

## Briefing Paper 20

### The third sector delivering public services: an evidence review

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#### Introduction

The third sector has been at the centre of an animated set of debates around the role, structure and reform of public services over much of the last 25 years, in the UK and elsewhere. The changing economic and political climate adds a new twist to the discussion. A new politics of austerity brings a new dimension and extra salience to the conversation about the role and future of the sector in general, and in the delivery of public services in particular. But what do we think we know already about the sector's role in delivering services? This paper examines research evidence, argument and policy development on public service delivery over the last five to ten years guided by the general question: *'what does the research and evaluation literature tell us about third sector involvement in public service delivery?'*

Forty-eight separate pieces of research, published between 2004 and 2010, on the themes of public service delivery, commissioning and procurement were reviewed. This body of literature represents the research response to the new third sector public sector delivery landscape which has developed out of the Labour administrations' interest in promoting the sector's role in service delivery. Around this time statutory funding to the sector has been growing (from a total of £8.4bn in 2000-01 to £12bn in 2006-07) and changing in form (£4.2bn of statutory funding in 2006-07 was received as grants, down from £4.6bn in 2000-01, whilst contract funding increased over the same period from £3.8bn to £7.8bn). Nonetheless, only one in four general charities (about 40,000) have a funding relationship with the state.

#### Recent historical and policy context

Much of the recent debate on the third sector and public service delivery is not particularly new. The early 1990s saw the development of a market-making strategy in social care, in which an expanded role was envisaged for voluntary agencies and private companies in delivering services as part of a 'mixed economy of welfare'. Commentators regarded these developments as the formulation of an 'instrumental' view of the sector, where voluntary and community organisations were regarded as little more than 'alternative providers' in efforts to diminish the state, or as 'service agents' for the delivery of government policy. Echoes of these earlier concerns, around what was termed the 'contract culture', sound through the current conversations in the sector, but there is a remarkable lack of reference to these earlier debates in current writing.

The Labour governments from 1997 signalled an interest in promoting and enhancing the involvement of the (then termed) voluntary and community sector in public service delivery through the Treasury's 2002 'cross-cutting review' and significant subsequent investment. The rationale was clear: in order for the third sector's involvement in public service delivery to be increased, its capacity needed to be boosted. As this agenda developed cautious critiques were articulated around the need to maintain the independence of the sector, about the over-emphasis on 'delivery' at the expense of 'voice', and particularly around the barriers faced by the

sector in engaging with the new agenda. A subtle policy shift acknowledged that the 'problem' was not just about the capacity of the third sector to engage in public service delivery, but the commissioning and procurement system itself.

A more animated debate surrounding the third sector began to emerge from around 2008 in advance of a subsequent general election. Much of the ongoing debate around Labour's policy framework focused on the capacity of the sector (and particularly smaller groups) to be engaged, concern about independence, and voice, and the degree to which the policy framework entangled the sector in regulation and bureaucracy. A number of these themes were taken up by the Conservatives in their efforts to establish a distinctive policy position. In opposition, the Conservatives argued that the sector had been underused, undervalued and controlled like a 'mini public sector' and proposed to reduce burdens, interference, bureaucracy and wastefully complex initiatives, and to promote longer term contracts based on payment by results. The sector, re-characterised as 'civil society', would be freed from control, bureaucracy and 'state failure', suggesting the possibility of a new framework for the sector's role in delivering services.

### **The third sector and service delivery – examining the evidence base**

The review of literature may be regarded as an evidence 'baseline' for the newly emerging political and policy configuration which results from the 2010 general election. Four main topics or themes are identifiable in the literature: emerging commissioning and procurement practices, the experiences of TSOs in the new service delivery landscape, their support needs, and the impact of the new service delivery landscape on TSOs.

#### **Emerging practices**

The literature notes that service commissioning is still in its infancy across public bodies, with limited understanding and differing perspectives of the processes on both sides. A central concern is commissioners' lack of knowledge of the range of third sector providers, and the need for greater

local market intelligence. Combined with a lack of knowledge by TSOs of commissioning practices, one study refers to an 'information deficit' on both sides, although evaluation of the National Programme for Third Sector Commissioning suggests some improvement over time.

Funding relationships in the public service delivery agenda are likely to have a significant bearing on third sector organisations. There has been some concern that 'shopping' by public bodies takes priority over 'giving', and that as a result grants from public bodies may diminish. Reviewing government funding practice in 2005, the National Audit Office found that the government's commitment to changing funding relationships with the sector appeared to have been rather hesitantly applied in practice, with considerable variation across departments and annual funding agreements still the norm. There are frequent references in the literature to the hidden costs and associated bureaucracy of contracting. The promotion of the idea of Full Cost Recovery (FCR), and the development of tools to support it, has the potential to strengthen the position of the sector in contracting. In particular the principles of FCR are designed to ensure that services are not unwittingly subsidised by third sector organisations to the detriment of their financial position. In practice, FCR has proved problematic for both the sector and public bodies. Much of the literature reports the difficulties TSOs have in gaining acceptance of the idea of FCR, and often fail to achieve it. A National Audit Office review in 2007 concluded that although there was a commitment to FCR in central government, it was hard to translate this into practice and implementation was patchy.

#### **Third sector experiences**

Commissioning and procurement is acknowledged to be a complex set of processes, with numerous reports of how difficult, confusing and uncertain TSOs find the new service delivery landscape, particularly smaller organisations, BME organisations and organisations in rural areas. Around three-tenths of charities deliver public services, although this varies considerably by size of organisation. Only about one in seven

of the rest are actively considering doing so in the next 12 months. Reasons given for being involved include a belief that TSOs are in a better position to deliver services than other sectors, that the services are an integral part of the purpose of TSOs, but also improving financial sustainability and chances of survival.

