

Public services

National report

July 2007



Hearts and minds: commissioning from the voluntary sector

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As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

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Summary

Central government aspires to develop the voluntary sector's role in delivering public services...

- A diverse supply base is more competitive and more likely to meet service users' requirements.
- A thriving voluntary sector can contribute to community engagement.
- Many voluntary organisations share the government's aspirations for public service delivery.

... and the voluntary sector's involvement is steadily expanding.

- The public sector has become the voluntary sector's largest single source of income, a position that government can expect to see maintained.
- Councils currently spend over £3 billion with voluntary organisations.
- There are voluntary organisations of all sizes that receive most of their income from public bodies, although larger voluntary organisations are more likely to deliver public services than smaller ones.
- Many smaller voluntary organisations are keen to act as advocates, or to deliver some public services, but are unwilling or unable to compete for contracts.

Government initiatives to strengthen the voluntary sector's ability to deliver public services have had limited success.

- Capacity-building programmes do not show substantial local impact, to date.
- Smaller voluntary organisations are sceptical of the potential of these programmes to improve their position.
- Other necessary improvements include appropriate funding mechanisms and sound partnership working.
- Capacity building should complement good commissioning practice.

A few, highly effective commissioners adopt intelligent commissioning, rather than offer special treatment, to get the best from the voluntary sector.

- They maintain a detailed understanding of what services their users need, and involve voluntary organisations in identifying them.
- They develop a good understanding of the market, knowing who can supply these particular services at an affordable price.
- They run an effective procurement process, balancing the need for short-term efficiency gains with longer-term market development objectives.

In commissioning intelligently, councils need to ensure that their chosen funding mechanisms help to achieve their objectives...

- Councils need to align the funding mechanisms that they choose to use, with the objectives of the funding.
- Some voluntary organisations believe that service contracts are replacing grants, and that this is harming the voluntary sector.
- In fact, councils are not reducing total expenditure on grants, but are aligning their grant giving better with their strategic priorities.
- Councils are also using more service contracts and contract-like mechanisms for sound, value for money reasons.
- When contracting, competition generally determines a suitable price for the service.
- When grant funding voluntary organisations to deliver services, commissioners and bidders should ensure that the amount paid in grant makes the provision sustainable. In the absence of competition, councils need to work with the voluntary sector to develop a pragmatic approach to full-cost recovery, within budgetary constraints.

... and commissioners need to develop a better evidence base to demonstrate value for money.

- There is very little evidence, at either a national or a local level, on the performance and value for money secured from voluntary sector providers.
- Local public bodies should collect and analyse financial and performance data in a form that enables them to make robust judgements about the value for money delivered by service providers from all sectors.
- Commissioners should consider wider community or market development objectives as well as the costs and benefits of specific services when measuring value for money.

Recommendations

1. Local public bodies should:

- Engage local voluntary organisations in service planning, to benefit from their knowledge of clients.
- Engage voluntary organisations in designing commissioning processes that encourage a diverse supply base.
- Assess the impact of their commissioning practice on the size and diversity of their local supplier base, and the consequent prospects of securing improved value for money.
- Apply intelligent commissioning practice, thinking carefully about:
 - the kind of services that they want to procure for a range of service users;
 - the types of organisations that are likely to be able to deliver at an affordable price; and
 - how best to construct a commissioning process that will ensure that a variety of delivery organisations have the opportunity and incentive to deliver services, where they are well placed to do so, and that they receive funding in the most appropriate form.
- Improve how they measure value for money in public services, by shifting the current focus on inputs, outputs, and unit costs, towards long-term measurement of outcomes and effectiveness.
- Develop their financial management information systems to enable them to assess the value for money they secure from different providers and to assess the impact of their commissioning practice on the voluntary sector.

2. Voluntary organisations should:

- Improve their understanding of their costs and submit high-quality, fully costed bids for service delivery contracts that address commissioners' service objectives.
- Evaluate their own value for money and use that evaluation to make the case for service delivery through the voluntary sector to local public bodies.

- Work closely with local public bodies, regulatory organisations and improvement agencies to develop consensus on measuring value for money.

3. Regulatory bodies should:

- Signpost the guidance and best practice that is already available to help public service commissioners with the procurement process.
- Include the effectiveness of commissioning and procurement in their assessments of performance and value for money.

4. Central government can play a supporting role. It should:

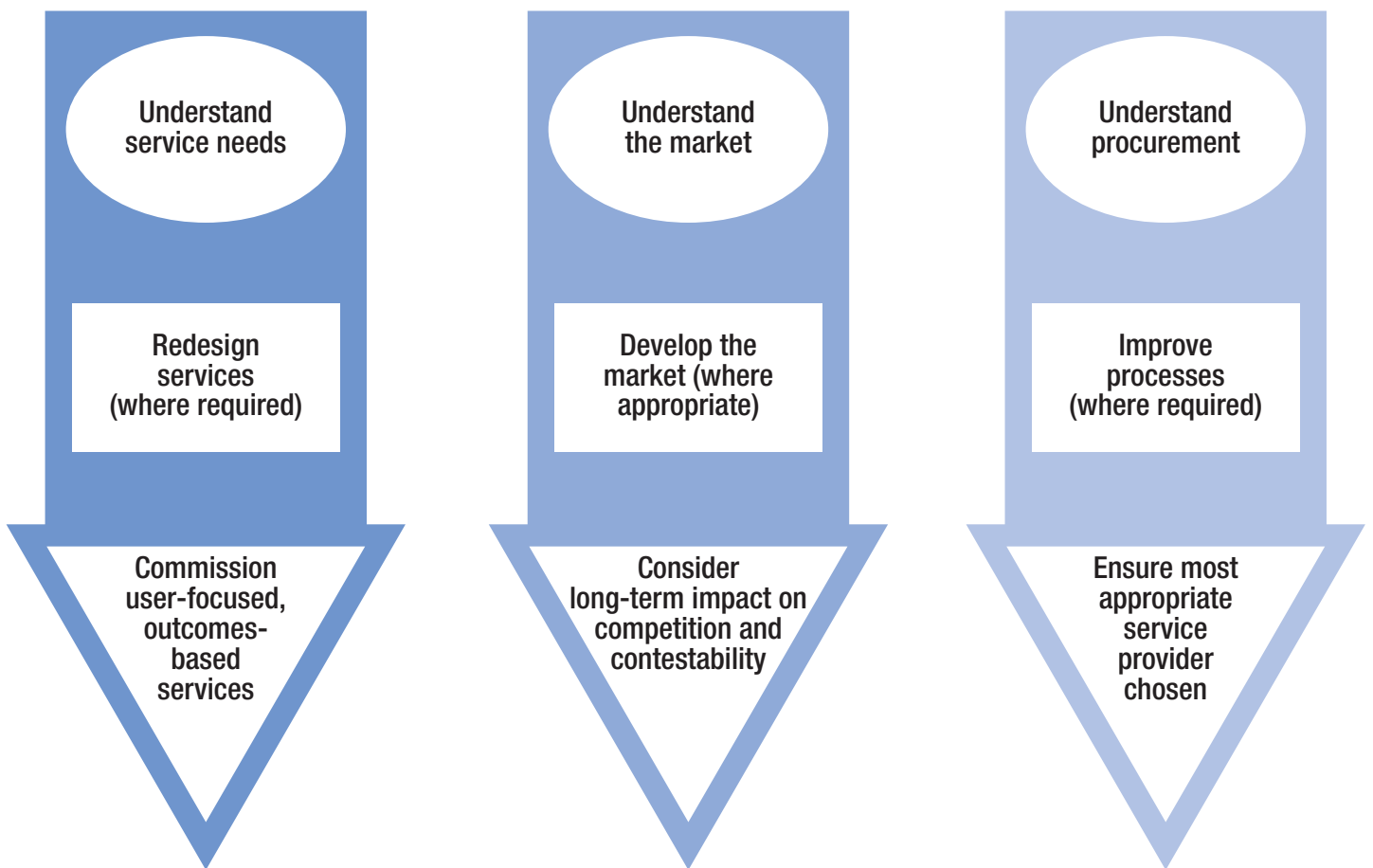
- Communicate the aims of capacity-building initiatives effectively to the voluntary sector, and across all government departments, to ensure that sponsoring government departments actively support these initiatives in the future.
- Consider how best to use wider initiatives, such as local area agreements, as drivers to improve the relationship between local public bodies and the voluntary sector, since these are more likely to be successful than stand-alone programmes.
- Advise local public bodies on the data they need to collect in order to measure the impact of their commissioning practice on the local voluntary sector.
- The Office of the Third Sector should draw on the expertise available within the Audit Commission, when developing training and tools for commissioning and procurement.

5. The Audit Commission will:

- Contribute to the development of the national training programme for third sector commissioning, which the Office of the Third Sector is sponsoring.
- Continue to assess councils' commissioning as part of its judgements on their use of resources.
- Consider how to assess the risks associated with councils' and their partners' work with the voluntary sector, in developing Comprehensive Area Assessment.

Intelligent commissioning

INTELLIGENT COMMISSIONING



VALUE FOR MONEY SERVICES

Questions for chief executives and senior managers

Understanding service needs

- How do we know how effectively we are identifying user needs within each service delivery area?
- How are we involving service users in the design of service delivery? What have we changed, because of that involvement?
- What means have we for engaging relevant voluntary sector and private sector providers in the design of services, to meet identified user needs?
- Which features of service delivery have our users said are the most important to them? How do we assess our performance against them?
- What outcome measures have we identified for each service delivery area? Are they things that users value? How do we monitor our performance against them?

Understanding the market

- How do we know what numbers and types of providers can supply the specific services we want to commission?
- How are we identifying potential local and national suppliers that might wish to tender for these services?
- How do we involve potential suppliers in service design and the design of our commissioning processes? What have we changed because of that involvement?
- How competitive are the markets for these particular services? How has that changed recently?
- If there is no market in this area of service delivery, what steps are we taking to create one?
- What effect is our current commissioning practice having on our local supplier market? What could we do to improve it?

Effective procurement

- How do we assess compliance with the principles of good commissioning in our own commissioning and procurement practice?
- How are we monitoring the performance of our current suppliers and how are we using the information we collect to improve service delivery?
- How well do competing bids for service contracts enable us to compare value for money? How do our suppliers know what information to include, to help us to do so?
- What wider social, economic, or environmental benefits do we expect to gain from our current commissioning practice? How do we take account of them, when considering overall value for money, and how do we know that we are achieving them?

1

Introduction

- 1 The government aspires to develop the voluntary sector's role in public service delivery:

'The government wants to ensure that the third sector is at the heart of reforms to improve public services as contractors delivering services, as campaigners for change, as advisers influencing the design of services and as innovators from which the public sector can learn. This will require a new approach to commissioning and procurement, embracing the sector's multiple roles in shaping and delivering services, and particularly in working with users to ensure that services meet their needs.'

HM Treasury, 2006 (Ref. 1)

'We want the best local partnership working between local authorities and the third sector to be the rule, not the exception, and for the sector to be placed on a level playing field with mainstream providers, when it comes to local service provision.'

Local Government White Paper, 2006 (Ref. 2)

- 2 The government believes that including the voluntary sector among the suppliers of public services can generate benefits for service users, communities and taxpayers, and can contribute to the place-shaping agenda set out in the 2006 Local Government White Paper **(Ref. 2)**, in three 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.

- 3 In pursuit of its public service reform agenda, central government has devoted considerable attention to the voluntary sector in recent years. It has adopted two broad policy approaches:
- building the capacity of voluntary organisations to contribute to the delivery of public services; and
 - encouraging local public bodies to commission services from the voluntary sector, where it can contribute most effectively.

Appendix 1 contains an overview of the most important initiatives.

- 4 The Audit Commission aims to be a driving force for improvement in public services, so we have a strong interest in how well councils are commissioning public services. While national policies and initiatives set the tone, much of the interaction between the public and voluntary sectors takes place at local level.
- 5 This study investigated the impact of capacity-building initiatives at local level; how effectively councils are engaging the voluntary sector in the commissioning process; and what impact current procurement practice is having on the sector, and on councils' ability to secure value for money in service delivery¹. It did so in the context of concern, expressed principally by some voluntary organisations, that aspects of current commissioning practice were undermining the achievement of the objectives we describe in paragraph 2.
- 6 We conducted the research at practitioner level, focusing on the experience of council officers, voluntary sector providers, and local councils of voluntary service. We examined working relationships between councils and the voluntary sector, concentrating on three service areas where the voluntary sector is heavily involved: community transport; early years services; and adult social care. **Appendix 2** describes the study methodology.

