

**Economy Committee – 18 June 2015: Transcript of Item 9
The Role of the Third Sector in Employment and Skills Programmes
Session One**

Fiona Twycross AM (Chair): That brings us to today's main item, which is on the role of the third sector in employment and skills programmes. Can I welcome our guests for our first session today, Nehal Depani, James Butler and Duncan Melville? Nehal, you are Policy and Project Manager for Employment and Skills at the London Voluntary Service Council. James, you are Public Affairs Manager for Social Enterprise UK. Duncan is Chief Economist for the Centre for Economic and Social Inclusion.

We have a second session, which we will aim to be starting at around 11.00am, and so I will ask Members to keep their questions and comments concise. The first question, which is a broad question to all guests, is around what in particular third-sector organisations bring to the delivery of employment services.

Nehal Depani (Policy and Project Manager – Employment and Skills, London Voluntary Service Council): Sure. There are a few points that we wanted to bring out. First of all, the third sector has a social mission and this is important because it encourages organisations to look at the individual in a more holistic way. For the third sector, they are not trying to meet targets and they are not trying to fill a certain tick-box. They are trying to solve the problem.

There are also knock-on benefits from this kind of social mission. For example, the voluntary sector can harness the power of volunteers, which is really significant. In lots of refugee and asylum-seeker charities, it is not unusual for former students who are benefiting from the service of a charity to go on to be volunteers and that helps them progress towards work.

Thirdly, the voluntary sector does very well in reaching hard-to-reach communities. These are the people with whom the statutory sector and the private sector often do not come into contact. In terms of helping those kinds of people into employment, the third sector has a big role to play.

James Butler (Public Affairs Manager, Social Enterprise UK): I would echo all of the points that my colleague, Nehal, has made. Just a word about social enterprises. They are organisations - businesses - that reinvest their surpluses into their social or economic mission. That makes them slightly different from the rest of the third sector to some extent. A semi-philosophical point: a lot of social enterprises have been set up because of the frustrations with traditional employment-readiness schemes and they see that the power of business can be harnessed to drive social and environmental good. That said, they share many of the other great facets that the charitable sector has in terms of adaptability, local knowledge, cultural awareness, down-to-earth approaches, a preparedness to do what works, which is not necessarily fitting in with the ideology that the state would bring, a preparedness to go the extra mile, and an expertise within the sector that they operate in.

Duncan Melville (Chief Economist, Centre for Economic and Social Inclusion): I would agree with what my two colleagues have said. The thing that the third sector can really bring is that they are very good at getting to disadvantaged, difficult-to-reach groups, better than - for want of a better word - conventional providers. They are smaller and they can be more flexible. That is also true of smaller non-third-sector organisations, true. To me, they are a vital part of what we might call the 'mixed economy of provision', which can be the state, the private sector or the third sector.

The bottom line of all of this is not necessarily the role of the third sector or any particular provider, but what is important is maximising the performance of these programmes and projects so that the most people that we can help are helped.

Fiona Twycross AM (Chair): In general, do you think that the majority of third-sector organisations maintain a specific focus within employment programmes, for example, helping those with more complex needs or working in local areas? Nehal, you mentioned the hard-to-reach groups. You can comment on that, maybe.

Nehal Depani (Policy and Project Manager – Employment and Skills, London Voluntary Service Council): Do you mean that they are focused on hard-to-reach groups rather than --

Fiona Twycross AM (Chair): Yes, how third-sector organisations are better placed and how they are better placed to reach those with complex needs or those who are traditionally hard to reach?

Nehal Depani (Policy and Project Manager – Employment and Skills, London Voluntary Service Council): A lot of third-sector organisations are formed within communities, they are grassroots organisations that really come up because people see a need around them or in fact have had those particular issues themselves and are motivated to do something about it. Quite often, you see in third-sector organisations a real understanding of those issues and how they are actually experienced in communities, as opposed to how they look when you pan out and see it from quite a distance. That is a real advantage of some of these organisations.

Fiona Twycross AM (Chair): Duncan and James, do either of you think that?

James Butler (Public Affairs Manager, Social Enterprise UK): Certainly for social enterprises, the majority of them are based in deprived neighbourhoods, as traditionally defined. In terms of their specialisation - which I thought was perhaps quite a big question, if I understood it - to some extent it is a little bit like nailing jelly to the wall to work out what social enterprises do. The key thing about them is that they are entrepreneurial. If something does not work, next thing they will be doing something different within the same general area of expertise.

Fiona Twycross AM (Chair): Duncan, what do you think the main challenges are for employment services going forward and what do you think the role of the third sector should be in meeting these challenges?

