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# EXECUTIVE SUMMARY

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The third sector – from voluntary and community organisations, through to social enterprises, mutuals and co-operatives – has much to contribute to the Government’s goals for public services, communities and the economy. In recognition of this, the Government has taken significant steps since 1997 to promote, enable and grow the third sector.

While substantial gains have been made since 1997, there is a recognition that there is still more that the third sector can contribute to public service delivery. This discussion document intends to inform the debate on how and where the sector could make the most valuable contribution. The document consequently offers a definition of the third sector, and describes how the sector can enhance the delivery of important public services – recognising both the direct and indirect benefits to society that it can generate.

As set out in Chapter 2, the third sector is difficult to define. Definitions invariably tend to create artificial or incorrect boundaries, or fail to truly capture the rich diversity that exists within the sector. This document defines an inclusive third sector – a collection of voluntary and community organisations, social enterprises, co-operatives and mutuals – according to a set of common characteristics, including separation from Government, the pursuit of social, environmental and cultural objectives, and the principal reinvestment of surpluses.

The third sector can offer a superior alternative to both the private and public sectors in the delivery of public services in certain circumstances. This is particularly true when government failures exist and neither the state nor the market can respond and deliver in an equitable or efficient manner. In particular, Chapter 3 identifies the specific advantages that third sector organisations can bring to the delivery of public services. These potential benefits need to be fully considered when considering the most suitable delivery agent for a particular public service, and may include:

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

Chapter 4 recognises that the third sector can also help to improve public services by being involved in the design, commissioning, and evaluation of services. The third sector can also bring further benefits to society and the economy when it is responsible for the actual delivery of services. These wider benefits can arise because the sector sometimes delivers services in a different way, for example by:

- involving local people to build community ‘ownership’;
- building the skills and experience of volunteers – especially the young; or by
- increasing trust within and across communities, thereby building social capital.

Chapter 5 also shows, however, that there are a number of ‘barriers’ that currently inhibit more extensive third sector involvement in public service delivery. In general access to public finance may be diminished by public procurement behaviour that is insufficiently sensitive to the particular constraints facing the sector, although some risk averse practices of the public sector are a necessary condition of receiving public funds. Third sector organisations are also often constrained by limited access to financial capital, and may experience lack of physical capital, plus certain forms of human capital. The chapter sets out the measures that have already been introduced by both the Government and the sector in an attempt to overcome these barriers, and stresses their importance if the sector’s role in public service delivery is to grow.

Chapter 6 reiterates this message, and also highlights the importance of improving the understanding and awareness of the potential benefits of the third sector amongst policymakers in both central and local government, including increasing knowledge of how social issues can be incorporated in procurement frameworks. There is also a need for better evidence on the practical effectiveness of the third sector in public service delivery, as well as an ongoing responsibility for government to maintain wider cultural support in society for the third sector and its activities. Going forward, the Government will be consulting with the sector and other key stakeholders on how the analysis in this document can shape future policy, and ensure the third sector can realise its full potential contribution to public service delivery.

# FOREWORD BY THE RT HON. PAUL BOATENG MP

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The Government's goal is to deliver world-class public services through investment and reform, while ensuring efficiency and value for money. Voluntary and community organisations, social enterprises and the wider third sector are already playing an important role in the delivery of public services but have, I believe, the potential to contribute even more to the pursuit of our ambitious goals for public services.

This discussion document is a key output of the Voluntary and Community Sector Review, which was carried out as part of the 2004 Spending Review to investigate the potential for greater third sector involvement in public service delivery - building on the work of the 2002 Cross-Cutting Review of the sector.

As this document explains, third sector organisations are often exceptionally well placed to help deliver public services, especially where they have a closer understanding of local communities and of the needs of particular groups of the population than either the public or private sectors. These attributes imply that the sector has the potential to play a key role in helping the Government achieve one of the key objectives it set out in the 2004 Spending Review, namely more responsive, personalized public services. This document also recognises that additional benefits for society, in the form of increased community engagement, higher social capital and better public service outcomes, can also result from engaging third sector organizations in the design and delivery of public services. This document also identifies, however, a number of barriers that can inhibit third sector organisation's ability to make a more significant contribution to public service delivery.

I therefore hope this document will inform the debate on how and where the sector could make the most valuable contribution to public service improvement, and the role we all - policymakers, procurers and third sector organisations – have to play to make this contribution a reality.

Finally, many individuals and organisations within government and the third sector contributed to the work of this Review, and I would like to thank them for their efforts.



Rt Hon Paul Boateng, MP

Chief Secretary to the Treasury

**(Lead Minister for the VCS Review)**



**1.1** The third sector – the sector of the economy made up of voluntary and community organisations, charities, social enterprises and mutuals and cooperatives - has much to contribute to the Government’s goals for public services, communities and the economy. In recognition of this, the Government has led a number of initiatives in recent years to promote, enable and grow the third sector. But while substantial gains have been made since 1997, there is still more that the third sector can contribute to the delivery of high quality public services.

**1.2** This discussion document is aimed at public sector policy makers and procurers, third sector organisations, and anyone concerned with the performance of UK public services. It is intended to help clarify what the third sector is, to describe the value which third sector organisations can bring to improving the quality and effectiveness of public services, and identifies the challenges facing the Government and the sector in the years ahead if the full benefits of its involvement in public services are to be realised.

## WHAT IS THE ‘THIRD SECTOR’?

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**1.3** The Government regards the third sector as a key partner in a mixed economy of public service provision, alongside the public and private sectors. The sector comprises organisations that:

- are non-governmental;
- are ‘value-driven’ - that is, that are primarily motivated by the desire to further social, environmental or cultural objectives rather than to make a profit *per se*; and
- principally reinvest surpluses to further their social, environmental or cultural objectives.

**1.4** Chapter 2 explores the definition of the sector in more detail, but for the purposes of this document the term ‘Third Sector’ includes all organisations that would define themselves as, voluntary and community organisations, charities, social enterprises, mutuals or co-operatives.

**1.5** The third sector makes a large and essential contribution to the economic and social life of the United Kingdom. It plays a key role in:

1. building ‘social capital’, both by promoting self-organised community and collective action and by encouraging volunteering and active citizenship;
2. providing services to the public and to particular groups in the community, thereby meeting social and individual needs;
3. advocacy on behalf of communities and the individuals they serve and represent, for example through campaigning and lobbying activities or formal representation in decision-making fora;
4. contributing expertise and experience to policy formulation, through dialogue with local and central government and other public bodies;

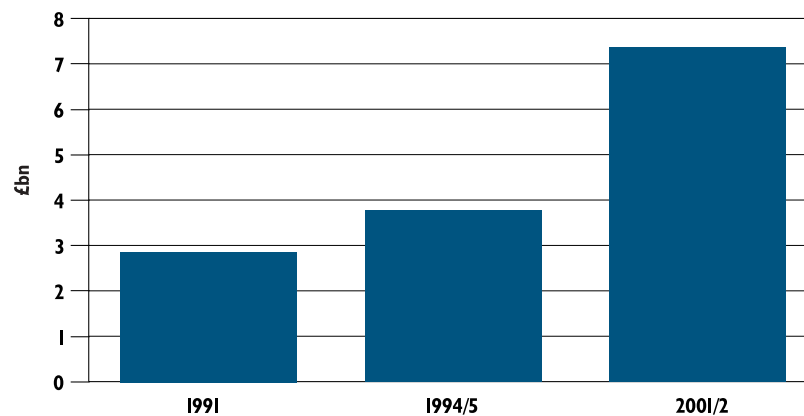
5. providing employment and income, thereby contributing to overall economic output (see Box 1.1 below); and
6. delivering public and publicly-funded services.

#### Box 1.1: The third sector's contribution to the UK economy

There are obvious difficulties compiling representative statistics on the third sector due to its size and diversity. Statistics on charitable organisations, however, tend to be reasonably comprehensive because of the requirement for them to register with the Charities Commission and provide regulatory information. An estimate by the NCVO (Wildering, 2004) suggests that there are around an additional 250,000 VCOs on top of the 150,000 general charities. However, due to the lack of consistent information on the size or income of these 'invisible organisations', it is not possible to extrapolate the general charities figures to estimate the total contribution of the third sector to national output.

The available figures, however, do indicate that the sector contributes at least £7 billion to the UK economy, a massive increase of over 250 per cent since 1991. Furthermore, the sector also provides outputs that are difficult to measure, such as the value of volunteering. If the value of volunteering is included, the worth of clubs, groups and societies could be worth an additional £25 billion.<sup>1</sup>

Chart 1.1: GDP contribution of the voluntary sector



Source: NCVO (2004)

**1.6** In these ways the third sector can - and does - play an important part in realising the Government's overall aims, which are:

- Equitable and efficient public services, offering value for money for the taxpayer;
- A strong civil society with inclusive and cohesive communities; and
- A stable, productive and enterprising economy with opportunity for all.

<sup>1</sup> NCVO (2004) p.194

1.7 Consequently, the Government values the third sector very highly. Box 1.2 below sets out the key measures and initiatives that the Government has taken to support the sector since 1997.

**Box 1.2: Key elements of Government policy towards the third sector since 1997**

*Working with the sector...*

- **Compact (1998):** the Compact on relations between Government and the Voluntary and Community Sector in England was jointly published with the sector in 1998 in response to the Deakin Commission Report, and provides a framework to guide partnership working between the state and the third sector.

*Promoting the sector...*

- **Cross-Cutting Review (2002):** the Cross-Cutting Review of the Role of the Voluntary and Community Sector in Service Delivery set-out an action plan to boost and improve the sector's role in public services, with recommendations to improve the funding relationship with Government, build capacity and infrastructure in the sector, and promote the use of the Compact.
- **Social Enterprise – a strategy for success (2002):** setting-out the vision for dynamic and sustainable social enterprise, the social enterprise strategy outlines the three key components in achieving this vision: creating an enabling environment, making social enterprises better businesses, and establishing the value of social enterprise.

*Growing the sector...*

- **Getting Britain Giving (2000):** the Getting Britain Giving package was announced in Budget 2000 following the review of charities taxation. Reforms included extending many tax reliefs now worth up to £2.3 billion annually, and launching the Giving Campaign to promote charitable activity.
- **Private Action, Public Benefit (2002):** this report by the Strategy Unit provided a series of recommendations for updating and modernising charity law and regulation – including the creation of a new, defined legal personality for charities and social enterprises. Many of the recommendations will be taken forward in a draft Charities Bill to be published in the autumn. The recommended legal form for social enterprise – the Community Interest Company – has recently been given Royal Assent.
- **Futurebuilders (2003):** jointly developed with the sector – and to be managed by the sector on behalf of government – this £125 million investment fund is designed to invest in schemes that increase the scale and scope of third sector involvement in service delivery.
- **ChangeUp (2004):** jointly developed with the sector, this £80 million worth of investment will help to build the capacity and infrastructure of the sector, providing the vital and necessary second-tier support structures for front-line organisations to play their full role.

## THE THIRD SECTOR AND PUBLIC SERVICES

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**1.8** The focus of this document is how the third sector and the Government can work together to achieve high quality public services that effectively and efficiently meet users' needs and improve social welfare. Before doing so, however, it is important to acknowledge the contribution that the sector has played in raising living standards in the past.

### The third sector's historical role

**1.9** The 1978 Wolfenden report on the future of voluntary organisations<sup>2</sup> highlighted four important historical periods in the development of welfare provision, and the contribution of third sector organisations in particular. This development reflects a combination of historical momentum, political ideology and shifts in social expectations:

- **Paternalism** - Prior to 1834 individuals' first source of support when in need was their family and local community. Beyond this informal system, private doctors, teachers and others offered welfare services to those that could afford it, while charities and churches - as well as the Poor Law - made support available to the wider population. Driven by a combination of religious conviction and a strong ethos of social responsibility, many philanthropic organisations existed at this time, providing various financial, medical, housing and educational services to the public.
- **State deterrence and voluntary expansion (1834-1905)** - the prevailing ethos of laissez faire economics and self-help resulted in the Poor Law Amendment Act 1834. This made a distinction between the 'deserving' and 'undeserving' poor. Whereas the former could be supported to "set them on their feet again," the latter would only receive help at the workhouse. In response to such state deterrence of welfare dependency, the second half of the nineteenth century saw rapid growth in third sector organisations tackling unmet social needs, including Barnardo's orphanages and the work of the Salvation Army.
- **The emergence of statutory social services (1905-1944)** - aware of changing attitudes to poverty, the Liberal Government of 1905 embarked on the public provision of social services such as pensions, school meals, unemployment and health insurance. Continued growth of state welfare provision culminated in the 1942 Beveridge Report with its recommendations for a "comprehensive system of social security and its assumption of national provision for health, education, housing and employment". The third sector remained, however, a major provider of independent social services such as the care of children and the disabled.
- **The consolidation of the welfare state (1944-1978)** - the Labour Government of 1945-51 implemented many of Beveridge's proposals and removed the Poor Law from the statute book. In response, third sector organisations evolved (or were established) to provide specialist services not provided by the state, pressure-groups seeking to change government policy (e.g. the Child Poverty Action Group) or localised mutual-help groups.

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<sup>2</sup> The Future of Voluntary Organisations (Report of the Wolfenden Committee), 1978, pp.15-21.

**1.10** Following the Wolfenden Report in 1978, the Conservative governments of 1979-1997 advocated ‘rolling-back the state’ and favoured a reduced role for the public sector in public service provision. In principle, this gave the third sector an opportunity to once again become the primary provider of welfare services. However, under the free market philosophy of the time, the third sector was very much a junior or unequal partner to the private sector in non-state forms of social provision.

## A mixed economy of public service provision

**1.11** The present Government’s goal is to deliver world-class public services through investment and reform, while ensuring efficiency and value for money. The Government believes the third sector has much to contribute to this goal, as part of a mixed economy of public service provision. The third sector is already playing an increasing role in public service delivery, and also in the identification, design, commissioning, inspection and evaluation of public services. The sector – taking the widest definition – receives several billion pounds worth of government funding to deliver public services.

**Investment 1.12** The role of the third sector in public services is a key strand of the drive to improve public service delivery. This drive has been backed up with significant public investment since 1997, which was further reinforced by the 2004 Spending Review (see Box 1.2 below).

### Box 1.2: Spending Review 2004

Strong economic growth and responsible management of the public finances has enabled the Government to make significant additional investment in key public services, with total public expenditure growth of 4.3 per cent a year in the three years to 2005-06.

Spending Review 2004 announced the Government’s intention to sustain these higher levels of funding, providing an annual 2.5 per cent real terms rise in current spending over 2006-07 and 2007-08, alongside an increase in public sector net investment from 2 per cent of GDP to 2¼ per cent over the same period. These additional resources will be focused on priority public services, including education, health, crime and transport, and are linked to the pursuit of ambitious Public Service Agreement targets.

The Spending Review also included plans for achieving efficiency gains in the administration of public services, to release further resources for the improvement of front line service delivery. By securing efficiencies worth over £20 billion a year by 2007-08, the Government aims to match the pace of growth in front line public services achieved in Spending Review 2002 - thereby securing further improvements in standards for the users of public services.

**Reform 1.13** The Government is determined that greater investment must, where necessary, be matched with reform to deliver public services that are more effective, efficient, responsive and personalised to the needs of their users. The key principles driving reform, set out in Budget 2003, are as follows:

- Clear, long-term outcome-focused goals set by the Government through Public Service Agreements;
- Transparency about what is being achieved, with better information about performance both locally and nationally;

- Independent and effective arrangements for audit and inspection to improve accountability; and crucially
- Devolution of responsibility to public service providers themselves, with maximum local flexibility and discretion to innovate, and incentives to ensure the needs of local communities are met.

**1.14** Many key reforms since 1997 – including Sure Start and the promotion of financial inclusion – have been spearheaded by the third sector. This is why the Government has carried out a further cross-cutting review of the role of the sector in public service delivery and reform over the past 18 months. This review has focused on what more Government can do to promote, enable, and grow the sector in specific public services, with a particular focus on strong local partnership working between third sector organisations and local public sector bodies.

## THE PURPOSE OF THIS DOCUMENT

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**1.15** This document is one direct product of the review commissioned in Budget 2003. It is intended to stimulate an informed debate on how public bodies can improve the quality of public services by using third sector organisations where appropriate. This is a policy discussion document, rather than a ‘manual’, but it does offer relevant background analysis for use by policymakers and procurers when considering the appropriate role of the third sector organisations in public service delivery.

### Existing literature

**1.16** As set out in Annex C, recent years have seen a number of valuable publications on the topic of the role of the third sector in public service delivery and reform. This literature has contributed to the thinking in this document. Some have argued that there are particular services that the sector is better placed to deliver than either the public or private sectors (for example, services to vulnerable or hard to reach groups). Some have tried to define the role and identity of the sector in relation to other (i.e. public and private) sectors, to try to determine whether there is anything distinctive or inherently ‘special’ about the sector that gives it generic advantages over other sectors.

**1.17** There remain, however, a number of misunderstandings and misrepresentations about the sector’s role in public service delivery in some quarters. These serve to undermine informed debate about the role of the sector in public service delivery and reform. For example:

- There continues to be confusion and lack of understanding in some quarters about how to define the sector. For example the meaning of and differences between labels such as the social economy, charities, voluntary and community sector, social enterprise, mutuals, co-operatives, not-for-profit and non-governmental organisations.
- While there are a number of statistical surveys<sup>3</sup> and numerous examples of effective services, there is a lack of co-ordinated evidence of the added value that the sector brings to public service delivery, leaving some policymakers unsure about the relative merits of the third sector in comparison with the public and private sectors.

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<sup>3</sup> For example, The UK Voluntary Sector Almanac 2004, NCVO Publications

- In addition, little exists in the way of ‘tools’ for policymakers to make the leap from concept framework and rhetoric to practical application on the ground.

### Aims of this document

**1.18** This document therefore has three core aims:

- To clarify the meaning of the term the ‘third sector’ and to describe (and clarify) the diverse types of organisation that constitute it;
- To improve the level of understanding of how the third sector can add value both directly to public service delivery, and indirectly to society and the economy as a result of delivering public services.
- To raise issues for consideration by the Government, other public sector bodies and the third sector itself about how the sector can play a fuller role in public service delivery.

**1.19** The Government seeks to work with third sector organisations and with public sector bodies in considering the issues raised in this discussion document. In taking this agenda forward the Government hopes to work in close partnership with other public bodies and third sector organisations. In particular, the Government would welcome comments and feedback from stakeholders on the issues raised in this discussion document. Please send any responses to [thirdsector@hm-treasury.x.gsi.gov.uk](mailto:thirdsector@hm-treasury.x.gsi.gov.uk).