¹ Definitions of commissioning and procurement in this report are those used in the Office of the Third Sector Action Plan (**Ref. 3**). Commissioning means the entire cycle of assessing the needs of people in a local area, designing services, and then securing them. Procurement covers the specific activities within the commissioning cycle that focus on the process of buying services, from the initial advertising through to the final contract arrangements.

- 7 Commentators and stakeholders have used various terms to describe the voluntary sector. We have not used the term 'third sector' in our study, because it encompasses a far broader range of organisations than we examined; we refer to the voluntary sector, and to voluntary organisations. Our study excluded housing associations, leisure trusts and social enterprises, because these organisations did not fit with the specific focus of our research.
- 8 We produced this report primarily for managers in local councils who are responsible for commissioning services. However, it should also be of interest to voluntary organisations who are seeking to influence and deliver public services, as well as to national policymakers.
- 9 The report is in five sections:
 - section two sets out our findings on the extent and nature of the voluntary sector's delivery of public services, including our findings on value for money;
 - section three sets out our findings on the locally perceived impact of government efforts to build capacity;
 - section four sets out our findings on the current state of commissioning; and
 - section five sets out our findings on procurement practice.

2

The voluntary sector in 2007

Chapter overview

- 10 In this Chapter, we look at the national and local picture of voluntary sector activity and the sector's involvement in the delivery of public services, to assess whether the government is achieving its aims. We also discuss how councils measure value for money.
- 11 There is no single, reliable source of national or local data that shows the nature or extent of voluntary organisations' engagement in the delivery of public services.
- 12 As far back as 2002, the Treasury cross-cutting review noted:

'Data problems mean that comprehensive, accurate, consistent, and comparable information is not readily available.' **(Ref. 4)**

In 2004, the Home Office recognised that:

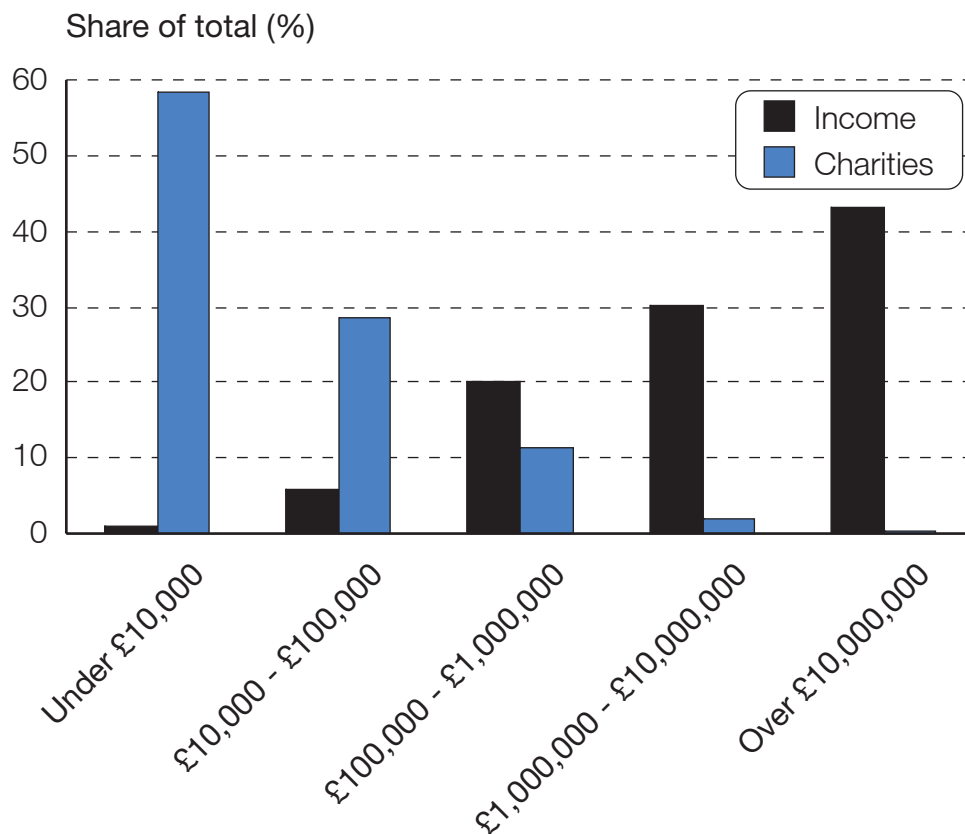
'At present there is no mandatory requirement for central or local government to record their funding of voluntary sector organisations in a way which shows accurately how much funding is going to the voluntary sector.' **(Ref. 5)**

- 13 We set out below our interpretation of the datasets that do exist, which allow us to reach three broad conclusions:
 - the voluntary sector is steadily expanding its delivery of public services;
 - voluntary organisations of all sizes are delivering public services; and
 - voluntary sector organisations vary in their views of, aspirations for, and capacity to deliver public services.

The national picture – income and expenditure

- 14 There are almost 170,000 general charities in the UK, with a combined income in 2004/05 of £27.7 billion (Ref. 6). The latest figures confirm that charities' income is increasingly concentrated at the top end of the sector. A few very large charities earning more than £1 million per year account for almost three-quarters of charities' total income. Nearly 60 per cent of all charities had an income of less than £10,000 in 2004/05 – their combined income represented just 1 per cent of total income (Figure 1).

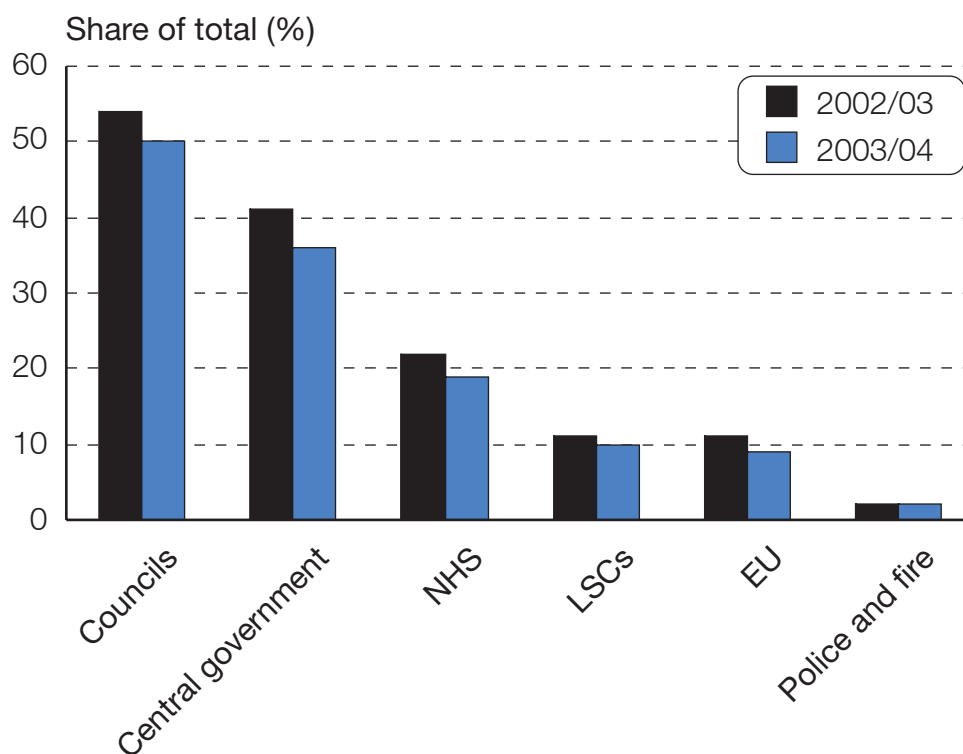
Figure 1
Distribution of charities' income and organisations 2004/05



Source: UK Voluntary Sector Almanac 2007

15 Data collected by the National Council for Voluntary Organisations (NCVO) over several years and published in the NCVO Almanac (Ref. 6) suggest that the public sector accounted for 33 per cent of voluntary sector income in 1995, rising to 39 per cent in 2004/05. The voluntary sector is also now earning much more of its income by, for example, delivering services under contract. In 2004/05 the sector earned 48 per cent of its income, compared to 43 per cent in 2001/02. The public sector now accounts for half of this earned income. We expect the trends towards greater earned income and reliance on public sector sources to continue (Ref. 7).

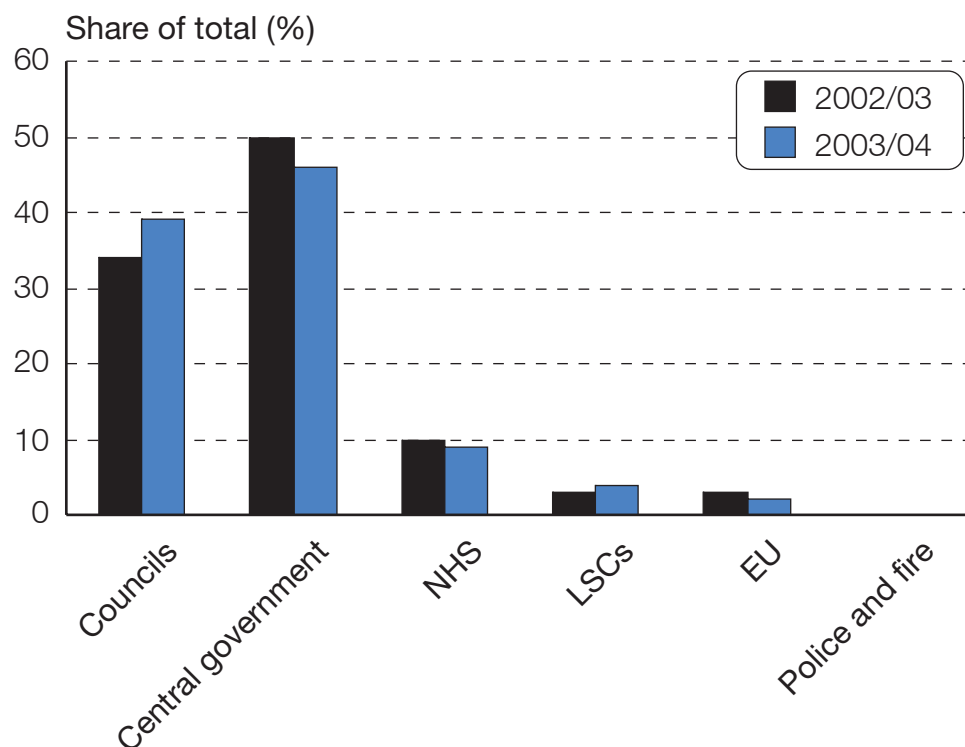
Figure 2
Percentage of panel members receiving funding from government sources, 2002/03 and 2003/04



Source: State of the Sector Panel 2006

- 16 The Department of Health estimates that over 35,000 voluntary organisations receive a total of £12 billion annually to deliver health and social care services in England. Just over half (52 per cent) of this funding comes from the public sector. English councils spent almost £14 billion in 2004/05 on adult social services. The Department of Health estimates that the voluntary sector received around £1.5 billion (11 per cent) of this expenditure (Ref. 8).

Figure 3
Percentage of total government funding by government source, 2002/03 and 2003/04



Source: State of the Sector Panel 2006

- 17 The most recent data available from the Office of the Third Sector's State of the Sector Panel survey shows a slight decrease between 2002/03 and 2003/04 in the percentage of panel members reporting income from councils (**Ref. 9**). However, more voluntary organisations report receiving funding from councils than from any other part of the public sector, and the share of total government expenditure on the voluntary sector flowing through councils has increased.^I
- 18 The Home Office has carried out surveys^{II} to estimate how much councils are spending on voluntary organisations. A forthcoming report from the Office of the Third Sector^{III} shows the trend is clearly upwards.

Table 1
Council expenditure on voluntary and community organisations in England, 2000/01 – 2003/04

Year	Council expenditure
2000/01	£1.3 billion
2001/02	£2.2 billion
2002/03	£3.0 billion
2003/04	£3.2 billion

Source: Office of the Third Sector (forthcoming)

- ^I The State of the Sector Panel is an in-depth survey of over 3,600 voluntary organisations. Panel members were recruited to ensure that respondents reflected the diversity of the sector. However, the size and composition of the Panel changed between 2002/03 and 2003/04, which may explain some of the changes.
- ^{II} Responsibility for the voluntary sector research and surveys previously carried out by the Home Office has now transferred to the Office of the Third Sector within the Cabinet Office. Some of the increase in **Table 1** may be attributable to under-reporting in the earlier periods, and a methodological change to address this from 2001/02, but the trend is nevertheless clear.
- ^{III} The Office of the Third Sector will publish this report in Autumn 2007.

