social accounting can, however, be quite labour intensive, especially the first time it is done. If the organisation has not done basic strategic planning in some time, it can be difficult to progress through the process rapidly.

SOCIAL CLAUSES

8.21 Social clauses seek to factor externalities into procurement by including particular social requirements within contracts, to achieve value for money. There may be several reasons why there has not been a wider use of social clauses. These include the threat of legal challenge – where authorities feel unprotected by current guidance on pursuing social clauses in contracts, the difficulty of including social clauses in ways consistent with value for money requirements and the EU rules, and the difficulty of selecting the most appropriate option to fund an outcome, for example subsidy and grants versus procurement, and including consideration of the higher transaction costs of incorporating social clauses.

8.22 The North-East Regional Centre of Excellence and the Office of the Third Sector are already leading on work to support the development of template social clauses for

key service areas through commissioning and procurement frameworks, in order to achieve multiple and joined-up outcomes for citizens. Alongside the Office of Government Commerce, they will continue to work over the 2007 CSR period with commissioners pioneering the use of social clauses and will draw together leading.

PERFORMANCE HUB'S DISTINCTIVE VALUE PROJECT

ChangeUp 8.23 The Performance Hub is one of the six national ChangeUp hubs. It is a partnership of infrastructure organisations that aims to improve the quality and quantity of support on performance to the third sector. The Hub is producing a guidebook on 'distinctive value' to help third sector organisations better understand their own value and better articulate this value to funders⁴⁶. They have commissioned Future Perspectives Co-operative to undertake this work.

8.24 The guidebook will focus on helping organisations assess and communicate their own. For third sector organisations, there are a number of different audiences to whom their value could be articulated, including users, donors, trustees, volunteers, partners and funders. Because of the focus of the current policy debate around added value, this guide will focus on helping organisations communicate their value to funders, particularly procurers and commissioners of public services.

INVEST TO SAVE (ISB) PROJECTS

8.25 The Treasury's Invest to Save budget is currently funding a couple of projects that in the medium-term will develop tools for measuring third sector effectiveness.

ONS – assessing added value 8.26 Firstly the ONS UK Centre for the Measurement of Government Activity is developing methodologies and procedures for measuring and assessing the added value of public services that the third sector can provide (starting with the provision of residential care for the elderly). The intention is that the methodology would allow direct comparisons between providers, and that it could be applied within contractual frameworks by 2009.

8.27 In partnership with the Department of Health, NCVO, NIESR, and the University of Kent, this project will establish methodologies and data collection mechanisms that allow the different quality of service providers to be measured for the first time. This will bring benefits to all parties involved and reduce the reporting burden to the voluntary sector.

8.28 The purpose of the project is to develop effective but easily useable methodologies and procedures for measuring and assessing the value added of the relevant public services. The project will develop a tool that service commissioning authorities can use to assess and monitor the performance of public services delivered by third sector organisations in a way directly comparable with performance of public or private sector providers.

Camden Council – third sector supply 8.29 Camden Council are also using the nef techniques in SROI and LM3 to assess the wider social and environmental benefits of third sector supply. The project aims to demonstrate and realise social benefits and efficiency savings through the use of third sector organisations and social enterprises in service delivery in Camden. The project will provide a 'social return on investment' model that can be applied to a range of

⁴⁶ www.performancehub.org.uk/distinctivevalue

commissioning decisions, incorporating a social accounting technique such as the Local Multiplier to six services in Camden and increase opportunity for the third sector.

8.30 The model will be piloted through day services for mental health, building on a Best Value review of voluntary and statutory provided day centres, day hospitals and community mental health teams. Partners include Camden Primary Care Trust, Voluntary Action Camden, Social Enterprise London, CENTA, Umbrella Care, St. James House, and Camden Society.

9

EMBEDDING VALUE IN THE COMMISSIONING AND PROCUREMENT PROCESS

INTRODUCTION

9.1 If the values that third sector organisations can bring to delivering better public services are really to be fully captured, then the Government must ensure that the commissioning and procurement process – through grants and contracts - better recognises and reflects the potential role. This means identifying, articulating, and investing in the values that improve outcomes for users and offer value for money for the taxpayer.

