Civil Society and Social Innovation Unit

October 2010

The Civil Effect

Bringing efficiency, innovation and community capability to our framework of public services commissioning

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ResPublica
changing the terms of debate

Author's Note

In compiling this piece, I am grateful to my researcher, Animesh Kumar, a tireless source of summaries, statistics and observations. In addition I would like to thank Samantha Dowling, the supportive team at The Social Investment Business, as well as Stephen Bubb, Jonathan Lewis and Phillip Blond, who have provided the platform to make this work possible, as have the many civil society organisations and experts we interviewed and on whose experiences we have been fortunate to draw. Lastly, Matt Leach, Alex Whinnom, staff at GMCVO, and David Shaw provided invaluable help in terms of the final publication. All that being so, any mistakes found herein are my own.

A.S.

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The Civil Effect

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Contents

Foreword

by Phillip Blond, Director, ResPublica

The relationship between civil society and public service delivery is complex; it goes to the heart of what 'The Big Society' actually means. There are two sides to the argument, and all too often, both sides slide to the extreme; with those who favour exclusive state provision arguing that services can only be public if delivered by central government, and with those who view all state action as an anathema embracing the idea of a wholly voluntary or privatised state. I certainly think there is a better way, one that privileges the needs and the mission of the many civil society organisations we have and co-opts the state and the economy to work to that end, and so strengthens both. I am heartened to read a publication that gives ballast to this more balanced view.

This publication tackles the issues head on, and in so doing it opens up an exciting new centre ground. In what is fast-becoming the 'ResPublica way', it tracks an exciting journey through an innovative future of co-production and associative commissioning, where communities articulate, design and purchase the services they need and use cutting edge technology to optimise the offerings. It outlines the shape of new markets, not just in public services, but in those who commission them. No longer is the relationship between state and civil society one way, nor should it ever have been. By looking to the future we can rectify some of the errors of the past; we can overcome the bureaucracy that has saddled so many civil society organisations with unnecessary administrative costs; as such, we can help to overcome the cashflow and management crises that have threatened so many organisations who are trying to do the right thing and build a better world.

Here, Asheem Singh offers a timely and innovative approach to the fast-developing relationship between civil society and the public sector that can set us on the road to a more innovative and participative future. Drawing on new approaches to localised, blended financing, community hub models and management theory, this report builds on a fast-evolving oeuvre on the future of our public services and the future of civil society. I am delighted to add it to ResPublica's burgeoning stable of policy work.

Preface

by Jonathan Lewis, CEO, The Social Investment Business

Are community groups and charities reaching a tipping point in their work with local authorities and their contribution to civil society? And can we realise the vision of a Big Society in one Parliament?

There are issues to address with both the finance and organisation of civil society groups, many of whom are small and lacking in both money and financial expertise. At The Social Investment Business we recognised these needs and responded by developing our unique model of investing – using grants, loans and business support. Originally pioneered by our parent charity the Adventure Capital Fund back in 2002, we have built a successful track record of investing for social and financial return, which has increased the scale, long-term sustainability and impact of the hundreds of charities, social enterprises and voluntary organisations we support. Grants have an important role, but there is appetite in the sector for new financial products that encourage organisations to improve their management and financial security and therefore enable them to serve their communities better and for longer.

Today's challenge is to bring the great work of these community organisations from the margins into the mainstream of public life. At a time of inevitable spending cuts, the best way for civil society organisations to get more funding quickly is by accessing the cash available in public sector contracts. The sector's diversity is one of its great strengths and while not all organisations will want to get involved with public service delivery, many will, but face unintentional barriers to doing so.

Typically these organisations are hard for commissioners at a national and local authority level to contract with, even for those that wish to, as they are small, financially frail and without the capacity to bid for, win and deliver big contracts. So the sector needs to organise itself. By collaborating and presenting itself to commissioners as consortia of sustainable, well-managed organisations, suitable (and interested) charities, social enterprises and voluntary organisations can access funding in the form of contracts. Greater involvement in public service delivery is a win-win – benefitting both civil society organisations and their communities, who receive high quality, locally-based, personalised services. Whether through consortia or alone, as prime or sub contractors, paid by contract or by results, strong and sustainable civil society organisations are good for their members, volunteers, service users and commissioners alike.

With the Government's new work on commissioning eagerly anticipated, this is exactly the right time to look at the barriers that prevent civil society and commissioners at all levels from realising the potential they can achieve from each other, and to identify innovative ways we can achieve a co-operative, charitable, community-led, and enterprising Big Society.

Executive Summary

The challenge facing our public services is immense. A combination of fiscal tightening and rising demand as the cuts kick in would test even the best constructed public services network. In the UK, however, we are especially vulnerable. For a start, we are a *service-hungry nation*. In 2009/10, the UK taxpayer spent some £196bn per annum on gross procurement for services.[1] This figure, the latest iteration of an almost unbroken trend of year on year rises, may well be set to diminish as we tighten our belt in the wake of recession, but there is no doubt that popular demand for services will continue to rise. Then there are the needs of an ageing population and the increasing skill requirements if we are to retain a comparative advantage in the world economy. Add to this a different set of trends altogether – a *customisation culture* that eschews identikit service provision – and you have a real challenge presented by the public to government.

Many argue that an emerging civil society holds the key to the public services conundrum, and indeed it does, but not in the way that most think it does. To be sure, civil society is an evolving, complex group of actors. Civil society organisations spent £147bn in 2007/08 on their various activities. The voluntary sector, which we might properly regard as a subset of civil society, alongside co-operatives, social enterprises and countless other start-ups and community entrepreneurs, spent some £32.8bn.[2] When it comes to public service delivery, social enterprises are highly active. In the NHS alone, they deliver around £33bn worth of contracts of a total procurement spend of some £100bn.[3] Yet all too often, the wider benefits brought by these organisations are crowded out. More state money goes to larger civil society organisations than to small, representing a clear inequity in the system. Too little is intelligently spent on early intervention and other innovative techniques. Too much is spent on making civil society look like and conform to the strictures of the public sector. Civil society social action should not be constrained to do that which centrally specified services do: supply the state. A better way of conceptualising civil society social action is that it *reduces demand* on the state. Consider, for example, family carers, which 'save the state' £57bn each year in equivalent care.[4]

> ***"Commissioned services are delivered to supply the state. A better way of conceptualising civil society social action is that it reduces demand on the state."***

Having more civil society organisations deliver more public services is a significant part of the story, but there is even more to it than that. Reforming the structure of our commissioning framework and the means we use to support civil society organisations within it; re-envisioning the role of government as dedicated to eroding the barriers that prevent so many who can make our public sphere work better doing so; spreading the net more widely in search of innovation and support: all can help unlock the latent value of these civil effects that can help so many and potentially save so much.

The Enduring Barriers

An Overly Bureaucratic Framework

The commissioning regulatory framework is neither clear nor credible, especially when it comes to civil society organisations. The pre-contract phase is dominated by the presence of compulsory competitive tendering (CCT). CCT is often mooted as a cost-saving measure. It shows savings of around 20 per cent from competitive tendering and contracting, including when the in-house team wins the bid.[5] CCT, however, can be hugely problematic. In particular, it tends to place too much emphasis on lowering the costs associated with a particular service, often to the detriment of other factors such as quality, sustainability, long-term over short-term impact, social capital built or employment conditions. Surveys of delivering organisations have frequently bemoaned the hidden costs and associated bureaucracy of contracting, and there is some evidence that this acts as a deterrent to civil society organisations.[6]

The marginal cost of bureaucracy is higher for civil society organisations than for large private firms. This has pernicious effects that we can only partially measure, but that have real, tangible costs to service users and society. First, where competition is low, not-for-profit organisations provide a higher level of access, and the cost to society of not enabling that access is great.[7] Secondly, civil society will attract workers who exhibit pro-social motivation and who will donate labour because they care about the quality of the services they contribute to. One survey found that people working in caring industries in the not-for-profit sector are 12 per cent more likely to do unpaid overtime than their equivalent in the private sector.[8]

The National Housing Federation, giving evidence to the Communities and Local Government Committee, illustrated the negative impacts of the current paradigm thus:

> *"Competitive tendering […] can be labour intensive and has sometimes resulted in unintended consequences for local markets (e.g. Costs to providers in tendering are high. A recent tendering exercise involved 12 staff for 15 days = c. £20k payroll. Contract value of £950k. Assuming 10 providers tender for service = £200k to procure a £950k service.)"*

When tendering costs approach 20% of the cost of the service as a whole, there is something seriously wrong with the system.

Rising bid costs are not only a problem for bidders but also for government as the internal costs of managing bid processes increase and contract prices rise as suppliers aim to recover bid costs and higher costs of bidding lead to a reduction in the number of bidders. This leads to a less competitive outcome and higher costs for the project, none of which is desirable in such a tightened fiscal environment.

> A facilities management contract for a UK Government department cost the successful provider £350,000 in bid costs for an annual contract value of £10 million. A very similar contract in size and scope for a private sector client cost £180,000 to bid.[9]

1. HM Treasury, *Public Expenditure Statistical Analyses 2010*, HM Treasury, June 2010, Chapter 5, Table 5.5, p73
2. NCVO, *The UK Civil Society Almanac 2009/10*, NCVO, p8. For more information on the diversity of civil society, see Singh, A, *The Venture Society*, ResPublica, 2010, Chapter 1
3. *State of Social Enterprise Survey*, 2009
4. ESRC, *Raw Deal for Family Carers*, May 2010
5. First noted in an Audit Commission Survey from 1987
6. B Cairns, M Harris, and R Hutchison, *Servants of the Community or Agents of Government? The role of community-based organisations and their contribution to public services delivery and civil renewal*, IVAR, June 2006; OCVA-Framework, *The Tender Subject of Tendering: Research into the Effects of Competitive Tendering of the Service Delivery Voluntary Sector in Oxfordshire*, OCVA, August 2008; Shared Intelligence, *Evaluation of the National Programme for Third Sector Commissioning: Baseline Report*, Id&A, February 2008(a); Shared Intelligence, *Evaluation of the National Programme for Third Sector Commissioning: Consultation with BME Third Sector Organisations*, Id&A, June 2008(b); and J Leman, *Frontline Hopscotch. VCS Engagement in Delivering Change for Children and Young People: A Jumpy Start or a Step Back?*, NAVCA, April 2007
7. BERR, *Manufacturing Advisory Service 2008*, BERR Annual Report 2008
8. P Gregg, P Grout, A Ratcliffe, S Smith and F Windmeijer, *How important is pro-social behaviour in the delivery of public services*, CMPO Working Paper 08/197, 2008
9. D Julius, *Public Services Industry Review*, Dept of Business Enterprise & Regulatory Reform (BERR), July 2008

Increasing Centralisation

In the last year, private public service outsourcing firm SERCO reported consistent increases in profits, rises in share value and impressive quarterly results, attributed to a worldwide rush to outsource services. Even as public sector cuts kicked in, SERCO still managed to post mid-year profits of £115.6m, up 14.1% on last year.[10] The recession has clearly boosted the demand for cheaper public services, which itself is set against a backdrop of inexorably rising demand even prior to the recession.

SERCO is not alone. Large service provider companies such as Logica and Capita reported notable successes, too. However, what is noticeable is that far fewer public service providers have been profiting from the post-recession environment than have been losing. The number of public sector suppliers to go bust rose by nearly 50% in the first six months of 2010, according to accountancy firm Wilkins Kennedy. Some 168 businesses in the health and social services, education and defence sectors went insolvent during the period. This compared to 114 for the first half of 2009. By comparison, corporate insolvencies generally fell by 5% in the first half of this year.[11]

While the Government's real cost-cutting has yet to take place, we are already seeing a wide range of companies and civil society organisations go under. Government has more than a moral interest in this struggle. We are not there yet, but can we afford to contemplate provider monopolisation in our public services? The answer must be no, and the potential costs to Government of having fewer providers who can deliver services are too great to entertain, especially when the signs are that more people than ever before are able and capable of taking part in social action and public service delivery.

The Cashflow Crisis

The financial crisis of 2008-2009 has had a severe negative impact on the government's (central and local) fiscal position, with the current fiscal deficit hovering at 11.4%,[12] and the current structural deficit at some 7.3 % of the GDP.[13] High street banks have been relatively quick to recover, yet there is still tremendous uncertainty over the nature of this recovery. This is substantiated by current weak lending numbers to the SMEs. According to a recent report by the Association of Chartered Certified Accountants (ACCA), after a sharp fall at the end of 2009, lending to small and medium enterprises (SMEs) fell further in the first quarter of 2010. There are further concerns that the finances of these businesses have deteriorated further as compared to previous years, with deposits falling by 3.6% against a rise of 1.6% in the last quarter of 2009. These trends suggest the SME sector today is facing greater risk of liquidity crunch when compared to 2009.

This puts greater responsibility on alternative or specialist lending sources that have emerged in past few years, although in limited capacity. Community Development Finance Institutions (CDFIs) such as Charity Bank can step in where traditional banks fail. Worryingly however, even CDFIs are claiming that in the current situation, they are finding it increasingly difficult to justify the risk margins associated with civil society service deliverers. This effect, while less pronounced now, according to one sector analyst to whom we spoke, may have serious ramifications two or three years down the line.

It could be argued that we have invested what money we had in the wrong things, and in the wrong way. Consider, only 3.7% of health expenditure in England is spent on preventative interventions.[14] Adult mental health costs the government £10bn each year in benefit payments alone, while only £2m is spent on mental health promotion activities like promoting self-esteem and coping skills.[15] Moreover, much money in the last decade has been spent through centralised capacity-building funds, with the ChangeUp programme alone costing £230m. Too much of this money has gone to organisations who have stressed their 'independence' as infrastructure builders for civil society. Yet how much of this directly contributed to boosting the capabilities of more people to deliver more services, through harnessing private money or finding a place to develop their contribution, rather than to enable more organisations to meet more onerous, bureaucratic requirements? There has been a huge opportunity lost.

A recent report from the Public Accounts Committee on the performance of prime providers in the DWP's Pathways to Work scheme was particularly concerning. The PAC reported a catalogue of failures with the model used. Most damningly, the private sector companies concerned not only failed to meet their success targets and required substantial additional contingency funds of nearly £100m to be pumped into their systems as the costs of failure kicked in; but they also served their target group badly. "The performance by the mainly private sector providers has been universally poor in relation to their main target group, those people who are required to go on the Pathways programme."[16] Bad systems do not only waste money at the point of support; they also waste it at the point of delivery.

Capacity and Support

Councils for Voluntary Service (CVSs), the bodies tasked with delivering support to local charities, act locally, but naturally vary in terms of coverage and quality of support. The capacity of many CVSs to rise to the challenge of the new service delivery environment now must be in doubt. They are typically locally funded, and have borne the brunt of local authority cuts, as they are not frontline, and many are funded out of non-core LAA reward money, which, post-election, no longer exists. Would a 'restructuring fund' help rescue a sector that is wobbling badly in financial terms? That these facilities could not be improved across the board, even with an ambitious central programme like ChangeUp, highlights the problems with the bureaucratic approach; the approach of the 'fund to achieve X.' Forward-thinking CVSs, councils, and support organisations must be enabled to reform their own structures.

