

## Submission to the House of Lords Select Committee on Charities: Call for Evidence

### Summary

This submission to the House of Lords Select Committee on Charities is focused on small and medium-sized charities, those with an income between £25,000 and £1m and draws on the experiences of Lloyds Bank Foundation for England and Wales' grantees. The Select Committee should take a similar focus in recognition of the scale of the small and medium-sized charity sector and the challenges they face. Charities with an income of less than £1m constitute 97% of the total charity sector<sup>1</sup>, yet attention, processes and income are typically geared towards the dominant 3%. This has to change if the benefit brought by small but mighty local organisations is to be maximised.

Small and medium-sized charities are critical to civic society. Embedded in the communities they serve, these charities understand local issues and how best to meet need. They deliver flexible, holistic, person-centred services in a way that Government or larger providers never could. They typically develop in response to a local problem, engaged in tackling it both before and after any statutory money is on the table. They are dependent on an army of volunteers supplementing a small number of paid staff and bring social value far beyond the confines of any contracts that may be on offer.

Yet small and medium-sized charities face a raft of challenges which threaten their ability to respond to needs, primarily:

- **Funding is becoming increasingly difficult to secure:** Government funding to small and medium-sized charities has seen decreases of up to 44% since 2008/09<sup>2</sup>
- **Commissioning processes put smaller charities at an unfair disadvantage:** Any Government funding that is available is increasingly allocated through competitive contracts. The processes involved often exclude smaller organisations from the market place
- **Demand is rising:** Across the social welfare causes that the Foundation supports, grantees report increases in demand for their services, both in

---

<sup>1</sup> [UK Civil Society Almanac](#), NCVO, 2016

<sup>2</sup> [Navigating Change: An analysis of financial trends for small and medium-sized charities](#), NCVO, 2016

terms of absolute numbers and the complexity of issues that individuals accessing their services face

- **Trustees are being marginalised:** New scrutiny over trustee roles risks making it even harder for small and medium-sized charities to recruit trustees, which are often critical to the day-to-day running of the charity as well as providing wider oversight.
- **Voices are being marginalised:** The civic space in which small and medium-sized charities are able to get their voices heard is narrowing, with increasing threats to advocacy and the influence of the Office of Civil Society potentially decreasing.

Action needs to be taken to ensure that small and medium-sized charities can thrive, not just survive. These organisations are essential to achieving Government’s objective to benefit “all of our citizens, every one of us, whoever we are and wherever we’re from.”<sup>3</sup> They are the eyes and ears on the ground that can feed into and direct Government work and they are responding to often severe needs in real-time in a way that Government itself never could without them. If Government is to work for every one of us, we need to make sure it works for small and medium-sized charities because these are the beating heart of a thriving society.

---

<sup>3</sup> [Statement from the New Prime Minister](#), Theresa May, 2016

## 1.0 Introduction

- 1.1 Lloyds Bank Foundation for England and Wales is one of the leading community grant makers. An independent registered charity funded by the profits of Lloyds Banking Group, the Foundation invests in charities supporting people to break out of disadvantage at critical points in their lives, and promotes approaches to lasting change. In 2015 the Foundation awarded total funding of £22m, directly supporting 1,765 small and medium-sized charities. This equates to supporting 58,013 individuals facing multiple disadvantage.

Having supported small and medium-sized charities in every region of England and Wales for more than 30 years, the Foundation is built upon the knowledge and experience of locally based charities, with locally based Grant Managers visiting applicants and grantees and providing an avenue for identifying patterns and issues faced by the sector. The Foundation also conducts and commissions research specifically focused on the experiences and concerns of small and medium-sized charities, particularly those with an income between £25,000 and £1m.

## 2.0 The purpose of charities

- 2.1.0 *What is the role and purpose of charities in civic society in England and Wales? What makes them distinct from other organisations doing similar work?*
- 2.1.1 Lloyds Bank Foundation for England and Wales supports small and medium-sized charities tackling some of the most intractable social issues, from homelessness to abuse and offending to mental health. These charities are at the heart of delivering effective services to individuals at risk and much of their value is intrinsically linked to their size. Grounded in their community, they are trusted, understand local needs, can reach and engage people and communities and provide holistic services which address the root causes of the problems which individuals face. They are flexible and efficient, often offering fantastic leverage with any public money to attract a far higher level of independent and voluntary income and with a core team of staff typically supporting a far higher number of volunteers. They are usually first to identify a problem and will stay engaged in trying to tackle it even when other organisations and services have been cut or have moved on.
- 2.1.2 Small, local charities are often unique in their desire to remain a local service. While they may want to expand their services to meet local need, they are not driven by a desire to increase market share or move into other geographical areas – they are committed to the area and cause they developed to serve.

- 2.1.3 Together, these characteristics make small and medium-sized charities distinct from larger charities, Government and businesses. Inherently local, they put service quality and the individual needs of service users at the heart of their services. Unlike larger competitors, they are not prepared to threaten service quality by cutting prices, with grantees reporting that they have not bid for contracts knowing that they would not be able to deliver an effective service at the price available through a contract. Similarly, they are not driven by a head office far removed from the reality on the ground – everything they do is in response to the needs of the individuals they serve. They are often able to employ committed employees who are driven by their desire to address an issue rather than a lucrative pay package and are often able to attract employees with real-life experience relevant to the service they are providing. It is unlikely that similar numbers of larger charities and commercial providers can offer such expertise.
- 2.1.4 Inevitably, there are some services that larger organisations are well placed to deliver, such as the provision of large scale, generic information or running a national 24 hour helpline. Yet for other services, particularly those supporting individuals facing multiple disadvantage, small and medium-sized charities offer support in a way and at a level that could never be achieved by a multi-million pound organisation.
- 2.1.5 Part of the reason for their ability to support individuals facing multiple disadvantage is due to small and local charities being particularly innovative in delivering services. Their flexibility enables them to respond to changing needs and provide holistic services that are person-centred and seek to address the range of issues affecting an individual.<sup>4</sup> As a result, these charities are able to avoid the failure demand that hinders too many large and generic services.<sup>5</sup>
- 2.2.0 *How has this changed?*
- 2.2.1 At its most basic understanding, the work that small and medium-sized charities undertake has not changed – they are still responding to needs and providing services that are otherwise overlooked. However, where their role has changed it is largely associated with funding structures and the availability of services more widely. Many charities have been forced to compete for contracts in commissioning systems that dictate which services must be delivered, where and how. The impact of this is significant because it lessens the value that small and medium-sized charities can bring in terms of developing the services that they identify are needed and shaping them to local people's needs. As one grantee highlighted in research carried out in 2015:

---

<sup>4</sup> [Too Small to Fail: How small and medium-sized charities are adapting to change and challenges](#), IPPR North, 2016

<sup>5</sup> [Saving Money by Doing the Right Thing: Why 'local by default' must replace 'diseconomies of scale'](#), Locality, 2014

*“The voluntary sector key contribution has always been its ability to see health and social care issues as they begin to emerge and to respond quickly with innovative responses. As charities are increasingly tied into contracts with the statutory sector this ability is being lost.”<sup>6</sup>*

2.2.2 At the other end of the spectrum, new charities have developed in response to ever larger contracts becoming available which respond to contracts rather than local need and knowledge. Many of these organisations are driven by market share and do not reflect the values of the thousands of small and medium-sized charities meeting local needs in communities across the country. They are prepared to slash costs to win contracts, with little regard to service quality.

2.2.3 Across the board, there has been a drive to make charities more professional but it is important that charities should always be distinct from businesses. There is a danger that if charities are pushed too far in following business practices, they will lose the very essence that makes them distinct and trusted in their communities.

2.3.0 ***What role can charities play in community cohesion and civic action?***

2.3.1 Small and medium-sized charities are pivotal to community cohesion and civic action in terms of being a centre for community engagement. They are able to do this because of their trusted nature in local communities, with staff and volunteers typically coming from the area in which they work:

*“they provide better tailored services and keep the ‘personal touch’ which is extremely important in terms of community and trust.”<sup>7</sup>*

2.3.2 While awareness of local charities can be low<sup>8</sup>, they generate high levels of trust, with 70% of people preferring to donate to a small charity rather than a large one.<sup>9</sup> It is this sense of trust that encourages communities to come together around shared aims and objectives.

2.4.0 ***How does the sector benefit from volunteering?***

2.4.1 Volunteers are integral to the running of small and medium sized charities as well as having an important role in society overall - a study by Foster in 2012 showed that the contribution of volunteers to the economy was estimated to be worth around £23.9 billion – 1.5% of GDP – in 2012.<sup>10</sup> Amongst the small

---

<sup>6</sup> [Expert Yet Undervalued and on the Frontline: The views and voices of small and medium-sized charities](#), Lloyds Bank Foundation for England and Wales, 2015

<sup>7</sup> [Expert Yet Undervalued and on the Frontline: The views and voices of small and medium-sized charities](#), Lloyds Bank Foundation for England and Wales, 2015

<sup>8</sup> [Small but Vital: Local Charities Matter](#), TSB, 2016

<sup>9</sup> [Small is Beautiful: Experimental evidence of donors’ preferences for charities](#), Economic Letters, 2013

<sup>10</sup> [Household Satellite Accounts – Valuing Voluntary Activity in the UK](#), Office for National Statistics, Foster R., 2013

and medium-sized charities that Lloyds Bank Foundation awarded grants to in 2015, the average staff to volunteer ratio is that of 1:3 – these charities could not exist without the support of their volunteers. For charities with an income between £25,000 and £50,000, this ratio increases to one employee for every 13 volunteers. These volunteers carry out a range of roles, from trustees to administrators and from fundraisers to service deliverers.

- 2.4.2 At Lloyds Bank Foundations’ [Charity Achievement Awards](#) in 2015, the breadth of volunteering activity was evidenced by entrants to the ‘Valuing Volunteers’ category. As just one example, the Chief Executive of the competition’s winner, Manchester Action on Street Health (MASH), a charity providing support to sex workers in Greater Manchester, described the important role that their volunteers play:

*“The volunteers... play an integral role in every aspect of the organisation, from being the first point of contact at the centre to outreach workers in the MASH van and helping to support 900 women across greater Manchester last year.*

*Most of the volunteers stay for at least two years within the service and are appreciated for their wide range of skills and the fresh perspective they bring to the paid team. The volunteers allow that team to reach a far greater number of service users than they otherwise could, and they also strive to raise the profile of MASH in their daily lives and to help influence attitudes towards sex workers....*

*For the people they support, volunteers are sometimes the only people by whom they feel cared for. One former sex worker said, “When I was in hospital they were the only ones that would come to see me and they have been there through all of my important milestones.”*

- 2.4.3 Volunteers help to build trust in communities, often volunteering in the communities where they live. This is further built upon where they have real life experience of the cause they are supporting – as is the case with many of the charities the Foundation supports. Yet it is important to remember that these volunteers do not come without cost – volunteers need to be managed and supported.

- 2.4.4 The resources to invest in volunteers is important both within charities directly and within brokering arrangements. Lloyds Bank Foundation is supporting members of staff within Lloyds Banking Group to act as mentors with more than 200 of the charities receiving funding from Lloyds Bank Foundation through its [Enhance](#) programme. Establishing these relationships needs tailored support, and the dedicated input of specific members of staff. Unfortunately, many local brokering volunteering opportunities across the sector have disappeared due to a lack of investment in local infrastructure.

2.5.0 ***How has the status of volunteers changed?***

2.5.1 A number of small and medium-sized charities have become increasingly dependent on volunteers due to funding cuts. Many organisations have seen statutory grants in particular significantly reduce if not disappear, with contracts increasingly awarded to larger organisations. At the Foundation grantees report having to reduce their head count as a result of funding cuts, often relying on one paid member of staff, supported by volunteers. For example, one grantee supporting individuals with mental health issues has moved from 12 full time employees to 1, due to funding cuts. The charity is reliant on 8 regular volunteers to run the charity. This inevitably has an impact on the services that the charity can deliver.