- 19 We also sampled the creditor records of 194 councils in six English regions, using data from the Spikes Cavell observatory, on the composition of the supplier base. This analysis told us that:
- between 1 and 2 per cent of councils' suppliers were from the voluntary sector;
 - these suppliers comprised around 4 per cent of total council expenditure;
 - on average, councils had over 50 voluntary organisations as creditors; and
 - nearly one-third of councils' total spend with voluntary organisations was with organisations having a turnover of over £1 million. These organisations accounted for just 1 per cent of all voluntary organisations supplying councils.
- 20 A recent Charity Commission survey (**Ref. 7**) suggests that voluntary organisations of all sizes derive income from public service delivery. Over half of charities with a turnover of more than £100,000 deliver public services. Two-thirds of the largest charities derive over four-fifths of their income from public service delivery. By contrast, less than a quarter of charities with turnover of less than £100,000 deliver public services at all. However, at least a quarter of the charities in every income band that deliver public services derive over four-fifths of their income from this source.
- 21 Although policymakers often speak of the voluntary sector as if it was homogeneous, it is very diverse. The term encompasses voluntary organisations involved with every aspect of council service provision, as well as many others that are not delivering public services.
- 22 While the voluntary sector is diverse, our fieldwork suggests that it has three distinct groupings, each of which has a different perspective on common issues around, and a different capacity for, service delivery:
- Small, volunteer-only, community-based groups that are providing specific services on a modest scale, primarily under grant funding arrangements. Most of these have neither the capacity nor the desire to compete for service contracts. They may focus more on their advocacy role and on representing user views on service design.
 - Small- to medium-sized voluntary organisations that are already delivering, or want to deliver, services; but some find it difficult to compete for contracts because they lack the skills and experience to formulate successful bids.
 - Large national or regional voluntary organisations that are already delivering services under contract.

23 One council commissioner summarised the distinctions like this:

‘I think larger voluntary organisations have the expectation... that they will demonstrate their capacity to undertake that business through the quality of their tender....

I think other organisations will expect that the local authority will nurture them to a point where they will be able to participate fully in tendering exercises. And I think there are other organisations who will never wish to participate in the tendering process – but will believe that the local authority should be funding part of their activity.

... so I think it’s incumbent on the local authority to be sensitive to those three positions, in the way that it approaches the sector.’

Adult social care commissioner

24 Voluntary organisations of all sizes share the government’s aspirations for improved public services. However, small and medium-sized organisations are concerned about their ability to contribute because they feel unable to compete for contracts or because their experience of contracting practice has not, in their view, enabled them to bring their particular capabilities to bear. The participants in our study commented consistently on the need for commissioning and procurement practice to promote the use of voluntary organisations where appropriate, and to improve the opportunities for smaller organisations to participate in competitive tendering.

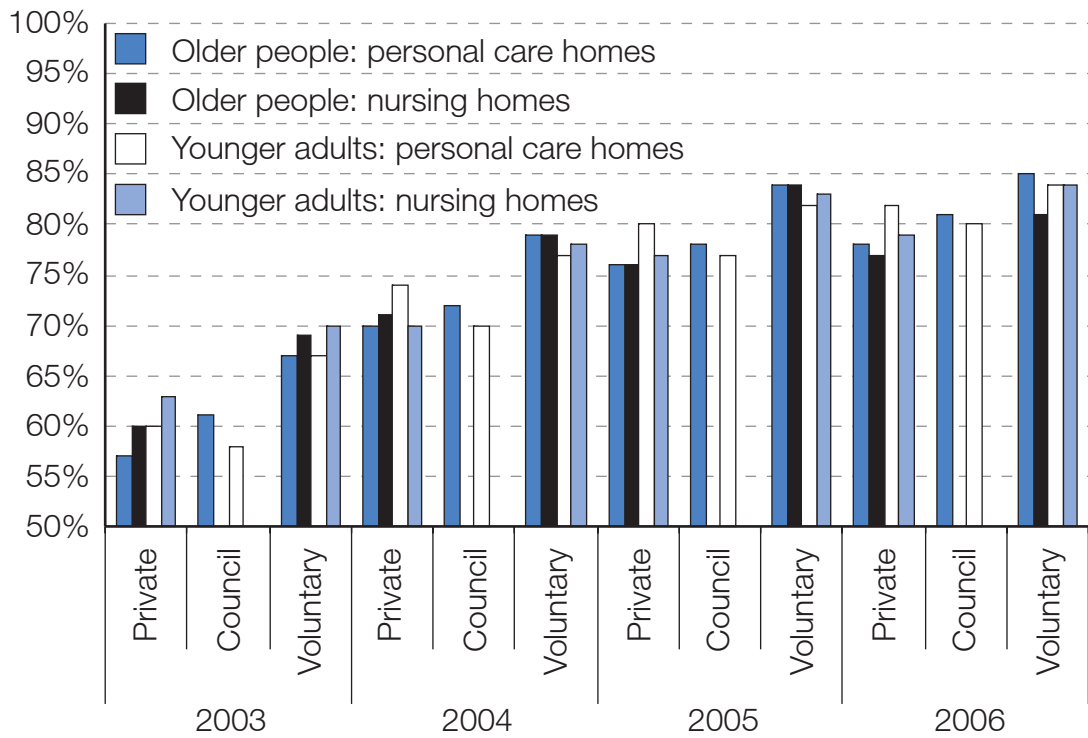
25 It is clear that the public and voluntary sectors are becoming increasingly interdependent because the voluntary sector is drawing so much of its income from public service contracts. We still do not have a comprehensive picture of voluntary sector involvement in public service delivery and the number of contracts awarded to the sector. Therefore, we still do not know whether government aspirations can be met.

The national picture – value for money

26 Fewer data were available for any analysis of value for money than on income and expenditure. We were able to make limited comparisons of costs and effectiveness between different types of provider at an aggregate level in just one service area; social care.

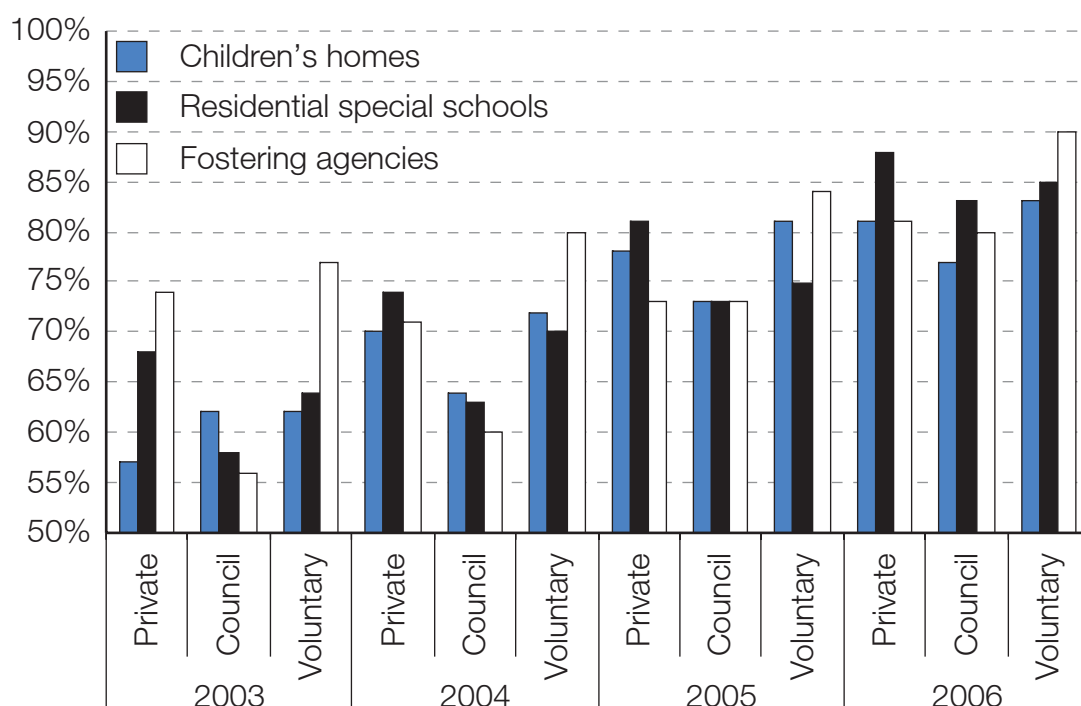
27 The Commission for Social Care Inspection (CSCI) has shown that voluntary sector providers meet a greater proportion of the national minimum standards than in-house or private sector providers (Ref. 10).

Figure 4
The overall performance of social care services for adults against the national minimum standards, 2003-06



Source: CSCI

Figure 5
The overall performance of social care services for children against the national minimum standards, 2003-06



Source: CSCI

28 The Personal Social Services Research Unit (PSSRU)^I compiles unit costs for a number of social care services by provider type. The figures for daycare show that costs are broadly comparable between public and voluntary sector providers. Unit costs for residential care services are lower for externalised services than for in-house provision; the unit costs of private and voluntary sector provision are similar. Unit costs for residential care for people with mental health needs are lower in the private sector (Ref. 11).

^I The PSSRU is based at the Universities of Kent, Manchester, and the London School of Economics.

Table 2
Unit costs of social care services by provider type, 2005/06

Service	Unit cost		
	Local authority	Voluntary sector	Private sector
Daycare: older people (per client day / session)	£30	£31	N/A
Daycare: adults with mental health needs (per session)	£20	£20	N/A
Residential care: older people (per permanent resident week: care package)	£749	£426	£430
Residential care (staffed): adults with mental health needs (per resident week: care package)	£541	£475	£373

Source: PSSRU

- 29 However, the data available do not permit a robust assessment of value for money. For example, the CSCI data do 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. PSSRU data on unit costs tell us nothing about the quality of the services.
- 30 Findings from a recent National Consumer Council study (**Ref. 12**) on user satisfaction with services delivered by the voluntary sector, illustrate the complexities of evaluating the 'X factors' – the soft areas of added value that make service users feel that the service goes beyond the minimum. The study identifies two broad categories of factors that can make the difference: functional factors and factors relating to staff skills and competence. However, the data do not permit robust analysis of differences in service quality between sectors.
- 31 Government policies for the voluntary sector are based on the often-claimed assumption that the sector adds value. However, there is no evidence either for or against the argument that, at an aggregate level, voluntary 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, we do not think they would be helpful. 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 sectors.

- 32 With the limitations of national data and aggregate assessments in mind, we turned to local councils and voluntary sector providers for information on the nature of their relationship, and perceptions of value for money in service delivery.

The local picture – income and expenditure

- 33 We collected local data on the nature and level of funding to the voluntary sector from the councils participating in this study. We asked for information on the number and value of grants and contracts awarded to the voluntary sector, on a service-by-service basis, for a three-year period from 2002/03 to 2004/05.
- 34 It proved difficult to collect local data because:
- councils rarely hold data on expenditure with the voluntary sector centrally and service directorates often use different systems;
 - there were variations in councils' definitions of grants, contracts and voluntary organisations; and
 - councils often provide contributions in kind, such as premises or vehicles, which they do not account for in a standard way.
- 35 The data collected proved insufficiently robust for meaningful analysis. In many cases, the data did not exist and where they did exist, they were too inconsistent to allow meaningful comparisons. Service directorates tended to hold financial information on contracts locally but there was no standard data collection framework for commissioners to use. It proved much easier to collect reliable data on grants because most councils coordinate their central grants programme from one location.

The local picture – value for money

- 36 We 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. We accept that this is difficult, because:
- councils and voluntary 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.
- 37 We conclude that councils wanting to assess the extent and success of their commissioning from the voluntary sector need to enrich their management information.

Defining value for money

- 38 The long-running debate about the added value provided by the voluntary sector has failed to produce a common understanding. Participants in this study mentioned added value frequently, but council staff and voluntary sector providers attached different meanings to it, and neither assess it well.
- 39 Many commissioners defined added value as the value achieved when the council gets more for its community than it funds. For example, councils perceive that they get added value when volunteers deliver the service instead of paid staff, or when voluntary organisations secure match funding for a service partially funded by the council.
- 40 Most voluntary sector providers referred to added value as the less tangible but equally important economic and social benefits that they, more than other providers, bring to public service delivery. These include, for example: user-focus; specific knowledge, expertise and experience of particular user groups; flexibility and joining up; trust; accessibility to users; and innovation (**Ref. 4**).
- 41 These two different concepts of added value are not mutually exclusive but they have implications for how commissioners and providers assess value for money.

