



House of Commons  
Committee of Public Accounts

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# **Working with the voluntary sector**

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**Thirty-second Report of  
Session 2005–06**





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Session 2005–06**

*Report, together with formal minutes,  
oral and written evidence*

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## The Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine “the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit” (Standing Order No 148).

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The following was also a Member of the committee during the period of the enquiry:

Diana R Johnson MP (*Labour, Hull North*)

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Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

### Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

### Committee staff

The current staff of the Committee is Nick Wright (Clerk), Christine Randall (Committee Assistant), Emma Sawyer (Committee Assistant), Ronnie Jefferson (Secretary), and Luke Robinson (Media Officer).

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## Summary

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In recent years government has increased the role which voluntary sector organisations (VSOs) play in public service delivery. The voluntary sector comprises a range of organisations, including local community and voluntary organisations and others at regional, national or international level, working as charities, social enterprises or co-operatives. VSOs may be best placed to deliver a service, particularly where the target group is difficult to reach or distrustful of state agencies. The sector is a prominent provider in some areas of public services, but accounts for only around 0.5% of central government expenditure. The Home Office estimated that central government funding of VSOs, excluding housing associations, in the United Kingdom was £2.03 billion in the financial year 2001–02, the most recent year for which data are available. Additionally, funding of £1.87 billion came from local authorities, £904 million from the National Health Service and £274 million from the European Union.

The Treasury and the Active Communities Unit of the Home Office play leading roles in disseminating good practice and reviewing departmental progress against the Home Office's target to increase the sector's involvement in public services by 5% by 2006. Where good practice exists, it has tended to be as a result of individual initiative rather than a well thought through or cohesive strategy. There is, however, a lack of expertise, experience and understanding of the sector across government departments with the result that departments can fail to capitalise on opportunities to enhance public service delivery through use of the sector.

Departments have also been slow to move away from long established funding mechanisms, such as annual grants even where there is an ongoing intention to continue to run programmes for the foreseeable future. This approach results in expensive annual bidding exercises, which divert VSO and departmental resources away from frontline work. It also creates uncertainty for the VSO, impacting adversely on their ability to retain experienced staff.

Delays in notifying funding awards are another recurrent theme, as is a reluctance on the part of funders to provide funds in advance of expenditure, making it difficult for smaller charities in particular to start up services. Some VSOs have borne a disproportionate share of the risk and cost of service delivery, as funders have been unwilling to contribute to VSO overheads even though private sector suppliers would be recompensed for overheads when quoting a price for a service.

On the basis of a Report from the Comptroller and Auditor General,<sup>1</sup> the Committee examined the progress made by central government to improve the way it works with VSOs and the steps being taken by HM Treasury and the Home Office to build funders' capacity to work effectively with VSOs.

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1 C&AG's Report, *Working with the Third Sector* (HC 75, Session 2005–06)

## Conclusions and recommendations

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- 1. Funding to the voluntary sector represents less than 1% of central government expenditure.** Only limited progress has been made in increasing the sector's involvement in delivering government programmes, although it is often well placed to deliver public services to hard to reach groups in particular.
- 2. Voluntary sector organisations are often subject to greater scrutiny and monitoring processes than private sector providers.** Funding may be received late, and contracts are often subject to annual renewal. The sustainability of the sector in delivering public services is dependent on departments applying fair funding practices.
- 3. The Home Office's Public Service Agreement target to achieve a 5% increase in the volume of public services provided through the sector by 2006 is likely to be met but represents only a limited challenge.** The Home Office and the Treasury should set a revised target beyond 2006 which provides a real incentive to departments to increase their engagement with the sector. The Home Office should agree supporting targets with individual departments, and timescales for implementation.
- 4. Little hard data exists on how funding is distributed between voluntary sector organisations of different sizes, by region or demographically.** The Home Office should establish a proper monitoring and reporting framework with departments to collect such data. It should then evaluate such data to ascertain, for example, that new organisations are not deterred from entering the market, and that the poorest communities are not disadvantaged by the way funding is distributed, programmes constructed or targeted, or by the absence of active VSOs in some communities.
- 5. Issuing guidance to departments has had limited success to date.** The Treasury and the Home Office should put more emphasis on practical support and incentives to enhance skills across departments in dealing with the voluntary sector. In particular, the Treasury, the Home Office and Office of Government Commerce should establish a centre of expertise in voluntary sector funding to make available expert advice to funders across departments, and in particular to support funders who may be too small to build their own professional capacity.
- 6. Application and monitoring procedures can be unnecessarily burdensome for voluntary sector organisations.** The Treasury and the Home Office should work with departments to promote the concept of a lead funder and, in particular, to consolidate funding streams. Such an approach would also generate administrative efficiencies across government.
- 7. Annual arrangements for funding services delivered by voluntary sector organisations are inefficient for departments and increase risks and uncertainty for voluntary sector organisations, which are likely to be reflected in a higher price for the services provided.** The Treasury should make clear to departments that longer term funding arrangements are acceptable where value for money can be

demonstrated, for example by contracting over a three year term where there is an intention to provide a service for longer than a year.

- 8. Voluntary sector organisations often receive funding late from departments, requiring them to use their other resources to finance services initially, which presents particular difficulties for smaller organisations.** Contract renewals are often not formalised until after the renewal date, diverting resources from the front line to negotiations with departmental officials and creating uncertainty of employment for those delivering the service. Departments should maintain contract registers to prompt timely renegotiation of contracts where renewal is appropriate. Timing of payments should be agreed as part of the contractual arrangements and such commitments should be met.
- 9. Monitoring, control and audit of the voluntary sector can be more rigorous than that applied to private sector suppliers.** For example, more detailed data on costs may be sought. The sector should expect to account for public monies received, but monitoring should be proportionate to the level of funding provided as excessive procedures undermine value for money.
- 10. The Home Office has a lead role in promoting good practice in engaging with the voluntary sector and yet some 72% of its own funding contracts are for less than one year.** The Home Office should undertake a review of its own engagement with the sector across the whole department and implement its own and the Treasury's good practice procedures.



# 1 Engaging with the voluntary sector

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1. Whitehall lacks expertise in working with the voluntary sector, limiting the role which the voluntary sector can play in delivering public services. Progress has been made in developing a better and more professional relationship but there has been only a fragmented approach to developing the capacity of departmental staffs to work with the sector. The Home Office saw a need to move from a situation where the voluntary sector was often brought in at short notice to meet an urgent requirement, to a situation where longer term plans to engage the voluntary sector in the delivery of public services were made at the outset.<sup>2</sup>

2. In its evidence, the Home Office agreed that the voluntary sector could undertake some activities more effectively than the public or the private sector. The pressure for efficiency and effectiveness in performance management should encourage the use of the voluntary sector where the sector provided best value for money. Civil servants might be unsure how to engage with the voluntary sector but similar difficulties existed within the sector itself, with staff who were not always best placed to sell services to government. Incentives for engaging with the voluntary sector were unclear, and the Home Office was working with the National School of Government and the Office of Government Commerce to develop training courses to enhance skills and understanding. Recent “Compact Plus” proposals by the Home Office would introduce a Compact Commissioner who should have powers to accredit or disaccredit departments which did not follow Compact<sup>3</sup> principles.<sup>4</sup>

3. The Home Office has a target to increase the role of the sector in public services by 5% by 2006. It agreed that this target was not a very demanding or exacting one. Central government spending with the sector was about £2.75 billion in the past year, which although a significant sum for the voluntary sector, was only some 0.6% of central government spending. There was a need for a more meaningful and stretching target. After 2006, a new target was likely to signal further upward movement in spending with the sector, but the Home Office would be consulting within government and the sector before recommending any new target. The Home Office had not set a quantified target for its own spending with the voluntary sector but instead had looked to identify key areas where the voluntary sector could take a larger role.<sup>5</sup>

4. Spending with the sector was on an upward trend but had fluctuated significantly over the years (**Figure 1**). Expenditure had peaked in the 1990s but had then fallen back quite sharply. It was rising slowly now. The Home Office was aiming to improve the quality of data on total spending, the type of funding and where it was going. The Home Office had established a State of the Sector Panel of 4,500 voluntary organisations and was asking

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2 Qq 5, 29, 45

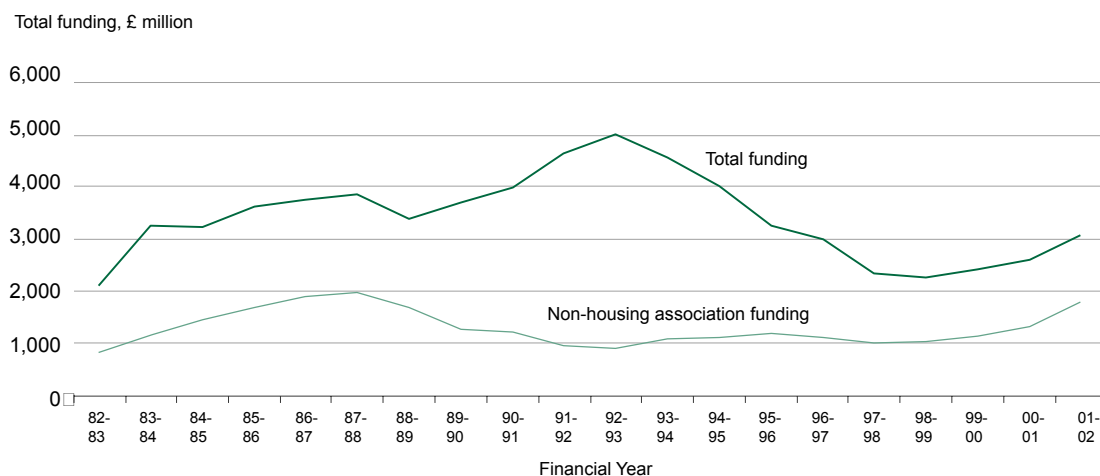
3 An understanding between government and the voluntary sector on how they should work together, agreed in 1998.

4 Qq 11, 13

5 Qq 16, 18, 32–40, 59–60

them at regular intervals about their experience of doing business with government, about funding and about relationships.<sup>6</sup>

**Figure 1: Central government funding has increased in recent years**



Source: Home Office 'Central Government funding of voluntary and community organisations, 1982-83 to 2001-02'

#### Notes

The peak in funding in 1987-88 is mainly due to measures to regenerate inner cities and combat high unemployment, such as the Manpower Services Commission's £564 million funding of the Community Programme in 1987-88.

The chart is based on estimates at constant (2000) prices.

5. The Department agreed that it might have been easier for large charities to move ahead more quickly in service provision than smaller ones. To address this issue, funds were being made available through FutureBuilders<sup>7</sup> to build the capacity of voluntary sector organisations to deliver public services. The proportion of funds going to smaller organisations and to multi-ethnic minority organisations was monitored. The bureaucracy surrounding applications for funding and the monitoring of expenditure and activity imposed subsequently might also deter new entrants. The Home Office believed, however, that there was good growth amongst new organisations. The FutureBuilders Fund provided assistance to organisations to work up new ideas for service delivery to promote to government.<sup>8</sup>

6. Citizens in some areas may suffer because there are not enough charities bidding for funds on their behalf. The voluntary sector may favour middle class communities over the poorest and ethnic communities. The Home Office agreed that one of the hardest challenges was engaging voluntary organisations within poorer areas but it was trying to increase the level of volunteering from those areas in response. The Department's data on voluntary sector funding by geographic area and on a demographic basis was limited. It was often easiest to find volunteers in better off areas, and so it was important that

6 Qq 46-47, 51-52

7 A government investment fund established in 2004, which uses mostly loan finance to increase the role that the voluntary sector plays in public service delivery.

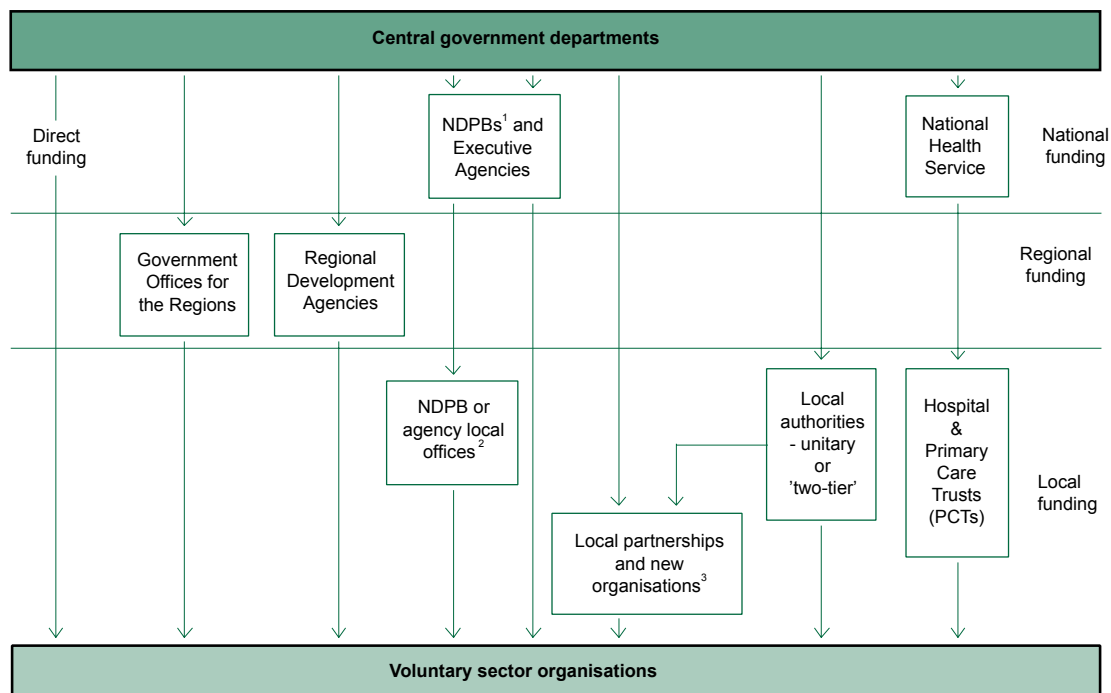
8 Qq 50, 107

departments considered whether the spread of funding within programmes needed to be adjusted to better reflect need.<sup>9</sup>

## 2 Funding appropriately

7. Funding flows from central and local government to the voluntary sector (sometimes called the third sector) are complex. (Figure 2) This situation partly reflects the engagement of the sector in almost every aspect of government business. Funding from a variety of central government bodies to the same voluntary sector body was often made for similar or related activities. Regional offices needed to draw together government funding to create a single coherent funding stream to the frontline voluntary organisation.<sup>10</sup>

Figure 2: Funding flows from central and local government to the voluntary sector



Source: National Audit Office

### Notes

A variety of central and local government bodies provide TSOs with funding.