**Key features of TSOs thought to be successful and/or 'commission-ready' by commissioners include a good reputation, strong relationships with the local community, awareness of local needs, specialist expertise and an ability to achieve targets and outcomes.** Reasons cited by commissioners for unsuccessful tenders from TSOs include poor quality bids and a poor understanding of the changing agenda, lack of staff capacity and insufficient attention paid to the outcomes specified in the tender. Three fifths of training participants in the National Programme for Third Sector Commissioning agreed that 'third sector organisations often do not have the resources or capacity to successfully manage public sector contracts'. TSOs also mention lack of capacity, but also note a lack of understanding of the third sector amongst commissioners, particularly around 'soft' or intangible outcomes TSOs often provide.

**Relationships between commissioners and TSOs feature as important aspects of the new environment. The importance of previous history, strong local authority-sector relationships and good boundary spanning inter-personal relationships between commissioners and TSOs appears as a recurrent theme in the literature. Success in winning and then delivering contracts is determined by establishing and maintaining good relationships with service planners and commissioners but this is in tension with the need for open and transparent tendering processes and the priority given to contract compliance over service learning.**

### **Supporting the third sector**

Several studies note that organisations lack resources for service and organisational development, and small and medium sized organisations in particular lack capacity in

business and strategic planning. As a consequence they have a limited ability to respond to the new funding environment, operating instead with what has been described as a 'hand to mouth' existence and a misplaced optimism about the future. Several sources identify the need for a wider culture shift for the sector engaging in commissioning, involving an appreciation of a changed context, and the need for new skills around understanding new processes, building relationships with commissioners and framing bids around what purchasers want to buy, not what TSOs want to deliver.

**More appears to be known about the support needs of TSOs around service delivery than about the organisation and effectiveness of initiatives for providing that support. The literature suggests that support on the ground for TSOs in commissioning and procurement is lacking, growing slowly or fragmented, with calls for a more differentiated support response across the sector and a concern for more in-depth and tailored training.** However, more attention appears to have been devoted to supporting organisations in navigating and coping with the demands of commissioning and procurement arrangements, rather than necessarily with how to improve services to users.

### **The impact of the new service delivery landscape on the third sector**

Despite occasionally optimistic references about the opportunities for change in the new service delivery landscape, and opportunities for growth and enhanced reputations for successful TSOs, the bulk of literature reports a range of sector anxieties and other negative consequences, echoing earlier debates on the 'contract culture'. Six key aspects are discussed in the literature, focusing on the impact of public service delivery on: independence, mission, innovation, employment terms and conditions, collaborative relationships and polarisation within the sector. However, the evidence surrounding some of these concerns is relatively mixed and under-researched.

For example, there is a concern that contracting puts pressure on TSOs to conform to statutory funders' agendas and a risk that they might lose their independence and ability to campaign. Worry about loss of independence seems quite prevalent, and there is some evidence of undue expectations and interference by statutory funders, but also a suggestion that organisations have been able to defend their ways of working. However, only around one quarter of charities that deliver a public service agreed that they are free to make decisions without pressure to conform to the wishes of funders, compared to nearly three-fifths of charities that do not deliver public services. Likewise, the possibility that delivering public services under contract may lead to a distortion of the core purpose of TSOs, so-called 'mission drift', is frequently mentioned. However research is ambiguous and even contradictory, and leaves us with some concern about the *potential* for and anxieties about mission drift, but no clear indication of its prevalence or its causes and consequences.

## Conclusions and a new research agenda

In the last three to five years the public service delivery agenda for the third sector has come under much greater research scrutiny. Overall greater attention appears to have been given to the voices and concerns of staff involved in TSOs, rather than other stakeholders such as trustees, volunteers and particularly TSO members and service users. **Less research attention has been given to the nature of the services commissioned, whether new commissioning processes are leading to service improvement, and fundamentally what difference services make.**

The review suggests five clusters of issues for further research attention:

1. *Commissioning models, personalisation and co-production* – how different approaches to

commissioning are impacting on TSOs and the services they provide.

2. *Inter-organisational responses to commissioning* – charting the development of new forms of collaborative relationships, alliances and partnerships between TSOs, and between TSOs and providers from other sectors.
3. *Polarisation, proximity and national versus local provision* – whether the 'proximity' (closeness to users, local knowledge, and a sense of local ownership or affiliation) of local service providers really matters in service delivery, compared with issues around scale, capacity and efficiency.
4. *Sustainability and resilience* – whether, how, and in what circumstances delivering public services under contract serves to strengthen the longer term sustainability and resilience of TSOs and the work they do,
5. *The impact of public service delivery on TSOs* – whether and how prized aspects of third sector work, including mission, independence and influence, are enhanced or compromised by TSO involvement in public service delivery.

As a 'stock-take' and baseline, the review concludes that the third sector's experience of the new service delivery landscape developed under the new Labour governments has been somewhat mixed and varied. But the economic and political context in which the sector works has changed. New questions will be asked about the sector's experience in an era marked by public finance retrenchment and under different political and ideological priorities. It will take some time for a new picture to emerge and whether the new context might signal a return to a primarily instrumental view of the sector as 'alternative provision' in public services, or whether the experience of the last 10 to 15 years has put the sector in a qualitatively different position.

This paper is part of the Third Sector Research Centre – Briefing Paper Series see [www.tsrc.ac.uk](http://www.tsrc.ac.uk) for more details and a copy of the full Working Paper 20

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