

DIRECTORY OF SOCIAL CHANGE

INFORMATION AND TRAINING FOR THE VOLUNTARY SECTOR

DSC response to OCS green paper on 'Modernising Commissioning'

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About the Directory of Social Change

The Directory of Social Change has a vision of a better society through independent voluntary action. We believe that the activities of charities and other voluntary organisations are crucial to the health of our society.

Through our publications, courses and conferences, we come in contact with thousands of organisations each year. The majority are small to medium-sized, rely on volunteers and are constantly struggling to maintain and improve the services they provide.

We are not a membership body. Our public commentary and the policy positions we take are based on clear principles, and are informed by the contact we have with these organisations. We also undertake campaigns on issues that affect them or which evolve out of our research.

We view our role as that of a 'concerned citizen', acting as a champion on behalf of the voluntary sector in its widest sense. We ask critical questions, challenge the prevailing view, and try to promote debate on issues we consider to be important.

Introductory note

Due to the short consultation period, which included the Christmas holidays, DSC is unable to make a full response to the questions posed in the consultation. The length and timing of the consultation period goes against the spirit and letter of the Compact, which is unfortunate considering that commissioning is a key area of public policy which affects thousands of charities and other voluntary organisations. It will prove especially difficult for those organisations which need to consult members to respond fully, as part of fulfilling their own obligations under the Compact. An adequate consultation period for the following White Paper on Public Service Reform is an absolute must.

Although we cannot respond in detail at this time, DSC would like to give a general view on the paper, including some questions we think remain to be addressed. We also recap the points we have made previously in our *Towards a Fair Deal on Grants* paper, submitted in response to the OCS consultation in August on 'doing more with less', as we believe them to be germane to this discussion.

Background

The Green Paper does a fair job of illustrating the current problems with commissioning, and demonstrating that the Government understands how civil society organisations are affected by those problems. The case study of Cambridge House on page 13 captures in a nutshell the difficulties that thousands of organisations continually experience, when trying to navigate the procurement processes of any number of government departments and agencies.

It also outlines some ambitious goals for reform, namely that 'improved commissioning practice will encourage a flourishing civil society, increasing community involvement in activities which were previously the almost exclusive domain of the state; enhancing the responsiveness of local

authorities and other commissioning bodies to the community's needs and priorities, reaching some of the most disadvantaged groups in society; and supporting local economic growth.'

It is debatable to what extent these ambitions are realistic, or even compatible with each other. Further, some of the key policy proposals outlined, such as payment by results contracts, have the potential to make existing conditions worse for civil society organisations.

Many of the problems with commissioning are actually quite intractable for all kinds of reasons, and feasible improvements have proved difficult to achieve. It is difficult to see how current processes of commissioning services from civil society organisations, or co-production of services between such organisations and the state, can be positively reformed unless some of the fundamental underlying conditions are challenged.

From a civil society perspective, we think some of these conditions are:

- Competitive tendering which aims to be 'blind' to the type of provider, even though there are significant and important differences in legal structure, capacity and motivation between and within sectors
- Difficulties presented by compliance with EU procurement regulations
- Public sector risk aversion that is designed into the terms of contracts
- Instability in contract length and insecurity in payment terms, resulting in lost investment of resources and damage to civil society organisations and their service users
- An environment of severe pressure on public sector budgets, which will continue to drive cost as the primary consideration

Left unaddressed, these issues will continue to drive the whole system of commissioning public services in the same direction it has been heading for some time. Commissioning in practice will continue to amount to crude outsourcing of the state's activities, rather than reform, with the following consequences:

