

# **The Role of the Voluntary and Community Sector in Service Delivery**

**A Cross Cutting Review**



HM TREASURY



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# THE ROLE OF THE VOLUNTARY AND COMMUNITY SECTOR IN SERVICE DELIVERY

A CROSS CUTTING REVIEW

September 2002

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The Public Enquiry Unit  
HM Treasury  
1 Horse Guards Road  
London SW1A 2HQ

Tel: 020 7270 4558

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# CONTENTS

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		Page
Foreword	by the Rt Hon Paul Boateng, MP, Chief Secretary to the Treasury, Lead Minister for the Review	3
Introduction		5
Chapter 1	Process	7
Chapter 2	Funding of Voluntary and Community Organisations	9
Chapter 3	Service Delivery: Identifying the 'value-added' of the voluntary and community sector	15
Chapter 4	Capacity	19
Chapter 5	Social and Community Enterprise	23
Chapter 6	The Funding Relationship	25
Chapter 7	Developing the Compact	29
Chapter 8	Making it Happen: Implementation	31
Annex A	Terms of Reference	35
Annex B	Action Plan for Implementation	37
Annex C	Participation	47
Annex D	Glossary	51



## FOREWORD

This Government is passionately committed to the work of the voluntary sector. We believe that voluntary and community sector organisations have a crucial role to play in the reform of public services and reinvigoration of civic life. We in government cannot do this on our own.

So, as we begin the 21st century we look again to the voluntary and community sector to help us rekindle the spark of civic services that fires the building of strong civic communities; to reform the operation of public services and build a bridge between the needs of individuals living in those communities and the capacity of the state to improve their lives.

Our aim must be to build a new partnership using the sector's strengths to challenge and stimulate new ideas, complement our shared objectives and take forward the development of social policy generally. This partnership is about fresh ways of thinking through the role and structure of government and the voluntary sector and the way we deliver public services.

The proposals in this report build on and refine the work that has already been done to give greater voice to the sector's work. The 1996 Deakin Commission Report charted a way forward for the sector and the 1998 Compact set out how the Government and the sector should work together. And now, following on from this report, the Government's Strategy Unit, taking on the work of the Performance and Innovation Unit, will shortly be publishing proposals on the legal and regulatory framework for charities and the Regional Co-ordination Unit will publish its study of access to regeneration funding.

This report provides a template for how government and the sector should work together – we need to implement the Compact, get the funding relationship right and build capacity in the sector. But the report and its proposals alone are not enough. We need to back our vision with action and resources. This is why we allocated £188 million to the Active Community Unit at the Home Office, of which half is for implementing this review, in full and a further £125 million for the creation of “*futurebuilders*” – our new one-off investment fund to help voluntary and community organisations in their public service work. Moreover, it is why this report comes with a detailed implementation plan showing how the recommendations will be delivered over the next three years.

This report signals an exciting new phase in the relationship between the Government and the voluntary sector and I look forward to working with them to deliver our joint vision of better services in a more caring and cohesive society.

Many people have worked together in quite a unique way to bring us to this point. I am particularly grateful to Mavis McDonald for chairing the review, to all those from the VCS and across government who contributed and the small team in the Treasury who undertook the detailed work.





# INTRODUCTION

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- 1.** The Government has embarked upon a radical programme of public service investment and reform. The goal is world-class public services to extend opportunity, tackle poverty and improve the quality of life for all.
- 2.** Securing reform will take time, but the key principles are clear: services need to be more responsive to customer concerns and they need to be flexible enough to meet the needs of particular communities and groups. This means that there must be more discretion at the local level about how best to deliver services and more community involvement in helping to shape services, against a backdrop of national standards.
- 3.** Voluntary and community organisations (VCOs) including social enterprises have a key role to play in this. They grow out of the determination to provide high quality support to particular groups, are often uniquely placed to reach marginalised groups and enable individuals to participate actively in their local communities.
- 4.** Britain has a long tradition of voluntary action and service delivery. The philanthropists of the 19th century drove social change and paved the way for tackling illiteracy, poverty and ill-health. Many of the services that now form an integral part of the statutory sector began in the voluntary and community sector (VCS). Perhaps the best-known example is the NHS.
- 5.** The VCS continues to make a significant contribution to service delivery and strengthening communities. It is a key partner in delivering government policies.
- 6.** The Government is strongly committed to creating a framework in which the sector can continue to flourish, be strong and independent. The 1998 Compact set out the building blocks for effective partnership working and underlined the Government's respect for the independence of the sector. This is critical if government is to understand the impact of policies on the ground – from those who know and have direct, hands-on experience.
- 7.** This review of the role of the VCS in service delivery set the strategic framework for the discussions in this year's spending review. Its overall objective was to explore how central and local government can work more effectively with the sector to deliver high quality services, so that where the sector wishes to engage in service delivery, it is able to do so effectively. (The full terms of reference for the review are at Annex A.)
- 8.** Key aspects of this review have been identifying the barriers that VCOs face, understanding the variety of ways they can be involved in the service delivery agenda and developing an approach to tackling these issues that takes account of the needs and aspirations of the very different parts of a diverse sector.
- 9.** Key to getting things right is effecting change where it is needed, throughout government and the VCS. It is estimated that 70 per cent of VCOs operate at local level, so the local dimension is crucial if we are to make a difference.
- 10.** As with all reviews of this kind, while many questions have been answered, others have been raised. In addition to implementing the recommendations of the review, it will be important to sustain the robust dialogue between the Government and the VCS that has been an enriching feature of this process.



# PROCESS

**1.1** The cross cutting review of the role of the VCS in service delivery was one of seven announced as part of the 2002 Spending Review.

**1.2** The work of the review was steered by a Ministerial group chaired by the then Financial Secretary to the Treasury, Paul Boateng. At official level a steering group was established with Mavis McDonald, then Permanent Secretary at the Cabinet Office, as chair and included representatives from the VCS.<sup>1</sup>

**1.3** From the outset, the review was both inclusive and transparent, based on respect for the independence of the sector. Much of the detailed work was carried out in five working groups covering:

- service delivery;
- social and community enterprise;
- capacity;
- the funding relationship; and
- development of the Compact.

**1.4** A separate working group under the aegis of Home Office researchers carried out work on mapping the funding flows from government to the VCS. This work contributed to Chapter 2 of the current report.

**1.5** All working groups included representatives from the VCS and were supported by Treasury officials. Each met three or four times to discuss papers prepared by the review team or volunteered by members of the working groups.

**1.6** The review team also sought to engage as wide an audience as possible. Information meetings were held in different regions, written submissions invited and a website and exclusive mailbox set up for the public and the VCS to offer their views.

**1.7** An interim draft of the report was discussed at an awayday attended by all working group members and members of the Official Steering Group. The key recommendations and draft technical papers went to Ministers in early summer with some key outcomes announced alongside the Spending Review in July. This final report distils the essence of the review and sets out the recommendations. More detailed background papers will be available on the Treasury website at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk).

**1.8** Although there were some differences of emphasis during the review process, this report reflects a remarkable consensus between the Government and the VCS on the key issues, the barriers that need to be tackled and what, specifically, needs to be done if the VCS is to be effective in delivering public services.

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<sup>1</sup> For the purposes of the report, the 'voluntary and community sector' has *not* been tightly defined. It is intended to be wider in scope than "general charities" and the "voluntary sector", inclusive of organisations reflecting the characteristics of social enterprise but narrower in scope than "non-profit", "third" sector or "social economy".



## INTRODUCTION

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**2.1** There are around half a million voluntary and community organisations (VCOs) in the UK. These range from small, local community groups to large, established, national and international organisations. Some have no income at all and rely on the efforts of volunteers; others are, in effect, medium-sized businesses run by paid professional staff.

**2.2** Because individual organisations and government departments often record financial information in different ways it has proved difficult to collect comprehensive, consistently-based and accurate information about the funding flows to VCOs.<sup>2</sup> Nonetheless, it is possible to make reasonably robust high level statements about funding flows.

## INCOME OF THE VCS

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**2.3** There is no one definitive source of information on the total income of VCOs. However, the National Council for Voluntary Organisations (NCVO) estimates that the 140,000 'general charities' in the UK had a total income of £15.6 billion in 2000–01. It also estimates that those organisations that had incomes of over £1 million per year (1.4 per cent of the total) accounted for 61 per cent of total income and the largest two hundred-odd organisations, for 34 per cent of total income.<sup>3</sup>

**2.4** NCVO also provides an overview of income in two English regions. It estimates that 'general charities' in London and the North West had annual incomes of £7.5 billion and £1 billion per year, respectively, in 1998–99. Those organisations that had incomes of over £1 million per year (5.3 per cent of the total in London and 0.6 per cent in the North West) accounted for 84 per cent of total income in London and 60 per cent in the North West.<sup>4</sup>

**2.5** The Home Office's Local Voluntary Activity Surveys (LOVAS) show that the average income of VCOs in fourteen socio-economically representative areas in England *varied by more than tenfold*, from around £7,000 in Whitehaven to over £75,000 in Smethwick in 1995–96. However, analysis shows that there is no simple relationship between average income per organisation and area characteristics such as rurality or degree of deprivation.<sup>5</sup>

**2.6** From the data a picture emerges of a diverse sector with a large number of small organisations but dominated, in funding terms, by a subset of large organisations.