Duncan Melville (Chief Economist, Centre for Economic and Social Inclusion): The major challenges? Firstly, I would say that the good news is, if we look at the labour market both in the UK and in London, what we have seen since around 2012 is rising employment, falling unemployment and, frankly, far better labour market performance than any economist would have anticipated given that output growth has not been very impressive. We have had the slowest economic recovery ever, including the 1930s. The performance of the labour market given the relatively poor performance of the economy is actually quite extraordinary. For many people, that is good news because they have work. Of course, for many people, that is not so good news because wages have fallen.

However, even though we might have that background that we might see as relatively positive, we are going back to a situation where alongside that we have a group of people who are very disadvantaged and who have been on benefits for a very long time. Sorry, I have to refer to my crib sheet here because I anticipated this

question. For example, in London, there are over 300,000 people who have been on some form of out-of-work benefit for two years or more. While people who are close to the labour market are now back working and that is good news, it is those very difficult, hard-to-reach groups, the sorts of people who go through the Work Programme and come out the other side without a job and without a positive outcome. They have always been the difficult group. When I worked on welfare-to-work programmes in Treasury in the early 1990s, this, again, was a group we were not touching. We need to address this. We cannot just leave these people sitting there on welfare forever.

There are some great things that are happening in London. Subject to funding, of course, we will get the central London Working Capital project, which is dealing with exactly this highly disadvantaged group. That is exactly the sort of group that we should be focusing on. Outside London, there is a similar sort of programme in Manchester called Manchester Working Well, which, again, is trying to deal with that group.

Therefore, the focus for the future is on those very long-term workless people, who have been a problem for a long time and, frankly, we need to do something to address that.

Fiona Twycross AM (Chair): Do you have any other specific examples - or maybe other members of the panel have other specific examples - of how third-sector organisations have been successful in ways that public or private organisations have not? Obviously, this is one of the key questions for our investigation.

Duncan Melville (Chief Economist, Centre for Economic and Social Inclusion): I do not think that there is particularly strong evidence on that either way. That is why I talked about a mixed economy. With these more disadvantaged groups, there is probably a greater role for the third sector there. They may have more specialist needs and more difficult and engrained needs, and so the third sector will be there. Sometimes, of course, that may well be the third sector working alongside mainstream or private-sector - however you want to describe them - providers in a subcontracting role. You might have a prime provider running a general programme and then, for groups that they do not have particular expertise in and specialist skills, they can go to a specialist provider, which can often be a third-sector provider, and it can be a very important role. That is where I would see them playing a role, particularly in that smaller subcontracting role. That is where we - I am possibly anticipating a question - really need to make sure that we are getting that subcontractor market correct for the third sector and for other subcontractors, indeed.

Jenny Jones AM: I wanted to go on to the barriers for the third sector and what actually prevents them getting involved in these programmes. To all of you, what do you think are the principal barriers?

Nehal Depani (Policy and Project Manager – Employment and Skills, London Voluntary Service Council): If I can start, the majority of third-sector organisations are quite small and that has quite a big impact on how commissioning and procurement practices can exclude them, for example, in size of contracts because they have a very large geographic spread. For example, with the Big Lottery projects that have just come out, Big Lottery has put a lot of effort into making sure they are accessible to the third sector, but there have been lots of concerns within the sector. Because some of the grants are covering 17 boroughs, it effectively excludes a lot of organisations from participating. There are payment models, but perhaps we will come on to a bit later.

Procurement timescales is a big issue for smaller organisations. With the Work Programme, because it was introduced at such haste, it meant that there was not very much procurement dialogue and the barriers that the voluntary sector might face were not taken into account. Also, the actual process itself was quite quick. That meant that for a lot of organisations that do not have a lot of capacity - and we are talking about

organisations with maybe ten or fewer members of staff – to take on enormous projects like this is really quite difficult.

One thing that is worth mentioning is the power imbalance within supply chains. If you are talking about small organisations that are contracting with very large primes, this is a big issue in terms of negotiating the kinds of contracts that they actually can deliver. I remember when some voluntary organisations dropped out of the Work Programme. The Minister said it was because they had not negotiated proper contracts, but you have to see the reality from the very small organisations' point of view. It is very difficult for them to negotiate because sometimes they do not even understand what is in them because they do not have access to specialist legal advice.

That brings me on to the last point. Capacity building for the voluntary sector is really important and the kinds of specialist support that they can go to for help with things like negotiating proper contracts, being able to engage in procurement dialogue and that kind of thing. Those are the kinds of commissioning and procurement things.

There is also a wider point about the sector in general and that is about the values of the third sector and how they can adhere to their charitable objectives while delivering public services.

Jenny Jones AM: There might actually be a clash of – I was thinking about it as 'morality' – values, yes. There could be a clash.

Nehal Depani (Policy and Project Manager – Employment and Skills, London Voluntary Service Council): Yes. The clearest example of that are the gagging clauses that were in some Work Programme contracts and the fact that the third-sector provider could not say what was in the contract. If their charitable objective is to help a particular section and they think that contract is hurting that group of people, then there is a clash.

