



House of Commons
Public Administration Select
Committee

**The Big Society:
Further Report with
the Government
Response to the
Committee's
Seventeenth Report of
Session 2010–12**

First Report of Session 2012–13

*Report and appendix, together with formal
minutes*

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The Public Administration Select Committee (PASC)

The Public Administration Select Committee is appointed by the House of Commons to examine the reports of the Parliamentary Commissioner for Administration and the Health Service Commissioner for England, which are laid before this House, and matters in connection therewith, and to consider matters relating to the quality and standards of administration provided by civil service departments, and other matters relating to the civil service.

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1 The Big Society: Further Report

1. We reported to the House on *The Big Society* in our Seventeenth Report of Session 2010-12, published on 14 December 2011 as HC 902-I. We received the Government Response to that Report on 22 March 2012.¹

2. Our Report concluded that a coherent implementation plan is necessary to achieve the Big Society. In addition, we recommended two clear changes to the process of governance to coordinate the wide range of Big Society policies across Government. We called for a single Big Society Minister, with a cross-cutting brief, and also a Big Society impact assessment to be applied to “every Government policy, statutory instrument, and new Bill”.²

3. We are disappointed that the Government has rejected the proposal for a single Big Society Minister, and committed only to “consider” the recommendation we made for a Big Society impact assessment. We are, however, the most disappointed that the Government has rejected our recommendation of a coherent implementation plan and our recommendation of reporting on the progress of delivery, and has stated that, as the Big Society is made up of various complex cross-Government plans, reforms and cultural changes, the introduction of such a plan would “fundamentally miss the point”.³

4. We view this Response as an implicit endorsement of our original conclusion: that the cross-departmental nature of the Big Society and the complexity of the shift of power from Whitehall to communities, makes it harder but therefore all the more important to coordinate a coherent plan across departments. The Government Response argues that “each Department’s Business Plan clearly sets out its priorities and demonstrates how the department is driving forward the three fundamental principles of the Big Society”.⁴ We do not regard the Departmental Business Plans as any substitute for a coherent cross-Government implementation plan, since present plans by their nature only address the separate individual departments, and cannot address cross-Government coherence. We also believe that further transparency and clarity would strengthen the Government’s programme. By making it easier to see how the Government’s plans are progressing, the state’s role in building a bigger society would be more transparent, and therefore more easily understood by the public. Hence we believe that in refusing to produce a coherent implementation plan, it is the Government that has fundamentally missed the point.

5. In our Report, we set out how we regard the challenge for Government to address charities whose work spans across several Government departments, such as the homelessness charity Emmaus, to be a “litmus test of the Government’s Big Society project”.⁵ Emmaus takes in homeless people and helps them rebuild their lives. This, for

1 The Government’s response is printed as an Appendix to this Report.

2 Public Administration Select Committee (PASC) Seventeenth Report of Session 2010-12, *The Big Society*, (HC 901-I) para 161

3 Government Response, Appendix

4 Government Response, Appendix

5 Public Administration Select Committee (PASC) Seventeenth Report of Session 2010-12, *The Big Society*, (HC 901-I) para 112

many of them, means addressing issues such as mental health, alcoholism and addiction, and education and skills, as well as homelessness. These issues are covered separately by the Department of Health, the Department for Work and Pensions and the Cabinet Office as well as local authorities, who have statutory responsibility for homelessness. Existing Government programmes, such as the Work Programme, work in only single departments, and are not suitable for people with multiple and complex needs. The Government's response states that Ministers agree "that providers – from any sector – should not be prevented from offering innovative solutions to improve social outcomes and deliver better value for money by siloed working in Whitehall".⁶ We welcome this; but while the Response states that departments are working to jointly invest in cross-cutting areas, we remain concerned that grassroots organisations, such as Emmaus, are still unable to access Government contracts for their cross-departmental work.⁷ Emmaus is looking for capital to expand, which would relieve a burden on the taxpayer. We also remain concerned that smaller charities and community groups, which would like to deliver public services, are losing out to the larger charities (which we termed the "Tesco charities") which are more skilled and experienced at tendering. We urge the Government once again to take action to build the "little society" by opening up public services to such groups.