**1.20** This document is not intended to be a comprehensive examination of the role of the third sector in spheres other than public services (for example, in strengthening civil society or supporting economic development), but neither should the focus on public services be taken as signifying that value is not placed on these wider roles. Further work continues in these areas separately.

### Target audience

**1.21** This report is intended for those with a particular interest in the ‘third sector’ or issues of public service delivery and reform, including:

- policymakers in central government and its agencies;
- policymakers and procurers in local government trying to identify the best supplier of key public services to their community;
- policymakers and procurers in other public sector bodies;
- those working in and with third sector organisations and their representatives wishing to expand or consolidate their existing role in the delivery of public services; and
- academics and others in the policy community with a research interest in public services and/or the third sector in the UK.

**Structure 1.22** This report is divided into five further chapters:

- **Chapter 2** further describes the third sector, defining the core characteristics of the sector whilst acknowledging its diversity;
- **Chapter 3** highlights the direct benefits of third sector involvement in public service delivery;
- **Chapter 4** attempts to outline how we can consider the wider benefits that the sector brings to society and the economy as a result of delivering public services;
- **Chapter 5** considers the barriers to greater third sector involvement in service delivery and sets out the measures that the Government and the sector have already put in place to overcome them; and
- **Chapter 6** sets out issues for further consideration by Government and the third sector.

# 2

## UNDERSTANDING THE THIRD SECTOR

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**2.1** The third sector comprises a rich diversity of organisations with different legal structures and forms of governance. This has led in some quarters to confusion about what the third sector is and how it should be defined. This document uses an inclusive definition of the third sector – encompassing voluntary and community organisations, charities, social enterprises, co-operatives and mutuals – according to a set of characteristics they share in common.

### DEFINING THE THIRD SECTOR

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**2.2** A number of different labels are commonly used for non-governmental, voluntary and community organisations. These labels have grown up for different purposes and each defines a particular category of organisation according to one or more of its characteristics. Some organisations can be described using more than one label – for example, a voluntary organisation may also be a charity; a social enterprise may be a mutual; a community organisation may be a company, an industrial and provident society or a community interest company (or it may be unincorporated). This multiplicity of labels has inevitably led to some confusion in some quarters about the nature of such organisations. As the National Council for Voluntary Organisations (NCVO) notes:

*“Because of its remarkable diversity, defining the voluntary [sic] sector has never been easy. To add to the problem, the blurring of the boundaries between the public, private and voluntary spheres is making it harder to agree where the voluntary sector stops and the other sectors begin. Throw in a few organisational forms such as Community Interest Companies or social enterprises, statutory organisations with charitable-sounding names (such as Hospital Trusts), and a large amount of jargon, and it is little wonder that there is widespread public misunderstanding of this ‘loose and baggy monster’.”<sup>1</sup>*

**2.3** Some of the variety of organisational types associated with the third sector are summarised in Table 2.1.

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<sup>1</sup> The UK Voluntary Sector Almanac, NCVO Publications (2004) p.26

**Table 2.1: Some labels associated with the third sector**

	Definitions and organisational type
<b>Voluntary and community sector</b>	Registered charities, as well as non-charitable non-profit organisations, associations, self-help groups and community groups. Voluntary and community organisations exist for public or community benefit. Most involve some aspect of voluntary activity, though many are also professional organisations with paid staff, some of them of considerable size. 'Community organisations' tend to be focused on particular localities or groups within the community; many are dependent entirely or almost entirely on voluntary activity.
<b>Charitable</b>	Activities of public benefit as defined in charitable law. All registered charities are subject to the supervisory jurisdiction of the Charities Commission. Other organisations may pursue charitable aims without being registered as charities.
<b>General charities</b>	Charities registered with the Charities Commission except those considered part of the government apparatus such as universities, and those financial institutions considered part of the corporate sector.
<b>Non-profit</b>	Non-profit organisations include voluntary and community organisations and also those for private but non-commercial benefit, such as independent schools. It also includes quangos and other organisations close to government including those specifically excluded from the general charities definition (e.g. universities).
<b>Social enterprise</b>	A business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or community, rather than being distributed to private shareholders and owners.
<b>Mutuals and co-operatives</b>	Membership-based organisations run on a democratic basis for the benefit of their members. Members may be their employees or their consumers or be drawn from the wider community. Some employee cooperatives may be essentially private businesses but many mutuals and co-operatives consider themselves part of the social enterprise sector.
<b>Civil society</b>	All activity operating in the space between the state and the market.
<i>Source: adapted from NCVO<sup>2</sup></i>	

<sup>2</sup> NCVO (2004)

## Core characteristics of the third sector

**2.4** There have been a number of formal attempts to define the third sector. It is difficult to define a set of rules that can be applied in every case. However, while recognising the diversity that exists within the sector, this document defines three core characteristics of all third sector organisations that distinguish them from those in the public and private sectors. Third sector organisations:

- are non-governmental;
- are ‘value-driven’ - that is, are motivated by the desire to further social, environment or cultural purposes rather than to make a profit *per se*; and
- principally reinvest surpluses to further their social, environmental or cultural objectives.

**Independence 2.5** Third sector organisations are independent of government. They are constitutionally self-governing – though this may take a number of forms (see below). Although third sector organisations are sometimes partly funded by government (such as in the delivery of public services) almost all also have other sources of funding, often charitable and voluntary. The sector carefully guards its independence, both financial and ‘political,’ and the Government believes that it is right to do so. The third sector is an important voice in public policy, representing the interests of those who may otherwise not be well heard and in doing so can often help avoid an unquestioning acceptance of the status quo on the part of public bodies. Such challenge and opposition can be an important factor in improving the quality, equity and accountability of public services.

**Value-driven 2.6** A defining characteristic of third sector organisations is their motivation. Third sector organisations exist to promote social, economic and cultural objectives in order to benefit society in general or particular groups within it. These objectives, and the values underlying them, are almost always embodied in the constitutions of third sector organisations, so giving them, normally, a strong sense of purpose. An organisation’s founding values may spring from a variety of social, religious, political or philosophical convictions, and will determine the objectives, forms and conduct of each organisation’s activities. For this reason third sector organisations can be described as being ‘value-driven’. This does not mean they do not make profits or surpluses on their activities. It does however mean that their purpose is not the making of profit *per se*.

**2.7** Common features of the sector’s founding values are notions of social justice, fairness and the desire to serve others, particularly those disadvantaged in society. Third sector organisations’ values and purposes are articulated differently in different organisations and lead to differences in organisations’ objectives, structure and behaviour. Some third sector organisations have a relatively simple and discrete set of objectives (for example, supporting young people into employment); others have much more loosely defined and often multiple goals, where workers and stakeholders have considerable freedom in how they interpret them (for example, overcoming disadvantage or building community cohesion and identity).

**2.8** It is the value basis of third sector organisations that enable many of them to draw on the participation of volunteers who share their objectives. Some voluntary organisations spring from the desire of particular communities to improve their condition, and are consequently run and staffed by those from the communities whom they seek to benefit. The value basis of third sector organisations is also what enables them to attract charitable and other forms of voluntary funding and donations. Again, these independent sources of income are often central to third sector organisations' identities and operation, by reducing their dependence on funding from government and business, as well as demonstrating public support.

### Reinvestment of surpluses

**2.9** The third key characteristic of third sector organisations is that any surpluses they achieve are principally reinvested in the organisation or the community. The principal reinvestment of surpluses to further social, environmental or cultural objectives is one characteristic of third sector organisations that distinguishes them from private sector firms. Reinvesting surpluses is also a consequence of third sector organisations' value-driven identity, since it strengthens their capacity to meet their important social, environmental or cultural objectives. A requirement to reinvest surpluses may be written into third sector organisations' constitutions.

## THE DIVERSITY OF THE THIRD SECTOR

**2.10** All third sector organisations share independence from government, a value-driven identity and principally reinvest their surpluses, but in other respects the sector is extremely diverse. In particular, they vary in terms of their source of income, their legal form and their governance structure. These three dimensions of the sector's diversity are described below.

### Income

**2.11** As described in Box 2.1 below, third sector organisations receive their income from a variety of sources. Many third sector organisations raise their income via grants, donations and other funding streams not directly tied to the provision of specific goods or services, but to support the organisations' existence and activities in general. However, for another part of the third sector, known as social enterprises, the trading of goods and services is at the core of their activity.

### Social enterprises

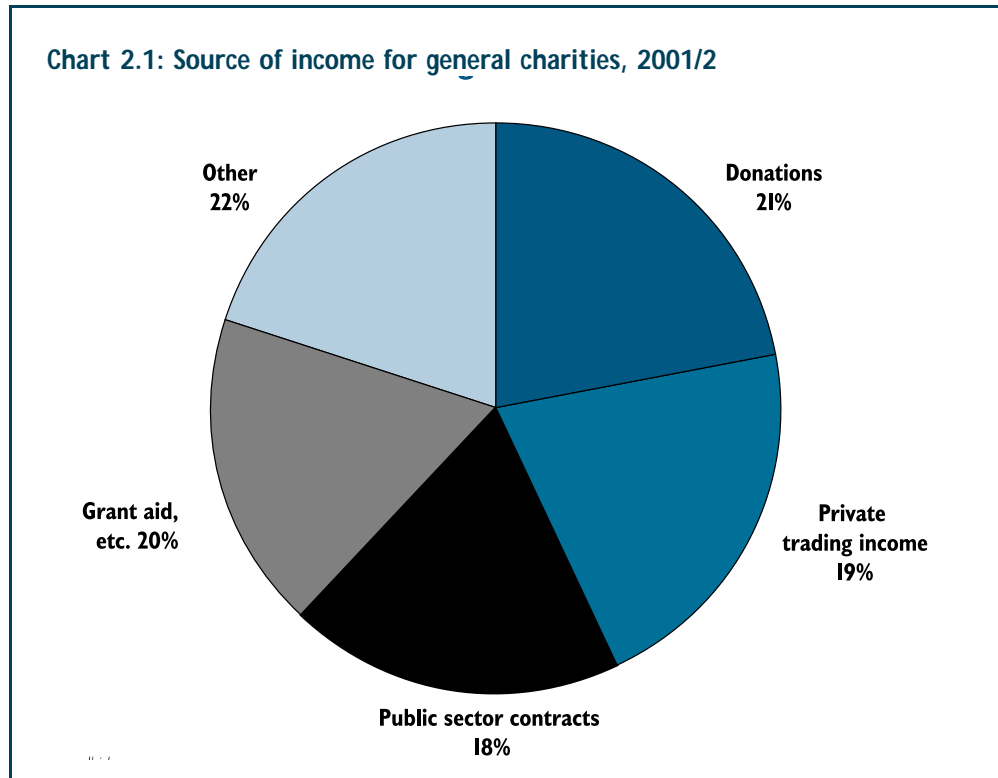
**2.12** The Government's social enterprise strategy, *Social Enterprise: A strategy for success* (2002), describes a social enterprise as, first and foremost, a business. That means it is engaged in some form of trading, but it trades primarily to support a social purpose. Like any business, it aims to generate surpluses, but it seeks to reinvest those surpluses principally in the business or in the community to enable it to deliver on its social objectives. It is, therefore, not simply a business driven by the need to maximise profit to shareholders or owners. Social enterprises are diverse and operate at many levels. They include local community enterprises, social firms, mutual organisations such as co-operatives, and large-scale organisations operating nationally or internationally. What they have in common is a commitment to meeting the social and financial 'double bottom line', with some adding a third, environmental, set of objectives.

**Public service delivery** 2.13 Third sector organisations contracted to deliver public services can usually be described as social enterprises. The delivery of a public service means carrying out a defined service in return for payment – with the terms usually set out in a legally binding contract. In this case the third sector organisation can be said to be trading with the public body: undertaking specific activities in return for payment. In turn this makes the organisation a form of social enterprise.

2.14 The term ‘social enterprise’ is useful because it establishes the business basis of trading organisations. However it is not universally used by organisations that might meet the definition. Businesses specifically set up as trading enterprises to pursue social or environmental objectives generally call themselves social enterprises. However many voluntary and community organisations that provide public services do not currently do so. Public bodies involved in or considering the delivery of public services by third sector providers need to recognise that different organisations use different labels to describe themselves. Increasingly it is likely that the nature of public service provision – providing specified outputs in return for payment – will encourage the use of the term ‘social enterprise’ for third sector organisations contracted to deliver public services by public bodies.

**Box 2.1: The third sector’s income**

As with other statistics related to the third sector, the most extensive data on the income of third sector organisations applies to general charities. This evidence suggests that there has been rapid growth in the income of the sector over the past decade, and that an increasing proportion of this income has been received from the public sector. For example, since 1991 there has been a real terms increase in general charities’ income of 32 per cent, while the proportion coming from the public sector has risen from 27 per cent of the total to 37 per cent of income. As a consequence the public sector’s contribution now roughly equals the income received by charities from individual donations and the wider private sector. Most of this increase is driven by the third sector’s greater participation in public service delivery.



## Legal form

**2.15** Most third sector organisations, including virtually all those undertaking public service contracts, are incorporated as legal entities. However incorporation can take a number of different legal forms. These legal forms have arisen for historical reasons, and organisations tend to adopt the one that best suits their particular governance structures and other circumstances. The principal legal forms adopted by most third sector organisations are:

- **company limited by guarantee** – a company that does not have a share capital, but has members who are guarantors instead of shareholders. The guarantors give an undertaking to contribute a nominal amount towards the winding up of the company in the event of a shortfall upon cessation of business. It cannot distribute profits to its members.
- **industrial and provident society** – an organisation that conducts its activities either as a co-operative or for the benefit of the community. Co-operative societies are run for the mutual benefit of their members, with any surplus usually being reinvested into the organisation to provide better services. Societies run for the benefit of the community provide services for people other than their members.
- **community interest company (CIC)**– this new legal form is designed for social enterprises, which are required to use their profits and assets for the benefit of their community.
- **company limited by shares (CLS)** – some social enterprises choose the well-established CLS legal form. These companies have limited liability - if the company fails there is no claim on the assets of the shareholders, other than their original investment. This form is commonly associated with private

companies who issue shares with shareholders appointing directors, but can be attractive to third sector organisations, since it can enable them to issue shares to their major partners and stakeholders.

**2.16** It should be noted that these legal structures cut across other forms of organisation in the third sector. A charity, for example, can take any of the above forms. The definition of a charity is concerned with the purposes of an organisation and whether or not they conform to charitable law, not with its legal structure. Similarly, a social enterprise (a trading organisation) can take any of these legal forms. Each of the legal structures can also be adapted to create a mutual or cooperative organisation. In these ways legal structure, though obviously important, is not in general a useful way of defining the purpose or activities of a third sector organisation.

## Governance structures

**2.17** The legal form taken by a third sector organisation is also not a guide to its organisational or governance structure – that is, the way in which it is owned and in which it makes decisions. Third sector organisations have a number of different governance structures according to their purposes and origin. By law all incorporated organisations must have an executive board or committee, the body held accountable in law for its governance. But this may be made up in different ways and may sit within different wider structures. In general it is possible to identify three broad categories of organisational structure:

- **membership-based organisations.** These organisations have memberships drawn from a particular section of the community or from the general public in a particular area, or from their beneficiaries or (sometimes) their employees. Members have ultimate control over the running of the organisation, subject only to the values enshrined in its constitution, and will elect a management board (or similar body) to take on the day to day running of the organisation;
- **stakeholder-based organisations.** These organisations have an executive board or committee constituted by other organisations. This stakeholder basis may be in addition to an individual membership or may be the only form of wider accountability. The stakeholder organisations appoint or elect representatives to the board, and the board is then accountable to the stakeholders. This kind of organisation is often used where a number of bodies (sometimes including public bodies) seek to form a partnership to carry out particular activities; and
- **independent self-governing organisations.** These organisations have independent executive boards or committees with no wider accountability to a membership or to stakeholder organisations. Their executive bodies were originally appointed by the founders of the organisation and then appoint new members to themselves as they see fit. Many charities and voluntary organisations take this form. These executive boards are usually only accountable to the constitution of their organisation and to its funders.

## CONCLUSION

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**2.18** Recognising that there remains some confusion and uncertainty in some quarters, this chapter has sought to provide a working definition of the 'third sector', encompassing voluntary and community organisations, charities, social enterprises, mutuals and co-operatives. The defining features of the sector are independence from the state, a motivation derived from values and social purposes rather than the pursuit of profit, and the re-investment of surpluses principally in pursuit of these values rather than for private distribution. The following chapter explores how these features of the sector can enable it to deliver higher quality public services than the public or private sectors in certain circumstances.

**2.19** Within this broad definition however the third sector is richly diverse. Indeed, this is one of its great strengths. In addition to differences in their income source, legal form and governance structures, third sector organisations also differ in other characteristics, such as size, workforce composition, etc, that will have a bearing on their capacity and aptitude to the delivery of different services. Annex A explores the diversity within the sector in greater detail, while Annex B considers its implications for public service delivery.

# 3

## THE THIRD SECTOR AND PUBLIC SERVICES

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**3.1** Over recent years third sector organisations have become increasingly involved in the delivery of a wide range of public services. The size and diversity of the sector means that it is impossible to generalise across every third sector organisation. However the experience examined by the Government's cross-cutting review, along with a number of academic studies, has shown clearly that the use of third sector organisations to deliver some public services can bring considerable advantages and benefits. These benefits do not occur in all circumstances and through all third sector organisations, but it is possible to identify a number of generic benefits that often do characterise third sector delivery. These benefits tend to derive from the value-driven motivation of third sector organisations and their focus on social needs.

**3.2** This chapter sets out the nature of these generic and typical benefits. They include:

- a strong focus on the needs of service users;
- knowledge and expertise on complex personal and community needs;
- an ability to be flexible and offer joined-up service delivery;
- the capacity to build users' trust; and
- the experience and independence to innovate.