- 42 The financial leverage definition allows for a relatively straightforward analysis. We found some examples of attempts to measure the value of the sector locally using this method.
- 43 A study in Greater Nottingham (**Ref. 13**) 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.
- 44 A study of voluntary organisations by the Newcastle Council of Voluntary Service (NCVS) (**Ref. 14**) showed that the sample of 123 members from the total 444 had a combined annual income of over £41 million, which, if adjusted to the whole membership of NCVS, would give a figure of £179 million. These voluntary organisations' annual income ranged from £53 to over £8 million but 49 per cent were in the range £20,000 to £250,000. Every £1 given in grant aid from Newcastle Council to voluntary organisations working only within Newcastle upon Tyne brought in another £14, while organisations with a wider geographical remit brought in £18 for every £1 in grant aid from the Council.
- 45 However, an emphasis on inputs focuses on the benefits enjoyed by the funder, rather than the service user. A broader view of value for money requires consideration of outputs and outcomes as well as inputs.
- 46 Certainly, the wider definition of added value preferred by the voluntary sector is harder to measure. While it is possible to measure the quality of service delivery, it is difficult to quantify the intangible benefits such as greater flexibility, innovation, knowledge, and expertise.

Assessing value for money – comparing like with like and measuring outcomes

- 47 Voluntary organisations provide many specialised services and tend to fill gaps left by the public and private sectors. Voluntary organisations 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.

‘At the moment it’s quite a separate market, it is not profitable... A lot of the work we do is providing transport to and from medical appointments. It’s covering a rural area, offering a door-to-door service very much like a local bus. It’s covering such a wide rural area, there was very little public transport provision out there... a registered bus route that was operating out there was withdrawn due to lack of use and this other vehicle, the one that we run... was put in its place, so that’s the provision for people who are rurally isolated.’

Community transport provider

- 48 The fact that public, private, and voluntary sector suppliers rarely provide the same service in given areas and to the same users, makes it difficult to compare the relative cost effectiveness of service provision across the three sectors.

‘I think analysis becomes less effective when you’re looking at more specialist services and analysing their impact and cost effectiveness, because it’s unlikely you’re going to have a raft of providers out there [to compare].’

Adult social care commissioner

- 49 Niche or specialist services are harder to compare with one another or with mainstream services. The characteristics that make them 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.

Measuring inputs, outputs and outcomes

- 50 When asked about cost effectiveness for contracted services, many commissioners told us that they currently rely on price comparisons at the bidding stage, usually on a unit cost basis. This approach has two principal limitations as a basis for assessing value for money. The price that local public bodies pay for a service may not represent the true costs of the service, if indirect or in-kind inputs are not included; and unit cost comparisons are difficult to obtain for niche or specialist services, as discussed in paragraph 49.

- 51 Smaller organisations providing highly specialised services may have a completely different cost structure from those of organisations providing mainstream services, which invalidates unit cost comparison. Some smaller voluntary organisations, which have proportionately higher overhead costs, regard attempts at comparison as unfair:

‘In our kind of hostels we’ve got five staff for eight residents and we’re being compared to hostels with 90 residents and ten staff. You don’t have to be a mathematician to work out that there are going to be huge differences in the unit cost.’

Supporting People service provider

- 52 Councils recognise that measurement of cost effectiveness is underdeveloped and that unit cost alone provides an inadequate basis for making comparisons:

‘We have attempted some very basic unit costs comparisons but again, I think the financial models are insufficiently sophisticated to tell us anything very much.’

Children and young people’s services commissioner

- 53 Commissioners need 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. Commissioners should devise satisfaction surveys that will measure these user-focused criteria appropriately for specific service areas, and set these alongside considerations of cost effectiveness when evaluating the impact of different forms of provision.

Conclusions

- 54 Local public bodies seeking a better understanding of value for money need to collect evidence on outputs and outcomes as well as inputs. Where commissioners want to measure added value or innovation, for example, they need to understand how the data they collect will help them to do so. Likewise, the data they collect should enable them to assess the value they secure from having a diverse supply base, which includes voluntary sector providers.

- 55 We have examined the various sources of evidence available, but we have found these insufficiently detailed to form an accurate picture of councils' expenditure with the voluntary sector, still less to enable commissioners to make reliable assessments of what represents good value for money. While aggregate assessments of the relative merits of the public, private, and voluntary sectors for public service delivery are neither feasible nor relevant to individual commissioners, an improved evidence base would enable commissioners to assess the value delivered by different providers locally.
- 56 Voluntary sector organisations can help by providing commissioners with a better evidence base for assessing the value they 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 (**Refs 15, 16 and 17**).

'Voluntary organisations often claim that they add value, but are not skilled in explaining what value they add and how they add it. Voluntary organisations will need to develop answers to these questions, because it is unlikely that the public sector and other funders will see things in exactly the same way.' (**Ref. 18**)

3

Building voluntary sector capacity

Chapter overview

- 57 Government has sought to use two levers to achieve its public service reform objectives for the voluntary sector: capacity-building initiatives designed to enable voluntary organisations to deliver public services; and improvements in the commissioning process to ensure that they have the opportunity to do so.
- 58 In this Chapter, we focus on the views of local practitioners on two government programmes designed to develop the voluntary sector's service delivery capacity, ChangeUp and Futurebuilders, and on the impact of the Compact.

ChangeUp

- 59 The vision for ChangeUp is 'the transformation of the third sector'. The Home Office set up the programme in 2004 (**Ref. 19**) to build capacity and infrastructure in the voluntary sector so that, by 2014, front line voluntary organisations can access high-quality local support for their needs. Between 2004 and 2006, the government invested £72 million in the ChangeUp programme.
- 60 Initially, the government channeled most of this investment through the government offices for the regions. These offices devolved programme management to consortia of local voluntary sector agencies, which bid for funds to improve the local infrastructure. The programme also established six national hubs of expertise from which local voluntary organisations could seek advice on infrastructure issues¹.
- 61 Local voluntary sector infrastructure organisations told us that ChangeUp had stimulated local consideration of infrastructure needs, and had helped them to develop their capacity to support front line voluntary organisations.

¹ The hubs are finance, governance, ICT, performance, volunteering, and workforce. These are partnerships of voluntary organisations who have come together to improve the support available to the sector.

‘I think it’s been a real driver for infrastructure organisations to raise their game, to work more collaboratively...’

Council for voluntary service

- 62 However, most comments from front line voluntary organisations about ChangeUp were negative, because they felt that they had not seen the benefits themselves.

‘I feel a sense of frustration about ChangeUp actually, that there is very little of it that has filtered down to front line organisations.’

Adult social care provider

- 63 Some respondents thought the administration was too complex:

‘I don’t think ChangeUp has worked very well. I don’t think it was very well thought out, and on the ground it’s been difficult to understand it, or for groups to articulate it, or for the voluntary sector to see that there’s been a benefit.’

Council policy lead on the voluntary sector

Many thought that the local consortia set up to manage funding duplicated existing infrastructure organisations:

‘...one of the things about ChangeUp was saying “let’s bring people together so that we’re not duplicating what each other does, let’s work smarter” and then they go and set up all those tiers!’

Volunteer centre and community transport provider

- 64 Clearly, some front line voluntary organisations have not understood the government’s approach of building local infrastructure rather than spending money directly on service providers. Local infrastructure organisations should communicate the aims of ChangeUp to the voluntary organisations in their area more effectively, and explain what capacity-building measures they are putting in place that will benefit front line voluntary organisations.

- 65 Government set up the Capacitybuilders agency in April 2006 to manage the ChangeUp programme. Capacitybuilders has responsibility for building up the voluntary sector's strength and capacity in, for example, partnership working and contracting. Capacitybuilders' draft Action Plan (**Ref. 20**) shows that it intends to address the issues with the ChangeUp programme that we have identified.

Futurebuilders

- 66 Futurebuilders is the government-backed investment fund (**Ref. 21**) that provides loans, grants, and capacity-building support to help the voluntary sector deliver public services. The government believes that, if voluntary sector organisations can access investment funding at a reasonable cost, they will be able to compete successfully for public sector contracts.
- 67 The Futurebuilders programme seeks to fill a perceived deficiency in the financial markets, so that third sector organisations have access to finance at a reasonable cost. Since its launch in 2004, Futurebuilders has committed £84 million of its £125 million funding in offers to 193 organisations from the voluntary sector (**Ref. 22**). The fund also offers development grants, which enable organisations to explore and develop their plans to deliver public services, and then to build their capacity through loans from Futurebuilders or finance from other sources.
- 68 Futurebuilders bases its loans scheme on the premise that applicant organisations are likely to be delivering public services under contract in the future and will repay their loans from their income. This requirement causes concerns to both local councils and voluntary organisations.
- 69 Many voluntary organisations were unsure whether their existing funding arrangements would continue, or where they might find new funding. They were wary of taking on loan finance because they could not be sure that they will win contracts in a competitive environment.

‘For a smaller organisation, I think the other thing that’s completely off-putting is the loan element... To take on the loan and the risk without the knowledge that there are longer-term opportunities there, I think it’s just an invidious situation, it doesn’t work.’

Adult social care provider

- 70 Councils also found it difficult to see how they can provide guarantees about future contracts, legally, in an environment of open competition.

‘It’s very difficult for a local authority to commit itself, in say two years’ time still to be giving a contract to... whatever organisation... on the one hand we’d like to do that, so they get Futurebuilders money; on the other hand... where’s competitive tendering, if you’ve just given out your guarantee?’

Council policy lead on the voluntary sector

- 71 Futurebuilders acknowledges that loans may not suit all voluntary organisations. The Futurebuilders Advisory Panel suggested that:

‘in some areas, the level of take-up is due in part to the complexities of changing from an ethos of grants to a culture that is more accepting of loans-based finance.’ **(Ref. 22)**

The Panel recommended the continuation of the Futurebuilders experiment for a further three-year period, aligned with the government’s next spending period; and that development grants should continue to be available within the investment portfolio.

- 72 Futurebuilders should also consider how best to address voluntary organisations’ and councils’ current concerns about the ability to evidence their potential to win future contracts. Futurebuilders proposes to take steps to ensure that voluntary organisations are aware of the development grants as well as the loan opportunities. Improved commissioning practice of the kind described in Chapter 4 will also increase the likelihood that voluntary organisations will have the confidence to take on loan finance.

The national Compact

- 73 The government introduced the national Compact in 1998, an agreement to improve relationships between government and the voluntary sector to mutual advantage. The Compact applies to all central government departments and agencies, including non-departmental public bodies, regional government offices and local public bodies.
- 74 Since then, the national Compact and its codes of practice have influenced the development of local agreements between councils, other public bodies, and local voluntary organisations. Ninety-nine per cent of local authority areas are now ‘Compact-active’¹.
- 75 All the councils in this study had a local Compact.

Developing the local Compact

- 76 Approximately two-thirds of the participants in this study had been involved in developing their local Compact. Larger voluntary organisations and infrastructure organisations were more likely to have been involved than smaller organisations.
- 77 Comments about the experience of developing the Compact from the provider side were positive, although there was much less satisfaction with its day-to-day operation. The main benefits for voluntary organisations, of developing the local Compact were:
- a greater understanding of constraints on both sides; and
 - improving local authorities’ understanding of full-cost recovery.

‘I think it was really positive, in terms of bringing together a whole range of different agencies and the statutory sector; agencies that probably didn’t have that personal relationship, so for us I think that’s quite exciting...’

Children and young people’s service provider

¹ Source: The Compact website: <http://www.thecompact.org.uk/homepage/100016/home/>

78 The main benefits of involvement for councils were:

- strengthening the relationships through improved mutual understanding;
- consulting with a wider range of voluntary organisations than had been the case in other consultation processes; and
- establishing joint principles and the concept of joint working to take forward the implementation of the Compact.

‘It actually sets out a framework and a set of rules within which things have to happen, which gives comfort to the sector, and gives us a discipline to work with.’

Adult social care commissioner

79 Although the experiences of developing the Compact were largely positive, we found some lack of awareness. A few commissioners and smaller voluntary organisations had never heard of their local Compact.

‘I’ve been in meetings with people from the CVS [council of voluntary service] who’ve said, “We have this Compact, and you’re supposed to make it easier for us to contract with you for services.” And I’m saying, “Absolutely fine, no problem with that, but I don’t know what it is!”’

Adult social care commissioner

Operating the local Compact

80 Our interviews focused on the day-to-day reality of operating the Compact; practitioners’ views were mixed. Undoubtedly, Compacts have helped to improve funding and commissioning practice to some extent. Approximately half of the respondents thought the Compact had helped local funding practice. They suggested it had led to:

- longer-term sustainability in funding arrangements;
- greater transparency of council processes, for example the qualification criteria for grants;
- standardised grant application forms, both within and between local authorities;
- assurance over the council’s intentions on future funding arrangements; and

- enabling the voluntary sector to challenge the council assertively. The Compact had been used successfully in some cases to challenge behaviours or processes within local authorities – for example, insistence on an inflationary uplift for funding.