Then there is the issue of capacity among commissioners to understand the various issues. While capacity at the commissioner level in central government is variable, at the local level it is even more so, and in many places the presumptions against civil society persist. The Audit Commission found that out of a sample of 95 local authority inspections between 2001 and 2006, almost three-quarters contained at least one recommendation concerning capacity or expertise. Of the 786 recommendations made in these reports, 231 related to this theme.[17] Drawing on survey data from the then Office of the Deputy Prime Minister, they found that lack of staff ability in procurement systems was perceived by local authorities to be "the single largest barrier to improving (the system)."

We have a *burgeoning structural problem* with capacity that will affect any attempt to disseminate the positive effects of social action and marry it to an effective, self-improving public services agenda. In fact, our contention is that the entire capacity question, along with the question of commissioning, has been looked at in the wrong way, with pernicious consequences. We have created a system where we impose huge burdens on those who want to help us create a better public sphere, and we spend large sums on measures to enable them to meet those requirements. This cannot be right.

10. SERCO Stock exchange announcement, August 2010, February 2010 and August 2009
11. Survey by Wilkins Kennedy, July 2010, reported in http://localgovernmentlawyer.co.uk/index.php?option=com_content&view=article&id=3617%3Aresearch-points-to-sharp-rise-in-public-sector-supplier-insolvencies&catid=53%3Aprocurement-and-contracts-articles&q=&Itemid=21, accessed 24 August 2010
12. Office of National Statistics (ONS), 'Statistical Bulletin', March 2010
13. House of Commons Library Research, *Key Issues for the New Parliament 2010*, House of Commons, 2010
14. Health England, *Prevention & Preventative Spending*, 2009
15. New Philanthropy Capital, *Don't mind me: adult mental health problems*, 2006
16. Public Accounts Committee, *Support to incapacity benefits claimants through Pathways to Work*, House of Commons, Public Accounts Committee, September 2010
17. D Julius, *Public Service Industry Review*, 2008, p54

Alternatives

Instead of scaling organisations to meet government requirements, we should be building the capabilities of groups and individuals to contribute meaningfully. There are several kinds of institutional change that are required to realise this vision. The first, political change, seeks to work with officials to explain that user-driven approaches to services are desirable and do not present a threat. The second, cultural change, seeks to enable more officials to work with and among organisations but also individuals and networks that can do more with less. The third change, resource change, is perhaps the most radical. It seeks to understand the role of people in delivering public services. Each locality has its own labour market, its own set of capabilities and its own set of hidden wealth, in terms of ideas, interests, social capital builders and skills. The job of government has to be to enable those skills to help support and deliver through articulating problems and specifying solutions or working together with others who can. Public services should suck in, not shut out these skills. The new public services ethos contends that government should stop 'building capacity' – skilling up organisations to do their work – and instead make efforts to build and capture community capabilities.

The alternatives to public bureaucracy or private sector Fordism are enshrined in the ethos of civil society, but also in other new developments that seek to involve more people at each stage of the delivery process. Technology presents huge opportunity to modernise commissioning. Currently, electronic auctions are only used for 2% of public sector spending, even though average savings are about 20% and often more than 30%.[18] In an influential speech, former Office of Government Commerce head Nigel Smith argued that, in the near future, "*all tenders will be electronic and e-auctions will be a standard tool. And, yes, we will have an Amazon e-market place with a repository of pre-procured solutions, to increase the supplier base and increase best value*."

Another opportunity is presented by *public sector market reform*. Moves to enable General Practitioners to capture budgets and commission services through local commissioning consortia, and moves to enable frontline public sector professionals to 'spin out' their own public services combined with an increased role for co-producers, lead users of services and community members to increase the number of people who can commission services.

Collaboration leads us to make better sense of choice. Where there is a choice of services for a commissioner to purchase, choice anxiety may not be high. Where there is a market of commissioners as well as a market of services, there accrue a number of potential coordination problems that modern communications technology and modern collaborative methods are well-placed to solve. This can lead to a downward shift in bureaucracy. Access to supplier opportunities can become simpler, with standardised pre-qualification questionnaires (PQQs), among other innovations. Couple this with a rise in a new breed of service designer, who enable new co-production experiences to be delivered by better understanding the interaction of systems with people's behaviour, and you have a critical movement for change that government can facilitate and create structure to the end of increasing the capabilities within the public services matrix.

"Government should stop building capacity and instead make efforts to build and nurture community capabilities."

Consortia are part of this collaborative future. Whether it is the staff of one organisation learning from the approaches of another; or more formal innovative networks that can take voluntary organisations and enable scale through information sharing and shared supply chains, association in the modern age brings significant benefits. The result of this convergence is that, when it comes to the future of public services, for every social problem, there is not one but several solutions, and several people looking for those solutions. This approach presents an antidote to the zestless strictures of bureaucracy and centralisation.

18. Taken from a speech by former Office of Government Commerce head Nigel Smith at Smart Gov on 15 June 2010

The Civil Effect: Policy Recommendations

The Civil Effect: An integrated policy programme to deliver a better public services infrastructure

1. **An evolved network of co-commissioning hubs**. It is time for a reappraisal of how public services come to be, who creates them and how they are supported. A network of *co-commissioning hubs* is key to this. The hubs would be localised; they would be focussed on civil society organisations, which would use the resources of the hub as a base to form consortia and bid for services. Through shared support from a broader group of civil society actors, the hub would broaden the resources and funding available to civil society organisations and their increasingly cash-strapped support agencies by acting as **a shop window, a design exchange for service co-creators, personal budgeters and community activists, and a reputable brand that levers in funding and support**.

The US Tides Model, outlined in chapter three of the report, offers an exemplar of the approach to which we refer. One dedicated worker can set up a local Tides chapter and so begin a process that leverages the brand for community support. This would be the model we would adopt for the next generation of support services: a model that suggests even one dedicated person can make a huge difference. Where that person can summon tool reserves, disused community assets or buildings or similar, within a framework of minimum standards, new venues of creative social action become possible. The opportunity here is great, and so we recommend that the Cabinet convene a **Commissioning Hub Working Group** to lead on outlining what those minimum framework standards might be; a selection of the kinds of capabilities that should be supported and how existing support organisations can drive the process; and how these standards interact with the capabilities we seek to bring in, so as to truly bring in better public services, involving more people, for less.

2. **A Minimum Standards Framework that gives autonomy to commissioners and users to manage and measure their own services**. Co-commissioning hubs enable a framework approach that separates central specification and service management. The **Minimum Standards Framework** is the Government's obligatory safety net. Rules for service standards, management and measurement are set locally, by commissioners and service users within the hub network. As such, we envision an **increased role for grants** and a plurality of forms of blended finance through aligning co-commissioning hubs to spun-out public service mutuals, GP local commissioning consortia and other new co-creators and holders of personal budgets. Aligning hubs to these new networks of support and commissioning would allow users to set the terms of their bureaucracy and so reduce inefficiency and paperwork. Within a framework of minimum standards, as apply to housing associations, the hub could create innovations in tandem with local government and private organisations that supply service and civil society needs and offer room for innovation.

3. **A Local Skills Exchange, an open source web portal**. The other aspect of this approach is the need to effectively map the capabilities within a local labour market. We see a facilitative role here for organisations such as the Big Lottery Fund and local councils. We also see a role for locally-driven crowdsourcing-type exercises to determine skill sets. That is why we recommend that Government should commission a **Local Skills Exchange** pilot. This would include an **open source framework web portal** for resources exchange to enable commissioners and service users to identify local opportunities, which co-commissioning hubs or local councils could then customise.

4. **A local challenge competition to co-produce public services** and create social capital and grass roots interest, along the lines of NESTA's Big Green Challenge, would provide some data and analysis in pilot areas to make practical sense of the community capabilities paradigm.

5. **There are certainly commissioning 'quick-wins' when it comes to next-generation consortia**. The following would help lubricate the gears when it comes to supporting innovative forms of super-consortia and other inclusive capabilities builders. Commissioners should take into account the operational experience of not just the prime provider but of all the partners in a particular tender; commissioners should review guidance of balance sheet requirements; commissioners should reassess the rule that 50% or more of the contract delivered should be delivered by the prime provider; Britain should amend its commissioning law to block the disregard on competition for social enterprises.

6. **The Big Society Bank is key to financing a stronger civil society**. The idea should be that it gives a short-term boost to the social investment marketplace through investing in local financing models, such as evolved City Life bonds for local infrastructure projects or even co-commissioning hubs themselves, which can offer return based upon the public service contracts and grants they bring in. It should have a limited life span and look to increase the resilience of the social investment market, with specialist instruments for public-service-delivering organisations and for consortia. Its success should be measured by the quality of the market it leaves behind after a five to eight year time frame. It should also be judged on the evidence it creates, about the new marketplace of social bonds and similar products.

7. **We recommend that a working group be convened by the Office for Civil Society to scope the possibilities for more international work that leverages European Social Fund Financing** – and how Government, or indeed the Big Society Bank, might provide indemnity funding or brokerage for such international ventures, with an appropriate measure of return.

8. **Further work for the upcoming white paper.** We welcome the white paper on commissioning announced by Government for later this year. We would add two top line recommendations for cost-benefit analysis discussion in this forum. The first is a **delivery infrastructure levy** on prime providers delivering public services, which would encourage such organisations where appropriate to provide funding and support to sub-contractors. The second is a loan guarantee scheme for service-delivering civil society organisations. A **civic loan guarantee** scheme would seek in the first instance to break with indemnifying single organisations and instead focus upon the benefits of hub-based, super-commissioner or super-consortia funds that we have shown to be able to get more organisations delivering the services we need.

Government as Platform

Whether it is the network of people that develops around a care patient with a personal budget or those who have been facilitated to help co-create a service, **more of us have public service expertise now than ever before**. The key is to be able to lever in as much of that expertise as possible to refine the terms of engagement and then moreover to enable local government and indeed central government to realise and harness the benefits of it.

1. Mutuals Supporting Mutuals: Co-Commissioning Hubs

The Royal College of General Practitioners, in a report released in September 2010, predicted that the market for commissioning support will consolidate around 'one-stop shop' solutions from large outsourcing companies and organisations with a track record of delivering 'best in class' solutions for the various aspects of commissioning.

It stated that a small number of external organisations could evolve to support large numbers of commissioning consortia if this happens; although the report suggested that consortia will need to cover populations of at least 500,000 to justify the costs involved.

Where do civil society organisations fit into this vision of the future, with the multi-polar solutions they provide that can significantly improve the quality of care? **This is where civil society organisations need their own one-stop shop; and this is why the traditional methods of civil society support need to actively be modernised.**

Co-commissioning hubs would perform a coordination function, as a one-stop shop that makes the market more comprehensible to commissioner and civil society organisation alike. Many of the better Councils for Voluntary Service (CVSs), the independent support organisations who attempt to support civil society action, work on the principle of having a common venue that enables local services to come together, exchange messages, swap tools and invite users to co-create services. Other infrastructure organisations work by reaching specific hard-to-reach groups such as BME networks; however, all too often, too many who have ideas have no means to skill up within the framework and join as partners. The model can be exclusive and ill-suited to creating opportunities for new skill sets. A co-commissioning hub would be an aggregator of organisations, people, designers and ideas. In theory this should mean that we are in the realm of being able to create a surrogate one-stop shop for services across a broad range of sectors, that encourages community members to help fashion and co-create more innovative services and encourages traditional silos to be broken. For example, a homelessness charity and a mental health charity working together with a multiple-needs targetting organisation like Revolving Doors could present a wider whole-person approach to helping some of the most disadvantaged people in society.

We want to see a greater, more diverse range of collaborative hubs in the market place that allow civil society organisations to co-create with service users, but to see these hubs working to join together and form support consortia to provide a coordinated local commissioning venue. And this cannot be done with top-down funding approaches, trickling from the regional level, such as those suggested by the ill-fated ChangeUp programme. Their funding should be linked, not to the fact of their independence or the consortia they form, but to the local capability deficits they identify when it comes to providing specific services, such as family carers for social care or business mentors for welfare to work, and the measures they take to solve those deficits and the back office resources they offer to create those solutions.

This model ends capacity building and ushers in an age of capability building. Such infrastructure organisations will move from being bare support organisations to being *brand builders*. They will act as shop windows for civil society organisations that use their services and also for commissioners who are looking for services. As well as being places where civil society organisations come to band together, they also need to be places where commissioners come to talk and to compete for civil society approaches.

New online ways of allocating virtual funds and creating virtual tools and training can offer incentives for those who create services that unlock public sector funding, receiving a share of the profits from any successful transaction. And, with the addition of local government officials and competing commissioners assessing the offering of each local network, there would accrue a common rise in capacity and understanding between sector and state that has hitherto been lacking and that typical training methods find difficult to replicate. All have an incentive to form part of a local co-commissioning hub and so part of the future of civil society support; co-commissioning hubs would be companion mutuals in an age of spin-out public sector mutuals, co-production and local commissioning consortia.

2. Minimising Bureaucracy

The new management model presents an important set of incentives that can breathe new life into grants, capture new forms of loan/equity finance and give a real push to the co-production agenda. Civil society organisations could pay co-commissioning hub partners a sub for their services as shop window and trainer. In return that sub could go to a common pot that incentivises organisations through bonus structures to create value and bring money from public service contracts into the hub. Offering co-production opportunities to the new range of commissioners would enable local authorities to be 'nudged' and so to reconsider the possibility of using grants or a similar blended value instrument to encourage successful co-production approaches as the only viable means of obtaining the service delivered. Co-production, given the rules of tendering, makes grants viable again, provided that the bigger network stands behind the receiving charity. **With public sector mutuals and new commissioners enjoying powers of budgetary capture, new services could be granted, measured and reiterated and improved at a micro-local level, without the bureaucracy of the contract process**. With the re-emergence of the grant, certainly for those smaller charities, an iniquity of the current system would be remedied.

We envisage a framework of grants (or more sustainably, blended value loan/equity-type instruments which lever in private funding but act as grants) buttressed by this set of minimum standards, which effectively set hub-dwelling organisations free to recommend innovation on behalf of commissioners within service sectors, in ways that actively work with citizens, and we would urge the Cabinet Office to expedite examining what those standards might be in conjunction with forward-thinking local support organisations. We also urge the cabinet office to explore new ways of mapping community capabilities and skills and ways of piloting **Local Skills Exchanges** to crowdsource and highlight the availability of community capabilities across the service delivering spectrum. The idea would be to create a model along the lines of that pursued by Housing Associations, discussed in chapter three of the report. Minimum standards would enable the Government to set its requirements separately from the requirements of commissioning, managing and delivering the service, which are set by the commissioner, thus allowing a plurality of funding arrangements and invitations to treat.

3. Using Technology to Pump-Prime Co-commissioning Hubs

We recommend that the Government commission a portal to enable councils and organisations to allow services to be bid for online. In addition, service co-creators should be able to link to other forums such as shop4support.com, where they can bid for their tools. This **open innovation exchange** could become a vital online addition to the arsenal of any co-commissioning hub. It could be co-developed by a commissioned entity – perhaps commissioned by DCLG – and then made open source so that the software could be customised by each individual council. In hosting advice and information sessions for people who wish to get started, it would create an entire civil platform of support and advice around the service.