GETTING THE PROCESS RIGHT

Value for money in procurement

9.2 The Government’s policy of achieving value for money in procurement is defined as the optimum combination of whole life cost and quality (fitness for purpose) to meet the user’s requirement. This applies to the award stage of the procurement process. It is up to individual public bodies in the context of their overall objectives, to decide what to buy and set the specifications accordingly, ensuring that their requirements are subject to the normal public expenditure tests of need, affordability and cost-effectiveness. It is at this earlier stage that there is most scope to consider social issues.

EU Public Procurement Directive

9.3 The EU Public Procurement Directive implemented in UK law in January 2006 allows the procurement process to take account of wider social and environmental issues. This is of critical importance to those that argue that the procurement process often fails to take account of “added value”, in other words, the wider social and environmental benefits that suppliers (many of whom will be third sector organisations) bring to the delivery of public services.

OGC Guidance

9.4 Guidance issued by the Office of Government Commerce (OGC) - “Social Issues in Purchasing” - sets out the way social issues can legitimately be incorporated into the different stages of the purchasing cycle. The key opportunity to consider social issues is at the earliest stages of the procurement cycle, design, taking account of the usual tests of need, affordability and value for money.

Social issues in procurement

9.5 Social issues can legitimately be incorporated into the purchasing cycle, and need to be recognised by public bodies early in the procurement process. Ideally they would be best considered at the service design and commissioning stage, and then worked through into the service specifications that form the basis of the procurement exercise itself. The key points to remember when looking to incorporate social issues:

- they must be relevant to the subject of the contract;
- actions must be consistent with the Government’s procurement policy based on value for money; and
- actions must be consistent with the EC Treaty and the EU Public Procurement Directives.

Effective funding arrangements

9.6 There are a number of fundamental factors that directly interact and which must be properly understood if funders and providers are to enter into better and more effective funding arrangements. Most importantly, value for money can be defined simply as getting the best possible outcome from any given level of input. This does not

mean 'cheapest'. Managing Public Money defines value for money for procurement purposes, as "...securing the best mix of quality and effectiveness for the least outlay over the period of use of the goods or services bought".

ChangeUp - Performance Hub

9.7 The Performance Hub established under the Change-Up programme has suggested that government needs to be more sophisticated in making statements about 'the added value of the sector', as these can be problematic when misinterpreted by procurers at the frontline, for example when:

- procurers say they want these extra benefits, but then fail to include them as part of the tender specification;
- procurers expect third sector organisations to deliver some or all of these benefits as 'freebie outcomes', without accepting that extra benefits might mean a higher price;
- procurers mistakenly assume that all organisations, simply by virtue of being from the third sector, will necessarily deliver these benefits. It is important that procurers recognise that an organisation that does not give any of these 'extra' benefits may still be the best placed provider and able to deliver an excellent value, high quality service according to contract;
- procurers expect only third sector, not private or public sector competitors, to demonstrate that they can deliver some or all of these benefits before awarding them a contract or, once a contract is underway, before paying them;
- procurers ask a third sector body to make comparisons, during the bidding process, against private or public sector competitors about which the organisation has little or no knowledge.

Broader and more creative understanding

9.8 In relation to public services, the qualities and benefits of organisations (their value) are usually broader than the procurer will be looking for in the contract and in any performance reports it requests. The organisation's value may also be broader than it itself appreciates. Both procurement officers and third sector organisations should take a broader and more creative understanding of the value of the third sector. Referring to this as 'added value' has created confusion and misunderstanding, but whatever it's called, this broader and more creative understanding of organisational value is important if the quality of public services is to increase and if the value of third sector organisations is to be understood⁴⁷.

Actions for the sector

9.9 The Performance Hub also recommends that there are actions for third sector organisations can take to promote their role in public service delivery. Firstly, organisations should actively consider delivering public services, assessing the proposed contract against its consistency with their mission and the needs of their users. Organisations should also, where necessary, access support to increase their contract readiness. Finally, organisations should think creatively about the ways that they improve public services and offer additional, under-appreciated benefits to procurers – and actively communicate this to procurers.