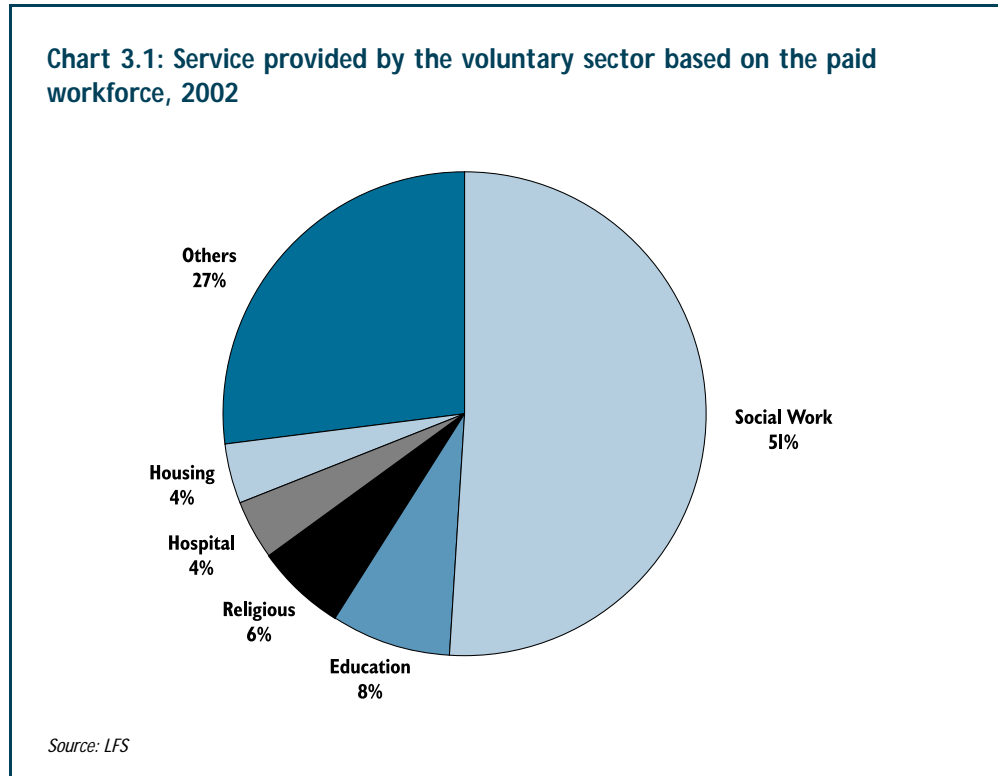
**3.3** Such benefits suggest that it is important that local and central government and other public bodies responsible for the delivery of public services consider fully the option of using the third sector as a means to delivering better public services - of higher quality, more efficient, more equitable and more personalised - than would occur through either public or private delivery. The chapter identifies some of the particular kinds of service areas where these benefits may be most likely to come to the fore.

### A MIXED ECONOMY OF PUBLIC SERVICE PROVISION

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**3.4** The Government believes in a 'mixed economy' of public service provision. Many public services are provided directly by public authorities. Their 'publicness' – the sense of authority, legitimacy, accountability and 'ownership' by the public that comes from their public governance – is very important. The police and judicial systems provide exemplars. Other services are delivered on contract to the public sector by private firms and by third sector organisations. In these cases all or most of the funding comes from the public purse and the services are commissioned or procured by public bodies – this ensures that they remain essentially public services. However the actual delivery of the services may in these cases be contracted to non-public organisations. The Government believes that where the outputs of a public service can be adequately defined the purchase of services from the private and third sector can often, in particular circumstances, enhance the quality of public service provision. Often this is an empirical question that needs to be tested through a commissioning or procurement process.

**3.5** In some areas the use of third sector organisations to deliver public services is well established. Chart 3.1 below, for example, indicates that on the basis of its workforce the sector has a strong presence in the social work and education sectors. However in others – and among some government departments, local authorities and public bodies – the potential of the sector is much less well understood. This document is aimed at improving understanding of why and how the use of third sector organisations may be appropriate in some of these areas.



## ADVANTAGES OF THIRD SECTOR DELIVERY

**3.6** There are a number of potential advantages of third sector delivery that should be taken into account when considering the most appropriate provider for any given service. Better awareness of these advantages, and of the circumstances in which they may arise, should enable public procurers to make more informed use of third sector organisations in the delivery of publicly funded services.

### User focus

**Pursuing values** **3.7** As described in Chapter 2, one of the defining characteristics of third sector organisations is their motivation by a set of values and social purposes - typically the desire to meet the needs of and to improve the well-being and opportunities available to those who receive their services. Third sector organisations tend thus to be strongly focused on their service users. Whereas private providers of public services, concerned to secure profit, may have an incentive to reduce the quality of their services in order to minimise their operating costs, this is often much less of an incentive for third sector organisations. For example, third sector organisations may be less inclined to reduce personal contact in the provision of social services, allowing them to focus more on the user and tailor their services to the individual. In some circumstances the existence of

charitable and other funding sources gives third sector organisations additional resources to enable them to maintain a focus on quality.

**3.8** This characteristic of third sector organisations may be particularly attractive in circumstances where public bodies are seeking suppliers for services where quality cannot be closely monitored on a frequent basis. In these circumstances private contractors may be incentivised to make unobservable reductions in quality to reduce costs, but third sector organisations would have a weaker incentive to do so.<sup>1</sup> However, the public sector shares the same absence of a sole focus on profit-maximisation. This advantage therefore needs to be considered alongside the presence of others, described below, when considering the relative merits of the public and third sectors for the delivery of different public services.

**3.9** While the lack of a single, profit-maximisation goal can lead third sector organisations to focus on the quality of service provided to users, it could be argued that this will hinder their pursuit of efficiency and value for money. For example, there may be unnecessary duplication of functions and other inefficiencies that are not fully addressed because they are perceived to conflict with the primary motivation or ethos of the organisation. However, third sector organisations also often have a strong incentive to maximise their efficiency in order to make best use of limited resources.

## Knowledge, expertise and experience

**Personalisation** **3.10** The Government is committed to ensuring that public services aimed at individual users are as personalised as possible - that is, are responsive to the particular circumstances and needs of their users in order to achieve better outcomes. To provide such personalised services, an organisation needs to be especially effective at gathering the necessary information so the needs of users can be better identified and understood. In particular, the Government's principle of devolution reflects the fact that organisations with a closer proximity to users are frequently better able to make the correct decisions based on more detailed and accurate local knowledge. For instance, one key strength of third sector organisations established on a mutual basis is the extent to which they involve both service users and professionals in the strategic management of the service – enabling them to tap into knowledge and expertise from both those delivering the service and those using it. Box 4.3 below provides an illustration of a third sector organisation that has successfully utilised local knowledge to develop a successful service for the local community.

**Identifying community needs** **3.11** Third sector organisations can often be well placed to gather information, identify needs, and so provide effective and personalised services for their users. Such organisations often grow in local communities in response to local needs and therefore have a proximity to and understanding of users that can help them make the right decisions (See Box 3.1 below).

<sup>1</sup> Domberger and Jensen (1998)

**3.12** There is also considerable empirical evidence that community involvement in public service delivery can lead to better outcomes. Certain services are more amenable to involvement - generally it is more helpful where the service needs a great deal of tailoring to local circumstances and buy-in, or a way to ensure collective action, to be effective. This is true, for example, in the fields of community safety and regeneration. The ODPM notes that sometimes with such services “only the active involvement of the citizens trapped within the problems will secure a solution<sup>2</sup>”. The final Single Regeneration Budget evaluation<sup>3</sup> explains that where partnership working with the community was functional it led to:

- the use of a wider range of funding sources;
- the ability to co-ordinate service delivery across agencies, bringing initiatives together (economies of scale), creating synergies and joining up activities, and reducing duplication; and
- developing initiatives better meeting local need.

**Box 3.1: Third sector organisations meeting community need**

Third Sector organisations with a high degree of community membership and participation can achieve significant improvements to the quality of services delivered to their local community. Two examples include the Eldonian Community Trust on Merseyside, and the St.Chad’s project in Bensham on Tyneside.

Formed in July 1987, the Eldonian Community Trust on Merseyside seeks to advance education, to provide facilities for leisure and recreation in the interests of social welfare, and to provide for the provision of residential accommodation for the elderly. The Trust is a democratically run body currently comprising some 600 members, led by an elected committee. The Eldonian Neighbourhood Wardens initiative is concerned with training as well as reducing crime and the fear of crime in residential areas. The Trust uses its accommodation as a training ground for local long-term unemployed to gain experience as wardens. The wardens provide a foot-patrol, serving as visible deterrents to crime and anti-social activities, and are on hand to respond via a 24-hour call-line. They also monitor environmental and safety issues, such as graffiti and defective lighting. A community forum is held quarterly for feedback and the raising of issues. The project also reports regularly to a steering group that includes user representatives and Merseyside Police. Crime has been reduced, and 57% of those entering the training scheme find employment. New Economics Foundation have calculated that the scheme has a social return on investment of £1.6 for each £1 invested in the training scheme, not including savings from crime reductions.

St Chad’s community project in Bensham, meanwhile, was established in response to local demand for low cost childcare in the disadvantaged area of Bensham to allow local parents to return to work. It has since grown to provide a huge variety of family and parenting services to around 6,000 children and their families in the local area. The project is also used to train locals in childcare skills. St Chad’s employs 40 people, 60% of whom are from Bensham, and is now the largest employer in the area. St Chad’s was a British Urban Regeneration Association (BURA) winner of the BURA Charitable Trust Awards for Community Regeneration in 2002.

<sup>2</sup> [http://www.odpm.gov.uk/stellent/groups/odpm\\_localgov\\_023833-03.hcsp](http://www.odpm.gov.uk/stellent/groups/odpm_localgov_023833-03.hcsp)

<sup>3</sup> ODPM, forthcoming

**Experience and advocacy** 3.13 Furthermore, third sector organisations are often founded and run by people with direct experience of a particular need or disadvantage, allowing them to reach out to others more effectively, and even bring users into the delivery of the service itself. Many third sector organisations were formed to act as an organised voice on behalf of a particular community or issue, acting as representatives and advocates. This frequently gives them a special understanding of and commitment to the needs of the community, making them highly effective partners in the delivery of public services aimed at that community.

### Flexibility and 'joining-up'

**Responsiveness** 3.14 To provide personalised services, organisations need to have flexibility to respond to circumstances and to change the way in which they operate to tailor their services to users' needs. Third sector organisations often have fewer structural constraints on aims and organisational form than public organisations, allowing them to change the services they provide, the users they target, or the delivery methods they use depending on the circumstances. Box 3.2 provides an example of the responsiveness of a mutual organisation to the needs of its members.

#### Box 3.2: Mutual organisations and responsiveness in public service delivery

Mutual organisations are, by their nature, able to draw on the experience, expertise and local knowledge of their membership. Two case studies below illustrate how third sector organisations with a mutual governance structure can draw on its characteristics to enhance the responsiveness and effectiveness of public service provision.

The Sure Start Folkstone Partnership has adopted a mutual ownership structure in order to take control of its own spending, whilst ensuring community involvement and a holistic approach to service delivery. The mutual model facilitates a joined-up approach – stakeholders include parents and staff, Council representatives and representatives of the local school. In addition, the membership model provides for the possibility of giving advice and support to members themselves, on issues such as diet and healthy living.

Another example of a successful mutual provider is Greenwich Leisure, which was established in 1993 in response to proposed budget cuts for leisure services in Greenwich. A high proportion of Greenwich Leisure's membership base is formed of employees of the Trust, and turnout at the Annual General Meetings is high (at 75-80%). Since setting-up, Greenwich Leisure has enjoyed considerable success – it has trebled its income and halved the cost of leisure services to the local authority, while increasing the number of leisure facilities in Greenwich. It is now the largest leisure provider in London.

**Multiple or complex needs** 3.15 Indeed, researchers such as Billis and Glennerster have suggested that, because third sector organisations often have multiple goals and stakeholders, and can have a more informal or 'ambiguous' organisational structure, this may allow them to respond better to users with multiple disadvantages (see Box 3.3). Box 3.4 provides an example of one housing association that has developed a successful and comprehensive approach to addressing the multiple needs of rough sleepers.

**Box 3.3: Responding to multiple disadvantage**

One of the important advantages of third sector organisations, as noted by Billis and Glennerster (1998), is their ability to engage clients with multiple disadvantages, which serve to prevent them engaging with 'traditional' service providers:

- **financial disadvantage** – clients lack the money to purchase services from the private sector;
- **personal disadvantage** – clients cannot easily articulate a coherent preference about what services they require (e.g. users with learning difficulties, mental health problems, young children or older people);
- **social disadvantage** – clients are 'blamed' or stigmatised by society, which can stop services they require from being directed towards them; and
- **community disadvantage** – clients are living in a community where market, political and civil structures have broken down.

Traditional service providers can often deal with users with one disadvantage – for instance, one of the prime responsibilities of the public sector is to provide essential services to those with a financial disadvantage. However, it is argued that as the private sector is constrained by the ability to pay and the public sector can be constrained by the attitudes of the median voter, it is difficult for traditional service providers to be responsive to users with multiple disadvantages (e.g. financially *and* socially disadvantaged).

**Box 3.4: Responding to the multiple needs of rough sleepers**

One potential advantage of many third sector organisations is their capacity to meet the diverse needs of certain disadvantaged people, and thereby 'treat the whole person' rather than address their individual problems in isolation. The work of the Potteries Housing Association with rough sleepers in Stoke-on-Trent provides one illustration of this.

In addition to their immediate housing needs, rough sleepers may suffer from poor mental health, have a substance dependency, or be an injecting drug user. In response to these multiple needs the Potteries Housing Association provides outreach, assessment, interventions such as mental health services, plus advice on sexual health and minimising the harm of drug use. The housing association works with each person to help them develop an individual action plan, with a pathway to re-engage with statutory public services. In 2003/04 they helped 192 people stop sleeping rough and assisted 55 people into drug treatment services. In addition, 300 of the 370 people who used their needle exchange regularly returned needles and received advice on reducing harm and safe sex. Over 128 people were helped with their mental health and 67 re-engaged with mainstream services.

The Potteries Housing Association also helped organise a 'Speakout' where rough sleepers were given the opportunity to talk to service commissioners about the services they got and how they could be improved. Funding comes from a variety of sources including the ODPM, the Single Regeneration Budget, the local Health Authority, Stoke's Drug Action Team and Stoke-on-Trent City Council.

**Contracts and measurement** **3.16** In a well functioning market the private sector usually has an incentive to respond to customers' needs, but this is not always in the case in public services. The private sector will focus on fulfilling the needs of a contract agreed with the public sector – which, in order to be measurable, are often output based – rather than focussing on the outcomes for the user. As multiple needs are often complicated and interlinked, it is difficult to separate and measure them for the purpose of outputs, and outcomes can be difficult to contract as they are less quantifiable.

**Joining-up** **3.17** As illustrated in Box 3.5 below, the flexibility of the third sector can also allow the sector to work across public service silos and help join-up and co-ordinate services for individuals or communities. This can be particularly useful for so called 'wicked' or complex issues that cut across service boundaries<sup>4</sup>. The public sector is often constrained by administrative checks and organisational boundaries that are designed to ensure clear accountability for money that is spent. As a result, front-line public servants are sometimes not able to best understand or respond to the needs of the user if these needs fall outside their service area.

**Box 3.5: Joining-up services to meet elderly peoples' needs**

One important strength of many third sector organisations is their ability to provide a joined-up service to people with varied needs. Elderly people, for example, can suffer from financial, personal and social disadvantage, including medical problems, loneliness and low incomes. The Women's Royal Voluntary Service (WRVS) is one Third Sector organisation that has demonstrated its ability to offer a joined up service to elderly members of the community.

WRVS serves around 9 million meals per year to the elderly. These meals are mostly delivered by volunteers. Until 2002, over 1,100 volunteers used to deliver around 600,000 hot meals to 4,800 users for Derbyshire County Council. This contract was an opportunity to provide informal support to older people such as smaller jobs and prescription pick-ups. In 2002, after a rigorous tendering process the Council moved to a less frequent, frozen meal service, with a private provider. As WRVS were no longer involved in the delivery of food, they could no longer provide informal support, and the volunteering infrastructure of the area was disrupted.

WRVS recognised that they had not fully communicated the benefits of the additional informal services that they offered. WRVS are now trying to formalise the other services they can offer and discuss these with Local Authorities at an early stage. This process encourages different parts of the authority to jointly consider what they might be able to get from a contract. For example, WRVS has designed a contract with Warwickshire County Council for a bundle of services including hot and cold meals, and a telephone check-in and home visiting service. Bundling services in this way captures the benefits of higher quality, holistic service provision. This approach has the potential to be a powerful source of value for money, and is a good reason for Local Authorities to engage with third sector organisations in their area on the design and delivery of services.

**3.18** The primary focus of most third sector organisations is users and not profit-distribution. This means that the third sector will often bring together services and funding streams that are most appropriate for an individual, rather than simply what they have been contracted to deliver. Such activity can help 'join-up' services on the front line. Joining-up of this kind that can be time consuming and financially unrewarding, is much less likely to be practised by private sector providers, whose focus is on the individually contracted service.

<sup>4</sup> [http://www.odpm.gov.uk/stellant/groups/odpm\\_localgov/documents/page/odpm\\_localgov\\_023833-03.hcsp](http://www.odpm.gov.uk/stellant/groups/odpm_localgov/documents/page/odpm_localgov_023833-03.hcsp)

## Trust and accessibility to users

**3.19** The focus on improving social outcomes that characterises most third sector organisations can also send important signals to service users, establishing the organisation's trustworthiness<sup>5</sup>. Where services are provided by the private sector, fears about a conflict of interest around cost minimisation, profit-maximisation and service quality may hinder delivery, as users may suspect that a profit motive may cause a reduction in the quality of service provided. For example, the third sector may be more trusted in providing of financial advice for the disadvantaged, compared to a financial institution whose interests would be clearly served by increasing its lending (see Box 3.6).

### **Box 3.6: User-focused, trustworthy financial advice**

Financial advice is area where the values of Third Sector organisations may generate higher levels of user trust than public or private sector alternatives. For example, by demonstrating independence from creditors, both public or private, Birmingham Settlement has been able to deliver a Money Advice and Debt Counselling service since 1972, providing a high quality, confidential service through face-to-face advice and casework support in Birmingham.

From the core service, further initiatives by Birmingham Settlement have developed. National Debtline provides advice through a free telephone helpline, and was developed alongside the Settlement's Money Advice Centre for 14 years, before moving to full independence in 2003. A significant proportion of clients are self-employed. Business Debtline has evolved to provide specialist advice to these micro businesses, protecting jobs and homes at risk when financial difficulties arise. Since the 1980s the Money Advice Training Unit has passed on key principles of debt counselling to advisers in public and private sector agencies, and have now developed an innovative Financial Literacy programme of advice and support for adults within disadvantaged communities. Birmingham Settlement is currently working in partnership with community organisations to establish new advice surgeries within minority communities, and has developed new programmes to co-ordinate the delivery of money advice and health services.

**3.20** Equally, the third sector may also have a role to play in those circumstances where trust between individuals or communities and the state has been eroded. Organisations such as Crimestoppers, or those that provide personal advice or drug treatment to offenders are good examples of this. The Third Sector's experience and values may also enable it to be more effective at responding to users that are at risk of being socially stigmatised, as democratic pressures can place a constraint on how the public sector responds. Box 3.7 illustrates how the sector may be well-placed to deliver services to asylum seekers.