1 Non-Departmental Public Bodies, e.g. the Legal Services Commission.

2 e.g. the 47 local offices of the Learning and Skills Council.

3 e.g. LSPs - Local Strategic Partnerships; CDRPs - Crime and Disorder Reduction Partnerships.

8. A variety of funding mechanisms exist including grants and contracts. Guidance issued following the Treasury's cross cutting review of 2002<sup>11</sup> advised funders to meet an appropriate share of an organisation's overhead costs commensurate with the service, known as the "full cost recovery" principle. This principle was important if voluntary sector organisations were to remain sustainable and deliver services effectively, as it enabled core costs as well as the marginal costs of a service to be recovered.<sup>12</sup>

10 Q 10

11 *The role of the voluntary and community sector in service delivery: a cross cutting review*, HM Treasury 2002

12 Q 17

9. There has, however, been slow progress amongst departments to implement the full cost recovery principle. The Home Office was working with departments and the sector to spread greater understanding of effective funding mechanisms. The Compact was being re-launched in a more understandable form, and the Treasury's and Office of Government Commerce's guidance would be re-issued. Calculating a legitimate proportion of overhead costs was not always straightforward for the organisation or a department.<sup>13</sup>

10. As part of Compact Plus, the Home Office was encouraging departments and voluntary sector organisations to look at whether a contract was more appropriate than a grant. Where a contract was to be awarded, the voluntary sector organisation determined at what level to bid in the procurement competition, and the level of scrutiny and monitoring subsequently should be similar to that applied to private sector providers of services.<sup>14</sup>

11. A further challenge for voluntary sector organisations is the short term focus of many funding arrangements, with funding often subject to annual renewal. The Home Office considered that this situation partly reflected the relatively recent move to three year spending deals for departments which were still being rolled out more widely. Local authority settlements were only just moving to two year deals, for example. Government contracts with the private sector through, for example, the private finance initiative, are however often for ten or twenty years. The Home Office considered that long term contracts often related to situations where large capital investment was required, and that generally this was not the case where the voluntary sector provided services. Medium term contracts, of say three years, were likely to provide better value for money than one year contracts by enabling better resource planning, and saving administrative time in seeking and approving funding. The shorter the contract, the more risky it was for the voluntary sector organisation and hence the "price" paid would reflect that greater risk. Despite acknowledging these issues, the Home Office itself has some 72% of its funding contracts for a year or less, one of the worst cases in Whitehall.<sup>15</sup>

12. Payment before spending as opposed to in advance of need is another principle not well understood in Whitehall. The principle was accepted in the 2002 Treasury review and clarified in guidance issued in 2003 and yet it is still not being applied widely. A National Audit Office survey had highlighted that few organisations had seen any noticeable change in practice in the area of payment in advance of spending. Organisations often raised the concern that funding was received late, and after staff had been put in place. Uncertainty also existed when contracts were up for renewal. It was important to reach a decision about contract renewal before a contract ended but this was often not the case, resulting in interim arrangements which could impact adversely on the morale and motivation of staff employed by the voluntary sector organisation whose continuing engagement was linked to ongoing funding.<sup>16</sup>

13. Application forms are often lengthy and disproportionate to the amount of funding applied for, especially for small charities. The Home Office agreed that application forms

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13 Qq 20–23, 25

14 Q 24

15 Qq 30, 45–46, 69–73, 108

16 Qq 26, 41, 110

could be simplified, and other measures were also being taken, including having a lead funder or a two stage process involving a one page application and the provision of more detailed information only when the organisation was seen as a real candidate for funding.<sup>17</sup>

14. Only five of 13 departments surveyed by the National Audit Office had established policies and guidance to enable funders to determine the most appropriate funding mechanisms. There was no definitive source of guidance to which funders could refer. The Treasury was updating guidance, including developing a decision support tool. The Home Office agreed that there was scope to set up framework agreements and partnership funding, but in some parts of government the voluntary sector had not been seen as a serious delivery partner in the same way that the private sector had been. The Home Office expected arrangements for contracting with the voluntary sector to catch up with those for the private sector as the voluntary sector started to deliver more through contracts rather than grants.<sup>18</sup>

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17 Q 58

18 Qq 64–68

# Formal minutes

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**Wednesday 15 February 2006**

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon  
Greg Clark

Mr Austin Mitchell  
Mr Alan Williams

A draft Report (Working with the voluntary sector), proposed by the Chairman, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 14 read and agreed to.

Introduction read and agreed to.

*Resolved*, That the Report be the Thirty-second Report of the Committee to the House.

*Ordered*, That the Chairman make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned until Monday 27 February at 4.30 pm.]

## Witnesses

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**Wednesday 23 November 2005**

*Page*

**Sir John Gieve KCB, Ms Helen Edwards**, Home Office, **and Ms Anita Charlesworth**, HM Treasury

Ev 1

## List of written evidence

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Volunteer Reading Help

Ev 21

## List of Reports from the Committee of Public Accounts Session 2005–06

First Report	Managing National Lottery Distribution Fund balances	HC 408 ( <i>Cm 6712</i> )
Second Report	The regeneration of the Millennium Dome and associated land	HC 409 ( <i>Cm 6689</i> )
Third Report	Ministry of Defence: Major Projects Report 2004	HC 410 ( <i>Cm 6712</i> )
Fourth Report	Fraud and error in benefit expenditure	HC 411 ( <i>Cm 6728</i> )
Fifth Report	Inland Revenue: Tax Credits and deleted tax cases	HC 412 ( <i>Cm 6689</i> )
Sixth Report	Department of Trade and Industry: Renewable energy	HC 413 ( <i>Cm 6689</i> )
Seventh Report	The use of operating theatres in the Northern Ireland Health and Personal Social Services	HC 414 ( <i>Cm 6699</i> )
Eighth Report	Navan Centre	HC 415 ( <i>Cm 6699</i> )
Ninth Report	Foot and Mouth Disease: applying the lessons	HC 563 ( <i>Cm 6728</i> )
Tenth Report	Jobskills	HC 564 ( <i>Cm 6724</i> )
Eleventh Report	Local Management of Schools	HC 565 ( <i>Cm 6724</i> )
Twelfth Report	Helping those in financial hardship: the running of the Social Fund	HC 601 ( <i>Cm 6728</i> )
Thirteenth Report	The Office of the Deputy Prime Minister: Tackling homelessness	HC 653 ( <i>Cm 6743</i> )
Fourteenth Report	Energywatch and Postwatch	HC 654 ( <i>Cm 6743</i> )
Fifteenth Report	HM Customs and Excise Standard Report 2003–04	HC 695 ( <i>Cm 6743</i> )
Sixteenth Report	Home Office: Reducing vehicle crime	HC 696 ( <i>Cm 6743</i> )
Seventeenth Report	Achieving value for money in the delivery of public services	HC 742 ( <i>Cm 6743</i> )
First Special Report	The BBC's investment in Freeview: The response of the BBC Governors to the Committee's Third Report of Session 2004–05	HC 750
Eighteenth Report	Department for Education and Skills: Improving school attendance in England	HC 789
Nineteenth Report	Department of Health: Tackling cancer: improving the patient journey	HC 790
Twentieth Report	The NHS Cancer Plan: a progress report	HC 791
Twenty-first Report	Skills for Life: Improving adult literacy and numeracy	HC 792
Twenty-second Report	Maintaining and improving Britain's railway stations	HC 535
Twenty-third Report	Filing of income tax self assessment returns	HC 681
Twenty-fourth Report	The BBC's White City 2 development	HC 652
Twenty-fifth Report	Securing strategic leadership in the learning and skills sector	HC 602
Twenty-sixth Report	Assessing and reporting military readiness	HC 667
Twenty-seventh Report	Lost in translation? Responding to the challenges of European law	HC 590
Twenty-eighth Report	Extending access to learning through technology: Ufi and the learndirect service	HC 706
Twenty-ninth Report	Excess Votes 2004–05	HC 916

Thirtieth Report	Excess Votes (Northern Ireland) 2004–05	HC 917
Thirty-first Report	Northern Ireland's Waste Management Strategy	HC 741
Thirty-second Report	Working with the voluntary sector	HC 717

The reference number of the Treasury Minute to each Report is printed in brackets after the HC printing number

# Oral evidence

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## Taken before the Committee of Public Accounts on Wednesday 23 November 2005

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon  
Greg Clark  
Mr Ian Davidson  
Helen Goodman

Mr Sadiq Khan  
Sarah McCarthy-Fry  
Jon Trickett  
Mr Alan Williams

**Sir John Bourn KCB**, Comptroller and Auditor General, National Audit Office, was in attendance and gave oral evidence.

**Mr Brian Glicksman CB**, Treasury Officer of Accounts, HM Treasury, was in attendance and gave oral evidence.

### REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

#### Working with the Third Sector (HC 75)

*Witnesses:* **Sir John Gieve KCB**, Permanent Secretary, **Ms Helen Edwards**, Director General, Communities Group, Home Office, and **Ms Anita Charlesworth**, Director of Public Services, HM Treasury, examined.

**Q1 Chairman:** Good afternoon. Welcome to the Committee of Public Accounts, where today we are looking at the role of government funding in the voluntary and community sector. We are joined by Sir John Gieve, who is the Permanent Secretary at the Home Office, by Ms Helen Edwards, who is Director General of the Communities Group, and by Ms Anita Charlesworth, who is Director of Public Services at the Treasury. Ms Charlesworth, why are you here?

**Ms Charlesworth:** Because the Treasury led on the Cross-Cutting Review and we are working with the Home Office to ensure its effective implementation.

**Q2 Chairman:** What can you tell us that Mr Glicksman cannot?

**Ms Charlesworth:** I led on the team throughout the Cross-Cutting Review. I have a team working with me in the Treasury in our Public Services Directorate, who work with the Active Communities Directorate in the Home Office on its implementation and we are doing a number of elements of work, such as guidance to funders, to see that through, so we thought it would be helpful if I attend.

**Q3 Chairman:** As the Treasury has somebody who oversees every part of the public sector, can we now look for a Treasury representative to always appear at the Committee upon Mr Glicksman's retirement in two weeks' time? What is the answer?

**Mr Glicksman:** Perhaps I ought to comment, Chairman. You may have noticed I do often come with some support from the Treasury and if the Committee wished, I am sure that a representative of the Treasury could accompany me at the witness table and help the Committee in its deliberations.

**Q4 Chairman:** What does the Comptroller and Auditor General think about the new way of proceeding in our affairs on Mr Glicksman's retirement?

**Sir John Bourn:** I think I would put it this way to Mr Glicksman: you do get the general expertise of the Treasury official who is concerned with accountability and audit matters. Today, you have Ms Charlesworth who deals with a particular subject. In that sense, of course, what she has said about the value of her knowledge and the re-enforcement of the Home Office's responsibility is to give something that the Committee does not usually have. Perhaps you will want to evaluate today's session and see whether that would be, from the Committee's point of view, a better way of arranging affairs.

**Q5 Chairman:** I think a very interesting precedent has been set, and I think I might consider, if the Committee is agreeable later on, writing to the Permanent Secretary and suggesting that the Treasury always send a representative. Sir John, over to you now. Could you please look at paragraph 11, page 3. Sir John, would it be fair to say to you that Whitehall's lack of expertise in joint working is limiting the role that the voluntary sector can play in delivering services? Would that be a fair criticism, do you think?

**Sir John Gieve:** Yes, it would be a fair criticism. We think we are getting better, but this Report says that there is a long way to go.

**Q6 Chairman:** That is a very fair answer, thank you very much. After all, there are a number of recommendations; you can find them on page 6, in

## Home Office and HM Treasury

paragraph 20. I just wonder whether you thought some of those recommendations, particularly 2, 3 and 6, might be something you can work on?

**Sir John Gieve:** Yes is the answer to that. I have got ticks and no crosses against these recommendations.

**Q7 Chairman:** So when the Treasury replies to this Report, we will look to a yes on these, will we?

**Sir John Gieve:** Yes. Some will have some glosses about how we will do it, but, generally, we agree with these.

**Q8 Chairman:** While you are offering agreement, are you happy with 7, 8, 9, 10 and 11 as well? Ticks against those or crosses?

**Sir John Gieve:** I have got ticks against them. For example, on 8, where it talks about sharing expertise across different funders, we are trying to do that with four Departments; we will see how it goes.

**Q9 Chairman:** That is fine. Two very positive answers, Sir John. You are doing well today. Let us carry on.

**Sir John Gieve:** I have got the Treasury beside me. I am going to bring them here every time!

**Q10 Chairman:** You are on your best behaviour. Can you please look at this figure 8 on page 22 and it follows on from paragraphs 2.11 to 2.13 which is headed “Good intentions can be lost as funding flows through the delivery chain”. You will see it is very complex. I wonder how you can simplify the complex network of funding from you to these charities as the final recipients.

**Sir John Gieve:** It is much more complex than this because you will see that local authorities get one arrow, whereas in fact there are 400 of them. I think some degree of complexity is inevitable because, as the Report brings out, the voluntary community, the third sector, is involved in pretty much every aspect of government business and we cannot rationalise that all into one. I think the particular areas where we are bad is where we have got overlapping funding, particularly coming from a variety of different central government bodies to the same voluntary body, often at local level, to do, if not exactly the same thing, then a series of related things. I see the best approach here as trying to get the regional offices in particular, to draw together some of the Government’s funding streams, unite them and create a single coherent chunk of money going to the particular frontline voluntary organisations. But it is always going to be pretty complex.

**Q11 Chairman:** Thank you very much. If we now look at paragraph 2.4, which you can find on page 20, most Departments introduced some initiatives to improve their staff skills, but do you believe that these staff have real incentives to implement the Treasury Review, to improve their funding of third way organisations, or third sector organisations—sorry—a Freudian slip. We are not all New Labour yet!

