

A STRONGER SOCIETY

VOLUNTARY ACTION

IN THE 21ST CENTURY

Responsibility Agenda
Policy Green paper No.5



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Foreword

In 1948, William Beveridge – that great architect of the welfare state – issued an impassioned defence of voluntary action:

“In a totalitarian society all action outside the citizen’s home, and it may be much that goes on there, is directed or controlled by the state. By contrast, vigour and abundance of Voluntary Action outside one’s home, individually and in association with other citizens, for bettering one’s own life and that of one’s fellows, are the distinguishing marks of a free society. They have been outstanding features of British life.”

Sixty years on – and under the rule of another Labour government – his words are just as relevant.

What successive administrations since the war have proved beyond doubt is that neither the state nor the market are sufficient: either on their own or in combination. The market has never created more wealth than it does now, and the state has never spent so much of it. And yet our nation needs something more, it needs a stronger society.

This is something that must start with every person, in their relationships with family and friends, and the making of whole and healthy communities. But beyond the sphere of the private and informal, there is a public, organised expression of society: the charities, social enterprises, co-operatives and community groups that make up the voluntary sector – what some would call, quite inaccurately, the *third* sector.

The time has come for us to think of the voluntary sector as the *first* sector; not just in recognition of the historical origin of the public services and institutions we rely on today – but as the first place we should look for the answers that neither the state nor the market can provide.

This is no pipe dream. The voluntary sector is already delivering change throughout the country. No matter how difficult the problems facing our society, there is none so difficult that someone, somewhere, isn’t already solving it through voluntary action. The question is not *whether* the sector can do it, but what government can do to help them do more of it.

The delivery of public services by voluntary organisations has become a pivotal and divisive issue, presenting the sector with enormous risks and opportunities. There are those who say the risk is too great, that charities in particular should keep out or be kept out. Others make an equal and opposite error – believing that the voluntary sector that operates beyond the limits of *state* action is irrelevant and out-of-date.

We reject both arguments, respecting the sheer variety of the sector and seeking to nurture voluntary organisations of all shapes and sizes. That is why this green paper sets out a broad policy agenda dealing with the crunch issues of public service delivery, but also with the things that nourish the voluntarism, altruism, locality, independence and diversity of Britain’s civil society. Alongside the discussion of contracts, commissioning and social enterprise, we make our case on grant funding, charitable giving and volunteering.

In doing so, we draw upon a record of working with the voluntary sector to develop policy. In 2001, we were the first party to publish a manifesto for civil society. In 2003, this was followed up with the *Sixty Million Citizens* consultation and a deepening engagement with the sector. In 2005, my first act as the leader of the Conservative Party was to ask Iain Duncan Smith to chair the Social Justice Policy Group, an inquiry into the most important challenges facing our society. The role of charities and community groups in meeting those challenges formed a major part of *Breakthrough Britain*, the Policy Group's final report, and we are indebted to Orlando Fraser and Cameron Watt for their painstaking work in reflecting the experiences and insights of so many voluntary organisations. I also want to thank Harriet Baldwin and Rodney Lord for their work with the Social Enterprise Taskforce and Jesse Norman for his work with the Conservative Cooperative Movement.

Now comes the next stage, an opportunity for the sector to contribute to the development of a programme for government. I very much hope that voluntary groups of all shapes and sizes will take part in the consultation process that follows the publication of this green paper.

Voluntary Action in the 21st Century is an agenda for change. But our aim is not to change the voluntary sector, which is more than capable of changing itself as it sees fit. Rather, our aim is to change government: from being an object that gets in the way of civil society to being a force that gets behind civil society, open to, and supportive of, the energy and initiative of a free and civilised nation.



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We welcome responses to this consultation document. Please contact:

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A new world

A progressive agenda in the 21st century recognises collective goals. We want to eradicate poverty and extend opportunity. We want to strengthen the security experienced by all our communities. We want to create a society in which the talents and potential of everyone are cherished and nurtured. To achieve these collective goals needs something more than individuals acting alone. It requires collective action – people coming together to make a difference. Conservatives have always been clear that in a strong society people depend on each other: we truly are all in this together.

A strong society

At its best, government action can represent the democratic imperative of the nation: crystallising priorities, driving forward social change, and underpinning standards. But collective action does not always mean government action. The problems our society faces – and the opportunities open to us – will never be adequately seized if citizens simply opt out and leave them to the Government alone.

Throughout history many of the most pressing social problems have been identified and tackled by voluntary action. Whether in education, public health, or the relief of poverty – it has been voluntary groups which have been there first as pioneers: the first to notice a problem; the first to commit to resolving it; and the first to mobilise resources to deal with it. More often than not, the public and private sectors have followed later, the trail having been blazed by voluntary action.

Strength in diversity

One of the reasons why voluntary action is becoming more, not less, important is that the collective challenges that we face today are not susceptible to single, top-down solutions. For instance, there is no ‘silver bullet’ policy that will cure poverty, but there are a thousand pieces of help – from extra care from a health visitor in the days after birth, to support for parenting, to the chance to attend a good school – each one of which can improve the life chances of a child. It may never be possible to demonstrate that any single one had a decisive influence, but a society in which every possible source of inspiration, innovation and effort is unleashed is one that has the greatest chance of success.

The post-bureaucratic age

Government has never had all the answers, but today it is not even asking the right questions. Society is too complex, its pace of change too fast, for it to be understood, let alone managed, by a central bureaucracy. In this post-bureaucratic age, the people to identify new problems and discover the best ways to solve them won’t be ministers holed-up in Whitehall, but the legions of committed individuals, voluntary organisations, social enterprises, commercial companies and communities. The post-bureaucratic age demands that we change government so that it is more open to being driven by a vibrant civil society.

Old politics isn't working

In some ways, civil society has never enjoyed so much attention from politicians. The current Government has created an Office of the Third Sector, with its own minister; it has spent millions of pounds on new initiatives designed to improve the performance of the sector; and it has increasingly turned to charities and social enterprises to take on work that was previously carried out by public employees.

Not partners but servants

Yet this increased interest has not been an unalloyed boon. Instead, many in the voluntary sector are experiencing real anxieties. The root of this anxiety is the Government's determination to apply bureaucratic-age practices to a sector that embodies vibrancy and diversity. It has too often regarded charities and voluntary groups as bodies that are to be instructed, rather than trusted. In return for funding, the Government has sought to impose detailed terms and conditions. Even the Charity Commission has called attention to the threat to the independence of charities and warned that an uncritical involvement with the Government's agenda could amount to "a slow leaching away of a charity's assets".

The crowding out of voluntary action

The uncompelled gift of time and money is the wellspring of the voluntary sector's character and independence. Yet there is widespread recognition that we could be doing better in both volunteering and philanthropy – voluntary donations have now been overtaken by government funding as a source of income for charities. Moreover, traditional grant giving is losing ground to contract-based funding for the implementation of government objectives, so that many charities face an agonising choice between abandoning their own priorities or doing without much needed resources.

Missing the point

It is right to give charities and social enterprises the chance to deliver public services, but Labour is doing it in the wrong way.

Labour's template approach has been to form a view of how things should be done and then to use targets, directives, legislation, inspection regimes and conditional funding to force people, public services, local councils and even voluntary organisations to operate in the approved way. This approach is failing, not just because of the bureaucracy of inspections, monitoring and enforcement that it relies on, but also because it loses sight of Beveridge's key insight that people and organisations are more successful – more "vigorous and abundant" – when given the freedom to act on their own initiative than when ordered from above.

The change required

One of the most important ambitions of the next Conservative Government will be to expand the role and the influence of charities, social enterprises and voluntary bodies in our society.

In doing so, our approach is not to change the voluntary sector to better serve the Government, but to change government itself.

What the citizen can do for the voluntary sector

The most important relationship for the voluntary sector is not that with the Government, but between people themselves when they come together to take action. A Conservative Government will always have in mind that the voluntary sector must be free to develop according to the ambitions and energies of the people who participate in it, and the needs of the people they help.

Our first priority, like the doctors' Hippocratic Oath, is "first, do no harm".

The best guarantee of the independence and vigour of the sector is a healthy flow of donations and volunteers. Voluntary action will always be a personal choice. The Government can, however, influence the environment in which people choose to give of their time and money through its policies on the taxation of donations, and by imposing or removing barriers that stand between individuals and the commitment of their time.

We will do what we can to create a more supportive environment for philanthropy and volunteering. We will reduce the bureaucracy and paper chase that is involved in claiming tax relief through Gift Aid. While government cannot and should not force people to give, we believe that it is right to work with the sector to encourage the cultural change in which giving and volunteering flourish and are seen as social norm. We will set a lead by making it possible for all government employees to engage in regular volunteering as part of their job.

We will make it simpler and easier to volunteer by tackling the regulatory obstacles which deter new volunteers. We will also act to dispel the confusion surrounding the benefits system so that no one is wrongly advised not to engage in community work, or dissuaded by their own misunderstandings.

We will direct the support that the government gives to encourage volunteering to areas of Britain where there are acute shortages. In doing so, we will work through established charities and voluntary groups rather than generating a blizzard of new ministerial initiatives.

What the state can do for the voluntary sector

The second way in which central and local government interacts with the voluntary sector is by backing good causes with financial help through grant programmes.

The drying up of grant income, and the conversion of grants into formal contracts with tightly specified and monitored terms and conditions has gone too far.

It should be possible for government bodies and local authorities, who are familiar with the work of charities and voluntary bodies over a period of time to trust them to make good use of public funds. So we will sustain grant funding by respecting the difference between grants and contracts – using contracts only where there is a clear justification.

We will reform the National Lottery so that it returns to its roots as a backer of good ideas from the bottom up, rather than a vehicle for directing voluntary income into government priorities, often within the public sector itself. The Voluntary Action Lottery Fund, which will replace the Big Lottery Fund, will be made completely independent of government and will distribute to charities and voluntary bodies rather than see its funds cannibalised by government initiatives.

We will reduce the bureaucracy voluntary groups face by preferring longer-term grants, and we will minimise the paperwork involved in applying for grants by drawing up model agreements and establishing a funding passport scheme to cut out repetitive due diligence procedures.

What the voluntary sector and the state can do together

In the post-bureaucratic age there should be no automatic assumption that because the state pays for a service it should deliver the service itself.

We believe that it is right to give charities, social enterprises and co-operatives the chance to receive public funds in return for helping to solve some of the most pressing social problems. But we will take a very different approach to the way that relationship is conducted. We will bring an end to the micromanagement of voluntary sector providers through contracts that specify in minute detail not only what should be supplied but how the services are to be managed. Contracting will, wherever possible, be based on outcomes, rather than process. We will establish a level playing field between voluntary sector and private providers, allowing voluntary organisations delivering public services to earn a competitive return on investment by sharing substantially in the rewards that come from success.

We will establish a standard for contracts to be based on at least three years (unless the circumstances demand a shorter contract) and we will publish model contracts so that charities do not have to face the bureaucracy of every contract with a funder being written in a different way.

We will enshrine these principles in a revised Compact between the public sector and the voluntary sector and give the compact the teeth it currently lacks by undertaking to abide by the judgments of the commissioner. Moreover, we will create a powerful Office of Civil Society to fight for the sector within Whitehall and a Civil Society Select Committee to provide democratic scrutiny in Westminster.

1. Giving

Summary

Principles

We believe that the value of giving from individuals to charities is more than just financial. It is truly a free nation whose citizens contribute to the common good, not because they have to, but because they want to. As a source of income, charitable donations provides the best possible guarantee of the diversity and independence of the voluntary sector – especially for smaller charities, which are least likely to benefit from state funding. So for all of these reasons, we will seek to reinvigorate the British tradition of giving, not just as a buoyant resource for charities, but as a sign of strength in our society.

Key facts

As a nation we are not as generous as we think we are – and we could be doing better:

- Charitable giving by individuals is struggling to keep up with GDP growth and is falling as proportion of the voluntary sector's income
- The level of giving in 2006/07 was down by 3% on the previous year – the proportion of the population who gave also fell from 57% to 54%
- Giving levels in the US are more than twice those in the UK – 1.7% of GDP compared to 0.7%

Britain has a very generous minority responsible for a disproportionate amount of giving:

- In Britain 7% of the population accounts for around 49% of all giving
- There is a very generous minority, which is not one and the same as the wealthy minority – three-fifths of high value donors have annual incomes of less than £26,000 and giving as a proportion of income is roughly equal across all income groups

Problems

Giving is by definition a voluntary act; generosity cannot be dictated by the Government. However, many people who want to give don't know how generous they should be – there is no 'social norm' for giving to provide guidance. But we do think there is a useful debate to be had on whether it is possible to establish a social norm around charitable giving.

Tax relief on charitable donations – especially through the Gift Aid scheme – is a great encouragement to giving. Unfortunately, donors and charities trying to use Gift Aid are being held back by its administrative complexity.

Solutions

In support of charitable giving, we propose to:

- Simplify the Gift Aid system to reduce the bureaucratic burden on charities
- Participate in a debate on a social norm for giving:
 - Make clear that government cannot engineer a more generous society
 - Work with charities to sponsor a debate on whether it is possible to establish a new social norm around charitable giving

1.1 The importance of giving

John Wesley is not usually remembered as a financial advisor, but this is what he had to say about money: “Make all you can, save all you can, give all you can.”

Of course, he spoke those words at a time when, if you had no savings, the generosity of others was your last hope. He could not have imagined the wealth we enjoy today – nor the welfare state that spends so much of it on our behalf.

What need, therefore, do we have of charity in the 21st century?

If Gordon Brown’s spending boom has achieved anything it is the proof that throwing money at social problems is not enough. We live in a country where despite record levels of state spending and taxation, social inequalities such as differences in life expectancy are increasing not decreasing.¹ Politicians of all parties are looking to charity and social enterprise for the answers that the state can’t provide. And it isn’t just rhetoric: Government expenditure on public services is shifting from public sector providers to voluntary sector providers. So much so, that the state now accounts for the largest slice of the income of the voluntary sector² – a proportion that is set on an upward trend.³

Perhaps the real question is not what need we have of charity, but what need charity has of us as individual givers?

A tax, a deal and a gift

The answer is that, in this age of blurring boundaries between the public, private and voluntary sectors, charitable giving is more important than ever. Consider the circumstances in which we transfer our wealth to each of the three sectors: When we hand over our cash to the state it is because we have to; when we do so in the market place, it is because someone has made it worth our while; but with a charity, it is because we want to – with the benefit of others in mind and not ourselves. In short, **the essential difference between the public, private and voluntary sectors is the difference between a tax, a deal and a gift.**

We believe this is a distinction worth preserving.

Independence and diversity

Personal giving is also the bedrock of the voluntary sector’s independence. If a charity is financially dependent on the state for its very existence, then a public sector contract might seem worth taking at any price. But with a secure and substantial donor base, a charity can enter each negotiation from a position of strength. Furthermore, accountability is directed down to the grassroots of the sector, where it belongs.

Personal giving is particularly important to Britain’s smaller charities, who are less likely than larger charities to deliver public services and receive the associated state funding; while over 60% of charities with incomes of over £500,000 deliver public services, the figure for charities with incomes under £100,000 is less than 25%.⁴ Thus giving is also the wellspring of the sector’s diversity.

Charitable giving should therefore be a key concern for any government that cares about the independence and diversity of Britain’s charities.

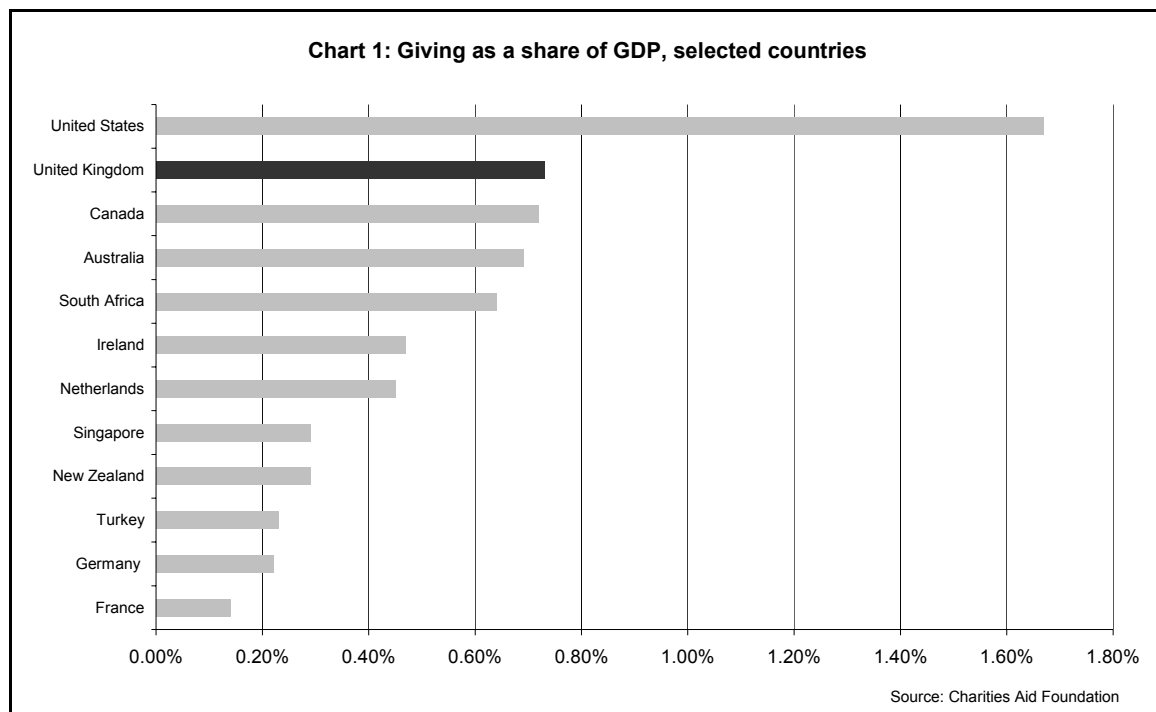
1.2 The state of British giving

Before drawing to a close in 2004, the Government-backed Giving Campaign addressed a challenge to the nation: to double charitable donations in real terms in the space of ten years.⁵ Unfortunately, the signs do not look good.