4. Local Co-production Competitions

We can see the immediate benefits of running **local co-production challenges** – with local CVSs that choose to take up the baton of modernisation – modelled on NESTA's successful Big Green Challenge, to actively push solutions through a framework and so kick-start the funnelling and associative effect of these challenges, and encourage co-production through hubs. The prize for the Big Green Challenge was £1m. A substantial prize pot should be part of any funding government is able to provide towards supporting co-commissioning hubs.

The key would be, with the onset of any such challenge, to enable the co-commissioning groups to stay together and to see how co-production evolves in the long term and the outcomes it brings. Such longitudinal analysis – for those who are unsuccessful as well as successful – can help us track impact and create better programmes in years to come.

5. Funding

If government funds are to be made available for this purpose, we would urge them to be invested in helping consolidate a hybrid. A community co-commissioning fund should enable organisations with suitable management plans to purchase community assets and so petition their local authorities to set up co-commissioning hubs and lever in private funding. Based upon previous government investment in this area, such as a Community Asset Transfer Fund (£30m over three years) and Communitybuilders (£70m over three years), a challenge fund of comparable size would be appropriate, and so would be far less than what has previously been spent on direct capacity-building support, for example Capacitybuilders, at £230m. There are also alternative sources of funding available. We would expect to be able to raise funds from organisations such as the Big Lottery Fund or other existing support funds. **This would add to any start-up funds Government might be able to directly commit to create a targeted step-one incentive programme to aid both the drive to create civil companies and attendant co-commissioning hubs, and a prize fund for co-produced public services**.

6. Next-Generation Consortia

Consortia are not for every civil society organisation. But for those who are interested in creating one or being part of one, there are some 'quick wins' that should form immediate amendments to the commissioning space. Having civil society organisations associate in this way can provide multiple wins, provided that the purpose of the consortia is not to deflect them from their essential mission.

That is why we would argue for changes to commissioning guidance, perhaps through the civil society compact:

- Commissioners should change the way they assess experience in management bids to cope with the new consortia paradigm. They should take into account the operational experience of not just the prime provider, but of all the partners in a particular tender.
- Commissioners should review guidance of balance sheet requirements.
- Commissioners should reassess the rule that 50% or more of the contract delivered should be delivered by the prime provider.
- Britain should amend its commissioning law to block the disregard on competition for social enterprises.

7. Getting Blended Cashflow to the Local and National Civil Society

If we are to fund the aspirations of the Big Society, in terms of creating capacity for organisations to bid for contracts, to create innovative tenders and enjoin service users in co-production; as well as to create wider cultures of social entrepreneurship and community action; certain instruments will need to be developed by the Big Society Bank if we are to secure the mass local economy that we need to provide cashflow and lever in private funding to underpin work. The era of a government-financed loan fund is over. However, as we have argued elsewhere, the worst of all worlds would be that the Big Society Bank becomes nothing more than a series of pilots, which is possible if it attempts to do too much with limited funds.

As such, we would moreover urge the Office for Civil Society to privilege the creation and investment in local forms of blended finance, such as evolved forms of the CityLife bond we outline in the report. CityLife bonds that seek to invest directly in more evolved local support structures such as co-commissioning hubs would form a powerful offering for private sector involvement in the health of local civil society and community action.

For organisations bidding for contracts at the national level, or with a wider reach, we would urge the Big Society Bank to examine the case for a specialised product for next-generation consortia, and for an evolved social impact bond, as approaches that can lever in public and foundation funding on a scale large enough to warrant private investment.

Here, we provide our own brief analysis of how the bank will best help, not as a provider of loan finance, but as a wholesaler and driver of the move towards the blended economy.

1) **It should address a fundamental market need**: The bank's objective should not be limited to increasing the volume of money into the sector, but should also extend to delivering the best practice in this market, something that the traditional funding market for this sector rarely delivers: long-term risk capital linked with capacity-building advice.

2) **It should be a Co-investor in the sector**: This bank will act as a growth vehicle in the social investor market by investing alongside recognised intermediaries in this space as a **co-investor**. The goal is to encourage diversity of supply in a robust market of intermediaries that will engage directly with frontline organisations.

3) **The purpose will be to encourage others to invest**, preferably on a matched-fund basis. It could co-invest directly in a specific opportunity or act as a cornerstone investor in new funds. It will have the flexibility to support a wide range of transactions ranging from grants through to loans and equity or quasi equity.

4) **It should act as Catalyst for accelerating the growth in the market**: By working as a co-investor to support and strengthen the currently small and fragile ecosystem of intermediaries. It should work to create systems of localised finance that support local organisations and meet their cashflow requirements while banking on the demand they save the state or the future interventions they make and the cashflow they receive as a result.

5) **It should be an informal advocate for the Sector**: it should act as a champion of social investment and support other intermediaries in making the generic 'sell' to mainstream capital, such as banks and pension funds. The Advocacy role would extend to showcasing scaleable solutions to stubborn and expensive social problems. The aim would be to persuade Government departments to adopt these solutions and co-facilitate an exit for early stage investment capital which can then be recycled.

6) **It should seek to improve lives in deprived communities**: It will have a specific investment focus. It will only invest in not-for-dividend organisations that are seeking to improve lives in communities which are relatively deprived. The mandate will extend to organisations that are developing social models that could be franchised in relatively deprived communities.

The idea that a short-term boost to the market can come from such an intermediary is a good one. It should have a limited lifespan and look to increase the resilience of the market. Its success would be measured by the quality of the market it leaves behind after a five to eight year time frame. It should also be judged on the evidence it creates, about the new marketplace of social bonds and similar products.

8. Measurements

We would urge government to use its influence to encourage co-commissioning hubs to innovate in terms of helping their organisations measure impact and spread that innovation further afield. There is no reason why, for example, new measurements such as eBay-style feedback systems, could not be implemented into the co-commissioning hub network, so that service users could access the hub website and vote on the quality of service received, thus providing commissioners and civil society organisations with feedback and enhanced reputation that they can leverage in lieu of bureaucracy for more contracts and grants.

9. Money into Good Commissioning Practice through European Sources

The potential funds available through the European Social Fund are vast – they run into the billions – and could be transformative. We recommend that **a working group be convened by the Office for Civil Society to scope the possibilities for more international work – and how Government, or indeed the Big Society Bank, might provide indemnity funding or brokerage for such international ventures, with an appropriate measure of return.**

10. Associative Capability Building

We recommend that the Third Sector Research Centre, on organisation match-funded by Government and ESRC, be encouraged to do more to interact directly with the commissioning framework, either through changing its organisational structure, or developing a member network, with members sitting on co-commissioning hub boards. This would enable future research to be more directly focussed and attuned to the needs of the marketplace.

We also have an opportunity, within a more democratised commissioning framework, to **use communications technology to open up the capability-building space to more people with spare time and experience**. New retirees, business people and professionals on sabbatical should be encouraged to join virtual advisory boards, or to help bring on co-commissioning hubs. The hub should by nature be an open space, a place of business and collaboration. Spreading the net wider would enable different cultural attitudes to enter the support space, as well as different forms of business training and product specification, and here a web portal can play a vital role in building a civic platform. Leveraging the time and expertise of such people is the essence of the Big Society agenda.

11. The Civil Effect and the Commissioning White Paper

In addition to the above, the Government may wish to weigh the merits of some form of loan guarantee scheme for service-delivering civil society organisations. This has some merit in a time of reduced bank lending; however in a time of reduced public sector expenditure, it also carries risks and would require a full assessment.

One way to mitigate this risk would be to focus the loan scheme on Civil Effect public service models. A civic loan guarantee scheme would seek in the first instance to break with indemnifying single organisations and instead focus upon the benefits of hub-based, super-commissioner or super-consortia funds that we have shown to be able to get more organisations delivering the services we need.

Another, more controversial possibility would be to enact a **delivery infrastructure levy** on prime providers delivering public services. This would take the form of a small amount of seed capital for sub-contracting organisations in a prime provider model offered by the private sector provider to its sub-contractors as a condition of being awarded the contract, which the voluntary organisation could then use to attempt to attract private funding (or indeed a Big Society Bank instrument could be constructed around it). It would be a similar targetted form of the section 106 or community infrastructure levy that compels private developers to build items of social benefit into their properties.

We list below some additional discussion points that warrant investigation as part of the White Paper as our commissioning practice moves into the future:

- encouraging participation in design of commissioning services and tendering at all points of the cycle
- simplification of PQQ and tendering procedures and the idea of a single skeleton PQQ with prefilled fields available online
- the role of full cost recovery plus and whether management charges can be part of the tender
- less bureaucratic rules for the sector, so that it has easier access in certain public sector environments such as health and education where it can make a real difference. We note that some of these may fall under the remit of Lord Hodgson's review of the bureaucratic rules around civil society organisations, to report in February 2011.

12. The Civil Effect: The Future

One of the starkest follies of the last decade or so was the emphasis on using the centre to drive provision. One is tempted to reject this orthodoxy completely and instil some kind of local bias in our commissioning process in order to ensure that it is not repeated; however this would fall foul of the same disease. Instead, we welcome the coalition's commitment to local approaches, the steps they have already taken, and urge them to continue moving away from the audit and compliance model and towards more local, relational approaches to accountability.

The commissioning landscape is due to change in a few short years through technology and its effects, with contracts and grants being bid for online in unbundled form and more providers offering the cheapest possible prices for government either by online auction or through an Amazon.com-style clearing house. A localised strategy that understands the benefits of open source, for example, and the empowering effect of customisable, reiterative community portals, as has been created by the Obama government in the US, is key to this. Beyond that, we need nothing less than a new delivery meta-policy, one that emphasises the small, the local, the civil, and that tracks the hidden wealth of relationships and the transformative nature of social justice-driven action, as opposed to targets, delivery channels and 'outreach/stakeholder analysis'. This if you will, will be the essence of the distinctive 'big society' paradigm.

The potential rewards are immense. A more vibrant, capitalised civil society; an end to the bureaucratic malaise of the previous decades; and the possibility of genuine community control and social action that does not just change lives, but also empowers is the opportunity, with more of us contributing more of our expertise through these channels of communication and so spreading the responsibility of improvement that much further. Investing in this sort of Social R&D will only reap rewards that we need if we are to have the public services that we desire and that we deserve.

Chapter One:

Not of Supply, But of Demand...

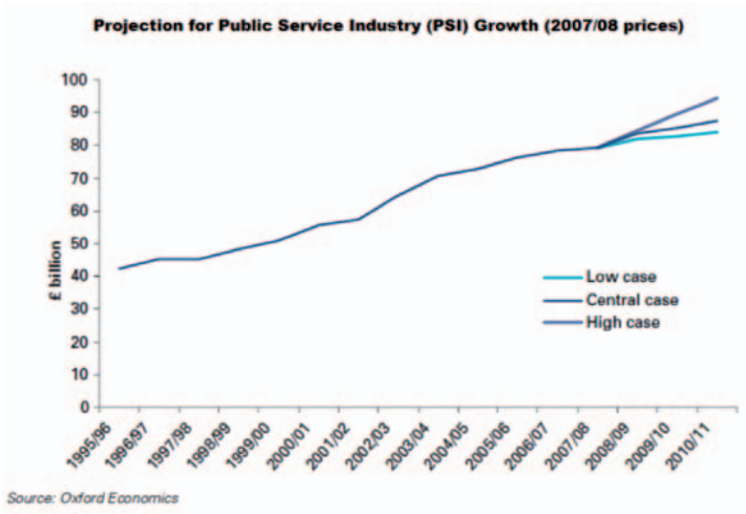
It is rare that we forget good public service. We tend to remember that sense of gratitude we feel when a hospital doctor gently explains the course of treatment for a sick relative. We rely on that residual comfort that, as we bring up a child, we will have schools to educate them, or that they will have support in times of hardship. Some even will have experienced that emotion of kinship in the wake of disaster, when volunteers of all hues and stripes provide something as small as a cup of tea to hold or a bed on which to lie. These experiences stay with us.

If we are protective of our public services, it is partly as a response to these feelings, and our innate sense of social justice that compels us to want as many people as possible to have the opportunity to experience them. In 2009/10, the UK taxpayer spent some £196bn per annum on gross procurement for services toward this end.[19] This figure, the latest iteration of an almost unbroken trend of year on year rises, may well be set to diminish as we tighten our belt in the wake of recession, but there is no doubt that popular demand for services will continue to rise. The needs of an ageing population; the increasing skill requirements if we are to retain a comparative advantage in the world economy; more recently, a shadow recession that looms over our communities are but three reasons. Take this reality, and couple it with a different set of trends altogether, a *customisation culture* that eschews identikit service provision, and you have a real challenge presented by the public to government. We want more services, not less; but it will undoubtedly be true that we will have to acquire those same services for less.[20]

All of which makes the question of *how* we deliver good public services that much more important. When Government commissions services or procures goods, it does so in a unique environment. Government contracts, designed as they are to range from improving lives on a scale that is rarely if ever tackled by even the largest private sector organisation, to providing paperclips and pot plants for offices, are incredibly diverse. Traditionally, these contracts were fulfilled through Government specifying, employing and buying the tools for their department to deliver the service. The breadth of modern service demand has prompted Government to look more widely. In recent years there has emerged a *public services industry*, a large and diverse collection of big and small, private and civil society enterprises, which are contracted by government to deliver services in their stead and which offer a wider variety of options. The industry is large and capital-hungry, having turned over some £79bn in 2007/08, generating added value to the economy of £45bn. In that year, it employed 1.2 million staff and countless volunteers; if indirect and induced impacts are included, its value added rises to £88bn and jobs supported reaches 2.3 million.[21] In terms of value added, the public services industry is significantly larger than 'Food, beverages and tobacco' (£23bn in 2006), 'Communication' (£28bn), 'Electricity, gas and water supply' (£32bn) and 'Hotels and restaurants' (£36bn).[22] All told, our public service delivery industry is the second biggest in the world, with only the USA's besting it in terms of size.[23]

19. HMT, *Public Expenditure Statistical Analyses 2010*, June 2010, Chapter 5 , Table 5.5 , p73
20. This is a conundrum that is naturally difficult to solve. Consider, for example, that there is a clear positive correlation between income (measured by per capita GDP) and expenditures on health and education. The strength of this relationship can be measured by the aggregate income elasticity, controlling for other factors. These estimates vary widely, with individual data predicting low elasticity and macro data predicting higher, but a recent OECD survey of the literature found values ranging between 1.2 and 1.6. With an average of 1.4 then, this would imply that for every 10 per cent growth in real per capita income, the demand for spending on health and education would grow by approximately 14 per cent in real terms.
21. D Julius, *Public Services Industry Review*, BERR (now BIS), July 2008, author's foreword and p10
22. D Julius, *Understanding Public Service industry: how big, how good, where next?,* BERR, 2008, p9
23. Ibid, Figure 1.1, p4

Fig. 1



The guiding question of good public service delivery, then, is not only 'what is provided?' but moreover 'who provides it?' Generally, the preferred provider of these services varies according the type of service required. Buying office supplies in bulk is clearly best done by way of a strictly commercial assessment. When it comes to frontline surgery, one would not want to put the services of a publically contracted NHS doctor out to compulsory tender. When it comes to certain kinds of interventions, especially those that focus on the hard to reach, the most vulnerable members of society, and those who need proactive rather than reactive help, it has long been recognised that civil society providers are key agents of positive, lasting change. Of the organisations that deliver public services, it is our civil society that often provides some of the most interesting and innovative solutions to these kinds of stubborn social problems. The argument then, as it goes, is that the aim should be to have civil society organisations taking over all our public services in these areas. We would agree with this to some extent; it is, however, in where we disagree with it that an alternative shape of the present and future can be found. In this publication we will explain why we have been getting the fundamental picture very wrong for far too long and what we can do to re-envision it.