**Sir John Gieve:** I think the main incentive has to be that the voluntary community sector can do some things better than anyone else and, in that sense, the pressure for efficiency and effectiveness and the full performance management apparatus should encourage, and does encourage, civil servants to try and use the voluntary sector where it is the best value for money. I think the lack of training and experience is a problem in this. Many of the people do not know how to engage and that is a problem also on the VCS side. They are not best prepared to sell their wares to government. The incentive structure there is less clear, if you like, but we are working with the National School for Government, the OGC and various other bodies to put on training courses. We hope that our Compact Plus will provide a further spur to the Departments.

**Q12 Chairman:** Members of the Committee may not be aware of Compact Plus, but there is going to be an announcement later on this month, is that right?

**Sir John Gieve:** We are hoping to announce it right at the end of the month, but we issued a consultation document earlier in the year and there have been various conferences about it.

**Q13 Chairman:** There is going to be a Compact Plus champion, is that right?

**Sir John Gieve:** I think we are going to call them a commissioner rather than a champion; that is one of the ways we are responding to the consultation.

**Q14 Chairman:** They are going to have real clout, are they?

**Sir John Gieve:** Yes.

**Q15 Chairman:** How?

**Sir John Gieve:** I will ask Helen to take this on because she has been leading on it. First of all, we are not giving them statutory powers. On the other hand, we expect to give him or her powers to accredit or dis-accredit Departments which do not follow the rules of the Compact and, potentially, we have raised the prospect of some financial penalties. Helen, you probably know more on this.

**Ms Edwards:** We are still working on the detail. We have worked at it jointly with the voluntary sector and with the Compact Working Group. We have not yet formally put proposals to Ministers; we do that on 30 November at the annual meeting that Ministers have with the voluntary sector. There are arguments both ways in terms of the kind of clout or penalties you might want to impose. What we do not want to do is to create a large bureaucracy. As soon as we start looking at things like financial penalties, then you are looking at who will decide at what threshold those kinds of penalties come in, the burden of proof becomes higher, people might want the right to appeal and then there is the whole question of how you gather in money and what you do with it. I think we have to look at this quite carefully and the balance of opinion that has been put to us, I think, is largely in favour of a naming and shaming approach. We hope that the commissioner will have a high profile, they will award kite marks

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for good practice, they will remove kite marks for bad practice, they would do thematic reviews and publish those. We are still looking at what the best ways for making this work are.

**Q16 Chairman:** Thank you very much for that. This target you have got of increasing the role of the sector you mentioned in paragraph 1.9, Sir John, it is 5% by 2006, is not it? You are on track to meet that target, are you not? For once, I will not ask you a difficult question on why you will not meet your own target. It is not a very demanding target. What target will you go for after that?

**Sir John Gieve:** This was a 2002 Spending Review target, and we have had the 2004 Spending Review and we rolled the target forward. We have not put a number to it. I agree with you; 5%, as it has turned out, does not look particularly exacting and, from what we can see about central government funding, it has gone up by rather more than that or considerably more than that.

**Q17 Chairman:** Ms Charlesworth, as you are here, I had better ask you a question, I suppose. Can you explain to us this principle of full cost recovery, which is mentioned in paragraph 3.21, and obviously it has not been applied in practice. It is putting the voluntary sector at some risk. Do you think it is time for mandatory rules issued by the Treasury so we do achieve full cost recovery?

**Ms Charlesworth:** The reason for full cost recovery is to ensure that when public sector bodies are funding voluntary sector organisations, they think about value for money rather than simply cost and not just in the short-term but in the medium-term. The issue with full cost recovery is that for organisations to remain sustainable and to continue to deliver the services, which funders are clear are essential, obviously the organisation needs to meet its core costs as well as the marginal costs of delivering the service. It was clear when we did the Review in 2002 that this was not widely happening and the fact it was not happening was threatening the sustainability and delivery of services which were clearly very important and had the potential to be value for money. That is the reason why the Review came out clearly endorsing it and, Brian is aware better than I, the Review is the first time we clearly stated the Government expected this to be the normal relation to the voluntary community sector. It is not a new principle in relation to government accounting. It is a key part of the fees and charges regime; it is not novel in that sense. In terms of delivery, no, I do not accept—

**Q18 Chairman:** That is fine. Thank you very much for that answer. Lastly, Sir John, you have been very honest in your answers about Whitehall's lack of expertise, joint working, complexity of funding and lack of real incentives. Are you just going through the motions of encouraging the third sector? Is there real commitment on your behalf to make this work? It is still a very small proportion of government

spending; tiny, is it not? I am just wondering is there real commitment on your behalf, on your part for government.

**Sir John Gieve:** The figures we have got, which have come since this Report, show that it is about £2<sup>3</sup>/<sub>4</sub> billion for the last year that we have got figures from central government, which is pretty significant, very significant, for the voluntary sector.

**Q19 Chairman:** Very significant for the voluntary sector, not very significant in terms of total spend?

**Sir John Gieve:** Yes, but rising. Yes, we are committed to this and in the Home Office, which is what I know most about, for example in the correctional services, prisons and probation, we, both ministers and officials, are very committed to it and are trying to restructure the whole organisation in order to give the voluntary and community sector a better chance of doing what they can do best in a contestable and open way.

**Chairman:** Thank you very much. Before I introduce my colleagues, I should have welcomed at the beginning Ms Inguna Sudraba, the Auditor General of Latvia, who is with us. You are very welcome.

**Q20 Helen Goodman:** Sir John, after I left the Treasury, I went to run a VCS organisation. In the winter of 2003 when I was renegotiating a grant from the DfES, DfES officials were not aware of the full cost recovery principle. Do you think that is acceptable?

**Sir John Gieve:** I hope they are aware of it now.

**Q21 Helen Goodman:** Do you think it is acceptable that a principle which was first expounded in 1998 when the first Compact was written is still not used by every Department?

**Sir John Gieve:** No. I want to encourage everyone to use it. Although, it depends; it is easier to do for grants than contracts. I do not know what exactly you were negotiating with the DfES.

**Q22 Helen Goodman:** We were negotiating a grant. How many Departments will be applying full cost recovery by April 2006?

**Sir John Gieve:** I would have thought all of them will be partly, but I cannot promise they will all be doing it universally because this has been slow progress, as you are pointing out.

**Q23 Helen Goodman:** What are you doing to speed up the progress?

**Sir John Gieve:** I will ask Helen to add to this because she leads the team. We are working with the voluntary sector and the main Departments to try and spread an understanding on both sides of what the most effective funding mechanisms are, including full cost recovery. We are re-launching, we expect after the meeting on 30 November, The Compact in a much more snappy and understandable form with added force. As you know, we have issued guidance, the Treasury has issued guidance, the OGC has issued guidance and we are going to re-issue it. I think that is right, that the Treasury has got a second update coming

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forward which will say more about full cost recovery. Those are some of the things we are doing. Helen, I may have forgotten some.

**Ms Edwards:** That does sum up many of the things we are doing. Full cost recovery only really came into its own from the 2002 Review when the work of the Association of the Chief Executives of Voluntary Organisations started to help voluntary bodies calculate their overhead costs. It is not necessarily straightforward, I think, either for voluntary organisations or for government to work out what is a legitimate proportion of overhead costs.

**Q24 Helen Goodman:** Do you not think the ACEVO guidance does give a very clear picture of what to do? Do you not think that any voluntary sector organisation and any central government department ought to be able to come to a reasonable agreement?

**Ms Edwards:** I think it does move us forward a long way. We do work with ACEVO. I think originally it was quite complex and we tried to work with them to simplify it. As Sir John said, we do think there is more need for funding guidance which we are going to produce with the help of the NAO which will help organisations to distinguish whether it is appropriate to use a grant or a contract. Of course, if voluntary organisations are bidding in the procurement exercise, it is for them to decide at what level they bid, so, as part of Compact Plus, we are encouraging Departments and organisations, which want to do public services, to look at whether contracts are not more appropriate because grants are much more subject to scrutiny, to detail. It is that point in grant negotiations that Departments start to haggle over overhead costs. So there are a number of things we can do and bit by bit we will get there, but as with all of this, to be honest, it is a long-term programme of change.

**Q25 Helen Goodman:** Ms Charlesworth, when it comes to the EU rules on procurement, there is no question of Departments not following the rules. Why should this be an area where Departments can pick and choose and not just follow policy?

**Ms Charlesworth:** Departments cannot pick and choose. The question is not Departments rejecting the principle of full cost recovery—and I know of no department which is rejecting full cost recovery—the question is how to work with Departments so they can revise their procedure and critically the process is in their delivery chain—so PCTs, *et cetera*—to implement this. That is why, for example, in the Department of Health, they have implemented this in section 64 grants now, and the next stage is that they ensure PCTs fully implement this, and Mr Liam Byrne MP is chairing a task force with the Chief Executive of MENCAP to make sure in their circumstances, the way they operate their contracts, this is carried forward. What has become apparent, as we have been doing a series of seminars out with funders to promulgate this, is that now there is very little disagreement with the principle but there are lots of questions on

how to do this in relation to tariff funding or other issues, if your cost base changes do you renegotiate it. So at the moment we are up-dating the guidance we issued on this, we will re-issue further guidance which makes it much clearer, builds in the ACEVO work further in the year, and we will do a further round of work with Departments. OGC are embedding this because most of this is about upping performance on procurement more generally. There is a whole raft of OGC effort which is aligned with VCS to ensure that procurement throughout government raises its game.

**Q26 Helen Goodman:** Another problem which I came across is that Departments simply did not understand the difference between payment in advance of spend and payments in advance of need. Can you explain to me why this should be, that officials in finance Departments in central Government Departments do not understand these basic principles?

**Ms Charlesworth:** The position was that in the 2002 Review we accepted certain key principles, like full cost recovery and issues around payment in advance. In 2003 we issued guidance that took that into further detail and explained that. There are a lot of people involved then in the delivery chain and making these decisions, as Sir John and others alluded to. Much as we would like them all to understand it all immediately, there is a time lag when you get out and start to promulgate.

**Q27 Helen Goodman:** I know that.

**Ms Charlesworth:** We, with NAO and ACEVO, are on an active programme of promulgating. It is taking longer than you would like, and almost certainly I would like, and we realise the key to this is to promulgate and that is what we are doing here.

**Q28 Helen Goodman:** Do you think, therefore, the proposals that Ministers have for increasing the delivery of public services through the VCS are realistic when these practices are not in place, since clearly the sustainability of the sector is dependent on these practices being in place?

**Ms Charlesworth:** Things are getting better. The work we are doing, with NAO and ACEVO, and the Audit Commission, is going to start a sister-project to the one we are discussing today, is all going to make it better. The direction of travel is in the right way. On the back of the NAO Report we all accept it is up to us to raise our game to ensure the direction of travel speeds up. That is what we are doing but it is going in the right direction.

**Q29 Helen Goodman:** Sir John, the Home Office have taken a number of initiatives—Futurebuilders, the ChangeUp Programme and so forth—to build the capacity and infrastructure in the voluntary sector. Would it not have been simpler just to have implemented full cost recovery

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rather than making the situation more complex, with yet more things for VCS organisations to apply for?

**Sir John Gieve:** No, I do not think so. We see our role as working at both ends of this, helping the voluntary sector to equip itself better to take on a bigger role, and that is what those funding streams are about, but also working with Departments, including our own, to make sure we adopt the best funding practices. It is frustrating, it takes a long time but, as you know, dealing with the voluntary sector is a very decentralised business and we are up against inertia, habit, (because lots of people have arrangements which they understand and go on from time to time), short-termism, because there are cost pressures when people think, “I could get it for less” and these sorts of incentives. Over time, we think we are making progress in getting a better and more professional relationship.

**Q30 Helen Goodman:** Short-termism is a problem and I wonder if you can explain why it is that now government Departments have three-year money with the Spending Reviews, the voluntary sector organisations are often still kept on a one-year leash?

**Sir John Gieve:** I have various explanations but I do not know they are justifications, if that is what you are looking for. This is another thing which we are trying to change. I suppose that actually it is only relatively recently that we have got three year deals for the main Departments and we are still rolling that out to the other main government organisations. For example, we are about to announce, I think, a local authority settlement for two years instead of one, and that will be for the first time. It is only over the last few years that in a sense we have rolled-out three year deals to schools, PCTs and so on, and we need to do it where we can, where it makes sense, to the voluntary sector. We have a long way to go.

**Helen Goodman:** Thank you.

**Q31 Greg Clark:** I should declare an interest in that I have been asked to chair a commission of inquiry into the voluntary sector by the Centre for Social Justice. It is on a voluntary basis and unpaid so I do not think it is not a material conflict. Sir John, it is right, is it not, the Treasury Cost-Cutting Review gave the Home Office specific responsibility for leading the roll-out of these initiatives across Whitehall? It is the Home Office which has the PSA target to increase—

**Sir John Gieve:** That is right.

**Q32 Greg Clark:** Just to understand that, paragraph 4 on page 1 of the Report says that currently 0.5% of central government expenditure goes on the voluntary sector. That is correct?

**Sir John Gieve:** Yes, it has now increased to a bit over 0.6%.

**Q33 Greg Clark:** So the 5% increase is 5% of that amount?

**Sir John Gieve:** Yes. Well, it is 5% of the level of spending rather than the percentage.

**Q34 Greg Clark:** So it is 5% of that 0.5%?

**Sir John Gieve:** Someone is reminding me that this is all government, whereas the 0.5% is central government, so it is on a slightly different total. It includes local authority, quangos and so on. Broadly, it is the level of spending in 2002–03 and we have a target to increase that level of spending by 5%.

**Q35 Greg Clark:** That does seem an astonishingly low figure. To increase it from 0.5% to 0.525% seems pretty modest. Is there a better target, a more stretching target? If targets are of any use at all they might as well be meaningful and stretching. Is there a better one you could substitute?

**Sir John Gieve:** As I was saying, we have substituted a slightly different formulation in the Spending Review and we have not put in another number. This is actually an example where we did not quite know what the numbers should be and we put in 5%. What was important was the direction and what measures we were taking to push it up. We do not know how far this can go is the answer, and I rather agree with you that 5% does not look very stretching. On the other hand, if you look elsewhere in the Report, you will see this number can go down and, indeed, has been going down for a number of years. So getting it to go up is the key thing.