- **Greater privatisation**, at least in those areas where for-profit companies are prepared to risk capital where they see a return to be made from delivering services to the state, prioritising the domination of market share and profits above outcomes for service users
- **Greater scale of delivery**, with larger, national organisations seeking to take over local markets where they have no connection, putting smaller, local organisations out of business, and destroying local social capital
- **Consolidation of civil society organisations**, with smaller organisations forced together, either in consortia or by formally merging, driven mainly by the commissioning environment rather than service user needs or questions of 'community involvement'
- **Increasing complexity in the supply chain**, with organisations coming under new subcontracting relationships that are not properly scrutinised or regulated for fairness
- **Increasing confusion about accountability and redress for service users and taxpayers**, obscuring proper democratic oversight and responsibility
- **Ever greater bureaucracy and cost**, which will remain largely unaccounted for

Such consequences would not reflect success for the Government on many levels, particularly in this context with reference to its commitment to 'support the creation and expansion of mutuals, co-operatives, charities and social enterprises, and enable these groups to have much greater involvement in the running of public services'. In setting its future policy the

Government needs to confront these trends head-on and clearly show how it plans to prevent them from happening.

Some questions we think the Government needs to answer

- Where is the evidence that non-state providers – whether private sector, social enterprise, or charitable – are more efficient, effective and innovative at providing public services than the state?
- Where is the evidence that a system of competitive tendering for contracts is an efficient and effective way of involving civil society organisations in the commissioning process?
- Why does the word grant(s) not appear anywhere in the entire Green Paper? Does the Government envision that grants can continue to be used as part of the commissioning process, or not?
- How does the Government plan to address barriers to reforming commissioning that stem from the requirements of EU competition law? Is seeking to set proportions or quotas of services to be delivered by SMEs, for example, even legal?
- How might the Sustainable Communities Act apply to the question of community participation and involvement?
- How can a payment by results model of contracting, which front-loads financial risks on organisations, facilitate the involvement of (smaller, charitable) organisations that simply have no capital they could risk (or would want to)?

Towards a Fair Deal on Grants

DSC has long argued that for charities in particular, the shift from grant funding to tendering for contracts which has occurred in recent years has on the whole been damaging and counterproductive to organisations and their beneficiaries. We continue to make the case that grants are a better way of funding charitable activity. We believe that government remains an important grant funder of the voluntary sector, but that there is much that could be done to improve its grantmaking practice.

Below we sketch out some of the main problems and suggest how they could be addressed. The problems we outline can easily be applied to any type of funding from the state, not just grants.

Systemic problems with government funding

- 1) **Annuality** – being tied into annual budget cycles causes a number of problems, including:
 - regular delays in awards being made, which impacts delivery
 - unrealistic time frames for civil servants to deliver changes to programmes, or deal with unanticipated events (like greater demand)
 - gravitational pull towards short-term funding, or claims that the funding period is longer than it is (i.e. multi-year but subject to annual review)

- 2) **Instability** – closeness to political system and core policy objectives leads to:
 - sudden shifts in project design, direction and outcomes
 - unexpected additional requirements (changing outputs, priorities, costs)
 - short life-span for programmes, lack of long-term objectives
 - poor design at outset (programmes rushed into existence)
 - little learning at the end (programmes discontinued for political reasons)

- 3) **Specificity** – narrow, politically defined objectives lead to:
 - excessive and complex guidance, which ironically makes it harder for the fundraiser to determine eligibility
 - organisations jamming core work into project-shaped boxes
 - lack of investment in core costs (the reason for full cost recovery)
 - excessive attention paid to fulfilling targets rather than effective work
 - even programmes which fund core costs (e.g. strategic partners) demand allegiance (i.e. 'to promote government policy on x,y,z' with the unwritten rule that you don't challenge anything)

- 4) **Lack of investment in good practice** – not enough learning about how to fund well
 - in-house grant management skills not seen as something to develop / acquire (managers often junior-level and can be seconded from other primary responsibilities)
 - turnover in civil service contacts inhibits institutional memory and sensible longer term decision-making
 - changes in process too often dictated by internal bureaucratic priorities, not the needs of those being funded or project outcomes

- 5) **Risk aversion** – constant demand for innovation not matched by attitude to risk in practice:
 - excessive, one-sided funding terms and conditions whose main function is to protect the funder from risk, and transfer it to the funded organisation
 - excessive monitoring and evaluation which is not used to inform programme development or improvement in outcomes
 - unnecessary involvement in minutiae of project spending

What's the solution?