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<sup>5</sup> Hansmann (1980), Anheier and Kendall (2002).

**Box 3.7: Support for asylum seekers – a service built on trust and experience**

Asylum seekers face a variety of complex needs on arrival in the UK, but may be unwilling or unable to engage with official sources of support and guidance. The provision of services to asylum seekers is one area where Third Sector providers' experience and background may be used to create trust and, consequently, more effective service delivery.

*Safe Haven Yorkshire* is a third sector organisation that provides housing, support and care for asylum seeker families. Nearly 50% of Safe Haven's staff are from BME communities and a particular feature of the project is the high proportion of former asylum seekers they employ. This organisational knowledge and experience enables them to build a package of services that is accessible and well tailored to asylum seekers' needs.

## Innovation

**3.21** As noted in Chapter 2, a key characteristic of third sector organisations is their independence from the state. The primary advantage of this independence is the ability to question and challenge set modes of thinking or practice, nurturing innovation as a result.

**3.22** Innovation in public service delivery, both in terms of finding better ways to deliver a service (process innovation) or new services that should be delivered (product innovation), is essential if productivity of public services is to grow. The role of the third sector as an 'innovator' is often recognised<sup>6</sup>, with many fine examples of pioneering new services over the last two hundred years. Whilst there is little evidence that the third sector necessarily innovates more effectively than the private sector, there is generally little incentive on the private sector to create new services for those on low incomes because of the lack of sufficient financial returns. Instead, much private sector innovation in public service delivery will be aimed at reducing their costs and improving outcomes (if they are incentivised to do so), as opposed to developing totally new services (from which they would receive no extra revenue<sup>7</sup>). The third sector can therefore innovate in a qualitatively different way for different needs and groups in society.

**3.23** In response to the findings of the 2004 Voluntary and Community Sector Review, including those set out in this chapter, several government departments have already begun to prepare strategies for more constructive engagement with the third sector in specific service areas. Box 3.8 below provides details of the early plans being developed by different departments. The Government will work with the third sector to identify further service areas where it can play a larger role in delivery.

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<sup>6</sup> Wolfenden (1978)

<sup>7</sup> Bolton (2003)

**Box 3.8: Third sector strategies for specific public services**

In response to the findings of the 2004 Voluntary and Community Sector review, several departments (including DWP, the Home Office, DfES, DH and ODPM) are preparing detailed strategies for more fully engaging the sector in the delivery of important public services. These service areas include:

- **Ethnic minority employment** – The Government's vision is that, in ten years time, ethnic minority groups should not face disproportionate barriers to labour market achievement. In pursuit of this goal, DWP intends to work with third sector organisations to build more effective partnerships, establish clearer mechanisms for consultation with the sector, and unlock the expertise and skills of the sector by commissioning tests of new and innovative approaches.
- **Children and young people** – Third sector organisations are major providers of services to children, young people and families, and they could have a significant role to play in helping the Government achieve its objectives of improved outcomes for children and young people. The DfES is proposing practical steps to help those third sector organisations working in this field, including making funding practices simpler and less bureaucratic and focusing national funding on areas where it will make the biggest impact. DfES also intends to provide guidance to its local public sector partners, setting out an expectation that third sector organisations should be involved in all aspects of the drive to improve outcomes. Assessment measures will monitor how effectively this is happening on the ground.
- **Homeless hostel provision** – Among the most vulnerable individuals in society, homeless people commonly suffer from complex needs (notably increasing levels of drug dependency), and the third sector is the primary provider of hostel accommodation and other services to them. A key challenge going forward is to improve and reconfigure existing hostels to enhance the quality of care offered to the homeless. The ODPM strategy envisages third sector organisations preparing detailed proposals and costings for the renovation of their existing hostel stock, and the Government will provide over £90 million of funding to help them undertake a four-year programme of improvement.
- **Health and social care for older people** – Third sector organisations are an important component of the social care workforce, and its strengths enable it to provide trusted, responsive and innovative services to those needing care. Third sector carers for older people can play a key role in maintaining mental health and wellbeing, emotional support and needs assessment. To build on these strengths, the Department for Health will be articulating more clearly the benefits of the sector in this service area and improve assessment and evaluation mechanisms to improve local commissioning and decision-making.
- **Correctional services** – The third sector has a long history of involvement in correctional services (prisons and probation), and has particular strengths deriving from its ability to: provide a flexible, client-centred approach to service provision; engender trust from offenders because of its independence from the state; and draw on the participation of volunteers and local communities, providing greater rehabilitative social contact for offenders. As the new National Offender Management System is developed, the Government will work to ensure that the potential contribution of the third sector is recognised and utilised, and that any practical barriers to effective partnerships are identified, removed or reduced.

## SAFEGUARDING THE INDEPENDENCE OF THE THIRD SECTOR

**3.24** An increased role for the third sector in the delivery of public services will inevitably require closer working with the Government and the wider public sector. Third sector organisations are by definition independent of the state. We noted above how the independence of the sector from government can lead to benefits for service users, by leading to greater service innovation, higher personalisation and more trust between users and service providers.

**3.25** However the very independence of the sector can be uncomfortable for government. As noted in Chapter 1, a key role of third sector organisations is to act as advocates on behalf of those they serve. This may include campaigning and other public criticisms of government and public bodies. But however legitimate such criticism, this inevitably sometimes strains relationships between the public and third sector. It was to avoid such strains becoming obstacles in the way of partnership between public bodies and the third sector that since 1997 relations between them are supported by a Compact – a code of conduct for how to do business (see Box 3.9).

### Box 3.9: The Compact

The Compact on relations between Government and the Voluntary and Community Sector in England was developed in response to the Deakin report, and was signed in 1998. It acts as a concordat or code of conduct for both Government and the third sector to abide by when conducting business.

The foreword from the Home Secretary and Chair of the Compact Working Group states:

*“The voluntary and community sector has a vital role in society and the nation’s ‘Third Sector’, working alongside the state and market. Through its engagement of volunteers, the services it provides and the support it gives to individuals and groups, its contribution to community and civil life is immense, invaluable and irreplaceable.*

*This Compact is aimed at creating a new approach to partnership between Government and the voluntary and community sector. It provides a framework to enable relations to be carried out differently and better than before... The Compact is a starting point for developing our partnership, based on shared values and mutual respect.”*

## CONCLUSION

**3.26** Not all claims made about the benefits of third sector organisations can be substantiated. As the principal representative body of the voluntary sector the NCVO has itself put it:

*“Some claims that are commonly made about the distinctiveness of the voluntary [sic] sector do not stack up.”*

(NCVO, 2003)<sup>8</sup>

<sup>8</sup> Bolton (2003)

**3.27** Nevertheless experience in the delivery of public services has shown that there are typical characteristics of third sector organisations that can in many circumstances bring great benefit to the delivery of high quality public services. While there is certainly a case for strengthening the research base with further empirical data (see Chapter 6), this chapter has set out a number of benefits and advantages for which there is already strong evidence. In particular, third sector organisations' focus on users' needs, their knowledge and experience, plus their flexibility may mean that they are particularly well placed to offer a high quality of service in circumstances where:

- the quality of service required by procurers is difficult to specify, measure and monitor;
- the needs of service users are highly differentiated;
- the service needs to be directed at sections of the community that have been excluded from traditional service provision;
- the service is labour-intensive, where the flexibility and commitment of volunteers can be an asset;
- the service is targeted at users who are likely to mistrust businesses or state providers;
- users of services have multiple disadvantages, requiring a coordinated portfolio of services from an informed provider; and/or
- where procurers are unsure of the exact service required, and are seeking innovative proposals.

**3.28** Of course, the degree to which each of the sector's generic advantages is applicable in practice will depend upon the specific characteristics and capacities of the third sector organisation in question, the nature of the public service required, and the particular needs of the services' users. A practical examination of the links between the advantages of the third sector identified in this chapter and different public services' requirements are set out in Annex B. Chapter 5 examines the barriers that currently prevent a more extensive role for the sector in public service delivery.

**3.29** While the advantages set out in this chapter are of direct relevance to public service delivery, this is not the whole story. The third sector brings wider benefits to society and the economy as a result of being involved in public service delivery. These 'positive externalities' generated by third sector activity are important irrespective of their direct importance to the delivery of a specific public service, and are the focus of the next chapter.

# 4

## WIDER BENEFITS OF THE THIRD SECTOR

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**4.1** Chapter 4 examined the potential advantages of the third sector in the delivery of high quality public services. But in addition to the benefits that third sector organisations can bring to the quality of services themselves, they are also often able to produce wider benefits to society and the economy from their involvement. These wider benefits arise from:

- the involvement of the third sector in aspects of public service delivery other than direct provision – such as service design, commissioning and evaluation; and
- the way in which a public service is delivered by a third sector organisation - for example, by increasing community participation, building the skills and experience of volunteers and by strengthening trust within the community;

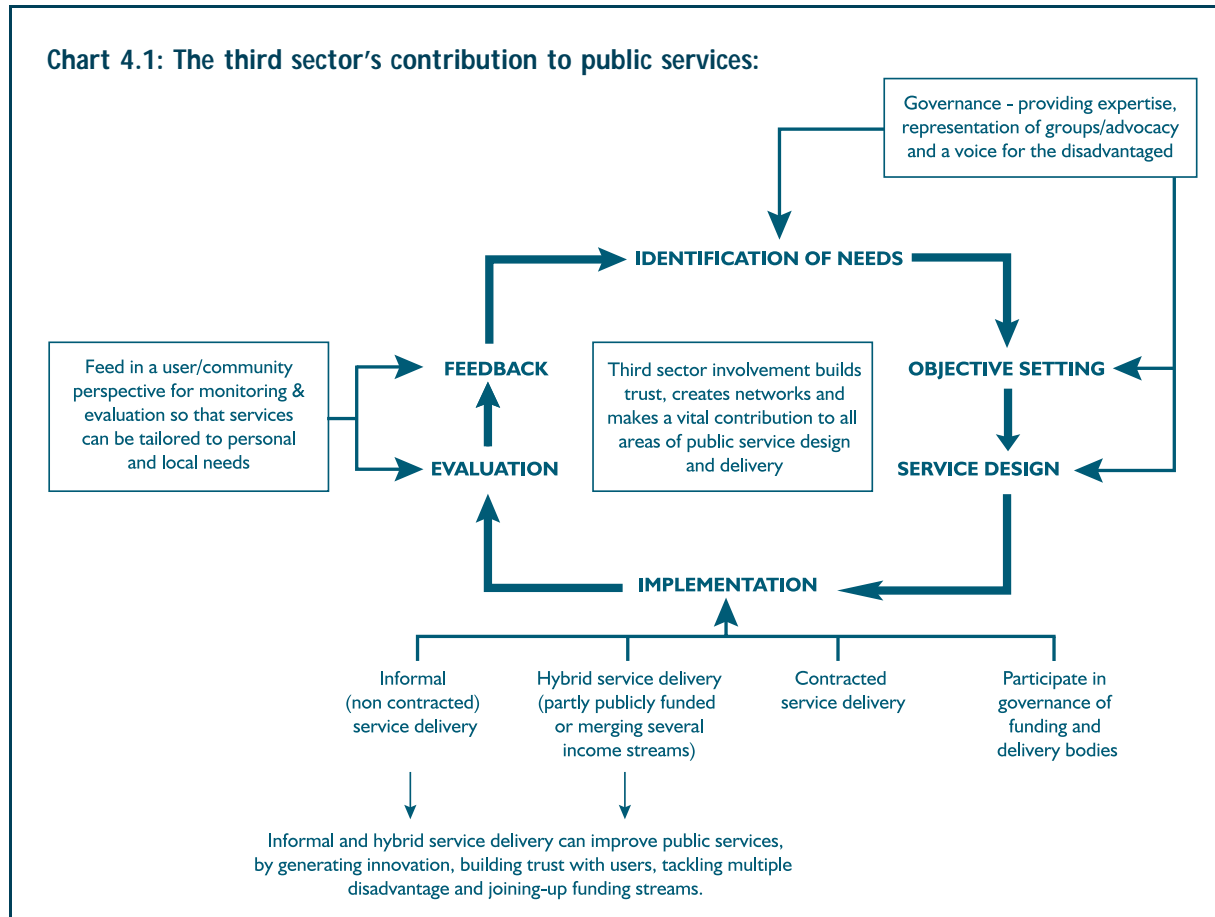
**4.2** Recognition of these wider benefits is important where public services are being commissioned and procured. Einstein’s observation - “Everything that can be counted does not necessarily count; everything that counts cannot necessarily be counted.” - can be particularly important here. In circumstances where the quality of service offered by alternative public service suppliers is very similar, the presence of wider benefits from third sector organisations’ involvement in public service delivery may be decisive in the success of their bid.

**4.3** This chapter examines these wider benefits in more detail. It does not however discuss the contribution to society made by the third sector beyond its involvement in public services. This is also very significant and highly valued by government, but is not the focus of this report.

### INVOLVEMENT IN THE POLICY-MAKING PROCESS

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**4.4** In addition to the direct benefits of third sector organisations’ involvement in the delivery of public services, they may also enhance services simply through their involvement in the wider policy-making *process* of public service delivery (eg. in service design, governance or evaluation) - regardless of whether they directly provide the service itself. Chart 4.1 below indicates the various points in the public service delivery process where third sector organisations can make a positive contribution.



**4.5** The Audit Commission<sup>1</sup> has investigated the ways that third sector organisations can potentially impact upon their local community. A number of these are related to the process of developing and delivering public services. Where the public and third sectors work in partnership, a number of benefits may be gained:

- **Representation and voice in service design** – the third sector is an important part of any consultation process when designing a service. Third Sector organisations may help public service providers consult with particular groups of people and build consensus around the design of services. In addition, Third Sector organisations may also provide expertise in designing services, advocating for change, and in providing an independent voice, especially for the disadvantaged.
- **Governance** – the third sector can often help nominate, select or arrange for the election of individuals to participate in decision-making bodies that may administer funding streams or the delivery of services.
- **Monitoring and evaluation** – third sector organisations may be able to provide an informed assessment of the quality of services provided – especially from a user perspective – by working closely with their client group.

<sup>1</sup> Audit Commission 2003

**4.6** Box 4.1 below provides an illustration of how the third sector has made a positive contribution to service enhancement in the area of probation services.

**Box 4.1: The third sector's role in developing new forms of offender management**

The National Probation Service's 'Prospects' pilot is a three-stage intervention for short-term sentenced prolific drug offenders that is being delivered on a full contractual basis in partnership with the third sector. Analysis of delivery to date suggests that the programme has benefited significantly from working and delivering in partnership. At the project initiation stage the third sector offered the following added benefits:

- Third sector organisations' experience of dealing with ex-offenders and operating resettlement premises has enabled Probation to validate the Prospects model; and
- Third sector established links with local community support groups and some of the criminal justice agencies that have enabled probation to 'fit into' the local plans for tackling drugs and drug related crime in the areas.

**4.7** The benefits of such partnership arrangements need to be considered separately from but alongside the benefits of direct third sector provision of services. For example, input into service design does not automatically imply that an organisation is best placed to provide that service. Although outputs and outcomes from these activities may be difficult to measure, it is important for public bodies and other funders to recognise that third sector organisations need resources to engage in them, and need to be funded accordingly.

## WIDER BENEFITS FROM DELIVERING PUBLIC SERVICES

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**4.8** There is developing evidence that some elements of the *manner* in which a service is actually delivered by the third sector - for example the involvement of volunteers or encouragement of community participation - can promote social and economic development. However, unlike the strengths of the third sector delivery discussed in Chapter 4, these wider benefits to society may not be of immediate advantage to the public agency paying for the service. They are in this sense positive externalities of third sector delivery.

**4.9** Understandably, because such benefits are difficult to identify and measure, decision-makers may unintentionally overlook their value. A deliberate effort then may be required for them to be considered in public policy decisions. This report considers three main groups of wider benefit that may accrue from *how* a public service is delivered by a third sector organisation:

- building community 'ownership' through participation;
- building skills and experience through volunteering; and
- building social capital.

### Community 'ownership' through participation

#### Involving communities

**4.10** One of the distinctive features of third sector delivery of services can often be the wider engagement and participation of the community<sup>2</sup> – whether this is a geographical neighbourhood or community of interest. Public (and sometimes private) sector delivery agents can also engage communities, but the values and working methods of third sector organisations tends to make engagement more frequent. As Billis and Glennerster (1998) have shown, the open and informal structures of many third sector organisations allow accountability to be shared across a wider group of stakeholders, such as a local community or neighbourhood. The involvement of volunteers can also bring the community (and even service users) into the delivery of the service, further increasing participation. Many third sector organisations, their management and staffs, come from their communities they serve. Boxes 4.2 and 4.3 below give some examples of this.

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<sup>2</sup> Bolton (2002)

**Box 4.2: Building community ownership and meeting local needs**

The Beacon Community Regeneration Partnership in Falmouth provides one illustration of the capacity of third sector community organisations bring together a wide range of stakeholders to address local needs and generate community ownership. In the mid-1990s, the Beacon and Old Hill Estate featured amongst the most deprived areas in Britain. Health problems were exacerbated by little central heating and poorly insulated housing. Crime and drug dealing were common.

By creating a partnership between residents, the NHS, the police, the junior school and the district council, a regeneration strategy was formulated to improve the area and help the residents voice their concerns. A sense of community spirit returned, attitudes improved, and the crime rate fell.

Community fears regarding crime and violence were addressed via the introduction of lighting for back alleys and CCTV cameras for some of the danger spots. For the first time Neighbourhood Watch schemes emerged and a variety of community activities followed, including parent-toddler groups, computer training and community fund-raising activities. Improvement to 900 properties has been possible, central heating and insulation has been rectified in 300 properties reducing health problems (including asthma) in families on the estate. In addition, crime has fallen by over 60 per cent.

**4.11** It is important that community participation is distinguished from representativeness. Participation makes a third sector organisation more representative of those it services and involves, but it does not necessarily make it representative of the community as a whole. Third sector organisations are accountable to their members, to their values and constitutions and to their funders - they cannot be formally accountable to the whole community.

