

DIRECTORY OF SOCIAL CHANGE

INFORMATION AND TRAINING FOR THE VOLUNTARY SECTOR

Directory of Social Change response to Conservative Party Policy Green Paper No. 5: *A Stronger Society: Voluntary Action in the 21st Century*

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About the Directory of Social Change

The Directory of Social Change has a vision of an independent voluntary sector at the heart of social change. We believe that the activities of charities and other voluntary organisations are crucial to the health of our society.

Through our publications, courses and conferences, we come in contact with thousands of organisations each year. The majority are small to medium-sized, rely on volunteers and are constantly struggling to maintain and improve the services they provide.

We are not a membership body. Our public commentary and the policy positions we take are based on clear principles, and are informed by the contact we have with these organisations. We also undertake campaigns on issues that affect them or which evolve out of our research.

We view our role as that of a 'concerned citizen', acting as a champion on behalf of the voluntary sector in its widest sense. We ask critical questions, challenge the prevailing view, and try to promote debate on issues we consider to be important.

DSC's general reaction to *Voluntary Action*

DSC feels that the publication of the paper has helped drive much-needed debate about the voluntary sector's relationship to government and to society as a whole. The coherent analysis of many of the public policy issues and problems at play is also indicative of a greater consideration of the role played by the sector in the political arena.

We are particularly encouraged by the Conservative Party's stated willingness to engage with the sector in a dialogue as part of developing its policy proposals. We think that ultimately this will help to develop policy that works in the longer term, and hope that this attitude continues for the foreseeable future – including if and when the party is elected to power.

We think that for this approach to succeed it is particularly important that the party proactively seeks input from as diverse a range of organisations as possible, rather than counting on a small number of established, national organisations that have the capacity to contribute.

Many of the problems with current government policy vis-à-vis the sector are a result of several interwoven factors:

- 1) Not sufficiently understanding the problem – often because of an over-reliance on consulting a limited number of organisations and an unwillingness amongst policymakers and civil servants to get out and 'see what actually happens on the ground';
- 2) A corresponding lack of understanding of the diversity and complexity of the hundreds of thousands of mostly very small local organisations that comprise 'the sector';

3) A tendency to create new projects, schemes, organisations and structures in response to demands which often fail to consider what already exists, and which build in unsustainable and unnecessary costs;

4) The fact that despite Government rhetoric, voluntary sector policy is not a top priority across government in practice.

Many of the statements and proposals in the green paper are ambitious; it goes without saying that their success will depend on future details and further work, the way they are eventually implemented, and how they would rank amongst the many other competing priorities of a future Conservative government.

Nevertheless, we find the following aspects of the paper particularly positive:

- The statement that the party will seek to ‘first, do no harm’ is the right one to inform the overall approach. Government policy towards voluntary organisations should maintain and enhance their independence, not threaten it; it should enable such organisations to flourish, rather than seeking to control them for particular ends.
- The plans to implement parliamentary structures to review and monitor policy that affects the voluntary sector are urgently needed. Such scrutiny should take into account a wide range of policy, including key decisions made by the Treasury.
- We agree with the paper’s assertion that the distinction between ‘a tax, a deal and a gift’ is a ‘distinction worth preserving’. Charities and the law and regulation that govern them are largely set up on the premise of ‘a gift’, and this has been the case for several hundred years. Despite changes in the way charities generate income and deliver their services, they are still fundamentally the recipients of financial gifts – donations, grants – and in turn are givers of services to their beneficiaries. We believe that this principle is still strongly embedded in the social fabric – it remains at the heart of what ‘charity’ means to most people and should be supported.
- DSC particularly welcomes the cogent analysis in Chapters 3 and 5 about the decline in grant funding and the corresponding move to a commissioning model that, in our view, is often in practice not fit for purpose. Too often commissioning amounts in practice to procurement, and is damaging to many of the voluntary organisations and the services they provide to their beneficiaries. We are not convinced by claims that current practice achieves better and more innovative services, value for money or greater accountability. We think there is a dangerous and growing tendency to make organisations and services more accountable to government bureaucracy rather than the needs of beneficiaries. Although many of the undertakings in these chapters are ambitious and will depend on significant ‘follow-through’ to become reality, they are in the right vein.

There are other aspects of the paper which we think need further consideration or which seem to be missing:

- We think there could be greater exploration of how a Conservative government would redefine public services, in terms of what services the

state would continue to support through general taxation, either via public bodies or by commissioning, and what it would not support.