**Q36 Greg Clark:** In the Home Office, for which you are responsible and you are the beacon here, have you reflected on what the appropriate target might be within the Home Office?

**Sir John Gieve:** We have not adopted a quantified target. What we have tried to do is identify the key areas in which we think the voluntary sector can play a materially larger role. In the Home Office these include community penalties and probation, rehabilitative courses in prisons, the correctional services; dealing with immigrants and refugees; crime reduction and drugs, especially drug treatment.

**Q37 Greg Clark:** But no targets attached to them?

**Sir John Gieve:** No.

**Q38 Greg Clark:** I am a bit confused.

**Sir John Gieve:** What we have done is tried to work up a plan in each area which will increase the role of the voluntary sector in those four principal areas.

**Q39 Greg Clark:** I am confused as to the status of targets, especially in the Home Office. They appear on paper and they appear in PSA agreements and then either in the case of asylum and immigration they are not met or, as is the case here by your own concession, they are not stretching enough and so they are not terribly relevant, and within your Department you have decided that a policy is better than a target. Have we reached the end of the road

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for targets? Are you reflecting a recognition that actually they do not serve the purpose for which they were intended? Presumably there was a purpose behind the 5% when it was adopted.

**Sir John Gieve:** No, I do not think we have. I am a fan of targets. The contrary of what you say is true—it has led to a much greater focus in the Home Office in all these areas on what we need to do to drive up the role of the voluntary and community sector, and we are doing a great deal. The question in setting targets is always, “Do you add a specific number” or do you say, “This is the direction we want to go in?” What a target should do is define for the Department what counts as success. Part of what counts as success for the Home Office is a bigger, more vibrant voluntary sector playing a bigger role in delivering public services. We have a whole set of programmes which we monitor on a monthly basis to try and drive that up. What I was saying about the 5% was that in retrospect the 5% did not add a great deal, it does not now look as ambitious as it did at the time, but remember when we were setting this target we were looking back on a set of figures which showed the role of the voluntary sector had been declining over a number of years. So we thought it would be more difficult than it has turned out, but the focus on saying, “We will measure our success by whether the scale and contribution of the voluntary sector gets bigger”, seems to me a very important step for the Home Office because it means there is a bottom line we are watching.

**Q40 Greg Clark:** So targets are now just directional rather than specific?

**Sir John Gieve:** In this area they are directional; in other areas they are specific. On crime we have set a specific number which is a 15% reduction. But in both cases we have clarified what counts as success for the Home Office, which is important.

**Q41 Greg Clark:** As the lead Department responsible for implementing the Treasury Review, you will be bound, I imagine, by the Government’s commitment to implement in full all the recommendations. Just to take a couple of those, building on Ms Goodman’s questions, payment in advance we know is very important to the voluntary sector. The organisations surveyed on payment in advance said that there had not been any noticeable change in funding practices since the Spending Review of 2002 and we are now 2005. That seems astonishing.

**Sir John Gieve:** I was very surprised by that because, as you will also see on the same page, most of the third sector organisations surveyed by the NCVO reckon they are getting payments in advance and I do not think that would have been true a few years ago. So I was surprised by that finding of the NAO.

**Q42 Greg Clark:** If you were responsible for it, surely you ought not to be surprised, you ought to have been monitoring between 2002 and now what

progress is being made. You are the Department charged with the responsibility for meeting these targets and recommendations.

**Sir John Gieve:** Yes, I agree we are, and we think that in terms of payments in advance the principle that payment in advance is acceptable under certain conditions is much better understood, and our view is that this is an area where we have made progress. The group of third sector organisations the NAO talked to were quite dismissive of that.

**Q43 Greg Clark:** Can I turn to another example, long-term funding, which is of critical importance. The Treasury Review recommended in 2002 long-term funding arrangements be entered into, yet the Home Office has 72% of its funding contracts for a year or less, worse than most of the other Departments in Whitehall, yet you are the Department responsible for implementing these guidelines. Were you surprised to come bottom of the league table for that?

**Sir John Gieve:** Yes, I am not proud of being bottom of the league table. Actually, I am not sure we are bottom.

**Q44 Greg Clark:** There are worst cases than you?

**Sir John Gieve:** This is something we have to work on further. There are some explanations for it, but both on drugs and in corrections where Helen, who has been leading this work, is interim director—the Offender Management Service—we are hoping to change that materially in the coming year.

**Q45 Greg Clark:** All of us here I think are very keen that the Government makes progress in this direction and I imagine part of that progress was to charge a specific Department with driving that through, yet we find three and a half years on, just to refer finally to a couple of paragraphs in the Report, 2.6 and 2.7, it is rather bleak reading. “Most Departments as yet have only a fragmented approach to developing their staff’s capacity to work with the sector. Only half of the Departments we examined have specific targets for developing their relationships with the sector.” Finally: “Others, more than two years after the Treasury Review was published, are still only at the stage of ‘hoping’ to take action.” As the Permanent Secretary responsible for driving that, that is a pretty damning indictment, is it not?

**Sir John Gieve:** It shows we have not succeeded in doing all the things we have to do, which is part of the reason we welcomed this Report and we renewed our efforts around Compact and so on. You are absolutely right, there is masses more to do. As we were saying earlier, this is a long-term change. Coming back to the 72% of ours, which is short-term funding, that owes a lot to the sort of programmes we run, both on the drug side and on the asylum and immigration side, where budgets have changed very fast and where we have called on the voluntary sector very often at short notice to fill a need. In both cases we have now institutionalised that in a more stable relationship. But the truth is we would not have been able to

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deal with a huge influx of asylum seekers without the help of the voluntary sector and until the last couple of years when we stabilised the position, we have not been in a position to make long-term plans, but they have come to our aid and we have relied wholly on them. You are absolutely right, that is not a satisfactory longer-term position and that is what we are going to change.

**Q46 Mr Khan:** You said in answer to one of the earlier questions that the third sector accounts for around 0.5% of central government's expenditure and you referred to the trend. Is the trend upwards, downwards or about the same?

**Sir John Gieve:** The latest figures we have show that it has gone upwards in the last two years, since that figure of 0.5%, to about 0.6%, so not spectacular but still up.

**Q47 Mr Khan:** To give us an idea in relative terms, 10 years ago what sort of percentage of central government expenditure was being spent in the third sector?

**Sir John Gieve:** There is a chart on this somewhere.  
**Ms Edwards:** As you can see, if you look at figure 6 on page 16, spending has fluctuated over the period quite a lot. It started at quite a low level. We saw a peak during the 1990s and then it fell back quite sharply. It is now starting to rise again. Since we had this information which the NAO used, we now have some provisional figures for 2002–03 which show a 16% increase and in 2003–04 a 12% increase, so the trend is going back up in terms of actual spend. As a proportion of spend obviously it is affected by how much has been spent in total on public services, so that is why we tend to track the actual spend rather than the proportion because the proportion could be misleading.

**Q48 Mr Khan:** To follow up the Chairman's theme, the third way has been very generous to the third sector! On another point, Sir John gave examples of areas in the Home Office where there had been increased involvement of the third sector. Can you give us some examples, away from the Home Office, where there could be greater use of the third sector?

**Ms Edwards:** Certainly the Department of Health is looking at the potential of the third sector. The third sector already does a lot in terms of the Department of Health.

**Q49 Mr Khan:** Give us some examples.

**Ms Edwards:** In terms of work in the field of disability, for example, in terms of social care. They are looking at the potential of equipment and aids that are provided to people in the community, helping people potentially to leave hospital with support earlier than they might. I think there is quite a lot of potential there.

**Q50 Mr Khan:** Is there a process whereby you ensure that the large national charities do not disproportionately benefit as against the smaller regional, local charities?

**Ms Edwards:** I think it has probably been easier for the large charities to move ahead faster than the smaller ones, and we are aware of that. For example, what we have done with funds like Futurebuilders, which are aimed to build the capacity of organisations to deliver public services, if they want to, is to make sure that the proportion of spend which goes to the smaller organisations is monitored quite closely, and to multi-ethnic minority organisations who can find it difficult also to gain access to funding to build their capacity. In building the capacity for a sector to compete we have tried to make sure that we have skewed it towards the smaller organisations which might otherwise have difficulty. Of course, a lot of funding is dispersed locally, so sometimes it is the smaller, locally based organisations which will have the relationship with the Primary Care Trust, with the local authority. We hope we are taking that into account.

**Q51 Mr Khan:** If anybody monitors, for example, the local authorities, the Learning and Skills Councils, the NHS, how do they make sure that their funds are spent in the way that you have described?

**Ms Edwards:** I think, as you will have gathered, gathering data in the field is very, very difficult for us. We are taking steps to improve the quality of data that we gather at the moment so we can be more confident about totals but also the type of funding and where it is going, but that will take us some while.

**Q52 Mr Khan:** Who will be in charge of it?

**Ms Edwards:** We are doing some work on that. We have set up the State of the Sector Panel, which is a panel of 4,500 organisations which covers the whole range of bodies from the very small through to the large. We ask them at regular intervals about their experience of doing with government, how their funding is going, how they are finding the relationships with different sectors of government, we can ask the smaller organisations particular questions on that. What it has done is opened up a way of us having a dialogue, we hope, with a broad cross-section of the sector.

**Q53 Mr Khan:** You are the right person for me to ask how third sector groups in Tooting are benefiting from monies from government, local authorities, the NHS, the European Union and the Learning and Skills Council?

**Ms Edwards:** No.

**Q54 Mr Khan:** Who is?

**Ms Edwards:** I think what I would do is ask the local authority in Tooting, or I would ask the local Voluntary Services Council in Tooting about that. I would not have that detailed information,

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certainly not in the Home Office. I doubt whether the Office of the Deputy Prime Minister would have it at a central level.

**Q55 Mr Khan:** Who, if anybody, assesses whether certain regions are doing better than others because, for example, they may have a high propensity of expert charities which can bid successfully for these programmes or have groups which are better than others? For example, how do you help citizens in certain areas who do not get a good deal because there are not charities bidding on their behalf? Who monitors the situation to make sure some areas are not being disadvantaged compared with others?

**Ms Edwards:** We can break down the information we get back from organisations to a certain extent regionally but it does not give us a huge amount of detail. I am not sure that information is collated centrally.

**Sir John Gieve:** As far as local authorities are concerned, the CPA—Comprehensive Performance Assessment—includes a series of questions about the governance and development of the local authority which include relations with the voluntary sector. That would pick up some part of that: for example, is the local authority developing its relationship in a good way. That is one of the things we have encouraged them to do. There is not a sort of umpire who is looking at every area and assessing whether all the players in that area are doing what they should.

**Q56 Mr Khan:** Can I put two things to you that have been put to us by the National Council for Voluntary Organisations. The first point I would like your comment on is: “voluntary and community organisations are independent and the value they contribute is rooted in that independence. Service delivery contracts should be designed to respect that independence”?

**Sir John Gieve:** True.

**Q57 Mr Khan:** The concern they raise is in relation to the way that the requirements which you and local authorities place on the monitoring, evaluation and audit systems do not do them credit in that regard.

**Sir John Gieve:** There is a genuine dilemma for some voluntary organisations, one of whose main purposes is lobbying the Government about how close they want to get to delivery for the Government. There is no getting round it, there can be a tension there and some voluntary organisations choose to keep at arm’s length and not to go into service delivery for that reason. Others, including many in the immigration field, for example, who continue to campaign against government policy, nonetheless play an important role in making sure that it is delivered effectively. That is a choice. The independence point is really about that issue. I think the main problem about monitoring and audit, which was brought out in this report, is that it is too onerous rather than that it undermines the independence.

**Q58 Mr Khan:** Helen Goodman touched upon having annual funding arrangements, rather than the three years, and you agree it should be longer, I think. What about the criticism that application forms are often lengthy and not proportionate to the amount of funding being applied for, especially if you are small group? Compare and contrast the national charities who have specialist people whose job is to apply for money, if you are small charity often with one person doing six different jobs, is that a fair way of them getting funding?

**Sir John Gieve:** No. I think again this comes out in the report and comes out in all our discussions—we are talking to the NCVO all the time and trying to work with them to influence funders—that application forms often are not as simple as they should be. The report brings out a number of measures which Departments have been taking to simplify things. That includes the lead funder pilots and it includes two stage processes where you put in a one-page application and you only have to provide more information if, in a sense, you are a real runner for funding. There is a long way to go on that.

**Q59 Mr Khan:** Congratulations on meeting the robust 5% increase in the volume of public service, and I think it is robust and was well done. As a trite point, there is no way you would have met that with £35 billion worth of cuts. What sort of target would you expect to see in subsequent years, bearing in mind the trend in the last two, three, four years has been this way? What sort of target would you be pleased to be set in this area?

**Sir John Gieve:** We are going to come back to that, or my successor is going to come back to that, in the next Spending Review in 2007. I have not got a number.

**Q60 Mr Khan:** Upwards? Downwards? The same?

**Sir John Gieve:** I am sure we will want to continue to push it upwards. Personally, I think there is huge scope to push it upwards. What we need to do before the Spending Review is to consult the sector and the various levels of government about what a reasonable target should be. We are already giving some thought as to how we do that. As I say, keeping it going up is the first thing. Plucking a figure out is quite difficult and there is always the risk that you project forward a straight line and two years on it either looks ridiculously easy or ridiculously hard. Nonetheless, I think we should talk to the voluntary sector about that.

**Q61 Mr Bacon:** Sir John, can I take up one of the latter points that Mr Khan was making about the independence of the organisations. You replied that the onerous nature of the audit was what worried them, not whether it undermined their independence or not. The National Council for Voluntary Organisations’ briefing document that we have got does specifically refer to the fact that independence is undermined as well. It says: “The Government should not treat the sector as though it was part of the state and impose inappropriate

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monitoring, evaluation and audit systems which undermines the sector's independence and the benefits it can bring to public service."<sup>1</sup> Is it not the case if they are taking money from you then they should expect that their "independence" has to some extent been undermined and they should expect to account for how they spend the taxpayers' money?

**Sir John Gieve:** I will ask Helen to come in on this because she has been talking to the NCVO. The magic word in their briefing is "inappropriate", so no doubt we can agree that we should not have inappropriate monitoring returns. Where I am absolutely with you is if we are spending public money we have to account for that, and we have to ask the people we give it to to account for it. The trick is to do that in as light touch way as we can.