**Building skills,  
motivation  
and  
confidence**

**4.12** As already discussed in Chapter 3, engagement with the local community can often directly improve the quality of service delivery. However, there are also wider benefits of increased community participation to society. Third sector organisations are often the mechanism by which communities engage in organised forms of collective action. The exact form can vary depending on the circumstances and objectives that brings a given community together. But there is strong evidence to show that involvement in such action can bring a number of wider benefits, particularly in areas and among social groups experiencing social disadvantage. These benefits include:

- greater confidence and self-esteem as experience of collective action is gained;
- skills acquired of relevance for the labour market and for social and political life;
- an improvement in community reputation; and
- a sense of control over life regained or enhanced; and more generally, a fatalism or 'poverty of expectations' replaced by more positive attitudes and perspectives.<sup>3</sup>

<sup>3</sup> Kendall (2003)

**4.13** Such benefits are of particular value to communities that experience community disadvantage due to, for example, a concentration of low incomes or forms of discrimination (see Box 4.3 below). Often in such communities there can be fewer opportunities to engage in civic participation or commercial activity than in other areas. Involvement of third sector organisations in the delivery of public services can then help to counter disadvantage. For example, a social enterprise that reinvests its surplus in the local community, thereby giving local people a stake in its success, may be less likely to be a victim of burglary or vandalism.

**Box 4.3: Royds Community Association**

Royds Community Association provides a further example of how third sector organisations can be successful at both building community ownership and delivering practical results. The association is responsible for the total regeneration (economic, physical and social) of three housing areas - Buttershaw, Woodside and Delph Hill, in the south west of Bradford. The area contains approximately 3,500 dwellings and has an estimated population of around 12,000 residents.

Royds Community Association began life around 1990 as a group of concerned residents who wanted to see improvements to the estates where they live. Surveys were carried out amongst residents to find out their views on the estates' future. Over time, and with the help of outsiders who built their capacity, they developed a strategy for change.

When a strategy was finally in place this earlier preparation and partnership building positioned Royds well to win £31 million of SRB funding. Funding was administered by a board of 22 people, 12 of whom are local residents, 7 independent partners comprising the church, police, local college and 3 council members, among others. Three working parties operate below the board level, and their roles involve overseeing the economic, social and physical regeneration work of the association.

The management structure is democratically accountable to residents of the estates, who are allowed to contribute views at public board meetings. Meetings of the working parties are also held in public, where residents have the opportunity to contribute to the decision-making processes.

Local residents feel a sense of ownership of their estates because they are being listened to, and their ideas are implemented. The sense of ownership is reinforced by the local people on the board, who find out residents' views, feed them into the board's decision making and share information of outcomes with residents.

Royds has helped create over 400 new jobs, 35 new businesses, and over 140 other VCS organisations have been helped. As grant funding reduces to 30% of income, Royds is entering a new phase. It owns community enterprises that generate revenue, allowing Royds to fund community work such as advice to council and utility debtors.

**Better understanding**

**4.14** Involving the community in the services that affect them can therefore be a source of skills, motivation and confidence. People can see that their views count and they can make a difference to their own lives. But it can also have an important by-product. This is a better understanding of the issues arising in the delivery of public services by those that participate. Involvement can lead to greater trust and understanding by residents and users of the public bodies responsible for provision, including a greater awareness and acceptance of the limits (such as funding constraints) put on those delivering the service.

**Costs 4.15** However, there are also costs from involving the community that should not be overlooked. As well as the direct costs of participative methods, consultation can often result in longer timescales and delays in implementation. Consensus is often difficult to achieve, which means that some of those encouraged to participate may be disappointed if their views are not reflected in final decisions. Participation can raise expectations without always making much difference to outcomes<sup>4</sup>. In addition, community involvement can be very difficult to achieve where there has been poor experiences in the past. For example, Ashworth (2000) describes an environment in which the history of local regeneration and community involvement had led to cynicism among the local population, such that a consultation in the area “resulted for the most part in reactions that ranged from indifference to outright hostility”.

### Building skills and experience through volunteering

**4.16** In addition to the general benefit of engaging the community, there is developing evidence that the involvement of volunteers by third sector organisations – in many cases one of their distinctive features - can provide value beyond the direct advantages to service delivery outlined in Chapter 3. Volunteering contributes to the self-esteem and well being of the volunteers themselves, allowing them to build different skills and develop new experiences. This has a clear, positive benefit to the labour market and economy.

#### Entry to the labour market

**4.17** Increased skills and experience are especially important for those with little opportunity to develop these qualities in the formal labour market. Recent experience of the New Deal shows the value of volunteering as a route into the jobs market, especially for ‘disadvantaged’ jobseekers or those in need of sheltered employment (see Box 4.4 below). For those that may never return to the paid workforce, volunteering offers an important source of confidence and social contact.

#### Box 4.4: Developing skills and experience amongst vulnerable people

The Hartsholme Park Arboriculture Co-operative (HPAC) in Gainsborough is one example of a third sector organisation that exists to build the experience, skills and self-confidence of people who were previously on the fringes of the labour market or in need of sheltered employment.

The members and workers of HPAC are people with mental health and learning difficulties, who are supported by full-time employees. HPAC collects domestic garden waste from the local area, composts it and uses to regenerate a nearby wood. The New Economics Foundation valued the benefits including better health, reduced social services and higher employment to find a social return on investment of £1.80p for every £1 spent.

<sup>4</sup> New Deal for Communities Evaluation 2003

**Young people** 4.18 Volunteering can in particular provide opportunities for young people not yet part of the labour market to develop new skills and experiences. In a review of the wider benefits of volunteers, the Voluntary Sector National Training Organisation (2001) noted that in 1997, 59 per cent of volunteers surveyed reported that the chance to learn new skills was important, especially for younger volunteers (an increase from 47 per cent in 1991). The sector is emerging as a key agent in developing the kind of skills that increase employability of individuals or groups of individuals. For example, a survey of Millennium Award volunteers showed that as a result of volunteering:

- 79.8 per cent developed confidence;
- 72 per cent developed team-working skills;
- 69.5 per cent developed their communication and public speaking skills;
- 49.3 per cent developed negotiation skills.

**Increasing earnings** 4.19 In addition, there is some evidence in earnings data that volunteering contributes to the earning power of an individual. For example, volunteers tend to have higher incomes – an effect of up to 6-7 per cent of earnings<sup>5</sup>, even accounting for the fact that higher earners tend to volunteer more. Further research indicates that any correlation between volunteering and income may be linked to the developed networks and contacts gained as a result of volunteering<sup>6</sup>.

## Building social capital

**Building networks** 4.20 Social capital is the name given to the positive impact of strong social networks and relationships of trust within a community. There is now significant evidence that the existence of such networks and trust promotes both better governance and economic success. Third sector organisations are key contributors to social capital, through their often rich network of relationships within communities and their tendency to work through participation and consultation.<sup>7</sup> Their basis within the community and among multiple stakeholders generally provides them with greater opportunities to build networks and trust in a community than public and (particularly) private organisations. In deprived areas in particular, where social trust is often low, the activities of third sector organisations can help to build pockets of trust and co-operation, leading lead to a positive cycle of social capital development<sup>8</sup>.

4.21 Some third sector organisations with multiple aims and a wide variety of stakeholders are particularly able to build links and networks across different groups in society. Activities that encourage links across (rather than within) different groups can play an important role in counteracting social exclusion, building trust and increasing community cohesion.

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<sup>5</sup> Day and Devlin 1998

<sup>6</sup> Devlin 2000

<sup>7</sup> Bolton 2002

<sup>8</sup> Axelrod 1984

**Better social and economic outcomes**

4.22 Social capital has strong benefits. Better networks and levels of trust between people in a community has been shown by the Office of National Statistics to contribute positively to:

- lower crime;
- better health (especially mental well-being);
- higher educational achievement;
- improved income equality;
- better child welfare;
- more effective government; and
- assisting economic development (see Box 4.5 below).

**Box 4.5: Economic development value of social networks**

Third sector organisations tend to have a wider number of stakeholders than those in the public or private sectors, making it easier for them to build social networks. The importance of these networks to economic development and business creation has been increasingly recognised. For example, ONS (2003) showed that most men found their job through a personal contact. McQuaid listed a number of uses of networks, such as: “[to] provide entrepreneurs with opportunities to gain information from a wide variety of sources, to test out their existing ideas, to get referred to appropriate specialists by their contacts (with a high probability that the specialist will take time to see them due to the mutual contact), to gain moral support and to gain the use of others who have an interest in the entrepreneur’s welfare” (p119).

Whilst local networks can be formed without aid by the Third Sector, the involvement of an organisation that brings people from outside the local community can provide invaluable access to a more diverse, external networks. Researchers have found that a network that is confined to the locality is not necessarily the most ideal to assist a growing business<sup>9</sup>. Butler and Hansen (1991) that “more diverse networks are more likely to provide information which disconfirm the entrepreneur’s existing beliefs, while small networks could have much stronger ties and more likely to provide information which is already known and which merely confirms both parties’ existing preconceptions.”<sup>10</sup>

<sup>9</sup> Grabher, 1993; Granovetter, 1973, 1985.

<sup>10</sup> McNicoll, 1996, p101.

## CONCLUSION

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**4.23** This chapter has illustrated that, as well as the improvements that the third sector can make to direct public service provision, its involvement can bring wider benefits to society and economy. These can include:

- enhancing the design, governance and evaluation of services;
- greater community participation in - and engagement with - public services;
- building skills, motivation and confidence within communities;
- better understanding of social issues by communities;
- raising skills and work experience amongst volunteers – especially young people; and
- building social capital, thereby contributing to improved social outcomes, increased economic development and greater community cohesion.

**4.24** These wider benefits can be generated either because the third sector delivers the service in a different manner, or because – when not involved in direct service provision – the sector can improve the wider process of service delivery. As with the direct benefits set out in Chapter 4, the degree to which the wider benefits discussed in this chapter manifest themselves in any particular case will be dependent on the characteristics of the third sector organisation concerned. Annex D discusses the link between the organisational dimensions of third sector organisations and the wider benefits set out above.

**4.25** Whilst it is difficult to quantify, measure, or place a monetary value on these wider benefits, this should not mean that they are ignored by decision-makers in the policy-making process (those designing services, commissioning, procuring and funding services, or evaluating services). The material in the chapter above – together with that in Chapter 3 – should help those in decision-making positions consider what the third sector might have to offer, not only to direct service provision but also in terms of wider benefits to society and the economy. The next chapter therefore discusses the barriers to greater third sector involvement in service delivery, and identifies the steps the Government and the sector are taking to overcome them.

# 5

## BARRIERS TO THIRD SECTOR INVOLVEMENT

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**5.1** The previous two chapters have shown how, under certain circumstances, the third sector has the potential to offer some real advantages in the delivery of public services. However, there are a number of barriers to the further involvement of the third sector in public service delivery and a number of areas in which its capacity needs to be strengthened.

**5.2** The 2002 Cross-Cutting Review and the Futurebuilders consultation paper both considered barriers to third sector involvement.<sup>1</sup> This chapter summarises them and expands on the most important. The Government believes that many of the barriers outlined below can be overcome, and this chapter outlines some of the measures that the Government and the sector have already put in place to do this.

**5.3** The chapter makes a distinction between external and internal barriers. 'External' barriers are largely beyond the control of the sector, and responsibility for their removal lies principally with the Government, local authorities and the wider public sector. 'Internal' barriers are related to the existing capacities of the third sector. While it is largely within the responsibility of the sector to overcome these, the public sector also has a stake in supporting the development of capacity within the sector.

### OVERCOMING EXTERNAL BARRIERS TO THE THIRD SECTOR

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**5.4** External barriers to greater third sector involvement in public service delivery can result from behaviours by public sector bodies that unwittingly limit their access to contract opportunities or funding streams, and so constrain their ability to tender for services or develop their capacity.

#### Increasing awareness and involvement in service design

**5.5** The principal external barrier to the successful involvement of third sector organisations in public service delivery is a lack of awareness and understanding of the sector among those in government and public bodies. Following previous guidance in this field to those in the public sector responsible for commissioning and procuring public services (see below), it is hoped that this document will further clarify the field and improve understanding.

**5.6** There are three key elements to improving awareness of the sector:

- improving knowledge of the rationale for third sector involvement;
- challenging misunderstandings and misrepresentations; and
- targeting key stakeholders.

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<sup>1</sup> *The Role of the Voluntary and Community Sector in Service Delivery: A Cross-Cutting Review*, HM Treasury (2002); *Futurebuilders: An Investment Fund for Voluntary and Community Sector Public Service Delivery*, HM Treasury (2003).

**Improving knowledge**

**5.7** This document provides a preliminary analysis of the role the third sector can play in enhancing the quality and effectiveness of public services. The Government is considering how best to spread knowledge of this agenda and analysis across the public sector and beyond. In addition to dissemination of this publication, one early step will be a “Third Sector Summit” to discuss the issues raised in this document with an audience of key stakeholders. To further improve understanding amongst public officials and beyond, the Government will also continue to work with the sector and the Compact Working Group in developing the Compact. Box 5.1 below also sets out what is already being done in pursuit of this aim.

**Box 5.1: Strengthening the Compact**

Box 3.8 set-out the details of what the Compact is intended to achieve. The Government – working in partnership with the sector – has made efforts to further strengthen the impact and reach of the Compact since its publication in 1998, including:

- the development of a **Compact Pledge Card** setting-out the key, headline messages from the Compact;
- the revision of the **Compact Code of Good Practice on Funding and Procurement**;
- working in partnership with the **Compact Working Group** to develop policy proposals or the Futurebuilders fund;
- the publication of **one-page summaries** of the Compact and associated Codes; and
- significant departmental activity to support the Compact during the annual **Compact Week** events and ministerial involvement in **Annual Compact Meetings** held in Parliament.

More details on the Compact can be found at [www.thecompact.org.uk](http://www.thecompact.org.uk).

**5.8** Many misunderstandings and misrepresentations exist about the rationale for greater involvement of the third sector in public service delivery, from “getting services on the cheap” to “privatisation by the back door”. In contrast, the analysis in this document makes clear that the pursuit of better quality services for users can, and should be, at the heart of the argument for more involvement by the third sector in public service delivery.

**5.9** In particular, greater third sector involvement is not designed to secure services on the cheap, since this would not only compromise the quality of services delivered to the public and represent poor value for money, but would also undermine the financial security and stability of third sector organisations themselves. Further implementation of full cost recovery, for example, will be one demonstrable way for the public sector to dispel this myth. Neither is this agenda about ‘pseudo-privatisation’ involving the state abdicating its responsibility for the provision of vital public services. Greater third sector involvement in the delivery of public services is entirely compatible with continuing government responsibility for both the provision and funding of public services.

**Targeting 5.10** The Government recognises that awareness raising efforts need to be targeted at those people who are, or need to be, involved with the third sector, through either strategic planning of services or those who are in day-to-day contact with the sector. As around 70 per cent of third sector activity occurs, and is financed, at the local level, a priority for Government should be to support local authorities and other local public sector bodies in building strong partnerships with the third sector. Box 5.2 below describes the work of the Local Partnerships Taskforce in pursuit of this aim.

**Box 5.2: Building stronger local partnerships**

As part of the Voluntary and Community Sector Review 2004, a **Local Partnerships Taskforce** was established to “...explore what more should be done to support and build effective partnerships between public and third sector bodies at the local level, building on experience of what works”. The Taskforce was made-up of local practitioners from third sector organisations, local authorities and other local public sector bodies – supported by HM Treasury, ODPM, DTI, Home Office and the Local Government Association.

The Taskforce developed a checklist for local practitioners, backed-up by key supporting actions at the national level, presented as a pamphlet and poster for local practitioners from both sectors. The Taskforce focused their work on five key areas:

- **Improving understanding** between the local public sector bodies and third sector organisations of the needs and operating conditions of each, based on the Compact and principles of mutual recognition, respect and partnership.
- **Joining up policy** in a meaningful way to ensure coordination and consistency in policy-making, programme and service delivery.
- **Organising ourselves** to improve organisational co-operation, both in terms of activity and effective representation of both the public and third sectors, at and across different geographical levels.
- **Sharing good practice** on effective partnership arrangements between the public and third sectors within and across different local areas.
- **Funding it better**, by moving to a more stable and effective funding relationship between third sector organisations and public sector partners, based on the principles of simplicity and proportionality, commonality and co-ordination.

**Involvement in service design 5.11** Evidence given to the Government’s cross-cutting review highlighted that public bodies do not always involve third sector organisations sufficiently in all aspects of the service delivery process. Meaningful involvement of the third sector can be a problem, particularly for small organisations, which continue to report some common difficulties with new programmes. These can include:

- third sector organisations are expected to respond unrealistically quickly;
- insufficient development funding;
- limited shared planning – this is a particular concern of Black and Minority Ethnic (BME) organisations; and
- little involvement in target setting.

The involvement of the third sector earlier in, and throughout, the process can avoid many of these difficulties.

## Improving access to public finance

**5.12** Central government, local authorities and other public sector bodies are the principal funders of public services and, through grants, contracts and other funding mechanisms, are purchasing an increasing proportion of these services from the third sector each year. Funds such as Futurebuilders are also helping the sector to develop its infrastructure and build its overall capacity. However, some existing funding practices can unwittingly inhibit third sector organisations' ability to successfully bid for public sector funding.

**5.13** Government procurement policy requires that all procurement must be based on value for money (VFM), defined as the optimum combination of whole-life costs *and* quality necessary to meet users' requirements. Public bodies need to continue ongoing work to open supply opportunities to third sector organisations, build more effective relationships with them, and further reduce the barriers that can sometimes prevent them from competing in the public sector market on an equal footing with the private sector. Indeed, public procurement is generally more effective in securing optimum VFM if it is open to ideas and tenders from *all* potential suppliers – from public, private *and* third sectors.

### Funding behaviour

**5.14** Allowing for the differences between procurement and grants as a means of finance, funding behaviour can sometimes inhibit third sector organisations' access to public finance. This behaviour can include:

- **Variable and short term funding** – annual funding restricts the ability of third sector organisations to engage in longer-term planning;
- **End loading of payments** – payments have traditionally been paid in arrears;
- **Insufficient streamlining and coordination** in funding criteria and performance monitoring systems;
- **Avoiding full cost recovery** – the price paid for services does not always reflect the full costs associated with that service; and
- **Insufficiently recognising the wider social benefits** of some third sector delivery of public services.

### Length and stability of funding

**5.15** Insufficiently long term funding arrangements is a problem regularly faced by third sector organisations. For those services where the third sector frequently wins contracts, the use of renewable one-year contracts is a cause for concern. These can lead to the diversion of valuable third sector resources into bidding to retain contracts and away from the development and delivery of better services. Annual funding also limits the ability of third sector organisations to engage in longer-term planning, borrowing and investment, while slow payments can put third sector organisations into undesirable financial difficulties.

**5.16** Funders have sometimes complained that longer contracts reduce financial flexibility. But the move to three year spending settlements when combined with end year flexibility means that central government departments and local government already have considerable flexibility. Procurers should therefore take into consideration the effect on service providers when deciding contract lengths, alongside factors such as contract size, market maturity and their own funding arrangements.