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<sup>2</sup> Full analysis of the available data and its reliability will be available in the more detailed technical report on the HMT website at <http://www.hm-treasury.gov.uk>.

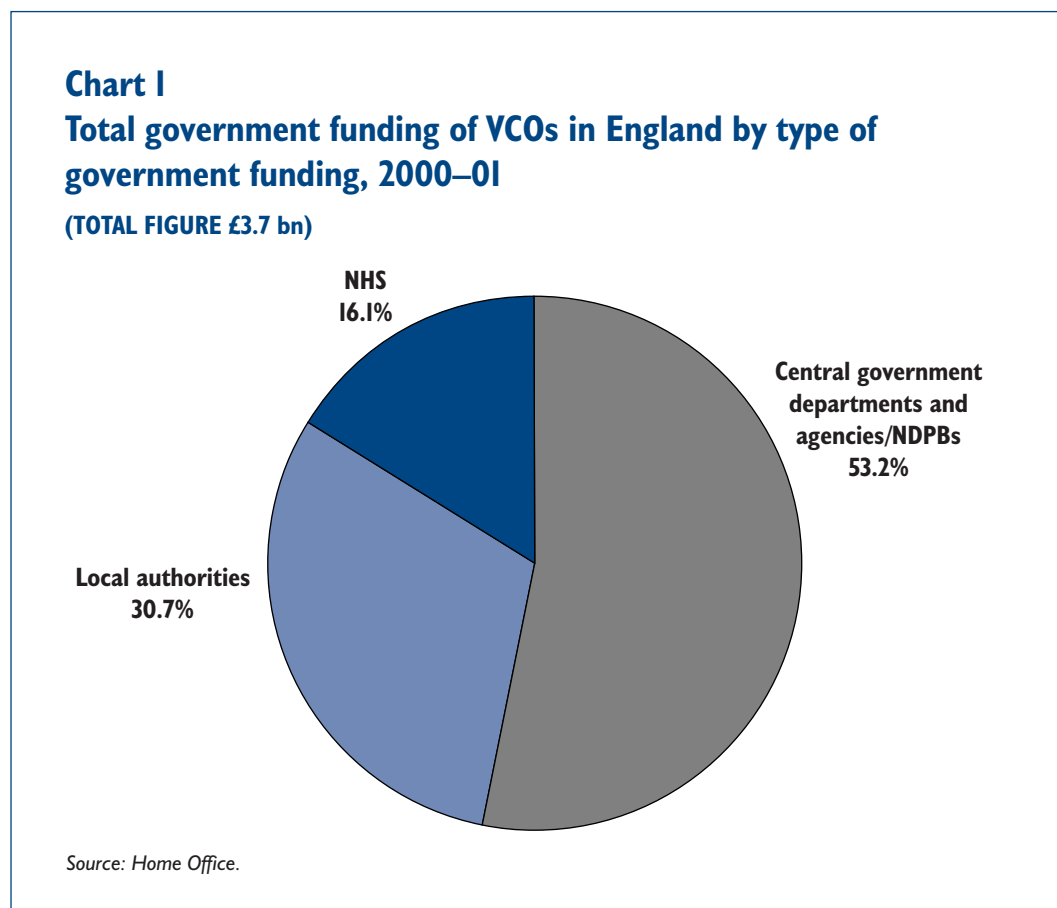
<sup>3</sup> Jas, Wilding, Wainwright, Passey and Hems, *The UK Voluntary Sector Almanac 2002* (London: NCVO, 2002), 28, 49, 154.

<sup>4</sup> Ponikiewski and Passey, *The London Voluntary Sector Almanac 2000* (London: NCVO, 2000), 32, 51, 99-101.

<sup>5</sup> Marshall, Tony, *Local Voluntary Activity Surveys (LOVAS): Research Manual* (1997).

## FUNDING FLOWS FROM GOVERNMENT

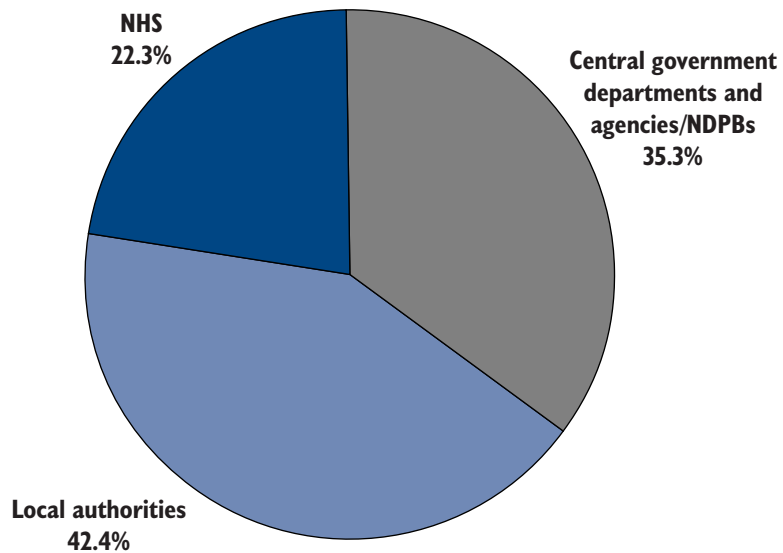
**2.7** NCVO estimates that almost 30 per cent of the income of 'general charities' in the UK in 2000–01 came from government. In England government provided funding to VCOs, including registered social landlords (RSLs), of £3.7 billion, in 2000–01.<sup>6</sup> This funding was distributed as in **Chart 1** below:



**2.8** If funding of RSLs is excluded, the chart looks quite different – local authorities, and not central government, are the largest funder.

<sup>6</sup> *UK Voluntary Sector Almanac 2002*, 29, 44; *London Voluntary Sector Almanac*, 46, 51; *Valuing the Voluntary Sector in Sutton* (London: Sutton Centre for Voluntary Service, 1999), 4, 44.

**Chart 2**  
**Total government funding of VCOs in England by type of government funding, 2000–01 (excluding RSLs)**  
(TOTAL FIGURE £2.5 bn)



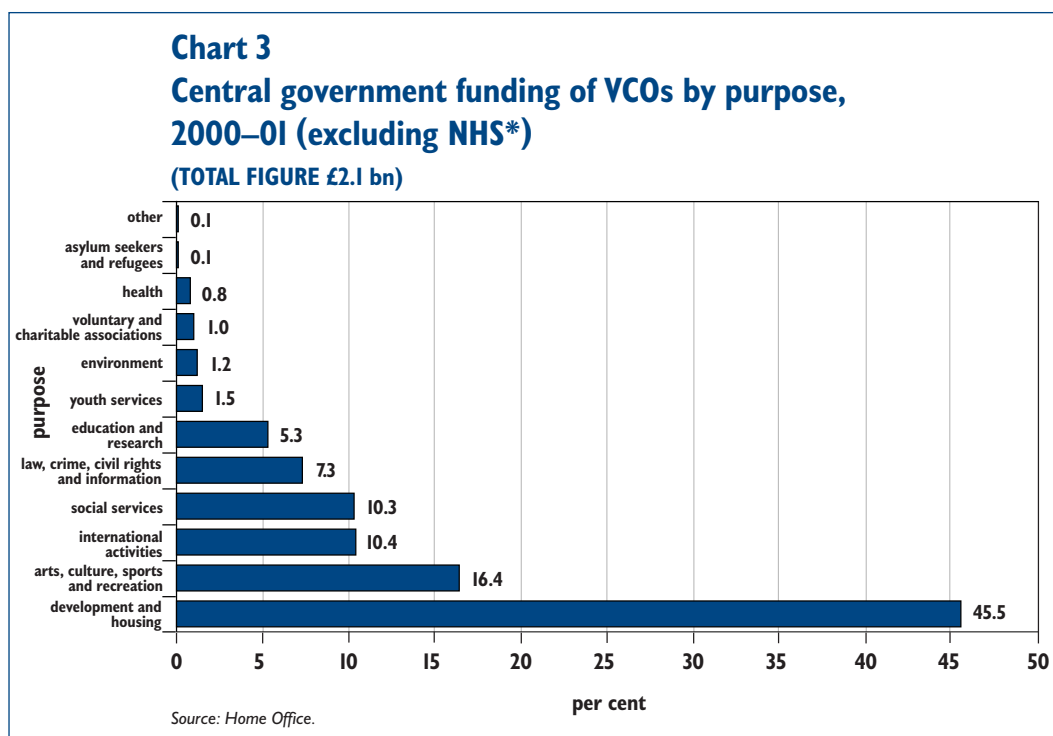
Source: Home Office.

## REGIONAL DISTRIBUTION

**2.9** Government funding for the VCS, including RSLs, is not uniformly distributed between the English regions. In 2000–01 London received around twice as much funding per person (£117) as the rest of the regions. This funding ratio is explained by the special needs of inner London areas and the concentration of organisational headquarters in London. The North East and the North West came second to London, albeit on a much-reduced scale (£54 and £53, respectively), and the East received the smallest amount (£41).