For a long time, levels of individual giving have struggled to keep pace with GDP growth,⁶ and, ominously, the latest *Individual Giving Survey* records a real terms fall in charitable donations. The level of giving in 2006/07 was down by 3% on the previous year – the proportion of the population who gave also fell from 57% to 54%.⁷

International comparisons

According to research from the Charities Aid Foundation, charitable giving in the UK amounts to 0.73% of GDP.⁸ In the US, the equivalent figure is 1.67% of GDP.⁹ Therefore, British rates of giving could double over ten years and we still wouldn’t be giving as much as the Americans do now. Of course, it can be argued that America is a special case, and that when it comes to giving Britain can claim to be the best of the rest. Certainly, we seem to be well ahead of the other European countries surveyed (see chart 1).¹⁰

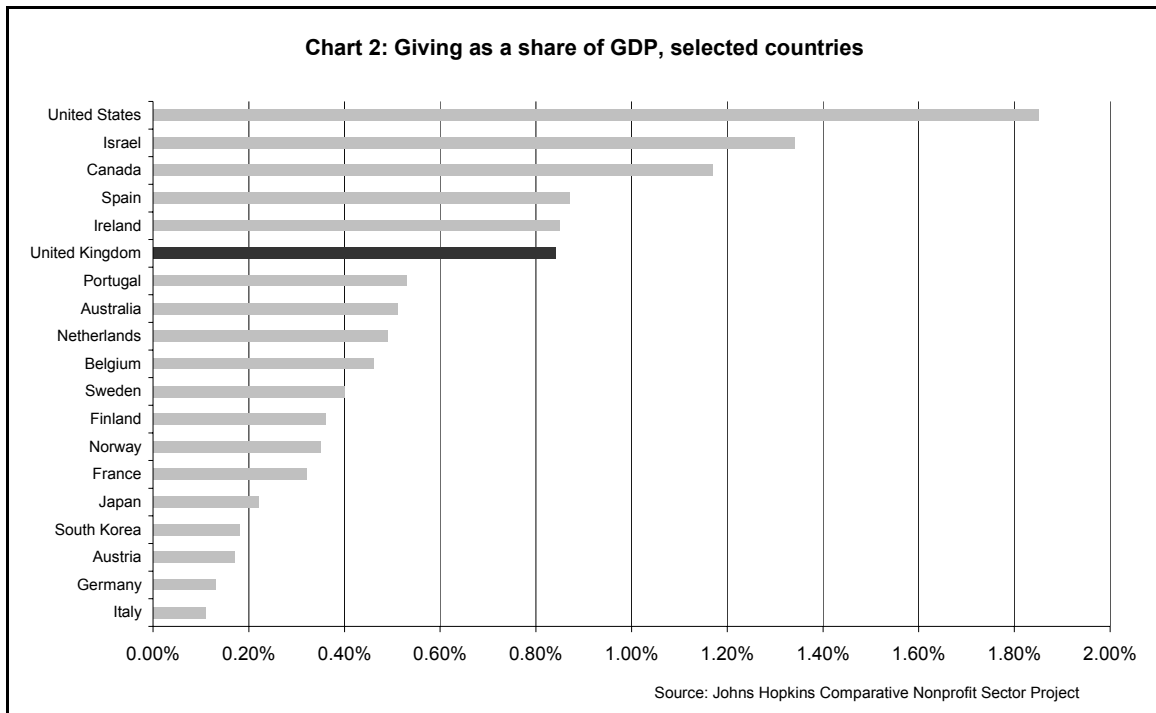


However, the CAF statistics exclude optional church taxes, which are an important feature of giving in Germany and the Nordic countries. If one includes the church tax,

which is not compulsory, then giving as a percentage of GDP is substantially higher in Germany than in Britain.¹¹

It's also worth looking at the research of the Johns Hopkins Comparative Nonprofit Sector Project, which surveyed a wide range of countries and found that British giving was exceeded by that of Israel, Canada and Spain as well as America.¹² Though the basic pattern remained the same, with America leading the world, and Britain leading most of Europe – Britain's position as the best of the rest is not indisputable (see chart 2).

At the very least, we have some room for improvement.



1.3 A very generous minority

An analysis of who gives to charity in Britain today reveals some surprising facts.

Although we enjoy international standing as a generous society, we owe that position to a generous minority of donors.

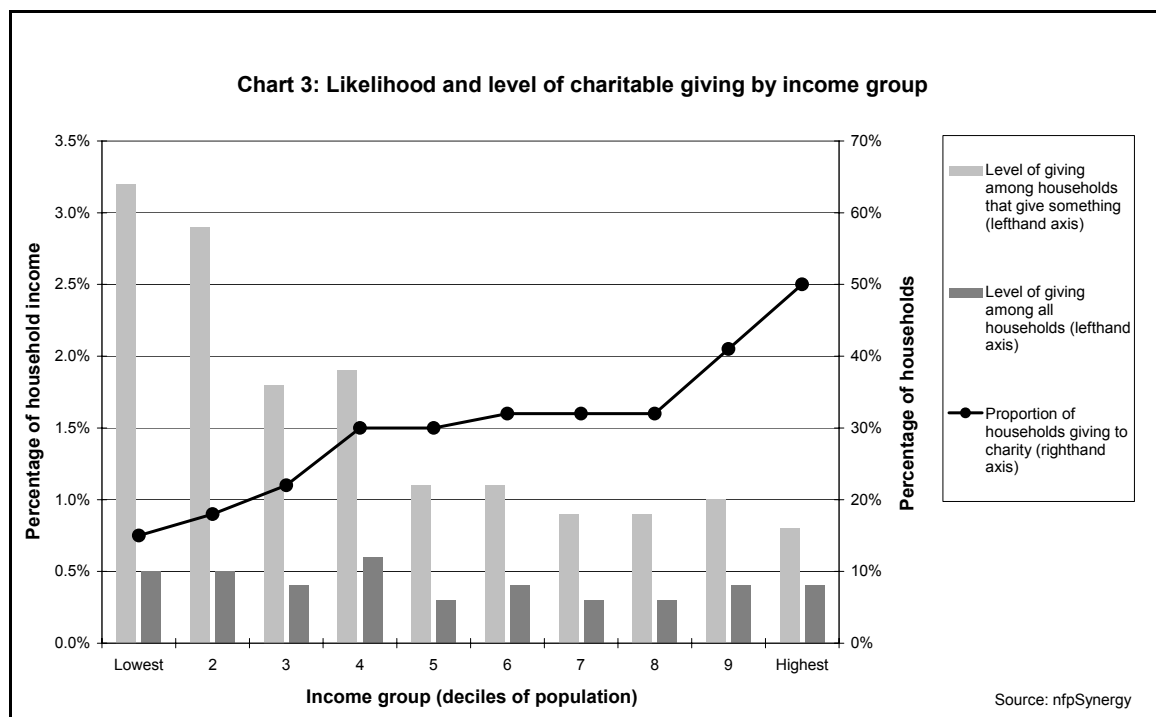
The latest figures show that 49% of charitable giving in Britain comes from 7% of the population;¹³ a relationship confirmed by other studies.¹⁴

There is very little public recognition of the fact that so much is given by so few. Who are the very generous minority?

The Individual Giving Survey, commissioned by the Charities Aid Foundation and the NCVO, defines high-level donors as those giving more than £100 a month. The survey found that two-fifths of Britain's biggest donors had an income in excess of £26,000 a year. But it is striking that three-fifths of Britain's big donors – a clear majority – had

incomes of *less than* £26,000 per year. In other words, most of the people who give most in Britain donate out of modest incomes.

These findings are confirmed in another important study conducted by the charity research group nfpSynergy. They are summarised in Chart 3 below.¹⁵ Dividing the population into ten income bands, the research showed that although the total level of giving did not vary greatly by income, the most generous contributors to charity as a proportion of their income are not the richest groups but those below average income.



Indeed, among the poorest 10% of the population, those who give to charity give over three times the proportion of their income as the highest income groups.

However, Chart 3 also makes clear that higher income groups are more likely to give to charity in the first place so that overall, taking into account all households (i.e. donors and non-donors) there is comparatively little variation in overall giving between income groups.

1.4 Growing the very generous minority

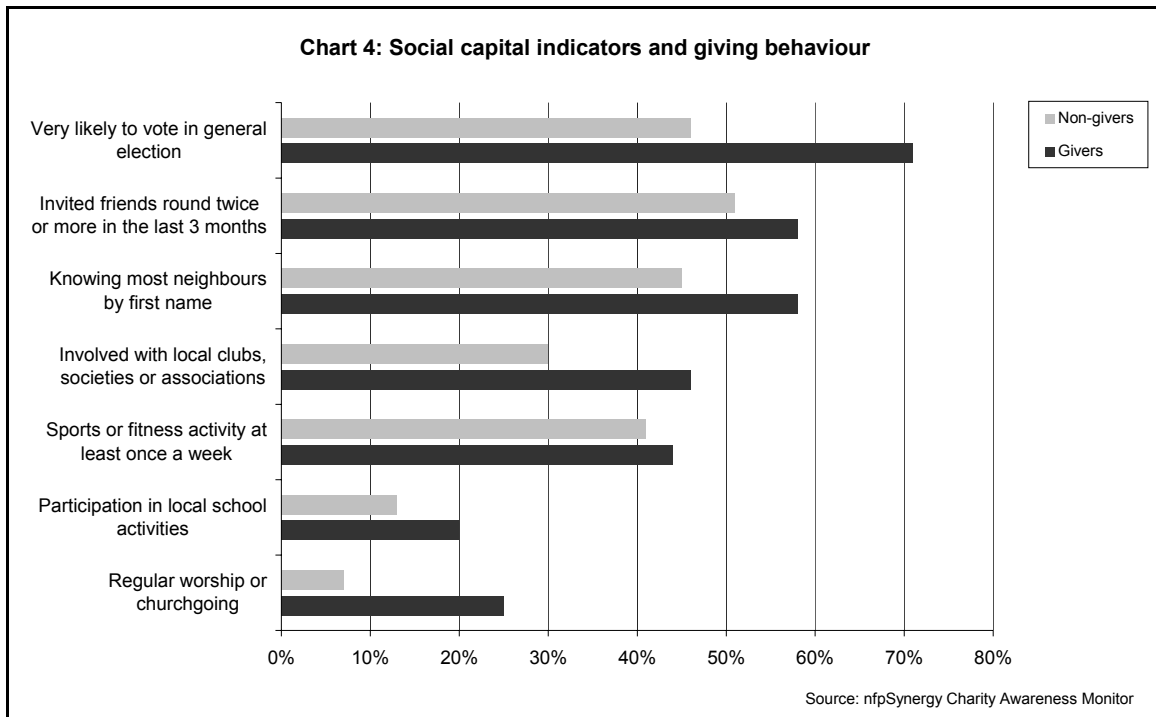
The surest way to increase charitable giving in Britain is to grow the very generous minority. What are the attributes of the most generous givers?

As we saw in the previous section, it is not primarily a question of income and wealth. Poorer people who give, give more generously than richer people.

The evidence is that what marks generous givers out from the rest is their connectedness with the rest of society. The trigger for many people to give to charity is a personal connection with the cause a charity embodies. A relative or friend suffering from a

particular disease will often forge a connection with the wider work of charities concerned with that condition. Membership of a community group – such as a sports club or tenants’ association – draws people into a closer relationship with their community.

Chart 4 shows some of the research findings that demonstrate the links between giving to charity and what might be called indicators of ‘social capital’ such as knowing your neighbours by name, involvement with local clubs and societies and voting in elections.¹⁶



This has important lessons for policymakers. Measures that create opportunities for people to engage with their community are likely to have the further beneficial effect of increasing charitable giving (and, for that matter, volunteering).

This is a powerful further warning against a ‘big-is-beautiful’ approach, whereby smaller, community-based institutions are replaced by the greater scale and ostensible efficiency of larger, more anonymous organisations. As David Cameron said in a recent speech: “big-is-beautiful reorganisations may reduce cost in the short term, but they increase costs in the long term.”¹⁷

The opportunity to serve as school governors, to join a team to take over the running of a community centre, to serve on a parish council or neighbourhood forum – all of these things help build social value and can help us become a more generous society.

A Conservative Government will look for opportunities to engage local people in the life of their community. The supposed efficiency of bureaucratic, large scale solutions must be set against the social value created when people are encouraged to get involved locally. This engagement with society is the prime determinant of who gives generously, and it is very much in all our interests to grow this generous minority by allowing more people to share this engagement.

Box 1: A social norm for giving?

Think about the last time you had a meal in a restaurant. Did you leave a tip? If so, how much?

The chances are – if the service was pleasant, the food good – you will have left something like 10% of the bill.

What proportion of your annual income do you give to charity? If you are able to say immediately, you are in a small minority. Most people don't know how much they give – and more importantly, don't know how much to give – because unlike tipping in a restaurant, there is no rule of thumb for giving to charity – even though most of us consider charitable giving a good thing to do.

Not only is there no rule of thumb for charitable giving, there is no 'social norm' – a shared expectation that people will behave in a particular way.

If there were such a social norm, people would most likely follow it. An amazing number of us take the lead from others. Next time you sponsor a colleague's marathon run on justgiving.com, look at how much the first person on the list pledged. The chances are that most people who followed will have pledged a similar amount. Look at the infectious success of Red Nose Day or Children in Need: if the whole office is 'doing something for charity' that day, chances are most people will join in – in cash or kind.

What if there were a social norm for charitable giving? Individual giving in the UK amounts to 0.7% of national income, and half of this comes from a very generous minority of around 5% of the population, so it follows that the overwhelming majority of households must be giving less than half a percent of their income to charity each year.

Therefore if the generous minority were to carry on giving at their current level, and most other people were to adopt a norm of giving 1% of their gross income to charity – charitable giving could increase by £3 to £4 billion every year.

In a recent survey carried out for the Charities Aid Foundation, 72% of people who expressed a preference said that giving at least 1% of income should be the rule of thumb for charitable giving: with more people naming the 1% level than any higher or lower percentage.¹⁸ This would transform the fortunes of many British charities. It much exceeds anything the Government is likely to be in a position to offer in increased direct support to charities.

How could we establish such a pro-social norm? Government cannot legislate for virtue. In particular it cannot make people give freely of their wealth or their time.

But in the post-bureaucratic age, governments should not first reach for legislation to pursue collective goals – in this case increasing charitable giving. Governments spend huge amounts of time and effort considering the best ways to deal with anti-social behaviour. They give comparatively miniscule attention to considering how to foster pro-social behaviour. A Conservative Government will pioneer an agenda of promoting pro-social norms. We will work with charities and organisations that encourage giving to sponsor a debate on whether it is possible to establish a new social norm around charitable giving.

1.5 Gift Aid reform

Gift Aid is the most important direct way in which the Government can help citizens help the voluntary sector through giving and philanthropy. It works on the principle that we shouldn't tax people on what they give to charity.

This is a good principle, but the Gift Aid system in practice is plagued by bureaucracy. It is archaic that in the 21st century, a donor is required physically to fill in a piece of paper declaring that he or she pays taxes. This then requires a vast archiving system for the biggest charities so that the declaration of every individual donor can be checked. And this must be repeated for every charity a single donor gives to.

This bureaucracy is time consuming, expensive and inconvenient for everyone involved – donors, charities and HM Revenue and Customs. It represents a diversion of resources that would otherwise go into good works. And it is one of the reasons why the take-up of Gift Aid is so low: According the 2005/06 UK Giving Survey only 34% of givers used Gift Aid for one or more of their donations.¹⁹

In the wake of the 2007 Budget, Gordon Brown announced a review of Gift Aid, which charities hoped would result in significant reform. However, in the event, the review produced nothing more than a few minor tweaks, confirming suspicions that its only real purpose was to distract attention from the £90 million a year loss from the cut in the basic rate of tax.

A Conservative Government would reconvene a purposeful discussion between charities and HM Revenue and Customs, to bring the conduct of Gift Aid into the 21st century in order to eradicate unnecessary bureaucracy and boost take-up.

We regard it as essential to maintain the link between the rates of income tax and gift aid since this embodies the principle that charitable giving should be out of untaxed income.

Just as it is an objective of government policy to ensure the maximum take-up of welfare benefits to which people are entitled, so it will be our objective to increase the take-up of Gift Aid to which charities are entitled.

2. Volunteering

Summary

Principles

We believe that volunteers are the beating heart of Britain's civil society, an indispensable resource for the voluntary sector and in many public services. Volunteering generates social capital – building the networks that turn mere places into communities. In economic terms, the value of volunteering can be measured in billions of pounds, but its true worth is beyond price. Without volunteers much of what we take for granted in our national life would grind to a halt. As many charities become increasingly professionalised, volunteers become more, not less, important, keeping a growing and dynamic voluntary sector rooted in the ground that gives it meaning and purpose. Government cannot – and must not attempt to – compel volunteering, but it can encourage, invest and, where necessary, simply get out of the way.

Key facts

Britain has a strong volunteering tradition – but we could be doing better:

- International comparisons show that we do relatively well in terms of volunteering; however some countries do significantly better – for instance, relative to GDP, the estimated economic value of volunteering in Holland is 50% bigger than in Britain
- In Britain, volunteering levels are lowest in the most deprived areas where volunteers are needed most – with only 19% of the population volunteering compared with 38% in the least deprived areas

In recent years there has been some growth in the number of short-term 'episodic' volunteers, but not in the number of committed volunteers:

- The Government claims that volunteering is on the rise, but this is not reflected in surveys which show that *regular* volunteering has flat-lined
- Some organisations – such as the Scouts and Special Constabulary cannot find enough people to fill high commitment voluntary roles

Problems

Recent years have not lacked for government volunteering initiatives. Ministers have set up one initiative after another, even creating their own volunteering charities. Unfortunately, the evidence suggests that these schemes have had limited impact.

Solutions

In support of volunteering, we propose to:

- Support efforts to establish regular volunteering as a social norm – leading by example through a volunteer hours scheme for central government employees
- Overhaul the way in which Government invests in volunteering – directing support to grassroots volunteering organisations, not quangos set up by Ministers:
 - Support development work in ‘charity deserts’ to establish new volunteer-led organisations where none previously existed
 - Consult on a proposal to match-fund the development and operation of a sector-led and sector-owned system training and recognition for committed volunteers

2.1 The importance of volunteering

Politicians have never been so keen to associate themselves with volunteers and volunteering. In recent years we've seen Ministers launch one eye-catching initiative after another to boost the volunteer headcount – which unfortunately have been more successful in generating photo-opportunities than new volunteers.²⁰ The suspicion is that many of these initiatives amount to little more than “a launch, a lunch and a logo.”