Government could achieve better outcomes, greater efficiency in its funding, and better treatment of groups in receipt of funds by doing the following:

- 1) **Devolving fund administration** – there are different levels of devolution, which can be viewed as different stages of 'letting go'. Or, they can be used at the same time, or for different circumstances:
 - Invest in the internal departmental teams which manage funds. Enable them to improve processes by treating them as semi-independent entities within the department with the freedom to make decisions about how funds are administered.
 - Outsource fund administration to organisations with grantmaking expertise. Recognise that micromanaging the relationship reduces the benefits of doing it in the first place.

- Provide / facilitate funds for broad objectives then withdraw direct involvement for a specified period (i.e. review every 3 or 5 years). There is huge potential here but it carries risk, and goes against the grain of government behaviour for the past 15 years.
- Work with local funders (Community Foundations, CVSs, Development Trusts) to build funds for broad objectives, perhaps in defined geographical areas or areas of need, use funding as capital to attract other money

2) **Reducing funding ‘regulation’** to the minimum possible:

- Introduce two-stage application processes as standard for all but small grants (which should be one simple stage). This minimises the burden on both applicants and assessors, and reduces costs.
- Require that organisations only report once a year on the funded activity.
- Only ask for information that will be used. Work from Project Streamline in the US argues that funders should ‘start from zero’
- Look to develop realistic and intelligible reporting on outcomes – which must be understood by grants managers / commissioners
- Provide funding information in a standard format (not standardised content, but standardised types / categories of information)
- Require funding terms and conditions to be published (with a guideline that they should be preferably no more than two sides of A4)
- Assume up-to-date audited accounts on file at the Charity Commission to be sufficient evidence of organisational integrity, except perhaps for grants above a certain high threshold
- Get grants managers out of the office to visit projects, instead of relying on paperwork to assess performance

3) **Re-examining the case for core funding**

- Core funding for organisations is disappearing, or has become loaded down with targets and bureaucracy. Rather than indicating dependency, it can be vital to demonstrating viability to other funders, helping to maximise the money brought in from other sources.
- Base core funding on achievement of outcomes over long periods. For example, give Oxfam x amount of money to achieve y on Millennium Development Goals. If those are not achieved at the end of the funding period, fund another organisation.

4) **Improving data capture and learning**

- Introduce an online system for managing applications across central government departments, to save administration and standardise processes (saving administration for both funders and applicants)
- Capture standard data on government funding through same system (what orgs are being funded, what size are they, what type of work do they do, where they are located, type of funding, amount of funding etc)
- Build in (costed) evaluation and learning into programme design – both for the funded organisation and the funder, and make this learning publicly available

5) **Acting as a catalyst for / convenor of better funding practice across government**

- As a starting point, consult your own staff about their own expertise, and give them the freedom to ‘think outside the box’ – push them out of their boxes if you need to
- Invigorate communication between grants managers in different departments by making it a priority and allocating resources to support it.
- Engage with external sources of expertise about funding; participate in and help develop forums for doing this.
- Lead discussion and sharing information about funding practice between government departments at a strategic level.
- Work with independent funders and the BIG Lottery Fund to see how their work can be applied to improve statutory grants.

Revisit the analysis and proposals in *Voluntary Action*

We think in developing the Public Service Reform White Paper, it would be worth revisiting the analysis in the *Voluntary Action* paper, much of which is excellent, and echoes many of our points above:

From *Voluntary Action*:

The next Conservative Government will set out a fair deal on funding – implementing it with regard to central departments and agencies, and promoting it to other statutory bodies.

Key features of the deal will be as follows:

- *Multi-year funding as the norm*
- *Simplification and stability of funding streams*
- *Grants to be specified as lightly as possible, with a significant proportion of largely unspecified demand-led funding*
- *Greater diversity in the size of grants made available*
- *Localisation of grant funding decisions*