Definitions: Commissioning and Procurement

The Office for Civil Society, in its previous incarnation as the Office of the Third Sector, in 2006, distinguished between:[24]

commissioning – 'the cycle of assessing the needs of people in an area, designing and then securing an appropriate service'; and

procurement – 'the specific aspects of the commissioning cycle that focus on the process of buying services, from initial advertising through to appropriate contract arrangements'.

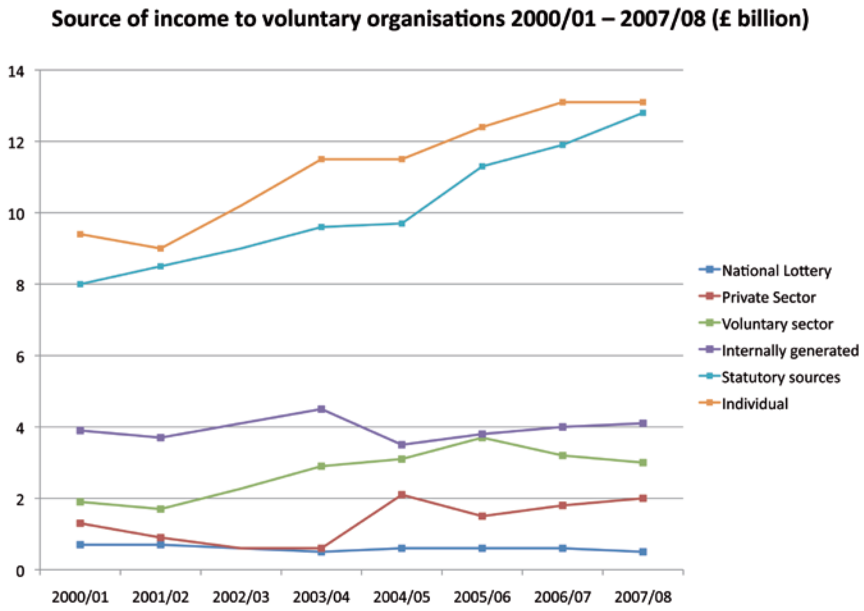
24. Office of the Third Sector (OTS), *Partnership in Public Services: An Action Plan for Third Sector Involvement*, London, OTS, December 2006, p5; and also M Cook and G Monk, *Pathways through the Maze: A Guide to Procurement Law*, London, NCVO and Sheffield, NAVCA, November 2009, pp9–10

When assessing the literature, we should be careful to understand who means what when they use each term. Different terms are often used in a variety of ways by different commissioning organisations.[25] Perspectives and practices appear to differ from organisation to organisation and even geographically.[26] For the purposes of this publication, we will use the above definitions in the appropriate contexts, even where the literature around our examples uses the terms interchangeably.

1.1 The Rising Tide of Civil Society Service Delivery

Civil society is an evolving, complex group of actors. Civil society organisations spent £147bn in 2007/08 on their various activities. The voluntary sector, which we might properly regard as a subset of civil society, alongside co-operatives, social enterprises and countless other start-ups and community entrepreneurs, spent some £32.8bn.[27] When it comes to public service delivery, social enterprises are highly active. In the NHS alone, social enterprises deliver around £33bn worth of contracts of a total procurement spend of some £100bn.[28]

Fig. 2 [29]



25. Audit Commission, *Hearts and Minds: Commissioning from the Voluntary Sector,* London, Audit Commission, July 2007; D Packwood, *Commissioning, Contracting and Service Delivery of Children's Services in the Voluntary and Community Sector*, London, VCS Engage; House of Commons Public Administration Select Committee, *Public Services and the Third Sector: Rhetoric and Reality Eleventh Report of Session 2007–08,* Volume I, London, TSO, 9 July 2008; and Shared Intelligence, *Evaluation of the National Programme for Third Sector Commissioning: Final Report,* London, Id&A, May 2009

26. Audit Commission, *Hearts and Minds: Commissioning from the Voluntary Sector,* London, Audit Commission, July 2007; and S Tanner, *Common Themes on Commissioning the VCS in Selected Local Authorities in Greater London*, London, London Councils, May 2007

27. NCVO, *The UK Civil Society Almanac 2009/10*, NCVO, 2010, p8. For more information on the diversity of civil society, see A Singh, *The Venture Society*, ResPublica, 2010, Chapter 1

28. *State of Social Enterprise Survey*, 2009

29. NCVO, *The UK Civil Society Almanac 2009/10*, NCVO, p43

Table. Number of Employees in top six public service delivery areas by sector, 2008 (headcount, thousands, by SIC code).[30]

	Private Sector	Public Sector	Voluntary Sector
Social Work (with and without accommodation)	614	424	374
Development or sale of real estate	103	62	35
Hospital activities	236	1,167	29
General secondary education, private, non-maintained	60	15	22
Adult, other education	84	59	16
Primary education , private, non-maintained	89	30	12

From the perspective of delivering better public services, civil society undoubtedly helps the state. In supplying services, building social capital and reducing the demand on the state, voluntary organisations create multiple goods that lead to long-term social change: improvement in the fabric of society and the ties that bind. Yet from the perspective of these same civil society organisations, working with the state has not always been such a happy experience. Understanding why requires a combination of theory and history.

Following New Labour's second election win, and a government who wanted to achieve results, civil society delivery was shifted sharply into focus. A number of thought leaders, including Julia Unwin of the Joseph Rowntree foundation, Stephen Bubb of ACEVO and Will Hutton of the Work Foundation, advocated the 'third sector' as a means to deliver a 'third way': a mixed economy of provision that eschewed the then-traditional debates between the ills of privatisation and the vested interest of public sector unions. In 2002, a Treasury review, following the thought processes, argued that civil society organisations did not have the appropriate skills and resources – 'capacity' – to contribute to the delivery of public services at a greater national scale.[31] A 2003 publication from ACEVO, *Replacing the State*, brought together contemporary thinking in the narrative, effectively making the case for increased access to these so-called third sector organisations.

Looking back in this way is instructive. There are certainly differences of terminology and language between then and now: the focus on those who use services as consumers, for example, has not stood the test or rigour of time. Neither has the 'third way' rhetoric. Indeed, the idea of this 'third sector' as a common body with a common destiny to 'replace the state' is one that seems strangely at odds with the idea of retaining an essential independence for civil society; a destiny that is very different to – perhaps even greater than – the limits that we now, at our most difficult moment, see the state is able to provide.

That said, the substance of the principles being articulated within the broader discourse were similar to the principles that have been articulated since: that civil society provision is a social good in qualitative and anecdotal terms – and that there are significant, enduring barriers. Stephen Bubb, in his introduction to the ACEVO report, offered five compelling reasons for civil society or 'third sector' organisations to 'replace the state.'[32]

30. NCVO, *The UK Civil Society Almanac 2009/10*, NCVO, p31
31. National Audit Office, *Building the capacity of the Third Sector*, February 2009
32. S Bubb, *Replacing the State*, ACEVO, 2003, Introduction by the author

- Third sector organisations have a strong user and community focus. Many have grown out of the concerns and commitments of service users with the local community.
- Third sector organisations are almost always more 'joined up' than public sector bodies and are best suited to provide a holistic approach that tackles multiple problems such as housing, literacy, drug and alcohol abuse.
- Third sector bodies have a high level of public trust and provide social capital through their engagement of communities, donors and volunteers.
- They have driven much of the innovation in public service delivery.
- Importantly, they are able to engage where others can't. The hardest-to-help groups are most effectively supported through third sector, not state bodies.

These ideas prompted action. In 2004, the Home Office introduced two programmes to build the capacity of the sector and offer access to finance. Both programmes would eventually be sponsored by the Office of the Third Sector, which was set up in 2006 as part of the Cabinet Office. The first programme, ChangeUp, was aimed at improving the quality of support infrastructure available to civil society organisations, the theory being that this improved support would help frontline groups improve their services and compete more effectively for public sector contracts. A 'consortia' mechanism was a means by which local support agencies were encouraged to band together to reduce duplication and inefficiency in the provision of that support, and was incentivised by making participation in a consortium one of the principal ways of accessing grant funding. The funding went to the support agencies, not to civil society groups generally. The programme was expected to cost £231 million by 2011. The second programme, Futurebuilders, was set as a separate £215 million investment fund that invested directly in frontline civil society organisations that were unable to access commercial finance to help them build capacity to win public contracts.[33] The income from these contracts would be used to repay the investment from the fund.

ChangeUp and Futurebuilders were taken forward by different delivery teams; ChangeUp in particular suffered from the most concerning immediate problems. To start with, there was some delay in commencing the ChangeUp programme, which meant that considerable sums of money had to be spent quickly. Some £80 million was to be spent over three years. In 2005/06 alone, 80% of the funding – £64 million – was spent. This demand-supply mismatch resulted in an under-spend of £8 million or 10% of budgeted expenditure by the end of 2005. Less than a year after its launch the Home Office identified several problems with the programme on the management and delivery side. These included the complex flow and management of funding.[34]

The publication of what was then the Office of the Third Sector's 'Action Plan' for civil society involvement in public services marked a development in the policy approach to address various enduring concerns experienced by contracting organisations.[35] The report outlined a set of 18 actions on commissioning, procurement, learning and accountability. Recommendations included the establishment of a 'national programme for third sector commissioning,' designed to train an initial 2,000 commissioners in working with civil society, a recommendation which has been described by the Third Sector Research Centre as 'perhaps the most significant.'[36] An assessment in 2007 by the Audit Commission, based on interviews with commissioners and third sector organisations (including local infrastructure organisations) in 14 localities, called for a more coherent and clearer approach to commissioning by articulating a model of what it called 'intelligent commissioning', the principles behind which can be found in the figure below.[37]

33. Public Accounts Committee, *Building Capacity of the Third Sector, Thirty-seventh Report of the Session 2008-09*, House of Commons Public Accounts Committee, June 2009, p11
34. Ibid, p12
35. Office of the Third Sector (OTS), *Partnership in Public Services: An Action Plan for Third Sector Involvement*, London, OTS, December 2006
36. R MacMillan, *Working Paper 20: Literature Review of Third Sector Delivery of Public Services*, TSRC, 2010
37. Audit Commission, *Hearts and Minds: Commissioning from the Voluntary Sector*, London, Audit Commission, July 2007

Eight Principles of Good Commissioning

The Government believes that all commissioners of services should:

- develop an understanding of the needs of users and communities by ensuring that, alongside other consultees, they engage with third sector organisations as advocates to access their specialist knowledge;
- consult potential provider organisations, including those from the third sector and local experts, well in advance of commissioning new services, working with them to set priority outcomes for that service;
- put outcomes for users at the heart of the strategic planning process;
- map the fullest practicable range of providers with a view to understanding the contribution they could make to delivering those outcomes;
- consider investing in the capacity of the provider base, particularly those working with hard-to-reach groups;
- ensure contracting processes are transparent and fair, facilitating the involvement of the broadest range of suppliers, including considering subcontracting and consortia-building where appropriate;
- seek to ensure long-term contracts and risk-sharing wherever appropriate as ways of achieving efficiency and effectiveness; and
- seek feedback from service users, communities and providers in order to review the effectiveness of the commissioning process in meeting local needs.

The harsh critique of management issues within the ChangeUp programme led to the formation of a new non-departmental public body, Capacitybuilders, with the responsibility to take ChangeUp forward. Meanwhile, Futurebuilders had been through its own change of management and, under the aegis of The Social Investment Business, closed to new applications in 2010, having spent £183m of its funding in loans and administration.

What are we to make of this decade of experimentation? The interim evaluation of the Futurebuilders programme notes that investee organisations were highly risk averse, and suffered from changing commissioning policies and idiosyncratic institutional arrangements at the local level. So the 'draw down' of funding from the programme came at a slower than anticipated rate, which in turn meant that some had not made as much progress as expected.[38] The final evaluation, conducted two years later, suggested that the change of the programme's governance to what is now The Social Investment Business led to a faster dispersal of funds, but then variable circumstances and opportunities in different fields.[39] Yet the final evaluation of the scheme also stated that, at the time of its closing, FutureBuilders was receiving up to £60-90m in applications per month.[40] Some 20% of those applications were from organisations with a turnover of less than £100,000 per year.[41] The tangibles from the fund are as follows. The experiment demonstrated the demand for credit that banks were not prepared to meet, and demonstrated the burgeoning ability of civil society organisations to take on and discharge their debt obligations. It showed that the risk aversion to taking on debt and loans among civil society trustees, so often noted by civil society analysts, could be overcome. It highlighted the enduring problem, not of the sector's capacity

38. Futurebuilders Evaluation Team, *Evaluation of Futurebuilders – Interim Report, Summary*, Sheffield, CRESR, Sheffield Hallam University, April 2008, p61 and pp77–8
39. Futurebuilders Evaluation Team, *Futurebuilders Evaluation – Final Report*, Sheffield, CRESR, Sheffield Hallam University, March 2010, pp19 & 41
40. Futurebuilders Evaluation Team, *Futurebuilders Evaluation – Final Report*, Sheffield, CRESR, Sheffield Hallam University, March 2010
41. Ibid

to contract and deliver, but of the barriers posed by the commissioning process. Yet none of these experiments questioned the emergent consensus that the object of civil society should be public service delivery.

But we should also note that enduring problems remained unsolved. It is relatively simple to argue that society is best served, both in terms of equity, or fairness, and efficiency, in the long term, when social problems are dealt with by means of civil solutions. It makes sense that people who can articulate the problems they see in their communities should also be able specify the solutions, or have the means to understand how to articulate those solutions where the knowledge isn't there. Yet we also know that public service is not something created by the state, but rather part of the glue that binds a person or community to the place that it inhabits; something that the state should seek to foster and enable. This indeed was the base philosophy of contemporary social reformers such as Dick Atkinson in Birmingham's Balsall Heath area, who oversaw bottom-up community regeneration on a local scale through a well-articulated vision for civil society actors.[42] Civil society organisations create communities. Their impact is not only *vertical* in terms of 'satisfying a manager,' but horizontal in terms of fulfilling the communities they serve. The public sector and the strictures of its management mechanisms have never quite managed to get to grips with this topological conundrum.

"The difference between state and civil society represents a 'battle of ideas'. Perhaps it is better captured, however, as a 'battle of evidence'."