DSC views this as a fundamental political issue and a matter of public interest. The public has a right to know how its taxes are being used to support those services that it pays for. As the paper rightly recognises, charitable donors by and large do not expect their voluntary donations to be shoring up state expenditure. Without greater clarity about what the state provides as a public service, the issue of charitable donations potentially subsidising the delivery of state-supported and state-mandated services cannot be reconciled.

The current government pretends that outsourcing services is simply about efficiency and finding the best possible provider. This papers over the truth, which is that if this agenda proceeds further, within a generation the boundaries between the state and civil society will have shifted drastically, as a direct result of government policy. We want the question to be asked: is this what the public wants? Is it necessarily in the wider public interest?

- There is no discussion of the voluntary sector's role in campaigning. We believe that charities and other voluntary organisations play a crucial role in driving social change, and that public campaigns which seek to influence elected officials can be a legitimate part of that process. Such activities are a core part of what many charities do, and are permitted within certain limits by the Charity Commission's current interpretation of case law.
- There is very little analysis of the procurement regulations that govern how public services are commissioned, which are in part founded on EU law. This is particularly relevant to chapters 3 and 5. Changing these regulations or reforming them so that they are more user-friendly to voluntary organisations is a major task, but one that must be achieved if many other wider objectives around grant funding and public service delivery are to succeed.
- The pledge to 'pay by results' when delivering public services, which appears in related policy papers such as the one on crime, has not in our view been joined up clearly enough with the paper on voluntary action. The paper mentions proposals to allow organisations to keep 'profits' to reinvest, and that payment by results would be part of this. But it is only really clear how the idea would work in practice when setting it up against other policy proposals. There is a brief mention of the proposed role of prison governors as commissioners of services from the sector. The issues around getting such officials to commission services in the way envisaged by the paper are significant but largely unexplored. We have corresponded with the Shadow Minister Nick Herbert about this issue.
- It is not apparent how the party's plans to devolve more power to local governments would cut across its policies for supporting voluntary action, especially locally. Allowing local areas greater autonomy is not inherently a bad idea, but the party needs to consider that this may jeopardise many of the commitments it would make to the voluntary sector. For example, the promise to 'use grants only unless a contract is necessary' is already belied by recent action by some Conservative-run local authorities which are cutting grant budgets or moving to a tendering-only model.

- There is no discussion of irrecoverable VAT, which costs the voluntary sector an estimated £500m every year. Charities that cannot reclaim VAT on the services they deliver are effectively subsidising the public purse with their donated income; a situation that is almost the inverse of Gift Aid. We think resolving this problem should be a top priority for a future Conservative government.

1. Giving

This chapter outlines the importance of charitable giving, examines recent trends, and compares Britain with other countries. The proposed solutions centre on ways the government could encourage social norms for giving (i.e. how much should we give), and a reform of the Gift Aid system to reduce its administrative complexity.

- 1.1 We think that trying to encourage a financial norm for giving is an interesting idea and worth exploring, but the challenge will be how to encourage this without engaging in some kind of overbearing direction by government.
- 1.2 Gift Aid reform is needed, but there is a lack of consensus in the sector about how it should be reformed. DSC believes that whatever the eventual solution, it should not involve the tax relief turning into expenditure that is at the discretion and control of ministers. The looming problem is that the concession on the higher tax rate that can be claimed will expire in 2011, and there is a risk that if a solution is not found well before that date charities will lose several hundred million pounds of income, at a time when public finances are under extreme pressure.
- 1.3 DSC have also presented a policy proposal on reforming Payroll Giving to HMRC and to the former Third Sector Minister Ed Miliband. We believe that our proposal could greatly simplify the system to the benefit of charities and donors and would welcome the opportunity to discuss it further with the Conservative Party.
- 1.4 There could be other ways to stimulate charitable giving through the tax system, such as by implementing tax reliefs for donating high-value gifts in kind to social enterprises or charities, which could then be used by those organisations or resold to generate income. Such schemes currently operate in the United States.
- 1.5 We would like to point out that the comparisons with giving in the United States may not account for the fact that charitable giving in America is heavily incentivised by the tax system. A major motivation for giving is therefore self-interest, in that wealthy people can often reduce their overall tax liability by making charitable donations. It is also worth noting that America has a much smaller welfare state relative to population, and there are different expectations about what social needs will or will not be provided for by the state, and by what level of government.