However, there are more subtle forms of it than that. They are worried about their reputation. They are worried about their relationships. It means that it can be more difficult for them to stand up for the beneficiaries and campaign or anything like that.

Jenny Jones AM: Any further issues?

James Butler (Public Affairs Manager, Social Enterprise UK): I concur entirely with both my colleagues. I suppose I would draw out a few things.

Bid-readiness for organisations Nehal hinted at. The other thing for smaller social enterprises is that they are almost always based on the enthusiasm of one or two individuals. That can present a challenge in terms of difficulty of scale in what they are doing. A recurring theme for all organisations will be cash flow as well.

Duncan Melville (Chief Economist, Centre for Economic and Social Inclusion): I would very much agree with what has been said. I will just add a few points of detail.

For example, size of contracts, definitely, for sure, but there is a potential trade-off there. The research we did for the Greater London Authority (GLA) for the European Social Fund (ESF) programme suggested that contracts below a certain size had lower performance levels than larger contracts. There may be a trade-off there. As I said, my bottom line is always maximising the good we can do for the disadvantaged.

Payment models are a big issue and maybe we will come on to that. Payment-by-results models are a better mechanism that we have had before, but they are in need of a lot of reform to make them even more effective.

Fiona Twycross AM (Chair): We will come on to those in more detail in a moment.

Duncan Melville (Chief Economist, Centre for Economic and Social Inclusion): The key one that was just said is cash flow. In Inclusion, although we are not-for-profit, we are effectively a small business, as a lot of people doing provision in the third sector are. When you are a small organisation, cash is absolutely king. Models that can take that into account are really important.

Jenny Jones AM: There must also be an issue about price over value. For example, I have seen a lot of charities that can offer very good training, for example, for the Metropolitan Police Service but, because they are a bit pricier for all sorts of reasons, they do not get contracts. Is that something you would agree with?

Duncan Melville (Chief Economist, Centre for Economic and Social Inclusion): Yes, I would agree with that. That comes on to some of the things about the payment models and differential pricing. The reward for helping the most difficult is not always as high as it should be, ie the relative prices are not right.

Jenny Jones AM: Do you think there are any disadvantages in using the third sector?

Duncan Melville (Chief Economist, Centre for Economic and Social Inclusion): Yes, absolutely. Potentially, there could be. I see them as part of a mixed economy and so they are great, but we also should not rule out private-sector providers or other sorts of providers.

I mentioned the particular trade-off. It is that small contracts can be a bit of a barrier to the third sector but then small contracts may lead to lower performance. My two colleagues might take a different view but, in my view, the bottom line has to be maximising the number of people we get into work and maximising the number of people we help. Sometimes, with this very specialist advice, they will inevitably have to be small contracts. However, one thing we should not do is to break up contracts and make them smaller than they necessarily need to be because we want to encourage the third sector. There, the cost could well be that we have a less effective programme than we could have. To me, that is more important because it is the workless and the poor whom we are about helping. Yes, that would be a risk that I see.

Tony Arbour AM: Could I ask something arising out of that? I was very struck by what James said. One of the particular risks is dependence on an individual who has considerable drive and, when he leaves the organisation, it collapses. I have substantial experience of social enterprises being given contracts to take over functions because, when the contract was given, the person who came along and made the pitch was really top and sold his organisation and we thought that the thing would go well. Then he went and the contracts fell.

I want to link that with a comment that Duncan has just made. He says that the truth of the matter is that you are all small and medium enterprises (SMEs). In a not-for-profit organisation, is it less likely that the top man will stay than in an SME, which is for profit?

James Butler (Public Affairs Manager, Social Enterprise UK): I do not know. What I do know is that social enterprises have slightly outperformed SMEs during the recession. It is a danger for small organisations and I know that you are drawing out my comment about an individual leaving. That is true also for large

organisations. We are all aware of chief executives who have changed and the organisation has gone downhill or the reverse.

Tony Arbour AM: That is true, but usually large organisations would have thought about succession planning. What are the chances of a small organisation thinking about that? You know what it is like. We all think we are immortal and so we have no succession. It does seem to me that is the principal risk of dealing with not-for-profit organisations. Quite often, they are more charismatic, I suggest, than ordinary capitalists and they therefore inspire the people who are doing the work because people who work for organisations like yours are driven by other things.

I do wonder, therefore, whether there is a greater risk in actually transferring stuff to not-for-profit organisations and third-sector organisations than to people who are in it for profit, where there is a contract and where there are service-level agreements and things like that, which perhaps they would find easier to adjust to.