And yet volunteers and volunteering are of profound importance. The NCVO calculates that, in terms of what it would cost to replace volunteers with paid employees, the annual benefit to the UK economy of volunteering is £27.5 billion.²¹ But the value of volunteering goes beyond that – because so much of it is irreplaceable. As Luke Geoghegan, the warden of Toynbee Hall, has said “care from a volunteer often has much bigger an impact on vulnerable people because of the very fact that it is freely given.”²²

55% of all voluntary groups receive no income from government²³ and many if not most of these would simply not exist without volunteers. This isn't just the smallest charities and community groups. Many larger charities also depend on volunteers. For instance a survey of 59 hospices concluded that the value of volunteering to the hospice movement was £112 million, almost equal to the financial contribution from the NHS; it was also estimated that for every £1 spent on supporting volunteers, hospices received a return worth more than £11. There are few investments that can produce such a rich yield.²⁴

Whole areas of community life would simply cease without volunteering. Local sport is a case in point, with 93% of sports clubs making use of volunteers.²⁵ According to Sport England volunteer “coaches, officials, mini-bus drivers, match secretaries, umpires, treasurers, stewards and countless other helpers sustain over 100,000 affiliated clubs with over eight million members” – an annual contribution to sport of one billion hours every year.²⁶

There is a growing body of research that links ‘social capital’ factors such as knowing neighbours by name and membership of social to public spirited actions such as giving money to charity, donating blood and, of course, volunteering.^{27,28,29} However, volunteering isn't just a product of social capital but also a contributor to it,³⁰ because it creates new relationships between people – both directly and by supporting the participative activities, such as local sport, that enable non-volunteers to make new connections too.

Volunteering is not, of course, the be-all and end-all of the voluntary sector. There is much to be welcomed in the ‘professionalisation’ of our charities and social enterprises, which together have the equivalent of 486,000 full time staff – an increase of over 100,000 in the space of a decade.³¹ But while the voluntary sector is creating paid jobs at a faster rate than the public and private sectors, **the pace of change makes the continuity of the volunteering tradition more, not less, important.**

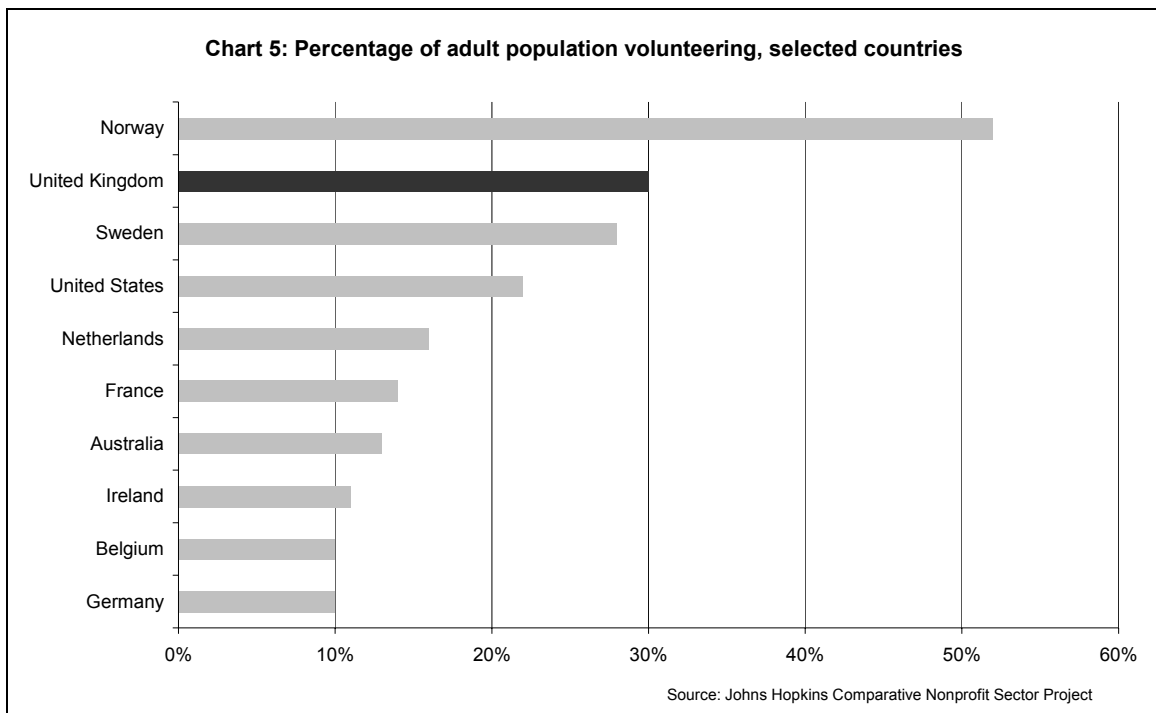
Volunteers are the beating heart of Britain's civil society and we would be shocked to see just how much would die if that heartbeat stopped. We should therefore be concerned that the small-scale, volunteer-led part of the voluntary sector is struggling. According to the latest NCVO almanac, three out of every five of our smaller charities are shrinking their operations.³² This is not a healthy sign.

The disappointing record of government initiatives on volunteering is not an excuse for inaction, rather a new approach is required – one that, in keeping with the volunteering, seeks to get behind voluntary action instead of attempting to lead it.

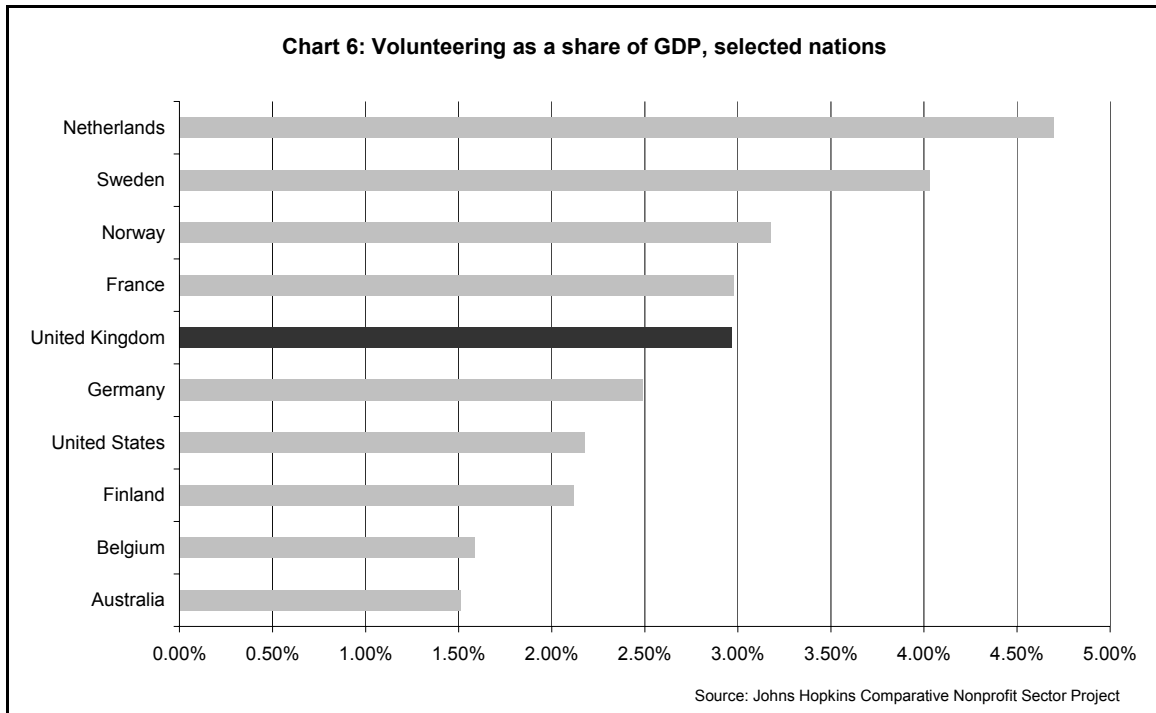
2.2 International comparisons

How does our volunteering culture compare with other countries?

Relevant facts and figures aren't easy to come by, but we do have some fairly recent research carried out by the Comparative Non-Profit Sector Project based at Johns Hopkins University. In terms of the proportion of the adult population who volunteer, Britain is second out of the 36 countries surveyed, beaten only by Norway (see Chart 5, below).³³



However, if one takes into account volunteer hours, as opposed to volunteer numbers, we slip down the rankings somewhat, coming in fifth among comparable developed nations (see Chart 6, below).^{34,35} That's not bad, but we're still soundly beaten by the Swedes and the Dutch in the top two positions. So, as is the case with charitable giving (see section 1.2) we are doing well, but could be doing better.



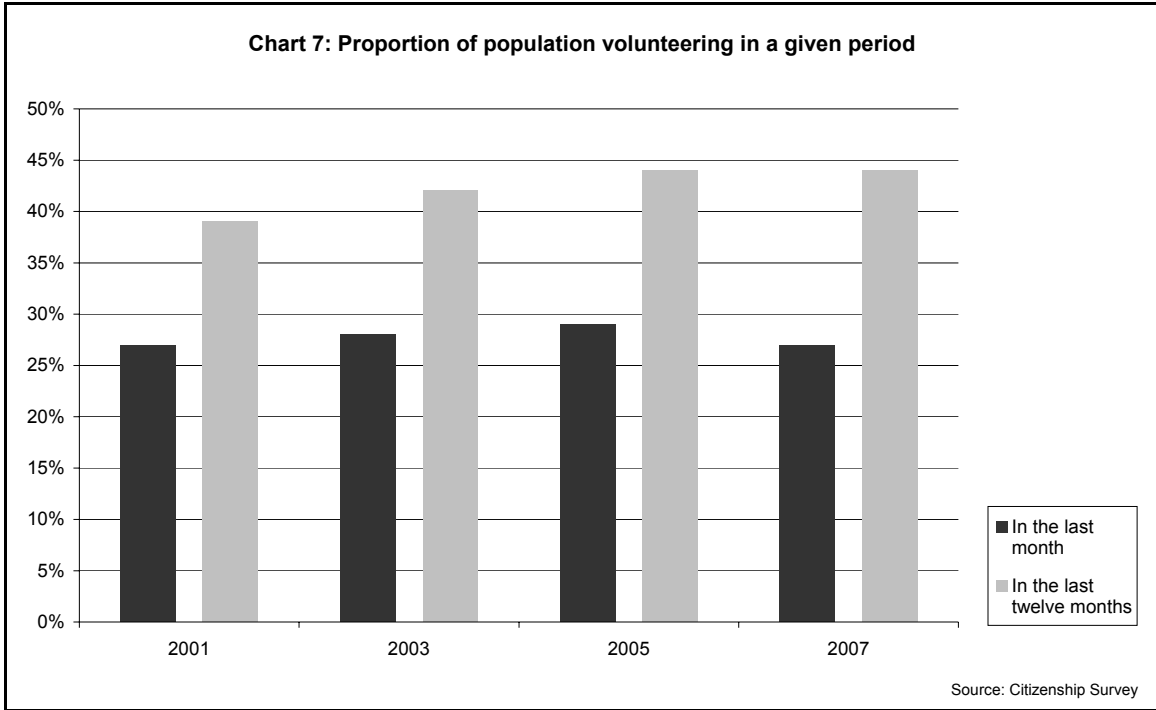
The impact of professionalisation

According to a survey from the Directory of Social Change, 52% of voluntary sector staff in Britain believe that the drive towards professionalisation is killing the spirit of charitable activity.³⁶ The Swedish experience certainly suggests that volunteering prospers when charities stay out of public service delivery. The Swedes are enthusiastic volunteers, but in terms of paid employment their voluntary sector is one of the smallest in the western world.³⁷ Moreover, the Swedish state has, until recently, dominated public service provision, with next to no role for the voluntary sector.

However, one could draw an entirely different conclusion from those other volunteering superstars – the Dutch. Not only does Holland have the highest level of *paid* non-statutory, non-commercial employment in the world, it also has public services in which voluntary organisations play an extensive role.³⁸ So while volunteering can do very well without the professionalisation of the voluntary sector workforce or participation in the delivery of public services, it can thrive in this context too.

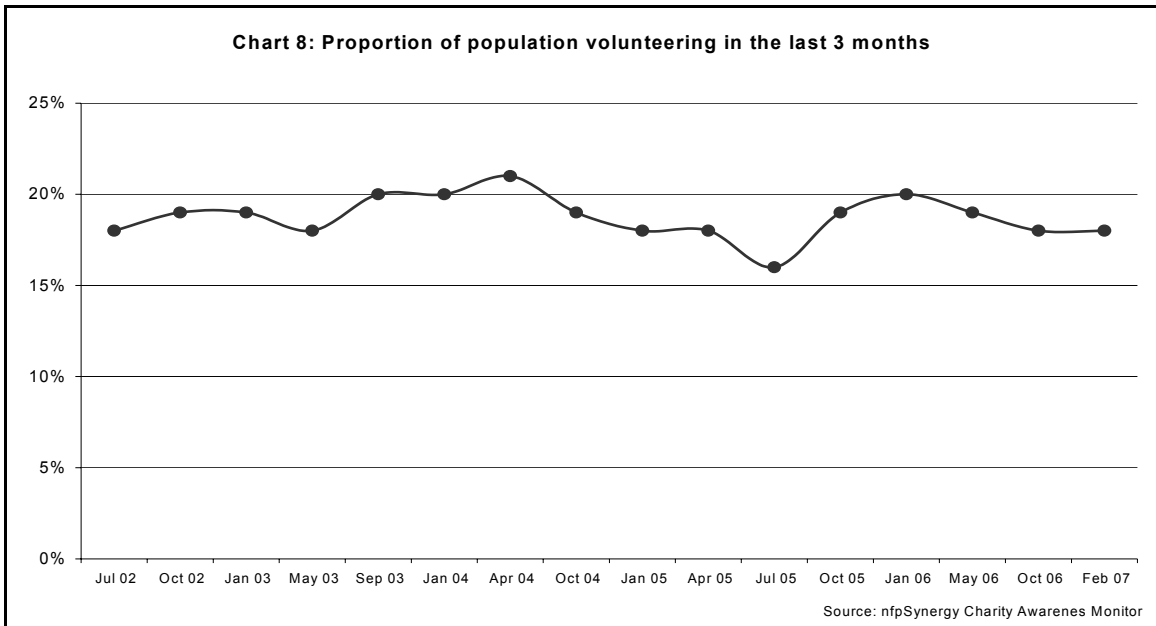
2.3 The national picture

According to the Government's Citizenship Survey, there was a modest increase in volunteering in the first half of the current decade. In the 2001 survey, 39% of respondents said they had volunteered in the previous twelve months, rising to 42% in 2003 and 44% in 2005. For volunteering in the previous *one* month the figures were 27%, 28% and 29% (see chart 7).³⁹



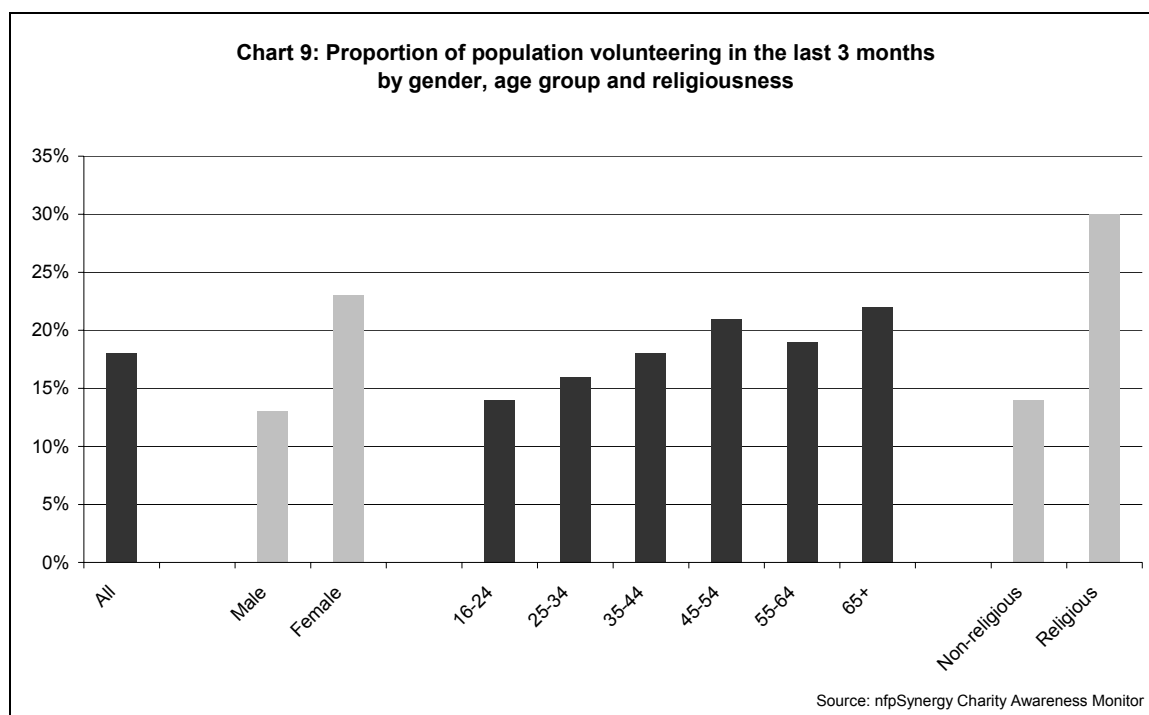
The full results of the 2007 survey have yet to be published, but the data released indicate that volunteering in the previous twelve months remains at 44%, while volunteering in the previous one month has dropped back to 27%.⁴⁰

In contrast to the Government survey, the Charity Awareness Monitor (CAM), an independent quarterly survey undertaken by nfpSynergy, shows that, with a few shallow peaks and troughs, the level of volunteering has remained essentially unchanged at around 19% (see chart 8, below).⁴¹



What can explain these very different findings? It is particularly odd that the Citizenship Survey shows a much higher incidence of volunteering within a one month period, than the Charity Awareness Monitor does within a *three* month period.

The surveys also found big differences in the demographic profile of the volunteering population. For instance, the Citizenship Survey found that women were only a little more likely to volunteer than men,⁴² while the Charity Awareness Monitor found that women were almost twice as likely to volunteer. As for age, the Charity Awareness Monitor found that volunteering among the older age groups was more common than among the younger (see Chart 9, below).⁴³ However, this was not found by the Citizenship Survey – which, if anything, suggests the reverse.⁴⁴



Committed versus episodic volunteering

It may be that the Citizenship Survey is picking up a lot of occasional, short-term volunteering that the Charity Awareness Monitor does not. This would explain differences in the number of volunteers. It may also explain the differences in demographic profile (the DWP’s Time Use Survey shows that older people devote more time to volunteering than younger people,⁴⁵ and, on some measures,⁴⁶ that women devote more time than men.) A number of volunteering experts have highlighted the emergence of a less committed, more casual style of volunteering, often described as *episodic* volunteering.⁴⁷

Varying criteria for what constitutes a volunteer will obviously lead to very different conclusions about volunteering levels. For instance, the Citizenship Survey found that 14% of volunteers claimed to have volunteered within the private sector as opposed to the voluntary or public sectors, which the NCVO thought was “most likely to be in the form

of internships.”⁴⁸ One might question whether work experience counts as volunteering – but it might help explain the 41% to 53% jump in youth volunteering recorded by the 2005 Citizenship Survey.⁴⁹

Feast and famine

To add to the confused picture, some volunteering organisations say they are reaching saturation point with volunteers,⁵⁰ while others warn of a desperate shortage.⁵¹ However, both sides can be right if it is mainly the episodic kind of volunteering that is flourishing.