Today, the job of a commissioner, in the event that those commissioners have even been tasked to consider civil society provision, which is all too rare, remains to commission civil society groups, in many cases on the basis of patchy evidence in terms of what is useful or necessary to accept or monitor a tender. The Public Administration Select Committee noted in 2008 that there is very little systematic comparative evidence on the added or distinctive value of civil society organisations.[43] The Third Sector Research Centre, a body funded by the Office for the Third Sector to the tune of £10m over the 2008-11 Comprehensive Spending Review Period, ostensibly to provide this evidence base, have themselves admitted that, "Too much of the discussion is still hypothetical or anecdotal." Their survey of the literature found one satisfactory systematic study, undertaken by the National Consumer Council, focused on user experiences of services in employment services, social housing and domiciliary care for older people.[44] This survey attempted to judge the value to the user of civil society provision and offered mixed evidence. It argued:

> "…*third sector delivery is distinctive in employment services, where the third sector tends to provide a highly personalised and responsive service to a defined client group. In other types of service that are more generic, such as social housing and domiciliary care for older people, third sector delivery is not particularly distinctive.*"[45]

And this example highlights one failure of this approach. Civil society action does not benefit only service users; it also benefits volunteers, their families, the relationships that they treasure and the wider community. An entire matrix of relationships that 'value to the user' will fail to capture. The difference between state and civil society represents a 'battle of ideas'. Perhaps it is better captured, however, as a 'battle of evidence'. The story of this decade is that the approaches used to 'build capacity' and 'deliver through the third sector' were centrally driven through and aggregated. These methods, while well intentioned, were ultimately poorly delivered. Absent organisational and structural change, they were never enough to win this battle. Perhaps it is time, then, to think again about the terms of engagement.

42. See e.g. D Atkinson, *Vibrant Villages*, 2008
43. Public Administration Select Committee, *Rhetoric to Reality*, House of Commons Public Administration Select Committee, June 2008, p3
44. A Hopkins, *Delivering Public Services: Service Users' Experiences of the Third Sector. A Report to the Office of the Third Sector by the National Consumer Council*, London, National Consumer Council, April 2007, p2
45. Ibid, p79

1.2 The Magic Harness

Journalist and political commentator Matthew Parris described it as creating a 'magic harness', and to date that remains one of the best descriptions of the problem of making civil society action meet the constraints of the public sector in a way that works for both. We value civil society solutions because of their independence and unorthodoxy; because of the people they reach and the unselfishness and humanity of their service. Yet when government attempts to co-opt these solutions, or to marry them with a private provider that can offer scale through deliberate and necessary managerial techniques, it threatens to kill the thing it loves. Consider the following.

"...In their attempts to bring voluntary agencies firmly under their control, to deliver out-sourced public services and to operate in prescriptive and inappropriate ways, statutory sector agencies are destroying the very things they say they value about voluntary action – flexibility, accessibility, experimentation, independence of action and the capacity to improve policy and practice. They are killing the goose that lays the golden egg." - Andy Benson, Joint Convenor of the National Coalition of Independent Action (NCIA)

Stories abound of voluntary sector organisations being strong-armed by local authorities and statutory commissioning bodies. A report based on interviews with 16 voluntary agencies in West Sussex conducted by NCIA working with Adur Voluntary Action, one of 8 Councils for Voluntary Service in the county, revealed a tension between exhortations on the voluntary action sector to co-operate and 'work in partnership', yet simultaneously to compete aggressively for contracts. It argued that particular damage is being done by these commissioning policies and processes, which turn independent voluntary and community organisations into sub-contractors, working to tight specifications within performance management frameworks. It concluded that commissioning encourages the view that organisations have to be big to survive, and forces voluntary agencies through wasteful and ineffective processes in the fight for funding.[46]

The last point is key. Commissioned services are delivered to supply the state. A better way of conceptualising civil society action is that it *reduces demand* on the state. Through the relationships civil society action builds, through the communities it fosters and the civic sense and social justice that tend to follow, good things flow. It is understandable why a world of quasi markets and risk registers has lost the truth of these human relationships. The service user generally does not pay for the service directly, which means that the market forces that drive the quality of services in certain directions in the private sector do not here operate. An offender on a publicly-funded literacy course cannot usually choose to change providers in the way that we might change supermarkets if the quality of produce at our usual store declines. In an attempt to compensate for the absence of market forces, it is natural for Government to develop complex commissioning practices that seek to select the most effective service providers. Quite often it is these commissioning practices, designed as they are to incorporate voluntary sector organisations into state specified frameworks rather than the other way around, that give the public service route a bad name as far as charities are concerned.

"Commissioned services are delivered to supply the state. A better way of conceptualising civil society action is that it reduces demand on the state."

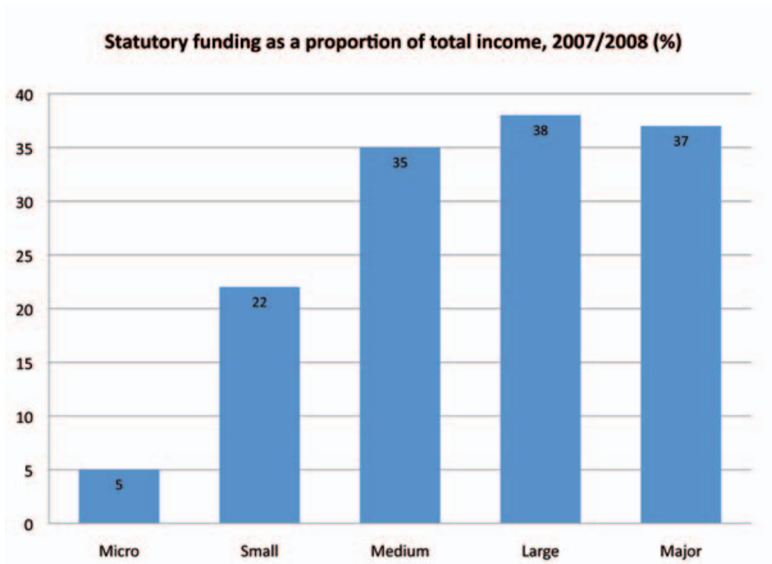
Writing before the election, the Conservative Party, in their paper, *Voluntary Action in the 21st Century*, recognised this.[47] They sought to provide some clear lines of demarcation that would serve to safeguard civil society's independence. These included:

- *Government must respect the fact that frontline voluntary organisations are best placed to decide what support they need, not politicians or their appointees.*
- *Wherever possible frontline voluntary organisations should be resourced and empowered to commission the support they need from Councils for Voluntary Service and other providers.*
- *Whether at a national or local level, the providers of support services must never be put in the position of effectively commissioning services from themselves.*

These ideas are welcome. They support and evolve the intelligent commissioning analysis and move us further towards an approach that privileges the needs and aspirations of civil society. Ultimately, however, any number of mission statements cannot compensate for a failure to put such principles into practice. They cannot compensate for a framework that essentially asks civil organisations to be more like the state and trains them up – builds their capacity – to be so. This approach is a sure way to create waste and inefficiency.

It is a way to hamstring civil society, too. Whether across service delivering departments, centrally or locally. Many advocates, practitioners and activists continue to express their concern at civil society's sense of mission drift when exposed to state commissioning arrangements. Secretary of State for Work and Pensions, Iain Duncan Smith, for example, has complained of an increasing 'tescoisation' of the voluntary sector, referring to the increasing dependence of many voluntary sector organisations on state funding and the fact that such funding tends to accrue to the coffers of larger organisations, while the smaller ones miss out. The former we shall come to; the latter accusation is certainly true. Indeed larger organisations rely far more on the public sector for their funding than 'small' or 'micro' organisations; something that can and should be addressed.

Fig. 3 [48]



46. NCIA, *The local state and voluntary action in West Sussex: the results of exploratory qualitative research*, NCIA, May 2010
47. Conservative Party, *A Stronger Society: Voluntary Action in the 21st Century*, London, Conservative Party, June 2008
48. NCVO, *The UK Civil Society Almanac 2010*, p48

As to the former, this accusation has much in common with the idea that the state tends to 'crowd out' grass roots, divergent examples of civil society organisations through its weighting and favouring of the large. Buoyed by a few high profile examples, such as the MyPolice affair, where an online social start-up was effectively competed with by the National Policing Improvement Agency (NPIA) in a way that served to directly affect their business model, there is a considerable body of opinion that suggests that civil society should look elsewhere so as to maintain its distinctiveness and independence.

Such examples rightly provoke intense debate – for example, the author of this report was involved in an online campaign to encourage the NPIA to drop the name and work with MyPolice; however, such examples notwithstanding, we must at this point eschew the opposite extreme, that service delivery is actively bad for civil society. Instead, we must look dispassionately at the opportunities available to civil society organisations who correctly configure the magic harness and so retain their mission while unlocking the vast monies available to the public service industry. The success stories out there, to which we shall come in chapter three, render it wrong to regard public sector contracting as mutually exclusive to a strong civil society.

There are more valid criticisms with regard to the lack of new grant funding available for smaller organisations, especially from local authorities. A hypothetical better framework would consider civil society not as an appendage to the state but as its object, new structures become immediately more desirable. Localised approaches that lever in localised finance, new additions to the funding mix, evolved understanding of public sector innovation and social technology and new approaches to line management and empowerment usurp the dichotomy between civil society as dependent upon private philanthropy or civil society as a subset of welfare. We need to understand the goods these new opportunities can bring, and seek to enable commissioners to understand better the roles of loan, grant and contract finance and so make it work better for those organisations – large and small – who wish to step in. New models that enable the managerialism of the public sector to be more effectively married with the association of civil society using the evidence and impact assessment that civil society itself generates and accepts as standard constitute the real magic harness. They are the stuff, not of fantasy, but of eminently realisable reality.

1.3 Society's 'R&D'

It is in this respect that the more optimistic rhetoric of the coalition government has been welcome. The consensus that has emerged lauds the impact of civil society organisations as necessary rather than desirable actors in the service delivery market. Oliver Letwin hailed them as indeed delivering 'more for less'.[49] David Cameron has made increased public service delivery by charities and social enterprises the touchstone of his 'Big Society' agenda, as has Minister for Civil Society Nick Hurd.

The substance of having more civil society organisations delivering more public services gives ballast to the Big Society agenda provided that those services are specified, not by town halls or Whitehall, but by users, community members and civil society actors; as a practical means to restore the bond between organisations that identify problems in places and the journeys that communities take through those organisations to create solutions. A new market for public services requires a new market for commissioners, too: a wider civil group of commissioners and a wider civil group of people who support and offer advice to civil society organisations and indeed to commissioners themselves.

"*The Big Society surely means having more people running more things*."
- Stephen Bubb, CEO, ACEVO

49. In a speech at the NCVO's Campaigning conference

This is, if you will, government investing in what can be considered 'social R&D'. R&D is the fuel of innovation, and innovation can lead to tangible advances in productivity and efficiency. Our public services are already undergoing a rapid change. Social networks, advances in online payments and money transfer services and more have led to a culture of co-creation that has seen more of us join together, share information and benefit from open information to take better control of the large institutions that are so prominent our lives. Why restrict innovation to service design; why not expand it to commissioning design? In this milieu, civil society can take centre stage. With transparent data on commissioning and procurement, for example, more communities could take more decisions to commission services from organisations that mean more to them. Individual users can create services that solve multiple needs, reach those who are hardest to reach, and have structures that empower them to take control of their own lives, so saving money for the exchequer in the short and long terms in a time of need.

The future of public service is necessarily innovative. The question is whether forms of commissioning exist or can be created that can harness the productivity gains of the many. We will explore these theories and models over the coming chapters and pages. Our contention is that, provided we can find frameworks and infrastructures that allow those civil society organisations that wish to deliver public services to assess their needs and scale them in line with their missions, we can enable a variety of goods, including better services, more access for users with multiple needs, a more competitive market with civil society organisations able to take on the somewhat larger and more established service deliverers and statutory procurers and cost savings to the exchequer. A better, more inclusive delivery framework, whose success is measured by users not bureaucrats, boosted by appropriate, fine-grained community support, can unlock the solutions that set us on the road to better services, specified by communities and delivered through community organisations. Government taking practical steps to enable this change to happen – to innovate and evolve the managerialism of the public sector to work better with the association of civil society, and vice versa – is one change that can set our service-hungry nation on the road to a more fulfilled future.

Chapter Two:
The Barriers to Community-Driven Commissioning

"Unquestionably, the UK public services market is the most advanced in the world, taking into account the number of sectors where independent providers are involved, the range of functions included within the scope of such contracts, the extent of risk transfer, and the sophistication of the procurement and contract management models involved." (SERCO)

"…on the whole public sector IT services markets outside the UK are less mature in their supplier relationships with the private and third sector." (BT)

These responses were submitted to a 2007 government consultation by two of the biggest service providers in the UK. In the last year, private public service outsourcing firm SERCO have reported consistent increases in profits, rises in share value and impressive quarterly results, which they have attributed to a worldwide rush to outsource services. Even as public sector cuts kicked in, SERCO still managed to post mid-year profits of £115.6m, up 14.1% on last year.[50] The recession has clearly boosted the demand for cheaper public services, which itself is set against a backdrop of inexorably rising demand even prior to the recession.

SERCO is not alone. Large service provider companies such as Logica and Capita have reported comparable successes. However, what is noticeable is that far fewer public service providers have been profiting from the post-recession environment than have been losing. The number of public sector suppliers to go bust rose by nearly 50% in the first six months of 2010, according to accountancy firm Wilkins Kennedy. Some 168 businesses in the health and social services, education and defence sectors went insolvent during the period. This compared to 114 for the first half of 2009. By comparison, corporate insolvencies generally fell by 5% in the first half of this year.[51]

While the Government's real cost-cutting has yet to take place, we are already seeing a wide range of companies fail because of delayed contracts. Cash-flow is but one of the barriers to more voluntary organisations taking part in public service delivery. Where money promised does not come in on time, organisations that have invested resources or are banking on those resources coming in will find themselves disproportionately disadvantaged.

Worryingly, it is those organisations at the bottom who have the least resources, who suffer most, even though their ability to solve a particular problem society has or meet a particular need the state cannot may be greater than any other provider. Civil society organisations who are somewhat larger, while not enamoured of their relationship with government, can be broadly supportive. Bennett's survey of 246 large service-providing charities indicated a contrasting view of funding relationships with the state: nearly two-thirds of respondents were more or less satisfied with relationships with government bodies.[52] For new or smaller market entrants, however, the situation is different.

Government has more than a moral interest in this struggle. We are not there yet, but can we afford to contemplate provider monopolisation in our public services? The answer must be no, and the potential costs to the Government of having fewer providers who can deliver services are too great to entertain. Yet there are also huge costs to having too few commissioners. With the public finances so tight, understanding where the state's biggest challenges lie in terms of supporting civil society

50. SERCO stock exchange announcement, August 2010, February 2010 and August 2009
51. Survey by Wilkins Kennedy, July 2010, reported in http://localgovernmentlawyer.co.uk/index.php?option=com_content&view=article&id=3617%3Aresearch-points-to-sharp-rise-in-public-sector-supplier-insolvencies&catid=53%3Aprocurement-and-contracts-articles&q=&Itemid=21, accessed 24 August 2010
52. R Bennett, 'Marketing of Voluntary Organizations as Contract Providers of National and Local Government Welfare Services in the UK', *Voluntas*, p288

organisation as community agents of change becomes imperative. The picture we observe is one, not of the commissioning, service delivery and support agenda spreading to more groups, more participants and more people who have helped design services or create personal budgets – but to fewer.