**5.17** In terms of the stability of funding, fluctuations in the amount paid for a service may not provide a sufficiently predictable income stream to allow the survival or expansion of third sector provision. Equally, demand and output risks may not be fairly shared between funder and provider. Lack of provision of clear and early information about future funding streams further undermines funding stability. Without such information, or even the hope of stable funding streams, third sector organisations cannot use them as security to gain access to financial capital.

### End loading of payments

**5.18** For third sector organisations engaged in service delivery, the end loading of payments can discourage them from working in partnership with government. There are two aspects to this problem:

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

**5.19** It is unrealistic to expect providers to absorb all the risk associated with the first of these - this is the primary responsibility of commissioners and procurers. However, provided that the output goals are discussed and agreed in advance, it is reasonable for the provider to bear the risk of non-delivery in return for a degree of flexibility in how services are delivered.

**5.20** Part of the problem for some groups has been a lack of consistency in the interpretation of Government Accounting rules. There is a widespread perception that so-called “Treasury rules” are inflexible, requiring, for example, that no payments are made ahead of actual expenditure. But this perception is simply incorrect – in the latter case the principle is that no payment should be made in advance of need. Many funders have taken the position that need can only be demonstrated by the expenditure having been actually incurred, but this is not a Government requirement and may be unreasonable.

### Streamlining access

**5.21** Third sector organisations often have to access multiple funding streams, each with their own bidding and reporting requirements. This often places an excessive administrative burden on them. Rationalising some of these funding streams, or encouraging third sector organisations to pool their resources in some bidding, would reduce the transaction costs of securing income and allow third sector organisations to spend more on frontline services. There is a strong case for public bodies to streamline and co-ordinate funding criteria and performance monitoring systems. ‘Funders forums,’ bringing both public and charitable funders together to co-ordinate approaches, can be particularly useful.

### Full cost recovery

**5.22** Like public bodies and private firms, third sector organisations have fixed or overhead costs. Evidence given to the Government’s review suggested that funders are often unwilling to finance these costs and a common perception among funders that other sources of finance are already being used for this purpose. But there is no reason why service providers should not include the relevant portion of overhead costs within their bids for service contracts. These are part of the total costs of delivering a service. To do this, the third sector needs to be able to apportion overhead costs effectively. But there is no reason why service procurers should disallow the inclusion of relevant overhead costs in bids. They would not do so for a private sector bidder, and the playing field should be level for the third sector. Clearly, different providers will want the autonomy to decide how to structure individual bids and funders will want to award service contracts on a Best Value basis.

**Wider social benefits** 5.23 When delivering public services some third sector providers can generate wider social benefits that may not be fully captured in existing procurement practices. But these potential benefits can be taken into account where they are relevant to the subject of the contract, and need to be recognised by public bodies early in the procurement process.

**Government's response** 5.24 Since 2002 the Government has taken a number of steps to help public sector procurers build a better relationship with the third sector. In 2003 the Home Office and the Office of Government Commerce (OGC) published *Think Smart...Think Voluntary Sector!* to provide public officials with good practice guidance on the procurement of services from the voluntary and community sector. Relevant to the public sector's engagement with the whole of the third sector, the guidance recommends that procurers:

- understand the market, through ongoing dialogue with the third sector;
- consult the third sector early on policies, programmes and strategies;
- open contract opportunities to the third sector by advertising in appropriate media;
- focus procurement on securing required outputs and outcomes, rather than tightly specifying delivery methods and processes, to promote innovation; and
- keep the procurement process simple and proportionate, by reducing complexity and bureaucracy to reduce costs to suppliers.

5.25 HM Treasury has also produced a document entitled *Guidance to Funders* (2003) that provides specific guidance for those issuing public funds to voluntary and community organisations. In particular, the guidance is intended to correct misunderstandings and clarify what is, and is not, possible under Government Accounting rules – the agreement between the Government and Parliament on the proper use of public funds. In particular, the guidance covers:

- advance payments: in specified circumstances and provided value for money is still achieved, public funds can be issued in advance of expenditure (though not of need); and
- longer-term funding: funding agreements that last longer than one year can often represent better value for money by providing greater financial stability and reducing unnecessary bureaucracy.

5.26 Public sector funding of the third sector has been increasing, both in absolute terms, and also as a proportion of the sector's total income (up to 37 per cent of income for voluntary organisations<sup>2</sup>). The Government is also helping the third sector to be more successful in bids for public funds. For example, Box 5.3 includes details of recent guidance issued to social enterprises by the DTI.

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<sup>2</sup> NCVO (2004)

**Box 5.3: Helping the third sector to participate in public procurement**

The DTI published a guide in 2003 entitled *Public Procurement: A Toolkit for Social Enterprises*, which provides advice to social enterprises (and other third sector organisations) on how to take part, and be successful, in public procurement processes. The guidance focuses on key stages in the procurement process for third sector organisations:

- **Decide whether public services delivery is for you:** is this what you want to do?
- **Understand public procurement:** how is the process governed and how does it work?
- **Do the groundwork:** building relationships with stakeholders
- **Find contract opportunities:** taking advantage of local and national opportunities
- **Prepare your bid:** selling both direct and indirect benefits
- **Deliver your contract:** cash-flow, targets and customer satisfaction

Public Procurement: A Toolkit for Social Enterprises can be found at: <http://www.dti.gov.uk/socialenterprise/procurement.htm>.

**Next steps** 5.27 Looking forward, the OGC and the Government's Sustainable Procurement Group are also preparing guidance for procurers on the inclusion of social issues in public purchasing. This will encourage procurers to:

- Consider if any wider social issues are relevant to public service provision early in the procurement process, such as community engagement or environmental regeneration; and
- Include relevant social issues in the procurement process, for example in the business case and service specifications at the outset of the procurement process.

**SME procurement pilots** 5.28 The OGC and the Small Business Service have also recently completed two pilot projects in Haringey and the West Midlands designed to help Small and Medium Sized Enterprises (SMEs) successfully compete for public sector procurement contracts. These pilots sought to simplify the mechanism for SMEs to find out about and bid for public sector contracts, including streamlining the procurement process to make it simpler and more cost-effective for small businesses, including third sector organisations. Specific measures piloted included:

- A regional procurement opportunities web-portal;
- Simplified application documentation;
- Free training for SMEs on public procurement;
- SME awareness training for procurers; and
- Encouraging large procurers to open up opportunities for SMEs.

**5.29** Evaluation of the West Midlands pilot is now complete, and has found that the number of SMEs successfully winning procurement contracts within the pilot area almost doubled. In order for the lessons learnt to be of benefit to all SMEs, including third sector organisations, the OGC and SBS will be rolling out nationally the most successful components of the pilot programme.

**5.30** Following the announcement of the various measures described above, it is the responsibility of Government to ensure that reforms are being fully implemented and that guidance is followed. In particular, there is a need to focus on the implementation of the principle of full cost recovery. To this end, the Government will publish during 2005 a second edition of *Guidance to Funders*, which will include detailed guidance to those issuing public funds on how to implement full cost recovery.

## Public money and necessary barriers

**Public sector risk aversion** **5.31** While this document argues that public bodies need to develop a greater understanding of the needs of, and challenges facing, the third sector, the sector itself needs to understand what motivates the behaviour of public bodies. Specifically, public bodies spend public money and they are held to account for their spending decisions. This makes them risk averse in ways that may be frustrating to organisations in other sectors whose income sources means they do not work within the same constraints. To ensure a high standard of regularity, propriety and accountability in the use of public funds, various appraisal and audit procedures exist. Whether they are seen as barriers or simply acceptable hurdles tends to depend on the ability of third sector organisations to comply with them.

**5.32** While there may be scope for rationalising some procedures, or in some cases reassessing their proportionality, it is also true that the third sector needs to understand them from the perspective of public bodies if it is to secure a greater number of contracts for public service provision. A mutual understanding is needed – of the public sector’s accountability and of the third sector’s capacity to responsibly manage and use public funds.

## REMOVING BARRIERS WITHIN THE THIRD SECTOR

**5.33** In addition to the external barriers to greater participation in public service delivery that the third sector faces, there are also internal barriers that inhibit its capacity to grow and deliver a more extensive range of services than at present. Depending on the specific organisation in question, these internal barriers can include limited access to financial and physical capital, insufficient capacity, inadequate leadership, management and technical skills.

## Access to private finance and physical capital

**Private finance** **5.34** In the absence of a reliable income stream, third sector organisations often experience difficulties engaging with private financial markets to raise capital. Equity finance is usually unavailable because they largely reinvest any surpluses they generate, and debt (or loan) finance can be difficult to access both because of the lack of a regular income stream to support repayments. Some third sector organisations also lack a culture of debt, which can further inhibit their capacity to develop an asset base on which to secure future loans. Indeed, third sector organisations’ board members can sometimes be asked to guarantee loans with their own personal wealth.

**5.35** Limited access to private finance can inhibit third sector organisations' ability to expand and maintain their asset base over time. This can have a significant adverse impact where the development of a new and innovative service depends, for example, on a new building, or where the delivery of an existing service to vulnerable people relies on a unit that is rapidly falling into disrepair. In 2003, the Government consulted on proposals for a Futurebuilders fund, to provide dedicated resources for voluntary and community organisations to invest – mostly in physical capital. Box 5.4 below sets out more details of the Futurebuilders fund.

**Box 5.4: Futurebuilders**

In Spending Review 2002 the Government announced a £125 million, one-off investment fund – Futurebuilders – to assist the third sector in its public service work. The fund is intended to showcase the best of service delivery by transforming the capacity of some individual organisations, or groups of organisations working together, to engage in public service delivery.

It was designed to help tackle the lack of capital investment and development funding in the sector, with funding provided to purchase assets – both physical assets (e.g. buildings), intangible assets (intellectual capital such as research), and development funding. The fund will offer a mix of finance – from grants to different types of loans – to provide flexibility for the different circumstances of different third sector organisations.

More information can be found at: [www.futurebuilders-england.org.uk](http://www.futurebuilders-england.org.uk)

**5.36** Some legal forms do allow third sector organisations to raise capital. The Community Interest Company form will be able to issue capped dividends to investors (subject to a general lock on the value of assets). Mutuals and co-operatives incorporated as Industrial and Provident Societies can raise finance through issuing 'withdrawable share capital' – a type of share that the member has the right to withdraw, usually following a period of notice. In addition, a market of suitable forms of finance is rapidly developing – both in the mainstream financial market, and from the growing number of Community Development Finance Institutions (CDFIs) – sometimes offering forms of 'soft finance' such as patient capital (finance given on tailored terms to generate social and financial returns) or supported loans and sometimes offering more traditional loans but with a greater understanding of their customer base.

**5.37** To support these trends, the Government has introduced a Phoenix fund that is aiding the development of CDFIs. Community Investment Tax Relief has also supported CDFIs by offering tax relief to their investors. Further details on both these measures are in Box 5.5 below. In addition, the Government's encouragement for public sector procurers to offer more longer-term contracts should provide securer funding streams for a wide range of third sector organisations, which can be used as security for more private sector loans.

**Box 5.5: Improving access to private finance*****(a) The Phoenix Fund***

The Phoenix Fund was launched in November 1999 in response to the Policy Action Team report *Enterprise and Social Exclusion*. It tackles issues of access to business support and finance which often represent particular difficulties for people in disadvantaged communities. The fund also promotes the creation of social enterprises. In particular, the fund is providing over £40 million worth of support to Community Development Finance Institutions (CDFIs) to enable them to further develop their core activities of providing finance and associated support to enterprises that will have a positive impact on disadvantaged communities but are unable to access the finance they require from conventional sources.

Spending Review 2002 invested a further £50 million in the Phoenix Fund in general to cover up to 2006, and Spending Review 2004 has committed a further £22 million in general – but this does not include further bidding rounds for CDFI capital (on lending) purposes, for which see CITR below.

More information on the Phoenix Fund can be found at: [www.sbs.gov.uk/phoenix](http://www.sbs.gov.uk/phoenix)

***(b) Community Investment Tax Relief***

The Community Investment Tax Relief (CITR) promotes private investment in enterprises in disadvantaged communities by offering tax relief to investors in CDFIs which provide finance to business and social enterprises in deprived communities. Twenty Two CDFIs currently have CITR accreditation status and aim to raise over £80 million of new capital from private sector investors over the next few years.

More information on CITR can be found at: [www.sbs.gov.uk/finance](http://www.sbs.gov.uk/finance)

***(c) Bank of England – Financing of Social Enterprise***

This report, published in May 2003, considered the supply and demand of external finance for social enterprises in the UK. It found that demand for debt finance among social enterprises is both limited by the availability of other, cheaper forms of funding such as grants, and by a cultural aversion to the risks associated with borrowing. However, there is regular use of a range of external finance instruments supplied by banks or other lenders, such as CDFIs – particularly from larger social enterprises. There is however, a demand for 'patient' capital, particularly at the start-up or expansion stages. The key to tapping into this social investment market is the development of methods of social auditing, and ability of social enterprise in distinguishing and accounting for social costs and returns.

The final report can be found at: [www.sbs.gov.uk/socialenterprise](http://www.sbs.gov.uk/socialenterprise)

## Building the third sector's capacity

**5.38** Building the capacity of the third sector is about ensuring organisations have the skills, knowledge, infrastructure and resources in place to realise their full potential. Investing in the human capital of organisations is one key way for them to build front line delivery capacity. There is evidence of significant skill gaps among some third sector organisations in the areas of :

- Leadership
- Management of volunteers
- Technical assistance, business support & administration
- Information and Communications Technology (ICT)

**Leadership 5.39** Leadership is key to the delivery of better public services. It is not only Chief Executives of third sector organisations who are in a leadership role, but also Chairs and Trustees and individuals in third sector organisations that are community based or volunteer run. More work needs to be done on identifying the different needs for leadership development and investigating the opportunities for meeting them, in order that a range of provision is available that is appropriate, accessible and affordable.

**5.40** The third sector must clearly examine its own approach to development and consider ways of improving and supporting professional development. There are benefits in cross-sectoral learning, where leaders from different sectors learn from each other's experiences, and there could be more ways in which central and local government training opportunities, as well as those provided by the private sector, could be made more accessible to third sector personnel.

**Management of volunteers 5.41** The third sector comprises a high proportion of volunteers. More volunteers may necessitate more skill development, especially if the volunteers are from disadvantaged groups themselves. So the responsibility of training people and structuring their development may be more onerous in this sector than in others, and third sector managers may have to spend a disproportionate time on this by contrast with their colleagues in other sectors.

**Technical assistance, business support and administration 5.42** Some third sector organisations, especially small community organisations, may lack the necessary administrative resources or skills that may be required for making successful bids to public bodies for contracts. Technical assistance refers to the practical help and know-how needed to implement and deliver a specific service or programme. This includes having information on the service requirements; guidance in accessing funding; training on service standards, outcomes and performance measures; information on reporting arrangements and regulations, as well as access to mechanisms for providers to share experience and good practice.

**ICT 5.43** There is evidence that the level of ICT use in the third sector is low, compared with other sectors. Opportunities for productivity gains and innovative service developments are often not exploited fully, particularly in smaller organisations. This indicates a need to raise awareness of the potential of ICT and assistance with increased use of equipment, training and on-going technical support, starting with current initiatives and programmes.

**5.44** BME organisations experience many of the same constraints as mainstream TSOs, but more acutely. They also face specific constraints, their starting point being as a less developed sector, and external constraints in the form of discrimination and disadvantage. It is important that BME communities are involved in the design and delivery of services in order to achieve social inclusion.

**'Working Together'** **5.45** In May 2004 the Learning and Skills Council published its new strategy, *Working Together*, for working with voluntary and community organisations to raise skill levels amongst their workforce. Key features of the LSC's strategy include:

- creating a step-change in the LSC's relations with the sector, based on partnership and mutual benefit, to maximise its contribution to the quality of education and training available for individuals, employers and the wider community;
- opening up access to mainstream LSC funding for more VCS organisations;
- spreading best practice throughout the LSC and the sector, building on existing achievements on both sides so that organisations can learn from the experience of their peers; and
- creating a framework of minimum expectations and useful ideas to be implemented jointly by the LSC and VCS organisations.

**Infrastructure** **5.46** The third sector's 'infrastructure' provides support for organisational capacity, a voice for TSOs and access to representation and policy making. It comprises organisations such as NCVO, ACEVO, the Social Enterprise Coalition and Co-operatives UK. The 2002 Cross-Cutting Review found a need to build human capacity in the sector, through supporting the second-tier, or infrastructure, organisations which provide the necessary support structures for front-line organisations.

**5.47** Some organisations also provide specialist support – for example, for services for young people or children, or to particular groups of staff such as finance managers. The majority of these organisations receive some measure of strategic funding from government.

**5.48** The current infrastructure has developed piecemeal and, while some parts of the sector are well served, the overall coverage is variable in quality and fragile. There are significant gaps in networks and some duplication. There is further scope for collaborative working between existing organisations. Box 5.6 provides details of the ChangeUp programme, designed to help build support for third sector organisations.

**Box 5.6: ChangeUp – Building Capacity and Supporting Infrastructure**

The ChangeUp programme was launched by Home Office in 2004, backed-up by around £80 million worth of investment resulting from the 2002 Cross-Cutting Review. Its headline aim is that:

*“...by 2014 the needs of frontline voluntary and community organisations will be met by support which is available nationwide, structured for maximum efficiency, offering excellent provision which is accessible to all while reflecting and promoting diversity, and is sustainably funded.”*

The framework provides an architecture of how support should develop in the next ten years and highlights key strategic actions which will build that support. It should be used as a planning tool for Government, funders and voluntary and community sector partners at all levels and in different sub-sectors enabling them to develop action plans and provide a point of reference for future thinking.

The ChangeUp report can be found at:

<http://www.homeoffice.gov.uk/comrace/active/developing/index.html>

## CONCLUSION

**5.49** This chapter has explored the barriers to third sector involvement in the delivery of public services. The Government believes that many of these real barriers can be overcome; the onus to tackle them lies both with the third sector and with the Government. They are therefore already jointly engaged in steps to:

- raise awareness of the sector among public bodies, and its involvement in policy and programme design;
- improve public procurement practices;
- expand its access to financial and physical capital; and
- build the sector’s capacity, including its human capital and infrastructure.

**5.50** Removing barriers and building capacity will help to maximise the distinctive contribution that the third sector can bring to public service delivery. It is about designing and delivering services in a way that plays to third sector strengths, and about developing the skills, knowledge and resources of third sector organisations to take advantage of the opportunities to engage with the public sector if they choose to do so.