2.6.0 ***What challenges do charities face in trying to fulfil their role in civic society?***

2.6.1 As detailed throughout this paper, small and medium-sized charities face a range of resource challenges, both in terms of funding, capacity and capabilities. There are further challenges that are impacting upon small and medium-sized charities, such as the declining space for civic society as whole – this is most recently demonstrated in the move of the Office for Civil Society from the Cabinet Office to DCMS. The role of charities in civic society needs to be recognised across Government – Cabinet Office’s cross-Governmental agenda made it a more appropriate fit for this. There is a danger that this will lower the influence of the Office for Civil Society and further marginalise the voices of small and medium-sized charities and the individuals they represent.

2.7.0 ***How can these challenges be overcome?***

2.7.1 Options for overcoming the challenges facing small and medium-sized charities are discussed throughout this paper. Central to this, has to be funding that works for small and medium-sized charities whilst opening up the opportunities for small and medium-sized charities to have a voice. Core public funding is essential, together with commissioning practices that enable those organisations best able to meet needs to receive funding, no matter what their size.

### **3.0 Pressures and opportunities**

3.1.0 ***What are the main pressures faced by charities currently, and what impact have these had?***

3.1.1 A survey of Lloyds Bank Foundation grantees in 2015 highlighted that the main challenge facing small and medium-sized charities is funding, as identified by 81% of respondents.<sup>11</sup> This perception is corroborated by figures which show that income to charities with a total income up to £1m saw a reduction in overall income of approximately 13% between 2008/09 and

---

<sup>11</sup> [Expert Yet Undervalued and on the Frontline: The views and voices of small and medium-sized charities](#), Lloyds Bank Foundation for England and Wales, 2015

2012/13. These funding challenges have been compounded by Government funding practices which have increasingly diverted funding to the largest charities. For example research which the Foundation has funded in partnership with NCVO has highlighted that income from Government dropped by up to 38% between 2008/09 and 2012/13 for smaller charities while rising by 38% for the largest.<sup>12</sup> This is of great significance in part due to the higher volatility of smaller charities which are typically reliant on a smaller number of income sources.<sup>13</sup> Charities are facing the funding challenges at the same time as more than half are responding to increases in demand for services, both in terms of numbers and complexity.<sup>14</sup>

- 3.1.2 Commissioning and procurement practices are largely responsible for the discrepancy in funding patterns between smaller and larger charities. They make it difficult for small and medium-sized charities to respond to increasing need, typically favouring large organisations and generic, one-size-fits-no one services over service quality.<sup>15</sup> As one grantee described:

*“...where commissioning does not put a high enough value on quality of practice, the negative impact ...is much wider but one may be that charities are not prepared to compete on price if it means services are not good enough.”<sup>16</sup>*

Many grantees describe commissioning practices which either place them at an unfair disadvantage in the bidding process, or exclude them for bidding altogether.<sup>17</sup> These practices have enabled larger organisations, whether businesses or charities, to collude with commissioners and effectively shut smaller providers out of the market place. Ultimately, this can prevent individuals from accessing the services they need, as highlighted by one of the Foundation’s grantees:

*“When contracts go to commercial providers, the services suffer and so do the service users.”<sup>18</sup>*

- 3.1.3 The second and third biggest pressures Lloyds Bank Foundation grantees identified in 2015 were the interconnected factors of increased demand for

---

<sup>12</sup> [Navigating Change: An analysis of financial trends for small and medium-sized charities](#), NCVO, 2016

<sup>13</sup> [Small and Medium-Sized Charities After the Crash: What happened and why it matters](#), Lloyds Bank Foundation for England and Wales, 2016

<sup>14</sup> [Expert Yet Undervalued and on the Frontline: The views and voices of small and medium-sized charities](#), Lloyds Bank Foundation for England and Wales, 2015

<sup>15</sup> [Expert Yet Undervalued and on the Frontline: The views and voices of small and medium-sized charities](#), Lloyds Bank Foundation for England and Wales, 2015

<sup>16</sup> [Expert Yet Undervalued and on the Frontline: The views and voices of small and medium-sized charities](#), Lloyds Bank Foundation for England and Wales, 2015

<sup>17</sup> [Commissioning – Making a success of it](#), Lloyds Bank Foundation for England and Wales, 2016

<sup>18</sup> [Expert Yet Undervalued and on the Frontline: The views and voices of small and medium-sized charities](#), Lloyds Bank Foundation for England and Wales, 2015



services and decreasing public services, which were both identified by more than half of survey respondents. Across the social welfare sectors that the Foundation funds, services and service users have been impacted by reduced funding and welfare changes. This is a view recognised both within and outside the sector. For example, two thirds of local authorities in England have reported that the 2010-2015 welfare reforms increased homelessness in their areas.<sup>19</sup> The increasing demand is particularly challenging due to the funding pressures already identified. As one charity reports:

*“While the need increases, our ability to attract funding is increasingly difficult.”<sup>20</sup>*

3.1.4 Small and medium-sized charities are tackling many of these challenges such as through attempting to diversify their income and developing consortia. However, their ability to respond is limited as access to resources becomes increasingly difficult. This includes access to funding for non-project costs as well as the support available through infrastructure organisations.

3.1.5 Over the last year, the sector has witnessed the rise of the ‘charity scandals’ which have further challenged charities. It is the fundraising activity of larger charities, too often focused on increasing market share, which has led to the scandals that have dominated the media. While small and medium-sized charities might feel distanced from this, due to the distinct nature of small, locally-rooted organisations, the fallout of the attention could lead to unwarranted impacts on smaller charities. While a recent nfpSynergy survey reported an increase in levels of public trust in charities, levels are still significantly lower than those recorded in 2010.<sup>21</sup> Heavy-handed responses, such as the proposed anti-advocacy clause,<sup>22</sup> could severely impact on small and medium-sized charities’ ability to make the voices of the individuals they represent heard.

3.1.6 Added to these challenges are the rise of the ‘super major’ charities, those with an income over £100m per annum. There are concerns that these organisations are more akin to commercial organisations than charities in their true form, typically chasing contracts and forcing smaller charities out of the marketplace by cutting prices irrespective of service quality. This not only threatens the existence of small and medium-sized charities and all the benefits they bring, but also threatens the reputation of charities which is dependent on high levels of public trust.

3.2.0 *What opportunities do charities have in the current environment?*

---

<sup>19</sup> [The Homelessness Monitor: England 2016](#), Crisis, 2016

<sup>20</sup> [Expert Yet Undervalued and on the Frontline: The views and voices of small and medium-sized charities](#), Lloyds Bank Foundation for England and Wales, 2015

<sup>21</sup> [Trust in Charities Bounces Back After Low Last Autumn](#), nfpSynergy, 2016

<sup>22</sup> [Update on a new clause to be inserted into grant agreements](#), Gov.uk, 2016

- 3.2.1 Funding cuts, particularly to local authorities, have made it more important than ever to achieve the highest value for money. This is likely to increase further still in light of the anticipated economic downturn following the referendum. Small and medium-sized charities offer a real opportunity for Government here. They can deliver the long term value Government needs due to the person-centred services they provide which address the root cause of issues rather than offering a revolving door of generic services. While they may not offer the lowest unit cost, the wider benefits and effective services they provide can mean that the most benefit is gained from every public pound. It will be ever more important that commissioners work with small and medium-sized charities as they work with reduced budgets in order to maximise the impact they can achieve. Lloyds Bank Foundation, together with seven sector bodies, has outlined a series of practical steps that Government could take to enable small and medium-sized charities to deliver more public services through systems which do not place them at a disadvantage. Details of this have been shared with the Minister for Civil Society but as yet the group has not received a response. A copy is included in Appendix I.
- 3.2.2 Much has been written and discussed about the disparity between areas throughout the UK following the referendum result. There has been a particular emphasis on engaging with communities that have been left behind in economic terms and which display high levels of distrust with Government. Small and medium-sized charities are well positioned to tackle these social cracks, building trust in communities and giving voice to those who have typically gone unheard. The very nature of smaller, local charities which are embedded in the communities they serve, enables them to reach communities which the statutory sector has little chance of engaging, as previously discussed.
- 3.2.3 Devolution should also offer opportunities to small and medium-sized charities as it should mean decisions are taken locally with input from local people and organisations to ensure decisions are made in their interest. However, to date there has been little evidence of devolution deals realising this ambition.<sup>23</sup> Foundation grantees report trying to engage with strategic devolution discussions but being shut out and unable to participate. This is concerning because if they are not involved at the early stages, it is unlikely that any subsequent systems will work for them.

## 4.0 Innovation

### 4.1.0 *How do charities seek to innovate, particularly in the digital arena?*

---

<sup>23</sup> [Realising the Revolution: Making devolution work for people and communities](#), Locality & NAVCA, 2016

- 4.1.1 Small charities are typically viewed as more innovative than other organisations.<sup>24</sup> This can be seen in the services they deliver, the way they interact with the community and, increasingly, their approach to securing funding. They can be particularly innovative in the services they deliver because of their flexibility, driven by the needs of the individuals they serve which change over time. For example, Nene Valley Christian Family Refuge has developed an approach to support those affected by domestic abuse that uses Occupational Therapists to assess and evaluate the needs of individuals, supporting them to develop the confidence, resilience and independence that is required to become an active and effective member of society. Another of the Foundation's grantees, Preston Road Women's Centre, has been shortlisted for the Enterprise Award at the 2016 Third Sector Awards for its innovative approach to securing accommodation and funding by attracting individuals to ethically invest in properties to provide safe housing for women and children fleeing domestic violence.
- 4.1.2 In the digital sphere, many small and medium-sized charities have been limited in their innovation, largely due to costs, availability of resources and in-house capabilities.
- 4.2.0 ***What more could be done to promote innovation, and by whom?***
- 4.2.1 Innovation requires resources: in time, money and capability. Funding has to be available to enable charities to try new things without fear of failure – rigid contracts, which are now common place for funding charities, stifle innovation. Instead, funders need to be willing to take risks. Funding is critical in freeing up the space and resources to try new approaches when too often small and medium-sized charities are struggling to cover the costs incurred in delivering a contract. Yet it needs to be matched with capacity and capability building support. Funding cuts have seen a reduction in charities' ability to share best practice as local infrastructure declines and networking opportunities are reduced – investment in opportunities for charities to take part in networking and information sharing events and activities could help to promote innovation, but this includes freeing up the time of the individuals who would be involved. In too many cases, smaller charities do not have the capacity to do anything other than deliver services.
- 4.3.0 ***What barriers are there to being innovative?***
- 4.3.1 Small and medium-sized charities can face barriers to innovation, such as through risk-averse funders. Increasingly, funders ask for proof of success before awarding funding which limits the ability of charities to try new approaches. Government funding can also limit innovation by offering contracts at low unit costs which do not allow for service innovation or development. Statutory funders' move away from grants has a significant

---

<sup>24</sup> [The once and future pioneers? The innovative capacity of voluntary organisations and the provision of public services: A longitudinal approach](#), Osborne S P, Chew C and McLaughlin K, 2008, Public Management Review 10(1): 51–70.

impact here. At the Foundation, a specific funding programme, [Enable](#), has been developed so that small and medium-sized charities can access new funding to pilot new approaches.

Barriers to innovation can also develop internally, particularly in relation to risk-averse trustees. The recent focus on and criticism of trustees could increase this problem, forcing them to become even more risk-averse for fear of accusations over the misuse of funds.

## 5.0 Governance and leadership

### 5.1.0 *What skills are required to lead and manage a charity?*

5.1.1 The skills and qualities needed to run a small charity can differ substantially to those involved in running a multi-million pound organisation. Underpaid and over-worked, small charity chief executives have to be able to multi-task and take a hands-on approach to the day-to-day running of the charity whilst also leading on strategy and external relations. These chief executives need to be innovative and passionate to rise to the incredible challenges they face, often supporting individuals at a local level one day and taking on big businesses and Government the next. Funding pressures have led to many small charity leaders becoming more isolated as local infrastructure organisations close and there are fewer resources to allow leaders to attend conferences and networking events. Almost two thirds of small and medium-sized charities surveyed last year identified personal contacts as a source of non-financial support, with charities identifying that *‘support is difficult to obtain as often the organisation that could help is struggling with funding and is in the same boat as you’*.<sup>25</sup>

### 5.2.0 *How can these skills be gained? What support exists to develop these skills within the charitable sector?*

5.2.1 For many leaders in small and medium-sized charities, they have worked their way to the top of their organisations, or were the original founders. This can give them legitimacy and intimate knowledge of the issues their services tackle but in some cases it can mean that they lack experience of running an organisation. Lloyds Bank Foundation supports charity leaders through its [Enhance](#) programme, offering a series of ‘funder-plus’ options to grantees. This has included funding chief executives through the [School for Social Entrepreneurs](#) and matching charities with mentors from Lloyds Banking Group. The Foundation also funds ‘action learning sets’ to enable grantee chief executives to work through problems and support each other. These kinds of opportunities play an important role in continuing to build the capabilities of small and medium-sized charity chief executives and strengthening them through new networks of support. Grantees report that the opportunity to network with others working in similar sized organisations

---

<sup>25</sup> [Expert Yet Undervalued and on the Frontline: The views and voices of small and medium-sized charities](#), Lloyds Bank Foundation for England and Wales, 2015

or in similar sectors can be invaluable in what can otherwise be a sometimes isolated role.