Tellingly, volunteer shortages seem to be particularly acute for those areas requiring long-term commitment and a generally younger age profile. For instance, youth organisations such as the Scouts^{52,53} and Guides⁵⁴ are finding it difficult to recruit enough leaders to meet the demand for membership. Shortages have also been experienced in the public service, for instance, the number of special constables has dropped rapidly over the last ten years.⁵⁵ The National Trust reports an increase in volunteer numbers, but a decrease in the amount of time that the average volunteer contributes.⁵⁶

At the same time, there is evidence that at least some existing volunteers are taking on more responsibilities, spreading themselves between multiple roles – a trend that, according to the NCVO, “suggests that organisations are facing recruitment issues in what has become an increasingly competitive environment.”⁵⁷ It is, therefore, not surprising that in a Volunteering England survey of charities, 86% of respondents said their priority was keeping existing volunteers rather than searching for new recruits.⁵⁸

There is no doubt that volunteering, however episodic, is an enriching experience for all who take part. But the enthusiasm for this inclusive message must not blind decision makers to the fact that committed volunteers are the foundation and pillars of voluntary action. If we lose them, then a great deal else will be lost too – including countless opportunities for other volunteers.

The call to commitment is daunting one. After all, most of us are leading increasingly busy lives – but here, perhaps, is the most important statistic of all: According to the Time Use Survey, the average adult devotes just three minutes a day to formal volunteering.⁵⁹ Surely, we can do better than that.

Box 2: A social norm for volunteering?

In the previous chapter we suggested that successfully establishing a social norm for charitable giving could have a bigger impact on the fortunes of Britain’s charities than any government legislation.

We believe that the same may be true in volunteering. The conclusions of the Commission on the Future of Volunteering points clearly in this direction; calling for “a culture change in society so that helping others and benefiting from a culture of mutual dependence becomes a way of life”.

All the evidence says that volunteering is infectious: people who volunteer in one capacity in their community end up helping lots of other community groups as

well. For example, a study for the Scout Association found that young people who are members of a youth or sports club are twice as likely to have helped out in their community as those who aren't.⁶⁰

Volunteering thrives within social networks that connect people to this wider community. But what can we do in a culture that tends to disconnect people from these networks and norms?

There is one kind of social network to which most of us have become increasingly connected: the workplace. Indeed, the demands of work are often cited as the reason why people can't volunteer regularly. And yet here is an environment which creates its own kind of community and which transmits certain social norms.

What if volunteering could be established as a social norm of working life? Many pioneering companies from John Lewis to KPMG have begun to do that. By giving their employees an entitlement to volunteer, and a small number of hours they can use during the year to add to their own time spent volunteering, they have established just such a culture of volunteering the Commission called for: volunteering has become a social norm at their workplace.

All of the companies that have adopted an entitlement to volunteering say that it has big benefits for their business – in terms of recruitment and retention, training and leadership development and motivation at work.

If every employer in Britain were to join in a social norm – specifically, a business norm – to make it easier for their staff to volunteer, the effect on our society would be transformative. It would not only be organisations in need of regular volunteers who would benefit. By making people more connected with their communities we would be creating social value that goes way beyond the hours committed.

Social norms cannot be established through legislation. And it would, anyway, be wrong for government to force employers to act if they were unwilling.

But government can lead by example. A Conservative Government would make a start by allowing every central government employee eight hours volunteering during the year (the Morgan Inquiry into youth volunteering also recommends a time allowance of “approximately eight working hours”).⁶¹ Participation would, of course, be entirely voluntary for individual employees, and managers would have the right to ensure that the hours were taken in a way that minimised disruption. But the experience of the pioneer private-sector employees shows that knowing they have the right to volunteer has a galvanising effect on employees' confidence to take on volunteering commitments.

2.4 Investing in the grassroots

Despite the evidence that a culture of volunteering has to be grown from the bottom-up, New Labour insists on a top-down approach of high-profile Government initiatives. Rather than invest in the grassroots of volunteering, Ministers have lavished public funds on their own quangos, complete with the usual paraphernalia of such enterprises: designer logos, flashy websites, regional offices, PR consultants and expensive advertising campaigns.

Needless to say, there is reason to question the effectiveness of this approach. The point is made clear in a recent report from nfpSynergy:

“The evidence from our research shows little evidence that government investment in volunteering is working... At the moment substantial amounts of public money are being spent on volunteering with little evidence of successful returns on investment through increased volunteering.”⁶²

The Commission for the Future of Volunteering, chaired by Baroness Neuberger, noted “a very large amount of criticism of several aspects of the Government’s initiatives to promote volunteering,” which focused on “lack of joined-up thinking...poor communication... funding timescales... reporting and monitoring timescales... targets to the detriment of quality... quality and quantity of volunteering placements available,” concluding that “the depressing thing is that messages about short-termism and a project based approach that fails to become mainstream – all of which we have heard repeatedly – are not new.”⁶³

The Government’s approach is to set up its own volunteering organisations, such as the Experience Corps – a volunteering initiative aimed at retired people – which greatly underperformed its targets and was subsequently abandoned. In 2006, Ministers created ‘v’—a volunteering initiative aimed at young people. Though the organisation is still establishing itself, so far its impact has been limited:

“Volunteering among young people overall appears static... the number of young people involved ‘regularly’ with charities appears to be falling slightly and those who say ‘never’ is rising.”⁶⁴

Support for volunteering should be through existing voluntary bodies

Justin Davies Smith of the Institute for Volunteering Research has observed that “Government initiatives have worked less well when the Government has tried to enforce a new programme on the voluntary sector... it’s better when the Government distributes resources for the voluntary sector to run.”⁶⁵

We agree, which is why the next Conservative Government will pursue a policy of **directing the support available for volunteering through existing voluntary groups**. Ministers will not set up their own volunteering quangos. Instead we will work directly with grassroots volunteering organisations and will only fund projects that meet specific needs identified by the frontline.

Development work in volunteering deserts

What would direct and tangible investment mean in practice?

On the basis of discussions we’ve already had with volunteering organisations, a key priority for investment would be those areas of the country which the NCVO has described as ‘charity deserts’.

No matter how deprived, social capital exists in every community. But if opportunities for formal volunteering don’t exist – because local voluntary groups aren’t established – then a lot of this social capital will remain inactive. This is borne out by the fact that the level of formal volunteering in the most deprived areas is only half that in the least

deprived.⁶⁶ Government-led initiatives at a national and regional level are irrelevant to communities with no local volunteering infrastructure.

A Conservative Government will tackle this key feature of geographical deprivation. In particular we will prioritise funding for development work in volunteering deserts. This means providing direct support for organisations such as the Scouts that are already working with communities to set up volunteer groups where none previously existed.

We will also ensure that dedicated grant funding is made available to these newly created groups in their start-up period.

Support for sector-led investment in volunteer training and recognition

Another example of direct and tangible investment is in relation to the recruitment and retention of long-term, committed volunteers. In particular, we need to address two gaps in current provision:

- The lack of good-quality training
- The lack of recognition for the majority of committed volunteers – especially of the skills and experience that they attain

Given that “training can be both a form of reward and a means of supporting and enhancing the contribution of volunteers,”⁶⁷ there is an opportunity here to kill two birds with one stone. A Conservative Government would therefore consult with volunteering organisations of all shapes and sizes on a proposal to prioritise current public support to **match-fund the development and operation of a sector-wide system of training and qualification.**

It is essential that such a system is of practical value to volunteers and is fully owned and controlled by the voluntary sector.

2.5 A supportive policy framework

Lightening the load of regulation

Red tape and regulation is a problem across the voluntary sector, but it has a particularly damaging effect on volunteering.

Volunteering for the first time takes requires self-confidence on the part of the volunteer; and morale is vital for long-term commitment to volunteering. However, as the Commission on the Future of Volunteering points out, both confidence and morale can be destroyed by bureaucratic hurdles and burdens.⁶⁸

We support the long overdue moves being made to improve the system of Criminal Record Bureau (CRB) checks.⁶⁹ We will also act to clear-up any confusion surrounding the rules on volunteering and benefit claimants, so that misunderstandings do not dissuade potential volunteers.

However, it would be wrong to assume that the burden of red tape is limited to those regulations which are specific to volunteering. General regulation, is a burden on everyone, but can be particular problematic for volunteer-led organisations. What might

seem to be a bearable level of regulation for companies and other organisations able to employ compliance staff, may be excessive for unpaid volunteers. No one wishes to compromise the safety of either volunteers or the people they help, but risk assessments should take into account the harm that will be done if voluntary action is driven out by regulation.

As part of our general objective to lighten the load of regulation, a Conservative Government will endeavour to recognise and act upon the particular needs of volunteers.

No to compulsory ‘volunteering’

Frustrated by the failure of its volunteering campaigns, the present Government is displaying a disturbing tendency towards compulsory ‘volunteering’. The Education and Skills Bill proposes volunteering as an enforced alternative to work or education. Even the Government’s own youth volunteering organisation ‘v’ is aghast:

“The Government has warned that young people who don’t take up one of these options will face sanctions or penalties. But making volunteering compulsory is a contradiction in terms and won’t work.”⁷⁰

Another example is an apparent Home Office plan to force volunteering on new immigrants as part of “probationary citizenship” scheme.⁷¹

It is vital that politicians do not contaminate the good name of volunteering. A Conservative Government would **exclude any notion of ‘compulsory volunteering’**, which is a contradiction in terms and an abuse of government power.

There is, of course, an honourable tradition in which obligations of various kinds are discharged through service to the community. However, this must not be confused with volunteering – even if voluntary organisations are involved. Community service is a potential gateway to the world of volunteering for many people – pupils in particular. But, badly done, it can alienate potential volunteers, especially when compulsion is involved.

A Conservative Government is fully committed to principle articulated by Dame Elizabeth Hoodless that “any future legislation would need to address the distinction between volunteer service that is willingly undertaken and can be completed at will, and community service that is the fruitful engagement of those who may face consequences if they fail to show up.”⁷²

Supportive grant funding framework for volunteer-based charities

The shift from grant to contract funding of charities often discriminates in favour of larger, professionalised, service deliverers at the expense of smaller, volunteer-based charities.

In part II of this green paper we set out detailed policies on grant funding which will create **a supportive funding environment for volunteer-based charities and community groups.**

3. Grant funding

Summary

Principles

We believe that grants from government bodies remain a vital ingredient in the funding mix for charities and community groups. Much of the most important work done by the voluntary sector is in the gap that lies between the reach of the state and the sympathies of mainstream society. Without real grant funding this work would be left undone, leaving social problems unsolved and the most vulnerable people without friendship and support.

Key facts

- In 2002/03, contracts overtook grants as the most important source of state funding for the voluntary sector – and the gap has been growing ever since, with grants now accounting for just 38% of government support
- Public grants are declining as a share of voluntary sector income – from 19.5% in 2001/02 to 13.4% in 2005/06
- There is increasing evidence that the relative decline of grant funding is turning into an absolute decline – a recent survey for Finance Hub found a fall of at least 13% in last three years

Problems

Reports from charities and communities groups suggest that grant sources are drying up and that those grants that remain are becoming indistinguishable from contracts. Not only does this increase fundseeking bureaucracy for the voluntary sector, it also limits its freedom of action – as funding becomes ever more conditional on the delivery of government priorities.

A number of important sources of funding have been compromised by government interference – in particular the Lottery good causes, which have been repeatedly raided to fund state expenditure and Olympic overspend.

Solutions

In support of grant funding, we propose to:

- Sustain the grant funding of charities and community groups by respecting the difference between grants and contracts – using contracts, rather than grants, only where there is a clear justification
- Introduce a fair deal on grants, to deliver multiyear funding periods, simplified funding streams, lightly specified grant conditions and other aspects of good grant funding practice.
- Operate a genuine one-stop funding portal for statutory grants
 - Require significant grant schemes to be registered on a single, simple website
 - Establish a fundseeker's passport scheme to cut out repetitive grant application bureaucracy
- Replace the Big Lottery Fund with a Voluntary Action Lottery Fund dedicated in its entirety to the voluntary and community sector
- Promote bottom-up funding streams – ensuring that funding decisions reflect local knowledge about local needs

3.1 The importance of grants

Grants are a vital part of the funding mix for voluntary organisations. They fill the gap between what the state can't do and what the public is less likely to give to. In particular, they provide a lifeline to smaller charities and community groups who might otherwise lose out in the increasingly sophisticated competition for private donations.

However, in recent years the very concept of grant funding has become fatally confused with the payments that some voluntary organisations receive for providing public services under contract. It is vital that Government understands that contract funding can never be a substitute for grant funding. While contracts are all about the state buying from the sector, grants are all about the state giving to the sector.

As such, grant funding has a double worth that goes beyond the financial value of the grants themselves: firstly, as a mark of humility on the part of politicians that others may be better placed to use public resources; and, secondly, as a proof of political trust in the institutions of civil society.

That is why the next Conservative Government will endeavour to sustain grant funding, together with volunteering and charitable giving, as a three-cornered foundation for the independence and diversity of the voluntary sector.

3.2 Disappearing grants

There is growing alarm across the voluntary sector that sources of traditional grant funding are drying up.

Several sector organisations, including NAVCA, Advice UK and the Scarman Trust have formed the Sustaining Grants coalition,⁷³ out of the concern expressed by the Directory of Social Change that “many small local grant programmes are being phased out.”⁷⁴

Umbrella bodies, like the South West Forum, representing small community groups that depend on grant rather than contract income, are speaking of an “unprecedented funding crisis,” pointing to a chasm between political rhetoric and reality:

“While support for voluntary and community groups has never been higher up the national political agenda, the reality of life on the front line is funding cuts, uncertainty and a very real struggle to maintain services and in some cases whole organisations.”⁷⁵

Meanwhile, non-statutory grant givers, like the Community Foundation Network, say they have been overwhelmed by a vast increase in applications from small charities and community groups that have nowhere else to go.⁷⁶

Such is the depth of concern, that Finance Hub – a Government-funded programme managed by the Charities Aid Foundation – recently commissioned research to establish whether the decline in grant funding was fact or fiction. The conclusions were clear:

“Available data from the sample of local authorities indicates that grant-aid funding has declined over the past three years by at least 13%. Data from other sources would seem to support this view.”⁷⁷

The great funding shift

NCVO figures show that contracts for the delivery of public services now account for a greater share of the voluntary sector’s income than statutory grant funding.⁷⁸

If this contract income were purely in addition to a healthy system of grant funding this would not matter. However, the same inflation-adjusted figures show that grant funding is in absolute as well as relative decline:

Year	Sector income ⁷⁹	Proportion from grants	Value of grants
2001/02	£22.86 bn	19.5% ⁸⁰	£4.46 bn
2003/04	£27.57 bn	17.8% ⁸¹	£4.91 bn
2005/06	£30.98 bn	13.4% ⁸²	£4.15 bn

A drop of hundreds of millions of pounds in annual grant funding is bad enough, but what the figures do not and cannot show is the extent to which many grants are now contract-based arrangements in all but name – a trend noted by both the Audit Commission:

“...there are fewer unrestricted grants. Many grants now have service level agreements attached to them and voluntary organisations often regard these as contracts.”⁸³

As the National Audit Office explains, the “the difference between the two types of funding arrangement is not merely technical, but has financial implications which may affect a charity’s decision on whether it wishes to accept a funding arrangement.”⁸⁴

3.3 The causes of decline

Some campaigners blame the decline and debasement of grant funding squarely on the contract-based commissioning of public services from the voluntary sector.

“By changing the nature of the way public money comes down to communities, the Government is completely setting the terms of engagement for the sector... All the buzz words they pull out about charities – flexibility, responsiveness to local needs, gateways through to the most vulnerable – commissioning is going to kill this stone dead. It’s nothing short of vandalism.”⁸⁵

However, this cannot be the whole story. The main purpose of contracts is – or should be – to switch funding from statutory to non-statutory sector service providers. There is no automatic reason why this should also result in the replacement of traditional grant programmes with contract-based funding.

In our analysis, the threat to grants stems from other aspects of Government policy – which, in this regard, can be viewed as a three tiered framework:

- Firstly, Labour’s overall style of government
- Secondly, general policy towards grant funding

- Thirdly, specific policy on major grant funding programmes

Style of government

Government by target – Determined in Whitehall, targets are designed to put each layer of public sector management under intense pressure to conform. Traditional grant-funding is not conducive to this culture of control. Contracts, however, allow the enforcement of targets far beyond the formal boundaries of the public sector.

Centralisation – The imposition of under-funded policy commitments on local government by central government is restricting the scope that local authorities have for making discretionary grants. By turning grants into contracts (or grants that might as well be contracts), councils can still claim to be ‘funding’ the voluntary sector – even though they’re merely purchasing services that they’d otherwise have to provide themselves. The point is made by the Audit Commission:

“In some cases, councils are procuring through competitive tender some services that were previously grant funded, and diverting those grant funds to other organisations and purposes.”⁸⁶

General approach to grant funding

‘Strategic alignment’ – Another way that the state can undermine grant funding is to ‘align’ grant programmes with ‘strategic objectives’. What this often means in practice is taking money that used to be available to a wide variety of voluntary groups pursuing their own objectives and restricting it to the implementation of narrowly defined government objectives. Examples include the replacement of the Neighbourhood Renewal Fund with the Working Neighbourhoods Fund,⁸⁷ and the Department of Work and Pensions takeover of European Structural Funds that previously gone directly to voluntary organisations.⁸⁸

The Directory of Social Change argues that ‘strategic alignment’ discriminates against smaller charities and community groups:

“Funding programmes are becoming exceedingly prescriptive and more rationalised into larger pots for ‘strategic’ relationships with fewer larger organisations operating at a national level.”