James Butler (Public Affairs Manager, Social Enterprise UK): Social enterprises are in it for profit as well. They are in it for profit so that they can reinvest into their social and environmental mission. It probably comes back to Duncan's [Melville] point. What you need is a mix of public, private and third-sector organisations delivering any substantial work programme and additionally, within that mix, you need diversity of suppliers. If one breaks down, others can step in.

Duncan Melville (Chief Economist, Centre for Economic and Social Inclusion): It is about mix because your question really depends on what that person at the top is driven by. I know of some third-sector and not-for-profit organisations where the chief executive is really driven by the mission of his organisation. We are third sector, but we are pretty commercially orientated and minded and we have to be. Otherwise, we would go out of business.

Then there are people who are driven by profit and there is nothing wrong with that if they are driven by that profit and the incentives are right and they are driven to do the right things and what the public programme is asking them to do. You are right. It is a mix and people can be driven by either.

Fiona Twycross AM (Chair): Can we just touch on - going back to Jenny's [Jones AM] initial question - whether there are any barriers that are particularly pronounced in London?

James Butler (Public Affairs Manager, Social Enterprise UK): Going back to the challenges for employment services, perhaps some of the benefit changes are more acutely felt in London, particularly around the benefit cap. That may mean a more mobile population. It may mean that the employment services are needed in different areas than have hitherto been required and, therefore, the organisations are not necessarily based in outer London.

Duncan Melville (Chief Economist, Centre for Economic and Social Inclusion): There are some more general things about the third sector operating in London. They are not typically organisations that are flush with cash and finding rents, rates and property is a bigger burden. Against that, the fact that London is such an attracter for talent means that you will probably get better staff if you are based in London. Therefore, there is probably, as for any organisation, a balance of those. I would say that the cost basis - and we all run on tight margins - is probably a particular issue.

Nehal Depani (Policy and Project Manager – Employment and Skills, London Voluntary Service Council): There is the fact also that lots of voluntary organisations in other parts of the country have to deal with different primary care trusts, different Clinical Commissioning Groups and different local authorities. They do not have what we have, which is actually quite a neat way of organising, and it is easier for them to build relationships with the different statutory stakeholders.

Stephen Knight AM (Deputy Chair): Just before I go on to the beef of my question, is this issue about the resilience of third-sector organisations – or any provider, for that matter – more about the size of the provider and whether they are a four-person operation or a 400-person operation than about whether they are private, voluntary or public sector? It strikes me that the resilience issue about relying on one individual is much more about size and scale of operation than about the sector. Obviously, I guess more third-sector organisations are smaller but not exclusively. There are some big ones. Does anyone want to comment on that?

James Butler (Public Affairs Manager, Social Enterprise UK): I do not disagree but I would also say that the business model is terribly important and how adaptable that is to the changing needs of the economy.

Stephen Knight AM (Deputy Chair): My question is really about the degree to which we have helped the third sector and other small providers into the market. There have been a number of Government programmes and initiatives over the last five years that have aimed to promote this. We have had the national Compact, the Transition Fund, the Merlin Standard and the Social Value Act review.

If I could start with Nehal, I wonder if you could comment on what has helped in ensuring the diversity of the supply chain, if you like, in the whole employment and skills programme, including the third-sector organisations. How have these programmes that I have mentioned and any others helped or not helped?

Nehal Depani (Policy and Project Manager – Employment and Skills, London Voluntary Service Council): I will start with the Social Value Act. Absolutely, the Social Value Act is really important and it has encouraged commissioners to think differently about how they are using their spending power. It really has encouraged them to focus on sustainability. In 2014 London Councils said that 86% of London boroughs have changed their procurement processes and had some good examples. For example, Harrow is creating 14 apprenticeships in its supply chains because of the Social Value Act.

However, we still continue to receive anecdotal reports that commissioners are still focusing on price over value. This is definitely a promising start but something that we need to continue to work on. More training of commissioners and a bit more reporting on how the implementation is going would be really useful.

In terms of the Compact, I used to work at Compact Voice and so this is an area that I am familiar with. There used to be a London-wide Compact and that fizzled out. Some of the local Compacts, of which there are many, are doing really well. I was speaking to the Chief Executive of Redbridge Council for Voluntary Services (CVS) yesterday and he said the Compact there has been really important for increasing mutual understanding between the sectors and really emphasising the importance of partnership working between the statutory sector and the third sector. If there was a will to reinvigorate the London-wide Compact, it would be a useful thing in order to focus minds on why working with the third sector is a good idea.

Stephen Knight AM (Deputy Chair): You have mentioned there are some boroughs with good Compact relationships. By converse, are there some boroughs that do not have a working Compact, effectively?

Nehal Depani (Policy and Project Manager – Employment and Skills, London Voluntary Service Council): Yes, there are quite a few.

Stephen Knight AM (Deputy Chair): We have a variable pattern across London?