5.3.0 ***What role should trustees play in the performance and effectiveness of a charity?***

5.3.1 Unlike the trustees of larger counterparts, those governing small and medium-sized charities are often involved in the day-to-day running of charities. As some of the Foundation's grantees have highlighted '*Volunteers and trustees provide support - expertise, experience, work experience which can be applied to our work*' and '*Several [trustees] are more actively involved in the Charity's day to day running, e.g. our Chairperson is involved in Human Resource matters and other members are involved in running fundraising events*'.<sup>26</sup> Trustees need to be able to match these practical, day-to-day skills with strategic and long-term thinking, encouraging the charity to plan for and adapt to the long term as well as dealing with tomorrow.

5.3.2 There are calls for the largest charities to adopt governance structures aligned with the corporate sector<sup>27</sup> but it is imperative that this approach does not veer into the sphere of small and medium-sized charities. There may be much to learn from businesses, as demonstrated by the skills exchanges through Lloyds Banking Group's [charity mentoring](#) scheme run through the Foundation, but businesses do not have all the answers. Charities should be supported to adopt business practices where it makes sense, but there should not be a drive for all charities to work more like businesses. In particular, the voluntary nature of trustees within small and medium-sized charities is an important characteristic – 'payment would be completely counter to their ethos'.<sup>28</sup>

5.4.0 ***How can trustees be best equipped, enabled and supported to fulfil their responsibilities?***

5.4.1 Many charities struggle to find diverse, skilled, confident boards which can stymie charities' ability to innovate. Yet there are also small and medium-sized charities with great, supportive and specialist boards who bring skills, contacts and support.

5.4.2 While the current focus by Government on governance is important, it is critical that trustees are not demonised or discouraged from volunteering. They need to be nurtured and supported, recognising that many trustees are juggling their volunteering with paid work, family life and other commitments. Trustees should be able to look to the Charity Commission for support and guidance but as funding has been reduced, the Charity Commission has been less able to take on this role. Other organisations, such as [Small Charities Coalition](#), have consequently had to go some way to take on aspects of this

---

<sup>26</sup> Information provided respondents to Lloyds Bank Foundation grantee survey, 2015

<sup>27</sup> [Voluntary Sector Leaders Moot New Governance Structure for Big Charities](#), Guardian, 2016

<sup>28</sup> [Governance Crisis? What Governance Crisis?](#), Paul Streets, 2016

role through their helpline service but this is done without the authority, technical expertise or funding needed.

5.4.3 A number of projects have tried to build the skills of trustees through training programmes. The impact of such training programmes can be limited in part due to the voluntary nature of trustee roles. Where they are already giving up their time to support the charity, they may be limited in their ability to attend training programmes, particularly when they are held during office hours when many volunteers will be busy with their paid work.

5.4.4 It is important that legislation, policy and practice supports trustees to run charities effectively and does not discourage those with the skills and experience from volunteering. For example, this means ensuring that service users can qualify to be trustees where appropriate.

5.5.0 *What, if any, changes might this mean for current arrangements?*

5.5.1 Nurturing and supporting trustees effectively requires the Charity Commission to take on a more advisory role to better empower trustees. In recognition of the need for trustee boards to be diverse and reflective of the community they serve, support needs to be available to encourage and support small and medium-sized charities to attract and recruit those with the skills and experience to lead the organisation.

## 6.0 Accountability

6.1.0 *How can charities ensure that they are properly accountable to their beneficiaries, their donors and the general public? What if any changes might be this mean for current arrangements?*

6.1.1 Small and medium-sized charities are focused on how to best serve the individuals they support. It is through keeping their clients at the centre that they are able to ensure they remain accountable. For example, many small and medium-sized charities run service user forums, encourage service users to volunteer with the charity and indeed many small and medium-sized charity employees were once service users themselves. Many charities also demonstrate their quality and accountability through the standards they sign up to through accredited programmes and membership of sector bodies.

6.1.2 While it is important that small and medium-sized charities are accountable to their donors, it is essential that we look wider than this to the accountability of public money more generally. In 2013/14, the sector received 34% of its total income from Government, at a value of £15 billion. Yet accountability within Government supply chains about how public money is spent remains opaque. This is significant because it impacts upon the ability

of charities to meet need and individuals' ability to access the services they need.

6.1.3 Problems arise where commissioners adopt prime provider models with a perceived intention for smaller charities to deliver sub-contracts. In reality, despite smaller charities' expertise and legitimacy adding quality to bids, they often do not receive referrals or funding to deliver services. The Open Contracting Data Standard does not currently require detailed information on sub-contractors and the transparency clause merely asks for some information on 'major sub-contractors'. This is not sufficient to build a detailed aggregate picture which would enable commissioner market stewardship or public accountability.

6.2.0 *How should charities assess their long term viability and/or sustainability?*

6.2.1 Most small and medium-sized charities are focused on keeping their heads above the water for the next 2-3 years. Funding cycles and short term policy making make much more nigh on impossible. The Foundation is developing a piece of work looking towards 2025 to help charities think through how they can better prepare for the future and shape strategies which help them adapt to funding opportunities.

## 7.0 Resource management

7.1.0 *What are the current challenges to financial sustainability, as well as efficient resource and risk management for the sector?*

7.1.1 Many of the challenges to financial sustainability have already been discussed throughout this paper. The primary challenge is the fall in Government income through grants and contracts to small and medium-sized charities which has seen a decrease of up to 64% since 2008/09.<sup>29</sup> This decrease is likely to continue, with some local areas already reportedly ceasing all funding to the voluntary sector due to funding constraints within the local authority. This presents significant challenges to small and medium-sized charities – Government income constitutes 17% of the sector's total voluntary income<sup>30</sup> but for small and medium-sized charities it is thought to be even higher.

7.1.2 Across the board, small and medium-sized charities' financial sustainability is difficult to manage owing to the short term nature of many funding streams. Funding agreements of several years in length would better enable charities to plan and adapt.

---

<sup>29</sup> [Navigating Change: An analysis of financial trends for small and medium-sized charities](#), NCVO, 2016

<sup>30</sup> [UK Civil Society Almanac](#), NCVO, 2016

- 7.1.3 Partnerships such as mergers and consortia have often been put forward in response to commissioners' race to scale. They have been have been touted as a way for small and medium-sized charities to thrive. While they can offer opportunities, they can present challenges in themselves, particularly where commissioners have gone so far as to specify that charities must merge as a condition of a contract. This presents huge issues to the sector. Experience shows that partnerships work where they are based around values, not funding opportunities.
- 7.2.0 ***How can these challenges be overcome?***
- 7.2.1 Small and medium-sized charities are trying to tackle funding challenges and figures show that they have gone some way to doing this as income from individuals has risen while Government income has decreased.<sup>31</sup> However, the amount raised from individuals is insufficient to offset losses from Government. Similarly, there are limited cases of longer term funding becoming available - Camden Council is an example that bucks the short-term funding trend, by offering strategic partner funding for the sector of up to seven years "to provide unprecedented security."<sup>32</sup> Lloyds Bank Foundation also promotes longer term funding through its [Invest](#) core funding programme, offering grants for up to three years with the potential to extend to six.
- 7.2.2 In addition to the availability of core funding, sustainability is dependent on charities having the capacity and capability to thrive and not just survive. Inevitably, this returns to resources being made available and systems allowing for better processes. For example, where partnerships are encouraged, funding should be made available to support their development and bidding timescales should be long enough for partnerships to form.
- 7.3.0 ***How can best practice and information be shared across the sector?***
- 7.3.1 A number of infrastructure organisations already exist in the sector, such as Small Charities Coalition, NCVO and CFG. These organisations are well placed to disseminate information in the sector. Similarly, independent funders such as Lloyds Bank Foundation for England & Wales provide opportunities to share information and best practice. Independent funders typically harbour a wealth of information through relationships with grantees together with monitoring reports and evaluations. Providing opportunities for grantees to meet and sharing learning beyond grantee relationships is an important role for funders. As a recent report by the Institute for Government has highlighted, providing such face-to-face opportunities is essential in ensuring meaningful learning can be transferred between organisations.<sup>33</sup>

---

<sup>31</sup> [Navigating Change: An analysis of financial trends for small and medium-sized charities](#), NCVO, 2016

<sup>32</sup> [Camden Council Strategic Partner Fund](#), 2015

<sup>33</sup> [Local Public Service Reform: Supporting learning to integrate services and improve outcomes](#), Institute for Government, 2016



7.4.0 ***What lessons can be learnt from past mergers or dissolution of charities?***

7.4.1 The experience of Lloyds Bank Foundation grantees has highlighted that mergers can be highly effective where organisations come together around values and where there is an independent organisation coordinating the partnership. For example, Women’s Resource Centre’s coordinating role has been integral to the development and success of the [Pan London Violence Against Women and Girls Consortium](#), consisting of 22 member organisations. This consortium has been facilitated by funding from an independent foundation – it has to be recognised that such investment is essential for effective partnership work.

7.4.2 However, not all mergers are successful and nor should small and medium-sized charities be forced to merge, as they have been in some situations. Other forms of partnership working can be more effective, whether formally or informally and the resources need to be available to facilitate this. It also needs to be recognised that in other cases, partnership working is not suitable and organisations should have the ability to remain autonomous.

7.5.0 ***How can charities effectively deliver services and be assured that their work achieves successful outcomes?***

7.5.1 Small and medium-sized charities can be assured of the difference their work makes through the close relationships they have with clients. Many of these charities face difficulties in formally measuring their impact due to both capacity and capability issues, particularly where funders place excessive reporting requirements on smaller organisations. As one Lloyds Bank Foundation grantee has commented:

*“Having the capability and capacity to provide the evidence and spend the time on fundraising at the same time as working on the frontline to support clients are big challenges for small charities like ourselves.”<sup>34</sup>*

7.5.2 Small and medium-sized charities need support to develop effective impact measurement systems, but funders must also be proportionate in their expectations. Lloyds Bank Foundation supports grantees with outcome measurement, both through its Enhance funder-plus support and specifically for domestic abuse charities through its [work with Women’s Aid Federation of England, Imkaan and Welsh Women’s Aid](#).<sup>35</sup>

7.6.0 ***What are the benefits and challenges of funding for charities being derived from commercial contracts?***

---

<sup>34</sup> [Expert Yet Undervalued and on the Frontline: The views and voices of small and medium-sized charities](#), Lloyds Bank Foundation for England and Wales, 2015

<sup>35</sup> [Sustaining Dedicated and Specialist Services programme](#) in England and [The Capacity Building Project](#) in Wales

- 7.6.1 Contracts offer a means to access essential funding to deliver services for small and medium-sized charities. However, for the small and medium-sized social welfare charities that Lloyds Bank Foundation supports, grants would be a far more effective means of support, as highlighted by the [Grants for Good campaign](#).
- 7.6.2 There are numerous challenges for small and medium-sized charities presented by contracts, primarily:
- Their complexity, requiring HR and Finance expertise that many smaller charities do not have access to
  - Their size, particularly where smaller lots have been rounded up into ever larger contracts over larger geographical areas, forcing smaller charities out of the market place
  - Their payment structures are set against smaller organisations which have smaller bank balances, with many organisations unable to supply the up-front capital, or take on the risk, of payment by results mechanisms
  - Their rigidity, with services dictated by commissioners rather than giving freedom to those organisations that understand the issues clients face to develop and deliver services that best meet need
  - The resource-intensive nature of their administration, both for the commissioner and the bidder
  - The secretive nature of bidding processes which increase competition and reduce collaboration.
- 7.6.3 In many cases contracts have enabled smaller providers, namely small and medium-sized charities, to be excluded from the market place. Larger providers, whether commercials or charities, have been able to collude with commissioners to develop ever larger contracts and undercut smaller providers at the expense of service quality. Small and medium-sized charities have become susceptible to larger organisations' demands. For example, smaller charities report problems of 'bid candy' whereby prime providers use smaller charities to add knowledge and legitimacy to their bids then later fail to pass referrals and money to the smaller subcontractee. The Foundation has even heard examples where larger organisations have demanded that small charities do not negotiate or discuss applications with other prime providers, only to be left out of the larger organisation's bid and having lost the opportunity to work with other primes.
- 7.6.4 Unfortunately, examples of poor commissioning practice are widespread. Lloyds Bank Foundation has recently undertaken research into the detail of commissioning practice, enabling charities to anonymously share examples of good and bad commissioning practice. Evidence from more than 100 different bids were collected, with the vast majority of respondents reporting details of commissioning processes that have excluded small and medium-sized charities. The extent of poor practice is concerning, both in terms of its

breadth and depth. Examples are evident from across all parts of England and Wales and include sometimes absurd specifications and processes which can make it nigh on impossible for small and effective local services to win contracts – whether it is from penalising charities for already holding quality standards (where points are instead gained for achieving them) or requiring a charity bidding to deliver a mental health service to have hard hat policies because the same process is used as for commissioning construction companies. Full details of the evidence collected are due to be published later this autumn.