6. We consider the Government's description of the Big Society as "a set of principles underpinning the Government's policy agenda rather than a self-contained project" to be a significant departure from the original intention on the role of the state in developing the Big Society.⁸ The Conservative Party Manifesto in 2010 stated that "our plans to reform public services, mend our broken society, and rebuild trust in politics are all part of our Big Society agenda"⁹ and in a speech in 2009, the Rt Hon David Cameron in his capacity as Leader of the Opposition said:

the Big Society is not just going to spring to life on its own: we need strong and concerted Government action to make it happen. We need to use the state to remake society.¹⁰

We stand by our Report's conclusion that the Big Society "will by its very nature necessitate a substantial change to Whitehall itself, and to the nature of Government".¹¹ **We repeat our recommendations that to drive forward the Big Society, the Government should appoint a single Big Society Minister with a cross-cutting brief, and produce a comprehensive and coherent change programme, to coordinate Big Society policies across Government.**

6 Government Response, Appendix

7 Government Response, Appendix

8 Government Response, Appendix

9 The Conservative Party, *Invitation to join the Government of Britain*, (London: 2010), p 37

10 "David Cameron: Big society can fight poverty. Big government just fuels it", *The Guardian*, 11 November 2009, p 30

11 Public Administration Select Committee (PASC) Seventeenth Report of Session 2010-12, *The Big Society*, (HC 901-I) para 24

Conclusions and recommendations

The Big Society: Further Report

1. We repeat our recommendations that to drive forward the Big Society, the Government should appoint a single Big Society Minister with a cross-cutting brief, and produce a comprehensive and coherent change programme, to coordinate Big Society policies across Government. (Paragraph 6)

Appendix: Government Response

The Government welcomes the Committee's report on "The Big Society".

We respond to the substantive recommendations and observations of the Committee below.

The Big Society Project and Whitehall

(HC 902-I recommendations 24, 31 and 38)

As we recommended in 'Change in Government the agenda for leadership' the government must produce a comprehensive and coherent change programme. Without it attempts to bring about change will be defeated by inertia. (Paragraph 24)

Without a coherent plan, the Government has so far been unable to communicate effectively to the public what the Big Society project means in terms of practical policies, however, we await the departmental plans to be published in advance of April 2012. If they fail to do so, they will not secure sufficient public understanding support for the commitment to open public services. For the Big Society project to be successful, ministers must increase public understanding of the nature and purpose of their public sector reform agenda by setting out what it means in practical terms. (Paragraph 31)

The Big Society agenda is built on three fundamental principles: empowering communities; opening up public services; and encouraging more social action. These three principles are woven into the fabric of the Government's policies and programmes, but this is not exclusively a Government initiative; it is about everyone – the public sector, private companies, voluntary sector organisations, communities and individuals – working together to make our society stronger.

Building the Big Society is not a self-contained project with a start and end date and a central bureaucracy to monitor its progress, and the Government does not agree with the premise that a single, overarching Big Society implementation plan is required. In fact, that would fundamentally miss the point. Instead, the Government is helping to build the Big Society through a wide range of reforms, programmes and cultural changes, across all Departments, each of which is ambitious and complex, and each of which is led and managed by the relevant Government Minister.

We are helping to build the Big Society in many practical ways. Examples include:

- Devolving power to the lowest possible level through the Localism Act and empowering citizens to take control of public services;
- training 5,000 community organisers and enabling up to 90,000 16-year-olds to take part in National Citizen Service by 2014, promoting ever-increasing levels of social action; and
- removing barriers and red tape that make it harder to run a charity or community group.

There are many more. Each Department's business plan clearly sets out its priorities and demonstrates how the Department is driving forward the three fundamental principles of the Big Society: empowering people, encouraging social action and opening up public services.

Opening up public services to alternative providers

(HC 902-I recommendations 42, 48, 53 and 58)

We welcome the Government's commitment to encourage the participation of the charitable sector in the provision of public services. We recognise that not all public services are suitable to be delivered by charities and that not all charities are willing or capable to deliver services. Charities and community groups have shown that they can provide some public services at better value for money than those delivered by the state and that some wish to do so. We have yet to see how the Government will encourage this since contracting out continues to favour the larger, more commercial providers. In essence, this is the challenge: to build the 'little society', rather than the 'Tesco' charities that are skilled at tendering. (Paragraph 38)

We would be concerned if commissioners were faced with a choice between either simply choosing the cheapest option or commissioning a more expensive service from a small local charity which might be able to provide a better service, but would be unable to compete with larger charities or the private sector on cost grounds. (Paragraph 42)

Increasing the number of charities and community groups that deliver public services will change how the charity sector operates as a whole. There is a danger that charities may become agents of public policy, subject to targets and incentives and thereby becoming an extension of the state. We expect to consider the state of the charity sector in a later inquiry. (Paragraph 48)

Opening up public services to new providers raises the prospect of much greater private sector involvement, as many of our witnesses have indicated. Private sector large contractors may provide the cheapest option in the first round, which may drive out smaller, more innovative, more local and more accountable providers. We recommend that the Government regularly review the level of large private sector involvement in public services to ensure that the objective of the Big Society project of Empowering communities over local services is being achieved. (Paragraph 53)

Ministers have spoken both of promoting charities as the favoured provider for public services and in favour of a more mixed economy with private sector providers also involved. The officials responsible for commissioning and managing contracts for public services need to know whether Ministers wish them to prefer the voluntary sector over offers of potentially better value. Clear Ministerial guidance to the civil servants and local authority officials responsible for the commissioning and tendering of public services is therefore imperative. (Paragraph 58)

The Government wants to see a greater diversity of provision in public services. This means a greater role for SMEs and the voluntary and community sector. The UK

Government's policy is to award contracts on the basis of value for money. This does not mean lowest price, but rather securing the best mix of quality and effectiveness for the least outlay over the whole lifetime of the goods or services, from purchase through to disposal.