Nehal Depani (Policy and Project Manager – Employment and Skills, London Voluntary Service Council): Very variable.

Stephen Knight AM (Deputy Chair): Good. James?

James Butler (Public Affairs Manager, Social Enterprise UK): If I may, I will slightly answer the question I want to answer rather than the question you asked, Mr Knight. If I can broaden the answer --

Stephen Knight AM (Deputy Chair): If it could be vaguely on the same topic, it would be helpful.

James Butler (Public Affairs Manager, Social Enterprise UK): The Social Value Act has been hugely beneficial. It would be wrong to focus solely on the employment and skills programme. What the Social Value Act allows commissioners to do is to consider additional social and environmental value when procuring services. There is a really intriguing Freedom of Information Act [request] logged on the GLA's website. It is 1955¹ and was asked for in March. It is:

“What percentage of suppliers accounts for 80% of your spend (period covering 1 April 2013 to 31 March 2014)?”

The answer was just 43 for what I take to be the GLA family. I may be wrong in terms of its coverage and I appreciate that Freedom of Information Act [requests] are a starting point for investigation rather than the answer, but there is an area there to look at in terms of diversity of supply chains and some further points worth looking at. It looks like there are around 1,200 to 1,300 suppliers that are paid through the business intelligence software and that suggests that there is a way to go in terms of overall GLA family spend and that is an area to look at.

Additional value can, doubtless, be had from that commissioning and that can include apprenticeships. It can include employment and training. It is just depending on how the contract is put together.

Stephen Knight AM (Deputy Chair): OK. Neither of you has mentioned the Merlin Standard. A review last year did call for a review of the Merlin Standard. Is it having an impact? Duncan, do you want comment?

Duncan Melville (Chief Economist, Centre for Economic and Social Inclusion): I can say a little bit on that. We are actually doing a review of the Merlin Standard for the Department for Work and Pensions (DWP) but it is not published yet and so I can say something but I cannot give you the results before the DWP publishes them. I will say these. These are general enough that the DWP would not kick up a fuss.

The Merlin Standard is not perfect, for sure, but most subcontractors were pretty positive about what the Merlin Standard had enabled them to do. The sorts of things that they said were that, before the Merlin Standard came about, the management of subcontractors by the prime organisations was very variable. Some were very good and some were very bad. What the Merlin Standard had done was to reduce the variation of

¹ www.london.gov.uk/sites/default/files/1955_Redacted.pdf

that. Because people had to meet the Merlin Standard, the very bad had been removed and in general it had moved things up.

More subcontractors had a favourable view of Merlin than did not, although it is fair to say that the voluntary third-sector providers were a bit less positive about the benefits of Merlin than some of the others. Merlin seems to have had some positive effects for subcontractors and has helped them. I am sure there are more things that could be tweaked and adjusted.

Actually, again, it was in the report that I mentioned that we did about the ESF in London. We recommended that London should have something along the lines of the Merlin Standard when there were subcontracting arrangements and subcontractors were appropriately and fairly treated.

Stephen Knight AM (Deputy Chair): The final point was around Big Lottery's Transition Fund of £100 million, which was supposed to be assisting charities to bid for public-sector work. Has that been effective? Has it helped? Was it enough? Has it run out and do we need more of it? Nehal, do you have a view on this from the third sector?

Nehal Depani (Policy and Project Manager – Employment and Skills, London Voluntary Service Council): It is a work in progress in terms of helping. I do not know so much about the Transition Fund. What I know more about is Big Lottery helping on the ESF and the programme development work that has been done there. It is very welcome to the sector to be able to access some of that funding to help them because there are a lot of organisations that deliver excellent services, but it comes down to contract size and various procurement barriers. The fact that Big Lottery is able to support the capacity-building of the third sector is very welcome, but it is a work in progress. There is still a lot more to be done.

Stephen Knight AM (Deputy Chair): Is that because it is not being spent effectively in terms of capacity-building? Is there the infrastructure there to ensure that whatever capacity-building is needed is actually happening and that the money is being spent effectively?

Nehal Depani (Policy and Project Manager – Employment and Skills, London Voluntary Service Council): There are infrastructure organisations like ours and borough-level ones and this is the same across the country. There are variable standards and many of them have closed down recently because of the general funding environment. There is a bit of a gap there.

However, I suppose the point is that there are two sides. There is one side that is helping charities access funding by making sure they are ready for it, but there are some hurdles that they are never going to be able to overcome unless commissioning and procurement is done better. It is about approaching the problem from both sides.

My colleagues have spoken about the mixed economy and I just wanted to say that we absolutely agree with that. We do not think that the third sector should be getting special favours. What we are asking for is for us to be counted in rather than ruled out from the beginning. Once it is an open, competitive field, it is absolutely fine and we believe that our members exist to help these people get into work or tackle whatever social problem there is. We absolutely believe that public services should be focused on helping those people. However, what we are asking for is to be counted in that equation.