## ACTIVITIES FUNDED BY GOVERNMENT

**2.10** In 2000–01 central government departments and their associated agencies/non-departmental public bodies provided funding of £1.8 billion to VCOs in England. **Chart 3** below shows the distribution of funding in England among the various service areas:

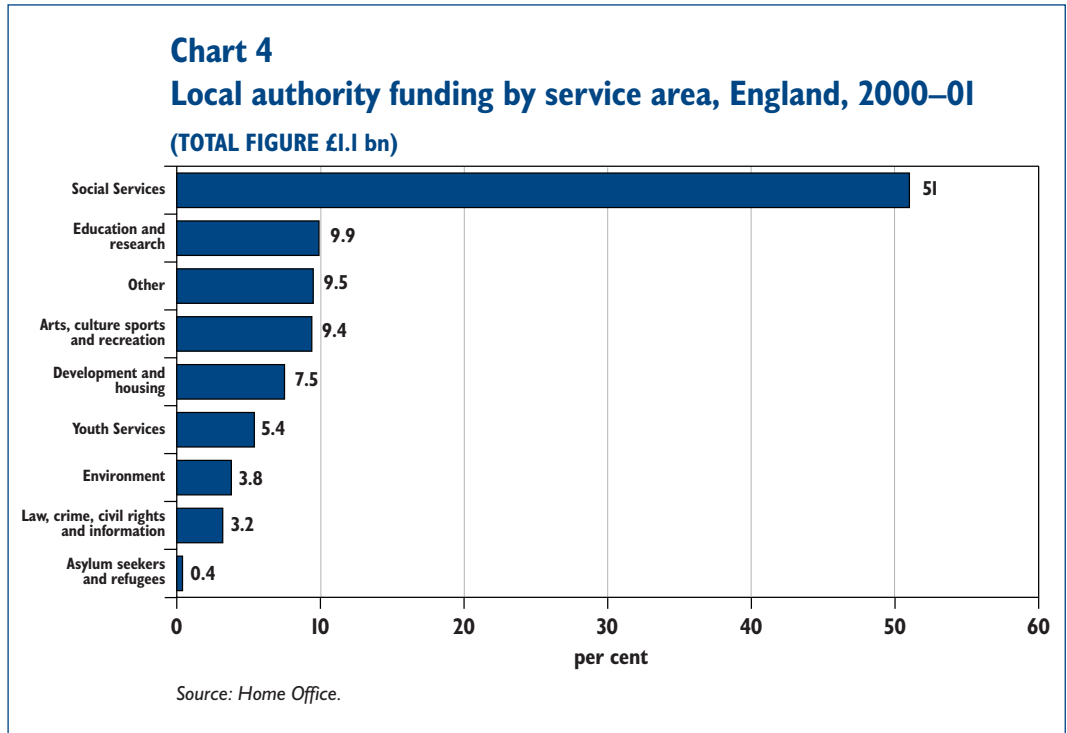


\* The figure for total central government funding differs from that shown in Chart 2 because it includes funding for overseas activities and UK-wide funding in two or more countries (not possible to exclude).

**2.11** Development and housing was by far the most significant service area, followed by arts, culture, sport and recreation; international activities; social services; and law, crime, civil rights and information.

**2.12** In 2000–01 local authorities allocated a total of £1.1 billion to VCOs in England. The funding of VCOs as a proportion of total local authority spending remained at about 1.5 per cent for most of the 1980s. Since then it has doubled to around 3 per cent, which reflects the impact of community care reforms and other special funding programmes.<sup>7</sup> **Chart 4** below shows the distribution of this funding in England among the various service areas:

<sup>7</sup> For trend information see Ian Mocroft, 'The survey of local authority payments to voluntary and charitable organisations for 1997–98', in Andrew Steeds (ed.), *Dimensions 2000*, vol.1, *Income from Government sources: Best Value for care in the new millennium* (West Malling, Kent: Charities Aid Foundation, 2000).



**2.13** For local authorities social services was by far the most significant service area followed by education and research; arts, culture, sport and recreation; and development and housing.

**2.14** In 2000–01 it is estimated that the NHS in England allocated a total of £0.6 billion to VCOs. That is 1.4 per cent of total NHS spending.

## CONCLUSION

**2.15** Existing sources of information can yield only headline estimates of government funding allocated to VCOs. Data problems mean that comprehensive, accurate, consistent and comparable information is not readily available. But it is clear that government is an increasingly important source of income for the sector and that more of this income is being provided to fund VCOs work in delivering services. If policy making is to be based on the best possible evidence then there needs to be:

- commitment at the highest level to **improving the quality of information**;
- **consultation** with government and other funders, appropriate professional organisations and specialist researchers;
- **agreement of standards for recording**, reporting and compiling information; and
- agreement of a **timetable for implementation** of new/revised information systems.



**3.1** If it is determined that a particular service should be funded by the State there are three broad ways in which the service might be delivered:

- i. by the State itself directly – at either national or local government level;
- ii. by the market or “for profit” sector;
- iii. by the VCS.

**3.2** Some hold that there are services – especially those to vulnerable or hard to reach groups – that the VCS is especially better placed to deliver than either the State or the market. And others go even further and claim that the VCS’s ability to bring special skills and experience to service delivery – to bring its own unique “added value” – make it the presumed provider of *all* public services.

**3.3** The academic literature on the ‘value added’ of the sector yields mixed results. In 1978 The Wolfenden Committee<sup>8</sup> sponsored research that suggested that voluntary organisations were, “cost-effective, innovative, flexible and pioneering”. But more recent work by Martin Knapp<sup>9</sup> has highlighted the difficulty of trying to quantify these apparent benefits.

**3.4** Knapp and his colleagues considered a list of potentially distinctive features of the sector, including:

- the provision of different/specialised services;
- cost-effectiveness of provision;
- flexibility and innovation;
- advocacy; and
- citizen participation.

**3.5** It was concluded that some of these apparent advantages were difficult to test and that for others the empirical evidence was inconsistent. Other researchers have reached similar conclusions. Diana Leat<sup>10</sup> examined six broad groups of suggested differences between for-profit and non-profit organisations – their goals and values, financial strategy, structure, staffing and skills. Her conclusion was that it was difficult to differentiate the two types of organisation on these dimensions.

**3.6** Nonetheless, more recent work suggests that the story may be more complex. 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.<sup>11</sup> 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

<sup>8</sup> Wolfenden Committee (1978) *The Future of Voluntary Organisations*, Croom Helm, London.

<sup>9</sup> Knapp, M., E. Robertson and C. Thomason (1990) ‘Public Money, voluntary action: whose welfare?’ in H.K. Anheier and W. Seibel (eds) *The Third Sector: Comparative Studies of Nonprofit Organisations*, de Gruyter, Berlin.

<sup>10</sup> Leat, D. (1995) ‘Theoretical differences between for-profit and non-profit organisations’, Appendix One in D. Leat, *Challenging Management*, VOLPROF, City University Business School, London.

<sup>11</sup> Billis and Harris (1996) *Voluntary Agencies: Challenges of Organisation and Management*, Macmillan, London.

- VCOs may have a *comparative advantage* over agencies in other sectors in some areas of disadvantage because of their particular structures.<sup>12</sup>

**3.7** The approach adopted by Billis and Glennerster is to, “group the various states of severe welfare problems that might beset citizens and lead them to be incapable of benefiting from traditional supply mechanisms”.<sup>13</sup> These states of disadvantage are:

- financial – individuals who lack market power;
- personal – potential users who cannot articulate a coherent preference;
- societal – individual or groups who are stigmatised;
- community – people who live in a community where the usual civil structures have broken down.

**3.8** Billis and Glennerster’s ‘states of disadvantage’ might now be characterised as different forms of social exclusion which present obstacles to an individual or group accessing services.<sup>14</sup> The most excluded groups suffer from a *combination* of these states of disadvantage. (Drug addicts may suffer stigmatisation but if they are wealthy they can access treatment in the private market.) Billis and Glennerster conclude that, “voluntary agencies have a comparative advantage over other sector agencies in areas where their distinctive ambiguous and hybrid structures enable them to overcome problems,” which are endemic in public sector or market delivery.

**3.9** 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.* The crucial features which VCOs, at their best, may be better able to demonstrate are:

- Specialist knowledge, experience and/or skills.** This may come through direct experience of the user perspective. An example of this might be ex-addicts working on a drug rehabilitation programme or ex-offenders working with young criminals.
- Particular ways of involving people in service delivery whether as users or self-help/autonomous groups.** An example here would be an organisation working closely with users themselves or their families and friends to plan and deliver services.
- Independence from existing and past structures/models of service.** VCOs are 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 ways.
- Access to the wider community without institutional baggage.** Public service workers are often perceived as representatives of an authority which certain groups have learned to mistrust. The VCS is independent of government and therefore free to be unequivocally on the user’s side.<sup>15</sup>

<sup>12</sup> For this suggestive argument in full see Billis and Glennerster (1998) ‘Human services and the voluntary sector: towards a theory of comparative advantage’, *Journal of Social Policy*, 27(1): 79–98.

<sup>13</sup> Billis and Glennerster, *ibid*, p87.

<sup>14</sup> On social exclusion see Billis’ later essay, ‘Tackling Social Exclusion: The Contribution of Voluntary Organisations’, in *Voluntary Organisations and Social Policy in Britain*, Harris and Rochester (eds) (2001).

<sup>15</sup> During a consultation event a voluntary sector worker was asked, “But why don’t people round here go to the local authority for that?” and gave the reply, “Because they can’t stand the local authority, that’s why.”