DSC goes on to warn that “if this trend continues, the characteristics that make the sector attractive may be lost.”⁸⁹

Project funding – A corollary of ‘strategic alignment’ is a trend towards the grant funding of individual projects rather than whole organisations:

“Much sector activity is project-based, partly driven by the preference of both charitable and statutory funders to mitigate risk by directing funding at specific elements of an organisation’s work rather than at a promising organisation as a whole.”⁹⁰

According to Acevo, this can leave voluntary groups out of pocket:

“This has exacerbated the trend on the part of the sector’s funders towards funding the direct costs of projects rather than overheads or core funding.”⁹¹

Quasi-voluntary organisations – The project funding approach obviously gives the state a lot of influence over the activities of the voluntary sector, but the ultimate in ‘strategic alignment’ isn’t when politicians decide to define particular ‘voluntary’ projects, but when they create entire ‘voluntary organisations’.

In section 2.4, we cite the examples of The Experience Corps and ‘v’, but quasi-voluntary organisations (QVOs) are also being created at a local level – Primary Care Trusts, council leisure departments and other local agencies.^{92,93} QVOs compete with genuine voluntary organisations for funding:

“This is a significant concern for a number of members. Simply to be able to access the market or resources is the wrong reason to become a third sector organisation and risks taking opportunities away from third sector organisations rooted in communities.”⁹⁴

Because QVOs typically have their core costs covered by the statutory bodies that created them, they have a substantial – and arguably unjust – advantage in bidding for project-based funding.

Specific policy on major grant funding programmes

Regionalism – The grassroots voluntary sector is also losing out from the use of ChangeUp and Lottery money to fund Labour’s fixation with ‘regional infrastructure’. Community groups in the South West have been particularly vocal in their criticism: “we cannot see the benefit... their priority should be making sure there is infrastructure at the local level, but their priorities are at regional level.”⁹⁵

Futurebuilders – A further blow to grant-funding came with the Treasury decision to cut the support that Futurebuilders – which helps voluntary organisations compete for contracts – can give in the form of grants. Richard Gutch, Chief Executive at the time the decision was made, warned that “the grant element may end up being squeezed altogether... if we didn’t have the grant element, it wouldn’t work.”⁹⁶

The National Lottery – A series of government raid on the lottery good causes has undermined the single most important source of public grants for the voluntary sector. We deal with this issue in more detail in section 3.6, below.

3.4 Sustaining grants

The next Conservative Government will sustain the principles and practice of grant funding:

A new style of government

On a macro-level we will scrap targets and give communities more power over local spending decisions. In particular, we will:

- Reduce the ring-fencing of money so that councils can spend their funding as they see fit

- Abolish the regional assemblies and return their powers to local councils – not to the unelected Regional Development Agencies as the Government plans to do
- “Cut back on the bloated inspection regime – typified by Best Value and the Comprehensive Area Assessment – which gets in the way of councils trying to do their job.”⁹⁷

Reform of grant funding structures

With specific regard to grant funding, we will:

- Widen access and respect voluntary sector priorities – this will mean a challenge to the conventional thinking on ‘strategic alignment’ and project-based funding
- Reform the National Lottery (see section 3.6), social investment programmes (see sections 4.2 and 4.3) and infrastructure programmes (see section 3.7) to bypass unwanted bureaucracy and get resources through to the frontline

A clear distinction

We will **respect the difference between contracts and grants**, one which reflects an equally important distinction between public expenditure on core services which government has a duty to provide and discretionary state spending on broader social objectives.

In the former case, contracts are generally the best way of opening up delivery to new providers while guaranteeing at least the same level of service to users; but in the latter case funding can and should be made available to voluntary sector providers through less prescriptive mechanisms, especially grants.

A report from the Directory of Social Change makes the point:

“We believe that as part of enabling the voluntary sector to flourish, and trusting it to do its work effectively, government needs to provide more unrestricted funding through non-prescriptive programmes, especially at local level... Sadly, the reverse seems to be the trend at the moment.”⁹⁸

We will establish the principle across government that a contract should not be unthinkingly used where a grant will serve the purpose.

3.5 The funding jungle

Creating the conditions in which both grants and contracts can thrive is only half the battle; the *terms* on which grant funding is made available must also change.

A survey of charities by the Directory of Social Change,⁹⁹ found that they had markedly less favourable opinion of statutory funders than of grant-giving companies and philanthropic trusts, despite the fact that the state is a much bigger giver. Evidently, it is not so much the size of grant that is at issue, as the way it is given.

In discussing this matter with voluntary groups, a consistent set of concerns emerge:

- Funding periods are too short, creating financial instability

- There are too many funding streams, which change too often, also contributing to financial instability and fundseeking bureaucracy
- Funding streams are heavily and arbitrarily specified, forcing voluntary groups to change their focus in accordance with the whims of grant makers
- There is a lack of smaller-sized grants suited to the needs of the smallest charities and community groups
- Grant making decisions are often made a long way from, and without regard to the wishes of, the communities which are supposedly being helped

A fair deal on funding

The next Conservative Government will set out a fair deal on funding – implementing it with regard to central departments and agencies, and promoting it to other statutory bodies.

Key features of the deal will be as follows:

- Multi-year funding as the norm
- Simplification and stability of funding streams
- Grants to be specified as lightly as possible, with a significant proportion of largely unspecified demand-led funding
- Greater diversity in the size of grants made available
- Localisation of grant funding decisions

Making it happen

Voluntary organisation will be all too aware that many elements of the fair deal on funding have already been promised by government, but not delivered on. It is, of course, difficult for Government to guarantee these commitments when it doesn't monitor progress – especially at a local level.

The Office of the Third Sector's funding portal¹⁰⁰ was intended to clear a path through the thicket; but, as half-acknowledged in the Third Sector Review,¹⁰¹ this woefully under-powered website doesn't even cover all Whitehall departments, let alone all parts of the public sector.

The next Conservative Government will fund and operate a genuine one-stop funding portal for significant government grants:

- Government bodies will be required to register significant grant schemes on the website – allowing grant seekers to search for and link through to available funding in their areas of operation
- The website will collate key statistics on the grant giving performance of each statutory body, enabling government and public alike to monitor compliance with multi-year funding and other quantifiable fair funding principles

The website will also operate in conjunction with a **fund-seeker passport scheme** to cut out the bureaucratic burden of repetitive application procedures.

Box 3: Kent's Member Community Grant scheme

A number of local authorities, including Kent County Council now provide budgets to elected Members to spend in their local areas.

In Kent, each council Member receives £10K, money which can be applied for by any local voluntary group or organization. All KCC stipulates is that applications must demonstrate community benefit and be from a group with a current bank account.

To date, local groups have benefited by over £3m through this no-strings-attached funding process. Audit trails are met through an official sign off process, but the decision remains firmly that of the local Member supporting his or her local community.

Projects which have been supported range from a community group which has been able to fund equipment to establish a local youth club – attracting in new volunteers to help – and outdoor education projects for disaffected young people, through to a voluntary carers group moving to new premises and requiring IT equipment to improve their services and access projects to help disabled people within their communities. Wider beneficiaries include projects at village halls, sports clubs and with local charities.

Kent County Council Leader Paul Carter commented:

“Local Member Community Grants have been a stunning success.

“Members can support local initiatives that we may otherwise not get to hear about, while local groups can access funding which may be denied them from complex national funding streams requiring much bureaucratic form filling.

“It’s also great for Kent County Council to be supporting grass-roots community organizations and projects, helping people in their local communities.”

3.6 Lottery funding

Government responsibility for the crisis in grant funding may be more a matter of neglect than malice, but there is one area in which Ministers have acted with deliberate disregard for civil society: the National Lottery.

The Lottery was founded by the previous Conservative Government on the principle of additionality. Aside from the one-off millennium projects, the money went to four good causes: arts, heritage, sport and communities.

Since Labour took power, the additionality principle has been progressively undermined. The first move was to set up the New Opportunities Fund (NOF), which had the explicit purpose of channelling funds to government projects. The next move was to get rid of the Communities Fund, an independently-minded body dedicated to the support of voluntary

sector grassroots, by merging it with NOF. The result of this reverse takeover was the Big Lottery Fund (BIG), whose name says it all.

Olympic raids

The came the spiralling costs of 2012 Olympics, part funded by repeated raids on the lottery good causes. The first Olympic raid, announced in June 2006, removed £410 million from the Lottery good causes including £213 million from the Big Lottery Fund. The second Olympic raid was announced in March 2007, at a cost of £675 million to the good causes. At the time, the third sector minister Ed Miliband, said the “funding settlement protects both existing programmes and future resources for the voluntary sector.”¹⁰² This is rather disingenuous given that the cost of the second raid to voluntary organisations in the arts, heritage and sports sectors exceeds £100 million.^{103,104}

The Government has now pledged that there will be no more raids on the lottery and that BIG funding for the voluntary sector will be protected. However, BIG has already been forced, as a result of the raids, to “re-profile” (i.e. delay) £120 million of its planned commitments.¹⁰⁵ BIG has also contributed the lion’s share of the £40 million funding package for Legacy Trust UK – a quasi voluntary organisation set up to deliver a large part of the promised Olympic ‘legacy’.¹⁰⁶

On top of all of the above, the good causes continue to lose money as a result of ‘cannibalisation’ of scratch card revenues.¹⁰⁷ Needless to say, it is the grassroots of the voluntary sector that will suffer most. According to a London Assembly study, the loss of lottery funding will be “felt disproportionately by those organisations that rely on smaller grants.”¹⁰⁸

Restoring the lottery

The next Conservative Government will restore the integrity of the National Lottery. All existing commitments will be honoured, but for the future we will:

- Undo New Labour’s manipulations and return the lottery to the original four good causes: arts, sports, heritage and communities
- Protect the share that the voluntary sector gets from the lottery and rigorously enforce the principle of additionality
- Legislate a complete ban on Government raids on lottery resources – passing a law that any future administration would have to repeal if it ever wanted to use the lottery as a piggy bank again

We will **replace BIG with a Voluntary Action Lottery Fund**, whose mission will be to embody the fair deal funding principles set out in section 3.5, above.

- Funds will be devoted in their entirety to voluntary and community organisations; there will be no diversion of funds to public sector projects
- The emphasis will be on lightly specified, demand-led grant funding
- There will be more grants for local charities and community groups

Savings in central bureaucracy will be used to resource genuinely local decision making; instead of serving as a fig leaf, the ‘Fair Share’ approach will become the norm across the fund – and the distribution channels will be made accessible to the other good causes.

3.7 Capacity building

A significant proportion of the support provided by Government to the voluntary sector is provided under the heading of ‘capacity building’. This is the current term for the use of grants and resources to develop the capabilities of recipient organisations, as opposed to directly funding the work they do. Capacity building support is provided both to ‘frontline’ voluntary organisations and also to bodies that provide services to the frontline such as national umbrella bodies and the local Councils for Voluntary Service.

The jargon may be unfamiliar to many, but there is nothing new about capacity building – various kinds of services including training, volunteer placement and administrative support have been provided in various ways for decades. What is new is the degree to which central government has taken a hand in directing the provision of capacity building resources.

In particular, two quangos have been set up with capacity building objectives:

- Futurebuilders – set up to provide mostly loan-based finance for voluntary organisations involved in the delivery of public services
- Capacitybuilders – originally launched in the form of the ChangeUp programme, it has broader remit than Futurebuilders and aims to provide support in the form of national advice services and regional and local grants

A bad start

Both quangos are currently the subject of a value for money investigation by the National Audit Office, to ask “whether government is doing the right things to achieve its objective of increasing the capacity of the third sector”.¹⁰⁹ For reasons undisclosed, the publication of the NAO’s report has been repeatedly delayed.

However, the clear (though discreetly expressed) consensus among voluntary sector experts is that while Futurebuilders has a record as a competent, if cautious, provider of social investment to some social enterprises, ChangeUp and Capacitybuilders are not so well regarded.

The ChangeUp programme has been dogged with problems since its launch in 2004. Initially entrusted to the nine regional Government offices, the failure of that approach led to the creation of Capacitybuilders in 2006 to manage the programme instead. At that time, the so-called ‘Hubs’ – essentially a series of national advice services for the voluntary sector – had only just got off the ground as the national face of the ChangeUp programme. Within months, a damning internal report led to a decision to scrap all six Hubs.^{110,111}

Though the Hubs drew upon the goodwill and expertise of several leading voluntary sector bodies, they never stood a chance thanks to the over-complicated management

structures that the Government forced upon them. The blame for this fiasco lies with the Ministers who ignored warnings from many in the sector that its approach was wrong:

“A large sum of public money put towards building the sector’s capacity and too much wasted in bureaucracy, consultancy and endless meetings... Acevo argued from the start this was a doomed approach.”¹¹²

“We [the Directory of Social Change] said that the voluntary sector was best placed to determine its own needs, not government. We said that the proposed model of forced collaboration would lead to ineffective bureaucratic gridlock and infighting.”¹¹³

We will have to wait for the NAO report to find out how many millions have been wasted as a result of these debacles, but our understanding is that this tale of woe is far from over. Money continues to be distributed through an enormously complex – and, presumably, expensive – set of national, regional and sub-regional decision-making structures, with no guarantee that the services ultimately provided are actually what the frontline recipients actually want or need.

A fresh start

It is important to recognise that this particular history of incompetence does not mean that voluntary organisation can’t benefit from the right kind of investment. However, given that it is taxpayers’ money that has been wasted, reform is vital:

- The distribution of capacity building resources must be simplified, cutting out unnecessary levels of bureaucracy and decision-making apparatus.
- Resources will always be limited and it is better to provide significant support to some organisations (of various sizes), than insignificant support to all or most of them.
- Government must respect the fact that frontline voluntary organisations are best placed to decide what support they need, not politicians or their appointees.
- Wherever possible frontline voluntary organisations should be resourced and empowered to commission the support they need from Councils for Voluntary Service and other providers.
- Whether at a national or local level, the providers of support services must never be put in the position of effectively commissioning services from themselves.

We also recognise that though current capacity building programmes were designed to prepare the voluntary organisations for participation in the delivery of public services, the real capacity constraints lie with the state not the sector. As the Audit Commission concludes:

“Capacity building is unlikely to result in a significant expansion in the voluntary sector’s share of the service delivery market unless local public bodies accompany this with effective commissioning practice.”¹¹⁴

It is a challenge that is addressed in part III of this green paper.

4. Social enterprise

Summary

Principles

A social enterprise is a business trading for a social purpose. Social enterprise as a movement is diverse, encompassing voluntary organisations of all shapes and sizes – charities and non-charities alike. The common thread is its proven ability to earn and innovate its way to success, putting the power of business growth behind the objective of social change. We believe that if government is serious about inviting the voluntary sector to participate in the transformation of our public services, then it must nurture this enterprising potential for growth and replication.

Key facts

- Though definitions and estimates vary, according to the Social Enterprise Coalition there 55,000 social enterprises with turnover of £27 billion
- According to the NCVO, earned income now accounts for 50.3% of the voluntary sector's total income – and when all civil society organisations are taken account the earned proportion is 70.6%
- Social enterprises are more likely than conventional businesses to set up in deprived areas where the need for social entrepreneurship is greatest, with 29% of all social enterprises located in the 20% most deprived areas

Problems

Many social enterprises are being held back by a lack of investment. Government schemes to meet this need have focused on the largest, safest investment prospects – bypassing promising social enterprises at an earlier stage of development where the availability of ‘patient capital’ could make all the difference.

The terms under which government contracts with social enterprises often places them at a disadvantage compared to private sector businesses, both in terms of the micromanagement of the contracts and the rewards available. Social investment requires a social return but also a sound business model, this should not be compromised.

Solutions

In support of social enterprise, we propose to:

- Boost access to social investment by creating a network of Social Enterprise Zones:
 - Use incentives to leverage patient capital for the areas that need it most
 - Adopt the proposal for a Social Investment Bank to wholesale this capital to a variety of community development financial institutions
- We will allow social enterprises delivering public services to earn a competitive return on investment, by sharing substantially in the reward that come from success

4.1 The importance of social enterprise

Politicians of all parties are waking up to the fact that neither the state nor the market has all the answers. Increasingly they are turning to the voluntary sector for the solutions to Britain's social problems – both within the context of public service delivery and beyond it. However, sceptical voices are asking where Britain's charities and other voluntary bodies are going to find the capacity to take on these additional challenges.

One such voice is Professor Anthony Giddens, the architect of New Labour's 'third way'. Criticising Conservative enthusiasm for the voluntary sector, he said:

“The prime emphasis should be that of reforming the state itself, as Labour emphasises, so as to provide greater choice and voice for users. Removing key services from the state is another thing altogether. Does anyone seriously think that education or social services could be provided mainly by local vicars or well-meaning ladies' associations?”¹¹⁵

Giddens' patronising and chauvinistic remarks betray a profound ignorance of the nature and capabilities of the voluntary sector, which has an annual turnover of around £31 billion,¹¹⁶ a paid workforce of half a million people¹¹⁷ and a volunteer workforce encompassing over twenty million people who contribute the equivalent of another £27.5 billion.¹¹⁸ Furthermore, charities, social enterprises and co-operatives are *already* running highly professional public services up and down the country with results which, even using the most conventional criteria, out-perform other sectors.¹¹⁹

The potential of social enterprise

There can be no doubting that the voluntary sector starts from a substantial base. However, if further public service delivery is to be *additional to* and not a *substitute for* its existing activities, then there must be new growth to supply the required capacity.

Moreover, this must be a particular kind of growth, because while the next Conservative Government will do whatever it can to promote growth in volunteering, donations and grants, such resources should only be used for the voluntary sector's own priorities – and certainly not to subsidise the delivery of public services.

In other words, the expansion of the voluntary sector into service delivery can only be sustained by what voluntary providers *earn* from service delivery. That is why social enterprise is of such importance. Social enterprises are businesses, which for the most part generate their own resources rather than relying on resources that are donated, volunteered or granted by others. Unlike conventional business, however, they are driven by social objectives rather than the need to maximize profits for shareholders and owners. Social enterprise therefore has the growth potential of the private sector, but the freedom to generate surpluses for reinvestment in innovative service delivery – and to raise money for the voluntary sector's core activities.

The breadth of social enterprise

According to Government figures there are 55,000 social enterprises in the United Kingdom.¹²⁰ A large proportion of social enterprises in the United Kingdom have

charitable status.¹²¹ Other legal forms for social enterprises include Community Interest Companies, Companies Limited by Guarantee and Industrial and Provident Societies. Social enterprise also overlaps – though not completely – with the mutual or co-operative sector, whose particular potential we examine in section 6.

Social enterprise in the UK operates at a variety of scales and in a variety of locations – including deprived areas. According to a recent Small Business Service survey, social enterprises are more likely to locate in deprived areas than conventional businesses.¹²²

A strategic priority

Social enterprises are well positioned both to deliver services and to develop local economies where the need for both is greatest. Opening up the delivery of public services to these social enterprises should therefore be regarded by government as a strategic priority.