- 7.6.5 Many of the challenges small and medium-sized charities face with contracts is a lack of understanding by commissioners about needs and how best to meet them. This has resulted in commissioners shaping services that do not meet need effectively and which do not recognise the important role that smaller organisations have in meeting need. To try to address this, Lloyds Bank Foundation has worked with Imkaan, SafeLives, Welsh Women’s Aid and Women’s Aid Federation of England to develop a toolkit for domestic abuse commissioners which will support commissioners to navigate the commissioning cycle in a way that ensures services meet individuals’ needs. Separate toolkits are being produced for England and Wales, recognising the different legislative and funding contexts in each country. The Welsh toolkit has now been published and is available online at:  
[http://www.lloydsbankfoundation.org.uk/VAWDASV%20Toolkit\\_Wales\\_web.pdf](http://www.lloydsbankfoundation.org.uk/VAWDASV%20Toolkit_Wales_web.pdf)

## 8.0 Social investment

### 8.1.0 *What is the potential of social investment and social impact bonds?*

- 8.1.1 Social investment is being heralded by Government as a new way to secure the sustainability of the sector. However, this in itself presents a number of challenges for the small and medium-sized charity sector. Much of the emphasis on social investment has been placed on social impact bonds despite little evidence of their success in prompting innovation and improved responses to social issues. The complex systems and payment by results nature of social impact bonds make them difficult and costly for small and medium-sized charities to navigate. Even Big Society Capital, the organisation paid to promote the take-up of social investment, makes clear that social investment won’t work for everyone. At times when finances are particularly tight, it is critical that Government does not continue to focus its resources on social impact bonds, which have the potential to benefit the limited few when funds could be directed at programmes which would bring greater benefit to the 97% of the sector which has an income of less than £1m.
- 8.1.2 Lloyds Bank Foundation for England & Wales is exploring the potential for social investment more widely through a pilot repayable grants programme, focused on income diversification in small and medium-sized charities. It sees finance and consultancy support go hand-in-hand to enable smaller

organisations to take advantage of repayable finance offers, whilst removing the risk by transferring loans to grants where the new income stream is not successful.

8.2.0 ***What are the barriers to fulfilling the potential?***

8.2.1 No matter how much money Government pumps into social impact bonds, they are unlikely to ever be accessible to huge swathes of the sector. Many services do not have the means to re-pay finance, particularly where Government is cutting back on social welfare services and charities are working with individuals that do not have the means to pay for services themselves. Core funding through grants will always be a more viable option for many charities.

## 9.0 The role of Government

9.1.0 ***What should be the role of the Government be with the sector? Have these relationships changed? If so, how?***

9.1.1 Charities offer great potential to Government through the services they provide, the communities they reach and the information they share. Government should work in partnership with the sector to maximise this potential, to identify needs, co-produce solutions and provide funding as appropriate - taking a simple, proportionate and supportive approach to working with charities. However, this potential is currently under threat from a variety of angles.

9.1.2 Traditionally, many small and medium-sized charities have received a significant proportion of funding through Government grants, particularly local government grants. Since 2008/09, small and medium-sized charities have seen a decrease in the value of Government grants of 64%. Although some of this funding has been directed to contracts, Government income through contracts to small and medium-sized charities has decreased by up to 37% in this time.

9.1.3 The decrease in availability of Government grants presents some serious issues. As the [Grants for Good campaign](#) highlights, grants are important because they:

- Give organisations the freedom to adapt and respond to changing needs, delivering services based on knowledge and experience rather than being shoe-horned into delivering a contract specification which might not achieve the highest levels of service quality
- Save time, effort and resources for both Government and charities by being less administratively intensive
- Support innovation and enable charities to trial new interventions

- Enable smaller organisations to receive funding which may have otherwise been overlooked through large contract commissioning.

A key feature of securing the sustainability of small and medium-sized charities is returning to a more grants-based approach to funding.

Government has the power to return statutory funding to a more grants-based approach, particularly given the specific provisions encouraging grant making contained in the EU Public Contract Directive’s light-touch regime.<sup>36</sup> This should be part of a wider reform to commissioning to address the biased system that currently places smaller organisations delivering services locally at an unfair disadvantage. While it is important for funding decisions to be made locally, central government should provide a framework within which these decisions are made. Specifically, this should be a framework that allows all providers to have a fair chance of receiving funding. It is also important for central government to work with the sector when designing centrally-driven programmes, such as the Work and Health programme to ensure processes are introduced that will allow those services best placed to deliver services to be awarded funding.

9.1.5 At a local level, many small and medium-sized charities’ relationship with local government has diminished as local authority spending cuts heighten and more commercial commissioning processes are adopted more widely. The Foundation hears from grantees that they are reluctant to speak out against poor commissioning practice for fear of reprisals in terms of funding cuts and being overlooked in future funding decisions. One grantee even shared information about being marked down for questioning a contract that was on offer through the local authority – a clear indication of the authority’s lack of appetite to negotiate or learn from the experience and expertise of those locally embedded charities delivering services to individuals at risk. Relationship difficulties have been compounded by ongoing redundancies and restructures in local authorities, so it is increasingly difficult for charities to establish who they need to speak to and how they can reach them.

9.1.6 The advocacy role played by charities is essential in ensuring the voices and experiences of the most disadvantaged are heard and recognised. It is essential that charities’ ability to do this remains secure. Legislation and policy such as the Lobby Act and the proposed anti-advocacy clause further deter and prevent charities from speaking to power. This is worrying because of the understanding that small and medium-sized charities have of the communities in which they are based – this information needs to be fed into Government policy making if the Prime Minister’s ambition of “building a better Britain” where Government won’t “entrench the advantages of the fortunate few” but “will do everything [it] can to help anybody, whatever [their] background, to go as far as [their] talents will take [them].”<sup>37</sup>

<sup>36</sup> [A Brief Guide to the EU Public Contracts Directive \(2014\)](#), Crown Commercial Service, 2015

<sup>37</sup> [Statement from the new Prime Minister Theresa May](#), 2016

9.2.0 ***What should be the role of the Charity Commission? Have these relationships changed? If so, how?***

9.2.1 Much attention of late has been drawn to the role of the Charity Commission. In response to significance resource constraints, the Commission appears to be moving away from an advisory role. The implications of this for small and medium-sized charities is that they lack support on the interpretation of legal requirements. Organisations such as Small Charities Coalition have gone some way to address this needs gap but their resources and authority are limited. The Commission needs to support good practice as well as investigating poor practice, and as such needs to provide support to small and medium-sized charities in navigating the regulatory landscape. As Small Charities Coalition promotes across the board, the Commission needs to take an approach which is simple, proportionate and supportive.

9.3.0 ***How should Government (national or local) focus its resource to deliver its civil society agenda?***

9.3.1 It is essential that the invaluable work of small and medium-sized charities is recognised right across Government, with better consultation and co-production in all departments. As the Secretary of State for Culture, Media and Sport recently confirmed, the work of the Office for Civil Society and Innovation ‘really is a challenge for the whole of Government’.<sup>38</sup> It is for the Office of Civil Society and Innovation to ensure that this is embedded across Government, working with the sector to enable knowledge and ideas grown from the grassroots can inform Government policy. Doing so will enable Government to make the best use of its resources and avoid the challenges of programmes that have failed to achieve their objectives such as the Work Programme and Transforming Rehabilitation.

9.4.0 ***What is the likely impact of greater devolution on the charitable sector, or particular types of charity? What are the opportunities and challenges associated with local devolution?***

9.4.1 Devolution offers great potential for small and medium-sized charities to be more involved in decision making and service delivery. Yet to date, devolution has largely failed to involve local charities and communities.<sup>39</sup> To fulfil this potential, small and medium-sized charities need to be involved in strategic decisions at the start of the devolution process so they have the ability to shape processes that will most benefit local communities. A requirement for the involvement of local small and medium-sized charities should be included within devolution deals to ensure their contribution is not overlooked and this great opportunity is not missed.

---

<sup>38</sup> [Culture Secretary Maiden Speech on Importance of the Arts](#), The Rt Hon Karen Bradley MP, 2016

<sup>39</sup> [Devolution for People and Communities](#), Locality & NAVCA, 2015

This evidence was prepared by Caroline Howe, Policy and National Programmes Manager on behalf of Lloyds Bank Foundation for England & Wales.

## Appendix I: Public Funding for Small and Medium-Sized Charities:

### Recommendations for Reform

As the Minister for Civil Society, Rob Wilson MP, has said Government is keen to ensure that small and medium-sized charities get a greater share of Government contracts, ‘*busting the barriers*’ that currently prevent them from engaging in public service delivery. This paper has been produced by Charity Finance Group, Children England, Clinks, Locality, Lloyds Bank Foundation for England and Wales, NAVCA, NCVO and Small Charities Coalition, bringing together their experiences of working with and supporting small and medium-sized charities on the ground.

The Minister’s commitment to supporting small and medium-sized charities is warmly welcomed. It is essential that the way that public services are delivered and funded, including commissioning practices, change so that smaller charities are able to compete fairly for funding and so that individuals are able access the services they need which many good small and medium-sized charities provide.

This is critical because good small and medium-sized charities are at the heart of delivering effective services and much of their value is intrinsically linked to their size. Grounded in their community, they understand local needs, can reach and engage people and communities and provide holistic services which address the root causes of the problems which individuals face. They are flexible and efficient, often offering fantastic leverage with any public money to attract a far higher level of independent and voluntary income and with a core team of staff typically supporting a far higher number of volunteers. They are usually first to identify a problem and will stay engaged in trying to tackle it even when other organisations and services have been cut or have moved on.

Government needs to increase its proportion of spending that reaches small and medium-sized charities, whether this is through grants, contracts or another payment mechanism. We urge the Government to follow the principle outlined in the *Joint review of partnerships and investment in voluntary, community and social enterprise organisations in health and social care*<sup>40</sup> that commissioning should work on a ‘simplest-by-default’ basis with grants, contracts and payment by results mechanisms considered on equal footing and used as most appropriate.

This paper explores how an increase in the share of public funding that reaches small and medium-sized charities could be achieved through each of:

---

<sup>40</sup> [Joint Review of Partnerships and Investment in Voluntary, Community and Social Enterprise Organisations in the Health and Care Sector, Department of Health & NHS England & Public Health England & representatives of the VCSE sector, 2016](#)



- reform of central government’s processes for its own commissioning;
- a stronger central government framework for commissioning across Government; and
- influencing commissioners at a local level to do better.

These steps should be enacted to enable small and medium-sized charities to reach and support individuals and communities facing disadvantage to transform their lives.

We look forward to the Minister leading these changes through Cabinet Office and across Government through the social justice committee.