- v. **Freedom and flexibility from institutional pressures.** The sector can offer responsive services which are user-centred as they are not driven by budgets and targets within the public sector. At best they can be flexible and innovative rather than prescriptive.

**3.10** 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.<sup>16</sup>

## “ADDED VALUE” – ANOTHER SENSE

**3.11** 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.

## KEY LESSONS

**3.12** As part of the review a number of detailed case studies of the sector at work were carried out. These studies attempt to illustrate the key skills of the VCS at work in a practical setting. Full details of these studies can be found at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk).

**3.13** The case studies highlight some key lessons. **First**, there are many different ways in which the VCS can add value to service delivery – from designing and planning services to direct service delivery. There is not one option but a spectrum of options for engagement.

**3.14** **Second**, the VCS can innovate but innovation needs to be managed, nurtured and evaluated.

**3.15** **Third**, in contracting with the VCS to deliver services, Government must ensure that regulation is proportionate and the independence of the sector is recognised. The greater the regulation the greater the risk that the best features of the sector are smothered.

**3.16** **Finally**, policy makers need to recognise that there is a significant lead-in time where new partnerships are being established to deliver services. The profile of funding and monitoring of outputs needs to reflect this.

<sup>16</sup> A prime example is the National Minimum Standards for Care Homes for Younger Adults which require, e.g., involvement of the service user in planning their own services, involvement of service users in service decision-making, supporting service users in becoming active participants in their local community. These are all typically the kinds of attributes normally associated with strong voluntary sector providers. So, the way in which the State now says it wants services delivered plays to the strengths of the sector. See, [Children’s Homes: National Minimum Standards](#). (DoH) London: The Stationery Office, 2002.



## INTRODUCTION

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**4.1** Chapter 3 showed how the VCS has the potential to bring substantial benefits to service delivery. Government and the VCS have, therefore, a **mutual interest** in ensuring that the VCS has the capacity to deliver.

**4.2** This chapter examines the different aspects of capacity and assesses the sector's ability to engage in service delivery effectively. It outlines some of the constraints facing VCOs and makes recommendations for how these should be tackled.

**4.3** Black and Minority Ethnic (BME) VCOs experience many of the same constraints as mainstream VCOs, but more acutely. They also face specific constraints – they are a less well developed sector and can suffer discrimination and disadvantage.

## CAPACITY BUILDING

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**4.4** Capacity building is about ensuring that VCOs have the skills, knowledge, structures and resources to realise their full potential. It is second tier activity that supports front line delivery and typically involves removing barriers to involvement and investing to maximise the contribution that VCOs can make. It is as much about releasing existing capacity as about developing new capacity.

**4.5** There are broadly four different kinds of capacity:

- organisational capacity;
- technical capacity to deliver specific services;
- infrastructure capacity; and
- community capacity.

**4.6** The maintenance and growth of a healthy and vibrant VCS is dependent on achieving the right level and mix of support across all these areas. The review focused on the first three of these but included community capacity building in respect of community involvement in the design, delivery and monitoring of services.

## ASSESSING CAPACITY

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**4.7** Government programmes often presume that the VCS has the capacity to participate or that this capacity can be built quickly. The presumption is often unjustified and can lead to unrealistic expectations of VCOs and poor performance. If government wants effective participation then there is a prior need to understand the underlying strength of the VCS.

**4.8** The review considered the potential for developing **tools to undertake a capacity check**. For individual VCOs, this would include an evaluation of organisational capacity including performance management and standards. Government departments and Local Strategic Partnerships (LSPs) should have a clear picture of their specific VCS provider base and its needs.

## INFRASTRUCTURE

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**4.9** The VCS infrastructure provides support for organisational capacity, a voice for VCOs and access to representation and policy making. Some organisations also provide specialist support – for example, for services for young people or children, or to particular groups of staff such as finance managers. The majority of these organisations receive some measure of strategic funding from government.

**4.10** The current infrastructure has developed piecemeal and, while some parts of the sector are well served, the overall coverage is variable in quality and fragile. There are significant gaps in networks and some duplication. There is further scope for collaborative working between existing organisations.

**4.11** Central government supports VCS infrastructure by providing technical support for specific projects and building capacity within small community groups. But current practice across Whitehall is inconsistent. The value of this investment would be enhanced if it were brought together into **one cross government strategy for VCS capacity building and infrastructure support**, with common purposes, resulting in more coherent and effective delivery.

**4.12** The contribution of local government also varies considerably. Many local authorities provide direct support to the VCS and there is long established support for infrastructure in some areas.

## FINANCING THE VCS INFRASTRUCTURE

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**4.13** Investment in infrastructure needs to be financed. But research for the Baring Foundation<sup>17</sup> concluded that, while there were opportunities for VCS infrastructure organisations to increase earned income, they would continue to need external funding – from government, the wider private sector and the general public in order to fulfil their leadership role. Government already makes a significant contribution but the key question is **how to make best use of this, how to make best use of the existing VCS infrastructure, and how to tackle any areas of weakness.**

## INFORMATION AND COMMUNICATION TECHNOLOGIES (ICT)

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**4.14** The use of ICT in the VCS is low compared with other sectors. The picture does not change with organisational size, except for the very largest organisations. Raising awareness of the potential of ICT and assistance with increased use of equipment, training and on-going technical support should be investigated, starting with current initiatives and programmes.

**4.15** **A broad strategy is needed to address these issues**, building on the funding website being developed by the Active Community Unit (ACU), the specialist site on partnerships being developed by the Centre for Management and Policy Studies and the Regional Coordination Unit's (RCU) proposals for an electronic registry of service providers.

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<sup>17</sup> *Voluntary Sector Infrastructure: the issues for grant making Trusts*, Ball and Unwin, 1998.

## STAFF DEVELOPMENT AND LEADERSHIP

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**4.16** Research by the Voluntary Sector National Training Organisation (VSNTO),<sup>18</sup> found significant skills gaps in the sector-specific skills of, fundraising, volunteer management and trusteeship. The VCS also requires support to develop leadership and management skills.

**4.17** **Government and the VCS need to work together to understand better the skills gaps and how they might be closed.** One suggestion supported by the VCS is for a dedicated VCS Skills Council. The VCS are currently negotiating with the new Sector Skills Development Agency (SSDA) on this. An alternative may be the establishment of skills centres in the VCS.

## INVOLVING THE SECTOR IN ALL ASPECTS OF THE SERVICE DELIVERY AGENDA

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**4.18** Partnerships are of increasing importance in service delivery but can be hard both to build and sustain. Meaningful involvement can be a problem, particularly for small VCOs including social enterprises who continue to report some common difficulties with new programmes which include:

- VCOs are expected to respond unrealistically quickly;
- lack of development funding;
- insufficient shared planning – this is a particular concern of BME VCOs; and
- lack of involvement in target setting.

**4.19** The involvement of the VCS earlier, and throughout the process, would avoid many of these difficulties. **A new protocol of guiding principles and best practice** in service and programme development could provide an effective framework for joint planning.

## ENGENDERING A BETTER UNDERSTANDING OF THE VCS

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**4.20** Many of the barriers that VCOs face are the consequence of a lack of understanding of the sector by people in government. The RCU study on access to regeneration funding also identified this as an issue that needs to be addressed. There is a need for concerted action by government to develop the skills of staff in working with the VCS. There is considerable scope to build on current initiatives and for **the public sector and VCS to work together to achieve the necessary change.**

## CONCLUSION

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**4.21** The aim of removing barriers and building capacity is to maximise the distinctive contribution that the VCS brings to service delivery. It is about designing and delivering services in a way that plays to VCS strengths, and about developing the skills, knowledge and resources of VCOs to take advantage of the opportunities to engage with government if they choose to do so. Building the capacity of the sector will result in organisations that are more sustainable and better services for users.

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<sup>18</sup> *Skills Matter: A skills foresight for the voluntary sector across England, Scotland and Wales*, VSNTO 2000.



## DEFINING SOCIAL ENTERPRISE

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**5.1** Social enterprises are not for profit businesses driven by social objectives. They are an expanding part of the wider voluntary sector. And, in reality, there are a substantial number of VCOs that share some of the characteristics of social enterprises. A social enterprise is defined by DTI's Social Enterprise Unit (SEnU) as:

*“a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community. (Social enterprises) include local community enterprises, social firms, mutual organisations... and large-scale organisations operating nationally or internationally.”<sup>19</sup>*

**5.2** Understanding social enterprise is therefore about identifying key characteristics common to such businesses rather than defining specific organisational forms. Social enterprise has more to do with what drives an organisation than how it is constituted. That is why social enterprises are said to be, “value-led, market driven”.<sup>20</sup>

## SOCIAL ENTERPRISE AND SERVICE DELIVERY

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**5.3** The data mapping group established by the SEnU concluded that it was difficult to determine the number, or economic contribution, of social enterprises. They further concluded that more carefully defined research is needed to map fully the social enterprise sector if robust evidence is to be available for policy makers. **This report endorses that recommendation.** Because of the lack of hard data and research the impact of social enterprise on service delivery was considered through a number of case studies the details of which will be on the website at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk). These case studies illustrate how social enterprises can:

- demonstrate entrepreneurial leadership;
- act as intermediate organisations delivering a wide range of services under contract;
- create training and employment opportunities, especially for excluded groups;
- build social capital; and
- lever in additional finance.