⁴⁷ Performance Hub

Community Links **9.10** Further work by the organisation on Community Links, on behalf of the Esmee Fairbairn Foundation⁴⁸, has attempted to find out what the values of the third sector are and to investigate whether these values are shared across the sector. Strong themes emerged, which enabled them to put in priority order what inspired organisations to do the work they do, how these values determine what organisations do and the methods they use, and how values express what organisations are striving to achieve. They recognise that not all third sector organisations will share all of these values but believe that they will be meaningful to many:

- Transforming lives;
- Empowering people;
- Pursuing equality;
- Making voices heard;
- Generating public wealth;
- Being responsible;
- Finding fulfillment; and
- Doing a good job.

Spreading awareness of organisational values **9.11** Community Links was clear in its recommendations that everyone should know what the values of an organisation actually are, with people regularly talking about them, and reviewing their work against them. Everyone in the organisation has to be involved – users, volunteers, paid staff and trustees - in developing strategy and plans that are explicitly driven by these values. Outside the organisation people should be identified that are most important to enabling the organisation to deliver on its purpose – and encouraged to specifically and deliberately know, understand and appreciate the stated values.

⁴⁸ Living Values: A report encouraging boldness in third sector organisations, 2007

10.1 We do not have a strong and dependable evidence base that categorically demonstrates that the third sector offers better value for money – beyond individual case study examples. On the basis of the evidence gathered to inform this paper, it is not possible to mount a value for money argument for promoting third sector supply based on relative performance in the areas covered. And the trawl for evidence has not suggested that the evidence exists in other areas.

10.2 There are arguments that the evidence is not stronger because of the funding regime. The inefficiencies associated with short-term, stop-go, disproportionate monitoring, with services provided below cost makes it difficult to build in medium-term systems to demonstrate impact. The way in which value is assessed also does not traditionally cover the wider social and environmental impacts that the third sector delivers, and its comparative advantage in engaging communities.

10.3 This paper does however strongly support the current direction of travel on levelling the commissioning and procurement processes to ensure decision makers fully consider the potential of third sector delivery. There are many examples of third sector organisations delivering high quality outcomes; we need to develop mechanisms to collect and share information on their approaches.

10.4 Government at all levels also needs to do more to invest in performance research to address issues of public accountability, which make research a form of due diligence. Many third sector organisations object that what they do is qualitative and not quantitative and that their currency can not be valued in the marketplace. But all third sector organisations should be seeking to evidence their own outcomes. An organisation that is not trying to measure and evaluate its performance isn't well run.

10.5 Charitable status alone isn't proof of effectiveness. If charities receive taxpayers' money to do things state departments were once audited for doing, it is reasonable to ask if there is any identifiable benefit or value added for the community when the service is run by a charity as opposed to a state department. If charities do not deliver what service users need, then their role in service delivery naturally needs to be reconsidered.

10.6 However if the public sector continues to design and commission public services in the same ways that it always has done, and simply offers contracts to the third sector that asks it to replicate the practices and models utilised by either public sector or private sector delivery, then it will be difficult for organisations to bring additional benefits to those services, and nothing will really change for users.

10.7 Government must not only go further by ensuring that contracts better reflect the added value that can be brought to service provision (for example by strengthening Best Value and procurement rules on this issue) – particularly its ability to reach disadvantaged groups and engage with users⁴⁹; but also to incentivise commissioners to commission for long term public benefit taking into account 'whole life costing'.

⁴⁹ Audit Commission.

FURTHER READING

GOVERNMENT PUBLICATIONS

- *The Role of the Voluntary and Community Sector in Service Delivery: A Cross Cutting Review*, HM Treasury, 2002.
- *Exploring the role of the third sector in public service delivery and reform*, HM Treasury, 2004.
- *Improving financial relationships with the third sector: Guidance to Funders and Purchasers*, HM Treasury, May 2006.
- *Strong and prosperous communities*, Department for Communities and Local Government, July 2006.
- *Building on progress: Public Service*, PM's Strategy Unit, March 2007.
- *The future role of the third sector in social and economic regeneration*. HM Treasury/ Cabinet Office, July 2007.
- *Managing Public Money*, HM Treasury, October 2007.

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- *Independent Review of Public Sector Efficiency: Releasing resources to the front line*, Sir Peter Gershon, July 2004.
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- *Is Futurebuilders Working? Futurebuilders England Second Learning Report*, Futurebuilders England, July 2007.
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- *Hearts and minds: The voluntary sector in 2007*, Audit Commission, 2007.
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