**Q62 Mr Bacon:** Ms Edwards?

**Ms Edwards:** Just to go on from that, I think part of the issue has been that some of the monitoring has been disproportionate given the relatively small amounts of funding involved.

**Q63 Mr Bacon:** Who is doing this monitoring that is disproportionate, is it local authorities or is it government executive agencies?

**Ms Edwards:** It is virtually every bit of government that provides funding. Part of the issue for us is that the lead funder pilot was relatively successful, as Sir John said, in terms of simplifying the process of applying for money but where we have been less successful is in reducing the burden of reporting where it is disproportionate. I think part of the reason is that funders take their responsibilities very, very seriously, they think that a lot is required of them by auditors and that they should not co-operate with other funders to share some of that funding where organisations are accounting to very, very many different parts of government. We think it would be helpful for us to work with the National Audit Office, and we are grateful for their offer of assistance on this, to assure funders that in some instances they are asking for more than is required even though they have to be careful with public funds.

**Q64 Mr Bacon:** This may be a question better addressed to Ms Charlesworth. Sir John, paragraph 3.9 is about the fact that: "Only five of the 13 Departments surveyed [by the National Audit Office] had any established policy or guidance to help funders design the most appropriate funding mechanism". It goes on to say: "There is as yet no central or definitive source to which funders can refer". Is the updated guidance, which was referred to earlier, going to be that definitive source?

**Ms Charlesworth:** Yes.

**Q65 Mr Bacon:** Why has it taken so long to come up with the not particularly startling idea that one definitive central source of guidance is a good idea?

**Ms Charlesworth:** We issued a first round of guidance to funders, recognising that this was an important point, in 2003. People found that very useful. When they started to implement it a series of further questions arose, as people moved this forward inevitably. What we are doing is updating that to be more comprehensive.

**Q66 Mr Bacon:** You said when people started to implement it they found it very useful.

**Ms Charlesworth:** Yes.

**Q67 Mr Bacon:** The fact is of the 13 Departments surveyed, eight did not implement it at all, they did not appear to have any guidance.

**Ms Charlesworth:** A number of Departments are implementing it. They will be in different stages of implementation. Some have implemented it for their own allocations but what they are doing now is working with the bodies they allocate money to, like PCTs, Learning and Skills Councils, to ensure the recommendation is taken forward there. What has become apparent, as you go through the range of different ways in which the government funds the sector, is that this is more complex. This is the reason why we are going to work with the NAO on a decision support tool, because in addition to having the guidance you also need to equip people with the ability to use the guidance and make the right decision on the back of the guidance. That is why we are doing the revised guidance to funders and we will work with the NAO on the decision support tool.

**Q68 Mr Bacon:** I would have thought if the guidance was clear enough you ought to be able to take it and use it. You talk in paragraph 3.11 about the fact that there are not so many types of arrangements as are available in the private sector, for example the strategic partnerships and particularly framework agreements are much less widely used. Framework agreements are very widely used now in all kinds of Departments for all kinds of procurement. How widely used are framework agreements now for TSOs and are there particular difficulties in setting up framework agreements and other types of partnership funding?

**Ms Edwards:** I think we can, and I think this is a development that will come. It reflects the fact that in some parts of government the third sector has not really been seen as a serious delivery partner in the same way as the private sector has, or at least not so far. Therefore, their arrangements for contracting or funding the sector have not moved them forward as far as they need to. There are some developments, my bit of the Home Office, for example, does have a number of framework agreements with people who do work for us and receive funding from us. I think in the new world of corrections, prisons and probation, the idea of framework agreements will come into its own. I think as the voluntary sector starts to deliver more,

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<sup>1</sup> National Council for Voluntary Organisations, *Shared Aspirations: the role of the voluntary and community sector in improving the funding relationship with government*.

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and as it starts to deliver more under contract and not just from grant regimes, the whole process of setting up framework agreements will develop.

**Q69 Mr Bacon:** It is surprising that it is a £25 billion sector. Page 37 refers to comparisons with the private sector in figure 14 and difficulties with long-term funding. It talks about the fact that: "The sector has . . . the asset base, we have the ability to raise money, we have the ability to borrow capital but we need [long-term] contracts to make that even remotely viable. And yet, when (government funders) talk about this, they say 'Be grateful if you get a three year contract' whereas under the Private Finance Initiative, 10, 20 year contracts are the norm." The interesting thing about the PFI is we are repeatedly told that the PFI is fundamentally about buying services; so is this, is it not, it is fundamentally about buying services. What is the difficulty in issuing long-term contracts?

**Ms Edwards:** I think if you are looking at PFI in particular—

**Q70 Mr Bacon:** I am not, I am looking at a comparison with the PFI. I am asking you what is the difficulty, like in the PFI, in issuing long-term contracts to TSOs?

**Ms Edwards:** I think we do want long-term contracts. Some of the very long contracts tend to exist in relation to where there are large capital investments, and by and large voluntary sector service provision is not of that nature. I think part of the difficulty as well is that this is a hugely diverse sector, some of the organisations are very small, so government Departments and bits of local authorities find themselves contracting or trying to work with a huge range of different organisations.

**Q71 Mr Bacon:** Do you mean it is more in their interest to keep control of it, to have a relatively short-term contract? I am neutral on this. Is it better for the taxpayer—

**Ms Edwards:** No.

**Q72 Mr Bacon:**—to issue a three year contract?

**Ms Edwards:** Yes, sorry, I did not know what you were going to ask. I thought you were going to say a one year contract. Longer term contracts, on the whole, are better for the taxpayer and I think the OGC recognise this. They produced a guide book with us for the staff of the voluntary sector and part of that was saying three year contracts often represent better value for money because people can plan to use their resources sensibly. If you have just got a one year window you really do not know what you are staffing it up for, you do not invest, you cannot deliver the quality that is required if you think you are going to be closing down again in 12 months' time.

**Q73 Mr Bacon:** I am talking about a three year contract as opposed to a 15 year contract.

**Ms Edwards:** I think a three year contract should probably be the minimum, possibly we should be looking to extend them. I do not know about 15 year contracts—Sir John may want to comment on this—it would tie down Departments over a very long period.

**Q74 Mr Bacon:** Of course, that is exactly what PFI does and it is one of the worries when contracts are not inspected enough. In 3.4.3 it goes on to say: "Many funders still perceive barriers to setting up long-term arrangements" and highlights concerns about being "locked-in" particularly "if the quality of the service declined over time, funders feared they would not be able to address it by removing funding; longer-term funding could exclude new and innovative service-providers from consideration." Both of those criticisms apply just as much to PFI, do they not?

**Sir John Gieve:** I think the alternative to PFI is generally on balance sheet financing of capital, which will have a long-term cost in terms of depreciation and service charges. The Home Office now have a budget which lasts until 2007–08 and we would not want to commit ourselves too far about what we are doing in 2012. The Treasury would not either because we have yet to negotiate our total budget.

**Q75 Mr Bacon:** Can you just remind me how long the contract for your fancy new building is?

**Sir John Gieve:** I have forgotten. Twenty something years.

**Q76 Mr Bacon:** So when you get to 2012 are you expecting the Treasury . . .

**Sir John Gieve:** It is a very small percentage of our total costs. You have to get these things in balance. Some contracts with the voluntary sector, for example, that DfID have gone into with their core overseas aid charities go longer, and if, for example, we develop the market in correctional services and we want NACRO to play a bigger role in offender management in the community, I can see that they may not be able to do that on three years, and we will then have to look at longer term funding. So I am not ruling it out but I think the idea that the VCS or the private sector could generally look for 10- or 15-year contracts for all services is a bit unrealistic.

**Mr Bacon:** It is very helpful to have that on the record, Sir John.

**Q77 Jon Trickett:** Is the British Council a third sector organisation?

**Sir John Gieve:** The British Council is a public sector organisation.

**Q78 Jon Trickett:** What is the difference?

**Sir John Gieve:** Between a third sector—

**Q79 Jon Trickett:** Yes, and the British Council or the BBC? The BBC was created by Charter but just explain to me the difference.

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**Sir John Gieve:** One is owned by the Government and the third sector is essentially independent.

**Q80 Jon Trickett:** Is the BBC owned by the Government?

**Sir John Gieve:** Broadly speaking, yes. It is a state broadcasting organisation.

**Q81 Jon Trickett:** I think it has been created by statute but I do not think it is owned by the Government. It is an independent body and it does not account for its actions to Parliament, does it? The same with the British Council. The logic of the question: what came into my mind was if the Treasury could tell me what the implications for the Public Sector Borrowing Requirements are by getting money spent through the third sector rather than direct government expenditure? What are the implications? Maybe the Treasury could answer that question, please.

**Ms Charlesworth:** The key thing is that the funding scores. Whether you directly provide or you provide it through contract or grant with another body, the funding scores. It is not about whether it scores or not; it is about value for money in public spending. The key issue is will you deliver better outcomes on cost through doing it in-house or will you deliver better outcomes for cost—

**Q82 Jon Trickett:** So it is cheaper.

**Ms Charlesworth:** No, value for money. I explicitly said value for money, not necessarily cheaper.

**Q83 Jon Trickett:** Is there any evidence that fraud in the voluntary sector or in the third sector is higher than in the private sector?

**Ms Charlesworth:** No.

**Q84 Jon Trickett:** Has that been analysed?

**Ms Charlesworth:** Not that I am aware of.

**Q85 Jon Trickett:** So there is no difference in fraud committed within either sector at all, and that is something which has been audited?

**Ms Charlesworth:** The Charity Commission would have an involvement in ensuring that the use of—

**Q86 Jon Trickett:** I did not say how is it policed; I said has an analysis been done?

**Sir John Gieve:** I think we are saying we do not know.

**Q87 Jon Trickett:** I think the answer was “no.” Is it now “We don’t know”?

**Sir John Gieve:** We do not know of any evidence that it is worse than the voluntary sector.

**Q88 Jon Trickett:** Is there an assumption that it is worse?

**Sir John Gieve:** No.

**Q89 Jon Trickett:** Or better than the private sector?

**Sir John Gieve:** I do not think so. You would have to look at particular organisations.

**Q90 Jon Trickett:** I am glad you said that because that would have been my feeling too. It does seem to me that the way in which we monitor and control and audit the third sector is far more rigorous than we do with the private sector. Is that not a fact?

**Sir John Gieve:** It can be, in particular over questions like their cost base. Because many voluntary organisations are funded by grants and we have a different attitude towards grants and contracts, we have tended to ask voluntary organisations for more information than our private contractors.

**Q91 Jon Trickett:** Would it not be a good idea to say that we intend—because Ministers of both governments, frankly, have used this expression which you used of the lightness of touch in relation to the private sector, have they not? We also have a lightness of touch in relation to landlords, for example, when we passed the various Housing Acts. Would lightness of touch apply to the voluntary sector in precisely the same way as the way in which we treat the private sector now? Is that your aspiration?

**Sir John Gieve:** Yes. That is one of the recommendations here, that when we are doing contracts, we should look at them in the same way and ask for the same sort of information, and I think that is right. Sometimes that information will look for more costs, and it does for the private sector too. If someone comes in with a good bid, you want to know whether he is going to be able to deliver it and whether he is going to get into trouble, and that is true of big contracts with the private sector or the voluntary sector. They should be treated alike.

**Q92 Jon Trickett:** Ms Charlesworth was telling us that the reason why we are using the voluntary sector rather than the public sector is for value for money, but is it not a fact that the costs which fall upon effectively the public purse of excessive monitoring and also having to bid for new contracts or grants each 12 months are higher than they would be within the public sector, which would not have to bid for any of those? To the extent that quite frequently volunteers and professionals in the third sector spend half their lives filling in blinking forms either applying for next year’s grants or accounting for this year’s grants, is it not a fact that huge amounts of money are being spent really fairly wastefully and how is that value for money?

**Sir John Gieve:** I do not think it is value for money. That is partly what this programme is trying to do.

**Q93 Jon Trickett:** You are using the voluntary sector because it is value for money. Perhaps Ms Charlesworth can tell us how that is value for money.

**Ms Charlesworth:** What is value for money is if you are trying to deliver a drug treatment service to people and a third sector organisation has an expertise in relation to drug treatment which you

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do not have in the public sector, and so it is more likely to get more people off of drugs. What I agree with you is if in the way that we run that process at the moment we require excessive monitoring and processes and bureaucracy, then we are undermining the amount of value for money that we would get, and that is why, as someone from the Treasury, we have an absolute concern in making sure that that situation changes.

**Q94 Jon Trickett:** I am sorry to keep on interrupting you. You do not always answer the question I am asking. You answer another question which fills in time. Do you accept though that if people are bidding for annual contracts or grants, which might easily be triennial or even quinquennial, that is producing costs falling to somebody which might otherwise be avoided and to that extent we are not delivering value for money? It is a yes or no answer, I think.

**Ms Charlesworth:** If the cost of contracting exceeds the service improvement, then we should not be doing it. If the cost of contracting is less than the service improvement, then we should still be using the voluntary sector.

**Q95 Jon Trickett:** That is not the point I am making. The point I am making is that the continual reviews and annual applications and all the other things that we see, since there is no difference at all between the private sector and the voluntary sector in your own assumption, all of that additional work which the public sector is generating seems to me to be a diversion from the objectives of the organisation, and not delivering value for money.

**Ms Charlesworth:** We need to reduce all of that diversion to that which is necessary for the proper account of public money.

**Q96 Jon Trickett:** Do you accept that many hours of time, almost weekly, certainly many days of time, are spent filling in forms for next year's round, causing anxiety and excessive paperwork?

**Ms Charlesworth:** I absolutely do, and that is why the Cross Cutting recommended what it did.

**Q97 Jon Trickett:** I want to just go on to the question of demography of the third sector now. The Government has decided that it wants to increase the third sector. My impression, representing an extremely poor area, is that the poorest communities do least well from the third sector, and presumably, I am sure, it is the case as well for ethnic minority groups equally. Is it not a fact that the demography of the third sector tends to favour middle class communities? Sir John, have you done any analysis on that?

**Sir John Gieve:** I would not disagree with you that very often it is hardest to get voluntary organisations going in the poorest areas, and that is why our latest set of targets particularly pick up both on the volunteering and the voluntary sector side, trying to particularly increase the level of activity in volunteering in the poorest areas.