The remainder said that Compacts have had little or no direct effect on funding practice. Most of the complaints about non-compliance were about failure to give adequate notice about funding decisions.

- 81 Compact principles extend beyond immediate funding issues. There is an expectation that councils will seek to consult and involve the local voluntary sector in the planning and design of local services, for example through involvement in local area agreements (LAAs). The 2006 Local Government White Paper underlines the importance of this.
- 82 We recognise that many stakeholders are striving to make local Compacts work effectively (**Ref. 23**). However, they have not achieved their full potential in every case. Three main reasons emerged from our fieldwork:
- a lack of resources to implement them;
 - a lack of tangible incentives to comply; and
 - a failure to tailor the local Compact to local circumstances.
- 83 Some respondents suggested councils were unwilling to commit resources to monitor and uphold their Compact.

‘...there was no money set aside or available to work on the Compact... It got put onto everybody’s back burner because there wasn’t any resource.’

Council for voluntary service

- 84 In some cases, respondents told us other council priorities have overridden commitment to the Compact:

‘If there is a tension between our procedures and the Compact, it’s not a legal document, the Compact, so we don’t have to [comply]...’

Community transport commissioner

Others (including Compact Voice) would disagree with this interpretation.

- 85 Regardless of the legal position, some councils have clearly allowed other priorities to take precedence over the precise terms or the spirit of the Compact. This implies that the incentives for councils to comply with their Compact are not strong enough to override other priorities.
- 86 We reviewed all the Compacts from our case study councils. While a few clearly reflected local circumstances and relationships, others appeared to be rather generic and showed little variation from the National Compact template. There was a stronger sense of ownership of those Compacts that had been adapted to reflect local circumstances, and these were driving improvements in the relationship between the council and local voluntary sector more effectively.
- 87 In a number of cases, local representative forums such as the local strategic partnership took the lead in developing local Compacts. Those involved broadly welcomed this approach. They suggested that consultation was widespread and there was a sense of shared ownership, which ensured the Compact was not viewed solely as a local authority initiative.

‘We used the local strategic partnership to drive it through, so the idea was that it was owned by everybody, not just the council and the voluntary sector.’

Council policy lead on the voluntary sector

- 88 Many respondents were optimistic about the potential for LAAs and thematic partnerships, such as children’s trusts, to improve relationships between councils and the local voluntary sector still further. However, like the recent National Audit Office investigation into LAAs (**Ref. 24**), we found that the principles had yet to be put into practice. Some voluntary organisations complained of ‘tokenistic’ engagement on the development of LAAs to date.
- 89 We expect that the new Office of the Compact Commissioner will encourage councils to manage funding issues efficiently and, at the same time, support their local voluntary sector.

‘Every organisation, local or national, which is party to a Compact, needs to assess its behaviour, and where there is a gap between commitment and delivery, decide how to close it.’

John Stoker, Commissioner for the Compact

Conclusion

- 90 The government has invested significantly in capacity-building programmes, in order to expand the voluntary sector's involvement in public service delivery. However, the evidence of impact is very limited, and opinions of practitioners on the effectiveness of these programmes vary. Some smaller voluntary organisations think that neither capacity-building programmes, nor the local Compact will help them to compete.
- 91 Capacity building is unlikely to result in a significant expansion in the voluntary sector's share of the service delivery market unless local public bodies accompany this with effective commissioning practice. We discuss commissioning and procurement issues in the next two chapters.

4

Intelligent commissioning

Chapter overview

- 92 In this Chapter, we set out the principles of what we call intelligent commissioning, a model of commissioning that should:
- (a) foster effective competition for public services; and
 - (b) ensure that commissioners secure the benefits that voluntary organisations can bring to public service delivery.

Guidance on commissioning and procurement

- 93 Over the last two years, several government departments have considered commissioning and procurement issues. For example, the Department for Education and Skills and the Department of Health have collaborated to produce the Joint Planning and Commissioning Framework for Children, Young People, and Maternity Services (**Ref. 25**).
- 94 In 2006, the Department of Health Third Sector Commissioning Task Force identified critical barriers to cost-effective commissioning, and issued guidance on how to commission from the third sector (**Ref. 26**). The Department of Health has also produced case study examples of good practice in commissioning health and adult social care (**Ref. 27**).
- 95 The Office of the Third Sector has now summarised the principles of good commissioning and procurement, to produce a set of eight principles designed to improve commissioning generally, and to improve the experience of the voluntary sector in particular (**Ref. 3**).

Commissioning principles

- Develop an understanding of the needs of users and communities, by ensuring that, alongside other consultees, they engage with third sector organisations as advocates, to access their specialist knowledge.
- Consult potential provider organisations, including those from the third sector and local experts, well in advance of commissioning new services, working with them to set priority outcomes for that service.
- Put outcomes for users at the heart of the strategic planning process.
- Map the fullest practicable range of providers with a view to understanding the contribution they could make to delivering those outcomes.
- Consider investing in the capacity of the provider base, particularly those working with hard-to-reach groups.
- Ensure contracting processes are transparent and fair; facilitating the involvement of the broadest range of suppliers, including considering sub-contracting and consortia building where appropriate.
- Seek to ensure long-term contracts and risk sharing wherever appropriate as ways of achieving efficiency and effectiveness.
- Seek feedback from service users, communities and providers in order to review the effectiveness of the commissioning process in meeting local needs.

Source: Partnership in Public Services, Office of the Third Sector, 2006

- 96 The Office of the Third Sector is also investing in skills training for commissioners, through its National Programme for Third Sector Commissioning. The Office plans to create a range of standard contracts that draw on good practice. The findings from this study should contribute to these activities.
- 97 We believe that these principles provide a sound framework for intelligent commissioning. However, we would argue that they are not particular to the voluntary sector; rather the principles apply whether commissioners are buying services from the public, private, or voluntary sectors.

- 98 These principles do not imply any preferential treatment for the voluntary sector, but a pattern of commissioning that is characterised by competitive neutrality¹ between different types of service providers.
- 99 If local public bodies implement intelligent commissioning well, this will provide more opportunities for voluntary organisations to engage in public service delivery. It should also ensure that they do so where their particular contribution offers the most value.

‘I know that it is good commissioning that lies at the heart of getting this process right. Local services are often shaped by the decisions of local politicians, local commissioners, and local agencies.’

Hilary Armstrong, Chancellor of the Duchy of Lancaster (Ref. 3)

The elements of intelligent commissioning

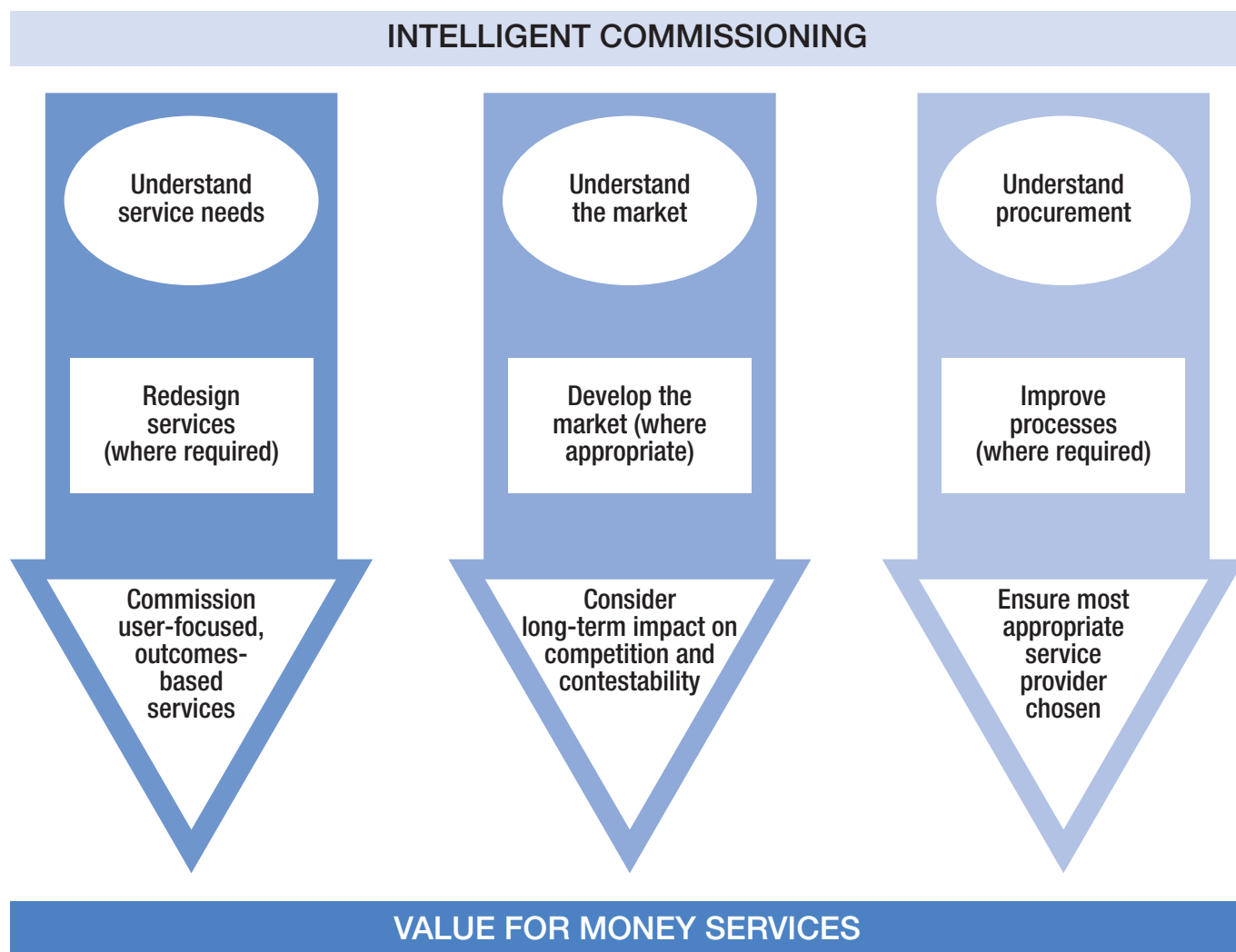
- 100 Our research with councils and voluntary organisations suggests that the principal elements of intelligent commissioning, as it affects them, are:
- a sound understanding of user needs;
 - a well-developed understanding and management of markets; and
 - good procurement practice, which comprises:
 - the choice of funding approach (grant or contract);
 - the process prior to awarding the grant or contract;
 - the basis for determining price; and
 - post award, the effective management of the working relationship.
- 101 We consider the implications of each of these elements for commissioning the voluntary sector. In each case, we assess the evidence of good and bad practice that we found in our fieldwork. We comment on the challenges inherent in each, and on how local authority commissioners and voluntary sector providers might address them together.

¹ Competitive neutrality implies a commitment to a level playing field between public, private and voluntary sector providers of goods and services. It is most often concerned with the perceived advantages that public sector providers hold in procurement processes, but is equally applicable to private and voluntary organisations.

102 We address the first two elements (the understanding of user needs and of the market) in this Chapter, and the implications for procurement practice in Chapter 5.

103 **Figure 6** provides a structure for thinking about the elements within intelligent commissioning.

Figure 6
Intelligent commissioning



Understanding service needs

- 104** Understanding service needs implies understanding the make-up of the target population, identifying what services will meet the diverse needs of that population and what the council can deliver, realistically, within the budget available.
- 105** Commissioners were generally positive about involving the local voluntary sector in developing their understanding of service needs. However, most of the positive comments were general observations that strategic engagement with the voluntary sector was a good thing. We found few practical examples of strong engagement. Voluntary organisations were more likely than councils to mention problems and tensions.
- 106** Councils conducted most of the engagement with the voluntary sector through partnership boards (children’s trusts, crime and disorder reduction partnerships for example), rather than any direct engagement with individual service providers. There was little evidence of tangible positive benefits accruing because of this strategic engagement.
- 107** Some commissioners we interviewed have tried to engage providers to understand service needs better:

‘...we consulted with all the people that we currently funded in that particular area... we held an open event where we invited any potential provider to tell us the way that they saw the service should be run, and then we incorporated all those elements into the specification when we went out.’

Adult social care commissioner

‘Before we would look to remodel any service, we would have specific workshops... involving the voluntary and community sector... for example all our floating support contracts are about to be reconfigured, we’ve had a series of workshops with the providers in each client group area to decide and look at the issues...’