2. Volunteering

The report examines trends in volunteering and makes international comparisons. It argues that volunteering is best encouraged not by new centrally-driven initiatives,

but by finding ways to reduce legal and bureaucratic barriers to volunteering and to enhance existing infrastructure. One of the main recommendations is to free up civil servants' time to volunteer, in order to set an example. It also promises to prioritise efforts on areas in the country where volunteering is lowest.

- 2.1 DSC broadly agrees with the analysis in this chapter; we do not believe that volunteering will be increased by central government effectively trying to socially engineer it into society. Further, we think it is almost impossible to measure with any certainty the real 'level of volunteering', much less any developing trends. However, government certainly has a role to play in removing barriers and disincentives to volunteering. Partly this means better vetting for unrelated policies and legislation that have a damaging effect on volunteering. We echo the paper's deep concerns about recent government proposals that are more accurately described as compulsory community service than volunteering, and view these as counter-productive and potentially damaging to the whole idea of volunteering.
- 2.2 Whilst the paper argues that 'forcing' employers to allow employees to volunteer would be wrong, we think that government could provide strong encouragement – and even incentives – to facilitate this. The first step might be to look at developing a coherent volunteering policy template or best practice model specifically for private sector employers, which could be used or adapted by companies as part of their corporate social responsibility programmes.
- 2.3 We think the proposal to enable civil servants to volunteer is a good one, but may depend on their workload, ability to negotiate time away, and the relevance of their skills to what individual voluntary organisations need.
- 2.4 The party must bear in mind that working two jobs to make ends meet or having young children leaves less time for volunteering; wider Conservative social and economic policy will therefore impact on people's ability to volunteer especially in deprived areas. For example, an indirect way of enabling volunteering might be to provide better and more affordable childcare provision, or to bring in non-coercive reforms of benefits system that encouraged volunteering as a way of gaining skills and experience, or even by instituting a living wage policy.
- 2.5 The report argues that there is a 'lack of good quality training' for volunteering (p. 30). We would question whether this is actually the case – perhaps such training is not universally available or affordable – which is a different matter. We would argue that if this is a priority then a future Conservative government should, as a first step, determine what existing training was available and how it could be scaled up or expanded, as opposed to simply designing new training programmes from scratch.
- 2.6 The report is silent on the crucial role of trustees as volunteers. It is estimated that there are around one million trustees, which as a group form the backbone of much of the voluntary activity in this country. Supporting trusteeship is not just crucial to supporting volunteering as an activity, but to the entire infrastructure of the voluntary sector. DSC believes that voluntary trusteeship is a fundamental principle and opposes efforts to allow trustees to be paid for being trustees.

3. Grants

DSC is a member of the Local Grants Forum, which promotes the importance of grant funding at the local level. We enthusiastically welcome the in-depth analysis of the decline of grant funding, the reasons why it is under threat, and the clear acknowledgement of its crucial role in supporting community activity. In particular, the promise to 'use contracts, rather than grants, only where there is a clear justification for doing so', whilst ambitious, is to be applauded. There are also proposals to develop a 'fair deal on grants', which would embody best practice principles for grant funding from statutory bodies, and a refocussing of Lottery funding towards demand-led, locally available programmes, managed by a distributor with greater independence from government.

3.1 We believe that grants are in decline, especially at the local level, and that this is having profoundly damaging effects on thousands of voluntary organisations and their ability to deliver much-needed services to their beneficiaries. The paper offers an excellent analysis of the reasons for this, and we would like to add some further points:

- The financial pressure faced by many Local Authorities means that any discretionary spending – including grants for voluntary sector groups – is being squeezed. Current economic conditions, pressure on council tax, and the general state of public finances are exacerbating the problem and it looks set to get much worse in coming years.
- There is a pervasive attitude coming from central government that grants are somehow not as accountable or effective as contractual relationships, and that the contract is the default 'best-way' of engaging in a financial relationship with any external provider of services. This is government policy in practice, even if it is not officially acknowledged.
- The drive to increase the voluntary sector's role in service delivery has been implemented in such a way that any service funded by the state has come to be defined as being on the state's behalf rather than as a charitable service that the state wants to help sustain and support at arms length.

It is the difference between a core grant for the local Citizens' Advice Bureau which is given because it provides a range of important functions to the local community – including building social capital and involving volunteers – and treating the CAB as an extension of the funder whose service outputs need to be precisely controlled and aligned with the Local Authority's or the Legal Services Commission's own targets, through contract terms or a service level agreement.