Fiona Twycross AM (Chair): Is it a broad assumption and is it always correct that third-sector organisations are better at delivering social value?

Nehal Depani (Policy and Project Manager – Employment and Skills, London Voluntary Service Council): Often they deliver social value because of having a social mission. I am not saying that all private-sector organisations cannot deliver social value. Lots of them do, but there is not that extra level that they have to go through. They already exist to deliver social value and so they are more inclined to, but there are bad charities as well as good.

Dr Onkar Sahota AM: How have the new commissioning models, particularly payment-by-results, had an impact on the third sector's participation in employment programmes? Have the new commissioning arrangements had an impact?

Nehal Depani (Policy and Project Manager – Employment and Skills, London Voluntary Service Council): Duncan [Melville] and James [Butler] have already spoken about payment-by-results. The big issue for voluntary-sector organisations has been cash flow and having sufficient capital. At the beginning of the Work Programme, prime contractors needed £1 million to £20 million to use upfront for service delivery. There are very few voluntary-sector organisations that have that kind of cash.

Another issue with payment-by-results is that the way the Work Programme worked out is that lots of third-sector organisations ended up subsidising the Work Programme because they were not being paid enough. Lots of the organisations that withdrew from the Work Programme publicly said that that was it and a few of them then collapsed. They were using their other funding to support payment-by-results and that is really not an acceptable state of affairs.

Then the last point, which was already alluded to by my colleagues, is that there were not, within that payment-by-results model, sufficient incentives to help the hardest to reach. It is really important to realise who the hardest to reach are. You are talking about somebody who is homeless. There are many milestones that they have to go through before they are going to be able to get a job and it is our position that those are milestones that should be recognised within the payment model.

James Butler (Public Affairs Manager, Social Enterprise UK): I agree with all of those. Possibly a London-specific issue might be staff retention with payment-by-results and the uncertainty that that potentially brings to an organisation and, when you have skilled staff, the opportunities that are available in London to get another job that is perhaps more secure.

The start-up costs are a big issue and the Government has looked at social investment as a way to get the third sector ready for delivery. That has had a slow start. It is promising. I know that your colleague James Cleverly [AM MP] has written quite extensively on what needs to be done within London to get social investment really moving. That is something that we could explore if you want, but I do not have anything more to add at this point.

Duncan Melville (Chief Economist, Centre for Economic and Social Inclusion): I agree with that. I just have points to add to those. Obviously, cash flow is a really big problem. With the Work Programme, the primes were quite happy with the financial model, which was basically lots of investment upfront and returns later because they had the cash to do that. That is always going to be a problem for smaller organisations whether they are in the third sector or, indeed, in the private sector.

That has been made worse by the Work Programme. The Work Programme model initially had an attachment fee. As soon as a provider had something, they received an attachment fee and then a subsequent payment-

by-results. Over time the attachment fee was abolished and so you only get money by results. You can see the logic behind that, but the problem is that it is disastrous for cash flow. It is pretty bad for cash flow for even the larger organisations. That needs to be looked at.

Although I support payment-by-results models and they have improved performance, we need reform. There needs to be some form of attachment fee and then there needs to be payment, probably payment by results, by job entry and then by sustainment.

My colleagues have mentioned that the incentives are not always right. That is absolutely true. Look at the Work Programme. The latest employment stats actually came out about an hour and a quarter ago. If you look at those who are close to the labour market, the group that has come from the Jobseeker's Allowance, the Work Programme is getting 20% to 30% of that group into work, which is not bad. However, if you look at the people who are more distant and who are on the Employment and Support Allowance (ESA), you are talking about 6% to 10%. It was clear from the work we did that the incentives for that harder-to-help group were not sufficient. There needs to be some adjustment in the relative rewards for different groups.

There is also a problem with exactly how you group people because the payment groups on the Work Programme are a pretty blunt instrument and there is a great degree of heterogeneity within the payment group and differing needs. You need to find better ways of identifying people. It probably needs some form of early-identification tool, which the DWP has always been very reluctant about and they have been pushed around. Australia has them and it seems to work pretty well. If the Australians can do it, I cannot see why we cannot introduce something similar. That needs to be sorted out.

There is a bunch of things around that where we need to make payment-by-results work better. We need to have a cash flow attachment fee for all organisations, particularly small.

Finally, James raised social investment. I am a bit sceptical about social investment as a means. I went to a conference where Iain Duncan Smith [Secretary of State for Work and Pensions] seemed to suggest that all provision would be funded via social investment. The problem with social investment is when you look at it from an investor's perspective. You have something that is unknown. It is very difficult what rewards you are going to get at the end. It is a very risky investment for someone who is just looking at it purely from an investment point of view. If you are going to want to enter that market and provide it, it is going to be a high-risk/high-return part of your investment. That may actually mean it becomes much more expensive than, you might think, traditional state-funded approaches.