Supporting People commissioner

108 We identified three main points of tension:

- Commissioners frequently determine service requirements before any meaningful consultation has taken place, and often these commissioners do not fully understand users' needs.
- Smaller voluntary organisations may lack the capacity to engage with public bodies in the commissioning process. Representatives of these smaller organisations sometimes feel that larger voluntary organisations, which have engaged in the early consultation, have an advantage when it comes to bidding for tenders (with inside knowledge).
- Several commissioners suggested that there was a potential conflict of interest for voluntary organisations involved in both strategic commissioning and service delivery. At the same time, a number of voluntary organisations pointed out the potential conflict of interest within councils that retain both commissioner and provider roles.

109 Councils are facing increasing pressures to provide ever more personalised services and to meet the needs and aspirations of diverse communities, in a climate of tight resource constraints. There is a tension between the requirement to meet users' diverse needs and the limitations of a council's budget. Similarly, commissioners will need to make difficult judgements on the extent to which they can meet the specific needs of particular individuals and groups, within their budgets.

110 Therefore, 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 judgements they must make about resource allocation¹.

111 Voluntary organisations can help commissioners perform this task more effectively, through their advocacy role, speaking for target populations of service users. Voluntary organisations can help commissioners understand the specific needs of these users and understand the most cost-effective ways of meeting their needs.

¹ The Audit Commission is currently carrying out research on making better use of information to drive improvement in local public services.

- 112** The Audit Commission's recent report on innovation in local public services (**Ref. 28**) 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.

Understanding and managing the market

- 113** Market circumstances will vary considerably from place to place and from service to service. Service commissioners need to understand the market environment in which they can buy services, including understanding where a market does and does not exist.
- 114** Understanding the market implies understanding how diverse and competitive it is, how much power the authority has in this market, and how the authority's actions may influence the future development of that market.
- 115** A recent study of children's services markets, commissioned by the Department for Education and Skills (**Ref. 29**) notes that:

'There is no common understanding or appreciation among local authorities of what a vision for their local markets could, or should look like.'

The report goes on to say:

'The voluntary and community sector is present to a greater or lesser extent in all the markets researched and plays a significant role. For example, in the fostering market large national voluntary and community providers... compete alongside large private providers in a well-established market. In other markets such as parental and family support services, a range of smaller providers has pioneered the local development of services in the sector, while the private sector does not take a significant share of the market.'

- 116** In our fieldwork, we found that commissioners and providers had only limited understanding of the amount of competition in their service areas. In particular, we found there was an assumption that there is little competition for the largest or smallest contracts. At the high end, a few large suppliers will dominate the big block contracts; at the lower end of the scale, small voluntary organisations will dominate the provision of niche services because there is no interest from the private sector. However, there was a reluctance to test the market.

‘...because we don’t tender, we’re not really seeing who is available. What we have is assumptions from commissioners that nobody else can do this piece of work. But we can’t always evidence that... in some areas with particular commissioners, I’ve convinced them and we’ve gone down that route to test the market and suddenly they’ve recognised there’s one or two other organisations...’

A children’s and young people’s service contract manager

- 117** The Audit Commission’s forthcoming study on competition and contestability is exploring market issues in more detail, and it will provide guidance on the skills that councils need in order to make judgements about the market.

The extent of competition

- 118** We found genuine competition involving the voluntary sector for a few services, particularly adult social care. Competition tended to occur between larger voluntary organisations and the private sector for larger contracts and mainstream services. However, voluntary organisations faced as much, if not more competition from within the sector than from private operators. There is often competition between national and local voluntary organisations for contracts in adult social care or children’s services.

‘The voluntary sector’s got some threat from the private sector but they’ve got bigger threats from other voluntary sector providers; there’s almost a notion that they’ve all got their little niche.’

Adult social care commissioner

- 119** However, we found little competition between and within sectors for specialist or niche services. Small- and middle-sized voluntary organisations often hold a monopoly of niche services, perhaps due to the specialised nature of the service, or because the service is not commercially attractive to the private sector.

‘With the bigger organisations like Age Concern, Red Cross, Crossroads, Stroke Association, yes, I think there is an element of competition there, but for a lot of the smaller ones, no, I don’t think there is.’

Adult social care commissioner

120 A few providers and service commissioners suggested that voluntary organisations were struggling to gain a foothold in the public service market because councils tended to prefer familiar providers, or were generally reluctant to outsource services. An academic paper (**Ref. 30**) from Cardiff University Business School confirms this, and the Audit Commission noted this in an earlier report in 2002 – *Competitive Procurement* (**Ref. 31**).

121 One service commissioner attributed this to risk aversion:

‘I think I’d like to see quite a shift towards further delegation to voluntary sector providers... but there’s a natural in-built risk aversion for the statutory sector [because] at the end of the day... the buck stops with you. You have a statutory duty to perform, if you delegate that to another, you’ve got to be pretty sure that they’re doing that in a way which is safe...’

Adult social care commissioner

122 Providers were more inclined to suggest that councils were reluctant to encourage further competition because they retain both a commissioner and provider role:

‘...would the government give a lot of money for supermarket development and ask Tesco to take the lead on it? Because that’s the equivalent of asking for market development and giving the local authorities the lead on it...’

Children and young people’s service provider

123 Most service commissioners claimed to treat all providers equally and many stressed the importance of maintaining a level playing field between providers from all sectors. Nevertheless, some small organisations felt that they missed out, because they lack the skills and capacity to compete, although they have the capacity to deliver.

‘I think there’s a lot of people who can talk the talk who will then get the money. My project can walk the walk as well.’

Adult social care provider

124 Small and medium-sized voluntary organisations were concerned that they would lose out to larger voluntary organisations in competition for contracts, and this would have a detrimental effect on the sector as a whole.

‘It just makes it too cut-throat. Competition’s one thing, but competition to the exclusion of thinking about everything else is not okay. I don’t think we need to be at each other’s throats.’

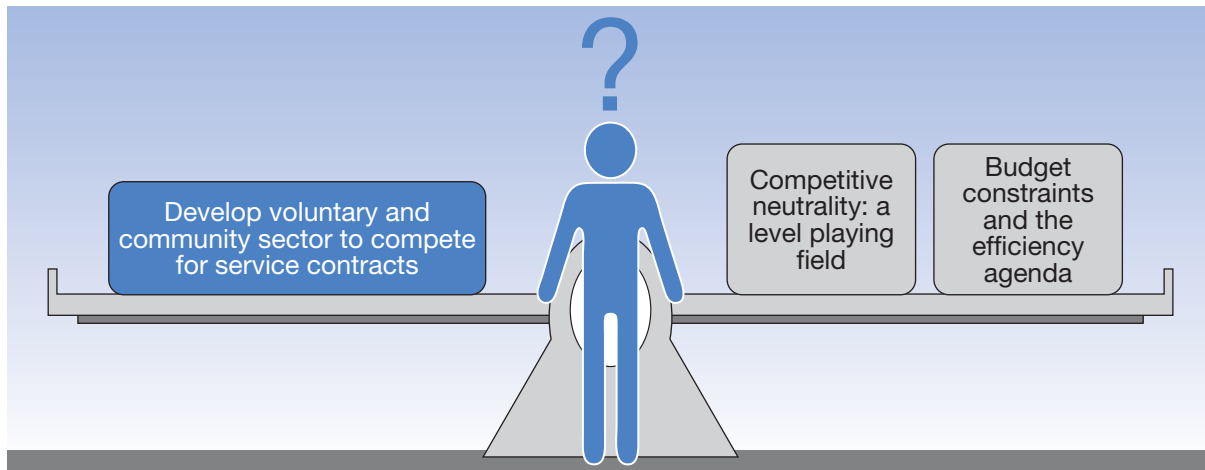
Adult social care provider

Tensions inherent in using the market

- 125 Council officers felt that it was difficult to comply with procurement rules and, at the same time, ensure that the market remains diverse and competitive for the future (Figure 7).

Figure 7

Commissioners need to balance the desire to encourage market diversity and the requirement to comply with procurement rules and consider competing agendas



Source: Audit Commission

- 126 This tension shows in various ways: council officers wanted to encourage smaller voluntary organisations to enter the market. However, they recognised that attempting to build capacity through the procurement process might be inconsistent with the need to maintain a level playing field in current procurement competitions.

‘I think there [are] mixed messages coming from government... on the one hand they’re saying “you’ve got to operate a marketplace, it’s got to be genuine competition”... [on] the other hand they’re saying “you’ve got to give the voluntary sector a leg up.... you’ve got to treat them in this, that and the other way”, which seems to be contradictory to the open marketplace.’

Council policy lead on the voluntary sector

- 127** Many commissioners we spoke to complained of having their hands tied by complex EU procurement rules, and argued that they put potential bidders from the voluntary sector off competing for contracts. They suggested that EU rules are applied mechanistically, often following advice from legal departments. However, as shown in paragraph 162, EU rules have not prevented some councils from procuring in ways that encourage voluntary organisations to compete. Many councils would welcome non-technical advice on how to apply the rules flexibly to encourage voluntary organisations to enter the market.
- 128** Some commissioners said that government attempts to meet a variety of other agendas, notably the efficiency agenda, through the commissioning process, were causing confusion. Sir Peter Gershon has acknowledged this:

‘...there are many different agendas, which are trying to ride on the back of procurement – the innovation agenda, the green agenda, adult literacy, SMEs [small and medium enterprises], BMEs [black and minority ethnics]. Each of these agendas is perfectly valid and legitimate for government to wish to pursue. My criticism is that by and large, they emanate from different government departments; they are not joined up...’ **(Ref. 32)**

Many service commissioners saw a conflict between the efficiency agenda in particular and expanding the voluntary sector’s role in public service delivery.

- 129** Where a short-term efficiency focus drives councils to procure services at the lowest cost, some providers were concerned that this was jeopardising the longer-term diversity of the supply base. In particular, if larger organisations from the private or voluntary sector secure public service contracts, the smaller organisations that lose out may not survive to contest future competitions.

130 If commissioners take a broad view of value for money, these agendas need not be in conflict. However, commissioners need a sophisticated understanding of the market and a sound basis for decision making, which does not focus solely on the lowest cost in the short term. Best value requires service commissioners to consider a variety of other service delivery factors as well as cost, in order to reach an informed judgement on which provider is offering the best value for money in their locality in the longer term.

131 In Chapter 2, we referred to the difficulties of evidencing the voluntary sector's claims to add value. Voluntary organisations that can demonstrate that they are delivering value against commissioners' objectives will be in a much better position to secure more service contracts. For example, one community transport commissioner acknowledged the value offered by one voluntary organisation:

'Without the volunteers for the community car schemes we wouldn't have those extra 30,000 single passenger trips.'

132 Similarly, those voluntary 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.

'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 the government's vision for more flexible and responsive services.'

(Ref. 33)

133 Once commissioners have an understanding of users' needs, and of the supply market, the next step is to procure the services required efficiently.

5

Effective procurement

Chapter overview

134 In this Chapter, we discuss effective procurement: the means of procuring services, through grant funding, service level agreement or contract and best practice within each of these arrangements. We also discuss full-cost recovery within the procurement context.

Procuring effectively

135 Procuring effectively follows on from the first two pillars of the intelligent commissioning framework; it means making judgements about the best way to procure services in the light of service needs and the market. **Table 3** illustrates the vital questions that commissioners need to consider at each stage of the process.

Table 3
Questions for sound procurement practice

Stage	Decision
Pre-procurement	How are we going to fund what we want to buy – by grant or contract?
Pre-award	How do we run a procurement process that is fair, and enables us to get the service we want, from the provider(s) who can do it best, and at the best possible price?
Award of grant or service contract	How do we determine the price we should pay for the service?
Post-award	How can we manage the service provider, in a way that ensures accountability, without being overly burdensome?

136 These questions are not unique to procuring services from the voluntary sector. However, there are some particular issues in dealing with the voluntary sector, which commissioners do need to consider.

Choosing a funding mechanism – grant or contract?

137 There has been a long-running debate about the relative merits of grants and contracts, as the means of funding to the voluntary sector for service delivery. The decision on the right mechanism is an integral part of intelligent commissioning:

‘Any funder, whether a grant making trust or statutory purchasing body, has intentions for their funding... depending on the desired intent, the funder will need to adopt rather different mechanisms to achieve their objective.’

(Ref. 34)

138 Local authorities need to be clear about the purpose of their funding. Julia Unwin (now Chief Executive of the Joseph Rowntree Foundation) identifies three different funding styles: giving, shopping, and investing (**Ref. 34**). We think this classification of funding intention should help councils to think about their dealings with the voluntary sector. Because of our concern for local service delivery, our fieldwork focused on the shopping (buying services) and investing (building capacity for future benefit) elements rather than on giving (contributing to the voluntary organisation’s goals without expectation of return).