There is a role for charities and voluntary organisations of all sizes; the Government does not recognise, or welcome, the caricature of large charities painted by the Committee at paragraph 38 of its report.

Public sector procurers and commissioners cannot favour one type of supplier over another when awarding Government contracts, with the exception of reserving certain contracts for organisations that employ 50% or more disabled people. However, we have taken steps to level the playing field and encourage the participation of smaller organisations, including charities, by reducing the complexity and bureaucracy of procurement procedures, and advertising all central Government opportunities over £10k on the Contract Finder website. It is the Government's policy for contract monitoring to be proportionate and to involve service recipients where appropriate.

In June 2011 all central government departments published a set of specific, targeted actions to increase their business with SMEs. The findings will be published in early March. We are working on breaking down institutional barriers to enable more diverse providers, outcome based specifications and breaking contracts into smaller lots.

The Government will shortly appoint a Crown Representative for the Voluntary, Community and Social Enterprise sector. This senior individual will improve central Government's commercial relationship with the VCSE sector, and influence the wider public sector commissioning and procurement landscape to open up public sector business to VCSEs, specifically:

- making it easier for more VCSE organisations to tender for public contracts; and
- helping VCSE organisations take their innovative products and services to the public sector market, and working to remove barriers to market entrance.

The Government has also supported the Public Services (Social Value) Act, which will make it a requirement for contracting authorities to consider economic, social and environmental well being at the pre-procurement stage of a public services contract.

Funding the voluntary sector

(HC 902-I recommendations 71, 75, 80, 88 and 92)

We are concerned that many charitable and voluntary organisations are suffering the immediate effects of reductions in public spending. In some cases their existence is at risk, yet they are the very organisations which may wish to participate in the Government's Big Society policies. (Paragraph 71)

We welcome the Transition Fund and the intention to sustain the voluntary sector which underlies it. The fund itself can clearly not provide assistance to every charity and voluntary group struggling to bridge the gap between public spending reductions and new sources of social finance income. This funding gap may effectively inhibit some charities from tendering for public service delivery, and thus undermine the Government's efforts to procure from charities and social enterprises, as they may lack the available funds to enter into contracting arrangements. There is also a question about democratic accountability for the allocation of such funds. We urge the Government to bring forward proposals to address this, such as a form of voting system, in order to reflect the aspiration to involve people and communities. (Paragraph 75)

The scale of the budget deficit means there must be reductions in public spending, and the voluntary sector cannot be immune from that. 78% of charities do not receive any income from the state¹², but for those that are significantly dependent on state funding, we have put in place a number of measures to help them make the transition to the new environment and prepare to take advantage of the new opportunities presented by the Open Public Services agenda. The Government is clear that the Big Society cannot truly succeed if communities remain dependent on handouts from the state. We want to help communities to change and develop in a sustainable way by making sure they have the right skills and assets in place to be in charge of their own future.

In addition to the £100m Transition Fund, the Giving White Paper announced over £40 million over the next two years to support volunteering, giving and volunteer infrastructure by way of the Social Action fund, Challenge Prizes and Transforming Local Infrastructure Fund. A total of £30 million has been allocated to enable local infrastructure bodies to modernise and improve the support they provide to front line civil society organisations. Furthermore, reforms announced in the Budget 2011 are expected to be worth £600million to charities and voluntary groups over the lifetime of this parliament.

Local spending decisions are, and will continue to be, a matter for local councils but Local Authorities could not have received a clearer message from Ministers about the tests of reasonableness and the need to prioritise internal savings before cutting funds to the local voluntary sector. There is no excuse for any council to target the voluntary sector disproportionately. The Secretary of State for Communities and Local Government has set out four 'reasonable expectations' of councils, challenging them:

- not to pass on disproportionate cuts;
- to give at least three months' notice of changes in support;
- to actively engage with organisations at an early stage; and
- to allow the organisation or community to put forward options on how to reshape the service.

Where cuts are made they should be conducted in accordance with the Compact between Government and the sector.