# 6

## CONCLUSIONS

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**6.1** This document has discussed the potential role of the third sector in delivering public services. In doing so, it has proposed a working definition of the third sector, provided an analysis of the generic benefits which third sector organisation can bring to the delivery of different public services, and recognised the potential wider benefits the sector can offer. It has also highlighted the barriers that currently prevent a more extensive role for the sector in public service delivery, and described the measures that the Government and the sector are already taking to overcome them.

**6.2** This chapter proposes ways in which the analysis in this document could be strengthened – principally by further enhancing the evidence base on the effectiveness of the third sector in improving the quality of public service outcomes, including a comparison between third sector and the public and private sectors. Continued efforts should also be made to promote strong cultural support for charitable giving, community action and volunteering. The chapter concludes by raising a series of questions suggested by this document that could shape discussion between the Government and the sector in the immediate future.

### COLLECTING BETTER EVIDENCE

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

- improving the statistical evidence base;
- developing tools to measure the impact of the third sector; and
- increasing comparisons at a European and international level.

#### Statistical evidence base

**6.4** Statistical data collected on the third sector by regional and local bodies is increasing our understanding of the value of the sector and helping to improve the delivery of services by the sector. Whilst a large amount of data is already available on charities (see Annex C), there is currently little systematic collection and utilisation of data on other types of organisation within the third sector. To start to address these gaps, the Small Business Service (SBS) has encouraged the collection of comparable data on social enterprise with a short, practical guide – see Box 6.1 below. This is being followed by an SBS project to gather baseline data on social enterprise in the UK. In future, the value of statistical information on the third sector would be greatly enhanced if data could be collected in a consistent and comparable way. This would help maximise the impact and contribution of such research to a strong national evidence base.

**Box 6.1: Collecting data on social enterprise**

The Small Business Service (SBS) has published a report and short guide to help regional and local bodies collect comparable data on social enterprise, whether as part of a focused study on social enterprise or wider research into the social economy or business community. *Collecting Data on Social Enterprise: a guide to good practice* draws out the recommendations contained in the detailed research report, *Guidance on Mapping Social Enterprise*, commissioned by the SBS in 2003. Based on the experience of 33 studies and extensive consultation with the social enterprise sector, the report and short guide is designed to be of practical use, encouraging the creation of a common core of knowledge that can be added to by innovative investigation of different aspects of the social enterprise sector.

A copy of *Collecting Data on Social Enterprise* can be found at: [www.sbs.gov.uk/socialenterprise](http://www.sbs.gov.uk/socialenterprise).

**Measuring Impact**

**6.5** Improved measurement of the benefits of third sector involvement in public service delivery (both directly to service users and indirectly to wider society) compared to other sectors will further strengthen the case for an expanded role for the sector in this field. Whilst the advantages and limitations of the sector in the delivery of public services are relatively straightforward to identify in theory, the impact that any given service provider (whether public, private or third sector) has on outcomes for service users is much more difficult to quantify in practice.

**6.6** This difficulty is partly due to the difficulty in measuring outcomes in public services – for example, quantifying levels of public trust in an organisation and weighing this against other, more tangible benefits (such as cost savings). One useful proxy for measuring the success of a third sector provided service is the extent to which it has been replicated elsewhere. The non-profit-distributing ‘leisure trust’ model for delivering leisure services is a good example of this – around one hundred leisure trusts have now been set up, following the pioneering example of Greenwich Leisure.

**6.7** Efforts are being made to develop new ways of measuring impact that are more applicable to the ‘softer’ outcomes that may be more relevant to some public services and some third sector organisations. For example, the Small Business Service is supporting the work of the Social Enterprise Partnership (GB) Limited to assess the variety of different tools available (including the idea of Social Return on Investment – see Box 6.2 below) and help social enterprises identify the most appropriate tools for their needs. The New Economics Foundation is also working to develop and review alternative methodologies for social auditing and accounting.<sup>1</sup>

<sup>1</sup> [www.neweconomics.org](http://www.neweconomics.org)

**Box 6.2: Social Return on Investment**

The concept of Social Return on Investment (SROI) was pioneered by Jed Emerson and the Roberts Enterprise Development Fund (REDF). The basic premise is explained by the New Economics Foundation<sup>2</sup> as follows:

*“Organisations from fully grant-dependent charities to corporates are keen to capture the full range of their impacts and understand how to improve them... At the same time, funding providers require more sophisticated ways to allocate their funds to organisations on the basis of their effectiveness in achieving the full range of their stated impacts... SROI mirrors the standard financial measures of economic return but shows how organisations of all kinds create value beyond the economic. This is particularly true for those organisations in the social economy that may search for either economic and social value, or just social value. When compared to mainstream businesses, they may or may not achieve similar levels of financial return, but even if they do not, the ‘value’ to society of the social or environmental returns that they create may well be equal or higher.”*

**6.8** It is important that methodologies and tools are developed that allow such impact evaluation – both for the benefit of third sector organisations who can make clear the impact they have on society (especially when competing for funding), and for government in understanding the benefits of third sector involvement in the delivery of public services.

**International comparisons**

**6.9** Finally, the UK can learn from its neighbours, both within Europe and beyond, about the value of the third sector in public service provision. We should explore what more we can learn and how it can be applied to the UK context – whilst respecting the historical and practical differences that exist in different countries.

**PROMOTING CULTURAL SUPPORT**

**6.10** In order to create the conditions under which new third sector organisations will flourish and prosper in any particular area, the right cultural and financial circumstances need to be present. For example, a disadvantaged community might be disillusioned by the failure of past efforts to revitalise the area – thereby inhibiting collective action and enterprise. Alternatively, there might be the willingness to act, but little in the way of dedicated or targeted financial support to do so.

**Cultural factors**

**6.11** We already know that there is strong evidence to suggest that cultural and social constraints inhibit enterprise activity across the UK. Whilst we do know that the UK has a strong tradition of collective action and voluntary activity from a historical perspective (see Annex B), it is less clear whether this tradition will continue in the same way as we move further into the 21<sup>st</sup> century. The Government has already made efforts to build a giving culture, for example through successful efforts of the Giving Campaign, and it will give consideration to what support might be needed within the third sector to ensure the tradition of collective action and third sector activity continues in the future.

<sup>2</sup> New Economics Foundation (2004)

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## CONCLUSIONS

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**6.12** This chapter has noted that a more extensive role for the third sector in public service delivery depends not only on the success of existing measures designed to overcome the practical barriers faced by third sector organisations, but also on the ability of Government and the sector to:

- Improve the evidence base demonstrating the sector's contribution to higher quality service provision;
- Promote a culture in the UK that is more supportive of third sector organisations and their objectives.

**6.13** Moving forward, the Government will continue to discuss with the sector how to take forward the analysis contained in this document, and so ensure that the third sector realises its full potential as a provider of public services. In particular, the forthcoming third sector summit will provide an opportunity for representatives of the Government and the third sector to consider following questions:

- 1. Are the direct and wider benefits of the third sector in public service delivery identified in the paper a fair reflection of the sector's strengths? In which sectors and among which kinds of third sector organisations are these benefits particularly evident and where are they less evident? What evidence is available?*
- 2. What measures and evaluation processes can be used to identify the direct and wider benefits of third sector organisations?*
- 3. Given the benefits of the sector that have been identified, in which specific service areas should the government, local authorities and other public bodies be examining the possibility of greater use of third sector providers?*
- 4. In these service areas, are there ways in which the sector should itself be encouraged to expand?*
- 5. What more can be done to help reduce the external barriers faced by the sector, and by whom?*
- 6. What does the sector need to do to overcome the 'internal barriers' it faces? How can the Government most usefully support these efforts?*
- 7. What other measures can the Government, local authorities and other public bodies take to promote the third sector and its values in society?*

**6.14** Any views on these issues, or any others raised in this document, can also be submitted via [thirdsector@hm-treasury.x.gsi.gov.uk](mailto:thirdsector@hm-treasury.x.gsi.gov.uk)

# A

## DIVERSITY, DIMENSIONS AND LEGAL STRUCTURE OF THE THIRD SECTOR

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### THE DIVERSITY OF THE 'THIRD SECTOR'

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#### Current terminology

**A.1** This chapter expands on the description of the third sector given in Chapter Two. There are several different terms or 'names' commonly given to groupings of organisations that share the core characteristics of third sector organisations defined in Chapter 1. These groupings and terms include:

- the voluntary sector;
- the community sector;
- charities;
- social enterprises; and
- mutuals or co-operatives.

**A.2** For each of the above groupings (and others not mentioned here) there is a set of well developed literature and theory, backed-up by varying levels of statistics. One problem is that each of these categories is primarily defined by a different characteristic – be that geographical focus (community sector), ownership and governance structure (mutuals and co-operatives), legal personality (charities), or source of income (social enterprise). Therefore, an organisation may fall into a number of the categories set-out above - for example, a charity generating a substantial amount of its own income and operating predominantly at the community level would fall into at least three.

### Organisational dimensions

**A.3** However, it is possible to 'describe' organisations within the third sector in a consistent manner, allowing comparison on equal terms. Such a method would recognise the diversity that is the sector's strength, by highlighting the dimensions in which organisations vary. Recognising the different dimensions of third sector organisations helps us to understand why particular organisations are more likely than others to add value when involved in the delivery of certain types of service. From a survey of the literature, the following dimensions were identified as important but more could be added as appropriate and necessary:

#### Values and motivations

**A.4** A defining characteristic of third sector organisations is their adherence to certain underlying values and motivations, rather than solely profit maximisation or a public sector ethos. Third sector bodies' founding values can be informed by a variety of social, religious, political, environmental or philosophical convictions and will determine the objectives, forms and conduct of each organisation's activities. In particular, some third sector organisations have a strong clear and discrete objective that everyone can understand and direct themselves to achieve (for example, directly supporting people into employment); while at the other extreme are organisations that pursue a much more loosely defined goal or goals, where workers and stakeholders have considerable freedom in how they interpret them (for example, building community cohesion and identity).

**Structure A.5** The structure of an organisation can vary in the extent to which it is formal or informal. Formal structures tend to have a strict hierarchy with a clear separation between different roles and those who control the agency, the staff or bureaucrats and the users or clients<sup>1</sup>. Informal structures do not have such strict boundaries between the roles and identities of managers, staff and users, and can be said to have a more ‘ambiguous’ organisational structure.

**Finance A.6** There are several basic sources of finance for third sector organisations, including share capital and debt finance, the public purse (eg. grants and contracts), private donations, trading income, and investment returns. Organisations may be predominantly reliant on a single source of funding, or have a more varied ‘portfolio,’ receiving varying sums from many different sources.

**Accountability A.7** There can be a strict and clearly identifiable line of accountability to a single group of owners or leaders, such as a management board. In other organisations, accountability can be less formal i.e. to multiple stakeholders, including for example users of the service. The degree of accountability in TSOs varies. In the first instance most TSOs are accountable to a founding constitution. Their different management structures may reflect their differing values and their accountability. Some have self-perpetuating management structures comprising a management committee that effectively reappoints itself. Others have management committees that include users of the services they offer. Some committees include both service users and stakeholders. So accountability can exist to a document or to a group of people, or both. Legal structure does not necessarily determine either the degree or the nature of accountability and in this sense is not always the crucial factor for judging the appropriateness of a TSO in a particular situation than its legal form.

**Labour A.8** Whether the organisation’s workers are predominantly paid staff, a mix of paid staff and volunteers (e.g. Leonard Cheshire) or a higher proportion of volunteers to staff (e.g. WRVS).

**Size and coverage A.9** The size of a third sector organisation can be assessed on the basis of its workforce (both voluntary and salaried), its annual turnover or the scale of its assets. The geographical coverage of operations, meanwhile, can vary from the local, sub-regional and regional to the national and even international level.

**Scope A.10** Some organisations concentrate on a narrow set of services (e.g. health services), while others provide a range of services operating across service boundaries (e.g. drug rehabilitation providing medical, educational, social service, etc).

## Describing by dimensions

**A.11** Any organisation in the third sector could be described against each of the dimensions outlined above. Each dimension could be thought of as a scale against which the organisation might be scored from 1 to 5 (see Table A.1 below). Note that no subjective value has been placed on high or low scores, rather this is intended to be an objective exercise to better understand the diversity within the third sector.

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<sup>1</sup> Bills and Glennerster (1998)

Table A.1: Scoring against dimensions

		Scale	
		1	5
DIMENSION	<b>Motivation</b>	Clear single goal	Loosely defined goal or goals
	<b>Structure</b>	Formal structure	Informal structure
	<b>Finance</b>	Single source	Multiple source
	<b>Accountability</b>	Clear line to single group of owners/managers	Informal accountability to multiple stakeholders
	<b>Workers</b>	Predominantly paid staff	High proportion of volunteers
	<b>Size</b>	Large organisation	Small organisation
	<b>Coverage</b>	National	Local
	<b>Scope</b>	Single type of service	Multiple types of service

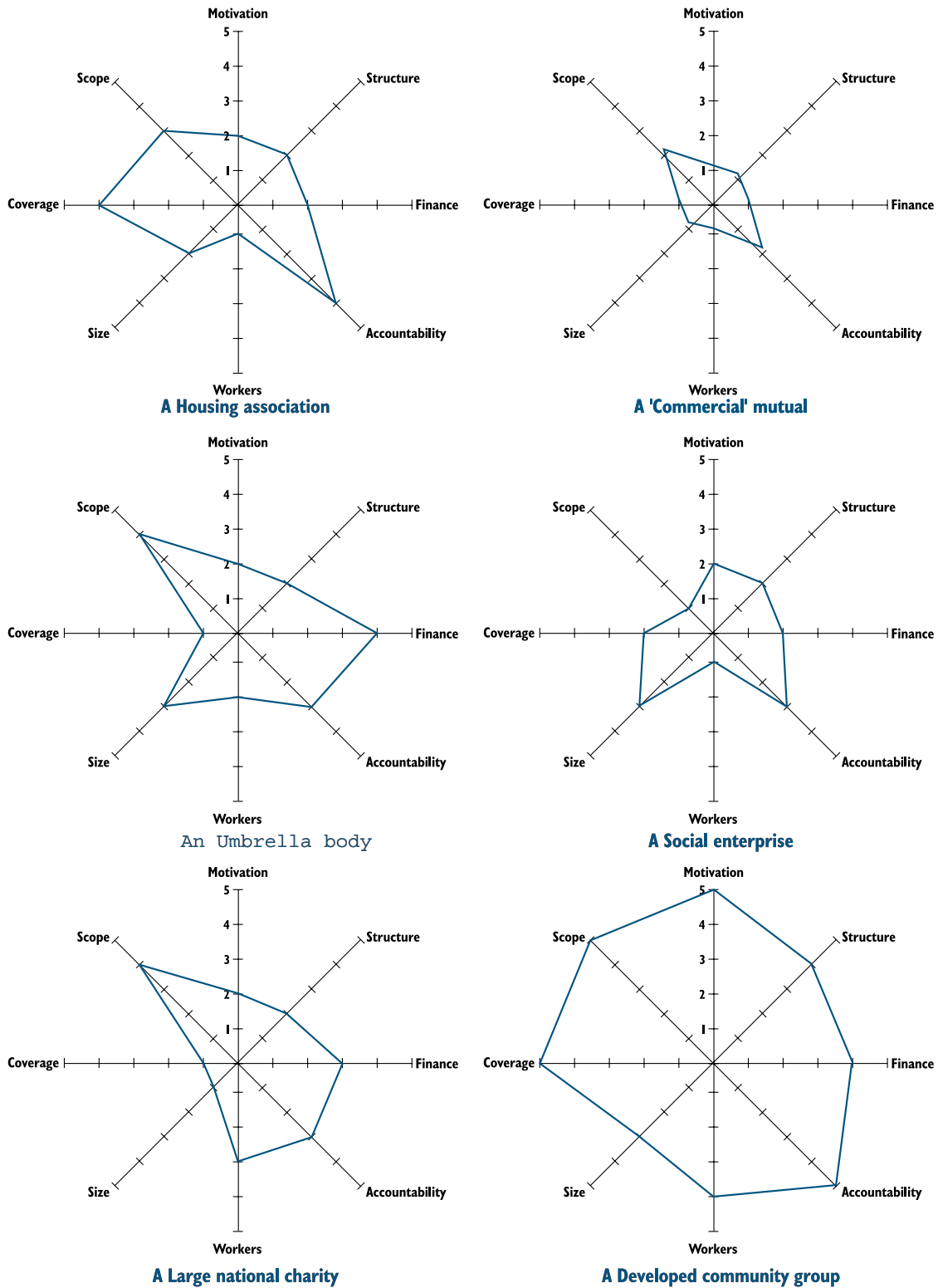
*Source: LFS*

**A.12** In order to compare and contrast organisations according to this table in a visual way, we have used spider diagrams where each leg of the spider represents a dimension. The ‘scores’ of an organisation can then be plotted onto those ‘legs’ to provide an easily understood diagrammatical representation of what different organisations ‘look like’. This method could be used to map or characterise specific, individual organisations, beyond the generic ones we have used.

**A.13** Six hypothetical organisations are mapped according to these dimensions in Figure 2.2 below. A quick glance at the diagrams clearly shows the inherent diversity within the third sector and confirms that generalisations about the strengths and weaknesses of the third sector must be treated with caution and considered on a case-by-case basis according to the characteristics of an individual organisation.

**A.14** It is important to note that any one organisation might change ‘shape’ over time as the organisation develops and takes on different roles and services at a different scale than previously. As a result, an organisation that once looked like a community group might now look like a national-level social enterprise. Such movements are part of the inherent complexity of the third sector and show its ability to evolve over time.

Chart A.1: Mapping third sector organisations



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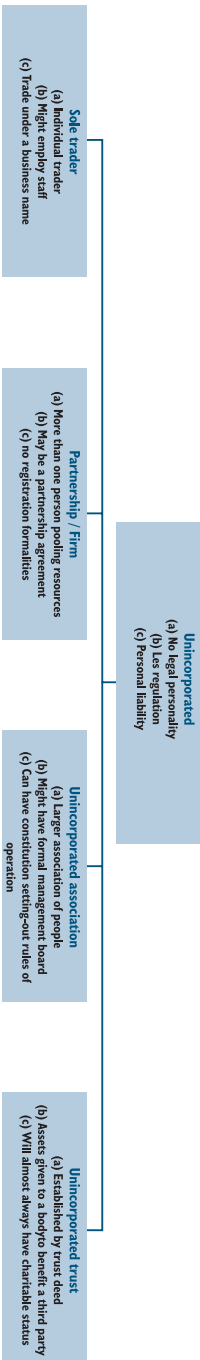
## LEGAL FORMS AVAILABLE TO THE THIRD SECTOR

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**A.15** In order for third sector organisations to set up and grow, easily accessible legal forms need to be available to them. At present there are a myriad of legal forms available on the statute book, as summarised in Figure A1 below. Alternative legal forms are necessary that can provide the right basis for third sector organisations to undertake the varied work they do. This can sometimes require new legal forms to be created, and the Government has recently introduced the Community Interest Company in an attempt to support the growth of the social enterprise sector.