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<sup>19</sup> *Social Enterprise: A Strategy for Success*, DTI, July 2002, p7.

<sup>20</sup> *Value-Led, Market-Driven*, Westall (2001), IPPR.

## SUPPORTING SOCIAL ENTERPRISE

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**5.4** Many of the barriers to engagement in service delivery faced by social enterprises are similar to those faced by the wider VCS. Nonetheless, there are specific actions that would help to support social enterprises. In particular the review recommends that the SENU should **raise awareness of what the Small Business Service and Business Links** have to offer.

**5.5** In addition, there needs to be **more training** of Business Links advisers on how to work with social enterprises. The Regional Development Agencies also have a role in ensuring that there is a **strong and complementary network of business support and training** for social enterprises and that it is properly publicised.

**5.6** Finally, there is a continuing role for the SENU in raising awareness and understanding of the potential of the social enterprise sector, building on their recently published Social Enterprise Strategy which sets out in detail the Government's policy towards the sector.

# 6

## THE FUNDING RELATIONSHIP

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**6.1** Getting the funding relationship right is increasingly important if the financial stability of service delivery organisations is to be assured and if government can look confidently to the sector to deliver quality services in the medium to long term. For service delivery the main mechanism for funding from government is via contracts.

**6.2** The major concerns identified during the review were:

- ensuring that the cost of contracts for services reflects the full cost of delivery – including any relevant part of the overhead costs;
- streamlining the application system;
- end loading of payments – with the VCS bearing upfront risk;
- moving to a more stable funding relationship – longer contracts and longer term partnerships; and
- creating a level playing field in competition for service delivery – particularly around VAT.

### FULL COST RECOVERY

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**6.3** All VCOs have fixed or overhead costs. There is a strong view within the VCS that funders are often unwilling to finance these costs and a common perception by funders that other sources of finance are already being used for this purpose.

**6.4** But there is no reason why service providers should not include **the relevant portion of overhead costs** within their bids for service contracts. These are part of the total costs of delivering a service. To do this, the VCS needs to be able to apportion overhead costs effectively. But there is no reason why service funders should be opposed in principle to the inclusion of relevant overhead costs in bids. Clearly, different providers will want the autonomy to decide how to structure individual bids and funders will want to award service contracts on a Best Value basis.

### STREAMLINING ACCESS

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**6.5** In June 2002 the Regional Co-ordination Unit (RCU) was asked to examine how regeneration funding could be made more accessible to the VCS. In November 2001 they produced an interim report which proposed:

- using a “lead funder” wherever possible – that is, agreeing that one funder will arrange monitoring and inspection and passport information to others;
- developing an electronic registry of providers;
- ensuring officials fully understand the implications of Government Accounting;

- consistent application procedures through HMT-endorsed guidance to funders; and
- establishment of an implementation unit.

**6.6** The review broadly endorses these proposals but believes that implementation should build on existing structures. Full details of the implementation proposals for the review are in Chapter 8 and Annex B.

## END LOADING OF PAYMENTS

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**6.7** For organisations engaged in service delivery this is widely perceived to be a major problem and a significant deterrent to working in partnership with government. It is also a concern for social enterprises as they seek to manage cash flow and risk.

**6.8** There are two aspects to risk:

- the risk associated with the funder making assumptions about likely levels of demand for a service which turn out to be unrealistic;
- the risk which comes with the responsibility of delivering output goals.

**6.9** It seems unrealistic to expect providers to absorb all the risk associated with the first of these risks but the second is slightly different. Provided the output goals are discussed and agreed in advance it seems reasonable for the provider to bear the risk of non-delivery in return for a degree of flexibility in how services are delivered.

**6.10** Part of the problem for some groups has been a lack of consistency in the interpretation of Government Accounting rules. There is a widespread perception that so-called “Treasury rules” are inflexible so, for example, no payments ahead of actual expenditure are possible. This perception is simply incorrect – in the latter case the principle is that no payment should be made in advance of *need*. Many funders have taken the position to be that need can only be demonstrated by the expenditure having been actually incurred.

**6.11** What this experience demonstrates is the need for clear and consistent guidance on funding issues, endorsed by HM Treasury, which both the VCS and funders can use confidently. This review **recommends** that the Treasury issue such guidance.

## STABILITY IN THE FUNDING RELATIONSHIP

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**6.12** Lack of long term funding arrangements is a continuing problem for the VCS. As far as service delivery goes, the use of renewable one year contracts is the principal cause for concern. This can lead to the diversion of valuable VCS resources into bidding to retain contracts and away from delivering better services. Funders have sometimes complained that longer contracts reduce financial flexibility.

**6.13** But the move to three year spending settlements when combined with end year flexibility means that departments already have considerable flexibility. Funders should consider carefully the benefits of entering longer term funding relationships subject to satisfactory performance.

## IRRECOVERABLE VAT

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**6.14** The Treasury Review of Charity Taxation in 1999 looked carefully at the problem of irrecoverable VAT and concluded, for reasons of principle and affordability, that no changes should be made to the existing scheme. In response to representations during the review the Government considered the issue afresh to determine once and for all whether the obstacles presented by irrecoverable VAT can be overcome. Having considered all the options available, including a targeted compensation fund, the Government has concluded that no fundamental changes should be made to the way in which the VAT system operates and that the available resources would be better deployed through the new investment fund, *futurebuilders*, than otherwise.



# 7

## DEVELOPING THE COMPACT

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**7.1** The 1998 Compact set out a framework for effective partnership working between Government and the VCS, as well as underlining the Government's commitment to a strong, vibrant and independent sector. Its publication was followed by a series of more detailed Codes covering:

- Black and Minority Ethnic VCS;
- Consultation and Policy Appraisal;
- Funding;
- Volunteering; and
- Community (currently out for consultation).

**7.2** The Compact is a guide to good practice working and is not legally binding. The review found a remarkable consensus that the Compact was, on the whole, "a good thing" and there is little support for its abolition or wholesale replacement. Yet there are three main criticisms:

- lack of awareness;
- poor implementation; and
- limited scope.

**7.3** Action is needed at a senior level in government departments. Senior officials within Government need to see adherence to the Compact as a priority for their staff. To effect this cultural shift, a senior official within each department should be held personally responsible for effective implementation of the Compact and its Codes – **the departmental "Champion"** – and help take forward the implementation of this review.

**7.4** The senior responsible official should **establish a baseline for the department and articulate a vision for the future**. Attention should be focused in the first instance on those departments with the greatest interaction with the sector – Health, DWP, ODPM, Home Office and the DfES.

**7.5** The Government's vision is that the Compact be effectively **"locked in" or mainstreamed**. Implementation should be part of each department's normal business as conducted by all staff. Resources allocated to departments for 2003–06 are conditional on effective implementation of the Compact.

**7.6** There is also concern about the scope of the Compact. The Government should also commit itself in the medium term to **increasing the number of local Compacts**. Sensible targets for the development of local Compacts and the spreading of best practice should be actively negotiated between the ACU, the Office of the Deputy Prime Minister (ODPM), and local government.

**7.7** There is a lack of clarity across the statutory and voluntary sectors about the Funding Code. It is widely thought that the Code only applies to grants. As it stands, the Code applies to grants, contracts and service agreements alike and should be observed by all government departments and executive agencies. An increasing proportion of funding relationships are based on service agreements and contracts and **a supplement to the Funding Code is being developed to bridge any gaps**.



## IMPLEMENTATION I : IMPLICATIONS FOR GOVERNMENT

**8.1** The Government is determined that this review will make a difference. The work of the last year, culminating in the announcements of the Spending Review and this report are the end of the beginning of the process. The next step – and it is of crucial importance – is the translation of the recommendations into practical action. The Government is committed to implementing the review in full by April 2006. To ensure delivery by that date an Action Plan has been drawn up that sets out in detail what the implementation process will be.

**8.2** The ACU in the Home Office will have the lead responsibility for driving change across government, working closely with a small group of key officials. This core group will report through a co-ordinating group, chaired by the Permanent Secretary at the Home Office, to the Cabinet Committee for Domestic Affairs, Active Community and Family (DA/ACF) which is chaired by the Home Secretary. The composition of the co-ordinating group will be drawn from government and the voluntary sector. The Government is determined that, just as the review was carried out in close consultation with the sector, so the sector will be similarly involved with ensuring effective implementation.

**8.3** Reflecting the ACU's new focus, its budget has been increased by an average of 20 per cent annually to £188m over the three years of the 2002 Spending Review with half of this sum allocated to implementation of this review. Most of those resources will be directed towards capacity building and infrastructure, including e-enabling the sector, and to streamlining access to, and reporting for, government funds.

**8.4** Of course, all government departments need to play their part in implementing this review. They will:

- work constructively with the ACU to ensure the review is implemented;
- involve the VCS actively in the planning as well as delivery of services;
- incorporate the review's funding recommendations fully into their procurement policies by ensuring that the price for a contract reflects the full cost of the service including the legitimate portion of overhead costs;
- participate actively in the ACU review of capacity building and infrastructure support leading to an integrated cross-Government strategic approach;
- appoint a senior official (at about Director level) to champion the Compact within their department and establish a baseline assessment of how well it is observed and agree an action plan for full implementation; and
- improve skills across the department in working with the VCS through appropriate training and development of staff.