3.2 A related issue is that a comprehensive picture of where statutory funding for the voluntary sector is going, what it is supporting, and what form it takes is largely non-existent. Government does not have an accurate idea at a macro-level of how much funding it provides to the voluntary sector. This was identified as an important issue as far back as 2002, in the Treasury's Cross-cutting review. It recommended that the Active Communities Unit develop a 'unified information system for data collection and analysis on government funding for the VCS'. As far as we have been able to ascertain this worthwhile and important recommendation never was fully implemented.

DSC has made this issue a priority for our research and campaigning work. In 2008, we published the *Funders' Almanac*, which examined data we had collected in the course of running the [governmentfunding.org.uk](http://www.governmentfunding.org.uk) website, along with information we hold on trusts and foundations and corporate givers. The *Funders' Almanac* represents a first step in achieving one of the goals of our *Great Giving* campaign; to achieve 'a clear picture of the funding environment' for the voluntary sector.

- 3.3 The paper proposes a 'fundseeker's passport scheme to cut out repetitive grant application bureaucracy' (p. 33). This proposal is in the same vein as a previous proposal contained in the Treasury's 2002 Cross-cutting review, which led to a project called 'Lead Funder'. The Active Communities Unit was responsible for implementing this policy and we know it was being worked on up until perhaps 2005, but it appears to have been completely forgotten in years since. The evidence and learning developed from Lead Funder should be reviewed as a first step in developing such a scheme.

A related matter involves an aspect of the government funding portal described below in 3.4. Part of the project plan for www.governmentfunding.org.uk, which also came out of the 2002 Cross-cutting review, involved an applications management tool for departmental grant administrators to track and process online applications submitted through the site. This integrated with an applicant-facing side of the website which allows applicants to pre-register information about themselves that can be used to apply for grants online. After developing the software and designing a training/testing programme for departmental staff, the Office of the Third Sector told us that this was 'out of scope' and no longer needed. At the outset of developing any 'fundseeker's passport scheme' we would be happy to discuss in depth what we learned from the work that was undertaken.

- 3.4 The paper mentions that the party would 'reduce the ring-fencing of money so that councils can spend their funding as they see fit'. There is a significant risk that given the current financial pressures faced by councils, reducing ring-fencing is likely to threaten the continued existence of grant programmes for the voluntary sector. The shift to Local Area Agreements and associated pooling of budgets from 2006/07 onwards has already signalled the end of a number of small grants programmes that had supported community activity in previous years.
- 3.5 We welcome the analysis of the 'funding jungle' and the proposal to develop a 'fair deal on funding'. DSC is well-placed to contribute to this work as it is our main purpose as an organisation – we exist primarily to help organisations find the funding they need and to advocate for better funding practice.
- 3.6 The criticism of the www.governmentfunding.org.uk website in the paper appears to have originated in part from the Government's own profoundly flawed description in the 2007 Third Sector Review. This website has been run and operated by DSC since 2003, and has served many thousands of users.

The paper makes a commitment to develop a 'genuine one-stop funding portal for grants', citing the perceived lack of comprehensiveness of [governmentfunding.org.uk](http://www.governmentfunding.org.uk). However it is important to note that the content of the website was intentionally limited by the ACU to four central government departments from the outset in autumn 2003 because they had only managed to secure agreement with those four departments to participate in the project.

Bureaucratic considerations and intra-departmental confusion prevented any expansion of the site until mid-2007. Since that time the content of the website has grown dramatically. Following the conclusion of our funding relationship with OTS DSC accelerated this process even further, adding information from central departments that were previously not 'signed up', as well as information on local authorities and European funding.

We strongly suggest that the party address the real issues at hand, rather than get involved in reinventing yet another wheel. The Government has decided that 'there must be a website', and as a result the decision-making process about who should deliver such a site and what it should look like has almost taken on a life of its own, to the extent that it has eclipsed the real public policy issue, namely that information on statutory funding for the voluntary sector is:

- not easy to access
- not uniformly presented
- often unintelligible
- often disorganised
- often not comprehensive or complete
- routinely not up-to-date

Any organisations outside of government that attempt to solve this problem must either:

- a) find a way to deliver it sustainably, by generating revenue through subscriptions or other methods, (as is the case now with governmentfunding.org.uk) or
- b) continue to be dependent on some kind of external funding to provide the service (as will be the case with Funding Central, the new website by NCVO which has been commissioned by OTS).