139 Government has recognised the importance of retaining a choice of funding mechanisms for procuring services. The interim report from the Treasury third sector review (**Ref. 1**) notes that:

‘The consultation suggested there would be benefit to maintaining a mix of grant funding open to small community organisations, alongside the increasing availability of opportunities for third sector organisations to contract with government for the delivery of public services. Many small organisations are not in a position to compete for public service contracts nor do they see formal public service delivery as part of their core function.’

The 2006 Local Government White Paper (**Ref. 2**) and the action plan from the Office of the Third Sector (**Ref. 3**) also endorse the principle of a balance of grants and contracts, depending on the purpose of the funding.

140 Some commissioners also endorsed this stance:

‘I could understand that a grant making regime, for instance, might well be a sensible way of funding a cutting edge development organisation that’s working very closely with communities... I think when you’re talking about purchasing really quite specific services... then I think grant aid funding is less useful because the lines of accountability are too stretched.’

Supporting People commissioner

141 Nevertheless, there was a widespread perception among voluntary organisations that service contracts are replacing grants, and that this is harming the smaller voluntary organisations.

142 We found little evidence of councils cutting grants budgets in order to procure more services under contract. Nine councils in our sample were able to provide reliable grants data. **Table 4** shows that between 2003/04 and 2004/05, there was no discernible pattern; the value of grant funding had increased in five councils and decreased in four councils.

Table 4
Council grant funding to the voluntary and community sector

Council	Grant funding 2002/03 £	Grant funding 2004/05 £	Percentage change 2002/03 to 2004/05
Council 1	678,568	815,687	+20.2%
Council 2	3,322,394	2,851,217	- 14.2%
Council 3	1,413,320	1,327,686	- 6.1%
Council 4	4,557,364	6,505,240	+42.7%
Council 5	8,267,958	11,168,600	+ 35.1%
Council 6	3,546,263	3,402,091	-4.1%
Council 7	669,309	837,914	+25.2%
Council 8	193,507	194,781	+0.7%
Council 9	3,509,906	3,336,730	-4.9%

Source: Audit Commission

143 A few councils in our sample stated explicitly their commitment to retaining grants to support smaller voluntary organisations and encourage community engagement.

‘We are still maintaining a number of small grant pots for very small grants and activities, which I think is an important part of the overall package of support to communities.’

Council policy lead on the voluntary sector

144 **Table 5** shows that the current three-year financial settlement has maintained the level of central government grants that councils administer.

Table 5
Central government grants administered by councils

	Total grants (£m)		
	2005/06	2006/07	2007/08
Personal social service	2,805.0	2,901.8	2,894.5
Environmental, protective and cultural services	389.4	392.3	390.6
Unallocated	2,453.5	2,443.9	2,455.2
Total	5,648.0	5,738.0	5,740.3

Source: Department for Communities and Local Government

145 Three factors may explain the perceptions that grant funding to the voluntary sector has reduced:

- Much of the growth in government funding to the voluntary sector identified in Chapter 2 has come through contracts rather than grants. In some cases, councils are procuring through competitive tender some services that were previously grant funded, and diverting those grant funds to other organisations and purposes.
- Similarly, we found that most councils had not reduced their total grant pots, but were redistributing their grants in order to align them with strategic priorities.
- Finally, there are fewer unrestricted grants. Many grants now have service level agreements attached to them and voluntary organisations often regard these as contracts.

146 We found widespread confusion about the definition of grants, service level agreements, and contracts. But many commissioners and providers were less concerned about the legal form of the arrangement than about the process by which they reach agreement on the service specification. As one provider argued:

‘... Contracts and grants, what’s the difference? They have contract conditions, so you have grant aid conditions... grant aid comes down to a contract anyway. They’re giving you money for something that’s specified in the grant aid document. It’s a lot of semantics, really.’

Supporting People service provider

147 Service commissioners and providers in our sample identified advantages and disadvantages in procuring and delivering services under contract. Contracts can give councils greater control over the service they buy and a better way of holding providers to account. They can also give suppliers greater clarity on what councils require and security of funding:

‘If it works well, then I think the advantages to us are that we can have more control over what the outcomes are; more certainty that the organisations are absolutely going to help us achieve the outcomes that we want.’

Council policy lead on the voluntary sector

‘The way contracts are being done, you wouldn’t just do them for a year. If it’s a big contract, you would do it for maybe three years or four years. So that gives them security, whereas right now with grants, they’re insecure.’

Adult social care commissioner

148 Many voluntary sector providers in our sample acknowledged the need for greater accountability and could see the benefits of contracts in doing so. Reporting performance against a contract specification could provide better opportunities to demonstrate their value than was possible under some grant funding arrangements. Commissioners, and many voluntary organisations, regarded the move to more contractual arrangements as a positive move towards greater professionalism in the relationship.

‘I do think that some organisations in the grant giving culture were not properly explaining and not properly accountable for that funding and I don’t think that does any of us any good... so I’m happy to move to this commissioning and accept what that actually means...’

A Supporting People service provider

‘And it’s very useful if I have to sit and tell you how I’ve spent your money, that’s actually good for me to think about, because it’s quite easy to carry on doing the same thing, isn’t it?’

Voluntary sector provider

‘I am far more comfortable with a contracting culture than a fund and forget approach...’

Council for voluntary service

- 149 Although most voluntary organisations had no strong ideological objection to competing for service contracts, some organisations, especially the smaller ones, had some practical concerns.
- 150 Some voluntary organisations thought that providing services under contract could force them to compromise their mission and autonomy. The recent Charity Commission survey highlighted this concern **(Ref. 7)**.
- 151 Some voluntary organisations were afraid that tightly defined contracts might make them more risk averse and less innovative.

‘At the moment one of the really good things about the sector is the imaginative ways in which it can work and some of them are a bit off the wall and I think we’re risk takers and risks don’t always pay off do they? I think that if it all becomes too competitive again, managers like me will think twice before taking a risk.’

A voluntary sector provider

- 152** Some of these anxieties may be justified. A recent academic study by Stephen Osborne (**Ref. 35**) suggests that the voluntary sector's innovative capacity has fallen in the past decade as a direct result of government emphasis on service delivery in its programme funding. However, the Office of the Third Sector is developing a £1.2 million Innovation Exchange programme to support the voluntary sector's capacity to innovate.
- 153** Some voluntary organisations equated greater use of contracts with competition, which reinforced the fears reported in Chapter 4, about their inability to compete.
- 154** Intelligent commissioning implies making judgements about when it is appropriate to use contracts for buying services from voluntary organisations. Similarly, commissioners must make judgements about where competitive procurement processes are appropriate, in the light of market circumstances.
- 155** Although the choice of funding mechanism is only one element of intelligent procurement, it has consequences for good practice in the later stages of the procurement and contract management processes. **Table 6** overleaf summarises this.

Table 6
Effective procurement – answering the core questions

Stage	Decision	Preferred mechanism	
Pre-procurement	How are we going to fund what we want to buy – by grant or contract?	Grant	Contract
Pre-award	How do we run a procurement process that is fair, and enables us to get the service we want, from the provider(s) who can do it best, and at the best possible price?	Choose the recipient according to the objective, which might be: <ul style="list-style-type: none"> • developing the plurality or competitiveness of the market • building advocacy or advisory capacity • creating capacity to deliver a service • meeting a specific niche service need 	Use the market where appropriate Follow established good practice
Award of grant or service contract	How do we determine the cost of, or price we should pay for the service?	A negotiated settlement based on a thorough understanding of costs	Market competition (where a market exists)
Post-award	How can we manage the service provider, in a way that ensures accountability, without being overly burdensome?	Manage performance against plans Evaluate against benchmarks where they exist	Manage performance against contract or specification

The pre-award phase

- 156** The voluntary sector has some concern that, where contracts are the preferred mechanism for public service delivery, and councils award them through competitive tendering, poor procurement practice may disadvantage the voluntary sector.
- 157** There is plenty of guidance available for public sector commissioners, on good practice in funding, commissioning, procurement, and market management. The National Programme for Third Sector Commissioning will supplement this material. **Appendix 4** contains a list of useful references for further reading.
- 158** Comments from voluntary organisations on their recent experience of procurement practice were largely negative: the volume of complaints suggests that poor procurement practice is common. We cannot say that poor practice affects voluntary organisations disproportionately, since many of the issues quoted might also affect the private sector (particularly SMEs) as much as the voluntary sector. Nevertheless, voluntary organisations see these issues as barriers, preventing them from competing effectively. We conclude that much of the current procurement practice does not encourage voluntary organisations to enter the market.
- 159** The most common complaints were:
- complex and bureaucratic tendering;
 - poorly managed processes for issuing tender information, informing bidders of the results of a tender and issuing contracts after a successful bid;
 - lack of experience among commissioners and providers of tendering and bidding for services; and
 - a general sense that the procurement process focuses on reducing costs, at the expense of quality.
- 160** Many interviewees considered that current procurement practice favours larger voluntary and private sector organisations:

‘If we proceed on the same lines about rigid tendering procurement rules and regulations, you won’t get your community and voluntary sector. What you’ll get are the big girls and boys rather than community organisations who actually know the community. You won’t get that because we won’t compete and we won’t win, we can’t win...’

Supporting People service provider

161 Commissioners have tensions to resolve within the procurement process itself. For councils seeking large-scale provision, letting a small number of large contracts rather than many small ones may minimise administration and transaction costs. However, this approach may reduce competition and plurality in the supply base. Small and medium-sized voluntary organisations claimed that they were often unable to bid for contracts that were simply too big for them to manage. A few commissioners acknowledged this:

‘...the way that we package contracts at the moment is in a way that makes it attractive for those large organisations because they’re big contracts and makes it probably more difficult for the smaller organisations...’

Adult social care commissioner

162 We found some examples of councils amending their procurement practice, in order to encourage smaller and medium-sized voluntary organisations to compete. A few councils were breaking up larger contracts, or providing opportunities for smaller voluntary organisations to sub-contract or to form consortia to bid for contracts. But councils recognised that this approach might be inefficient and that it carried some risks.

‘Even if it did happen, it’s going to come across as inefficient. It would be hard, not impossible, but very hard for someone to win business if they’re coming in as a consortium or a sub-contracting arrangement. I cannot see that as being the way forward.’

Supporting People commissioner

‘...the opt out is to invite providers to tender in partnership with other providers, perhaps smaller providers that couldn’t bid on their own. But it’s passing the responsibility of fostering the value of small providers onto larger providers.’

Supporting People service provider

163 One council officer summed up the challenge for commissioners:

‘The procurement process doesn’t have an objective within it or complementing it that says “having a voluntary and community sector able, willing and enabled to compete for local authority public sector contracts is a good thing”, so we’ve never asked ourselves “how do we make our procurement process, voluntary and community sector friendly?”’

Council policy lead on the voluntary sector

164 Many voluntary organisations raised concerns about grant application procedures similar

to those raised about competitive procurement practice in paragraph 158. We heard a number of complaints about:

- complex and bureaucratic grant application processes;
- bidders having to go through different processes for different funding streams often being sought to fund the same service; and
- slow or late decisions regarding continuation funding, often leaving grant recipients in an uncertain position at the end of a financial year.

165 Commissioners and providers alike agreed that poor grant administration results in much wasted effort, which disproportionately affects smaller voluntary organisations.

‘...a lot of time is spent trying to engage the local authority on funding issues, like sustainable grants, renewable grants and that kind of thing... where the manager spends a whole host of the time bidding into those pots and less of the time actually providing the service they’re supposed to.’

Children and young people’s service provider

The award phase

166 Just as there has been considerable debate about whether grants are giving way to contracts, there has been debate about the feasibility of applying full-cost recovery to grants and contracts.

167 Full-cost recovery means:

‘Recovering or funding the full costs of a project or service. In addition to the costs directly associated with the project, such as staff and equipment, projects will also draw on the rest of the organisation. The full cost of any project therefore includes an element of each type of overhead cost, which should be allocated on a comprehensive, robust, and defensible basis.’¹

168 HM Treasury first endorsed the principle of full-cost recovery in 2002, when it recommended:

‘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.’ **(Ref. 4)**

It reinforced this message and issued further clear guidance on funding practice in 2006 **(Ref. 36)**:

‘Under a competitive procurement regime, purchasers should be clear that they expect third sector providers to be aware of the risks of not bidding on a full-cost recovery basis. A third sector organisation unwittingly subsidising a public service is unlikely to represent good value for money, particularly in the long term.’