I have some doubts. Let us expand it and see how we go, but let us not rush into trying to do too much of it. That could be quite expensive.

Dr Onkar Sahota AM: That is very interesting. I see a lot of parallels here between payment-by-results and the National Health Service, which also has problems.

One of the arguments for payment-by-results is that it encourages innovation. Do you think this is encouraging innovation or is it stifling innovation?

Duncan Melville (Chief Economist, Centre for Economic and Social Inclusion): It can go either way. There is some evidence that it is actually stifling innovation. Because of the cash flow issues, people focus on the short term. Because the incentive structure is not right or it is the hardest to help, they then do things that they know work with people who are closer to the labour market and that works well. However, then, as I say,

if you see the performance numbers for the people who have come from ESA and who are more difficult, they are not getting into work. Therefore, I am sure there are some people who are doing innovation, but there is also evidence against it.

One problem there is with it - and it may not be pertinent to us here, but pertinent to the Work Programme - as opposed to previous types of models is, because it is a black-box model, you do not know. It is fair enough that it is done like that. They said, "We do not care how you get them into work. Just do what works". The trouble is that we are now losing that evidence base as researchers about knowing what sorts of interventions work and what sorts of interventions do not. Some way of addressing that if we are going to keep the black-box commissioning approach needs to be sorted out.

Of course, the final thing to say is that innovation is not always a good thing. I know some --

Dr Onkar Sahota AM: You can say that only with hindsight!

Duncan Melville (Chief Economist, Centre for Economic and Social Inclusion): I recognise it as a researcher when we get asked for innovative methods and I think, "I do not need an innovative method. I have a method. It is long tried and trusted. I know it works and I know it has delivered". I get the same thing sometimes from providers when I talk to them and they are told that for some of their services they will get more benefit if they do something that innovative. They will say the same thing, "Look, we have a good evidence base. We have done this. It has worked. We can see it is working. We have had it properly evaluated. You guys, who are independent researchers, agree that this is the sort of thing we should do", but it is not innovative enough. What they usually end up doing is some mix of a little bit of real innovation in those circumstances and dressing stuff up as being innovative when it really is not because it is actually what works. At the end of the day, as I said, that is what we should be worried about. It is what works, not whether something is delivered by the third sector or not and not whether something is innovative or not.

When things do not work - particularly with this group I have talked about earlier, the ESA group, where nothing has worked for a long time - yes, innovation is fine there because we know what does not work but we do not really know what does work. Fine, let us try lots of different things until we find something that works. However, where some tried and tested methods work, we should not be pushing people to be innovative. That is my view, anyway.

Dr Onkar Sahota AM: If it works and if it does not need fixing --

Duncan Melville (Chief Economist, Centre for Economic and Social Inclusion): Exactly. If it works, do not fix it.

Dr Onkar Sahota AM: We have covered the changes that you have talked about and how some changes need to be done to payment-by-results. What will be the impact of this continuing on the third sector if we keep on pursuing the model of payment-by-results?

Duncan Melville (Chief Economist, Centre for Economic and Social Inclusion): If we get some version of the *status quo*, what will happen generally is that those closest to the labour market will get into work because the Work Programme works. Lots of people find jobs anyway and those who do not then go on the Work Programme. The Work Programme works as well as the New Deal, which was pretty effective. Those people will be OK and they will get into work. However, what will happen is that this group that is much more disadvantaged will just sit there. Then, in terms of the third sector, if any programme includes more movement

away from any form of attachment fee and everything by payment, they really will not be able to get involved. That will probably have a knock-on effect because they sometimes have the specialist skills to help with particular groups and it will also make performance worse.

The key thing is that, although there are lots of problems with payment-by-results types of systems, let us not throw the baby out with the bathwater. They have been better than what we had before and so let us fix the problems that we have going forward. For example, the National Audit Office said about the Work Programme that it had been as effective as the previous provision but it had cost less. It had been more cost-effective. That is fine, but our view is that actually you should spend as much as you were going to and then you could have more results, less worklessness and less poverty.

Nehal Depani (Policy and Project Manager – Employment and Skills, London Voluntary Service Council): If we carry on with the *status quo*, the result will definitely be that a lot of third-sector organisations will disappear. In general, we have seen over the last five years a shift from grant funding to contracts and just less funding for the sector in general. It has been a period of organisations getting substantially smaller and some going.