We are adamant that the fundamental problems with gathering and providing information about statutory funding need to be properly examined and better understood by policymakers before any further public money is spent. DSC would be eager to share our experience of the challenges involved and the significant amount of knowledge we have built up in running governmentfunding.org.uk. The existing provision of funding information in the sector also needs to be considered at length prior to any future developments.

- 3.7 DSC welcomes many of the proposals in the paper on the National Lottery, in particular the need to reinforce its independence and the commitment that it should not subsidise public sector projects. We would argue that legislation is needed to firmly underpin the Lottery's independence from political influence.

However, we fail to see the need to rebrand and relaunch the existing Big Lottery Fund. So much money has already been spent in developing, branding, and marketing it and it is now well known within and outside the voluntary sector. We think that to start over again could waste much-needed resources. The sector is now fairly familiar with the Lottery's programmes and to completely change its composition would simply mean that thousands of organisations had to spend precious resources learning to jump through a different set of hoops.

Despite the political interference that has undoubtedly occurred in recent years BIG is generally well regarded in the voluntary sector, not just as a crucial source of income but as one of the few non-charitable funding providers that is seeking to use the evidence of need it is supplied with in a constructive way. The principle 'first, do no harm' needs to be applied here.

4. Social Enterprise

The theme running through this chapter is the party's ambition to 'put the power of business growth behind the objective of social change.' It examines the current scale of the movement and the problems that social enterprises face in attracting investment. The main proposals are to set up 'Social Enterprise Zones', which would offer financial incentives to encourage social enterprise in areas where community and economic development is most needed, and to create a 'social investment bank' to manage the incentives and act as a delivery agent for investment.

- 4.1 DSC is not convinced about the need for a social investment bank or that it should be a 'top priority'. There are already a number of social lenders operating in the market, and we think the problem is not simply a case of these institutions having insufficient capital to lend, or of social enterprises not being able to access capital.

The question of whether social enterprises are 'under-capitalised' generally surely cannot be separated from the relative soundness or unsoundness of their particular business models. Demand for investment from social enterprises does not mean that providing more loans to meet this demand would represent productive investments. It may simply illustrate the fundamental need for some kind of subsidy (i.e. grant, or guaranteed profit on a contract) to deliver services that are needed in areas of market failure.

We find it hard to see how a social investment bank would make a great difference to the vast majority of smaller, local charities that make up the bulk of the voluntary sector. There is certainly demand for sustainable sources of revenue, but this does not necessarily equate to a demand for loan finance to enable those revenue streams to be developed. Charities are generally not set up to manage this form of funding and many trustees in particular remain wary of taking on loans, with justification.

DSC might be more willing to support a social investment bank if one of its functions was as a distributor of grant funding for smaller local organisations. It could redistribute at least some of the 'profits' of products it sold on the commercial market and could also redistribute at least some of the accumulated capital from the loans it made in the form of grants. These grants would be used to help those organisations that were incapable of taking on loans to develop more sustainable income streams.

- 4.2 A related issue is the lack of clarity in general public discourse about the meaning of social enterprise, which is reflected in the policy paper. There is great confusion between social enterprise as an activity and as a legal form. In fact, many charities feel pressure to start branding themselves 'social enterprises' as the label of the moment, despite the fact that they may have been generating their own income for decades and may be registered

companies as well as charities. Private companies that exist for profit should not in our view be called social enterprises, although many continue to do so partly as a means of marketing particular services to the state. Nor should organisations that are set up by public bodies to take on services previously provided by the state be legitimately included in this definition in our view.

- 4.3 We remain unclear about what exactly the proposals for Social Enterprise Zones would involve. It would seem that a great deal more work will be required before this can become a policy that can be implemented. The main challenge of such a policy would seem to lie in trying to invent markets in areas of market failure; communities where much of the income spent is already derived from the state, either through individuals' state benefits, regeneration funding, or other public services.

5. Public Service Delivery

The paper argues that 'participation in the delivery of public services is both the greatest opportunity and the greatest threat facing the voluntary sector today'. Proposed solutions centre around a 'systematic reform of commissioning' that would emphasise multiyear contract terms and a reduction in monitoring and reporting bureaucracy by focusing on outcomes. This section also discusses plans to allow organisations to make a 'surplus' as an incentive to expand and replicate successful services.