The Committee notes the importance of involving communities in spending decisions. The empowerment of communities is central to the Big Society vision. The Localism Bill gives new powers and tools to localities to help them take ownership of the decisions that affect them. Programmes led by the Office for Civil Society also aim to foster community action and decision-making.

For example, the Community First programme encourages more social action in neighbourhoods with significant deprivation and low social capital through its £30m Neighbourhood Match Fund and the £50m Endowment Match Challenge. Led by new and existing neighbourhood groups and active individuals, communities will work with businesses, charities and public authorities, to encourage people to help others and themselves to improve the quality of life locally.

Delays in setting up Big Society Capital are contributing to the ‘funding gap’. In our report ‘Change in Government: the agenda for leadership’ we reported on the frustration in Government about the “deadweight of inherited policy, not least by the overbearing constraints imposed by the vast body of EU law and regulation”. The delay in the operation of Big Society Capital by the need to seek EU state aid approval is a case in point. (Paragraph 80)

Big Society Capital is a genuinely imaginative social innovation, which has enormous potential in the long term. The concept is as yet unproven, and large scale effects will take a decade or more to bear fruit. Furthermore, Big Society Capital will not provide the solution to the ‘funding gap’ for many small, local charities who do not wish to take out loans. The Government must acknowledge that in the short term Big Society Capital is unlikely to resolve the current ‘funding gap’. (Paragraph 88)

The Government welcomes the Committee’s recognition of the potential impact of Big Society Capital.

In the Cabinet Office business plan, the Government committed to establishing a Big Society Bank using funds from dormant bank accounts by the end of April 2012 and we are on track to achieve this. In May 2011 the Government set out the conditions and further development work needed to establish Big Society Capital. This included securing State Aid approval as well as business plan development and FSA clearance.

The European Commission granted State Aid approval in record time and ahead of schedule in December 2011. It has not delayed set-up. The Government disagrees with the Committee’s view that delays in setting up BSC are contributing to the ‘funding gap’. Prior to BSC being operational we set up the interim Investment Committee to begin making the kinds of investments in intermediaries that we expect BSC to make. To date it has announced in principle investments of £3.5m.

Big Society Capital has huge potential to drive the growth of the social investment market to the benefit of the voluntary, community and social enterprise sector. While not a panacea, Big Society Capital is one of a number of Government initiatives outlined in this

response that are designed to help the sector adapt to, and succeed in, the new economic environment.

Social impact bonds have the potential to transform the way public services are delivered and financed. Until further evidence of their success, both in achieving social aims and attracting capital, is available, we urge caution in reliance on their growth. We welcome the reviews taking place of the pilot project at HMP Peterborough, and look forward to receiving information on the project's progress. (Paragraph 92)

The Government is piloting a Social Impact Bond (SIB) for reoffending in Peterborough prison and is awaiting the results of this pilot. The Government is also supporting four local authorities to test whether there is a business case for SIBs in relation to troubled families. Later this year the local authorities will be able to evaluate the business cases and decide whether they want to go ahead with the SIBs. These pilots are about learning where SIBs can and should be used. SIBs may be useful where risk transfer and innovation are important. But where the best models of service provision are already well established, traditional contracting is likely to be a better choice as it allows more public sector control and there is no need to pay a return to external investors.

Commissioning public services and the Big Society

(HC 902-I recommendations 98, 99, 101, 106, 112, 114, 115, 120, 130 and 131)

We welcome the Minister for the Cabinet Office's recent announcement on the Government's intention to re-negotiate EU procurement regulations. We look forward to the Government setting out what changes they are seeking, why they are sought and the timescale for implementation of the changes. We also recommend that the Government set out detailed plans to revise procurement guidance under the existing regulations. We intend to conduct an inquiry into the Government's public procurement policies in the light of the Minister for the Cabinet Office's recent announcement of a package of measures that are intended to reform how the Government buys from the private sector. (Paragraph 98)

We recommend that the Office for Government Commerce revise guidance on the EU Public Contracts Regulations 2006 to promote appropriate interpretation of the regulations by local authorities in commissioning. (Paragraph 99)

The Government agrees with the Committee that the EU rules governing public procurement need to be fundamentally reformed, and we welcome the European Commission's intention to simplify the procurement directives.

In our response to the Commission's Green Paper on the Modernisation of EU Public Procurement Policy,¹³ the Government called for significant simplification to free up public procurement markets and enable a light touch, modern regulatory framework. It also set out the rationale for the changes being sought.