If payment-by-results exists, it rules out a lot of the organisations that might be able to deliver quality services and that means that they will be gone and, with that, the expertise that they have. There is a real danger in losing people who are really knowledgeable. This is not just payment-by-results. It is all kinds of funding things. For example, the gap between the last ESF funding round and this one has meant that quite a few organisations had to lay off staff with expertise. They might not be able to recruit them again. In terms of the sector, it would be a scary prospect if we carry on with the *status quo*.

Tony Arbour AM: What can the Mayor do for you?

James Butler (Public Affairs Manager, Social Enterprise UK): What should the Mayor do?

Tony Arbour AM: No, not what should he do. What could he do? You may think it is a complete irrelevance and that the Mayor and the GLA can do nothing.

Duncan Melville (Chief Economist, Centre for Economic and Social Inclusion): Going back to what we just talked about and the payment-by-results system, have contracting that has an attachment fee. We suggested a benchmark, which you could vary away from in circumstances, but our advice would be 20% as an attachment fee, about 30% on job entry and about 30% on job sustainment. That would be one thing that at least gives some cash flow upfront for smaller providers including third sector.

As I said, have some sort of Merlin Standard. When inevitably the prime contractor that you are dealing with is a larger company and is subcontracting, sometimes to the third sector, have appropriate, properly managed - it might even be the Merlin Standard in the Work Programme example - promotion to some degree of capacity-building by the primes of their subcontractors: offering them training, making them better, improving their supply chain. That is actually quite a common thing you will find in any sort of supply chain in industry. There are things like that that the Mayor could do in his commissioning model.

James Butler (Public Affairs Manager, Social Enterprise UK): Apply the Social Value Act properly to commissioning because that is where the real prize is.

Nehal Depani (Policy and Project Manager – Employment and Skills, London Voluntary Service Council): I have a different thing, something we have not really mentioned but a huge issue in the employment world at the moment. It is the fact that lots of people are in fact in employment but there is a lot of in-work poverty. More people in poverty in London are in working families rather than non-working families. What the Mayor could do really quite usefully is act as a bridge with employers in terms of making sure that more good quality, flexible employment is available and working with the voluntary sector in terms of connecting those people to employment.

Another thing that the Mayor could do is to support the capacity-building of the sector. The sector realises that there are lots of things that it needs to change in order to access public funding, but also it could do with some help in that.

I mentioned the Compact earlier. I realise that there are lots of people who do not think the Compact is particularly useful, but an idea worth exploring is whether a London-wide compact would be a good thing that the Mayor could champion.

Tony Arbour AM: What about dealing with the DWP as opposed to dealing with this building? Of course, it is the aspiration of every Mayor and all of us here that more things should be devolved from the centre to us and then eventually possibly devolved down even further. Is it easier to deal with here than with the DWP and, if so, would that not be a prize that the Mayor should be going for?

Nehal Depani (Policy and Project Manager – Employment and Skills, London Voluntary Service Council): I would not comment on whether it is easier to deal with it. What I would say is that the advantage of having more things at a local level is better integration between employment services and other public services. When we are talking about the hardest to reach, that is absolutely crucial. You cannot, as I said, get somebody who has really complex needs straight into a job. You need to deal with housing, health and all of the other issues. If the result of having more power here rather than in the DWP would be better integration with other services, then that would be a good thing overall for the hardest to reach.

James Butler (Public Affairs Manager, Social Enterprise UK): I concur entirely with the last point.

Duncan Melville (Chief Economist, Centre for Economic and Social Inclusion): I agree. Integration is what you get if you can do that at a local level. I have one issue that would help the third sector and can I mention it now this morning? That is duration of contracts. That also drives performance. Contracts of three years or more help with cash flow for all organisations and they seem to also drive better performance than having very short programmes.

Fiona Twycross AM (Chair): Finally, a couple of questions for Nehal and James. Could you just say a couple of words about your hopes for third-sector involvement in the more locally commissioned employment programmes such as those coming out of London's Growth Deal and those being commissioned by boroughs? You mentioned, Nehal, that you thought more local involvement could be beneficial. Do you have anything further to add on that?

Nehal Depani (Policy and Project Manager – Employment and Skills, London Voluntary Service Council): That is a really crucial point. It is about the fact that, as I said before, third-sector organisations tend to take a more holistic, person-centred approach and so it is difficult for them if they are in a contest for delivering public services that are very skewed to one aspect of a person. More integration would, for many organisations, be a better fit and they may even have more to offer.

James Butler (Public Affairs Manager, Social Enterprise UK): Greater devolution would allow more culturally appropriate services. The needs of someone living in Woodberry Down are very different from the needs of someone living in Poplar, for example. The third sector and social enterprises are better place to address those.

Fiona Twycross AM (Chair): We have come neatly to the end of the questions. If nobody has any further supplementary questions, I would just like to say a huge thank you to all three of you for coming along to this first part of the session as part of this investigation. Thank you very much.

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