## Contents

Summary	20
a) Background – the problem with commissioning and why it matters	21
b) Improving commissioning in practice	23
c) The principles of good commissioning	24
d) Measuring success	35
e) Conclusion	38
Recommendations	38
Annex	41

## Summary

Seven principles of good commissioning need to be widely adopted to enable small and medium-sized charities to participate fairly in, and contribute to, the commissioning process, so that individuals are able to access the services that best meet their needs. These are:

1. Commissioners gain a thorough understanding of local needs and assets through properly resourced consultation at all stages, co-designing outcomes and services with local providers and service users
2. Social value has a central role in commissioning
3. Funding is allocated at an appropriate scale
4. Proportionality is applied in contracting processes, requirements and procurement
5. Appropriate payment approaches are used, including grants wherever possible
6. Commissioners are supported to work with small and medium-sized charities
7. Small and medium-sized charities are supported to engage with and compete in the commissioning process

These principles must be supported by a **commitment and direction from central Government** together with changes in processes and culture among commissioners on the ground. While commissioners have to be able to respond to need locally, expectations need to be set centrally. This includes:

- a) **Providing guidance and sharing best practice which empowers commissioners to ensure they gain a thorough understanding of needs, assets and services and adopt 'simplest by default' approaches** – Crown Commercial Service needs to lead the way to help reduce the burden on commissioners and service providers whilst ensuring that high quality services are delivered
- b) **Central Government championing changes to commissioning and ensuring the resources are in place to implement them** – this should be led by the Minister and a newly recruited Crown Representative for the Voluntary, Community and Social Enterprise Sector

*Continued*

- c) **Central Government, in consultation with the sector, introducing a target for public spending with small and medium-sized charities** - there needs to be a clear indication of the desired direction of travel for working with organisations with an income of under £1m
- d) **Measuring against the target and reporting back to Parliament** – monitoring and accountability are needed to act as a real incentive for change, through scrutinised reports from Cabinet Office, DCLG and the Crown Representative for the Voluntary, Community and Social Enterprise Sector need to be able to identify and question where commissioning standards are not met and when services do not meet needs, as a means of further ensuring standards are driven up
- e) **Increasing the reach and scope of the Commissioning Academy** – the Cabinet Office needs to improve access for commissioners and better connect the Academy with efforts to improve the capacity of small and medium-sized charities
- f) **Improving transparency** – this is needed at all levels, among commissioners, service providers and central and local government to support better understanding as to whether standards are being met and whether public funds are being spent effectively.

## a) **Background – the problem with commissioning and why it matters**

Good, local, small and medium-sized charities form an essential part of society. Thousands of charities up and down the country are responsible for delivering services to communities in need and to individuals which the state has no chance of reaching without them. In most cases they have set up where existing public services have failed to go. They **respond in real-time** to individuals' needs and **shape services around the person**, not a funding opportunity. They are **embedded in the communities** they serve and **supported by an army of committed volunteers**, many of which have real-life experience of the need the charity is meeting. They are unique in the value for money they generate but they are many in terms of their number and reach.

In fact, **97% of the voluntary sector is small and medium-sized**, with a turnover of less than £1m. In England and Wales alone, that is more than 135,000 charities, many of which support individuals who have nowhere else to turn. There is a wealth of quantitative and qualitative evidence about the significant

challenges facing these small and medium-sized charities. For example figures produced by NCVO for Lloyds Bank Foundation for England Wales<sup>41</sup> show some sobering statistics:

- Total income from local government decreased by up to 44% for small and medium-sized charities between 2008/09 and 2012/13, while local government funding to charities with an income of over £100m increased by 22%
- Similarly, charities with an income of more than £100m saw income from central government contracts increase by 34% during this period, yet charities with an income between £500k - £1m faced a reduction of 37% in Government contract income.

Underpinning these changes has been a significant overall **shift in public funding from grants to contracts** with the processes involved in the commissioning and tendering of those contracts systematically excluding small and medium-sized charities through their size, specifications and complexity. Almost half of small and medium-sized charities bidding for contracts find the experience ‘impossible’ or ‘difficult’<sup>42</sup>. There has been a **move towards bigger, more generic contracts which are tailored to large providers**. The bidding process itself can be unnecessarily complex too, requiring resources which are beyond the reach of smaller, specialist services. As one charity describes: *“They are heavily weighted in favour of larger organisations which have the financial resources to (a) hire professional bid writers, and (b) put in whatever bid is necessary to win the contract and then deal with the consequences later if they do not meet the targets set”*.<sup>2</sup>

The **competitive and secretive nature of bidding processes** prevents smaller organisations from coming together to deliver larger contracts. Even where collaboration may be possible, the **timescales involved can be prohibitive** – developing effective consortia or partnerships takes time and money to get right. While some smaller organisations may be able to develop relationships with larger prime providers, they frequently cite issues of **‘bid candy’**, whereby they are used for their expertise and credibility to win a bid, but rarely receive referrals or payments once the contract has been won. These processes matter not just for the smaller charities themselves but because through them, the expertise and holistic services that they offer to individuals is lost. As Locality’s Saving Money by Doing the Right Thing report clearly demonstrates, *“the UK public sector is wasting millions of pounds on services that do not meet people’s needs”*<sup>43</sup>. This is criminal at a time of severe funding pressures, when it is more important than ever to ensure all of our taxes are used

---

<sup>41</sup> [Navigating Change: An analysis of financial trends for small and medium-sized charities, NCVO, 2016](#)  
<sup>42</sup> [Expert Yet Undervalued and on the Frontline, Lloyds Bank Foundation for England and Wales, 2015](#)  
<sup>43</sup> [Saving Money by Doing the Right Thing, Locality, 2014](#)

in the most valuable way. In turn, the current failure demand is contributing to increasingly complex needs and higher costs overall.

Underpinning many of these practices has been a belief in ‘economies of scale’ and the standardisation of services. While **economies of scale** may work with certain products and services such as office supplies or bin collection, they **do not allow for the individual, person-centred services that are needed** when working with individuals with multiple and complex needs. The roll-out of ever larger tenders is limiting the quality of services that individuals at risk can access.

Social impact bonds have been heralded as the silver bullet through which charities will be able to access new and improved forms of funding at a time of limited public money. While there is a need to continue to explore them as a potential option, it has been widely acknowledged that they will not work for all charities, nor indeed for all services. That is why the recommendations set out in this paper must be actioned in addition to the work already announced and underway to explore social impact bonds.

Of course, a key driver of many of these processes has been the **increased pressure on local authorities’ own budgets**. Faced with reduced headcounts and reduced budgets, local authorities have moved towards commissioning processes which appear to decrease costs and workload. In reality they can result in the opposite, due to the nature in which they exclude the organisations that may be best placed to deliver - counter-intuitively, a small number of larger contracts can ultimately prove more costly to manage than a larger number of smaller contracts, due to issues of complexity. Throughout this paper, we demonstrate how in reality current commissioning processes do not offer long term value and instead **we offer alternative approaches that bring long term benefits to Government centrally and locally, as well as to individuals** through the services that are delivered. For example, one of Lloyds Bank Foundation’s grantees, a specialist domestic abuse charity in south east England, was de-commissioned in favour of a large, generic housing provider. In due course, the housing provider itself was decommissioned for poor service and the council renegotiated with the smaller charity once more. Through this process, individuals in most need of support were failed by the council’s chosen provider and the council faced increased costs through having to re-commission the service, whilst the smaller charity had to cut back its staff and services. These human and financial costs could have been avoided if there had been a greater focus on quality of service and a process which did not place smaller providers at a systemic disadvantage. Sadly, this example is not unusual and with every poor commissioning practice, individuals at risk and the public at large are failed while the viability of our good small and medium-sized charities is greatly undermined.

**This matters for Government itself, both locally and nationally, as good small and medium-sized charities are fundamental to the delivery of a**

**number of their own priorities.** It is these organisations which will transform the lives of Britain's poorest and strengthen our communities, whether helping those furthest from the labour market to get back to work, tackling homelessness, reducing offending and beyond. Where there are Government programmes and funding around these issues **it is vital that the resources reach those small and medium-sized charities best placed to deliver.** Doing so offers statutory agencies the long term value that is essential in times of limited resources. Achieving this requires small and medium-sized **charities to be more successful in winning funding** which needs to be backed by:

- **Commissioning practices which do not exclude small and medium-sized charities**
- **Commissioners that are empowered to meet the needs of individuals at risk**
- **Support to develop the tendering expertise of small and medium-sized charities.**

## **b) Improving commissioning in practice**

There are a number of steps that Government and commissioners can take to support commissioners to practice better, more effective commissioning. We know that many commissioners want to improve their practice and need support – as has been evidenced by uptake of places on the Commissioning Academy – but we need to go further to raise standards and outcomes. There are a number of steps that can be taken, as set out in this paper but key throughout are the systems in place to make these practices a reality. In particular it centres on a strong commitment from across Government to strive for best practice in commissioning, supported by:

- **Guidance and training to empower and enable commissioners to practice more inclusive and effective commissioning**
- **Improved transparency to enable commissioners, Government and the public to understand and measure best practice in commissioning**
- **Improved accountability and reporting to showcase best practice and tackle poor practice head-on.**

In particular, this includes:

- **Guidance produced by Crown Commercial Service** which clarifies expectations and supports commissioners to follow effective processes. It needs to focus on ensuring commissioners use meaningful and regular consultation so that they have a thorough understanding of local assets and needs and how to meet those needs. It should also support commissioners to adopt a 'simplest by default' approach which would both

reduce the burden on commissioners and support smaller organisations, which are often best placed to deliver services, to have a fair chance of winning funding.

- **Recruitment of a new Crown Representative for the Voluntary, Community and Social Enterprise Sector** to champion the role of the sector and best practice in commissioning across Government. This needs to form part of the clear direction from central government which can drive an improvement in commissioning across the country.
- **Requirements for commissioners and local authorities to account for and report on vital aspects of the commissioning process** to ensure standards remain at the forefront of the commissioning cycle. In recognition of the important role this plays in delivering services right across Government, the results of this should then be reported to Parliament on an annual basis. Where standards have not been met, commissioners should be challenged by Government, service providers and the public as a means of driving up standards and ensuring public funds achieve the greatest value for money.

These principles must be supported by a commitment and direction from central government together with changes in processes and culture among commissioners on the ground. While commissioners have to be able to respond to need locally, expectations need to be set centrally.

Throughout this paper we will demonstrate what these steps look like in reality against a set of key principles for commissioning. They are focused on practical actions that can be taken by Government both centrally and locally to enable smaller charities to ‘bust through the barriers’ to public service delivery and deliver better outcomes for citizens and value for money for the taxpayer.

### **c) The principles of good commissioning**

Good commissioning encompasses a number of factors. It means a fair process that ensures the organisation best able to meet needs and utilise local assets can deliver a service. It means individuals are able to access and shape services that work for them. And it means that public money is being spent to achieve the greatest value. The following principles are inherent to achieving good commissioning.

**Principle 1: Commissioners gain a thorough understanding of local needs and assets through properly resourced consultation at all stages, co-designing outcomes and services with local providers and service users**

Commissioning for real outcomes is often talked about but rarely achieved. It isn't about implementing a payment by results mechanism. It is about really

understanding the assets and needs of individuals at risk and commissioning services which address these. In reality, it can only be achieved where **meaningful consultation** with service providers and service users is included in every stage of the commissioning cycle. Consultation from the start with local charities – both those who provide and those who advocate – and service users themselves is pivotal to identifying the important, genuine and long-term outcomes which public funding should be directed towards achieving. Its importance has already been recognised in the recommendations that emerged from the VCSE health review<sup>44</sup>, which advocates for VCSE involvement from strategic decision making right through to the service design, specifications, monitoring and evaluation of services.

It is particularly important that **small and medium-sized charities are central to this consultation** as by their nature, they are embedded in their communities and have a knowledge and understanding of the needs of that community. Indeed they often identified the need, took the initiative and developed the services in the first place, continually adapting to support individuals. They can also support commissioners to consult first-hand with service users thanks to the trusted relationships they hold within the community, and make sure that service design is shaped by their experiences.

Good consultation and genuine listening ensures commissioners respond to local needs and expertise rather than dictating how a service must be delivered without the knowledge and expertise of those delivering these services day in, day out. An open approach also ensures that providers are able to **question contracts** where they believe it will not meet need effectively, moving away from current poor practice where bidders are marked down for questioning the contract and instead allowing for continuous learning and refinement. This will further encourage small and medium-sized charities to bid for contracts in the first place.