2.1 The Bureaucracy and Management Challenge

2.1.1 The Story of Pre-tender Contracting

A commissioning process has two main phases of interaction between the contractor and provider: pre- and post-contract. The pre-contract phase includes discussions around the details of the contract specification and the costs of delivery, leading to the selection of preferred bidder and contract signing. This phase is inherently and rightly competitive, both among bidders and between the bidders and the commissioning authority. The second and much longer phase is post-contract delivery, which involves ongoing project monitoring.

Definition: Competitive Dialogue

What is it?[53]
Competitive Dialogue is used in awarding complex contracts where there is a need for contracting authorities to discuss all aspects with candidates. Such dialogue would not be possible under open and restrictive procedures.
Main features:

- Dialogue is allowed with selective suppliers to identify and define solutions to meet the needs and requirements of the contracting authority;
- The award is made only on the most economically advantageous tender criterion;
- Dialogue maybe conducted in successive stages, with the aim of reducing the number of solutions/bidders; and
- There are explicit rules on post-tender discussion.

But: Competitive Dialogue can add to bureaucracy[54]

- Many bidders see it as leading to further increases in the already high development costs of tenders.
- The top three concerns from bidders are that the process can be slow, expensive and resource-intensive.

The pre-contract phase is dominated by the presence of compulsory competitive tendering (CCT). CCT is often mooted as a cost-saving measure. It shows savings of around 20% from competitive tendering and contracting, including when the in-house team wins the bid.[55] The evidence for this is compelling. One study found that in the health sector, costs were reduced by as much as 34% by introducing competitive tendering.[56]

53. Office of Government Commerce, *Competitive Dialogue Procedure: OGC guidance on competitive dialogue procedure into new procurement regulation*, Office of Government Commerce (OGC), 2006, p3
54. See e.g. http://www.publicservice.co.uk/feature_story.asp?id=10026, accessed 3 September 2010
55. Audit Commission survey, 1987
56. Noted in the same survey, reappraised in BERR (2008), infra

CCT, however, is hugely problematic. In particular, it tends to place too much emphasis on lowering the costs associated with a particular service, often to the detriment of other factors such as quality, sustainability, long-term over short-term impact, social capital built or employment conditions.

Surveys of delivering organisations have frequently bemoaned the hidden costs and associated bureaucracy of contracting, and there is some evidence that this acts as a deterrent to civil society organisations.[57] Buckingham notes:

> *"Competitive tendering was adding to already increasing administrative burdens. While this was generally accepted by providers, who appreciated the need for accountability and efficient use of public money, this clearly increases overhead costs and frustrations were expressed about the reduced proportion of human and financial resources available for working directly with clients."*[58]

A respondent in Cairns et al.'s study, reported by the Third Sector Research Centre in a recent literature review, describes this colourfully:

> *"There is a more transparent tendering process, but it's so costly in terms of time and the competition element of it means the whole agency is on tenterhooks until the outcome is known. Who pays for that time? God knows how many hours it took to write the tender."*[59]

This somewhat schizophrenic relationship between procedure and relationship is thrown into even more stark relief when we consider what are thought of as the success factors for civil society organisations in the pre-contract phase. Surveys conclude these are:

- a good reputation;
- strong relationships with the local community;
- awareness of local needs;
- ability to achieve targets and outcomes;
- being trusted by service users;
- ability to work in partnership;
- flexibility; and
- awareness of new agendas. [60]

The disconnect points to the essential inconsistency of understanding and sympathy from one commissioner to another. Civil society organisations' experiences have been understandably mixed as a result. Over half (56%) felt that commissioners did not understand the contributions that the third sector can make in planning and delivery of public services; while only a third thought the opposite. In addition, 72% of respondents said they sometimes felt patronised by the public sector and thought that they were seen as, to use the phrase of the Third Sector Research Centre, "unprofessional and amateurish."[61]

57. B Cairns, M Harris and R Hutchison, *Servants of the Community or Agents of Government? The role of community-based organisations and their contribution to public services delivery and civil renewal*, London, IVAR, June 2006; and OCVA-Framework, *The Tender Subject of Tendering: Research into the Effects of Competitive Tendering of the Service Delivery Voluntary Sector in Oxfordshire,* Oxford, OCVA, August 2008; and Shared Intelligence, *Evaluation of the National Programme for Third Sector Commissioning: Baseline Report*, London, Id&A, 2008a; and Shared Intelligence, *Evaluation of the National Programme for Third Sector Commissioning: Consultation with BME Third Sector Organisations*, London, Id&A, 2008b; and J Leman, *Frontline Hopscotch. VCS Engagement in Delivering Change for Children and Young People: A Jumpy Start or a Step Back?,* Sheffield, NAVCA, April 2007
58. H Buckingham, 'Competition and contracts in the voluntary sector: exploring the implications for homelessness service providers in Southampton', *Policy and Politics*, p245
59. B Cairns, M Harris and R Hutchison, *Servants of the Community or Agents of Government? The role of community-based organisations and their contribution to public services delivery and civil renewal*, London, IVAR, June 2006, p24
60. D Packwood, *Commissioning, Contracting and Service Delivery of Children's Services in the Voluntary and Community Sector,* London, VCS Engage, 2007; S Tanner, *Common Themes on Commissioning the VCS in Selected Local Authorities in Greater London*, London, London Councils, May 2007; and A Wynne, *Support for Success: Commissioning and contracting in Greater Manchester*, Manchester, GMVSS Consortium, March 2008
61. Ibid

2.1.2 Persistent Mutual Misunderstanding and Mismanagement

A recent procurement review by the Office for Government Commissioning suggested that government departments were not good at aligning commercial objectives and business plans; were not good at understanding the role of procurement in delivering their wider agenda. Their research suggested that on the whole, departments were not good at managing the relationships with suppliers and were moreover not good at using information technology to provide new forms of data in exportable ways that could actually change the way things are done and provide the department – and others who care about the work it does – with the means to compare this effectiveness; to move from specification to co-creation.[62]

This study focussed on procurement. The personnel capacities when it comes to commissioning, as we argued in the first chapter, are even more variable. The 2008 BERR study cited above suggested that even less time was given to the project monitoring stage than to the specification stage. "A clear framework for monitoring the benefits delivered, addressing issues as they arise and recording lessons learned should be a central component of any project."

But the questions remain as to the terms of that engagement and whether a desire to build a strong relationship between commissioner and commissioned can actually create an onerous burden on the project. This is an issue of management in the strict sense: the extent to which helpful oversight becomes pernicious micromanagement. Submissions to the 2008 Review stated that there can be too much emphasis on 'getting something delivered' and not enough on what happens afterwards, particularly in terms of an effective customer-supplier relationship, but there is evidence too that 'outcomes not processes' is a desirable mantra for civil society partnership in public services. What is certainly true is that, as the 2008 review said, "a flexible and open partnership...delivers greater benefits than an arms-length relationship."[63]

While capacity at the commissioner level in central government is variable, at the local level it is even more so and in many places the presumptions against civil society persist. The Audit Commission found that out of a sample of 95 local authority inspections between 2001 and 2006, almost three-quarters contained at least one recommendation concerning capacity or expertise. Of the 786 recommendations made in these reports, 231 related to this theme.[64] Drawing on survey data from the then Office of the Deputy Prime Minister, they found that lack of staff ability in procurement systems was perceived by local authorities to be "the single largest barrier to improving (the system)."

The National Programme for Third Sector Commissioning, announced originally in 2006, aimed to improve the understanding of civil society by commissioners through a range of training sessions and other activities. The programme evaluation noted increasing knowledge of intelligent commissioning. However it also noted that "doubts about the capacity of TSOs to engage in contracts" endured.[65] Fifty-nine percent of participants agreed that third sector organisations often do not have the resources or capacity to successfully manage public sector contracts.[66]

What are we to make of these difficulties? There is a clear failure of management in several circumstances when it comes to the systemic relationship between commissioner and commissioned. The UK government does not have an explicit competitive neutrality framework, preferring to work through a variety of policy measures such as competition law, government accounting rules and so on.[67] At times we hear of an over-specificity of outcomes or processes. At other times, providers complain of a lack of clarity by commissioners over the outcomes desired from a project, which results in poorly specified contracts.

62. Office of Government Commerce, *Procurement Capability Overviews*, OGC, 2009
63. D Julius, *Public Service Industry Review*, 2008, p54
64. Ibid
65. *Evaluation of the National Programme for Third Sector Commissioning: Final Report*, London, Id&A, May 2009
66. Ibid pp18-19, noted in R Macmillan, supra.
67. *Fair Field and No Favours: Competitive neutrality in UK public service market*, CBI, 2006

As one respondent to the 2008 BERR consultation said: *"Where commissioners have a clear vision of desired outcomes the appropriate providers from across the public, third and private sectors are more likely to be optimally engaged."* [68] *(ACEVO)*

One study of commissioning experience across six London boroughs suggests a close link between levels of sector engagement in commissioning activity and the level of previous working relationships between the sector and local authorities: "those local authorities and departments where a long history of working with the VCS existed tended to have greater levels of engagement by the VCS in their commissioning activity".[69] More specifically, Martikke's findings from interviews with 20 voluntary sector organisations in Greater Manchester suggest that success in winning contracts is determined by establishing and maintaining good relationships with service planners and commissioners.[70] However, as the Third Sector Research Centre argue, "this runs against the need for open and transparent tendering processes."

"When it comes to open data, being able to see all the data Government has is not so important as being able to understand the usefulness of the data that Government collected in the first place."

What are we to make of this new disconnected frontier? Here we have the clearest indication yet of a culture and managerial collision between public and civil society sectors; of the essential difference between the relational nature of civil society and the managerial nature of the public sector.

As an addendum, we might also begin to think about the limits of an open data and transparency approach as a means to deliver better government services. When it comes to open data, being able to see all the data Government has is not so important as being able to understand the usefulness of the data that Government collected in the first place.

2.1.3 The Problem of Risk

Once the contract has been signed and the relationship commences, there are several other barriers that kick in, each of which pertains to this idea of a cultural collision between public sector management techniques and the associative character and good offered by civil society organisations. However, there is still one huge area of dissonance: risk management. Risk management tends to prevent organisations from entering into favourable contracts with Government from the outset, and so compromises relationships. For too long local officials have attempted to manage risk using tools that are somewhat monolithic and inappropriate to the civil society paradigm. A typical example is the Risk Register.

The Risk Register records details of all the risks identified for a project. Risks associated with activities and strategies are identified and then graded in terms of likelihood of occurring and seriousness of impact. It can also be used to notify senior managers of emerging risk exposures that warrant immediate attention. The process of identifying and analysing risks is part of tactical decision making and strategic planning for any organisation, but some 'must haves' have been established for best practice risk registers, this includes:

- A description of each risk and its potential consequences
- Actions and controls that exist or are proposed to mitigate the risks
- Likelihood of occurrence and consequence ratings for each risk identified
- A grade scale
- Early warning factors and upward reporting thresholds

68. D Julius, *Public Services Industry Review*, Dept of Business Enterprise & Regulatory Reform (BERR), July 2008
69. S Tanner, *Common Themes on Commissioning the VCS in Selected Local Authorities in Greater London*, London, London Councils, May 2007, p19
70. S Martikke, *Commissioning: Possible Greater Manchester VCS Organisations' Experiences in Public Sector Commissioning*, Manchester, GMCVO, November 2008, p4

The worth of business plans can be improved significantly if the risks associated with key business processes and proposals are analysed and, where necessary, mitigated.

There are several types of risk register available. A Community Risk Register places a duty on responders to "from time to time assess the risk of an emergency occurring", and "from time to time assess the risk of an emergency making it necessary or expedient for the person or body to perform any of its functions." The Community Risk Register also identifies emerging issues and those where the risk is increasing or decreasing. A Corporate Risk Register[71] is usually developed by the Management Board of an organisation. **Operational Risk Registers**[72]are developed to assess risks being identified by frontline members of each team in parallel with the development of operating plan objectives. Judgement on the degree of risk is exercised in this process; one objective could have several significant risks associated with it, and another may have none. 'Best practice' suggests that any organisations who are contracting for public services use all three types of risk register in tandem as a means of assessing their bid.

To shed a little more light on the detail of a risk register, here is what is required as part of a community risk register assessment: [73]

Contextualisation: The first stage is to define the scope of the risk management activity for a local area. This includes a demographic, economic and geographic description of the area.

Hazard Review and Allocation for Assessment: The hazards which might give rise to an emergency are provisionally identified and described using Government guidance. The outcome descriptions as shown in the risk register are agreed nationally and are applied to Community Risk Registers throughout the country. They are a general description of a type of incident and its effects, on which the assessment is based.

Risk Analysis: The Lead Assessor of risk, nominated in every organisation, considers the likelihood of the hazard or threat occurring within the next five years, taking into account the scale and outcome description. A generic framework, provided in the Government Guidance, is used as the basis for assessing the potential impact of the hazard or threat.

Risk Evaluation: Once the Lead Assessor has completed the assessment and this has been agreed by the Risk Assessment Working Group, the information is consolidated in the risk assessment framework. Information which is considered sensitive is excluded from this framework. In addition, each risk is plotted on a Risk Matrix to visually portray the risk rating, which is defined in the Government Guidance.

Risk Treatment: The Risk Register is not an end in itself, but serves as a means for ensuring a commonly agreed starting point for responders in their approach to Integrated Emergency Management.

Monitoring and Review: The Guidance states that risks should be reviewed regularly, and monitored continuously. Where information suggests a potential change, this will be incorporated into a revised Risk Assessment. The review date shown in the risk register is the date on which there will be a comprehensive review of all risks.

71. HEFCW, Higher Education Funding Council of Whales, *Opportunity and Risk Policy and Guidance*, p8
72. Ibid
73. Taken from Warwickshire Local Resilience Forum Community Risk Register, available at http://www.warwickshire.gov.uk/web/corporate/pages.nsf/links/4A84C7918A244A35802570A7005A9823

Table 1. *Example of a risk rating scale*
Source: BASSAC report 'Collaborating for Commissioning' report pp2 and 6

Likelihood Rankings (Positive or negative risks)	*As a Guide Only* - Likelihood rankings should be calibrated, where necessary to ensure compliance with applicable regulations and safety standards
1 Rare	Probability less than 2%
2 Unlikely	Probability less than 5%
3 Possible	Probability of 5% to 50%
4 Likely	Probability of 50% to 90%
5 Almost Certain	Probability of 90% or more

Recommended actions for grades of negative risk	
Grade	Risk mitigation actions
L	LOW: These risks should be recorded, monitored and controlled by the responsible manager. Activities with unmitigated Environment, Health and Safety risks that are graded above this level should be avoided.
M	MEDIUM: Mitigation actions to reduce the likelihood and seriousness to be identified and appropriate actions to be identified endorsed by the consortia.
H	HIGH: If uncontrolled, a risk event at this level may have a significant impact on the operation of the consortia as a whole. Mitigating actions need to be very reliable and should be approved and monitored in an ongoing manner by the responsible consortia lead.
E	EXTREME: Activities and projects with unmitigated risks at this level should be avoided or terminated. This is because risk events graded at this level have the potential to cause serious and ongoing damage to the consortia and member organisations, the community or the environment.