**8.5** The 2002 Spending Review Settlement reflects fully, for all departments, the cost of implementing the review. There may be some indirect costs to some departments, principally through implementation of full cost recovery in contracts for services and service level agreements. But all departments will meet these costs over time as contracts come up for renewal.

## IMPLEMENTATION II : IMPLICATIONS FOR THE VCS

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**8.6** The review presents a challenging agenda for change for the VCS itself. The Government does not expect the sector to respond to these challenges alone, but with assistance. First, the sector needs the capacity to participate fully in the implementation of the review, including taking a lead in taking forward specific recommendations. Financial provision up to £0.5 million per year has been made available to enable this to happen.

**8.7** Second, for the review to be effective, the benefits need to be experienced locally by VCOs that work with local government and other public sector partners. This will take time but will be achieved by April 2006.

## FUTUREBUILDERS

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**8.8** Finally, new resources have been allocated for those VCOs who deliver key public services for government. The new investment fund, “*futurebuilders*”, will provide a one off, three year investment of £125 million to assist VCOs in their public service work.

**8.9** The fund offers a unique opportunity for organisations to take advantage of the new framework that the implementation of this review will create and to strengthen their service delivery role. The fund will provide strategic investment to modernise the sector. It will be directed towards organisations directly involved in delivering key services in the areas of health and social care, crime and social cohesion, in education and for children and young people. It will harness the vision, specialist knowledge and expertise of service providers to transform their capability, push out the boundaries and, most importantly, improve service outcomes. High quality schemes that exemplify good practice, encourage partnership working and replicate success will be candidates for funding.

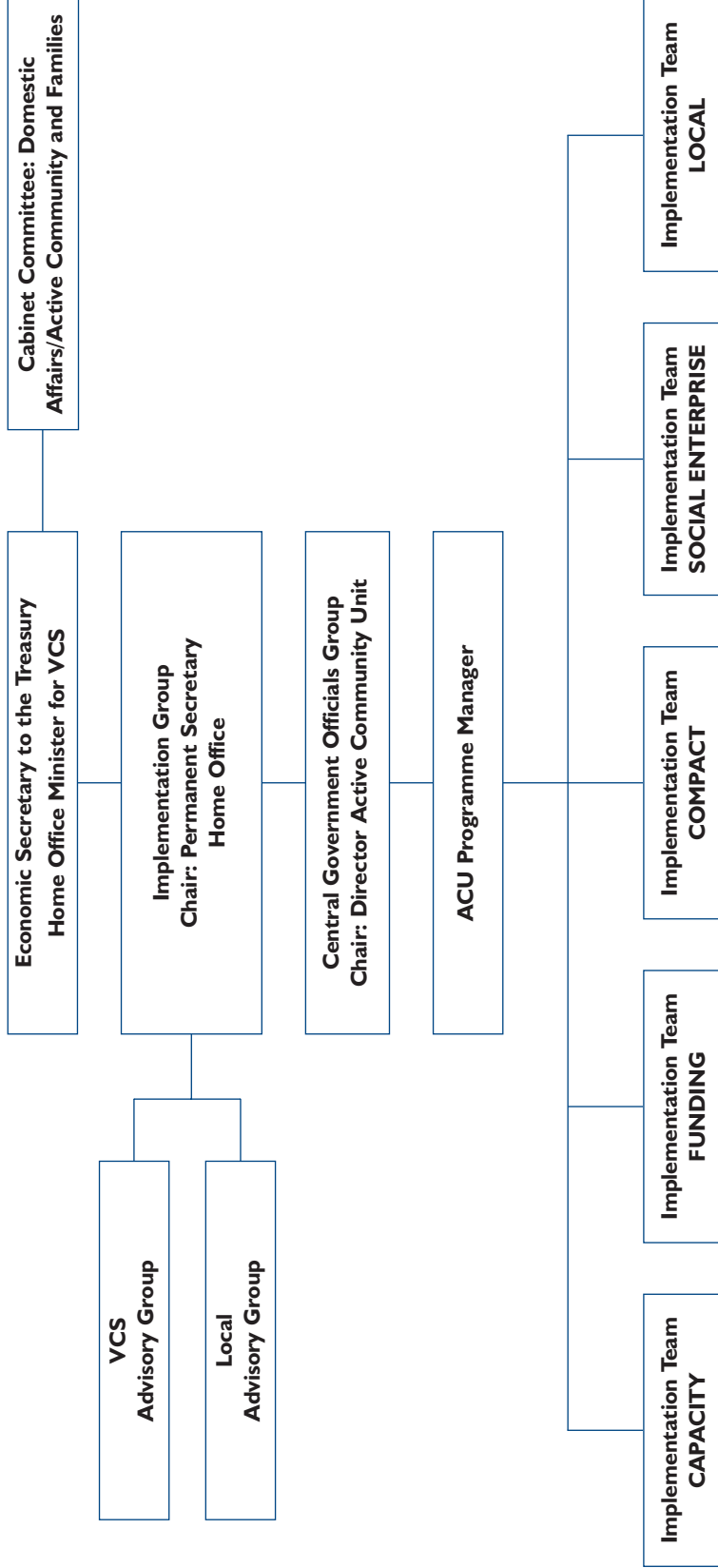
**8.10** The fund and its administration will be designed with the VCS and will be closely tied in to the Compact mechanism. The Treasury will lead in setting up the fund and this process will be initiated with a paper setting out the proposed approach to the Compact Working Group on 23rd September 2002.

## PROCESS

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**8.11** A diagram of the implementation process follows. The full implementation action plan is at Annex B. There are a large number of actions in the implementation plan, to be taken forward in diverse ways by central and local government and the VCS. Implementation of a number of the recommendations involves raising awareness and spreading understanding as well as learning new ways of working. Every effort will be made to co-ordinate the dissemination of learning opportunities, particularly as the review is cascaded to local level, in order to form a coherent package for change.

# Implementation process



**Note: Each Recommendation Implementation Team Leader will report regularly on progress to the Programme Manager who in turn will report to the Implementation and Stakeholder Groups. One or two members of each Stakeholder Group will sit on the Implementation Group.**



# A

## TERMS OF REFERENCE

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*To examine the relationship between the voluntary sector and the Government in service delivery, taking account of the key role the sector can play in strengthening civil society and building capacity in local communities. The review will do this by:*

- i. mapping the extent and the variety of means by which the voluntary sector is already involved in overseeing and delivering services;*
- ii. examining best practice in effective partnership between the voluntary sector and the public sector, suggesting practical ways in which the principles of the Compact can be applied in the delivery of services;*
- iii. drawing common lessons to guide the public sector in working in partnership with the voluntary sector;*
- iv. establishing whether and how barriers to voluntary sector involvement, and lack of capacity, might be overcome to promote successful partnership with the public sector and how the Government might be able to assist to that end.*



Recommendation	Action
<i>Issue: Effective engagement with the sector to mutual benefit.</i>	
<p><b>1.</b> Policy makers – including in local government – should involve the VCS at an early stage in the design and planning of services and consideration should be given to the full range of options for VCS involvement.</p>	<p>The ACU will lead, <b>in consultation with other departments</b>, in creating a protocol of common principles and procedures for service and programme development. This needs to ensure the inclusion of evaluation of innovative programmes into project design. (see recommendation 8)</p>
<i>Issue: Maintenance of the sector's independence and capacity for innovation in service delivery.</i>	
<p><b>2.</b> In drawing up contracts providers should always consider innovative methods of working. Innovative projects should be subject to proportionate evaluation with the results being actively shared.</p>	<p>The protocol on programme development will include innovation. (see recommendation 8)</p>
<p><b>3.</b> Local authorities should include local VCS representation on Best Value Review Teams working in key service areas.</p>	<p>(see recommendation 37)</p>
<i>Issue: Working together to deliver services locally.</i>	
<p><b>4.</b> The Best Value Inspectorate should report on whether the full spectrum of options for involving the VCS in service delivery has been explored and this should form part of the comprehensive performance assessment being developed by the Audit Commission.</p>	<p>(see recommendation 38)</p>
<p><b>5.</b> Local authority staff dealing with the VCS should receive appropriate training to ensure greater understanding of the different ethos and values of the VCS.</p>	<p>(see recommendation 39)</p>

Recommendation	Action
<i>Issue: Assessing capacity and capacity building.</i>	
<p><b>6.</b> Assessment tools should be developed for undertaking a “capacity check” of the strength and depth of the VCS for individual organisations, within specific service sectors, across geographical areas and for umbrella groups providing support within the sector.</p>	<ul style="list-style-type: none"> <li>• The VCS will lead in developing and piloting appropriate ways forward in assessing the capacity of individual VCOs, including performance management, to deliver (i) a strategy for standards in the VCS; and (ii) ways of assessing capacity to engage with the service delivery agenda. By: <b>April 2005</b></li> <li>• ODPM will work with the ACU to evaluate the extent of VCS involvement in the development of community strategies and to produce a “tool kit” to allow local authorities, with other partners, to undertake an initial assessment of VCS capacity, covering strengths, gaps, areas of risk and potential for growth. By: <b>April 2004</b> (see recommendation 41)</li> <li>• Where not already available, each Local Strategic Partnership, as part of preparing its community strategy, will undertake this initial assessment. By: <b>April 2006</b> (see recommendation 42)</li> <li>• Within service sub-sectors, each central government department will assess how its funding relationship with the sector supports or potentially weakens the provider base. This should build on the DfES work ‘Getting the Best from Each Other’. (The ‘Getting the Best from Each Other’ framework was published on 15th July 2002 and can be accessed at: <a href="http://www.dfes.gov.uk/gettingthebest">www.dfes.gov.uk/gettingthebest</a>). By: <b>April 2005</b></li> </ul>
<i>Issue: Differing interpretations of capacity building, levels of investment, and methods of delivery.</i>	
<p><b>7.</b> Government and the VCS should develop a coherent shared strategy to underpin capacity in the sector. This should include:</p>	<p>The ACU will lead on engaging key departments, local government, the VCS and other partners to:</p>