**Q98 Jon Trickett:** I understood from your answers to Mr Khan that you are not monitoring the demographics of the third sector. Am I wrong?

**Sir John Gieve:** We are not producing comprehensive statistics on where the voluntary sector is at work. That is true. So this is impressionistic on our part, as on yours.

**Q99 Jon Trickett:** I think it was debatable whether it was geographic monitoring. I am more interested in demographic. Is it something you would wish to address and will do so in the future perhaps?

**Sir John Gieve:** If I can just give Helen a chance to come in, we may already have addressed it.

**Ms Edwards:** We are looking, for example, with the NCVO, who do collect a lot of information already about what we collect, what they collect, and whether we could do it better. I think we do want to be aware of the impact of our policies and where funding is going. We are devising measures whereby we can see, particularly on the volunteering side, where we are investing funding, whether it is reaching people who are the most socially excluded or not. So we are beginning to do this. I am sure we could do more.

**Q100 Jon Trickett:** If I can just follow the same theme, in the most deprived communities, where there is a voluntary sector presence—and often there is not—I notice fairly flashy cars parked in the car parks, and I notice quite frequently the source or the origin of the car is elsewhere to the community which is being served. Is it not a fact also that, rather than getting volunteers out of local communities, who probably understand better the problems of the areas, what is happening is that this is a professionalisation which is going on, people driving into the area from 9–5 and driving away again without barely changing the community they are meant to be assisting. Is any work being done on that? That does seem to me to be a fundamental problem. Half of these people spend all their time on good salaries, lobbying people like me to secure funding for next year's salary round, frankly.

**Sir John Gieve:** I recognise the syndrome, and not just about the voluntary sector but also the private sector, but one point I want to make is that in a sense it is not just for the Home Office taking a view of the voluntary sector to ensure that it has the impact on particular areas; we have also got to look at the Department, for example, in this case which is trying to regenerate or is responsible for regenerating particular areas, and they are in a better position to say whether it is working or not, and if it is not working, we should change the nature of the funding and incentives. For example, in the Home Office with Victim Support, on the whole, it is easier to get volunteers for Victim Support in relatively well-to-do areas, and we have addressed that as the people who are funding Victim Support, because actually more victims are in the poor areas. So we have deliberately tried to

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change the funding to reflect the need. It is not just a question of looking at the voluntary sector; you have to look at the substantive programmes as well.

**Q101 Sarah McCarthy-Fry:** I should declare an indirect interest to start with, in that my husband works for a voluntary organisation that receives funding on a long-term contract from the Home Office. We have been through the fact that you have a target to increase the use of the voluntary sector. I would like to ask the question what you think are the benefits of using the voluntary sector as opposed to the private sector?

**Ms Edwards:** I think the voluntary sector is good at doing things in certain circumstances which neither the private sector or sometimes the public sector are very good at. I think it can reach groups of people who have particular needs. Some of the work that is done around disability is an example of that. They tend to specialise in very small areas, so on the whole they can become very expert at what they do. They are also very good, or relatively good in most cases at involving the users of services in their organisation. So for example organisations working in the crime field will often involve ex-offenders in the work that they do. So I think in many instances they can reach out to groups of people who might not otherwise be very well served by the public sector, which has to reach everybody, and in some circumstances where the private sector simply would not feel it had the expertise or interest.

**Q102 Sarah McCarthy-Fry:** Do you think there are any disadvantages to using the voluntary sector?

**Ms Edwards:** An important thing in all of this is that the voluntary sector chooses whether to be a service provider or not, but I think where it does step up to the table, at the moment there are issues I think probably—and the voluntary sector would accept this, I think—to do with the quality and consistency of some of the services that it can offer. I think this is partly because there has been an under-investment over the years in certain aspects of service delivery and that is why we are running two big programmes, Futurebuilders and Capacity Builders, to try and address that so that we can be confident that where the voluntary sector organisations and third sector organisations are potentially the best providers, they actually have the capacity to deliver the first-class services that they are capable of.

**Q103 Sarah McCarthy-Fry:** When we are talking about value for money, and we have the economy, the efficiency, the effectiveness, you could say that for the private sector, particularly a large private sector organisation, who are already costing their overheads into other things that they do, the contracts they do for you are an add-on and they can bring it in at a much cheaper price as well as making a profit on it, but for the voluntary organisation, that is probably the crucial and only part of their organisation, so they may be more

expensive. How do you balance the efficiency/economy/effectiveness? Do you try and balance it or does service delivery always come first?

**Sir John Gieve:** In general, service delivery comes first. The private sector seems to me to be pretty careful to charge us its full costs, but there may be occasions when they can offer us a better deal than other sectors, and we should probably take that. There is nothing generically wrong with the voluntary sector in any of these fields, but you have to look at the particular offers around the particular services. We do a lot of work with the voluntary sector and some of it is pretty disorganised and poor and some of it is absolutely excellent. So you have to look at the particulars rather than the generic.

**Q104 Sarah McCarthy-Fry:** If we are looking at increasing the voluntary sector input because of the unique way that they can help service delivery, but you said capacity building is an increasing part of it, does that move to investment in the core of their organisation to enable them to do that, you say that is a key part of it?

**Ms Edwards:** It is. The Futurebuilders fund really is a fund that they can bid into to build their capacity to do service delivery in a particular field. Some of that money is loans, to allow them to increase the equipment they need, the training that they need for their staff, and they would have to repay that over a period of years, so one of the criteria is that they have to be reasonably confident that there are going to be contracts that they can bid for, and actually that does focus the mind in terms of what the opportunities are and whether the organisation really does want to go in for a fairly competitive bidding process or not. This is not new for many parts of the voluntary sector. If you think about it, many of these organisations predated the welfare state. Many of them have been delivering services for very many years. What they want to do is to be able to do it on terms which they think are fair and reasonable compared to other providers.

**Q105 Sarah McCarthy-Fry:** Many of them think they should continue to get funding just because they always have had funding.

**Ms Edwards:** There is that too.

**Q106 Sarah McCarthy-Fry:** Do you think there is ever a case for funding good causes out of public money as opposed to procuring services or capacity building?

**Ms Edwards:** Not all our money goes into funding organisations to deliver services. We have a strategic grants programme which puts money into organisations like NCVO for example, because we think it is a good thing to have a National Council for Voluntary Organisations. They get money from elsewhere but we think providing a core of money for them is important. There are other organisations that we do fund because we think if you are going to have a healthy voluntary sector, you do need organisations like that.

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**Q107 Sarah McCarthy-Fry:** How about how we are going to get new entrants to come in? We are putting a lot of bureaucracy on people, and quite rightly—not to put additional bureaucracy, but we are the custodians of public money and we have to make sure how that is being spent. I understand there is a balance between the innovation that the voluntary sector can bring but also making sure they get value for money. How do we ensure that we are also opening up the new entrants to come in? Do you have the capacity for pump-priming funds as well?

**Ms Edwards:** We are trying to do some of that through Futurebuilders and one of the provisions is that if an organisation has a good idea or thinks it is very well placed to deliver something but has not yet worked it up, the fund can give them some assistance to work that up. So we hope that in a number of ways we are making it possible for new organisations to come into this field if they want to, and I think there actually is quite a growth in new organisations generally. The voluntary sector is very alive and in many areas it is thriving.

**Q108 Sarah McCarthy-Fry:** Can I go back to the NCVO briefing and particularly the one about risk sharing. I know we have said we want to move towards three-year contracts, but presumably, from your point of view, if you are going on a short-term contract, there is much less risk to the Department because you are not committing money over a wide financial period. The NCVO are saying that if you want to do that, you should be costing an element of that risk sharing into it so that the cost of a short-term contract, they should get more funding for a short-term contract pro rata than if it was for a longer term because of that risk sharing. Do you agree with that approach?

**Ms Edwards:** I think it can be appropriate. The private sector will do that routinely. If it thinks it has a short-term contract and there is a high degree of risk in it, the private sector is actually very skilful at offsetting risk, and I think the voluntary sector has something to learn there. I think there are wider issues of risk in the contract. I know some organisations have found difficulty, particularly where they are providing specialist services and the level of use of those services is not necessarily clear, where they have been left to meet the costs, fairly fixed costs, if in fact those services have not been used, not brought in the income that was expected, and I think there is a discussion to be had there between funders and people who are prepared to provide that service about what a fair balance of risk is in a particular situation. So I think it is very difficult to get a general answer again but in particular situations that risk does need to be balanced.

**Q109 Sarah McCarthy-Fry:** I suppose that is the key difference, is it not, between the voluntary sector and private sector, that very often, as I said, the voluntary sector are so dependent on these grants and these contracts that they may not be

willing to cost that extra risk in because if they do not get the grant, if they do not get the contract, that is their whole organisation gone?

**Sir John Gieve:** I think there may be some of that. I think also many people in the voluntary sector are quite entrepreneurial and they have a go, and they meet someone in the public sector who has got some money this year but is not sure they will have it next year, but they will give it a go. There are a variety of reasons why you get to this outcome.

**Q110 Sarah McCarthy-Fry:** When I spoke to my constituency's Council of Community Services, certainly advanced payments was one of the things they brought up, that they get the money so late that they sometimes they have staff in place and they have the next contract coming along, but it does not come quite in time and they think advanced payments would be a good thing. From your point of view, say you give out an advance payment and then something happens and the service is not delivered, do you have the facility to be able to claw that payment back, or is that payment then gone?

**Sir John Gieve:** We normally would in law. The question is whether we can get it back from whoever we are trying to get it from, as usual with a debt. But in a way, I do not know that it is advance payment or giving the first payment first that you are pointing to there. It is more the uncertainty as you come up to the end of a one-year contract about whether you are supposed to be keeping your people on or not. I think that is even more important is. Where you have got the end of a contract coming up, we need to reach a decision in good time before the end about what is going to happen afterwards, and we in the public sector are very bad at that. Very often we reach a decision after the contract has come to an end and you get interim arrangements, and naturally that can be quite destructive for staff and so on in a project. I would see that as, if anything, more important than the technical question of whether we give our first payment a month in advance rather than a month in arrears.

**Q111 Mr Davidson:** I wonder if I could ask whether this encouragement of the third sector is much more than simply a process of marketisation.

**Sir John Gieve:** I think there is an element of what is best is what works best, and for example, in the correctional area, we are looking at it that way and we are saying we want to get the service that best delivers reduced re-offending and we think that the voluntary sector—

**Q112 Mr Davidson:** So that is a “no” then, is it? It is not much more than a process of marketisation.

**Sir John Gieve:** No. OK. In some areas there is a connection. In other areas I think the voluntary sector would be amazed to hear that they were part of marketisation. Take Victim Support, which is one of our big contracts. That is not a marketisation.

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**Q113 Mr Davidson:** Who provided that service before?

**Sir John Gieve:** No-one.

**Q114 Mr Davidson:** If that service was not being provided by Victim Support, who would provide it? If we wanted it provided and they did not provide it, presumably you would have to provide it yourselves.

**Sir John Gieve:** We could either provide it ourselves or we could contract to other people to provide it.

**Q115 Mr Davidson:** That would be marketisation.

**Sir John Gieve:** All I am saying is it was not a marketisation process. Victim Support set themselves up. They said there was a need for a service. They then came to us and said, "Will you help us?"

**Mr Davidson:** Can I clarify the difference between this concept of full cost recovery and what we used to have from defence suppliers of cost plus?

**Q116 Chairman:** Add it on to his time, but just explain to the Committee what full cost recovery means.

**Ms Charlesworth:** There is the direct cost of providing the services, the people who are actually going to be doing it; the materials that they are going to use in providing the service to the individuals who are going to be using it; but in essence, an organisation needs an infrastructure. It needs a building, it needs a chief executive, it needs some personnel, some payroll, all those services. What we are saying is that it is appropriate when you are receiving government money to deliver a service that not only do we pay for the staff and the consumables that you use to provide the service but we use an appropriate share of your building, your chief executive, your payroll, because they are in essence, an essential part of delivering what you are doing. We do not pay for all of it; we pay for an appropriate share commensurate with the service. There are issues about whether or not you use a standard mark-up of 10% or whatever for that or whether you actually try and cost it out in detail, and our guidance will go through the different options there.

**Q117 Mr Davidson:** I was aware of most of that. What I asked was how does that differ from what the MoD used to have in terms of cost plus?

**Sir John Gieve:** In principle, cost plus was also a way, they would say, of covering their full costs. You are right.

**Q118 Mr Davidson:** So it is basically the same thing.

**Sir John Gieve:** But cost plus got a bad name because it allowed them to charge whatever they chose to spend money on and therefore it was in a sense an open-ended contract, so they piled on the cost, we piled on the payments. The full cost recovery contracts we are talking about here will not be of that variety.

**Q119 Mr Davidson:** Explain to me the difference then why full cost recovery will not be cost plus?

**Ms Charlesworth:** Under what we are talking about, the price is set at the start of the contract, so if you are talking in a contractual environment, the organisation decides what its cost—

**Q120 Mr Davidson:** I understand that. You are saying it is set at the beginning and that is it. I want to just clarify this point about costs in allocating contracts and the extent to which costs are reduced in the third sector at the expense of staff. What efforts do you make to ensure that where the third sector is able to offer a lower price or value for money it has not been simply at the expense of staff? Conditions, obviously, in the public sector have been hard won over a period and they can obviously be undercut by the private sector and the third sector. What steps do you take to make sure that that does not happen?

**Ms Edwards:** In some instances the private sector has undercut—well, there is competition between the voluntary and the private sectors but that is not your question. You are talking about the public sector and the—

**Q121 Mr Davidson:** The third sector undercutting the public sector by forcing down staff salaries and conditions.

**Ms Edwards:** I am not sure what evidence there is of that. The third sector by and large wants to be a good employer like any other employer. They want to treat their staff well.

**Q122 Mr Davidson:** Do I take it you are not aware of any evidence, which in a sense answers the point? I was asking whether or not you took steps to make sure that did not happen. Because you obviously are not aware of any of that, you obviously do not monitor it and that solves that point for me. Thank you. Can I just follow the point about dependency relationship? I have been involved with the voluntary sector previously before coming in here, and it was certainly my experience that many sections of the voluntary sector were unwilling to display any evidence of independent thought because of the contracts that they had with the public sector. What steps do you take to ensure that that does not happen?