Table 2. *A Risk Register*
Source: Coventry Teaching Primary Care, Risk Service Register 30 Sept 08

Risk ID No	Source of Risk (date added to RR)	Directorate	Risk Summary	Likelihood Rating	Consequence Rating	Total Risk Rating	Summary of Treatment Plan	Responsible Officer	Date of action completion (or expected date)	Review date	Residual Risk Rating	Acceptability of Risk	Source of assurance/ Monitoring
66	Report (Spot checking monitoring against Good Practice Standards) (April 06)	Public Health/Org	*Legionella* Contamination of plumbing in UCHWC PFI West Wing Serotypes 2-14 This is the first time such an issue has been encountered and is due to the use of plastic as opposed to metal pipes (issue currently under juridical review)	3	5	15	UHCW has instituted programme of • Raising chlorine levels in water • Monitoring the results • Filters have been put in showers (with associated ongoing cost implication) PCT Director of Public Health to receive regular monthly reports from UCWH Director of Infection Control and Health Protection Agency Routine communication of risk and adverse events between providers and commissioners via contract monitoring	CG	Sept 06	Sept 08	12	R	Monthly Reports to PH Department Incidents Complaints Claims Contract Monitoring

Oct 06 Update - No change to Risk Rating to remain on register
Jan 2007 Update - To remain on register. This has been notified to the Chief Medical Officer and the residual risk is to remain at 12.
March 2007 - No update/change to risk rating.
July 2007 Update - To remain on Register. Monitoring data not currently being received. This is under active management.
Oct 2007 Update - Reporting system is in place monthly to the Department of Public Health. No change to risk rating.
Jan 2008 Update - A reporting system is in place monthly to the Department of Public Health. Needs to stay on the Risk Register.
March 2008 - No change to risk rating.
June 2008 - 1) UHCW to submit policies regarding monitoring of water supplies to HPA - complete 2) HPA plus national expert to review (due 18th July) 3) HPA to issue advice document to PCT and UHCW by 11th Aug. All actions to be carried out by the HPA Madhu Barden. It is expected that the advice document will allow directorate to close this risk. (All controls applied thereafter.)
Sept 2008 Update - No update or change to risk rating.

Do these many boxes and tables have a positive effect? The worth and effect of risk registers have been assessed by several academics and commentators. Their existence is a subset of a particular managerial style that is peculiar to the public sector we have. There is no doubt that the style of management they enshrine is not conducive to the partnership with a more relationally focussed civil society. As a means of scoping the impact of a particular policy, they represent a somewhat twee form of assessment. Are they the best tools for the job? It is highly unlikely.

2.1.4 The Problem Escalates: Welfare to Work Analysis

Let us take a practical example to breathe more life into our analysis of these difficulties. It is no exaggeration to state that we have a worklessness crisis in our country today. With 5 million long-term unemployed and a burgeoning social protection bill of some £170m annually, successive governments have tried – and largely failed – to move benefit recipients from welfare into work by providing a range of ancillary services that supplement the payment of benefits.[74]

A comprehensive history of these attempts is beyond the scope of this publication. However, the latest developments are instructive. The major catalyst for re-examining public sector procurement in the field of welfare to work was a review undertaken by Lord David Freud.[75] Lord Freud found that in case of employment services contracting, while mainstream Jobcentre Plus provision worked well for clients close to the labour market, for clients with more complex needs and multiple barriers to work, specialised support was not available and was needed.

The Freud review identified a number of problems with the DWP's approach to contracting:

- contracting structures too often specify process rather than outcome;
- contracts have ceiling values in expenditure, which means that providers cannot be rewarded for over-achievement;
- contracts are on too small a scale and the length of the contracts is far too short to set up the systems and recoup the investment necessary;
- contracts are let according to benefit groups, making it difficult to set up systems to handle sub-groups with specific barriers;
- there are a multiplicity of requirements and start and finish dates.

In short the system was cumbersome, bureaucratic and tended to be constructed so as to deal with specific problems that each claimant might have rather than taking a 'whole person approach' more appropriate to someone with multiple disadvantages.

As such, Lord Freud proposed that contract package areas should be far larger than previous, and split into regions, with contracts being far longer in order to offer stability to providers investing in delivery, and allow far greater freedom for providers to deliver services best suited to the needs of their clients.

Building on the Freud review, the DWP's Commissioning Strategy was published in February 2008 and adopted many of the key concepts outlined in the review. It set out the Department's new approach to contracting based on fewer, longer, larger contracts which would be managed by top-tier providers leading and managing diverse supply chains.

The Flexible New Deal (FND) was the first employment services programme developed and procured in line with the Freud review and the DWP Commissioning Strategy. It rolled together a number of programmes to offer longer and larger contracts than previous programmes. FND aimed to encourage greater focus on job outcomes by increasing the use of payment by results. It was envisaged that civil society organisations would become specialist sub-contractors to these so-called regional prime providers.

74. A study by the Trade Union Congress, September 2010
75. D Freud, *Reducing dependency, increasing opportunity*, March 2007

The DWP have since evolved the programme further and are now pursuing a unified work programme that seeks to provide personalised support to those who are trying to get back into work, leveraging in more private sector support. As this programme is developed, however, the need for that department to make savings in a 5:1 ratio, as specified by the treasury, presents problems to civil society organisations who are attempting to cater for service users with multiple needs. The fear, as expressed eloquently by ACEVO head, Stephen Bubb, is that "the prime provider model, allied with cuts, equals fewer opportunities for civil society organisations to deliver welfare to work services."

What is most worrying, however, is that such a unified work programme may well not work, either for users, or for civil society organisations themselves. We will come to the first point later in this chapter, but let us stick to the second for now. Consider, for example, the experience of participants in the DWP's prime provider model – which we will describe in more detail in the next chapter – which in essence co-commissions voluntary sector providers under a private super-contractor. When a survey by the Pentagon Partnership invited organisations to talk about their experience of the process, the unanimous result was that it had not been a success. To the question, "Would you say the experience as a subcontractor has been positive?" no respondents said their experience had been 'positive' overall. A few organisations responded that their experience had been 'negative', and many more replied to say the experience had both positive and negative elements (or was neutral overall), or that it was too early in the experience to say. Of their positive and negative experiences, many were based on the personality of the sub-contract manager, and many noted that it had been difficult at times to marry up the principles and values of a civil society organisation with the hard-headed commercial approach of a private company.[76] There have been developments, as we will see in the next chapter, but the overall picture is troubling.

2.1.5 Centralisation and the Loss of Social Capital

The Third Sector Research Centre summarises the problems of the public sector/civil society relationship as follows:

Criteria
Government often restricts competitions to organisations with a clear track record in the area in order to ensure they have the appropriate expertise. This can limit the ability of new entrants to break into the market.

Lack of Shared Information
Where there is a lack of shared information on current service levels or the costs of providing them, incumbents are likely to have an advantage over other bidders.

Ability to Manage Risk
Private and civil society organisations can only take on financial risks up to the level of their balance sheets and should only be expected to shoulder risks that they can influence, such as cost overruns.

Transition Costs
A challenger to the incumbent provider of a service will incur start-up or transition costs if it wins the bid. Where these are likely to be significant, they could outweigh other cost advantages and thereby limit competition.

Why do we place such burdens upon our civil society? And are these burdens irrevocable? Certainly, we cannot blame local government in its entirety. Ringfenced funds, an onerous audit commission, all have served to ratchet the cost of compliance. The Coalition's willingness to curb these compliance excesses is welcomed. However, the ghost and reality of centralisation lives on in the structures that remain. The antidote – local and hyperlocal accountability and management structures, many of which bypass even local government – are discussed in the next chapter.

76. Survey of third sector organisations' experiences of the sub/prime contractor model in the delivery of DWP/Jobcentre Plus contracts. Pentagon Partnership, Spring 2010

The larger problem is that such bureaucratic measures tend to exclude. We have created a system where we impose huge burdens on those who want to help us create a better public sphere, and we spend large sums on measures to enable them to meet those requirements. This cannot be right. Diversity in public service delivery is a virtue, and we include other sectors in this. Indeed, diversity of provision across sectors is a positive characteristic of our public services industry. As the BERR Commissioning Review of 2008 noted, there is some evidence that diversity of provision across sectors raises consumer welfare.[77] The National Consumer Council (2007) surveyed the users of public, private and third sector service deliverers in three service areas where all three sectors compete. Civil society was favoured in the delivery of employment services; the private sector was favoured for domiciliary care for older people; and there was little difference between the two for social housing services. Public sector providers trailed in all three service areas.

But there is no doubt that the marginal cost of bureaucracy is higher for civil society organisations than for large private firms. This has pernicious effects that we can only partially measure, but that create real costs for society. First, where competition is low, civil society organisations provide a higher level of access: severe market homogeneity is the price of their exclusion.[78] Secondly, civil society will attract workers who exhibit pro-social motivation and who will donate labour because they care about the quality of the services they contribute to. One study found that people working in caring industries in the civil society sector are 12% more likely to do unpaid overtime than their equivalent in the private sector.[79] Civil society attracts people who are prone to donate labour, and it is just these pro-social motivations that we must harness if we are to reap the rewards of a better public service infrastructure – and that we lose if we get the infrastructure wrong.

The National Housing Federation, giving evidence to the Communities and Local Government Committee, illustrated the negative impacts of the current paradigm thus:

> "*The commissioning, tendering and monitoring process can create massive bureaucratic burdens for housing associations. Our survey in 2008 revealed many providers were still on short-term contracts. The demands of tendering for services every two or three years requires our members to engage in a constant cycle of evidence gathering, form-filling and box-ticking.*"

The NHF's views were echoed by the majority of witnesses to the committee. Several examples of the real cost of the current state of tendering – both in financial and staffing terms – were provided, stressing the fact that investment in administration is taking much-needed money away from frontline services, as the following examples demonstrate:

> "*Competitive tendering […] can be labour intensive and has sometimes resulted in unintended consequences for local markets (e.g. Costs to providers in tendering are high. A recent tendering exercise involved 12 staff for 15 days = c. £20k payroll. Contract value of £950k. Assuming 10 providers tender for service = £200k to procure a £950k service.)*"

When tendering costs approach 20% of the cost of the service as a whole, there is something seriously wrong with the system. The CBI conducted a survey of public procurement trends in 2007 and found an overwhelming majority felt that bid costs on like-for-like contracts had risen over the previous five years and that 84% of respondents considered that bid costs were having a detrimental effect on competition, particularly through Small and Medium sized Enterprises' (SME) participation.[80]

77. BERR, supra. p25
78. BERR Manufacturing Advisory Service 2008 Annual Report
79. P Gregg, P Grout, A Ratcliffe, S Smith and F Windmeijer, *How important is pro-social behaviour in the delivery of public services?*, CMPO Working Paper 08/197, 2008
80. CBI Public Procurement Survey 2007, Question 3

Moreover, where the bidders are civil society organisations, under the competition paradigm, much of the failed tendering capital is wasted and so essential services that should serve communities and our most vulnerable people inevitably suffer, with a concomitant loss in social capital and other community effects. Rising bid costs are not only a problem for bidders but also for the Government, as the internal costs of managing bid processes increase and contract prices rise as suppliers aim to recover bid costs and higher costs of bidding lead to a reduction in the number of bidders. This could lead to a less competitive outcome and higher costs for the project.

> A facilities management contract for a UK Government department cost the successful provider £350,000 in bid costs for an annual contract value of £10 million. A very similar contract in size and scope for a private sector client cost £180,000 to bid.[81]

While competition is necessary and healthy, there has to be a more intelligent way of focussing our resources across sectors and including more in the process of sharing the burden of governance.

2.2 The Financial Support Challenge

2.2.1 The Problems of Obtaining Capital

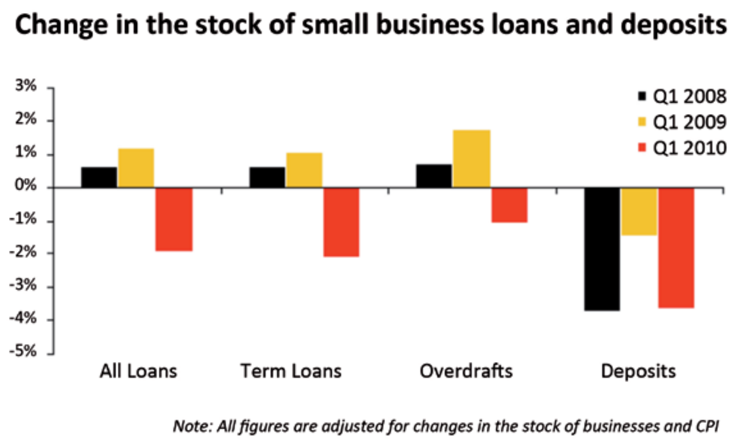
There are three types of capital that civil society organisations require to meet three broad funding scenarios. The first is funding for capital investment on assets: buying buildings, employing staff and other tangible assets. The second is working capital required to assist cash flow for smooth running of the organisations on a day-to-day basis, and the third is risk capital, used when a charity has an ambitious growth plan that is likely to diversify and increase its income.

Despite the tremendous complexity of the money markets today, the options to raise social funding are limited. The high street banks can be approached for investment for buying tangible assets, but these asset-backed securities are not an option for raising working capital, as the returns from civil society organisations are generally low.

Furthermore, the financial crisis of 2008-2009 has had a severe negative impact on the government's (central and local) fiscal position, with the current fiscal deficit hovering at 11.4%[82] and the current structural deficit at some 7.3% of the GDP.[83] High street banks have been relatively quick to recover, yet there is still tremendous uncertainty over the nature of this recovery. This is substantiated by current weak lending numbers to small and medium enterprises (SMEs). According to a recent report by the Association of Chartered Certified Accountants (ACCA), after seeing a sharp fall at the end of 2009, lending to SMEs fell further in the first quarter of 2010. There are further concerns that the finances of these businesses have deteriorated further as compared to previous years, with deposits falling by 3.6% against a rise of 1.6% in the last quarter of 2009.

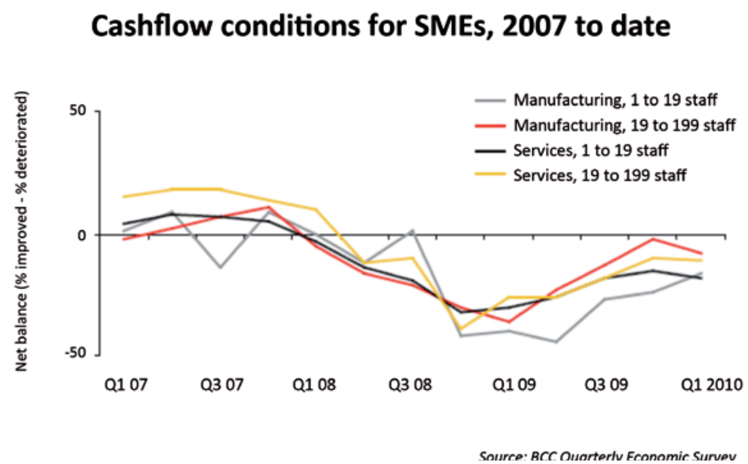
81. D Julius, *Public Services Industry Review*, Dept of Business Enterprise & Regulatory Reform (BERR), July 2008
82. Office of National Statistics (ONS), 'Statistical Bulletin', ONS, March 2010
83. House of Commons Library Research, *Key Issues for the New Parliament 2010*, House of Commons Library Research, 2010

Fig. 4. *Source: ACCA, Quarterly SME credit update: Q1, 2010, p3*



Cash flow conditions for SMEs have deteriorated further, too: note the chart below.