- 5.1 DSC welcomes many of the proposals and the analysis in this section, with the caveat that whilst they are very positive there are serious obstacles to making them a reality. We welcome the acknowledgement in the paper that the public service delivery agenda has not been universally viewed as an 'unalloyed advantage.'
- 5.2 In the larger context we view the current direction of travel as more of a 'threat' than an 'opportunity' for the sector as a whole. Whilst some organisations have benefited tremendously from the public service delivery agenda many others have suffered. What seems to be mostly absent from public discourse is the effect that this has had on the composition and nature of the voluntary sector as a whole and on voluntary activity generally.

In our evidence to the Public Administration Select Committee's enquiry into commissioning and the third sector, we said that:

- 1) The impact of the Government's commissioning agenda on voluntary activity in its widest sense has not been fully considered and is likely to have a negative effect;
- 2) There is a significant lack of clarity about what is meant by the term 'public services';
- 3) A 'level playing field' of free and fair competition between public, private and 'third' sectors does not exist and attempts to establish it will create a 'phony' market place.

We made the following recommendations to the Committee:

- 1) A clear assessment of what the public understands public services to be, and how this stacks up against government's own understanding and plans for the future;
- 2) An examination of and rationale for what the state is obliged to provide (and why?) and what is discretionary (and why?), and how/where external delivery fits in with either;
- 3) Clear and quantified distinctions by government that separate payment to voluntary sector organisations for services purchased from other forms of financial support, and a commitment to quantify and monitor the relationship between the comparative levels.

We therefore very much welcome the sentiment expressed on p. 55 that before this agenda is driven forward further there is a need to 'pause and take stock', and that the proposed systematic reform of commissioning should have the principle of 'first, do no harm' at its core.

- 5.3 Trying to implement outcome-based contracts is the right objective, but making this a reality will be a massive challenge. At the moment it can be very difficult to convince commissioners of what an outcome actually is, let alone reaching agreement about what the outcomes should be. This is because the commissioning systems that are in place are largely set up to manage outputs not outcomes; as the paper rightly argues they are process-based and generally do not recognise that social or human outcomes may be very complex and take a long time to achieve. Moreover, much of the work the voluntary sector does is not about defined, precise, predictable or measurable outcomes, which the current commissioning model does not recognise.
- 5.4 A key component of better contracts which is not really discussed in the paper is the need for them to be fairly negotiated between both parties. Current procurement practice means that terms of contracts are basically dictated by the state and you can accept them or not. In some cases, organisations even find that just by submitting a bid they have agreed to contractual terms. Until these practices are rooted out and contracts can be negotiated reasonably and fairly, the goal of achieving outcome-based contracts will be impossible.

Our research report *Critical Conditions* illustrates a significant lack of transparency from government departments about the terms and conditions that govern grant funding arrangements and a widespread disinclination to negotiate terms. We are calling for the Government to commit to making any terms publicly available and to be more flexible in negotiating them if asked. We see no reason why similar principles should not apply to contractual terms – despite issues of commercial confidentiality this information is in the public interest and should not be outside the scope of freedom of information rules.

- 5.5 Fundamental reform of the current system will most likely require a thorough examination of the procurement regulations that are to a large extent derived from EU competition law. These regulations were developed to regulate financial relationships between the state and private industries in an inter-European context. They have little or no consideration of the different function played by charities or other voluntary organisations in delivering services for the state. The confusion and even paranoia about these regulations is pervasive in public bodies – even to such an extent that we have heard of local councils that

have refused to provide grant funding based on legal advice that doing so could violate EU law.

- 5.6 The firm assertion in the paper that charities and other voluntary organisations should not be expected to subsidise the taxpayer when delivering services for the state is absolutely correct. However, the related proposal that the Conservatives would allow organisations delivering services a ‘fair return’, whilst very much welcomed, doesn’t fully recognise the different motivations that charities have for entering into service delivery.

Charities would undoubtedly welcome a surplus or profit, because as the paper rightly acknowledges they depend on unrestricted income to underpin their independence and maintain some freedom of action. However, simply instructing or encouraging commissioners that it is legitimate for voluntary organisations to make a profit or surplus is unlikely to resolve the problem, because the procurement process treats voluntary and private sector providers as if they were simply interchangeable when in fact they have completely different motivations. Making a surplus possible does not by itself resolve the dilemma of whether it could realistically be priced into winning bids that would be won by charities.