**Ms Edwards:** The compact which the Government signed up to with the voluntary sector in 1998 was very explicit on that, and compact plus will be as well, that irrespective of any funding relationship which the sector has with Government, it should feel free to speak out and campaign and—

**Q123 Mr Davidson:** What evidence is there that the voluntary sector have felt free to speak out in such a way when all the evidence that we have anecdotally and from elsewhere is that they have in fact been inhibited by the creation of this dependency relationship?

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*Ms Edwards:* I would be interested in that evidence. We have direct experience in the Home Office where we provide a lot of money to various refugee organisations, but they have certainly not felt restrained in criticising us.

**Q124 Mr Davidson:** It is noticeable that you come back to refugee organisations when this subject has been raised on every occasion. What evidence is there across the whole board that they have not been inhibited?

*Ms Edwards:* I can think of a number of other organisations. There are organisations in the offender field which both provide services for offenders but campaign at the same time. I can think of organisations in the child care and children and young people's sector which both provide services and campaign, and actually, the experience of providing services can make you a more effective campaigner because you are more likely to be grounded in experience and know what you are talking about.

**Q125 Mr Davidson:** I understand that, but there is no systematic analysis of a before and after.

*Ms Edwards:* Not that I am aware of, no.

**Q126 Mr Davidson:** Can I ask just about the accountability question? It strikes me that some of voluntary sector organisations, particularly the larger ones are almost bureaucracies without accountability. There is an accountability issue, established mechanisms in the public sector but there is not an equivalent for the voluntary sector. How is that handled?

*Ms Edwards:* Voluntary organisations are accountable in different ways. Obviously, they have their boards of trustees; many of them are membership organisations and have a large membership; they are accountable to those members. They are accountable to funders for the money that they spend. They are accountable to the Charity Commission for the way they run themselves. So I certainly would not see them as being bodies which are not accountable.

**Q127 Mr Davidson:** How do you monitor the activity of what could be described as religious zealots working in the voluntary sector to ensure that they offer the broad range of services to the broad range of individuals that we might be funding them for?

*Ms Edwards:* I think I would leave that to the Charity Commission as the main regulator of charities.

**Q128 Mr Davidson:** So you would not make any assessment of any organisations that you were funding? You would leave it to the Charity Commission?

*Ms Edwards:* If they were asking us for funding, we would look at what they were proposing to do with our money. We would look as carefully as we would with any organisation.

**Q129 Mr Davidson:** How do you subsequently monitor?

*Ms Edwards:* The Government monitors in all kinds of ways. In terms of the organisations that we fund, we tend to work with them quite closely. We get reports from them on paper, not just about how they are spending our money but what they are doing with it, and I would expect staff to go out and spend some time with those bodies.

**Q130 Mr Davidson:** Are you aware of any complaints of inappropriate behaviour by religiously based organisations?

*Ms Edwards:* Not with money that has been provided by us. I would not necessarily know if it was from another part of government.

**Q131 Mr Davidson:** Can I just ask, in terms of Home Office knowledge of voluntary organisations, because there obviously is to some extent a different culture as with the private sector, to what extent is there an interchange of personnel in order to make sure that there is knowledge of workings between both them moving into yourselves and vice versa?

*Ms Edwards:* I stepped into government from the voluntary sector four years ago and have stayed this long—and I might go back, depending on what happens, depending on how I do this afternoon and what Sir John thinks about it. We have a number of secondees from the voluntary sector who work with us. We have people who come in on short-term assignments. Increasingly, we are trying to get our staff to go out and spend time in the voluntary organisations so that they understand them better.

**Q132 Mr Davidson:** Conversely, you are coming in on a full-time basis but is there a regular process of trying to feed people through on short-term placements both ways?

*Ms Edwards:* There is. We try and do that as much as possible. I know the Treasury has done that and I know other government Departments, Defra, for example, have brought in someone from the voluntary sector to help design its whole policy and strategy for how the Department should work with the third sector. The DfES have had a lot of people in from the sector.

**Q133 Mr Davidson:** One of the issues that strikes me about this monitoring is the extent to which the Home Office and other Government Departments are intensely risk-averse and that the monitoring is much tighter than it should be because of a fear of failure. I think that is well established. To what extent do you think that that is the fault of the National Audit Office and the Committee of Public Accounts in creating this view amongst people like yourselves: "Oh, my God. Let's not have anything go wrong in case I get hauled up in front of the PAC for it"?

*Sir John Gieve:* I do not think I agree with you that government is generally risk-averse. It is risk-averse in small things but, as you must know from sitting here, it takes some very big risks on big things often. But on the question of how the PAC affects

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us and the NAO, yes, absolutely. It encourages people to be quite cautious about the rules and so on.

**Mr Davidson:** How do we overcome that? I think we have always said that we wanted Departments to be a bit more entrepreneurial and to be prepared to take risks with voluntary sector organisations and other activities, while not being negligent. We do not want to be encouraging unduly a fear of failure, but on the other hand, we do not want to be condoning negligence. Are there any particular ways in which you believe we could be striking a slightly different balance that would be helpful and constructive?

**Q134 Chairman:** You are close to retirement now. Give an honest answer.

**Sir John Gieve:** The honest answer is that this Committee in particular—I do not think the NAO is quite the same—is essentially a point-scoring Committee and it homes in on the negative, and if you wanted to take a more balanced view, that would influence the approach of people coming to it and looking at taking risks. That is the long and short of it.

**Q135 Chairman:** So you want Mr Davidson to be more polite in future, do you?

**Sir John Gieve:** He is being extremely polite today actually. I have a feeling it is my day off! But it is not just politeness. It is more looking at what has gone right as well as at what has gone wrong. You inevitably find more than enough things that have gone wrong to spend all your time on but actually, the fact that that is the focus does have an impact on government.

**Q136 Chairman:** It would make for a very dull Committee, though, would it not?

**Sir John Gieve:** It might make it a bit duller. You would still have plenty of fun.

**Q137 Mr Davidson:** I would not like to think you were enjoying yourself at the Committee. The final point I want to raise is about the question of EU procurement rules and this clash potentially between having a government policy that wants to delegate some work down to voluntary organisations and all the rest of it and the fact that contracts have got to be open. Maybe you could just talk me through what the real practical difficulties of these two things coming together are.

**Ms Charlesworth:** Obviously, the EU procurement rules are tiered according to the size of contract, and so will impact in different ways depending on the size of the contract. This is a general issue that does not just apply to the voluntary and community sector but applies to small and medium size enterprises, and OGC have been working on this in trying to run some programmes and to invent some best practice which will enable small and medium size organisations, including organisations from the V and E sector and the VCS sector to understand what is going on, to understand what is available. It does apply not just

to the EU but also to some of the big procurements. The NHS procurement system has a project now again which they call Intend, which helps SMEs and VCS to understand what the procurement process is and get training in the procurement process. It is to get more competition.

**Q138 Mr Davidson:** I understand that. It is not just a question of access to the contracts. If the Government deliberately wants to enact a policy not only to increase the market itself, which it could do by international competition, but to develop local groups and organisations and competence at a local level, that may involve a degree of positive discrimination. I am trying to seek clarification whether or not that is then inhibited by EU procurement rules and anything like that has caused you any difficulties?

**Sir John Gieve:** I think generally, going back to our own patch, we expect the voluntary sector to be able to compete on price and effectiveness in its own right. Where we think that we want positively to help them so that they win more contracts, we should in principle split that between a grant to build up their capacity and then the contract will be for the service. That is how we should do it in principle. I think the bureaucracy and timescales and so on in EU procurement practice do put some voluntary sector organisations off—there is no doubt about that—and small businesses too.

**Q139 Mr Williams:** I was intrigued by your comment that this Committee homes in on the negative. I wonder, if you were sitting here and you had 50 sittings a year and £6.5 billion of money outgoing and incoming to monitor, what would you concentrate on? Would you concentrate on where the lessons were to be learned and where the money is to be saved?

**Sir John Gieve:** Absolutely. I am not saying that that would be one—

**Q140 Mr Williams:** That is a good answer. Do not spoil it.

**Sir John Gieve:** That would be one of the things I would concentrate on but the other thing I would concentrate on is whether we are getting the outcomes we want—I should probably stop because this is not my last appearance. I have a trickier one ahead.

**Q141 Mr Williams:** We do call witnesses back sometimes.

**Sir John Gieve:** You asked what you could do in a sense which would change the excessive caution of public servants, and I think one of the things you could do is conspicuously to reward people who took a risk and succeeded, and I do not know how often you do do that. I only come to occasional meetings.

**Q142 Mr Williams:** We concentrate inevitably on the Reports where we can save the taxpayer money. As you know, we save eight times what the National Audit Office costs in taxpayers' money by

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concentrating on the problem areas. However, we will not go into the philosophy of that. Today's hearing is extremely important because the Government has made it clear that it intends to make greater use of the sector. We, like the National Audit Office, have no role in relation to policy. If that is the Government's policy, all well and good; we go along with it. If they have a different policy, we examine in the light of that. What concerns me here is that if you look at paragraph 2.13 on page 21 I get a very clear impression of an NAO flag waving there and saying "Extreme caution. There are serious problems that need to be addressed before you go too far down this route." Let us look first of all at the first sentence. "Good funding practices adopted by central Government Departments are generally not preserved where there are complex chains of intermediaries." One can understand that. How are you going to address that?

**Sir John Gieve:** We are trying to work with those intermediaries, whether they are agencies, quangos or local authorities, to try and ensure that good intentions are not dissipated.

**Q143 Mr Williams:** But that does nothing about the complexity and the distortions and the diversion of resources into other channels—I do not mean improperly—that can take place down the delivery chain. Let us look at the second point. Further down it says "Decisions on funding practice will rest with managers outside central Government Departments" and these managers are "at least one remove from the civil service networks responsible for implementing the Treasury Review's recommendations." How can you deal with that? What are you doing to ensure that they do and will conform to the Treasury Review recommendations?

**Sir John Gieve:** The broad answer is the same. We are talking to them; we are encouraging them through a mixture of task forces and working parties. We have one on local government, we have another in the Health Service, we have another in the Culture, Media and Sport area.

**Q144 Mr Williams:** This has been going on for years and this is still the assessment the NAO has made of the situation as it stands now. Only six Departments, it tells us on the next page, have tried to disseminate good funding practice. Why? There is £2 billion. I know that is small in the total government financial regime but why is not good practice encouraged and why is it not disseminated?

**Sir John Gieve:** When it says only six Departments have issued written guidance—and I am afraid our experience is that written guidance is itself a very imperfect lever on getting people to obey it. I hope other Departments are doing more. I think it is very difficult, and it is true of armies, it is true of the Health Service, it is true of apparent command control organisations, that there are many links in the chain and it is quite difficult for the guy at the top to ensure that the guy at the bottom pays any attention to it. That is a fact of life.

**Q145 Mr Williams:** I am now getting shivers about the change in direction of policy, because instead of turning round and saying to me, "Well, look, the Government has now said this is going to be a higher priority, therefore we have scheme A, scheme B and scheme C to address the shortcomings, the problems," all we get is that you are talking about it. I would not encourage the Government to invest extra money through these routes unless I was convinced that you had not only talked but you had delivered in terms of financial discipline. We do not want to constrain them, we do not want to stop them doing their job; we want them to do their job but it has to be done within the confines of propriety with public finance, does it not?

**Sir John Gieve:** It does. The answer is you should look at whether the level of voluntary sector contribution to public services is going up and whether the sector is doing well and whether they are building their capacity. In a sense, that is the final outcome of the various measures we are taking to try and change the situation. So the proof of the pudding will be in the eating. There is another point here which I think is important, and that is that the Government should make clear to the intermediaries how their success will be measured and in a way that encourages them to produce the best outcomes. We are doing quite a lot of work on that too, both for agencies and through local area agreements with local authorities to try and simplify the monitoring of funding application mechanisms, but in return we need to agree clearer and more measurable success measures by which we will judge their performance on. That approach should help the voluntary sector and their approach in the voluntary sector too.

**Q146 Mr Williams:** You see, if you look at paragraph 1.2, you cannot even agree on how much money they get. You say you are probably surprised to discover that they think they have had 12% more than you think you have given them. Somewhere along the route, either there is a touch of alchemy or someone has not got their accounting right. Which is it?

**Sir John Gieve:** As paragraph 1.12 goes on to explain, this is because we have been measuring slightly different things, and it is not that we are coming up with different numbers for the same thing, but we are both in the same ball park. I would not attach too much significance to that.

**Q147 Mr Williams:** I would. Can I talk to the other Sir John a moment, Sir John Bourn? I may be wrong in the interpretation I put on the first paragraph I referred to but do you consider that the controls that exist at the moment are effective?

**Sir John Bourn:** No, I do not, for the reasons that have come out. They are too bureaucratic and concerned with detail and they do not really enable those who are concerned with control to sum up and understand the way in which the organisation is working and achieving its purposes, so you might have a set of accounts in which you have all the

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ticks in the boxes but you had still not understood the voluntary organisation and how really effective it was on the ground.

**Q148 Mr Williams:** So they are giving them the money but they do not know whether it is value for money or not?

**Sir John Bourn:** I think, as Sir John and Ms Edwards and Ms Charlesworth have said, they recognise they have not got it right and they recognise that they have got to do better.

**Q149 Mr Williams:** This Report is relatively new, so it must be fairly up to date, and to me it has come over as chaotic, to be honest, in terms of financial control. I am only concerned about that because the Government is thinking of throwing more money in this direction. How long is it going to take you, Sir John, the other Sir John, to get that right and put proper controls in, or do you intend to? Do you not think they are needed?

**Sir John Gieve:** Sorry. I got the wrong end of the stick last time. The controls on whether the money is being spent on the right purposes and we are getting value for it that matter are the controls on the individual public bodies and their own contracts. So, for example, are we getting good value out of the hundreds of millions we spend on drug treatment, on the voluntary sector drug treatment agencies? That is an absolutely a core issue for us. We can no doubt do better, get better value for money, especially if we move to longer term funding, but nonetheless, we do know what we are spending and we do have controls over it. The paragraph you are pointing to is, if you like, the survey that we do of what the whole public sector is spending on the voluntary sector and that is not a control mechanism; that is a sort of surveying and coordinating function and we do not perhaps need the same precision on that that we do about our own spending on particular programmes.