Recommendation	Action
<ul style="list-style-type: none"> <li>• an assessment of the effectiveness of existing government resources devoted to capacity building;</li> <li>• the development of an interdepartmental framework for strategic support to the sector;</li> <li>• tackling any weaknesses in capacity, including the role of government and the VCS.</li> </ul>	<ul style="list-style-type: none"> <li>• undertake a comprehensive review of different types of capacity building. By: <b>April 2003</b></li> <li>• In parallel the NRU will review the role and effectiveness of their community programmes, including options for mainstreaming CEF. This work will feed into the ACU review with the intention of mainstreaming CEF. By: <b>April 2006</b></li> <li>• develop a framework for integrated support, based on identified needs and including setting standards for provision. By: <b>July 2003</b></li> <li>• the Office of the e-Envoy will work with the ACU to draw together the various ICT initiatives into a coherent investment strategy, identify necessary resources and agree how to implement. By: <b>July 2003</b></li> <li>• take action to implement the agreed strategy to achieve a sustainable baseline of infrastructure support at local level, regionally and nationally, and include action to be taken by central and local government and the VCS. By: <b>October 2004</b> (see recommendation 42)</li> <li>• The ACU will lead on producing guidelines on good practice in capacity building and infrastructure support and to consider issuing this as a supplement to the Compact. By: <b>October 2004</b></li> </ul>
<p><i>Issue: Capacity constraints: maintenance of the sector's independence and capacity for innovation in service delivery; effective engagement with the sector to mutual benefit; enabling the sector to deliver.</i></p> <p><b>8.</b> A new protocol should be developed for service and programme development, setting out best practice for collaboration and joint planning of services.</p>	<p>The ACU will lead on the production and introduction of a protocol of common principles and procedures for service and programme development. This will be incorporated into the Compact Code of</p>

Recommendation	Action
<p><b>9.</b> Policy makers, including those in local government, should involve the VCS at an early stage in the design and planning of services and consideration should be given to the full range of options for VCS involvement.</p>	<p>Good Practice on Consultation and Policy Appraisal. By: <b>October 2003</b></p>
<p><i>Issue: Learning and skills development.</i></p>	
<p><b>10.</b> There should be joint working to ensure that sector-specific skills are better understood and skills gaps tackled.</p>	<p>The VCS will lead on liaising with DfES (and in particular the Sector Skills Development Agency) and ACU to find a way ahead to meet the specific skills needs of the VCS in trusteeship, fundraising and volunteer management. By: <b>April 2003</b></p>
<p><i>Issue: Partnership working.</i></p>	
<p><b>11.</b> Government and the VCS should establish a joint programme to develop the capacity of government officials and members of the VCS to work effectively together.</p>	<p>See recommendation 30.</p>
<p><i>Issue: Weaknesses in the data on government funding of the VCS.</i></p>	
<p><b>12.</b> Government should establish a unified information system for data collection and analysis on government funding for the VCS.</p>	<p>The ACU will lead cross-departmental work to put in place a unified information system. This will involve: (i) scoping and piloting; (ii) phased introduction according to defined milestones; and (iii) the development of individual strands to support implementation of the review, including data on the Compact, on capacity building and infrastructure, and on funding going to the sector. By: <b>April 2006</b></p>
<p><i>Issue: Full cost recovery.</i></p>	
<p><b>13.</b> Funders should recognise that it is legitimate for providers to include the relevant element of overheads in their cost estimates for providing a given service under service agreement or contract.</p>	<p>All departments will incorporate the review's funding recommendations fully into their procurement policies by ensuring that the price for contracts reflects the full cost of the service, including the legitimate portion of overhead costs. By: <b>April 2006</b></p>

Recommendation	Action
<p><b>14.</b> Central government should learn from the experience of programmes that have already sought to tackle this issue in a fair and transparent way.</p>	<p>DfES, working with OGC and ACU, building on experience to date and on work being undertaken by DfES as part of 'Getting the Best from Each Other', will develop guidance for good practice in the procurement of services. This work will contribute to a supplement to the Compact Code of Good Practice on Funding for service contracts and agreements.</p> <p>All departments and agencies will agree a common approach in line with this guidance and Treasury guidance in preparation for implementation from April 2004.</p> <p>By: <b>October 2003</b></p> <p>DCMS will consider amending the rules and working practices of the lottery distributors in order to reflect the key recommendations of the review.</p> <p>By: <b>April 2003</b></p>
<p><b>15.</b> The VCS should develop accounting guidelines for allocating overhead costs.</p>	<p>The VCS will produce guidance for the sector, building on the work currently being undertaken by ACEVO, and to consider (in consultation with the Charity Commission), the scope for linking to SORP guidance.</p>
<p><b>16.</b> The VCS should consider building on the experience of larger voluntary organisations to establish whether there is a useful role for benchmarking unit costs in client specific service areas.</p>	<p>By: <b>April 2003</b></p>
<p><i>Issue: Streamlining access and performance management requirements for multiple, often small, funding streams.</i></p>	
<p><b>17.</b> Government should develop a common point of access and a common application process for central government grant aid and strategic funding.</p>	<p>The ACU will build on its Invest to Save project to develop an electronic portal to give a common point of access to Government grant funding for the VCS in order to provide a common application process.</p> <p>By: <b>April 2004</b></p>
<p><b>18.</b> Government should take forward the "passporting" of financial information about VCS service providers between different departments, including developing the "lead funder" concept.</p>	<p>Over the medium term, the portal may also be used to passport information about VCOs. "Passporting" is the transfer of basic details of organisations between funders, reducing the burden of providing the same information more than once.</p> <p>By: <b>April 2004</b></p> <p>On 'lead funder', the RCU, working with DfES and the ACU, will develop examples</p>

Recommendation	Action
	<p>of how the ‘lead funder’ approach could be applied in practice across government departments. The RCU, ACU and NRU will consider piloting the approach with regeneration funds and with the DWP from April 2004.</p>
<p><i>Issue: End loading of payments – with sector bearing all the upfront cost and risk.</i></p>	
<p><b>19.</b> HM Treasury should issue clear guidance to funders: (i) on the scope for making payments in advance of expenditure; (ii) ensuring the right balance of risk between service providers and funders; and (iii) the potential use of profile funding.</p>	<p>HM Treasury will publish guidance to funders. By: <b>December 2002</b></p>
<p><b>20.</b> Umbrella groups within VCS should raise awareness within the sector and government of the principles set out in the guidance.</p>	<p>The dissemination programme will begin from April 2003. By: <b>April 2006</b></p>
<p><i>Issue: Achieving a more stable funding relationship.</i></p>	
<p><b>21.</b> HM Treasury guidance to funders should underline the opportunities for moving to more stable funding relationships and to include examples of where, subject to performance, this has been done.</p>	<p>HM Treasury will include in its guidance to funders. By: <b>December 2002</b></p>
<p><b>22.</b> At the local level, best practice examples should be highlighted and widespread use incentivised.</p>	<p>See recommendation 35.</p>
<p><i>Issue: Creating a level playing field – in particular, around VAT.</i></p>	
<p><b>23.</b> Participants in review were keen to stress the importance of finding a way forward on irrecoverable VAT. They urged Ministers to continue working closely with the VCS – in particular to consider the benefits of taking a targeted approach – and to identify a possible solution in the context of this review.</p>	<p>In response to this recommendation the Government looked at this issue afresh to determine whether there is an effective way of mitigating the impact of irrecoverable VAT. The Government concluded that there is no principled, robust or affordable way of achieving this.</p> <p>But in recognition of the obstacles to effective involvement in service delivery, the Government has decided to set up a three-year, one-off investment fund, <i>futurebuilders</i>, to assist VCOs in their public service work. HMT will take the lead in working with the VCS to design the fund. By: <b>April 2003</b></p>