- 5.7 We agree that the practice of commissioners trying to inspect and control the internal costs of organisations delivering contractually funded services (discussed on p. 60) is wrong and needs to be ended. This practice of ‘looking behind the price’ is a consequence of the state’s risk-averse attitude and general confusion around funding practice – essentially it transfers a grant-making practice into a contractual relationship.

6. Cooperatives

The paper envisions a much greater role for cooperatives, as a mechanism for broadening the type of public institutions that are accountable to citizens. It argues that, ‘as democratic institutions, co-operatives can act as agents of change in ways not open to any other kind of organisation, whether private, public, or voluntary.’ The plans appear to suggest a wide-spread transfer of various public assets to community ownership, even allowing schools to be run by parents on a cooperative model.

- 6.1 We think that this is the most radical, ambitious, and potentially contentious section of the whole paper, in that it seems to hint at a complete redefinition of what public services are, how they are run and how they are accountable. As such, it is difficult for us to take a view on these proposals until further details are forthcoming.

However, we would stress that it does imply an almost tectonic shift in boundaries between the state and ‘civil society’, and as such must be clearly articulated to the electorate and the general public.

- 6.2 We would add that we are opposed to the current trend of hiving-off parts of the state into the voluntary sector as a way of reducing costs and accessing different, non-taxpayer sources of revenue. The most salient example is the registration of local authority leisure centres as charities, which was facilitated by a decision of the Charity Commission in 2004.

- 6.3 We find it strange that co-operatives are regulated by the Financial Services Authority – presumably this has something to do with the status of some financial co-operatives such as credit unions. We would suggest that a different regulator or series of regulators might be needed if the scale of change is to be as great as the proposals seem to describe. Why would it be appropriate for co-operative schools, an example discussed in the paper, to be regulated by the FSA?
- 6.4 We also have questions about how such co-operatives would be funded and their exact relationship to other democratic institutions. If they were to be given taxpayer money to provide services instead of the state, where is the wider democratic accountability to all taxpayers, since they are only directly accountable to members?

7. Changing Government

The final section of the paper concerns the way government relates to the voluntary sector. It discusses the state of the Compact 10 years on, and promises to develop a 'gold standard' of practical measures to underpin compliance. This section also proposes changing the Office of the Third Sector into a more powerful Office for Civil Society with a minister who would be responsible for implementing a 'transformation plan'. Senior staff in this office would be 'seconded from relevant departments across Whitehall – who will then return to guide the implementation of those parts of the plan.' A new civil society select committee in Parliament would also be created to scrutinise government policy towards the sector.

- 7.1 There is a risk that the focus and priorities for an office for 'civil society' could be diluted even more than they are presently under the rubric of 'third sector'. Would the proposed OCS be responsible for universities, trade unions, and any other bodies that are not government or private business, in addition to charities and social enterprise? Such organisations are included in some definitions of the broader meaning of civil society and the NCVO has recently reoriented much of its work accordingly.
- 7.2 We think the idea of seconding senior officials from other Whitehall departments to the new OCS is an excellent one, and would go some way to actually delivering the 'joined-up' approach to the voluntary sector that is lacking. We wonder whether this idea could be extended to local officials as well.
- 7.3 To take this idea one step further, we think that a secondment programme between public sector workers and voluntary organisations could be developed that would have real benefits for both. This could be under the banner of the Compact – a practical way to improve relationships between government and the sector by sharing knowledge and experience on a personal level. Such a scheme should be part of the personal development programme for anyone working in the proposed Office for Civil Society at least.
- 7.4 We think the paper's proposal to set up a committee of MPs to scrutinise policy that is relevant to the voluntary sector is a good idea. Too much government policy and legislation is not properly scrutinised for its impact on the voluntary sector, which means the sector often has to challenge damaging government

decisions when they are already being implemented. Such a committee should be more than a discussion group and the relationship between it and the OCS would need to be thought through. It also needs to have some relationship to the Treasury because of the importance of decisions announced in the Budget, for example.

- 7.5 The paper proposes to 'make the Compact Commission and the Charity Commission directly accountable to Parliament through the select committee'. This appears to be a slightly throw-away comment at the end of the paper, which contains no further discussion. Whilst there seems to be a building consensus that the Compact Commission should become a statutory body accountable to Parliament rather than the OTS, we don't understand the rationale for reviewing the Charity Commission's reporting structure. The Charity Commission is a fundamentally important body to the sector, and it has undergone significant changes in recent years that have improved its performance and its relationship with charities.