On 20 December 2011, the Commission published legislative proposals to modernise the procurement rules; negotiations are underway and will run throughout 2012. Many of the

13 <http://www.cabinetoffice.gov.uk/resource-library/modernisation-eu-public-procurement-policy>

UK's specific asks set out in the Green Paper response have been included in the Commission's legislative proposal. Our detailed response can be found at:

[http://www.cabinetoffice.gov.uk/sites/default/files/resources/0707UKGPpbResponsefinal%20\(2\).pdf](http://www.cabinetoffice.gov.uk/sites/default/files/resources/0707UKGPpbResponsefinal%20(2).pdf)

The Commission would like to see agreement on the proposals by the end of 2012, following which the Directive will be transposed into UK law.

We believe that there is an urgent need to reduce the amount of guidance that public procurers are required to follow. In the past, public procurers were required to follow 6,000 pages of procurement guidance leading to bureaucratic, complex and over specified procurements. To address this, we are mandating lean principles in central Government procurement from January 2012 and replacing complex guidance with simple, Standard Operating Procedures.

We welcome the Committee's interest in the radical procurement reforms announced by the Minister for the Cabinet Office on 21 November, which will transform the way in which Government buys from the private sector and will see the public sector's huge purchasing power being used to support growth. Further details of these measures can be found at:

<http://www.cabinetoffice.gov.uk/news/radical-package-unveiled-support-business-and-promote-growth>.

The Government is encouraging the wider public sector, including local Government, to adopt its radical new approach to public procurement. We are working with local authorities and others to ensure that our published pipelines of upcoming opportunities to include those from the wider public sector. On 11 February 2011, Baroness Eton, the then Chair of the Local Government Group, signalled local Government's support for our package of measures to open up public procurement to SMEs, including use of our simplified, standard Pre-Qualification Questionnaire and within local authorities.

The Department for Communities and Local Government has recognised the need to simplify guidance to local authority commissioners and procurers, and has radically simplified its Best Value Guidance¹⁴.

We recommend that the Cabinet Office consult the voluntary sector on the legislative and bureaucratic barriers which inhibit voluntary groups from delivering public services. We note the commitment of the Chancellor of the Exchequer, in his 2011 Autumn Statement, to a review of TUPE regulations, and we urge the Government to give special consideration to smaller charities in this review. (Paragraph 101)

For rapid and successful commissioning, there must be a cultural shift in departments.

14 <http://www.communities.gov.uk/publications/localgovernment/bestvaluestatguidance>

Ministers must set out what practical steps are required to change the commissioning culture in Whitehall and how success will be measured. In particular, the objectives, roles and tasks of commissioners must be identified and skills shortfalls must be addressed both through training and through the recruitment of suitable staff. (Paragraph 106)

The Government continues to work with the voluntary, community and social enterprise sector on ways to reduce the bureaucratic barriers face. We are implementing the recommendations of Lord Hodgson's Task Force on cutting red tape and we continue to seek input from the sector through our Red Tape Challenge.

The Government also plans to establish a virtual commissioning academy to ensure we have the right commercial skills in central Government.

Attempts to open up public services to charities and voluntary groups may encounter the difficulty that services provided by such organisations do not fit easily into the siloed mentality of Whitehall departments, who are unable to address the multiple needs of the service user – even where this approach is the very key to the success of voluntary organisations. We regard the challenge to government presented by charities such as Emmaus as a litmus test of the Government's Big Society project. We believe that joint funds, managed by local authorities and financed by separate departments, may be the answer. We expect the Cabinet Office to lead decisively on this matter. . (Paragraph 112)

We agree with the Committee's argument that providers – from any sector – should not be prevented from offering innovative solutions to improve social outcomes and deliver better value for money by siloed working in Whitehall.

Departments are working in partnership to develop innovative new models of funding which reward providers for the outcomes they produce (for example through the Work Programme and the Youth Contract), and to incentivise commissioners to pool funding streams.

Departments are working together to jointly invest in cross-cutting areas. For example, the £448m cross-departmental programme to turn around the lives of 120,000 of the country's most troubled families is a pooled budget of six government departments and it aims to incentivise local joint investment to secure the remaining resources required.

Four Whole-Place Community Budget pilots are also underway to explore how all funding on public local services in an area can be brought together as a catalyst for service transformation. Joint local and Whitehall teams in the pilot areas will co-design operational plans setting out proposals for the redesign services across boundaries and pool budgets as the areas see fit, tackling social problems, improving outcomes and reducing duplication and waste and hence saving significant sums of money.

On the evidence before us we find little reason to have faith that large contractors will subcontract to smaller, charitable or voluntary providers. We recommend that departments should keep public sector contracts as small as possible to ensure contracting with as wide range of providers as possible. Ministers should regularly review and publish the scale of public sector contracts and the size of organisations they

procure from. The objective of the Big Society project of empowering communities will not be achieved by simply contracting with private companies and large national charities. Furthermore it must be recognised that commissioning is but the first stage of the delivery process. Consideration must be given to by whom, and by what means, contracts are to be policed for quality of delivery, and complaints and problems dealt with. (Paragraph 114)

Government recognises the challenges that can be faced by small and medium enterprises (SMEs), including those in the voluntary, community and social enterprise sector, and we are taking steps to address them.