‘There is no reason why service procurers should disallow the inclusion of relevant overhead costs in bids. Furthermore, funders or purchasers should not flatly reject or refuse to fund fully costed bids.’

169 Despite such guidance, understanding of full-cost recovery and its application is very patchy within local government and the voluntary sector itself.

Full-cost recovery under contractual arrangements

170 Full-cost recovery was still a worrying issue for some voluntary organisations. The recent Charity Commission survey **(Ref. 7)** found that only 12 per cent of respondents who were delivering public services, said that they receive full-cost recovery in every case; a further 37 per cent said that they obtained full-cost recovery in some or most cases, and 43 per cent did not obtain full cost recovery at all.

171 Contrary to the findings from the Charity Commission, most of our interviewees said that full-cost recovery for contracts is commonplace and councils accepted the principle. We found some commissioners actively promoting it. Many commissioners placed the onus squarely on voluntary organisations to prove that they had properly costed their bids:

‘What we said to providers was “tell us what you’re spending this money on and ... if you show us that actually it’s costing you more than we’re spending with you, we’ll give you some more money.”’

Supporting People commissioner

172 Where councils award contracts through a competitive process, we would expect the market to set the price. It is not reasonable to expect any organisation, whether from the voluntary or the private sector, to price their service below a sustainable level in the long term.

173 However, some voluntary organisations were reluctant to submit fully costed bids, because they were afraid of pricing themselves out of the market if they were to ask for their full costs. This fear is often justified. Many council representatives expressed similar views to this policy officer:

‘The voluntary sector isn’t particularly cheap already in terms of service provision, like for like, so if full-cost recovery actually inflates their costs any more then they may actually lose out.’

Council policy lead on the voluntary sector

174 Where there is no competitive market mechanism to set the price, commissioners need to consider whether they are paying the appropriate costs by scrutinising bids to ensure that they are well costed and sustainable in the long term. They should do so even-handedly between sectors.

175 Some voluntary sector organisations told us that this was not the case, and that they felt that their bids were subjected to greater scrutiny than those of other organisations. Several commissioners raised concerns about the way many voluntary organisations cost their proposals. Voluntary organisations need to ensure that they understand their costs fully, and they need to improve the quality of their tenders for service contracts. Until commissioners can be confident that the voluntary sector submits well-costed tenders voluntary organisations are likely to find that commissioners continue to subject voluntary organisations’ overhead costs to greater scrutiny than bids submitted by the private sector.

Full-cost recovery under grant arrangements

176 Most of the complaints about failure to apply full-cost recovery concerned grant funded projects. The Treasury guidance on this is clear:

‘When grant making, funders should assess in a simple, proportionate, and equitable manner whether third sector organisations have allocated relevant overhead costs and ensure that costs are recovered only once.’ **(Ref. 36)**

However, many voluntary organisations told us that it was hard to apply because of the difficulties of apportioning costs appropriately. For example, it is difficult to apportion overheads when a provider has multiple projects and multiple funding streams.

‘The reality is on the ground that very little of what we do, we can apply that full cost recovery model, because we have to jostle and negotiate and bargain across a whole range of different sorts of service level agreements or contracts.’

Voluntary sector service provider

177 While most councils accepted the principle of full-cost recovery, in practice budget constraints limited their ability to implement this for grants. Councils faced the choice of funding fewer services, or fewer organisations fully.

178 In one case, the council and the local voluntary sector had an explicit agreement not to apply full-cost recovery to their grant funding arrangements, because they believed that this would have a detrimental effect on the local voluntary sector as a whole.

‘...full-cost recovery is just not possible in terms of grants and so that’s agreed by both sides, there would be a much smaller voluntary sector, better resourced but smaller... the winners would literally take all.’

Council for voluntary service

‘It would probably decimate the number of agencies we were able to grant aid.’

Council policy lead on the voluntary sector

- 179** The debate on full-cost recovery has created a false expectation within certain sections of the voluntary sector that more money will be available for existing services. The reality is that public bodies and the voluntary sector operate in a complex environment of diverse funding arrangements and finite resources.
- 180** We share the view expressed in a recent report commissioned by the Department for Environment, Food and Rural Affairs Compact Group (**Ref. 37**) that public bodies and voluntary organisations need to take a more pragmatic approach to full-cost recovery. Both parties in an arrangement need to make an informed decision about the affordable level of service that the public body can buy with the money it has. The voluntary organisation must consider whether to find match funding, scale back the service, or walk away from the arrangement.

‘What we’ve had to do is say well, we can only afford to buy this amount of... advocacy service... Because we acknowledge that we can’t expect them to provide something for nothing, so we just have to agree between us what’s the level of service that we’re able to commission, because there is no new money.’

Adult social care commissioner

- 181** Many of our findings at local level echo the findings of the National Audit Office on the application of full-cost recovery by central government departments. Its new report (**Ref. 38**) provides a useful framework for developing a more pragmatic approach to applying full-cost recovery across a range of different funding relationships.

Post-award performance management

- 182** Public sector service commissioners usually specify outputs rather than outcomes, when procuring services. Defining the right outcome measures is challenging. The service commissioners and providers in our study acknowledged the importance of agreeing the outcomes, but they were finding this difficult and recognised that they needed to do more work on it.

‘We’re only really able to measure effectiveness at the moment by looking at numbers, looking at output data, numbers of people, amount of activity, amounts of income generated by organisations. We have ambitions to move to more of an outcome focus for a whole range of organisations, to really look at the difference they make to the lives of people who come into contact with voluntary and community organisations.’

Adult social care contract manager

- 183** Defining the right outcomes links directly with the first element of the intelligent commissioning framework, understanding service needs. Commissioners should include outcome measures to capture the extent to which the service is meeting the users’ needs and providing satisfaction, in their assessment of performance and value for money.
- 184** Service providers expressed concern about councils’ monitoring of contracts. It was not always clear to them why councils collect the data they ask for, and whether or how the commissioners analyse it.

‘The monitoring is going on, but I don’t think it’s terribly real and valuable.’

Adult social care provider

‘In terms of transparency I don’t know if it’s whether we don’t know what they’re doing with it, or whether they’re not doing anything with it, I don’t know.’

Supporting People service provider

- 185** Service providers said that councils did not collect meaningful data that would help them analyse value for money. A lack of confidence in the performance measures used may be one reason behind a resistance to providing data. We found a few instances where smaller service providers were either withdrawing or considering withdrawing from funding arrangements with their council because they felt that the monitoring requirements were too onerous.

‘One [provider] simply said, “we just cannot come up with the goods, it’s just too much, it’s disproportionate to what we do”; it was a small shelter provider... “and we will carry on doing what we do but we’ll pull out and we’ll just charity fundraise for it, it’s easier.”’

Supporting People commissioner

- 186** Our interviewees suggested that councils take a streamlined approach, ensuring that:
- the reasons for collecting data are clearly stated and provide assurance that it will contribute to assessing value for money;
 - performance monitoring is appropriate and proportionate to the service provided and the level of funding; and
 - monitoring requirements are consistent across departments.

Conclusions

- 187** The principles of intelligent commissioning and effective procurement are not unique to commissioning and procuring from the voluntary sector. Rather, adopting good practice in commissioning and procurement is likely to deliver benefits for councils in their commissioning of services from all sectors. This includes enabling voluntary organisations to deliver public services where they are best placed to do so.
- 188** We consider that commissioning intelligently and procuring effectively are more likely to be effective than a framework that provides special treatment for voluntary organisations, not least because the sector has not demonstrated that it has inherent advantages that warrant such special treatment.
- 189** There are tensions to resolve in commissioning and procurement, notably between ensuring fair competition and ensuring that voluntary organisations can compete, and between making short-term efficiency savings and developing the market for the future. The approach we describe offers the best prospect for achieving central and local government's objectives for voluntary organisations' participation in public service delivery.
- 190** In pursuit of its mission to be a driving force in the improvement of public services, the Audit Commission will support efforts to improve commissioning and procurement, specifically by:
- contributing to the development of the national training programme for third sector commissioning, which the Office of the Third Sector is sponsoring;
 - continuing to assess councils' commissioning as part of its judgements on their use of resources; and
 - considering how to assess how councils and their partners work with the voluntary sector, in the Commission's development of Comprehensive Area Assessment.

Appendix 1

Government policy initiatives

The Compact

In 1998, government published the national Compact on Relations Between Government and the Voluntary Sector. In 2002, the Cabinet Office reviewed charities and the wider not-for-profit sector (**Ref. 39**). The Treasury cross-cutting reviews of 2002 (**Ref. 4**) and 2004 (**Ref. 40**) emphasised the sector's potential to improve the quality of public services. Subsequent reports from government have provided guidance on funding, commissioning, and procurement practice.

Reviews and policy papers

In the last three years, reports and policy papers on the voluntary sector have flowed from government, regulators, and various other organisations.¹ The principal coordinating organisations within the voluntary sector, the Association of Chief Executives of Voluntary Organisations, NCVO and the National Association for Voluntary and Community Action, have published policy papers, guidance, and good practice notes. The Charity Commission has issued guidance on matters that charities should consider if they plan to deliver services under a funding agreement with a public authority (**Ref. 41**). Last year, the Charity Commission surveyed charities on a range of issues from full-cost recovery to the length of funding agreements.

The Commission for the Compact

The government created the Commission for the Compact in 2006, as the independent organisation for the Compact, which oversees the relationship between government and the voluntary sector.

¹ Appendix 4 provides a full list of references and further reading.

The Office of the Third Sector

In recognition of the increasingly important role of the third sector, the government created the Office of the Third Sector within the Cabinet Office,¹ in May 2006. The Office is driving forward the government's role in supporting the sector and coordinating a wide-ranging cross-government Action Plan for Third Sector Involvement (**Ref. 3**).

The Office of the Third Sector Action Plan has four core elements: commissioning, procurement, learning from third sector innovation, and accountability – the third sector's role in helping people hold public services to account.

Capacity building

Government is using two mechanisms, capacity building, and the commissioning process, to increase the voluntary sector's involvement in public service delivery. It has invested unprecedented sums in capacity-building programmes such as ChangeUp and Futurebuilders.

Review on the future role of the third sector

HM Treasury and the Cabinet Office conducted a joint review on the future role of the third sector in economic and social regeneration, throughout 2006. This investigation formed part of the Comprehensive Spending Review 2007 and the Treasury published an interim report in December 2006 (**Ref. 1**).

Consultation during the review showed that a narrow focus on financial efficiency and value for money in the delivery of public services may have unintended consequences for the third sector's ability to help transform public services. The final report will influence the 2007 budget and government will announce the final recommendations as part of the Comprehensive Spending Review.

¹ The new Office brings together the work of the Active Communities Directorate from the Home Office, and the Social Enterprise Unit, from the Department of Trade and Industry.

Appendix 2

Methodology note

We designed this research as an exploratory study. We conducted an extensive literature review to inform our initial thinking, our approach to analysis and to cross-reference with our findings.

We invited 14 English councils to participate in this study. These councils and voluntary and community organisations provided us with a small representative sample. We have not tried to identify differences between various types of local authority from this small sample.

We focused on three services where the voluntary and community sector's involvement in service delivery is reasonably well developed: social care for older people; children and young people's services; and community transport.

We carried out 108 semi-structured interviews with:

- council policy officers and service commissioners;
- representatives from voluntary and community sector organisations currently providing services to councils under grant or contract arrangements; and
- local councils of voluntary service.

We used NVivo 7 software to collate and analyse all qualitative data.

We analysed secondary data sources from each council, including local Compacts, policy documents, and best value reviews (where available).

We asked each council to provide data on their expenditure with the voluntary and community sector, between 2002/03 and 2004/05, broken down by expenditure type (ie, grants and contracts). Ten authorities provided returns on grant funding, but only three were able to provide comprehensive returns on contract expenditure. We commissioned an external contractor to analyse charities' financial returns at national level, in order to provide an overview of recent changes in their income and expenditure. Finally, we tested the findings from our research at a workshop comprising representatives from the case study authorities.

We also examined the councils' documents, including accounts, best value reviews, policy papers, service contracts, and local Compacts.

Appendix 3

Participating local authorities

We are grateful to the councils and the partner local voluntary organisations that helped with our fieldwork:

Coventry City Council

Gloucester City Council

Gloucestershire County Council

Lancashire County Council

Leeds City Council

London Borough of Hammersmith and Fulham

London Borough of Hillingdon

Newcastle upon Tyne City Council

Ryedale District Council

Staffordshire County Council

Wellingborough Borough Council

Westminster City Council

Wirral Metropolitan Borough Council

Wokingham District Council

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