Genuine consultation such as this must be **properly resourced**. Engagement isn't cost-free and smaller organisations should not be expected to deliver this work without any contributions towards the cost. Public bodies must be encouraged to set aside funds to invest in understanding the assets and needs of their service users, existing good practice and relevant evidence as part of the commissioning process. The better understanding that results will reduce costs over the long term by improving the quality, appropriateness and ultimately outcomes, of commissioned services. Skipping this important part of the commissioning cycle cannot only result in poorly designed specifications but can lead to increased costs later due to the commissioning of services that do not meet their objectives<sup>45</sup>.

---

<sup>44</sup> [Joint Review of Partnerships and Investment in Voluntary, Community and Social Enterprise Organisations in the Health and Care Sector, Department of Health & NHS England & Public Health England & representatives of the VCSE sector, 2016](#)

<sup>45</sup> [More than a Provider: The role of the voluntary sector in the commissioning of offender services, Clinks, 2014](#)



Through a better understanding of needs and outcomes, commissioners will be **better equipped to commission and fund on value rather than unit costs**. This can help to make sure services are commissioned on their quality, value and the extent to which they meaningfully support individuals. It can also ensure that services are designed to meet the needs of people with protected characteristics, thereby avoiding the often damaging presumption that a ‘one-size-fits-all’ approach will get the desired results. This requires sufficient weighting to be given to quality and social value in any tendering process, particularly when commissioning services for people with complex needs.

To ensure regular and meaningful consultation takes place, the **Right to Challenge** should be strengthened so that providers, including small and medium-sized charities, service users and communities are able to call out poor practice.

A key way of enabling service users, communities and local organisations to identify and challenge the way their local public services are being delivered is by requiring **commissioning bodies to keep a public record of a number of key details** around their objectives for each service contract, which should be updated on contract award. This should include:

- Key outcomes of the service – including a brief description of the problem they are trying to solve locally, and the key outcomes. This should also include a brief description of the level of consultation carried out in identifying outcomes
- A brief description of the decision taken on lot size and how this will enable key outcomes
- How the Social Value Act has been considered
- How the chosen provider is planning to meet proposed outcomes, with a justification of how their activity will lead to these outcomes.

These requirements could be introduced to local government via the local government transparency code. This need not impose additional burdens on local authorities as much of this information is already collected. Currently, a similar proposal is under consultation to amend the code and require councils to record decision making.

The requirement for greater transparency would in turn work alongside a strengthened ‘Right to Challenge’ whereby groups can also initiate a Right to Review and Co-design services with councils. This would build on the aspirations of the Right to Challenge to open up service delivery to a broader range of providers. By introducing new rights to trigger reviews of services and input into service design, commissioning would be opened up to a range of providers, local organisations, service users and communities, with the expertise and value in co-designing outcomes which this brings. There should be a duty on councils to consider all such requests transparently and within a specified timescale.

Effectively, this Right would trigger a number of processes:

- A joint review panel with providers, local organisations, services users and commissioners to discuss and review outcomes and contract effectiveness

**Key steps to ensuring commissioners gain a thorough understanding of local needs and assets through properly resourced consultation at all stages, co-designing outcomes and services with local providers and service users:**

- The Minister for Civil Society ensures commissioners have the resources to support local consultation
- Crown Commercial Services set clear expectations about consultation, against which commissioners can be challenged if processes have not been followed
- Crown Commercial Services produce guidance for commissioners about how to include meaningful consultation throughout the commissioning cycle
- Commissioners are required to keep information online up to date which includes details about how organisations and individuals can contribute to the consultation
- Commissioners are required to publish a report which outlines who has been consulted and at what stages of the commissioning cycle
- A Crown Representative for the Voluntary, Community and Social Enterprise Sector reports publicly on trends in consultation during the commissioning process.
- A set period of further, wider community consultation and co-design.

## Principle 2: Social value has a central role in commissioning

The Social Value Act offers the potential for Government to **do more with less**. For commissioning, this means commissioning services that bring the highest overall value for money. However, implementation of the Act has been limited<sup>46</sup>. This must change. To meet this principle, as a minimum, the **recommendations of Lord Young's review<sup>47</sup> should be implemented in full**.

Social value is inherent in the work of small and medium-sized charities through their local experience and investment in the community. Their understanding and reach enables them to deliver services that are valued by the community – they have typically developed in response to a gap in service provision so are very much focused on what is needed. They are also able to deliver high levels of wider social value through the social capital they generate. They employ local people and mobilise volunteers in a way that is rarely achieved by larger organisations based outside of the local area. Yet this additional value is frequently overlooked by commissioners when focusing on unit costs.

---

<sup>46</sup> [Procuring for Good, Social Enterprise UK, 2016](#)

<sup>47</sup> [Social Value Act Report, Cabinet Office, 2015](#)

One of the reasons behind the slow implementation of the Act has been the lack of central government support for social value commissioning. Commissioning for social value requires a new way of working. In turn, this requires support through the **development of resources centrally** to enable commissioners to engage with local stakeholders and develop effective social value strategies. We recommend that the Cabinet Office adopts a similar approach to that taken to promote social impact bonds by **creating a Centre for Social Value** to assist public bodies to develop their own strategies for maximising the social value they generate and monitor implementation. This dedicated support could be complemented by existing initiatives such as the Commissioning Academy.

Where this support is in place, there needs to be an increased onus on commissioners to deliver social value. As it stands, commissioners only have to ‘consider’ social value when commissioning services. By **introducing a requirement for authorities to ‘account’ for and report on social value** in their commissioning, its profile and role would increase significantly and it should enable greater commissioning on longer-term value. This would be

#### **Key steps to ensuring social value has a central role in commissioning:**

- Cabinet Office works towards full implementation of the recommendations in Lord Young’s review of the Social Value Act
- Cabinet Office introduces a Centre for Social Value to better promote uptake of the Social Value Act
- Crown Commercial Services publish guidance for commissioners about how to commission for social value
- Local authorities account for the additional social value they generate through commissioning
- Cabinet Office scrutinises levels of social value reported by commissioners and takes action where the Act has not been embraced
- Cabinet Office updates the Social Value Act to require authorities to account for and report on social value.

relatively simple to implement as authorities are already required to report on a number of other aspects of their commissioning and how they meet other duties. It is also important that the threshold for following the Social Value Act is removed, with the Act also extended to goods and works. Statutory guidance needs to be published to support these changes.

### **Principle 3: Funding is allocated at an appropriate scale**

In recent years, under-resourced commissioners have increasingly rolled different funding pots and streams into ever larger arrangements. Whilst this is typically driven by a wish to reduce an administrative burden in the short term, it has

brought together different geographical areas and service elements without consideration of needs or the availability and nature of existing services. For example, the commissioning of both work programme services and probation services has been carried out over large areas ('contract package areas') and this has been proven to exclude smaller charities from becoming involved<sup>48</sup>.

**Excluding smaller organisations can have a negative impact on service quality** as the specialist services which can most effectively meet complex needs are often more local in nature.

Funding shouldn't be combined in this way and instead commissioners **should recognise the value of the different specialisms** which can be delivered by smaller arrangements. **Larger contracts should be split into smaller lots**, covering smaller geographical areas and also enabling specialist services to bid for the areas in which they have experience. This would not preclude larger organisations from bidding for all lots, but would ensure that both smaller and larger organisations can compete and be assessed fairly. The Public Contract Regulations 2015 already encourage contracting authorities to 'break contracts into lots to facilitate SME participation'<sup>49</sup> and explain their reasons where they choose not to do so. The Cabinet Office should monitor the implementation, identify key reasons for contracts not being split into lots and take action to address these, including through the promotion of best practice examples.

While commissioners may wish to scale up successful projects, it is essential to understand that this does not have to mean increasing the contract size - doing so is likely to lose the very essence that makes these charities successful at delivering services, such as their position in the local community which they understand and can reach. Spreading best practice and thinking more sustainably about replication would enable successful services to grow without losing the value attached to their size and locality.

Where commissioners are unable to split contracts into lots, **partnership working** may support some smaller charities to participate. There are a number of options for partnership working and they all come with their benefits and drawbacks. Developing a consortium is one example but it will not work for all organisations and all services. Consortia should be based on shared values whereby members come together in pursuit of shared social objectives – this can be very different to the experience of most prime-contractor approaches. Meaningful partnerships can take time and resources to establish and need active encouragement and support from commissioners. A good consortium can enable some element of commissioning at scale whilst retaining specialist knowledge and facilitating effective referral pathways across and between services and organisations but it will not be suitable in all scenarios.

---

<sup>48</sup> [The Work Programme - Initial Concerns from Civil Society Organisations, NCVO, 2011](#) and [Change and Challenge: The voluntary sector's role in Transforming Rehabilitation, Clinks & NCVO & Third Sector Research Centre, 2016](#)

<sup>49</sup> [A Brief Guide to the EU Public Contracts Directive \(2014\), Crown Commercial Service, 2015](#)

Partnerships may develop with a prime provider. Where this happens commissioners need to ensure **fair and effective subcontracting**. They should continue to emphasise that exclusivity clauses are not acceptable, and charities wishing to be sub-contractors should be able to develop partnerships with as many prime providers as they choose. Where adopted and encouraged, subcontracting needs to be performance managed on the basis of a good supply chain. This means commissioners maintaining a dialogue with sub-contractors to ensure a direct line of communication with smaller providers. It could be done through provider forums that include sub-contractors.

Support for the development of formal and informal partnerships can be provided through technical support and capacity building grants. Relatively small investments to support the development of partnerships can reap long term benefits through enabling commissioners to more easily work with the small and medium-sized charities which may be best placed to deliver a range of services.

#### **Key steps to ensuring funding is allocated at an appropriate scale:**

- Cabinet Office ensures national programmes do not favour commissioning at scale
- Commissioners divide services into smaller lots, as encouraged through the Public Contracts Regulations
- Cabinet Office monitors the implementation of the Public Contract Regulations 2015 to identify why services are not being split into smaller lots and take action to address these, including promoting best practice examples
- Commissioners encourage fair subcontracting and monitor subcontracting relationships
- Cabinet Office make small grants available to support the development of partnerships.

#### **Principle 4: Proportionality is applied in contracting processes, requirements and procurement**

Many of the challenges small and medium-sized charities face when competing for funding result from the excessive requirements imposed by the commissioner. In many instances these requirements have no relevance to the services to be delivered, yet they automatically exclude smaller providers. Commissioning and procurement processes should not follow a 'one-size fits all model' but be **proportionate to the circumstances**. For example, a grantee of Lloyds Bank Foundation (a charity with a total income of less than £1m) shared information about a tender which included a requirement for evidence of successful

management and delivery of a contract value over £1m when the contract on offer was for a value of £500,000. Inevitably, the small charity couldn't apply, despite having a successful track record of delivering the service being commissioned. Adopting approaches such as this puts commissioners at risk of excluding the organisations that might be best placed to deliver services and obtain the greatest value overall.

Proportionality is not just about specification requirements either. It is required at all stages of the commissioning cycle: specification, tendering and the monitoring and reporting systems which are adopted. As one charity remarked in a survey of Lloyds Bank Foundation grantees: *"The reporting requirements, in some instances, are not relative to the contract size and value, often requiring the same processes for small value contracts as large value contracts."*<sup>50</sup> These excessive requirements can make it more difficult for smaller charities to win and deliver services. It can also place increased pressures and costs on commissioners as they themselves have to go through more onerous processes. A more proportionate approach, and active **encouragement of this by central government and the Commissioning Academy**, would therefore see benefits to providers and commissioners alike.

In recognition of many of the challenges raised above, procurement rules have already been revised with a clear provision within the EU directive for a simpler process to be used when commissioning services under a €750,000 threshold. There has, however, been limited take-up of the light touch regime which would directly help smaller charities. Too often procurement teams in local authorities and elsewhere are reportedly advising against the uptake of this approach and instead insisting commissioners follow the full EU tender process. This brings additional costs to Government and bidders whilst preventing some smaller bidders from applying due to the complexity of the process.