Government is working with key sectors to cap the size of contracts or place requirements on primes to deliver this via their supply chains. The website enables suppliers to find procurement opportunities, tender documents and contracts online. We are collecting data via on the publication of contracts that are awarded to SMEs.

Since July 2011 SMEs have been able to register on the Dynamic Marketplace and provide quick quotes for low value Government contracts (below £100,000), enabling them to bid and compete at minimal cost alongside larger suppliers. The Dynamic Marketplace gives Government Departments, their Agencies and NDPBs immediate, cost-effective access to pre-registered Government suppliers to publish bids for low value projects. Issuing and responding to bids is electronic, making the procurement process quicker and more cost-effective.

The Government has opened up channels for suppliers, including those in the VCSE sector, to hold Government to account by introducing a 'Mystery Shopper' scheme, as part of its Supplier Feedback Service. Mystery Shopper allows suppliers to report bad procurement practice. Of the 151 cases which have been received to date (20 February), 75% of those successfully closed have resulted in positive change (a live procurement or future procurement was adjusted, or, after investigation, nothing was found to be wrong with the procurement). Publication of the third round of Mystery Shopper cases will take place in February.

The Government has recently announced a further range of measures to support SMEs, including a commitment by nine major companies to publish their Government sub-contracting opportunities on the Contracts Finder website and measures to make Government IT contracts more flexible. Full details of the measures can be found here:

<http://www.cabinetoffice.gov.uk/news/better-deal-smaller-businesses>

We recommend the Government extend eligibility for the VAT refund scheme which currently applies for public sector bodies, to charities who deliver public services under a contract with a public sector organisation. This recommendation should be considered as a pre-budget representation addressed to the Chancellor of the Exchequer for implementation in the 2012 Budget. (Paragraph 120)

There are no plans to provide VAT refunds to charities delivering public services under a contract with a public sector organisation. In many cases, EU VAT rules mean that it would not be necessary or possible to provide a refund scheme to any contracted provider of public services.

The provision of any services under a contract, by a charity or a business, will normally be regarded as a business activity and thus within the scope of VAT. Therefore, if the services provided are taxable (in other words, they are not specifically exempted from VAT) the provider will be able to recover their VAT costs through the normal VAT system.

However, if the services provided are VAT exempt, any form of VAT refund is prohibited under EU VAT law. Where a provider does incur irrecoverable VAT in the provision of public services, these costs should be taken into account by the contracting public sector organisation when agreeing funding.

It is not clear to us that the Mutuels Taskforce is equipped to overcome the resistance to public sector mutuels. This resistance goes beyond bureaucratic inertia in Whitehall. The lack of understanding in Whitehall and local government about mutuels and cooperatives must be addressed by indentifying and training the key personnel who make the decisions. If the Government had a coherent implementation plan, this matter should already have been addressed. (Paragraph 130)

Public sector workers will weigh up the choice between the advantages of mutualisation against the risk of losing their public sector pension provision and may decide against spinning off into a mutual. It needs to be recognised that the support for mutuels has so far been dependent on exceptional circumstances. We recommend that the Government take a fresh look at this issue and develop innovative approaches to encouraging and incentivising participation in mutuels. (Paragraph 131)

The Government has committed to give public sector workers new rights to spin out to form new public service mutuels which continue to deliver public services.

We believe that mutuels should be available generally and that support should be available to everyone who wants to spin out into a mutual. In order to do this, the Government is rolling out new 'Rights to Provide' across public services, so that employees can request or bid to take over the services they deliver. The Department of Health is at the forefront with 'Rights to Provide' in health and social care.

Support should not be available only in exceptional circumstances. To this end, the Mutuels Support Programme was launched in December 2011. It is dedicated to supporting the most promising and innovative mutuels so that they reach the point of investment readiness. It is made up of three parts:

- The **Mutuels Information Service website** gives information on the process of becoming a mutual, case studies, high-level guidance and access to a resource library. There will also be an online forum launched shortly.
- The **MIS hotline** will assess business needs of fledgling mutuels and provide appropriate expert advice, guidance and support.
- Thirdly the most promising fledgling mutuels will be eligible for the **Mutuels Support Programme funds**. This is a fund of more than £10m, administered by the Cabinet Office. This fund will be used to contract for support in the form of business and professional services (such as HR, legal, financial, tax and business

planning) to groups of staff or existing mutual organisations in the public sector, but will not give cash grants. Referrals to these funds will come from the hotline.