**Mr Williams:** At first I was going to commend you on sounding very much like a Member of the Committee of Public Accounts in the first part of what you said, but then unfortunately you drifted into sin towards the end. However, we look forward to seeing perhaps in a year or so how far you have progressed in making sure that taxpayers' money is looked at and that this sector is not trammelled in the way it carries out its work. Thank you.

**Q150 Chairman:** You made an interesting point earlier, so let us get it ingrained in our collective memory, that when people in the public sector take risks at work, we should do more to congratulate them. Perhaps we should remember that, Sir John. I have over the last four years tried to do that, not so much with Permanent Secretaries because they are past caring.

**Sir John Gieve:** I have noticed you are much more polite to the more junior members of staff. Perhaps you should have some PAC awards for successful risk taking.

**Q151 Chairman:** I do not know if we could go that far, but we can certainly give credit where credit is due, can we not?

**Sir John Bourn:** I certainly think, Chairman, that you have addressed many audiences in which you have said the PAC does recognise successful risk taking and you are not against people taking risks; what you are against is people taking risks without them knowing what they are doing, and it is the encouragement to think through. As Sir John said, if you look at the public sector, it takes the most amazing risks, walking off a cliff without having sussed out what it is about, and that is the thing that needs attending to. What you have done and what we have sought to do in our analysis of successful risk taking, illustrated with cases where Departments have done it and have done it well, we have been glad to testify to those successes, but it is an interesting idea, Sir John advances that there should be PAC awards.

**Chairman:** The Sir John Gieve Award. Anyway, I am afraid we are not finished with you yet. I am sorry.

**Q152 Helen Goodman:** I am going to bring this down from these Olympian heights. Sir John, do you know about the practice of issuing protective redundancy notices? Are you aware of this?

**Sir John Gieve:** I am vaguely aware of it but Helen is saying she is very aware of it.

**Q153 Helen Goodman:** It is the problem where when the voluntary sector organisations do not know before the beginning of the new financial year whether they are going to get money in the subsequent year, they then issue redundancy notices in order to that they will not have ongoing salary costs that they will not be able to afford in that event. Do you think that that is likely to be conducive to good morale in the voluntary sector organisations if this happens as a matter of course on a regular basis?

**Sir John Gieve:** No. It would be very disruptive.

**Q154 Helen Goodman:** Would you like to run the Home Office on this sort of basis, where every January you were issuing redundancy notices to a large proportion of your staff?

**Sir John Gieve:** No, I would not, and I do not.

**Q155 Helen Goodman:** Could you explain therefore why it is that if you turn to page 34, figure 13, only 18% of the voluntary sector organisations surveyed were told that their funding was being renewed on time? Do you know why this was?

**Sir John Gieve:** I do not know about the particulars of those, but I was picking up that in answering your colleague on why this was, it seemed to me, more important than the fact that only 60% felt they were getting advance payments. I do think that this is a chronic problem in government, I know we have been guilty of it in the Home Office and there are usually particular reasons around

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uncertainties about whether we are going to change our policy or not, but it is very destructive and we certainly have that in our sights.

**Q156 Helen Goodman:** Would you accept that the people in fact it is most destructive for are the clients who are affected by the uncertainty of the people working with them? I am slightly concerned that although you care about this, you have not got a very clear view about why this should be. If you do not have a very clear view about why this is going on, what steps can you take to improve the situation?

**Sir John Gieve:** I think actually it is connected to multi-year funding, in the sense that if you are having to renew a contract every year, in three years there are three occasions when you may be late, so at least if you move it on to multi-year you can do better. Perhaps a more positive reason is that we tend to have used the voluntary sector on new programmes, on pilot programmes, on things we are trying out, and therefore the final decision has been delayed, so I think we do have a reasonable diagnosis of why it is happening, and it has been a long haul to change it.

**Q157 Helen Goodman:** I would also like to cover the point that Mr Trickett made about the representativeness of voluntary sector organisations in deprived communities where the aim is social regeneration and capacity building at that level. Clearly, this relates to the issue about accountability. To whom is the voluntary sector organisation accountable? Is it accountable to the taxpayer for where the money is spent or is it accountable to the community for delivering what the community needs? Have you thought, and if you have not, would you like to think about asking the communities for the targets and standards that they think should be used for monitoring so that we bring these two different strands together?

**Sir John Gieve:** I think that is the ideal, and it can be possible. To give one example, we have a national target to build confidence in the police and the rest of the criminal justice system, but that is measured locally, so if you are not doing the things that the locals recognise, then you will not get the increase in confidence. That coincidence, if you like, is where you want to get to.

**Ms Edwards:** I think a certain amount of that does go on already. There is a lot of involvement of communities, not specifically in targets, and I think we could do more on that, in regeneration. I know some of the issues around that. People often feel they are involved in consultation but sometimes they are not listened to, and then they are not necessarily involved in taking forward the action that is required. I think we have further to go on that front, but I do not think there is a complete lack of dialogue at that level. I think government is trying to do much more than it has in the past.

**Q158 Helen Goodman:** I was not suggesting that there is a lack of dialogue. I was suggesting that an improvement might be to give the communities more of a whip hand by giving them the control over what is measured.

**Ms Edwards:** It is interesting, is it not? There is a huge amount of devolution at the front line at the moment. Central government in looking at things like local area agreements, trying to work with local authorities in a different kind of way to roll some of the moneys together so there are not all these different funding streams coming down and attendant responsibilities on local authorities to consult local communities about how that money is spent in accordance with local priorities. So I think there is a movement in this direction, but I can understand why people in communities might feel that it does not look like that from their point of view.

**Q159 Mr Bacon:** Ms Charlesworth, how have you managed to turn the relatively mundane subject of overheads into a high science? I have listened with some perplexity to all your answers about full cost recovery, but it says in figure 10 the general support costs, central functions, overheads—not, I do not think, particularly difficult to understand—and if organisations are incapable of working out what their overheads are, is it not questionable whether you should be giving them any money at all?

**Ms Charlesworth:** I think the work that ACEVO has done has identified first of all that there is an enormous diversity of organisations here doing a very wide range of different things, so their cost structures will be necessarily different, and what ACEVO have tried to do, and I think successfully now, is provide a common framework for doing that. We are then going to contract with people in different ways, through grants, through contracts, whether you have a tariff system or a price. So the job here and the job we are embarked on is simplifying, but if we over-simplify then people will find when they are looking to fund that their circumstances are not reflected in the guidance, and this is why the NAO have rightly identified that the decision support tool will be very beneficial here, and we will work with them so that what we do is guide them through to make sure that they understand what is right in their circumstances and then they can keep it simple.

**Q160 Mr Bacon:** Ms Edwards, could you say that in your opinion getting longer term contracts with more established organisations on balance achieved better value for money or would it create on balance a dependency culture which shut out new, innovative organisations?

**Ms Edwards:** I think if all the contracts were with established players for a longer period then it would have the effective of shutting out new entrants and I think it might stifle possible innovation. I think one of the things that you do get from the voluntary sector is the entrepreneurial

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spirit, which means that people try out new things and can see different ways of doing things. There is a balance to be struck.

**Q161 Mr Bacon:** So you really want a bit of both, is what you are saying?

**Ms Edwards:** I do, yes.

**Q162 Jon Trickett:** I want to hypothesise the following. There is currently a Public Spending Review going on and there is some speculation in the media that the flows of taxation are not what they might have been. I am aware of organisations both large and small in this sector which are being told by their funding bodies that money is not going to come, even though it was promised, until the Spending Review has been completed, some of which money has already been spent. Are you aware of that? Secondly, if I were a Permanent Secretary or any budget holder, as I have been in the past, and I was looking at the prospect of possible cuts, I would protect my own empire at all costs, and the first thing I would cut back would be external organisations, and I think that is happening. Do you think that there is a culture of that within the Civil Service, that they would want to protect people they employ first, and in a sense, the third sector is an easy cut, and secondly, the question I put at the beginning, are you aware that there are organisations, including some very big ones, who are being held up really because of this Spending Review?

**Sir John Gieve:** On the first point, yes, I think in any organisation there is a risk that it will protect itself before its contractors. That is always a risk. And of course, there are some contractual realities behind that. It is easier to cut short-term contracts

than to get out of long-term contracts and so on. But as the growth of public spending slows down, as it must over the next few years, it is the responsibility of the Government, and one it is very aware of, to create counterweights to that, and the efficiency programme, which no doubt Anita is going to be talking to us about, is all about that. It is particularly starting with headquarters costs and overhead costs in the central government machine. So yes, of course there is a risk, and it is something we have to be aware of and is something that the Treasury, and indeed the top management of Departments has to fight against. I was not aware about delays on actual payments.

**Ms Charlesworth:** We are doing a Spending Review in 2007, so at the moment Government Departments have budgets to 2007–08. I am not aware of the issue but the only thing I can think of is that local government will get their allocations for 2006–07 and 2007–08 imminently, so whether there is something there, and similarly, schools budgets will go out for those two years at the same timetable. So it may well be that although Departments have their budgets, because the next two-year budgets are imminent, there is something going on there. The other thing I will just say is that Peter Gershon, when he did the review on efficiency, was very clear, and the subsequent guidance to Departments was very clear that arbitrary cuts to VCS services do not count as efficiency gains.

**Chairman:** Thank you, Mr Trickett. Sir John, ladies, thank you very much. £5 billion may only be 0.5% of public spending but it is very important for the voluntary sector and I am sure our report will try and concentrate on how we can streamline these processes to help the voluntary sector. Thank you very much.

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 Memorandum submitted by Volunteer Reading Help

I am writing to you regarding the Committee's evidence session into the funding of the voluntary and community sector, since as a national charity with 3,000 volunteers nationwide, we feel the need to input our views of this highly important issues. Volunteer Reading Help (VRH) recruit and train volunteers to work with looked after children and children with reading difficulties aged 6–11 who may need extra support and monitoring. Our trained and supported volunteers read, play and talk with the children on a weekly basis. We work in schools, but outside the classroom. We are however constantly seeking to establish partnerships so that we can reach even more disadvantaged children.

VRH are pleased that the Committee of Public Accounts are undertaking an inquiry into *Government funding of the voluntary and community sector* and we very much welcome the recent publication of the NAO's Report, *Working with the third sector*. VRH strongly supports the Report's focus that that Third Sector has an important role in delivering public services, and that currently the potential of this role is not being sufficiently harnessed and used efficiently in delivering public services. The fragmented approach to funding often raises a number of questions concerning engagement with the Third Sector, inconsistency and the length of the funding support available, as well as the methods of delivering funding and procurement contracts created during this process. It is hoped that these questions can be scrutinised by the Committee's inquiry. The main issues for VRH surrounding funding and the funding process are set out below.

## SHARING OF BEST PRACTICE

There appears to be great variation across Government Departments in their ability to engage with the Third Sector over funding issues. This is extremely worrying and VRH would like to see that this issue is given serious consideration, not only in terms of the guidance given but also in the training provided. VRH welcomes the idea of sharing best practice in funding, which was highlighted by the Compact Plus review

and in the NAO Report in the key findings section on page 3, which indicated that despite the Compact, good funding practice, is not always found at local level. We feel that this would not only help Third Sector workers gain access to and share ideas but that it could be used as a porthole for discussion with local and national Government.

#### ACCOUNTABILITY

VRH are keen that increased accountability should be built into the relationship between the voluntary sector and public bodies since presently there is no independent arbiter who can oversee this process who has any authority. Against this background VRH supports the recent consultation on Compact Plus which aims to strengthen Compacts<sup>1</sup> both locally and nationally by laying out commitments which voluntary sector bodies can opt into and gain mutual understanding of local and national aims. However, VRH feels that the Home Office has missed an important opportunity to improve confidence of the Compact within the sector by giving the Compact Champion, a role that would be set up under Compact Plus, the power to confer obligations on all parties and to uphold funding promises where reneged on by public bodies.

#### FULL COST RECOVERY

The NAO Report highlights important principles which are presently not being consistently upheld within the current funding system, including the principle of full-cost recovery, which is highlighted as a recommendation on page 7 of the Report. At present many Third Sector organisations have to bid on the basis of direct costs alone and funding overheads are often not met due to funders reluctance to meet the full-cost. For the full-cost recovery system to be effective there needs to be practical guidance and information at all levels of governance in independent arbitration and funding only being cut to organisations demonstrably failing.

#### STREAMLINED FUNDING

VRH are keen to see the introduction of a more streamlined funding system. Currently there are numerous forms which need to be completed to obtain funding and VRH would like to see the introduction of a single streamlined form which will be less time consuming for the organisations involved and also a clearer and easier to handle process.

#### ADVANCED PAYMENT AND LONG TERM FUNDING

VRH feel that there is also a need for advanced payments on funding rather than payment after money has been committed and spent. This would help many organisations to plan funding commitments and ensure that funding is always delivered as promised.

Wherever possible this funding should also be long term; VRH have directly experienced the problems of short term funding, which highlights the need for advanced payment as well as long term commitment to the funding of voluntary organisations.

#### VRH'S EXPERIENCE OF SHORT TERM FUNDING

VRH had a meeting in January 2005 with key civil servants at the Department for Education and Skills to discuss ongoing funding of VRH's work. At that meeting, it was agreed that VRH would receive a further three years funding; £300,000 in 2005-06, £220,000 in 2006-07 and £220,000 in 2007-08. In April, the CEO of VRH received a letter from DfES stating that due to the Spending Review and the general election, they could only pledge a further year's funding at this stage. This was in complete contradiction to what had been promised at the meeting in January and is an example of where the Compact Champion could arbitrate on behalf of VRH. This kind of about-turn in policy is extremely unhelpful, though it has happened to others due to the Spending Review.

#### RECOMMENDATIONS

- Where possible one form to be developed for funding applications.
- Compact Champion to be an independent arbitrator, with the power to force Government to make good on funding commitments.

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<sup>1</sup> The Compact is a voluntary agreement between the voluntary and community sector and public bodies, it covers issues such as funding, opportunities for inputting into policy and guides communication between the sectors.

- Online resource for similar organisations to obtain funding information.
- Stronger monitoring of local Compacts, possibly through the use of an Ombudsman.
- The Home Office to do more to coordinate the funding process.

*Gill Astarita*  
Chief Executive