Third sector organisations, particularly new or embryonic organisations, may take on an unincorporated organisational form. The organisation itself has no separate legal personality, and relies on the legal personality of the individuals responsible for that organisation.

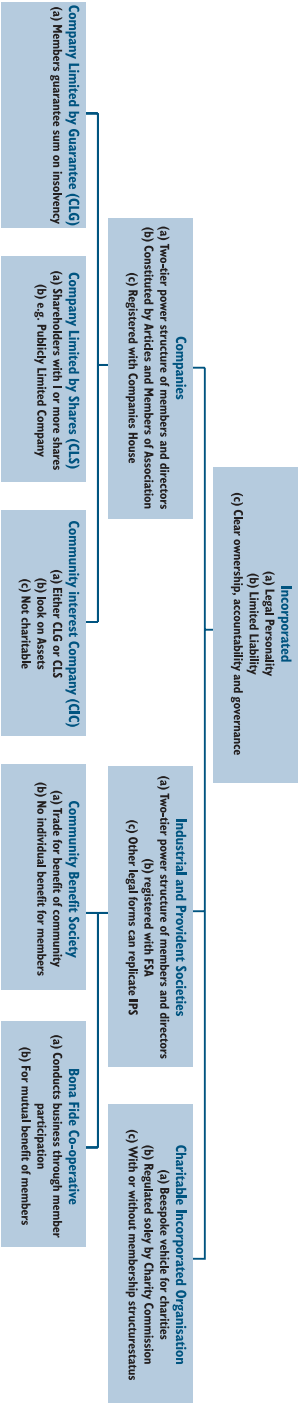
**Unincorporated forms for Third Sector Organisations**



Source: adapted from ACEVO (2003) and BMB (2003)

Alternatively, third sector organisations may take on incorporated organisational forms where the organisation itself possesses a distinct legal personality.

**Incorporated forms for Third Sector Organisations**



Source: adapted from ACEVO (2003) and BMB (2003)

**Box A.1: The development of the legal forms available to the third sector*****(a) Charities Bill***

Following the Strategy Unit Report *Private Action, Public Benefit* in September 2002, the Government issued a commitment to lay a Charities Bill before Parliament. The bill is designed to modernise the legal framework for charities to enable the sector to operate in a dynamic and innovative fashion and which will preserve and build upon the very considerable trust and esteem in which the public hold the sector. In particular, the bill is designed to clarify the meaning of 'charity' and 'charitable purpose', introduce a new public benefit test for charities, and create a new legal form – the Charitable Incorporated Organisation (see annex C for more details).

More information can be found at:

<http://www.homeoffice.gov.uk/comrace/active/charitylaw/index.html>

***(b) Community Interest Company***

The Community Interest Company (CIC) resulted too from the Strategy Unit report in 2002. It is a new type of company, designed for social enterprises who want to use their profits and assets for the public good. CICs will be easy to set-up, with all the flexibility and certainty of the company form, but with some special features to ensure they are working for the benefit of the community. CICs will report to an independent regulator on how they are delivering for the community and how they are involving their stakeholders in their activities.

More information can be found at: <http://www.dti.gov.uk/cics>

***(c) Industrial and Provident Societies***

A third recommendation from the Strategy Unit report was to allow Community Benefit Societies to protect their assets for perpetuity for their community benefit purpose. The Co-operatives and Community Benefit Societies Act 2003 contains a provision that gives HM Treasury the power, by secondary legislation, to make this happen. The Government supported the passage of the 2003 Act through Parliament as a Private Member's Bill.

HM Treasury issued a consultation document on proposals for establishing this asset lock option for Industrial and Provident Societies (IPS) registered as Community Benefit Societies in July 2004. HM Treasury intends to lay Regulations implementing these proposals early in 2005.

The consultation paper can be found at:

[http://www.hm-treasury.gov.uk/consultations\\_and\\_legislation/consult\\_fullindex.cfm](http://www.hm-treasury.gov.uk/consultations_and_legislation/consult_fullindex.cfm)

## Charitable status

**Status-v-Form A.16** The term ‘charity’ will be the most recognisable organisational name to most people. However, it is important to note that charity is a legal status rather than a legal form. That is, an organisation has to already possess one of the distinct legal forms – either incorporated or unincorporated – such as those set-out on the previous page. Charities are usually unincorporated associations or trusts, or companies limited by guarantee. In a charity, the directors or members of the management committee are called ‘trustees’ and can be personally liable for the management of the organisation. Usually, trustees cannot be paid, although this is not always the case.

**Charity Commission A.17** Charities must register with the Charity Commission, which means that returns and accounts must be filed with the Commission, and the activities of the organisation are regulated by the Commission. Some charities are exempt as they are regulated by another body (for example, community benefit societies which are regulated by the Financial Services Authority). Over the last ten years, the number of general charities (registered charities outside the public sector) has increased by around one fifth to over 150,000, with a combined income of nearly £21 billion (see Table A.2 below). More information can be found at [www.charitycommission.gov.uk](http://www.charitycommission.gov.uk).

**Table A.2: Number and income of general charities**

	Under £10K	£10k- £100k	£100k- £1m	£1m- £10m	Over £1m	Total
<b>Number of charities</b>	90,713	43,800	15,785	2,167	232	<b>152,697</b>
	(59%)	(29%)	(10%)	(1%)	(<1%)	
<b>Combined Income (£m)</b>	287	1,550	4,914	6,007	8,012	<b>20,770</b>
	(1%)	(7%)	(24%)	(29%)	(39%)	

*Source: NCVO*

**Trading A.18** Charities can trade within certain regulatory constraints set by the Charity Commission, although often a charity will set-up a trading subsidiary to deal with the day-to-day trading (for example the selling of Christmas cards) and to ensure the activity does not interfere with the organisation’s charitable objectives. Charities also benefit from private donations, as well as various tax reliefs worth up to £2.3 billion annually.

# B

## UNDERSTANDING THE THIRD SECTOR'S STRENGTHS

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**B.1** The potential benefits of third sector involvement in public service delivery have been set out in Chapters 3 and 4. However, as Annex A highlighted, the inherent diversity of the third sector complicates the picture. Not all organisations will possess each and every one of the strengths identified in this document, and many will need to overcome several of the barriers identified in Chapter 5.

**B.2** In order to realise the potential benefits of the sector to public sector delivery, it is important to clarify the link between specific characteristics of some third sector organisations (as set out in Annex A) and the potential strengths that were identified in Chapters 3 and 4. There is also a subsequent question about how to match the strengths and barriers set out above to the requirements of an individual service or a client group. If both of these ‘matches’ can be made it should be possible to link any individual third sector organisation with the requirements of particular public service.

**B.3** This is obviously not an exact science – the aim is to attempt to identify organisations with particular characteristics that are more likely to possess certain strengths or limitations. There are more than likely clear exceptions to this rule. There are three variables to consider:

- the requirements of the service or client group;
- the potential strengths of third sector organisations in general; and
- the characteristics of specific third sector organisations.

**B.4** The link between these three variables will be done in two stages: First, by linking the requirements of the service or client group with the generic strengths and barriers associated with the third sector. Second, by linking these strengths and limitations with the specific dimensions an organisation might possess as set out in Annex A.

**B.5** Table B.1 below outlines some common requirements of public services, and identifies which of the potential strengths of the third sector would meet these requirements and why.

**Table B.1: Matching public service requirements with third sector organisations' strengths**

Public service requirement	Third sector strength	Reason
The quality of service being provided is difficult to specify, measure and monitor.	User focus	Private providers may have an incentive to reduce quality to increase profit. The third sector has no such incentive.
The demands of service users are highly differentiated	Flexibility, innovation and 'joining up'	Public and private providers are geared to provide services for large numbers of people. The third sector has the flexibility to deal with individual needs.
When services have to be directed at localities or sections of the community that have been excluded from traditional service provision	Knowledge, expertise and experience	Third sector organisations are often established by members of the excluded community in response to a perceived gap or inadequacy in service provision.
Labour-intensive services where the flexibility and commitment of volunteers can be an asset	User focus	Volunteers tend to spend more time providing a higher quality service, especially for disadvantaged people.
Services directed at users that do not trust businesses or the government	Trust and accessibility	Third sector providers have no hidden agendas and higher credibility with disaffected users.
Service users are likely to require a coordinated portfolio of services	Flexibility and 'joining up'	Third sector providers spend more time on bringing services together for the user.
Users often have difficulty engaging with service providers (multiple disadvantages)	Flexibility and 'joining up'	Wider stakeholders allow the Third sector to focus on overlapping disadvantage.

**B.6** Table B.2 below shows which third sector strengths / limitations are associated with which organisational dimensions.

**Table B.2: Linking the third sector’s strengths to specific organisational characteristics**

Third sector strength	Organisational characteristic	Reason
User focus	Principally reinvesting surpluses Loosely defined goal or goals Informal accountability to multiple stakeholders	Wide goals and stakeholder interests tend to prevent organisations from capture by a strong set of views
Knowledge, expertise and experience	Loosely defined goal or goals Informal structure Informal accountability to multiple stakeholders High proportion of volunteers	Informal organisations tend to attract people with personal experience of problems who wish to help others
Flexibility, innovation and ‘joining up’	Loosely defined goal or goals Informal structure Informal accountability to multiple stakeholders High proportion of volunteers Local coverage	Joining up needs to be done at a local level. Smaller and more informal organisations tend to be more flexible.
Trust and accessibility	Reinvesting of most surpluses Informal accountability to multiple stakeholders Multiple sources of finance	Reduced self-interest and the user focus of multiple stakeholders allows organisations to speak with more credibility. Having many sources of finance reduces dependency on public sector contracts.

**B.7** These tables illustrate how it could be possible not only to link individual organisations to particular public services, but also to illustrate both what strengths are apparent and also why the particular organisation possesses these strengths (see Box B.1 below).

**Box B.1: Housing services for homeless men and women***Scenario:*

The provision of homeless hostel provision for vulnerable clients with diverse needs, including drug and mental health problems.

*Service / client requirements:*

1. Users have difficulty engaging with service providers (and often have multiple disadvantages);
2. Service users are likely to require a co-ordinated portfolio of services;
3. The quality of the service being provided is difficult to specify, measure or monitor; and
4. Services have to be directed at sections of the community that have been excluded from traditional service provision.

*Third Sector strengths required:*

- User focus;
- Knowledge, expertise and experience; and
- Flexibility, innovation and joining-up.

*Organisational dimensions important:*

An organisation that re-invests surpluses, has more loosely defined goals, a more informal structure to allow flexibility, multiple lines of accountability (including perhaps to users), engages a number of committed volunteers, offers multiple services across public service silos, and has a local or community focus might be more likely to be able to offer suitable services to meet the service and client requirements by possessing the third sector strengths required.

*Case study: St. Mungo's*

St Mungo's is a homelessness agency and housing association which began in 1969 and now offers support and care for vulnerable men and women in over 70 housing projects, leading London's services for people who are homeless and in need. Each night over 1400 people sleep in St. Mungo's hostels, specialist care homes or supported housing, and every week the organisations' 60 support workers meet the varied personal needs of St. Mungo's residents, from drug addiction to resettlement advice. St. Mungo's currently employs over 600 staff, the majority of whom have prior experience of voluntary, charitable or care work. St. Mungo's also invests in its staff, with a programme of training courses for all staff, and opportunities for relevant external training. St. Mungo's also has a quality department, responsible for drawing up and implementing consistent policies across all of its departments. St. Mungo's was recently chosen to take part in the Government's Best Value pilot for good practice in housing associations.

**B.8** In a similar fashion we can try to link the potential wider benefits of third sector service delivery to the characteristics of certain services and particular organisations. Table B.3 below outlines some common requirements of public services service, and which of the potential wider benefits of the third sector are clearly related to them and why.

**Table B.3: Matching public services’ requirements to the wider benefits of the third sector**

Public service requirement	Wider benefit	Reason
The service requires local information to be effective	Community ‘ownership’ through participation	Delivery of a service may require local information to be effective – the active participation of local people can provide this.
The service requires collective action	Community ‘ownership’ through participation	The third sector can bring a community together and work to improve ‘buy-in’ for change.
Labour-intensive services that can give volunteers new skills	Building skills through volunteering	Labour intensive services can offer new skills to volunteers – especially the disadvantaged, preparing them for the job market.
Service offers a large level of contact and consultation with communities	Building networks and trust	Services that involve a great deal of contact and/ or consultation allows third sector groups to build links and trust amongst the community

**B.9** Table B.4 below indicates the wider benefits that result from specific characteristics of some third sector organisations.

**Table B.4: Linking the wider benefits of the third sector to specific organisational characteristics**

Wider benefit	Organisational characteristic	Reason
Community 'ownership' through participation	Loosely defined goal or goals	Most third sector organisations will exhibit this benefit, although more informal, community based organisations are likely to encourage diverse participation.
	Informal structure	
	Informal accountability to multiple stakeholders	
	High proportion of volunteers	
Building skills through volunteering	Local coverage	More volunteers means more skill development, especially if the volunteers are from disadvantaged groups themselves.
	High proportion of volunteers	
Building networks and trust	Loosely defined goal or goals	Loose goals are important to bring together people from different backgrounds
	Informal structure	
	Informal accountability to multiple stakeholders	
	High proportion of volunteers	
	Local coverage	

**Box B.2: Community partnership for regeneration****Scenario:**

Co-ordinating the actions of residents, businesses and private agencies to reverse the decline in businesses and public amenities in an area.

**Service / client requirements:**

- Services require collective action by residents, public agencies and businesses in an area.
- A detailed awareness of local circumstances is needed.
- A great deal of ongoing contact with local residents is required to deliver the final outcome.

**Third Sector strengths required:**

- Ownership through community participation; and
- Building networks and trust.

**Organisational dimensions important:**

A third sector organisation with loosely defined goals, an informal structure and multiple accountability can act as an 'honest broker' between the public and different agencies. Local coverage is also vital, and involving local volunteers can be a useful way of increasing community engagement.

**Case study: Ibstock Community Enterprises**

Ibstock Civil Parish has a population of approximately 6,000 people and has faced many problems following the decline of local coal mining industry in Leicestershire. In response to job losses and bank closures the Ibstock Community Enterprise Ltd. (ICE) – a co-operative village-based development trust - was established. ICE consults widely with local partners and the public through meetings and local studies. It has 470 members (membership is free to locals), 50 volunteers and its elected board represents many local bodies.

Through working collaboratively and consulting widely, ICE was able to identify key local issues and co-ordinate action. Immediate priorities were dealing with the loss of local bank facilities, as village retailers saw their turnover fall as local people were forced to bank at a nearby town (where they then tended to do their shopping). ICE now has a one-stop shop providing advice, business services and banking facilities for the local community. Its impact on the community can be measured by some of the following outputs:

- It employs three full time staff
- More than 15,000 people have used the Community Shop
- 30 people have received qualifications from training courses
- 21 new community services have been provided
- 50 community activities have been supported



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# D

## PARTICIPATION

### STEERING GROUP

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Neil Kinghan (Chair)	Director General, Office of the Deputy Prime Minister
Helen Edwards	Director General, Home Office
Jitinder Kohli	Director, Home Office
Anita Charlesworth	Director, HM Treasury
Anne Weinstock	Director, Department for Education and Skills
Sarah Mullally	Director and Chief Nursing Officer, Department of Health
Terrie Alafat	Director, Office of the Deputy Prime Minister
Catherine McCleod	Deputy Director, Department of Trade and Industry
Jonathan Portes	Director, Department for Work and Pensions
Jane Todd	Director, Government Office East Midlands
Phil Swann	Director, Local Government Association
Terry Thomas	Turning Point (representing Home Office VCS Advisory Group)
Pat Samuel	Head of VCS Team, HM Treasury
Dan Micklethwaite	Project Manager

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### ADDED VALUE SUB-GROUP

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Dan Micklethwaite*	Senior Policy Adviser, HM Treasury
Frank Bowley*	Senior Policy Adviser, HM Treasury
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Selina Chen	Senior Policy Adviser, HM Treasury
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Paul Doyle	Economic Adviser, HM Treasury
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Fran Beckett (Chair)	Church Urban Fund
Jim Baker (Vice Chair)	North West Kent CVS
Sylvia Brown (Vice Chair)	Action with Communities for Rural England
Elaine Box	Children's Links
Jeremy Crook	Black Training and Enterprise Group
Anthony Djondo	Bootstrap Enterprises
Ken Elliott	Sadeh Lok
Wynne Garnett	Engage West Midlands
Charlie Garratt	People for Action
Dr Christopher Harvey	Barnardos
Frances Hunt	Age Concern England
Steve Johnson	Developing Initiatives Supporting Communities
John Knight	Leonard Cheshire
Ann Polley	Norwich and Norfolk Voluntary Services
Stephen Sears	Ealing Community Transport
Dr Sylvia Sham	Chinese Women Society
Terry Thomas	Turning Point

# E

## GLOSSARY

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ACEVO	Association of Chief Executives of Voluntary Organisations
BENCOM	A mutual organisation operating for the BENefit of the COMmunity
BME	Black and Minority Ethnic
CCR	Cross-Cutting Review
CDFI	Community Development Finance Institution
CIC	Community Interest Company
CIO	Charitable Incorporated Organisation
CITR	Community Investment Tax Relief
CLG	Company Limited by Guarantee
CLS	Company Limited by Shares
CO-OP	Co-operative
CVS	Council for Voluntary Service
DfES	Department for Education and Skills
DoH	Department of Health
DTI	Department of Trade and Industry
DWP	Department of Work and Pensions
GDP	Gross Domestic Product
GO	Government Office
HMT	Her Majesty's Treasury
HO	Home Office
IPS	Industrial and Provident Society
LGA	Local Government Association
NACVS	National Association of Councils for Voluntary Service
NCVO	National Council for Voluntary Organisations
NDC	New Deal for Communities
NDPB	Non-Departmental Public Body

NHS	National Health Service
ODPM	Office of the Deputy Prime Minister
ONS	Office of National Statistics
PBR	Pre-Budget Report
PFI	Private Finance Initiative
PPP	Public Private Partnership
SBS	Small Business Service
SEC	Social Enterprise Coalition
SRB	Single Regeneration Budget
SROI	Social Return on Investment
UK	United Kingdom
VCO	Voluntary and Community Organisation
VCS	Voluntary and Community Sector
VFM	Value for Money