In the previous chapter we set out proposals for radical reform to commissioning structures, in order to increase the number and range of opportunities available to social enterprises. In this chapter we address the other side of the equation: developing the capacity of social enterprises to make the most of these new opportunities.

Box 4: This is social enterprise

Social enterprises are businesses established to tackle a social or environmental need. They encompass a range of organisations including co-operatives and mutuals, development trusts, housing associations, leisure and football supporters' trusts, credit unions and social firms and operate across an incredibly wide range of industries and sectors from health and social care, to renewable energy, recycling and fair trade. The organisations featured below demonstrate how social enterprises are using business to address some of the greatest social and environmental challenges we face.

Social enterprise is changing the face of forestry. On the border of Lincolnshire and Nottinghamshire sits the ancient woodland Hill Holt Wood, where an entrepreneurial approach to forestry management has created a thriving and sustainable business with many social and environmental benefits. Hill Holt Wood Ltd provides training schemes for excluded and unemployed young people and young offenders who learn skills in eco-construction, the manufacture of wooden furniture and the installation of water purification systems. It also plays host to education opportunities for school children, provides amenities for local people and holds the countryside services contract for the District Council. It is also a successful business with a turnover of over £500,000 generating a surplus of £100,000, to be re-invested in the business and its committed staff of 20.

Women Like Us is an award-winning social enterprise established in 2004 by two working mums who realised that while employers are struggling to find part-time staff, many women are struggling to find flexible employment. They decided to develop a service that links the two, establishing a unique 'schools gates' network which offers women a range of practical services including career coaching and skills workshops. Core to their success has been their commitment to support women with children to return to flexible employment that fits around their family

life, while providing a highly professional, efficient and sustainable service. This combination has had enormous impact and already reached over 35,000 women from a diverse range of backgrounds.

Sunlight Development Trust, in Gillingham, Kent, is a true community anchor as well as a successful business. Their main asset, the Sunlight Centre, is a community and enterprise hub which houses a diverse range of thriving social enterprises including a cafe, a community radio station, a recording studio and a learning centre for parents. Such enterprises not only provide training and employment opportunities to those who need it most, but the profit generated is reinvested into community services such as youth activities and mental health services. Sunlight DT recently won a major Medway Council competitive tender (£750,000) to supply civic and staff catering services.

Source: Social Enterprise Coalition

4.2 Social investment

With fair funding for service delivery, social enterprise is as capable of growing as any other kind of enterprise. However, any growing sector needs access to investment capital and the market in this area is underdeveloped.

The point is made by a variety of social enterprise and investment experts, such as those contributing to the work of the Commission for Unclaimed Assets:

“The third sector is fragmented, under-capitalised and, in aggregate, unable to invest in sustainable growth and development. Funding is chronically insecure and often focused on current projects rather than investment in organisational capacity or infrastructure.”¹²³

A survey carried out for the Bank of England found that, out of a sample of 200 social enterprises, nearly a third identified difficulties in obtaining external finance as the greatest barrier to expanding trading – only 7% of conventional enterprises said the same.¹²⁴

Gaps in the market

This problem is one of demand as well as supply, in that providers of social investment report a shortage of ‘investment-ready’ social enterprises – as indicated by the Commission on Unclaimed Assets:

“Some parts of the market lack demand rather than supply. Some of the more commercially minded senior debt providers do not have sufficient demand for their capital.”¹²⁵

The Commission goes on to say that the market is willing to supply low-risk, short-term finance, but not the ‘patient capital’ that social enterprises need:

“Organisations need different types of capital at different stages of their development but many cannot currently access appropriate finance. During our

interviews with social investment intermediaries, equity or equity-like instruments were almost universally cited as missing from the marketplace.”¹²⁶

The Government’s Futurebuilders agency was created in order to fill some of the gaps in the social investment market, but in practice it has erred on the side of caution – as admitted by its outgoing chief executive, Richard Gutch:

“I was keen that the fund should invest in a wide range of organisations, but I sense that it is not going to be possible in phase two because of the targets that the Cabinet Office has set to steer it more towards investment-ready organisations.”¹²⁷

Developing the market

One half of the solution to the social investment shortage is to reform the commissioning of public services from the voluntary sector. The unreliability and unfairness of current commissioning practice undermines the social enterprise business model, closing off its access to, and suitability for, investment. By ensuring the fairness and reliability of contracts (see sections 5.2 to 5.4) a larger number of readily fundable investment opportunities will be created.

That said, we are acutely aware that, in investment terms, some social enterprises will always look riskier than others – because of the challenging areas in which they operate. As the Association of Charitable Foundations makes clear, this is holding back social enterprise where it is most needed:

“The third sector is chronically undercapitalised and this is particularly true of small community-based organisations which are working at grass-roots level in marginalised communities – whether geographically or interest-based – and which are greatly in need of sustained and sustainable funding.”¹²⁸

Government efforts to develop the market for social investment should therefore prioritise these areas of greatest need.

4.3 Social Enterprise Zones

Early investment – even on a modest scale – can make all the difference to the prospects of a social enterprise:

“The need for such finance was often greatest at the point where a social enterprise was starting up or attempting to expand... Asked what the biggest hurdle in setting up his own social enterprise was, one entrepreneur told us: ‘The £5000 it cost in lawyers’ fees and accountants. In the end someone paid for that out of his own pocket. Without that, there would have been no enterprise.’”¹²⁹

The tragedy is that for want of such sums, hard-pressed communities don’t get the social enterprises they need and deserve. That is why, following the recommendations of the task force set up David Cameron at the outset of his leadership, the next Conservative Government will introduce a system of Social Enterprise Zones.

Under the proposals put forward by the task force, which we are now considering in detail, the Treasury would make a financial contribution in the form of a tax relief on qualifying investments made in social enterprises within each Zone. This would be modelled on the venture capital reliefs, which successfully promoted economic development in the 1980s and 1990s, and which, suitably adapted, could do the same for the social economy in the 21st century.

The tax relief model has the advantage of multiplying the Government's initial contribution: directly, by attracting patient capital from other investors; and, indirectly, by putting newly capitalised social enterprises in a better position to attract shorter-term funding from more conventional sources.

The Social Investment Bank

We believe that this level of investment would have a major impact on the communities where it is focused. However, *quantity* of finance needs to be matched by *quality* of decision-making.

The task force report proposes the formation of a “central bank” for the Social Enterprise Zones, which “would operate in partnership with existing social enterprise and community lending institutions” to manage and promote the tax relief scheme and “help social enterprises to find other sources of finance, including grant money, effectively streamlining the multifarious and confusing sources of finance available to the sector into a single conduit.”¹³⁰

The Commission on Unclaimed Assets – an independent body led by experts from the investment community and the voluntary sector – has made a similar proposal for a Social Investment Bank:

“The Social Investment Bank should be small, adaptable, innovative, and able to take risks. It should bring together the best of the financial and social sectors. It should act as a “wholesaler of capital” working through existing and new financial intermediaries, assisting their development and encouraging their growth.”¹³¹

The Conservative Party is convinced by the Commission's arguments, and will create a new Social Investment Bank. We will also heed the Commission's call that the bank should be “independent of government, able to respond to the long-term needs and aspirations of the sector and those they serve, rather than to short-term political considerations.”¹³²

4.4 The re-investment principle

Like any form of investment, social investment requires a return. Some of it may be in the form of a social return – the justification for the ‘patient’ terms under which a lot of social investment is provided. However, the balance must be repaid in good old fashioned cash. Without this there can be no recycling of capital, on which the long-term sustainability of social investment funds like Futurebuilders and the proposed Social Investment Bank depends.

It is therefore essential that social enterprises should be able to make a surplus on the services they provide. In the context of public service delivery, this makes some people nervous. Value-for-money objectives imply that the only way that a new provider can make a surplus is to provide services at a lower cost than the state – prompting fears of corner-cutting. Of course, one can generate added value by cutting waste rather than corners, but surely social enterprise needs to do something more than a cold efficiency in fulfilling minimum contractual requirements?

The good news is that efficiency need not be cold; savings can arise out of the application of focus, expertise, enthusiasm and commitment. A prime example is the RNID's enormously successful work with the NHS to make digital hearing aids available to millions of people, reducing the purchase price from £2,000 to just £75.¹³³

Sometimes the value added by social enterprises goes beyond meeting a need with efficiency and care – by actually solving the problem at the root of that need. This allows all sorts of costs to be avoided without reducing provision. An excellent example is Tomorrow's People, a charity which works with long-term unemployed people to get them back to stable employment – and has been noticeably more successful than Government programmes, thus not only achieving the social objective of helping vulnerable people find work, but generating a stream of direct savings for the public purse in terms of benefit costs avoided and new tax revenues generated.¹³⁴

In Part III of this green paper, we set out detailed proposals for the implementation of the reinvestment principle – the idea that where innovative service providers enable the state to directly avoid costs by solving social problems, they should share in the financial returns. Not only would this provide a general incentive for innovation in service delivery, but in the specific case of social enterprise it would help stimulate new markets for social investment and contribute to the recycling of patient capital.

Social innovation audits

Though there are various mechanisms for identifying poor performance and waste in the delivery of public services, there is no systematic attempt to identify and investigate innovation in provision that rises well above minimum standards. This represents a wasted opportunity to raise awareness of and promote social enterprise.

We will introduce a system of **social innovation audits** to highlight solutions, not just problems:

- The identification of what the voluntary sector does better than the public sector will be made an integral part of the auditing of government performance
- Working in conjunction with charity evaluation experts from the voluntary sector, we will ask the National Audit Office and the Audit Commission to investigate the most promising and replicable examples of innovative service provision by social enterprises

5. Public service delivery

Summary

Principles

We believe that participation in the delivery of public services is both the greatest opportunity and the greatest threat facing the voluntary sector today. We are convinced that charities and social enterprises can make a huge difference to the effectiveness and humanity with which public services are delivered, but recognise the harm that a controlling and exploitative relationship with an overbearing state could do – and in many cases *is* already doing. Our aim to create a win-win situation for the voluntary sector, widening the choices available for genuine partnership and enabling voluntary organisations to thrive whether they choose to get involved or not.

Key facts

- 62% of all public funding for the voluntary sector is in the form of payment for service delivered under contract – a proportion that is set on an upward trend
- Only 12% of charities surveyed by Charity Commission said that contract payments always covered the full cost of the public services they provided

Problems

Unreasonably short funding periods, centralised commissioning systems and onerous monitoring requirements are all holding back the potential of charities and social enterprises to provide more efficient, more personal services to the public. Far too many voluntary organisations are either losing money on contracts with the public sector – or merely breaking even. Trying to base negotiations on an in-depth examination of costs is a deeply flawed system that private contractors would never tolerate. This is only the start of the damage that bad contracts are doing to the voluntary sector.

Solutions

In support of public service delivery by voluntary organisation, we propose to:

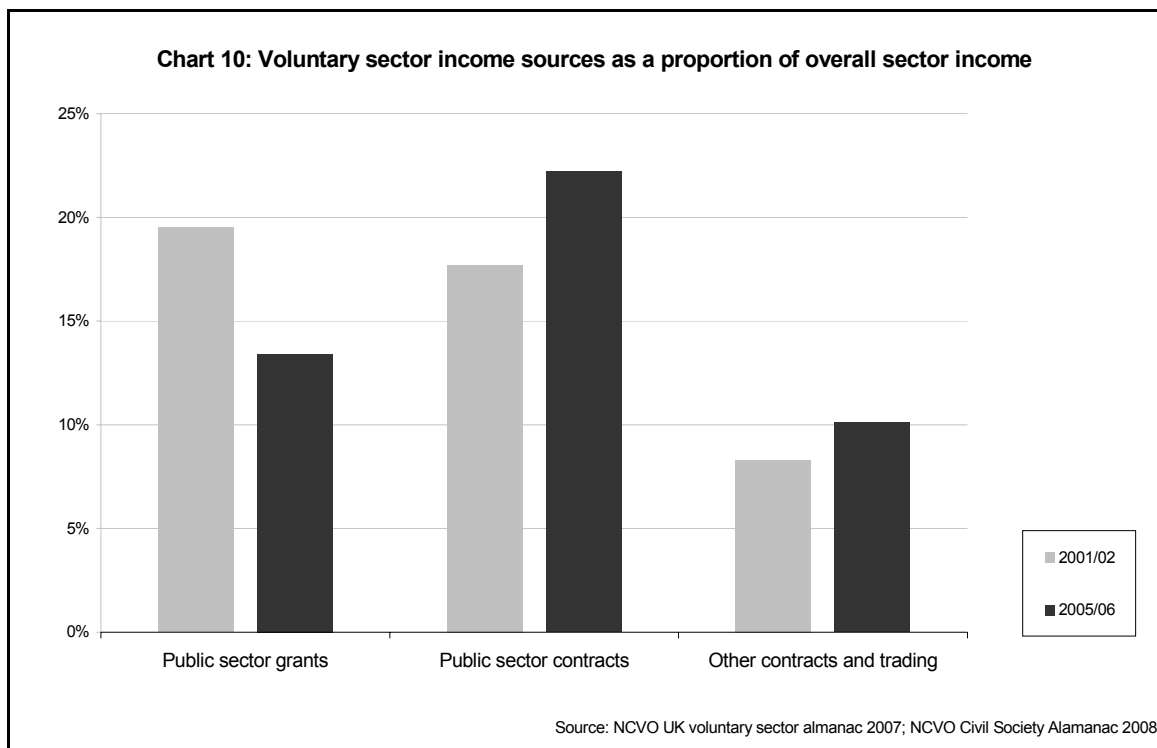
- First do no harm: we will value and protect the voluntary sector we've already got – one that sets own priorities, raises its own resources and works for social change beyond the limits of the state
- Undertake a systematic reform of commissioning structures to modernise full cost recovery:
 - Allow voluntary organisations delivering public services to earn a competitive return on investment by sharing substantially in the rewards that come from success
- Introduce a fair deal on contracts to remove artificial barriers to smaller charities and social enterprises, implementing multiyear contract terms and other examples of best practice
- Cut out commissioning bureaucracy:
 - Replace the intensive monitoring and micromanagement of process-based contracts with the hands-off accountability of outcome-based contracts
 - Develop a light-touch 'trustmarking' system to streamline the tendering process and cut out repetitive due diligence procedures

5.1 The importance of the public service delivery agenda

One of the most striking developments of the last decade has been the increasing use of the voluntary sector by the Government to deliver public services previously provided directly by government employees.

In 2003/04 the state, for the first time in history, gave more money to the voluntary sector than did individuals.¹³⁵ And within public funding, income from contracts has outstripped grants.¹³⁶ Figures from the latest NCVO almanac show that contract income now accounts for 62% of voluntary sector income from state sources.¹³⁷

Chart 10 illustrates the rise in the share of state funding, and within it, reliance on contract rather than grant income.¹³⁸



It is a change that many commentators fear will change irrevocably the character of the voluntary sector. Reports from the Directory of Social Change,¹³⁹ the Baring Foundation,¹⁴⁰ the Northern Ireland Council for Voluntary Action¹⁴¹ and the Charity Commission itself¹⁴² have reflected unease that the influx of public sector income – principally through contracts – has not been an unalloyed advantage.

The Charity Commission’s report is important because it is the official regulator of the sector. Based on a survey of 3,800 charities it found that 43% of charities delivering public services *always* had to subsidise the provision of those services using their own funds. The Commission’s Chairman, Dame Suzi Leather, said:

“can we really sustain the belief that this can be in the best interests of charities, beneficiaries, or the sector as a whole?”¹⁴³

Responding to the findings on the sector's independence, Stuart Etherington, chief executive of the National Council of Voluntary Organisations, described the situation as a "complete disaster" and said that he would "rather see voluntary sector organisations close than lose the reason they exist in pursuit of funding which takes away their independence."¹⁴⁴

First do no harm

It is worth remembering that these fears for the sector's independence, identity and financial stability have been stoked by a level of public funding to the sector amounting to just 2% of all public expenditure. Before that proportion increases substantially – as it would have to if the sector is to take an appreciably bigger role in public service delivery – we need to pause and take stock.

Much hinges on whether this process makes the public sector more like the voluntary sector, or the voluntary sector more like the public sector.

An equally important consideration is what happens to that part of the voluntary sector that isn't included in this process – but may well be affected by it.

The Conservative Party strongly believes that the involvement of charities, social enterprises and other voluntary organisations has a vital role to play in the transformation of our public services for the better. However, our over-riding concern is to **value and protect the voluntary sector we've already got**. 'First do no harm' should be the starting point for any reform process.

Opening up public services to voluntary sector involvement is certainly part of what needs to be done, but it is not enough. The risk that participation will damage the sector's independence and financial stability must be removed.

Reform agenda

We believe that the voluntary sector and social enterprise is capable of playing an even greater part in solving the problems of civil society in the future than it does at present. What needs to change is not the sector but government, as we describe in this chapter.

We will not see the full effects of the approach we set out overnight. Ours is an agenda for the long term, and the direction of our policy is to be pursued over many years. It will take time to build up the capacity of voluntary organisations to take on – if they want to – the delivery of significantly more services currently delivered by the state.

And it is imperative that there is reform in the way government conducts its relationship with the voluntary sector if the opportunity to carry out this work is to be effective. It would be a disaster to repeat Labour's experience of funding the NHS: welcome and necessary increases in resources were squandered by injecting them into an unreformed system.

Box 5: How much more can the voluntary sector do?

We believe that charities and social enterprises should have more opportunities to play a bigger role in achieving the collective goals of our society.

But the question immediately arises: is the voluntary sector capable of doing much more than it does now? Specifically, how can voluntary organisations, which are often small-scale and locally-focussed, contribute the scale of activity required to address the problems affecting the whole of Britain?

This chapter sets out the ways in which we believe government must change to make this possible. Too often, the voluntary sector is held back not because it is not capable of doing more, but because of the obstacles government – wittingly or unwittingly – puts in its place. Whether it is short-term contracts that preclude proper investment being made, or an overcautious – and often prejudiced – attitude to risk in dealing with the voluntary sector, our aim is not to reform the voluntary sector, but to reform the way government approaches the sector.

There are two insights, however, above all others that can unlock much more of the potential of the sector.

Growth through replication

One of the reasons why many charities and social enterprises can make a big impact on people's lives is because they embody a bottom-up, rather than top-down way of working. Rather than implementing a centrally-set agenda, voluntary organisations are true social entrepreneurs: perceiving opportunities for social action and innovating new and creative solutions to problems.