Recommendation	Action
<p><b>24.</b> Inland Revenue should work with Customs &amp; Excise to establish a single, integrated help-line service, to provide charities with a single point of contact for advice on either direct tax or VAT issues that affect them.</p>	<p>A help-line will be established. By: <b>January 2003</b></p>
<p><b>25.</b> Customs &amp; Excise should work with the VCS to identify ways in which C&amp;E VAT guidance can be improved and to devise appropriate solutions that the sector will find accessible. The aim should be to increase charities' awareness and understanding of the VAT issues they need to consider when deciding how to deliver services.</p> <p><i>Issue: Awareness of the Compact.</i></p>	<p>Customs &amp; Excise will issue revised guidance. By: <b>April 2004</b></p>
<p><b>26.</b> The VCS and ACU should initiate a drive to raise awareness and understanding of the Compact within the sector.</p> <p><i>Issue: Implementation of the Compact.</i></p>	<p>The VCS will produce proposals and implement. By: <b>October 2003</b></p>
<p><b>27.</b> All government departments should appoint a senior official to oversee full implementation of the Compact and Codes.</p>	<p>Senior officials will be appointed by all departments. By: <b>October 2002</b></p>
<p><b>28.</b> The ACU should conduct a review of the role of the Voluntary Sector Liaison Officer and determine the scope of the role to support and maintain mainstreaming of the Compact and Codes.</p>	<p>The review will be completed and the findings will feed in to departmental strategies for mainstreaming of the Compact and Codes. By: <b>January 2003</b></p>
<p><b>29.</b> The 'Champion' should establish a baseline on awareness and implementation in their department and develop a strategy for mainstreaming the Compact.</p>	<p>Departmental "Champions" will produce a strategy and project plan for delivering the strategy. By: <b>April 2003</b></p>
	<p>Given the major role of the Government Offices in allocating central resources, the ACU working with the RCU will ensure that staff in the regional offices are made fully aware of the implications of the Compact for their dealings with the sector. Starting in <b>April 2003</b>.</p>

Recommendation	Action
<p><b>30.</b> A joint programme between government and the VCS should be established to develop the capacity of public sector officials and members of the VCS to work effectively together.</p>	<p>Central government, local government, including the LGA, and VCS will work to develop and roll out an appropriate programme, tailored to reflect national, regional and local experience and needs. By: <b>April 2004</b></p>
<p><i>Issue: Scope of the Compact.</i></p>	
<p><b>31.</b> Government should commit itself to the medium term objective of increasing the number of local Compacts, building on best practice to date.</p>	<p>The ACU and the ODPM will lead joint working to agree with local government, including the LGA, a plan for increasing the number of Local Compacts, building on best practice to date. By: <b>April 2003</b></p> <p>The ACU will undertake a study to monitor and evaluate the effectiveness of local Compacts to date, highlighting best practice. By: <b>October 2004</b></p>
<p><i>Issue: Providing effective support to social enterprise.</i></p>	
<p>Social Enterprise Unit (SEnU) should:</p> <p><b>32.</b> • raise awareness within social enterprises of the Small Business Service (SBS) and Business Links' services;</p> <p><b>33.</b> • develop audit tools to enhance credibility with lenders;</p> <p><b>34.</b> • promote better understanding of social enterprises within local authorities and by mainstream lenders.</p>	<p>The Social Enterprise Unit (SEnU) will:</p> <ul style="list-style-type: none"> <li>• work closely with the ACU to ensure that the SEnU plans for support for social enterprises are fully integrated into the wider government strategy for capacity building and infrastructure support for the VCS. By: <b>July 2003</b></li> <li>• work with SBS to ensure all Business Link operators include social enterprises in their business plans, starting <b>April 2003</b>.</li> <li>• raise awareness within social enterprises of SBS services. By: <b>October 2003</b></li> <li>• develop audit tools to enhance credibility with lenders – as above. By: <b>April 2004</b></li> <li>• work to promote better understanding of social enterprises within local authority and by mainstream lenders (deadline as above). By: <b>April 2004</b></li> </ul>

Recommendation	Action
<i>Issue: Working together to deliver services locally.</i>	
<p><b>35.</b> At a local government level, ODPM and ACU, with HMT, should work with the LGA, IDeA, the Audit Commission and representatives from local authorities and the VCS to:</p> <ul style="list-style-type: none"> <li>• identify and incentivise best practice in full cost recovery, streamlining processes and managing risk;</li> <li>• highlight and incentivise best practice examples of local authorities that have moved to longer term funding relationships, subject to performance.</li> </ul>	<p>The ODPM, building on the DfES 'Getting the Best from Each Other', will lead on issuing guidance on acceptable standards in procurement practice. By: <b>October 2003</b> (see recommendation 14)</p> <p>The ODPM, working with ACU, HMT and local government, including the LGA, and others, will lead on drawing together and disseminating examples of best practice. By: <b>October 2003</b></p>
<p><b>36.</b> Best practice at local government level should be incentivised, building on local PSAs.</p>	<p>The framework for corporate performance assessment within CPA includes covering the exercise of the community leadership role, procurement practice and community involvement. ACU and ODPM will develop material for the local PSA website setting out roles VCS can play in local PSAs. By: <b>December 2002</b></p>
<p><b>37.</b> Local authorities should include local VCS representation on Best Value Review Teams.</p>	<p>The ODPM will include recommendations in revised guidance on Best Value. These recommendations will be consistent with Treasury guidance to funders. (see recommendation 19). By: <b>December 2002</b></p>
<p><b>38.</b> The Best Value Inspectorate should report on whether the full spectrum of options for involving the VCS in service delivery has been explored.</p>	<p>ACU and ODPM will discuss with the Inspectorate Forum the role that inspectorates can play in assessment of VCS involvement in service delivery.</p>
<p><b>39.</b> Local authority staff dealing with the VCS should receive training to ensure greater understanding of the different ethos and values of the VCS.</p>	<p>Central government, local government, including the LGA and the VCS will work to develop and roll-out an appropriate programme, tailored to reflect national, regional and local experience, priorities and needs. By: <b>April 2004</b> (see recommendations 5 and 30)</p>

Recommendation	Action
<p><b>40.</b> Government should commit itself to the medium term objective of increasing the number of Local Compacts, building on best practice to date.</p>	<p>The ACU and the ODPM will lead joint working with local government, including the LGA, to agree a plan for increasing the number of Local Compacts, building on best practice to date. By: <b>April 2003</b> (see recommendation 31)</p>
<p><b>41.</b> Assessment tools should be developed for undertaking a “capacity check” of the strength and depth of the VCS for individual organisations, within service sectors, across geographical areas and for umbrella groups providing support within the sector.</p>	<p>ODPM will work with ACU to produce a “tool kit” to allow local authorities, with other partners, to undertake an initial assessment of VCS capacity, covering strengths, gaps, areas of risk and potential for growth. Where not already available each LSP, as part of preparing its community strategy, will undertake this initial assessment. By <b>April 2004</b> (see recommendation 6)</p>
<p><b>42.</b> Government and the VCS should develop a coherent shared strategy to underpin capacity in the sector.</p>	<p>ODPM and local government, including the LGA, will work closely with the ACU and the VCS to develop the strategy by July 2003. ODPM and local government will take action to implement the agreed strategy by <b>April 2006</b> (see recommendation 7).</p>

**Working Groups***Ministerial Steering Group*

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Ivan Lewis MP	DfES
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Helen Edwards	ACU
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John Knight	Leonard Cheshire
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Susanne Rauprich	NCVYS
David Rayner	ODPM
David Read	DEFRA
Alan Riddell	NRU
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Nicky Roche	Home Office
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*HM Treasury Team*

Helene Radcliffe

Team Leader 30/04/02

Anita Charlesworth

Team Leader from 01/05/02

Annick Alet

Emma Campbell Smith

Helen Horton

John Wilson

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## GLOSSARY

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ACEVO	Association of Chief Executives of Voluntary Organisations
ACU	Active Community Unit
BL	Business Link
BME	Black and Minority Ethnic
CAF	Charities Aid Foundation
CCR	Cross Cutting Review
CDF	Community Development Foundation
CEF	Community Empowerment Fund
CEMVO	Council of Ethnic Minority Voluntary Organisations
CO	Cabinet Office
DA/ACF	Domestic Affairs / Active Community and Family (Cabinet Committee)
DCMS	Department for Culture, Media and Sport
DEFRA	Department for Environment, Food and Rural Affairs
DfES	Department for Education and Skills
DfID	Department for International Development
DoH	Department of Health
DTI	Department of Trade and Industry
DTLR	Department for Transport, Local Government and the Regions
DWP	Department for Work and Pensions
EMF	Ethnic Minority Foundation
EST	Economic Secretary to the Treasury
HMT	Her Majesty's Treasury
HO	Home Office
ICT	Information and Communication Technologies
IDeA	Improvement and Development Agency
LA	Local Authority
LCD	Lord Chancellor's Department
LGA	Local Government Association
LOVAS	Local Voluntary Activity Survey
LSP	Local Strategic Partnership
NACRO	National Association for the Care and Resettlement of Offenders
NCVO	National Council for Voluntary Organisations
NCVYS	National Council for Voluntary Youth Services
NDPB	Non Departmental Public Body
NHS	National Health Service
NRU	Neighbourhood Renewal Unit
NTO	National Training Organisation
ODPM	Office of the Deputy Prime Minister
PIU	Performance and Innovation Unit
PSA	Public Service Agreement
RCU	Regional Coordination Unit
RDS	Research Development & Statistics

RSL	Registered Social Landlord
SBS	Small Business Service
SEnU	Social Enterprise Unit
SORP	Statement of Recommended Practice
SR2002	Spending Review 2002
SSDA	Sector Skills Development Agency
UK	United Kingdom
VAT	Value Added Tax
VCOs	Voluntary and Community Organisations
VCS	Voluntary and Community Sector
VSNTO	Voluntary Sector National Training Organisation