Working together for a stronger society

Our response to the Lords Select Committee of Charities

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On 26 March, the House of Lords Select Committee of Charities released its 2016-2017 session report, Stronger Charities for a Stronger Society. We welcome this timely publication.

Charities play a vital role in the social and economic fortunes of the UK. At the same time, funding for charities has changed significantly. Funding received as grants decreased over time, while contract funding has been increasing dramatically.

Commissioning models have become ever more complex. Many of these developments disadvantage smaller players, while changing the dynamic of partnerships between larger and smaller charities. If we are not careful, these developments can stifle innovation and diversity.

Various players can lapse into patterns of behaviours not because these are necessarily the 'right' things to do, but because they are the familiar ways of doing things. For example, many commissioners are still unfamiliar with procuring and commissioning with social value in mind. Despite the Public Services (Social Value) Act being in force for a number of years, uptake (and even awareness) remains low; not only among commissioning organisations but also among charities.

The Select Committee's recommendation to focus on (social) value, rather than just on cost, is a timely reminder to those in commissioning roles that they need to refocus attention on what commissioning *should be*, and not simply perpetuate what it *currently is*. Good commissioning, as defined by the National Audit Office, the Local Government Association, and others, is always about good value: achieving the best possible outcomes within the resources available. So how prevalent is this?

From delivering and facilitating the Commissioning Academy, we know that many commissioners are unable to claim that commissioning practice achieves good value. Many are confused about how 'value' is assessed, while others are anxious that they may fall foul of procurement legislation.

For example, we hear commissioners express concern about engaging in pre-procurement conversations with providers. At the same time, the Public Services (Social Value) Act encourages commissioners to "consider whether to undertake any consultation" when considering what might improve the economic, social and environmental well-being of the area; and to tailor procurement processes to be proportionate.

Likewise, we know that the use of other tools such Innovation Partnerships, Voluntary Ex Ante Transparency (VEAT) notices, etc., is still not prevalent. Where they have been used, there is a heightened level of anxiety as the processes are more fluid and, potentially, more open to challenge and/or abuse.

Therefore, while we wholeheartedly agree with the Select Committee's recommendations in relation to supporting the development of the bidding capacity and capability within the voluntary sector, this is only a partial solution. There must also be dedicated support for fostering innovative commissioning at scale. In addition, there is a compelling case for bringing the commissioner and provider worlds more closely together through meaningful dialogue and engagement. This helps reduce transaction costs: a challenge noted by the Select Committee.

A recent experience we have in this area relates to the design and implementation of Social Impact Bonds (SIB); one of the mechanisms noted and discussed by the Select Committee. While many have noted that the transaction costs for SIBs remain high, our evaluation of the Essex County Council SIB found that transaction costs are unnecessarily high because more emphasis is placed on putting in contracts, structures and processes to 'manage risks' (i.e. reducing likelihood of negative outcomes) rather than to build and grow trust and collaboration (i.e. increasing the likelihood of positive outcomes). Disproportionately complex governance and management introduce 'indirect costs' that add to transactional burdens. These can and should be 'designed out'.

Myths continue to abound within both the commissioner and provider communities about SIBs. We know that many commissioners and charities are unaware of the range of SIB models that exist not only within the UK but also internationally.

Likewise, SIBs are often characterised as being only about achieving financial savings. The Select Committee's report, for example, presented a view that SIBs "rely inherently on a beneficiary making a cashable saving and being able to transfer part of that saving to an investor". While many SIBs, particularly the earliest ones such as the Peterborough SIB and the Essex SIB, were designed with a 'savings' motive; to reduce SIBs purely to this underpinning would be incorrect.

In our work with colleagues in Japan, we showed how SIBs may be constructed in ways that are not only motivated by financial savings. Indeed, examples already exist where SIBs have been designed with outcomes in mind that do not translate easily or directly into financial savings.

SIBs can work as long as someone is willing to pay for an outcome. Thinking more creatively about the potential offered through a SIB might encourage us to think 'out of the box' about who an 'outcome payer' may be, rather than simply assume that statutory sector commissioners are always the only type of outcome payer and/or that these are always and only ever motivated by financial savings.

The issue of 'outcomes for whom' is important. It is easy, in a SIB and in other forms of commissioning, for the 'outcome' to be defined solely from the perspective of the commissioner. These may not reflect what 'success' looks like for those we are trying to serve.

Placing these perspectives at the centre of public service commissioning and design means that (social) value, and how it is defined, is no longer an abstract 'nice to have'. It shifts the focus onto using scarce resources for investment into value creation, which is a very different proposition from seeking to achieve lowest cost.

SIBs are not the only form of social investment and the Select Committee is right to encourage the Government and others not to forget about supporting other forms of social financing. It is important to educate and raise awareness among both charities and commissioners about the different types of social investment. For our part, we have produced a free-to-download Service Provider Readiness toolkit to help charitable sector providers think through whether SIBs may be right for them, and an interactive PDF to help commissioners, service providers and social investors think through the key issues when designing and implementing SIBs.

Taking a step back, social investment (even more broadly) is not the magic bullet. Both charities and commissioners should always consider whether social investment adds value to the specific issue they are grappling with, and whether the benefits outweigh the costs. They should be considered part of an arsenal of commissioning and funding approaches that may be deployed in different situations.