Yet too often when the Government has spoken of partnership with the voluntary sector, it has regarded itself as the senior partner – setting the agenda and directing the relationship. In this relationship, the constraint question – of how much contribution the voluntary sector can make – becomes one about scale: i.e. do voluntary organisations have the capacity to turn themselves into monolithic bureaucracies for the implementation of government programmes in the manner of government departments?

Our approach is very different. We want to reverse the way that voluntary organisations and social enterprises are commissioned by government. Rather than be contracted to deliver standard government services in a uniform way, we will transform commissioning so that it is based on outcomes. That way, organisations will choose, and be empowered, to do things in their own way and, indeed, in a whole range of different ways. The key constraint question, therefore, becomes not always one of scale – the natural corollary of standardisation – but often one of replicability.

Commissioning for outcomes, rather than processes, will move away from scale as the prime constraint on the capacity of the voluntary sector. It allows voluntary organisations and social enterprises to participate in delivering collective outcomes without needing to change themselves or to aggregate into bigger bodies. They can continue to operate in the way that they have innovated.

We will reinforce this move away from uniformity and its requirement for scale by devolving commissioning decisions to the lowest possible level – creating more possibilities for smaller, local groups to participate. In our green paper on criminal

justice for example, we have said that each prison governor will be able to commission services locally, rather than be required to follow the monolithic approach taken by NOMS, which excludes many smaller voluntary bodies.

These reforms will create, in effect, a right for smaller, local voluntary bodies and social enterprises, to supply the public sector which often today excludes their participation.

Growth through fair rewards

The second answer to the question of how we can ensure that voluntary organisations and social enterprises can make a bigger contribution to delivering public services is so obvious that it is astonishing that its absence is one of the sector's continuing constraints: it is allowing a fair rate of return to be earned.

In the private sector, a successful local enterprise is both incentivised and enabled to expand because success brings financial rewards.

To take a concrete example: when Starbucks discovered that it had developed a successful model of a coffee shop, it was inevitable that its cafes would be replicated quickly across the country. It was inevitable, not because of any state central planning, but because it would make a profit from each successful new outlet. The return on its investment is both a spur to expansion and helps finance the costs of that expansion.

By contrast, the doctrine of 'full cost recovery' means that voluntary organisations count themselves lucky if they have their costs reimbursed for running a successful project. More often than not they will fail even to achieve that. The notion of making a reasonable return on their investment if the project succeeds is an unattainable goal under most public sector commissioners' contracts.

This is profoundly restrictive of the capacity of the voluntary sector to take up the opportunities that should be available to it. By contrast to the Starbucks example, a voluntary project that succeeds spectacularly in Brixton will be unlikely quickly to be replicated in Tower Hamlets, still less Birmingham and Bristol, because the lack of an expected return – a profit, albeit reinvested in good causes – means that there is neither the incentive nor the means to finance the costs and the risk of rapid replication.

In the next section we set out how we intend to modernise the now limiting doctrine of full cost recovery to ensure that the voluntary sector is treated no less favourably than the private sector when it comes to contracts. Specifically, we believe that a successful project should earn a competitive return on investment. More than anything else, this approach can unlock the potential of the sector to innovate and replicate successful projects rapidly across the country.

5.2 Paying a fair price for public services

Whenever the Government contracts with voluntary organisations to provide services, one of the key questions that arises is: what should they be paid?

Such a question would be almost irrelevant when it comes to the state contracting with commercial organisations: no company would take on a contract for a price below which

it expected, at least in the long run, to be able to make a competitive return on the resources it deployed.

Yet, historically, in the voluntary sector there has been no such expectation. Indeed it was often assumed that one of the advantages of contracting with the voluntary sector was that charities could be expected to perform the work more cheaply than other potential suppliers. This assumption was based on a number of reasons, including:

- Not-for-profit organisations did not need to generate a surplus to distribute to shareholders
- They could use their own charitable funds to subsidise the service
- They could rely on unpaid volunteers to contribute to the delivery of some of the services

However attractive it may appear for the public sector commissioners to try to reduce the cost of delivering public services in this way, it is an approach that profoundly limits the opportunities for voluntary action, for a number of reasons:

- If contracts to deliver public services are typically subsidised from charitable funds, then the volume of work voluntary bodies can carry out is constrained by the finite (and, as we have seen, stagnant) supply of voluntary funds
- If voluntary organisations do not cover the costs of their activities on behalf of the state, still less earn enough to compensate for the risk they take on in every contract, then there is an inherent limit on their ability to expand their provision
- Donors may feel reluctant to contribute to charities if they feel that their donations are simply subsidising taxpayers in general who would otherwise have to pay more for public services; already, one in every five donors to charity say they are less likely to donate to charities that provide public services

We reject the idea that charities or other voluntary organisations which are commissioned to provide public services should be expected to subsidise the taxpayer.

To deal with this widespread assumption that the voluntary sector could be used to subsidise the cost of providing public services, the Compact and the Treasury Review of 2002 contained a commitment that voluntary organisations, whenever they supplied services to the state, should be paid the full cost of services provided.

But the principle of full cost recovery has been more honoured in the breach than in the observance. According to the Charity Commission, only 12% of charities delivering public services have their full costs paid by public sector commissioners all the time.¹⁴⁵ As reported by the *Charity Finance* website, the Charity Finance Directors' Group Finance Count 2008 survey has found that "charities are falling increasingly behind in achieving full cost recovery on public service delivery... the worst-performing quarter of respondents are making a loss of 8.8 per cent or more in their income on public service delivery activities, compared with a 3.3 per cent loss last year."¹⁴⁶

All this is despite a 2002 promise by the Government to ensure full cost recovery:

“By April 2006... all departments will incorporate the review’s funding recommendations fully into their procurement policies by ensuring that the price for contracts reflects the full cost of the service, including the legitimate portion of overhead costs.”¹⁴⁷

When the National Audit Office reported on progress, the verdict was unequivocal:

“No department had undertaken any systematic review of funding which could demonstrate the systematic consideration or implementation of full cost recovery, or the identification of areas where practice might need to be revised. This has made practical demonstration of meeting the April 2006 target particularly difficult.”¹⁴⁸

The Charity Commission is clear that income from charitable donations should not routinely be used to subsidise the delivery of public services. The Commission’s Chairman has said:

“We have been quite clear that charities should still generally expect an authority to fund fully the cost of delivering a service it has a legal duty to provide.”¹⁴⁹

Yet there is an increasing recognition that the very principle of full cost recovery may be less of an opportunity for voluntary organisations than a limitation on them. No commercial organisation would take on a contract if the very best they could achieve at the end of it was to have their actual costs reimbursed – and not a penny more. At the very least they would insist on being able to generate a return proportionate to the inevitable risks involved in taking on a contract to deliver services, and they would look to make a return which could be invested productively.

Why should voluntary organisations be subject to an inferior standard to that enjoyed by commercial companies when it comes to contracting with government?

The current doctrine of full cost recovery is damaging to the sector in a number of ways:

- It fails to acknowledge the fact that contracts contain an element of risk for the charity or social enterprise that undertakes them
- It requires the intrusion and impertinence of purchasers of services inspecting its books and operations to be able to assess the costs it incurs, in order to reimburse them; typical commercial suppliers would not tolerate the bureaucracy and interference that requires
- It may be the single greatest factor that limits the scalability of the sector. In the commercial world, a firm that provides a service that is a success in one place has a powerful incentive quickly to replicate that service elsewhere; the return being generated helps finance expansion and the prospect of returns by replicating the service provides an impetus to expand

If even the most phenomenally successful service provided by a voluntary group in one part of Britain, which saves the taxpayer significant amounts of money, is constrained to have only its costs paid by the purchaser of its services, it has little or no incentive, and still less means quickly to replicate its work in as many places as could benefit from it.

For these reasons, we believe that it is time to modernise the principle of full-cost recovery and put charities and social enterprises on a level playing field with commercial suppliers. We would amend the Compact to make it clear that the norm should be that when public services are commissioned from the voluntary sector, they will be paid in line with commercial practice. This means that there should be no right for government bodies to inspect the detailed costs of a voluntary organisation any more than it has the right to inspect the internal management accounts of a commercial supplier. It is for the trustees of a charity – not the purchaser of its services – to satisfy themselves that the organisation is being run with internal efficiency.

The process through which the public sector commissioner selects the best voluntary sector or private sector contractor – should be on the basis of price and outcomes. Just as with a commercial partner, trustees should expect to secure a fair rate of return on the investment of resources and exposure to risk that they take on. And the rate of return demanded by trustees should, as in the case of private sector firms, reflect not only the running risks but also the longevity of the contracts.

By opening up more public services to the opportunity of being supplied by private sector and voluntary groups, we will allow these suppliers to share substantially in the rewards that come from success. For example, welfare-to-work services which succeed in getting the long-term unemployed into sustained work will be entitled to returns linked directly to the savings they make for an agreed period.

Through these reforms to the way that charities, social enterprises and voluntary groups are paid for the services they deliver on behalf of the state, we intend to ensure that the voluntary sector is seen as an effective way of delivering public services, rather than as a way of delivering them on the cheap. This is the only way we can maximise, rather than limit, the contribution charities can make to transforming Britain.

5.3 Longer-term contracts

One of the reasons why voluntary organisations are often reluctant or unable to take on contracts with central or local government is the fact that too often the only contracts on offer cover the short-term only.

Short-term contracts leave providers in a vulnerable position – especially in periods of tight fiscal policy when commissioners can cut their funding as a first resort. Martin Narey of the children’s charity Barnardo’s spells out the consequences:

“12-month contracts, with renewal often not assured until a few days before expiry, could not be designed more surely to thwart the success of the voluntary sector. I consider it a disgrace that, once again this New Year, some of my staff do not know whether they will have jobs in April. Because we do not yet know whether contracts are going to be renewed, we will now have to start redundancy processes.”¹⁵⁰

David Freud echoes the point:

“The length of the contracts – at a typical two years with an option to extend for a further year – is far too short to set up the systems and recoup the investment necessary ... this is also a barrier to new entrants to the market.”¹⁵¹

A Conservative Government will recognise that allocating funds to the voluntary sector through short-term contracts constrains its ability to pursue lasting solutions.

We will establish three years as the minimum period for contracts unless the particular circumstances of a commission demand that it should be less. This commitment will be monitored and enforced through a revamped Compact.

5.4 Outcome based contracts

One of the key differences between the approach of a Conservative Government and the current Labour government is that we will invite the voluntary organisations to participate in service delivery without requiring them to ape the way these services are carried out in government.

The main means by which this is achieved is the process-based contract, which not only specifies what the voluntary provider is expected to deliver, but how they are to deliver it – with all the intensive compliance and monitoring bureaucracy that entails:

Even departments of government are recognising that the command-and-control model is wrong as a means of approaching the voluntary sector. The Department for Work and Pensions said last year:

“Contracting structures too often specify process rather than outcome, which limits the value that private and voluntary sector providers can add... the monitoring process looks more at compliance than performance.”¹⁵²

According to the National Audit Office public funders are “frequently ‘over-customising’ administrative requirements which made little or no difference to the service delivered, but imposed unnecessary administrative burdens, the charities said.”¹⁵³ The Audit Commission found that some smaller service providers were “either withdrawing or considering withdrawing from funding arrangements with their council because they felt the monitoring requirements were too onerous.”¹⁵⁴ It isn’t just smaller groups that find the burden excessive, major charities like the Red Cross also say there is a problem:

“Contending with administrative and monitoring criteria that vary from one funding body to another can be extremely time-consuming, and the time invested can significantly raise costs.”¹⁵⁵

Imposing unnecessary costs is bad enough, but the biggest threat is the voluntary sector’s freedom to innovate. As the Audit Commission notes:

“A recent academic study by Stephen Osborne suggests that the voluntary sector’s innovative capacity has fallen in the past decade as a direct result of government emphasis on service delivery in its programme funding.”¹⁵⁶

Under a Conservative Government, **commissioning systems will be designed around the use of outcome-based contracts** as the default contracting arrangement. Process-based contracts would only be used in exceptional circumstances.

5.5 Contract size

The Government's tendency to centralise commissioning means that contracts increase in size, thus imposing unsustainable cashflow and capacity requirements on all but the very largest providers.

A prime example was the Department of Work and Pension's Pathways to Work scheme which aggregated community-centred contracts to help long-term unemployed people into 'sub-regional' contracts. *Third Sector* magazine describes the result:

“The DWP produced a set of decisions that reduced the voluntary sector's share of the work in the districts concerned from 44 per cent under the predecessor scheme – the New Deal for Disabled People – to 13 per cent under Pathways to Work. Given the earlier rhetoric, no wonder the sector was angry and disappointed.”¹⁵⁷

Stephen Bubb, the chief executive of Acevo and a noted champion of voluntary sector involvement in public service delivery, said that the sector had been “comprehensively stuffed.”¹⁵⁸

Our commitment to replace micromanaged, process-based contracts with streamlined, outcome-based contracts, combined with our commitment on localised commissioning, will allow **the efficient design of smaller contracts in commissioning systems.**

5.6 Minimising the bureaucracy of contracting

One of the justified complaints of voluntary organisations and social enterprises who contract with the public sector is that different commissioners insist on different contracts for what are essentially the same services. So, for example, a voluntary provider of residential care facilities to the social services departments of several neighbouring councils will find themselves wading through the paperwork of different contracts for each commissioner.

In its report on the public funding of large charities, the National Audit Office found that this was holding back the voluntary sector:

“Our findings demonstrate the baroque complexity of current funding arrangements, and show the damage caused by many public bodies employing different funding processes in their dealings with a single charity. We hope that they will provoke action by government, to deal with the concern that current funding structures severely limit charities' potential involvement in public services.”¹⁵⁹

And it's not just the contracts themselves that vary. Each commissioner will typically perform its own due diligence scrutiny of the provider before entering into a contract. Despite the fact that the commissioners all need to know the same information – is there a track record of delivery, is the organisation financially robust, does it have excellent systems in place for caring for its service users.

A decisive move towards outcomes-based contracts would eliminate a great deal of the monitoring bureaucracy associated with intensive processes-based management of contracts.

But there is still the matter of the repetitive, duplicated paperwork associated with contract tendering and due diligence.

To reduce this burden we will draw up model contracts that public sector commissioners will be expected to use, unless there are genuine reasons why a wholly new contract is required. We will include use of model contracts in a revised Compact between the Government and the voluntary sector.

In addition, we will work with the voluntary sector and social enterprise bodies to **develop a trust marking system**, whereby the due diligence that commissioners undertake on organisations can be streamlined. Service providers would be able to benefit from a single, trusted assessment of their organisation without the need for repeated inquiry. We would also expect to include such a trust marking system in a new Compact.

5.6 Risk aversion

The changes we have set out above will transform the way in which government approaches the voluntary sector and social enterprises in the delivery of public services.

But an important cultural task remains. There is still a strong sense within the public sector – at both national and local level – that doing things differently is risky. Especially if, as we propose, voluntary organisations and private sector partners should be allowed to receive public money without it being tightly specified *how* they will be required to act. We also detect that there is a particular wariness about trusting the voluntary sector to deliver – and that the level of bureaucracy and monitoring of voluntary organisations exceeds that required of commercial contractors.

Our public services fail everyday – fail to prevent crime, worklessness, family breakdown and myriad other social ills. However, individual decision-makers – whether at a political or administrative level – rarely get in trouble for this as long as the failure is part of a familiar pattern of social decline for which no one can be held specifically responsible. However, should anyone fail in a new and interesting way – for instance, by taking a risk on an innovative voluntary sector provider – then specific blame can be attached to individuals and sacrificial victims offered to the media (and to those with a vested interest in blocking innovation of any sort).

Even within the statutory sector there is awareness of the paralysing affect that this culture has on innovation:

“As Voice08 delegates heard from Mandy Wearne, the director of provider and market development at North-west strategic health authority, primary care trusts have a long way to go when it comes to engaging with social enterprise providers. Risk avoidance was endemic, she said, and there was no sense of curiosity as to what social enterprise might be able to offer the NHS. As Wearne bluntly put it intelligent commissioning just doesn’t happen.”¹⁶⁰

In part, our structural changes should reduce the degree of risk aversion that can make it into contracts. If contracts specify outcomes rather than processes the grip must relax a little.

But it also requires cultural change – in particular an acceptance that, with a greater diversity of practice and approach, and less micromanagement, sometimes things will be wrong. That is an inevitable consequence of a more flexible approach. When that happens, politicians must be grown up enough not to point the finger of blame but to accept that honest misjudgements are sometimes made.

Cultural change of this sort cannot be achieved through legislation, but through behaviour. Conservative Ministers will make clear to Parliament that risk is the price that must be paid for innovation. This will be reinforced with official, on-the-record guidance.

We will also ensure that when it pays off, risk is well rewarded. Wherever commissioning bodies make a lasting impact on social problems by opening up to innovative solutions, they will share in the success of the savings they make.

6. Co-operatives

Summary

Principles

We believe that co-operatives provide an important and exciting model for community empowerment and public service reform. Because co-operatives are both independent and democratic, they allow a community of individuals to exercise their rights and responsibilities without the intervention of the state. The voluntary sector could therefore gain a role that went beyond the delivery of services commissioned by statutory bodies – community groups being empowered to make their own decisions by taking co-operative ownership of public assets, institutions and revenue streams.

Key facts

- Co-operatives are major part of Britain's civil society with a turnover of £26 billion, a workforce of 200,000 and a combined membership of 11 million
- The modern co-operative tradition has its origins in 19th century Britain, but is now a worldwide movement with 800 million members and providing 100 million jobs
- British co-operatives already play a prominent role in provision of some public services such as social housing and financial inclusion, while overseas co-operatives elsewhere in the world demonstrate that other public services such as education and healthcare can also be provided co-operatively

Problems

Genuinely public institutions and the service they provide need democratic accountability and ownership. However, while this in theory is provided through elected central and local government – in practice a lot of the important decisions are made by bureaucracies that are remote from the people they serve.

Co-operatives could provide a new and more tangible of giving communities ownership over the services they depend on. However, this potential remains unexplored and unfulfilled under a government that is only barely willing to allow the voluntary sector a delivery role in regard to public services, and wouldn't even contemplate decentralisation of commissioning and ownership.

The sale of public land and buildings is reducing the opportunity to transfer community assets to co-operative and other voluntary groups.