Local commissioners should be encouraged, through Crown Commercial Services, to **promote the uptake of the light touch regime**. This needs to include a central government-backed legal interpretation of the EU directive which demonstrates how the light touch regime can be used without commissioners facing undue levels of risk. This should be supported by a clear set of myth-busters, similar to those already developed specifically for social enterprises<sup>51</sup>. Crown Commercial Services should engage with CIPFA (The Chartered Institute of Public Finance and Accountancy) to promote the light touch regime and ensure procurement teams, as well as commissioners, understand and make use of the system.

---

<sup>50</sup> [Expert Yet Undervalued and on the Frontline, Lloyds Bank Foundation for England and Wales, 2015](#)

<sup>51</sup> Working with the Public Sector – Busting the Myths: A guide for social enterprise and contracting public bodies, Anthony Collins, 2013

### Key steps to ensuring proportionality is applied in contracting processes, requirements and procurement:

- Commissioners adopt the ‘simplest by default’ approach to commissioning and only require information that is needed and will be used
- Crown Commercial Service encourage take-up of the light-touch regime
- Crown Commercial Service publish a central government-backed legal interpretation of the EU directive which demonstrates how the light touch regime can be used
- Crown Commercial Services publish a myth-buster around procurement rules, working with charities to allay fears of using simpler processes
- Crown Commercial Services engage with CIPFA to promote the light touch regime among commissioners and procurement teams.

### Principle 5: Appropriate payment approaches are used, including grants wherever possible

The payment approaches adopted by commissioners can determine whether and which organisations compete. Increasingly commissioners use payment by results systems to commission services despite a report by the NAO<sup>52</sup> highlighting a lack of evidence about whether payment by results contracts actually drive improved performance. An independent evaluation of the first Social Impact Bond pilot at HMP Peterborough also found that the Social Impact Bond funding mechanism did not, in itself, lead to innovation.<sup>53</sup>

Many small and medium-sized charities have high levels of volatility<sup>54</sup> in their income so cannot afford to fund services before payment is received such as through payment by results contracts. In effect, this can mean that funding is largely awarded to the bidder with the biggest bank balance, with little regard to service quality. **Staged payments**, with effective monitoring processes in place, can reduce the risk of upfront payments whilst also enabling those organisations best placed to deliver a service to compete and be successful.

---

<sup>52</sup> <https://www.nao.org.uk/report/outcome-based-payment-schemes-Governments-use-of-payment-by-results/>

<sup>53</sup> [The payment by results Social Impact Bond pilot at HMP Peterborough: final process evaluation report, RAND Europe, 2015](#)

<sup>54</sup> [Navigating Change: An analysis of financial trends for small and medium-sized charities, NCVO, 2016](#)

The NAO have produced an analytical framework<sup>55</sup> to help establish which is the most effective payment mechanism to use rather than defaulting to a payment by results approach. It supports decision makers when considering payment by results contracts. Commissioners should be **encouraged to follow this framework**. It is also important that the costs, both in opportunity costs through the increased time it takes to develop payment by results contracts and the costs to providers in engaging in the development of these contracts, are factored into decision making. These increased costs can act as a deterrent for small and medium-sized organisations. Commissioners should be encouraged to **approach services from a ‘payment mechanism neutral’ starting point** and having the support to change payment mechanisms for services based on consultation with providers.

Funding must also be provided over a suitable time period. Wherever possible, services should be **commissioned on a minimum three year funding agreement**. This would enable the charity to better plan and invest its resources, helping it to be more sustainable and better able to meet ongoing needs. For commissioners, such an approach would reduce costs by reducing expensive re-tender processes.

Again, **adopting the ‘simplest by default’ approach to the payment approach** would support commissioners here. The approach has the benefit of reducing costs for both the commissioner and the commissioned whilst also ensuring that smaller organisations are not forced out of the market by the use of inappropriate payment mechanisms. In most instances, the simplest approach also enables more small and medium-sized charities to deliver public services – it is frequently realised through **the effective use of grants**, as has been highlighted by the [Grants for Good](#) campaign. Using grants can overcome many of the barriers small organisations face in the commissioning process. It can also bring benefits to both Government and charities by:

- Giving commissioners the freedom and flexibility to choose the right funding mechanism
- Being simpler and less resource-intensive to run
- Assessing on outcomes to ensure services can adapt to local needs
- Encouraging innovation
- Supporting specialist services to deliver in their local area
- Minimising risk by only supporting the best organisations through a competitive grants process
- Supporting a more relationship-based agreement which allows for more learning.

Encouraging and empowering commissioners to make greater use of grants for the delivery of services to people with complex needs, we believe, is the most

---

<sup>55</sup> [Outcomes Based Payment Schemes: Government’s use of payment by results, NAO, 2015](#)



effective way to enable small and medium-sized charities to deliver a greater proportion of public services. Independent funders can support Government to make use of good making practices.

**Key steps to ensuring appropriate payment approaches are used, including grants wherever possible:**

- Crown Commercial Services produces guidance to encourage commissioners to adopt a 'simplest by default' approach to payment mechanisms, making use of the NAO framework for decision-making
- DCLG actively promote the use of grants to local authority commissioners
- Government learns from independent funders the value and practice of good grant making
- The Minister for Civil Society publicly supports the Grants for Good campaign.

**Principle 6: Commissioners are supported to work with small and medium-sized charities**

Good commissioning needs to be driven by an army of well-informed and supported commissioners. It needs a culture of best practice which empowers commissioners to use better processes and encourages them to move away from one-size fits-all approaches. The Commissioning Academy has widely been regarded as a valuable and successful programme in promoting such a change. It has helped commissioners understand the value of engaging and commissioning small and medium-sized charities as well as providing commissioners with the tools and confidence to adopt commissioning models which can encourage smaller providers to apply. However, the number of commissioners that have benefited from this course has been limited and we are very worried that instead of its work being built on and expanded, changes to the way it is funded could reduce its reach, influence and impact.

With local authorities now expected to cover the full cost of employees' attendance at a time when local authority finances are under real pressure, it is unlikely that many local authorities will prioritise staff training, particularly something seen as a 'nice to have' like attendance at the Commissioning Academy. This may be particularly the case for the 'worst offenders', those local authorities where commissioners are least likely to engage small and medium-sized charities and which are potentially those likely to gain most from Commissioning Academy courses.

Central Government could encourage greater take-up of places at the Commissioning Academy by **subsidising or match-funding** places for local authority commissioners. This would demonstrate a clear commitment to the value it attributes to the course and would provide the incentive needed for local authorities to contribute funding towards the course. Further steps could be taken by identifying those local areas most in need of commissioning support. While a mystery shopping service already exists within the Cabinet Office, it currently has limited scope. **Scaling up the reach and strengthening the impact of mystery shopping** would help to identify poor commissioning practice and could act as a trigger for compelling failing authorities to send individuals through the Commissioning Academy.

In addition, commissioners need somewhere to turn for ad-hoc advice and best practice. This could draw upon the expertise and best practice examples held within the Public Services Transformation Academy and provide specific, practical advice and guidance to commissioners in real time.

### **Key steps to ensuring commissioners are supported to work with small and medium-sized charities:**

- Cabinet Office encourages greater take-up of places at the Commissioning Academy by subsidising or part-funding places
- Public Services Transformation Academy provides ad-hoc advice and support to commissioners including through widely available examples of best practice
- Cabinet Office publishes an annual report on findings and trends identified through its commissioning mystery shopping service, highlighting what constitutes good and bad practice
- The Crown Representative for the Voluntary, Community and Social Enterprise Sector reports on trends in commissioning, identifying specific areas of good and bad practice
- Areas identified as having poor commissioning practice are compelled by Cabinet Office to attend the Commissioning Academy.

## **Principle 7: Charities are supported to engage with and compete in the commissioning process**

While adopting the more inclusive processes outlined above will enable smaller charities to compete more fairly, effective commissioning as a whole demands the ability of small and medium-sized charities to have the skills and capacity to compete. Such skills are inherent in larger organisations' specialist bidding teams but smaller organisations often need specific support to gain them. A number of capacity building programmes are already in place to support small and medium-sized charities to develop these skills but their reach has been limited. For

example, Lloyds Bank Foundation is funding Women's Aid Federation of England and Imkaan's Sustaining Dedicated and Specialist Services programme which is specifically aimed at supporting small and medium-sized charities to bid for contracts. NCVO have also previously delivered a series of commercial masterclasses for smaller charities engaging in public service markets while Clinks have provided training on bidding for contracts as well as legal support for those negotiating complex contractual agreements.

Such **programmes need expansion and development**. Providing funding to increase the availability of this support, whether through re-funding masterclasses, providing a means for smaller charities to access one-to-one consultancy supporter or legal advice for example would equip small and medium-sized charities with the skills to help them win more funding. A proposal has been submitted to the Chancellor which includes how masterclasses could be funded through windfalls similar to those previously received from Libor fines (Annex I). To date, these windfalls have been directed to specific, hand-picked charities. Directing funds to capacity-building initiatives such as the masterclasses would enable the benefits of these windfalls to be felt much more widely across the sector. Taking this proposal forward has the potential to strengthen small and medium-sized charities across the sector and support them to become better able to win funding.

**Local voluntary infrastructure organisations have a vital role** to play here. They are a bridge between commissioners and voluntary sector organisations, with smaller organisations looking to local infrastructure for the support, expertise and information they do not have in-house. Local commissioners also look to local infrastructure to provide them with information about the range of local groups and to help charities be ready to bid for contracts, alone or in partnership. Through their network of local voluntary sector groups, local infrastructure supports the involvement of local people and communities in the design of local services. The Cabinet Office acknowledges that organisations accessing support from infrastructure have “a substantially higher likelihood of success in grant applications and bidding for contracts”<sup>56</sup>. Directing funding towards the organisations that provide this would help to build a stronger sector and better enable those organisations best suited to deliver services to win funding.

---

<sup>56</sup> Cabinet Office. Supporting a stronger civil society. Cabinet Office. 2010. Which quotes results from National Survey of Third Sector Organisations (later renamed the National Survey of Charities and Social Enterprises) Cabinet Office, Supporting a Stronger Civil Society (accessed February 2016)

**Key steps to ensuring charities are supported to engage with and compete in the commissioning process:**

- The Treasury allocates funds from windfalls, such as those previously received from libor fines, to fund the provision of capacity building support for small and medium-sized charities
- Cabinet Office ensures that local infrastructure organisations receive sufficient funding to contribute to better commissioning, supporting both small and medium-sized charities and commissioners themselves.

## d) Measuring success

Influencing large scale change in commissioning demands a system whereby the quality of commissioning can be measured and built upon. This cannot be achieved without a fully transparent process which enables commissioners themselves, as well as Government locally and centrally to track progress and strive for the highest standards. Three overarching actions need to be taken by central Government to create an environment which enables and encourages the principles to be met:

- Adopting a Government-wide target to commission small and medium-sized charities
- Increasing transparency in commissioning and contracting
- Introducing a national statement of expectation for commissioning.

### Adopt a Government-wide target to commission small and medium-sized charities

This Government has championed the role of SMEs in delivering public service contracts and is working towards a target of a third of public contracts being awarded to SMEs by 2020. While the official definition of SMEs includes charities, the upper threshold of £39m turnover means that small and medium-sized charities (with an income under £1m) are lost amid much larger counterparts.

To encourage authorities to commission in a way which enables small and medium-sized charities to compete fairly, we believe a specific target should be introduced for the involvement of smaller charities (with an income of less than £1m) in public spending, commissioning and procurement. This target should be **developed by the Cabinet Office in consultation with service providers and commissioners**. Such a target would need to be reported to Parliament, either via the Public Accounts Committee or an oral statement on an annual basis.

Within an overall headline target, there could be a particular focus on the involvement of and funding reaching small and medium-sized charities in sectors where they add particular value, such as for services delivered to people facing multiple disadvantage. A recent report by the Public Accounts Committee has recommended that a similar focus is adopted for Government's wider SME target, identifying where smaller organisations can best add value.<sup>57</sup> Evidence suggests that smaller charities are particularly effective at delivering services to individuals with complex needs<sup>58</sup> due to their person-centred approaches, which in turn translates into long term value for the commissioner. By **focusing a target to**

---

<sup>57</sup> [Government Spending with Small and Medium-Sized Enterprises, Public Accounts Committee, 2016](#)

<sup>58</sup> Too Small to Fail: How small and medium-sized charities are adapting to change and challenges, IPPR North, 2016

**work with small and medium-sized charities on those supporting people with multiple needs**, Government would be able to ensure that services are delivered which meet complex needs and achieve long term value.