The Mutuals Taskforce has been appointed to support, engage with, challenge and promote the work of the Cabinet Office and wider Government to support the creation and development of Public Service Mutuals. The Taskforce has produced an evidence report 'Our Mutual Friends' and worked with Cabinet Office to develop a paper that looks at high level procurement options in relation to the creation of new Public Service Mutuals. The Taskforce is committed to developing a progress report by summer 2012, including specific proposals and recommendations.

The Minister for Cabinet Office has also announced 21 Mutual Pathfinders. These projects are 'Pathfinders' in the true sense of the word, and are enabling Cabinet Office to learn lessons from the front line about what innovative approaches can be used to encourage participation in mutuals.

Choice, contestability and equality of service provision

(HC 902-I recommendations 136 and 143)

We recognise the benefits to society of faith groups taking part in the provision of public services. While such provision could be encouraged by the Government, this should not be to the exclusion of groups who deliver services across multi-faith and non-religious communities. (Paragraph 143)

Across the country, people from different faiths are working hard in countless churches, mosques, temples, gurdwaras and synagogues, and in charities and community groups, to address problems in their local communities. The Government wants to help build effective, friendly working relationships between people of different faiths and none. We are doing so because from the Government's perspective, practical co-operation between groups is crucial to the Big Society we want to build. Government-supported programmes such as Near Neighbours and A Year of Service are helping to promote shared action by people of different faiths.

Accountability, equity, representation and management

(HC 902-I recommendations 151, 152, 153 and 159)

The Minister must set out clear lines of accountability for the provision of public services under its new arrangements together with a clear mechanism for members of the public to raise concerns about services. To fail to do so could be fatal to the chances of success for the Big Society project. (Paragraph 151)

It is critical to ensure that public services are accountable to those who use them and to citizens (both directly and through elected representatives), which is why accountability is one of the principles of Open Public Services. In practice, combinations of specific mechanisms – such as choice, transparency and voice – can be applied to create accountable organisations, and the particular instruments used will be based on the characteristics of different public services.

Local complaints procedures will continue to be the first port-of-call to resolve issues with public services. If a complaint cannot be resolved locally, there will be a clear and simple process for escalation which may involve the relevant independent complaints body, such as one of the Public Service Ombudsmen.

The principle of accountability to Parliament for the expenditure of public money by a department's accounting officer is key to the arrangements for fiscal control exercised by Parliament. The accounting structure for devolved public services will be necessarily complex. We ask the Government in its response to outline how this will work in practice. (Paragraph 152)

The role of Parliament's Ombudsman is primarily a matter for Parliament, and is not an instrument for particular government policies. We share the Ombudsman's concern that it is not the role of her office to be an advocate for the Government's choice agenda. (Paragraph 153)

The Government agrees that Accounting Officers have a key role in ensuring fiscal control of public resources exercised by Parliament. It also agrees that the accounting structure for devolved public services may be complex. But this is nothing new. Many departments work with and through partners, including various arms-length bodies, the NHS and local government.

Accounting Officers will be assuring themselves that the system for distributing grants is sound and justifiable and that funds are used wisely in the hands of local spending agents. From 2012, as part of their annual reports, departmental Accounting Officers will publish accountability system statements setting out the accountability systems for the services they fund. Drafts of the statements for local government, health, education and the police have already been shared with the Public Accounts Committee.

We do not see the role of the Ombudsmen as an advocate for choice, but rather a last resort for complaints that demonstrate a serious or systemic lack of choice that is not consistent with a Secretary of State's policy or legislation. The Public Service Ombudsmen are and will remain independent of Government.

Ministers have not set out clearly what success means for the Big Society project, nor produced metrics for success. In the absence of such statements an impression of policies made solely on the basis of anecdotes or single examples has developed. However, the Government has committed to regular Departmental reporting on progress towards the aims of the White Paper on Open Public Services, starting in April 2012. We recommend that the Government publish a clear statement, with practical examples, of what the Big Society project is intended to achieve and then develop the capacity to collect standard data on public service provision through the Big Society project, with a view to releasing it in open, accessible and meaningful formats, to allow the public to assess and judge success. (Paragraph 159)

As described elsewhere in this response, the Big Society is a set of principles underpinning the Government's policy agenda rather than a self-contained project. Departmental business plans clearly set out what should be achieved on individual programmes and policies to further the Big Society objectives of empowering people, encouraging social action and opening up public services. We are on track to implement a wide range of

reforms to help build the Big Society and we will continue to report on the tangible progress we make.