Solutions

In support of co-operatives, we propose to:

- Promote co-operatives and mutualisation as a way of transferring public assets and revenue streams to the voluntary sector:
 - Agree and implement a Co-operative Action Plan – empowering and enabling co-ops to play a much bigger role in running and owning community assets and services
 - Allow parents to form co-operatives to start-up new government funded schools for the local community
- Change the rules on the management of publicly-owned assets so that statutory bodies are required to take into account and maximise their social value not just their financial value

6.1 The importance of co-operatives

A co-operative or ‘mutual’ is an organisation owned by its members for the benefit of its members. They can take a number of different legal forms, but most are now incorporated under the Industrial and Provident Societies Act and are registered with the Financial Services Authority. Together Britain’s co-operatives have an income of over £26 billion, employ around 200,000 people and have a combined membership of 11 million.¹⁶¹

Co-operatives are run by a board of directors – made up of member-elected representatives and other directors appointed by the board for their professional qualifications. Qualification for membership of a mutual varies from organisation to organisation. Some have customer-based memberships like the Co-operative Wholesale Society, others staff-based memberships like the John Lewis Partnership. But the key thing is that, unlike most charities or social enterprises, co-operative are democratic institutions.

6.2 The reforming potential of co-operatives

Historically, the co-operative movement stood against the worst excesses of 19th century capitalism, helping ordinary people gain access to goods and services at a fair price and a decent standard of quality. To this day, co-operatives still help to empower consumers and producers, meeting needs unmet by conventional commerce – many farmers’ markets being a good example.

However, the most exciting opportunities for the co-operative sector may be in the reform of the public services – because, 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.

A genuine third way

In 2006, the commentator and broadcaster Jonathan Freedland wrote about New Labour’s reform agenda:

“The Blair government had sought to restore the public realm, investing serious money in schools, hospitals and the like. But the current evidence is that it’s not working... One senior Downing Street official says the breakthrough moment came a while back. ‘We thought, ‘the returns on this money are really awful.’ We realised the system had reached capacity for being commanded by us.’ Now he acknowledges, the next stage of politics will have to be a fundamental refashioning of the state itself.”¹⁶²

So why did the reforming agenda get stuck? Freedland blames the “stale discussion of public v private that marks almost any current discussion of public services,” concluding that “one of Blair’s great errors [was] to allow reform to become synonymous with privatisation.”¹⁶³

Ironically, the self-styled party of the third way failed to spot that there was a third way between state ownership and privatisation: mutualisation. When co-operatives take over public assets and institutions, the public doesn't lose control. Rather their rights – and responsibilities – can be legally embodied and exercised through the democratic membership structure of the co-operative, rather than through national or local government.

A positive answer

Far from diluting the democratic aspect of our public service institutions, mutualisation can enhance it – removing power from distant state bureaucracies only tenuously subject to the control of MPs or councillors and giving power directly to the natural community of individuals who depend and belong to the institution in question.

As David Cameron put it in a speech to the Young Foundation:

“Co-ops offer a really positive answer to one of the great questions of public service reform – how to inject dynamism and consumer focus without losing public ethos and accountability? Co-ops can do this because they are independent but democratic public bodies.”¹⁶⁴

The democracy factor has always placed limits on the involvement of the voluntary organisations in our public services – restricting them to the delivery side of the equation, keeping them out of commissioning. However, by transferring public assets and revenue streams directly to co-operative ownership and management, we could create a network of democratic, but non-statutory, commissioners with the independent ability to provide services to the community – either by themselves or in partnership with other providers. This wouldn't just provide new opportunities for co-operatives, but for the whole voluntary sector.

6.3 From vision to reality

Co-operatives, such as housing associations and credit unions, are already providing essential services to the public.¹⁶⁵ Even in areas where British co-operatives don't yet have a significant presence, their counterparts in other countries certainly do – successfully running schools and healthcare services.

For all the reasons described above, we would like to see co-operatives in the UK take a bigger role in our public services. As part of our commitment to reform commissioning principles and practice, we will work with the sector to develop a co-operative action plan for identifying, piloting and expanding opportunities for mutual ownership of community assets and revenue streams.

What we definitely won't be doing is setting up a quango to direct this process. Rather, in keeping with principles of the co-operative movement, we will open up capacity building and social investment programmes (see Part II) to provide support for the sharing of skills and expertise between co-operatives at various stages of development.

Co-operative schools

David Cameron has already made a specific commitment on co-operative schools:

“We talk a lot about parental involvement in education. We know that if parents have a say in how their school is run, if they feel that their view matters and their wishes count, the school is always better.

What better way, then, to give parents direct involvement in their school than to give them ownership of it? To make them not just stakeholders, but shareholders – not of a profit-making company but of a co-operative built around the needs of local children?

Down the road from here, Reddish Vale City Technology College is consulting on whether it can establish itself as a co-operative using recent legislation on Trust schools. The Co-op Bank is involved in supporting one of the new Manchester Academies. I welcome these initiatives and I want to see more of them across Britain.

In other countries co-operative education is central to the system. Over 100 schools in Sweden are co-ops. Over 600 schools in Spain.

So I want to explore how we can create a new generation of co-operative schools in Britain – funded by the taxpayer but owned by parents and the local community.”¹⁶⁶

Community assets

There is growing interest around the transfer of community buildings and land to voluntary sector management and ownership. The issue was the subject of the Government-commissioned Quirk Review,¹⁶⁷ and funding has been made available from the lottery and other sources to support the transfer of assets to community groups. We welcome these initiatives and will take the agenda forward in Government – looking, in particular, to maximise opportunities for co-operative ownership.

However, it is important that we also recognise the bigger picture on community assets. Various changes to the delivery of public services, combined with the long property boom of recent years, has resulted in the closure of once thriving local institutions, such as cottage hospitals, village schools and police stations, and the disposal of the associated land and buildings. All too often it is not the local community that benefits from the proceeds, but remote public sector bureaucracies.

The umbrella body, Community Matters, reports a related problem:

“A survey conducted within our community organisation membership last year suggests that although the majority still benefit from low or peppercorn rents, there is a growing trend toward councils levying market rents or a proportion of market rents.”¹⁶⁸

In some cases grants are given to cover the increased cost, but, as Community Matters notes, “the link between the grant and the rent can quickly be lost, with the latter gradually increasing and the former being vulnerable to cuts.”¹⁶⁹ The giving of grants so

that community groups can pay the money back to the state in rent further calls into question the true value of public sector grants to the voluntary sector (see section 3.4).

At the root of the problem, both in respect to asset disposal and the rent issue, are the financial rules to which statutory bodies are subject. The imperative to maximise short-term financial returns is driving decisions that don't always make sense in the long-term either for the health of the community or for the taxpayer who has to pick up the bills of social failure.

David Cameron set out a new approach in a recent speech to the Council for the Protection of Rural England:

“The attitude that has done so much damage is the belief that the only thing that matters when it comes to policy and administration is economic value – that social value doesn't matter.

So for the last decade or so, in the name of modernisation, rationalisation and efficiency we have been living under a regime of government by management consultant and policy by PowerPoint.

The result has not been a contented, streamlined nation humming with efficiency and gleaming with modernity.

The result has been an explosion of bureaucracy, cost and irritation endless upheavals and pointless reorganisations the elbowing aside of colourful, human, informal relationships based on common sense and trust in favour of the grey, mechanical, joyless mantras of the master planner with his calculations, projections and impact assessments.

The real world effect of all this? Post Office closures, library closures, police station closures, the closure of small shops, small schools and now GP surgeries under threat. All this because we live under a regime that prizes bureaucratic neatness above all else.”¹⁷⁰

A Conservative Government would review the rules on public sector asset management, looking for ways of allowing – indeed requiring – statutory bodies to take into account the social, as well as the financial, value of community assets. We believe that is only on this level that the fundamental dynamics can be changed for the better:

“This new approach is part of a bigger picture. The next Conservative Government will attempt to develop a measure or series of measures of social value that will inform our policy-making when in power. When making decisions, ministers will take account not just of economic efficiency but also social efficiency.

Some people may question if this is possible. I say to them that it has been possible to develop new measures of the impact of public policy within the environmental sphere, which were previously not included in public policy making, and I see no reason why it should not be the case within the social sphere.”¹⁷¹

7. Changing government

Summary

Principles

We believe that the priority for public policy on the voluntary sector is to adapt the state to working with and supporting voluntary organisations, not the other way round. The role of those parts of government with direct responsibility for this agenda is not to coordinate the voluntary sector, but to coordinate all the other parts of the state whose active commitment is required to make real the Government's promises. In this, the executive must be held to account by strong, independent voices able to speak not solely for the sector, but for civil society as a whole.

Key facts

- The Compact – which is the main agreement on the relationship between the voluntary sector and the state – has been in operation for ten years
- The Compact has no legal status and, among charities, confidence in its implementation is low – a survey for Acevo found that 96% of charity chief executives said that enforcement powers were required
- Some of those worst breaches of the Compact have been made by those Government departments and agencies which were supposedly responsible for improving the relationship with the voluntary sector
- Last year, both the Compact Commissioner and his chief executive resigned, as have the chief executives of two other bodies charged with the implementation of the Government's voluntary sector policy – Futurebuilders and Capacitybuilders – all in the space of twelve months

Problems

Responsibility for voluntary sector issues has moved through a variety of government departments – with Ministerial activity focusing on the creation of multiple quangos designed to distribute (often inefficiently) limited amounts of money to voluntary groups willing to implement centrally determined ideas about what the voluntary sector should be like.

Comparatively little effort has been put into persuading government as a whole to honour the Compact – which has allowed statutory bodies at both the national and local levels to breach it with impunity.

There has been little Parliamentary scrutiny of Government's treatment of the voluntary sector, with very few Parliamentary debates and no dedicated select committee.

Solutions

To change government, we propose to:

- Create a powerful Office for Civil Society at the heart of government to fight for the interests of charities, social enterprises, co-operatives and community groups
- Upgrade and enforce the Compact on relations between government and the voluntary sector
- Ensure proper democratic scrutiny of government policy towards the voluntary sector – led by a new civil society select committee

7.1 The importance of changing government

Since 1997, Labour has pursued a policy agenda that is all about changing the way the voluntary sector works rather than the way government works.

When Ministers talk about ‘capacity building’ they always mean the capacity of voluntary organisations to fit in with government’s way of doing things, not the other way round. This ignores the fact that most of the obstacles to progress come from government not the voluntary sector.

Ministers would argue that government isn’t a problem that needs sorting out. But if that were true then they wouldn’t be so desperate for the help of the voluntary sector. This does not mean that charities and social enterprises that choose to provide services paid for with public funds don’t need to grow and adapt. But the experience is that they do just that in their own way if given half a chance. A burgeoning culture of social entrepreneurship is already taking the opportunities available to it. These innovators are directing their own process of change. There are things that government can do to support this process. But it cannot and must not control it.

Under a Conservative Government, the policy focus will be on changing the state, not on changing the voluntary sector.

7.2 Making change happen

After a promising start, the Office of the Third Sector has proved disappointing in its influence. With very little clout with those department and agencies that really do matter to the voluntary sector, its real function is as a distributor of funding and a setter-up of quangos – all founded on the presumption that a small group of Whitehall bureaucrats is best placed to shape the future development of Britain’s charities and social enterprises.

Even within these limited ambitions, the Government’s agenda is becoming badly unstuck. In the space of a year, the chief executives of three key delivery agencies – the Commission for the Compact, Futurebuilders and Capacitybuilders – have either resigned or been forced out.

An Office for Civil Society

A Conservative Government will establish an Office for Civil Society (OCS) with enhanced powers and responsibilities.

It will be headed by a civil society minister who will have lead responsibility for developing a transformation plan.

In order to strengthen the capacity of the OCS in crucial period leading up to the launch of the transformation plan, senior staff will be seconded from relevant departments across Whitehall – who will then return to guide the implementation of those parts of the plan for which their departments are responsible.

The core role of the OCS will be strengthened by transferring and unifying responsibilities for civil society issues from across Whitehall.

Transforming the impact of government policy on the voluntary sector may require legislative changes – but could equally be undermined by legislation that is drafted without regard to the interests of civil society.

One of the key functions of the OCS will be to ensure a timely and coherent consideration of the needs of the sector across the whole of the Government’s legislative programme. In particular the OCS will be responsible for ensuring that in all bills, opportunities for increasing the involvement of civil society are taken – particularly those concerned with the reform of the various public services.

7.3 Enforcing the Compact

If proof were needed of the weakness of government policy and of the Office of the Third Sector in particular, then one need look no further than the Compact.

This agreement between the voluntary sector and the various branches of government is supposed to guarantee fair play on issues such as full cost recovery and operational independence. However, as is almost universally acknowledged across the sector, the Compact is great in theory and toothless in practice.

“Many people in the voluntary sector are very strong supporters of the Compact, but this is a 1997 document that has not been moved forward in any real tangible way. I’m afraid to say there is a real problem with the level of cynicism among charity chief executives about the compact and how effective it can be. The number of charities that simply don’t bother to use it is growing.”¹⁷²

The Compact is supposedly a guarantor of the promises made by the Government to the sector – particularly those made in the 2002 Treasury Review, which include commitments on full cost recovery and multi-year funding.¹⁷³ However, as reported by the National Audit Office, these promises have not been kept.¹⁷⁴

The Compact is a voluntary agreement. As such it stands in stark contrast to the contract-based controls to which the voluntary sector has been increasingly subject. Various public sector bodies, including Whitehall departments, can thus breach the Compact with impunity.

For instance, when the Women’s Resource Centre complained that money for voluntary sector rape crisis services in the Home Office’s victims fund was being diverted to statutory agencies with no prior consultation, the response was “something along the lines of ‘what are you going to do about it?’ Without statutory backing, [the Compact] is simply ignored by funders... it’s tremendously disempowering.”¹⁷⁵

We were even told of one case where, in the course of meeting with a voluntary sector ‘partner’, the representative of a major public sector body literally tore up a copy of the Compact as a graphic demonstration of its legal status.

Recent innovations like the Commission for the Compact have no powers of enforcement and in the course of 2007 both the original Compact Commissioner and his Chief Executive resigned.

It is significant that even the NCVO, the sector's leading advocate of the Compact approach, now appears to question its current effectiveness:

“...we need to seriously consider how we can strengthen the Compact. Is it time to consider the possibility of giving the Commissioner formal legal powers to make adjudication stick? Or to identify appropriate sanctions for those that don't comply?”¹⁷⁶

The next Conservative Government will look to strengthen the Compact, working with the voluntary sector to do so. In particular, we want to strengthen the right of voluntary organisations to be treated on the same terms as the private sector, with the same right to earn a competitive return on their investment. A strengthened Compact will, in addition, reflect the various other commitments set out in this green paper, including longer contract terms; commissioning on the basis of outcomes rather than intrusive control of process; and the use of contracts instead grants only where justified.

We will also enforce the strengthened Compact. There is no point having an agreement if it is not respected. On reported breaches, we will abide by the decision of the Compact Commissioner and consult the sector on whether further measures should be taken to entrench the Compact.

A Compact gold standard

It is clearly best for all concerned that breaches do not occur in the first place. Various preventative approaches have been described earlier in this green paper – for instance the use of model grant agreements and model contracts for the commissioning of services.

We are committed to rolling out these preventative measures across central government, but an equal commitment to decentralisation means that we cannot order local authorities to do likewise.

In partnership with local government and the voluntary sector we will develop a Compact Gold Standard: a package of practical measures – such as model contracts – aimed at designing Compact compliance into the everyday workings of the public sector.

It will be up to individual local authorities to decide whether or not to adopt the Gold Standard; however a Conservative Government would certainly recommend it. Furthermore, we will lead by example, implementing the Standard across all central departments and agencies.

Of course, where prevention fails and Compact breaches occur, the same enforcement regime will apply across the entire public sector.

As a final measure we will ensure that official audits of local authority performance take compliance with the Compact fully into account.

Faith-based charities

The Social Justice Policy Group reports continuing discrimination against faith-based voluntary organisations.

A Conservative Government would sponsor the development of a new Compact code of practice on faith-based voluntary organisations.

Again, a preventative approach is best – something we hope to promote through the use of client-centred commissioning of public service and the creation of bottom-up funding streams.

7.4 Democratic scrutiny

Parliamentary oversight of government policy toward the voluntary sector is deeply inadequate, with the Ministers having to be shamed into holding a Commons debate on their own Third Sector Review.

There are no formal reporting requirements on Ministers in respect of the voluntary sector and no select committee that regularly and expertly addresses the relevant issues.

As a result Ministers can go months, if not years, without facing detailed scrutiny of their policies and actions.

The Office of Civil Society will be required to report annually to Parliament on its own performance, compliance with the Compact across all departments and agencies, levels of funding to the voluntary sector and other key developments. There will be a full debate on the report in both Houses of Parliament.

In addition, we will **establish a joint civil society select committee**, with powers to summon the Minister for Civil Society, other Ministers, council leaders and senior officials from across the public sector.

Both the Compact Commission and the Charity Commission will be made directly accountable to Parliament through the select committee.

Top twenty policy pledges

Part I:

1. Simplify the Gift Aid system to reduce the bureaucratic burden on charities
2. Work with charities to sponsor a debate on whether it is possible to establish a new social norm around charitable giving
3. Direct support for volunteering through grassroots volunteering organisations not government quangos
4. Prioritise development work in ‘charity deserts’ to establish new volunteer-led organisations where none previously existed
5. Support efforts to establish regular volunteering as a social norm – leading by example by giving central government employees an annual entitlement to at least eight hours volunteering
6. Reduce the burden of regulation on volunteers – improving the system for CRB checks and clearing up the confusion over benefit rules

Part II:

7. Replace the Big Lottery Fund with a Voluntary Action Lottery Fund dedicated in its entirety to the voluntary and community sector – returning the National Lottery to its original four good causes
8. Respect the difference between grants and contracts – using contracts, rather than grants, only where there is a clear justification
9. Operate a genuine one-stop funding portal for significant government grants
10. Set up a funding passport scheme so that voluntary organisations can bypass repetitive grant application and contract tendering bureaucracy
11. Draw up model grant and contract agreements to minimise the bureaucracy facing voluntary organisations in seeking funds
12. Create a network of Social Enterprise Zones to provide incentives for social investment in deprived communities
13. Set up a Social Investment Bank as a wholesaler of ‘patient capital’ to a wide range of social investment institutions

Part III:

14. Allow voluntary organisations delivering public services to earn a competitive return on investment by sharing substantially in the rewards that come from success.
15. Offer multi-year funding terms on contracts and grant agreements

16. Remove the interference and bureaucracy of state funding by agreeing on goals and outcomes, not dictating methods of delivery
17. Agree and implement a Co-operative Action Plan – empowering and enabling co-ops to play a much bigger role in running and owning community assets and services
18. Create a powerful Office for Civil Society at the heart of government to fight for the interests of charities, social enterprises, co-operatives and community groups
19. Ensure proper democratic scrutiny of government policy towards the voluntary sector – led by a new civil society select committee
20. Enforce an improved version of the Compact on relations between government and the voluntary sector.

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