### **Key steps to adopting a Government-wide target to commission small and medium-sized charities:**

- Cabinet Office works with the sector to agree a definition of small and medium-sized charities and to set a target for their level of participation in service delivery
- Cabinet Office reports to Parliament annually on progress towards this target.

### **Increase transparency in commissioning**

The Prime Minister has recently acknowledged the importance of transparency in developing prison reform as a means of holding providers and professionals to account<sup>59</sup>. Increased transparency can help both Government and the public to understand where tax payers' money is spent and the effectiveness of services, but this is only possible if clear information about services being commissioned is available.

The NAO's report into Government spending with SMEs<sup>60</sup> highlighted the difficulties of measuring success against targets in relation to Government commissioning – it cannot be achieved without transparency. It is essential that **low-cost reforms are introduced to make information about contracts available**, together with an agreed understanding of what constitutes a small and medium-sized charity.

We recognise that the Government has recently taken positive steps to increase transparency in public service contracting. The commitment made in the UK Open Government National Action Plan 2016-18 to implement the Open Contracting Data Standard (OCDS) in Crown Commercial Services operations and High Speed Two, before rolling it out across Government more widely is most welcome<sup>61</sup>. When fully implemented, this will for the first time give an accurate picture of Government's direct spending with suppliers. Similarly, the expanded transparency clause which has been inserted into the Model Services Contract<sup>62</sup> is a significant improvement on the previous version.

<sup>59</sup> [Prison Reform: Prime Minister's speech, 2016](#)

<sup>60</sup> [Government's Spending with SMEs, National Audit Office, 2016](#)

<sup>61</sup> <https://www.gov.uk/Government/publications/uk-open-Government-national-action-plan-2016-18/uk-open-Government-national-action-plan-2016-18#commitment-5-open-contracting>

<sup>62</sup> <https://www.gov.uk/Government/publications/model-services-contract>

Unfortunately, neither of these measure will shed significant further light on indirect funding for sub-contractors, which, as the NAO identified in their recent report, is a major weakness with the existing measures of spend with SMEs. The OCDS does not currently require detailed information on sub-contractors and the transparency clause merely asks for some information on ‘major sub-contractors’. This is not sufficient to build a detailed aggregate picture which would enable commissioner market stewardship or public accountability. We propose two solutions. In the short term, Government should **strengthen the Model Services Contract transparency clause**, requiring prime providers to use the OCDS when submitting transparency reports to commissioners. This would ensure that full details of their suppliers were included. In the medium term, Government should work with the Open Contracting Partnership and other key stakeholders to **update the OCDS** so that it includes subcontracting data, and specifically a unique identifier (e.g. company or charity number), contract length and contract value.

#### **Key steps to increasing transparency in commissioning:**

- Crown Commercial Services updates the Model Services Contract to require prime providers to use the OCDS when submitting transparency reports to commissioners
- Cabinet Office works with the Open Contracting Partnership and other key stakeholders to update the OCDS so that it includes subcontracting data.

### **Introduce a National Statement of Expectations for commissioning**

Improving commissioning practice across the country inevitably means more effectively influencing commissioners to do the right thing. Whilst we recognise the importance of councils and combined authorities in choosing the right services for their own area, a **clear national framework** set by central Government which supports recommendations around the commissioning process, particularly in terms of clarifying the law and spreading best practice, would make a real difference. Government could adopt a number of options to achieve this, such as building upon and refreshing the work already undertaken through the Compact. Alternatively, a National Statement of Expectations for Commissioning could be published by Government departments which provides the framework for commissioning centrally and at a local level. A similar approach is already being adopted by DCLG for the provision of domestic abuse services across the country. The intention is that the statement will **clarify approaches which should be consistent across local authority areas and clarify areas of current uncertainty**, but still enabling each area to commission services independently.

A national statement of expectations could set out the commissioning and procurement framework and processes which would enable small and medium-sized charities to be able to compete for public service contracts. It offers a means to ensure that processes do not automatically exclude smaller providers, whilst still empowering local areas to choose the service most able to meet their needs. Through the framework, local areas would be better able to increase the number of small and medium-sized charities competing for and winning contracts. It would build on the work already undertaken through the [Merlin Standard](#) and help ensure consistency across the country, rather than the postcode lottery of commissioning practices that currently exists.

### **Key steps to achieving a national statement of expectations for commissioning:**

- All central government departments produce a National Statement of Expectations for Commissioning
- Commissioners work towards the expectations
- Cabinet Office promotes the expectations and reports on their attainment centrally.

## **Conclusion**

Small and medium-sized charities have a great deal to offer individuals and communities, and indeed many of the Government's core agendas, including the commitment to transforming life chances. There is increasing evidence to show that, despite the pivotal role of small and medium-sized charities in turning around the lives of those most at risk, they are being overlooked and excluded by commissioners.

Increasing the role of small and medium-sized charities in public service delivery demands efforts across Government centrally and locally. As set out in this paper, there are a number of very practical steps that Government can take itself as well as encouraging local and other commissioners to change behaviours and practices to ensure that small and medium-sized charities are better able to compete for and win funding. Many of these steps do not demand a great resource, but are centred on shifting the focus to long term value. This is essential at a time of increased pressure on public finances, to ensure that tax payers' money is spent in the most effective way.

We warmly welcome the commitment that the Minister for Civil Society has shown to small and medium-sized charities and believe it is imperative that Government as a whole seizes this opportunity to transform the delivery of



services to individuals. The full list of recommendations to achieve this are set out below.

## Recommendations

**Key steps to ensuring Commissioners gain a thorough understanding of local needs and assets through properly resourced consultation at all stages, co-designing outcomes and services with local providers and service users:**

- The Minister for Civil Society ensures commissioners have the resources to support local consultation
- Crown Commercial Services set clear expectations about consultation, against which commissioners can be challenged if processes have not been followed
- Crown Commercial Services produce guidance for commissioners about how to include meaningful consultation throughout the commissioning cycle
- Commissioners are required to keep information online up to date which includes details about how organisations and individuals can contribute to the consultation
- Commissioners are required to publish a report which outlines who has been consulted and at what stages of the commissioning cycle
- A Crown Representative for the Voluntary, Community and Social Enterprise Sector reports publicly on trends in consultation during the commissioning process.

*Continued*

### **Key steps to ensuring social value has a central role in commissioning:**

- Cabinet Office works towards full implementation of the recommendations in Lord Young's review of the Social Value Act
- Cabinet Office introduces a Centre for Social Value to better promote uptake of the Social Value Act
- Crown Commercial Services publish guidance for commissioners about how to commission for social value
- Local authorities account for the additional social value they generate through commissioning
- Cabinet Office scrutinises levels of social value reported by commissioners and takes action where the Act has not been embraced
- Cabinet Office updates the Social Value Act to require authorities to account for and report on social value.

### **Key steps to ensuring funding is allocated at an appropriate scale:**

- Cabinet Office ensures national programmes do not favour commissioning at scale
- Commissioners divide services into smaller lots, as encouraged through the Public Contracts Regulations
- Cabinet Office monitors the implementation of the Public Contract Regulations 2015 to identify why services are not being split into smaller lots and take action to address these, including promoting best practice examples
- Commissioners encourage fair subcontracting and monitor subcontracting relationships
- Cabinet Office makes small grants available to support the development of partnerships.

### **Key steps to ensuring proportionality is applied in contracting processes, requirements and procurement:**

- Commissioners adopt the 'simplest by default' approach to commissioning and only require information that is needed and will be used
- Crown Commercial Service encourage take-up of the light-touch regime
- Crown Commercial Service publish a central government-backed legal interpretation of the EU directive which demonstrates how the light touch regime can be used
- Crown Commercial Services publish a myth-buster around procurement rules, working with charities to allay fears of using simpler processes
- Crown Commercial Services engage with CIPFA to promote the light touch regime among commissioners and procurement teams.

### **Key steps to ensuring appropriate payment approaches are used, including grants wherever possible:**

- Crown Commercial Services produces guidance to encourage commissioners to adopt a 'simplest by default' approach to payment mechanisms, making use of the NAO framework for decision-making
- DCLG actively promote the use of grants to local authority commissioners
- Government learns from independent funders the value and practice of good grant making
- The Minister for Civil Society publicly supports the Grants for Good campaign.

*Continued*

**Key steps to ensuring commissioners are supported to work with small and medium-sized charities:**

- Cabinet Office encourages greater take-up of places at the Commissioning Academy by subsidising or part-funding places
- Public Services Transformation Academy provides ad-hoc support and advice to commissioners including through widely available examples of best practice
- Cabinet Office publishes an annual report on findings and trends identified through its commissioning mystery shopping service, highlighting what constitutes good and bad practice
- The Crown Representative for the Voluntary, Community and Social Enterprise Sector reports on trends in commissioning, identifying specific areas of good and bad practice
- Areas identified as having poor commissioning practice are compelled by Cabinet Office to attend the Commissioning Academy.

**Key steps to ensuring charities are supported to engage with and compete in the commissioning process:**

- The Treasury allocates funds from windfalls, such as those previously received from labor fines, to fund the provision of capacity building support for small and medium-sized charities
- Cabinet Office ensures that local infrastructure organisations receive sufficient funding to contribute to better commissioning, supporting both small and medium-sized charities and commissioners themselves.

**Key steps to adopting a Government-wide target to commission small and medium-sized charities:**

- Cabinet Office works with the sector to agree a definition of small and medium-sized charities and to set a target for their level of participation in service delivery
- Cabinet Office reports to Parliament annually on progress towards this target.

**Key steps to increasing transparency in commissioning:**

- Crown Commercial Services updates the Model Services Contract to require prime providers to use the OCDS when submitting transparency reports to commissioners
- Cabinet Office works with the Open Contracting Partnership and other key stakeholders to update the OCDS so that it includes subcontracting data

**Key steps achieving a national statement of expectations for commissioning:**

- All central government departments produce a National Statement of Expectations for Commissioning
- Commissioners work towards the expectations
- Cabinet Office promotes the expectations and reports on their attainment centrally.

## Annex I:

### Proposal submitted the Chancellor in advance of the Budget 2016 in support of using windfalls, such as those from Libor fines, to support capacity building in the charity sector.

#### Voluntary Sector Master-classes

The recent sector-led financial sustainability review identified a capacity crunch in the voluntary sector. Voluntary and community organisations, particularly those that are reliant on Government income, are unable to free up new resources through increased efficiency to draw in new resources. The capacity-building that has been undertaken is rarely focused on the financial skills that will enable charities to get the most out of their resources.

Whilst voluntary and community organisations have demonstrated resilience in the face of significant funding changes – including a £2.3 billion reduction in Government income since the recession – they have recalibrated their income streams by drawing upon their reserves, cutting or removing investment in their capacity as an organisation, and reduced spending on staff training and salaries. This has been done with a view to protecting front-line services.

The Government has sought to address this problem through the Local Sustainability Fund (LSF) which is an important first step in supporting medium sized voluntary organisations to review and transform their operating models. However, the application process has proved insurmountable for those organisations that are in most need for capacity building support. The Master-classes will offer a more flexible approach, ensuring that such organisations can access the support they need.

#### Proposal

The **Voluntary Sector Master-classes** will be a cross-sector partnership. It will complement the LSF by providing a range of technical training sessions that will equip voluntary organisations with the ability to improve their capacity and financial sustainability in the long-term.

There will be six master-classes that will address the following topics:

- Governance
- Financial skills
- Fundraising
- Commissioning
- Assessing impact/conducting evaluations
- Maximising resources – including finances, volunteers, work force and pro-bono support

This will be a three year programme. Each of the six master-classes will run four times a year in nine regions, for three years. The classes will be predominately

targeted at managers and trustees of small and medium sized organisations responsible for developing and delivering the organisation's strategy. On the assumption that each master class sees a minimum of twenty organisations attending, we estimate these classes could help 12,960 smaller charities over the lifetime of the classes. This works out at a cost of £150 per charity attendee.

Master-classes should be offered to organisations for a minimal fee so as not to exclude the very organisations it is designed to support. In order to ensure that those organisations for whom attending training would result in closing their services, the provision of bursary funding should be considered so that such organisations can backfill or buy-in cover.