Conclusion and recommendation

(HC 902-I recommendations 160 and 161)

To bring in charities and voluntary groups to deliver public services, the government must take steps to address the barriers they experience in the contracting and commissioning system, which means developing a plan to address roles, tasks, responsibilities and skills in Whitehall departments. We recommend:

- **A single Big Society Minister, who has a cross-cutting brief, to help other Ministers to drive through this agenda once they begin reporting progress against the aims of Open Public Services White Paper, from April 2012.**
(Paragraph 161)

As we set out in our response and in our evidence to the Committee, the Government is helping to build the Big Society in tangible ways through policies and programmes that are the responsibilities of Ministers across Government. All departments have clear priorities outlined in their business plans and these priorities reflect the core principles that underpin the Big Society agenda. Big Society is something all Government Ministers are working towards.

- **An impact assessment, applied to every Government policy, statutory instrument, and new Bill, which asks the simple question: “what substantively will this do to build social capital, people power, and social entrepreneurs?”**
(Paragraph 161)

Government departments already examine the impact of their policy decisions in these areas, but the Government will consider this recommendation for the formalisation of that process.

Formal Minutes

Tuesday 22 May 2012

Members present:

Mr Bernard Jenkin, in the Chair

Paul Flynn
Robert Halfon
Kelvin Hopkins

Priti Patel
Lindsay Roy

Draft Report (*Big Society: Further Report, with the Government's Response to the Committee's Seventeenth Report of Session 2010–12*), proposed by the Chair, brought up and read.

Question put, That the Report be read a second time, paragraph by paragraph.

The Committee divided.

Ayes, 3

Noes, 1

Robert Halfon
Priti Patel
Lindsay Roy

Paul Flynn

Question accordingly agreed to.

Paragraphs 1 to 6 read and agreed to.

A Paper was appended to the Report as an Appendix.

Resolved, That the Report be the First Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

[Adjourned till Thursday 24 May at 9.15 am

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2012-13

First Special Report	Public Appointments: regulation, recruitment and pay: Government Response to the Committee's Fourteenth Report of Session 2010-12	HC 18
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Session 2010-12

First Report	Who does UK National Strategy?	HC 435 (HC 713)
Second Report	Government Responses to the Committee's Eighth and Ninth reports of Session 2009-10	HC 150
Third Report	Equitable Life	HC 485 (Cm 7960)
Fourth Report	Pre-appointment hearing for the dual post of First Civil Service Commissioner and Commissioner for Public Appointments	HC 601
Fifth Report	Smaller Government: Shrinking the Quango State	HC 537 (Cm 8044)
Sixth Report	Who Does UK National Strategy? Further Report with the Government Response to the Committee's First Report of Session 2010-11	HC 713
Seventh Report	Smaller Government: What do Ministers do?	HC 530 (HC 1540)
Eighth Report	Cabinet Manual	HC 900 (HC 1127, Cm 8213)
First Special Report	Cabinet Manual: Government Interim Response to the Committee's Eighth Report of Session 2010-12	HC 1127
Ninth Report	Pre-appointment hearing for the post of Parliamentary and Health Service Ombudsman	HC 1220-I
Tenth Report	Remuneration of the Parliamentary and Health Service Ombudsman	HC 1350
Eleventh Report	Good Governance and Civil Service Reform: 'End of Term' report on Whitehall plans for structural reform	HC 901 (HC 1746)
Twelfth Report	Government and IT — "a recipe for rip-offs": time for a new approach	HC 715-I (HC 1724)
Thirteenth Report	Change in Government: the agenda for leadership	HC 714 (HC 1746)
Fourteenth Report	Public Appointments: regulation, recruitment and pay	HC 1389
Fifteenth Report	Smaller Government: What do Ministers do? Further Report	HC 1540 (HC 1746)
Sixteenth Report	Appointment of the Chair of the UK Statistics Authority	HC 910
Seventeenth Report	The Big Society	HC 902
Eighteenth Report	Change in Government: the agenda for leadership:	HC 1746

	Further Report, with the Government Responses to the Committee's Eleventh, Thirteenth and Fifteenth Reports of Session 2010-12	
Nineteenth Report	Leadership of change: new arrangements for the roles of the Head of the Civil Service and the Cabinet Secretary	HC 1582
Twentieth Report	Government and IT—"a recipe for rip-offs": time for a new approach: Further Report, with the Government response to the Committee's Twelfth Report of Session 2010-12	HC 1724
Twenty First Report	Future oversight of administrative justice: the proposed abolition of the Administrative Justice and Tribunals Council	HC 1621
Twenty Second Report	The Prime Minister's adviser on Ministers' interests: independent or not?	HC 1761
Twenty Third Report	Leadership of change: new arrangements for the roles of the Head of the Civil Service and the Cabinet Secretary	HC 1914
Twenty Fourth Report	Strategic thinking in Government	HC 1625