Fig. 5. *Source: ACCA, Quarterly SME credit update: Q1, 2010, p3*



High street loans have historically been hard to come by for civil society organisations. The risk associated with social sector funding is always higher than in commercial funding due to generally low returns and exacerbated by the perceived insecurity of contract-based work and the private sector's negative perception of the professional fundamentals of civil society organisations. The Government's support to charities acts a critical support base and gives confidence to other specialist organisations and even high street banks to lend to this sector. Now, even large commercial banks are finding it difficult to maintain a stable risk to funding ratio and are wary of lending to SMEs, let alone civil society organisations.

Take for example the **Deutsche Bank Americas Foundation**'s US$15.8m Eye Fund that the bank established in collaboration with Ashoka, a foundation that supports systems-changing social entrepreneurs the world over, with the aim to address the problems of eye diseases and blindness in the developing world. Its president, Gary Hattem's remark in the Almanack 2009 Good Deals guide (below) gives the indication as to how even very large established banks such as this are viewing risk associated with investments in this sector: "At $1m Deutsche Bank is not the largest investor in the fund, but we have taken on the highest risk by providing investment in a subordinate position and taking the first hit if there are any losses. We have also turned the high risk equals high returns relationship on its head by taking a very low return of one per cent."

This puts greater responsibility on alternative or specialist lending sources that have emerged in past few years, although in limited capacity. Take for instance, the **Charity Bank** which is the first not-for-profit bank in the UK that lends to charitable organisations and social enterprises. It offers loans of up to £500,000, normally in situations where lending from commercial banks is not available. Or the **Co-operative Bank**, closely affiliated with the Cooperative movement; this bank also funds companies and third sector organisations that are limited by guarantee through unsecured loans at a fixed rate or secured loans at a variable rate above base rate. For example, its social enterprise loan is available for a 25-year term at a fixed rate. The businesses that secure a loan from this bank unusually contribute a minimum of 30% of total project costs in non-loan form. Another example is the **Unity Trust**, a specialised banking and financial service option for charities, voluntary organisations, credit unions and the corporate sector. Loans, usually made to projects above £100,000, are available for a variety of uses, including re-finance, expansion finance and capital asset purchase plans. To do so, the Trust usually takes security on assets, including a fixed and floating charge if necessary and takes guarantees where appropriate. It also offers an occasional-use overdraft facility to bridge grant funding.

CDFIs of these kinds can step in where traditional banks fail. Worryingly, however, even CDFIs are claiming that in the current situation, they are finding it increasingly difficult to justify the risk margins associated with civil society service deliverers. This effect, while less pronounced now, according to one sector analyst to whom we spoke, may have serious ramifications two or three years down the line.

2.2.2 The Iniquities of the Old System

We could well argue that the finance we have invested has gone in to the wrong place. Consider, only 3.7% of health expenditure in England is spent on preventative interventions.[84] Adult mental health costs Government £10bn each year in benefit payments alone, while only £2m is spent on mental health promotion activities like promoting self-esteem and coping skills.[85]

Only a part of this present state of affairs can be attributed to political negligence: of inadequate attention towards public investments in preventive intervention. The other bigger reason is the acute infrastructure deficit there exists in the capital markets today to raise, channel and secure large investments in socially neglected sectors. This is where civil society and other frontline community organisations with their first-hand, on-the-ground experience in dealing with these issues are critical. However, as we suggested above, their reach is limited by inadequate funds.

"The centralised approach that we noted created the perils of bureaucracy has also created the iniquity of inefficiency."

For too long, Government has adopted something of a megalithic approach to getting capital where it is needed to go. Centralised funding agencies have attempted to distribute capital rather than learn the lessons of the investment and innovation sector, where business clusters, innovation platforms and so-called TICs – Technical Innovation Centres – offer localised connections between universities and businesses to drive productivity and offer smart investment. The centralised approach that we noted created the perils of bureaucracy has also created the iniquity of inefficiency. We will discuss this further in chapter four.

84. Health England, *Prevention & Preventative Spending*, 2009
85. New Philanthropy Capital, *Don't mind me: adult mental health problems*, 2006

Even when it comes to non-investment sources, trust and foundation resources are limited at only £4.4bn per year compared to government budgets of £800bn. An international philanthropic market, estimated to be worth in the order of trillions exists; little concerted effort has been made by successive governments to harness this market, while Singapore, Vermont and France have made significant attempts to optimise their foundation framework and so attract more international philanthropic funding.

2.2.3 Where the Financial and Management Challenges Combine: Full Cost Recovery ('Plus')

The promotion of the idea of Full Cost Recovery (FCR), and the development of tools to support it, was cited by many as something of a breakthrough, a means for civil society to ensure that it gets the costs back that it spends on delivering services.[86]

This is a welcome development; however, it fails to deal with the incessant problem of measurement. Commissioning and procurement are guided primarily by budget pressures and cost cutting imperatives, and this forms too narrow a view of value for money.[87] In practice, FCR has proved problematic for both the sector and public bodies. Much of the literature, collected by the Third Sector Research Centre, reports the difficulties civil society organisations have in gaining acceptance of the idea of FCR, and often fail to achieve it.[88] A National Audit Office review in 2007 concluded that although there was a commitment to FCR in central government, the usual problems persisted; that it was hard to translate this into practice and implementation was patchy. Packwood's research amongst commissioners seems to support this view, with doubts about how to judge when FCR is appropriate to use, how to evidence it, and how to compare costs amongst different providers.[89] His research suggests that many commissioners believe that FCR has been used as a stick with which to beat them.

The current Government have committed to extending FCR to enable organisations to bid on price rather than cost, which will form part of an October White Paper on Commissioning. It will be interesting to see whether the new regulations improve this situation and create the goods and competition it was intended to produce. Certainly, allowing civil society organisations to bid on the basis of price must be coupled with a capacity-building exercise that seeks to enable more organisations to understand the value and importance of reserves to a sustainable model; around half of small charities have no reserves at all and have been left horribly exposed by the recession. And even this extension of the doctrine will only at best mitigate the difficulties of patchy provision and a lack of a coalition of commissioners in favour of change.

86. ACEVO, *Surer Funding: The ACEVO Commission of Inquiry Report*, London, ACEVO, January 2004; and ACEVO, *Is it Time Up for Full Cost Recovery? Looking at Full Cost Recovery two years on*, London, ACEVO, 2008
87. E Neitzert and J Ryan-Collins, *A Better Return: Setting the Foundations for Intelligent Commissioning to Achieve Value for Money*, London, NEF, January 2009; and Charity Commission, *Stand and Deliver: The Future for Charities Delivering Public services*, London, Charity Commission, February 2007; and I Cunningham and P James, *False Economy? The Costs of Contracting and Workforce Insecurity in the Voluntary Sector*, London, UNISON, 2007; and J Leman, *Frontline Hopscotch. VCS Engagement in Delivering Change for Children and Young People: A Jumpy Start or a Step Back?*, Sheffield, NAVCA, April 2007
88. Charity Commission, *Stand and Deliver: The Future for Charities Delivering Public services*, London, Charity Commission, February 2007; and B Cairns, M Harris, and R Hutchison, *Servants of the Community or Agents of Government? The role of community-based organisations and their contribution to public services delivery and civil renewal*, London, IVAR, June 2006; and S Martikke, *Commissioning: Possible Greater Manchester VCS Organisations' Experiences in Public Sector Commissioning*, Manchester, GMCVO, November 2008; and P Alcock, T Brannelly and L Ross, *Formality or Flexibility? Voluntary Sector Contracting in Social Care and Health*, Birmingham, University of Birmingham, October 2004
89. D Packwood, *Commissioning, Contracting and Service Delivery of Children's Services in the Voluntary and Community Sector*, London, VCS Engage, 2007

2.2.4 Financial Scale in Action: Health Analysis

"Our aim is to create the largest social enterprise sector in the world. But it is not a free-for-all. Monitor [the regulator of NHS trusts] will become a stronger economic regulator to ensure that the services being provided are efficient and effective – and that every area of the country has the NHS services it needs to provide a comprehensive service to all. The Care Quality Commission will safeguard standards of safety and quality." - Health secretary MP Andrew Lansley

Our financial case study lies in the NHS. The NHS commissions around £100bn of extra palliative services each year, yet the challenge of getting significant civil society sector involvement in the delivery of these services is immense.[90]

The NHS has in recent years begun to work along the idea of 'scaling down' to reap huge efficiency rewards as well as client facing rewards. For example, the 'right to request' is part of a bigger vision for the future of the NHS as set out in High Quality Care for All: NHS Next Stage Review Final Report published in June 2008.

This recognised that the NHS will only succeed in maintaining quality if frontline NHS staff are given the freedom to use their talents to find innovative ways to improve quality of care for patients. Rather than seed social enterprises and charities to compete for contracts on the outside, it seeks to 'train up' insiders through an innovative delivery model to set up their own social enterprises.

The NHS has recognised the value of civil society organisations. However, a complex working environment for organisations that specialise in social care, among other areas, makes it harder to engage with complex statutory processes.

The Department of Health has established a series of funds under the single banner of the Social Enterprise Investment Fund (SEIF) that seek to offer seed funding and to skill up a new generation of providers using Government money. SEIF funds include the Right to Request Fund.

This is designed to support people that want to deliver 'spin out' or alternative provision of NHS services through a social enterprise. The loan grant and support investment is staged according to three milestones:

(1) Expression of interest – investees will be provided with business support;

(2) Development and planning – investees will receive grants of between £100,000 and £250,000;

(3) Project execution – full investment packages, which could consist of loan, grant and/or equity, will be provided, with a value of £50,000 - £10,000,000.

90. CBI, *Best of Health: Improving lives through smarter care*, CBI, February 2010, p6

Linda Harris, Wakefield Integrated Substance Misuse Services and 'Right to Request'[91]
Wakefield Integrated Substance Misuse Services was formed in 2005, around the same time that the DH Social Enterprise Unit came into being.
Having come across the Pathfinder programme in 2006, Linda Harris became interested in developing a new type of organisation with a social mission and vision; an organisation that would help staff get behind service improvement and deliver quality care. She proposed an enterprise model to deliver local services, and then began the Right to Request process in 2008
She said, "The Right to Request, by having some very clear milestones, has made it much easier for me to articulate to staff what the assurance process is that I'm going for. A lot of what we're doing is about hearts and minds; it's about keeping staff on board, educated and up-to-date with what we're doing. So first and foremost [the Right to Request] has given me a framework.
Patients have welcomed the more entrepreneurial style of delivering care. The process has had a positive impact on both patients and members of staff, raising the aspirations and personal responsibility of staff and service users."

These funds all serve important ends. They all train up and pilot the first generations of interventions in the large state leviathan that is the NHS. That said, in pure scale terms, it is unreasonable to expect the companies that emerge from them to provide the sort of competition that can seriously challenge the provision available through NHS itself, especially when the difficulties of meeting the bureaucratic and insurance requirements are so high.

Take one example: independent midwifery. To give some context, midwives have traditionally been community actors who have a close relationship to the prospective mother. The NHS on the other hand operates a rotating midwife system that means that a ward-certified midwife only has a relationship with the mother that lasts the duration of the birth itself.

An organisation called Independent Midwifery, who offer midwifery services over the duration, not just of the birth, but of the pregnancy, so mirroring this ancient relationship, have been denied access to NHS wards because of insurance requirements, despite 'spinning out' through the Right to Request scheme. Indeed, the insurance requirements they face are such that they threaten their entire business model should that model be imported to the NHS – and so a service that has demonstrable impact on the health, wellbeing, psychological and physical outcomes of both mother and child cannot currently be allowed in our hospitals. This cannot be right.

There are further opportunities regarding recent moves to have GPs commissioning services. The opportunities first. More commissioners so as to create a market in commissioners represents a welcome step. This would help redress the balance, with the services of civil society organisations competed for rather than the other way around.

What persists are questions as to the capacity of this new generation of professional commissioners. While the public services industry is far more developed than at any time in its history – certainly since the market reforms of the 1980s – the opportunities for civil society to provide the services they can may well be limited without the right sort of training and information. We must be mindful of taking time away from frontline care, and so the idea of some kind of 'one-stop shop,' especially in an age of information technology, becomes attractive.

91. Taken from http://webarchive.nationalarchives.gov.uk/+/www.dh.gov.uk/en/Managingyourorganisation/Socialenterprise/Action/DH_114193, accessed on 13 August 2010

2.2.5 The Diminishing Market?

"Competition, contestability and the process of structuring specific contracts for service provision are instrumental in achieving the potential gains (which may be in cost savings, quality improvements and/or innovation). The benefits accrue whether private, public or third sector firms win the bid." [92]

To conclude this section, let us attempt to understand the impact of this lack of access to local capital and cash flow on the market as a whole. There remain a large number of companies competing for contracts across a variety of public service markets. While some segments are highly specialised, such as running defence installations or providing complex legal advice, in general the sector still has considerable depth. In 2008, there were 123,380 VAT-registered businesses in the category 'public admin and other services' and an additional 475,845 VAT-registered businesses in the category of 'property and business services'. These two categories accounted for nearly 38 per cent of all UK VAT-registered businesses, though many did not undertake work for public sector clients. Many were small: 51% of these businesses had a turnover of less than £100,000.[93] In addition to this, many civil society organisations are not registered among this number.

Yet this debt, as we discussed at the beginning of the chapter, is under threat from a combination of cash flow crises and the heavy bureaucratic burden, which together magnify the difficulties for civil society organisations especially. A number of stakeholders to a 2008 BERR (now BIS) consultation on public service delivery, from where these figures are taken, commented that the costs of bidding for contracts were even then becoming prohibitively high, and this was causing them to consider exiting some public service markets. This concern emerged from both large commercial contractors who compete for major projects and from the smaller and third sector providers who generally bid for smaller contracts but who also have smaller bidding budgets. There was evidence even then that the situation had deteriorated in recent years and fears that it will worsen further as additional objectives are placed on procurement, and with use of the competitive dialogue process which can introduce further delays. As we now move to an even more resource-scarce environment, these fears must intensify.

2.3 The Mission Challenge: Unsatisfactory Services for Users with Multiple Needs

2.3.1 Civil Society and the Articulation Issue

The centralised nature of the public sector even now resists the vibrant, fragmented diversity of civil society. Where this effect becomes most pernicious is when it completely detracts civil society organisations from their mission. This effect is well understood and recognised, though not always sympathised with by those who need to commission large scale services to millions of people. It may be, however, that in taking this approach, our public services are losing twice over. First, by pushing civil society organisations into areas in which they are less effective. Secondly, by lessening the overall effectiveness of services themselves. On the first matter, the following graphic from the Third Sector Research Centre serves to map the difficulties of 'mission drift'.

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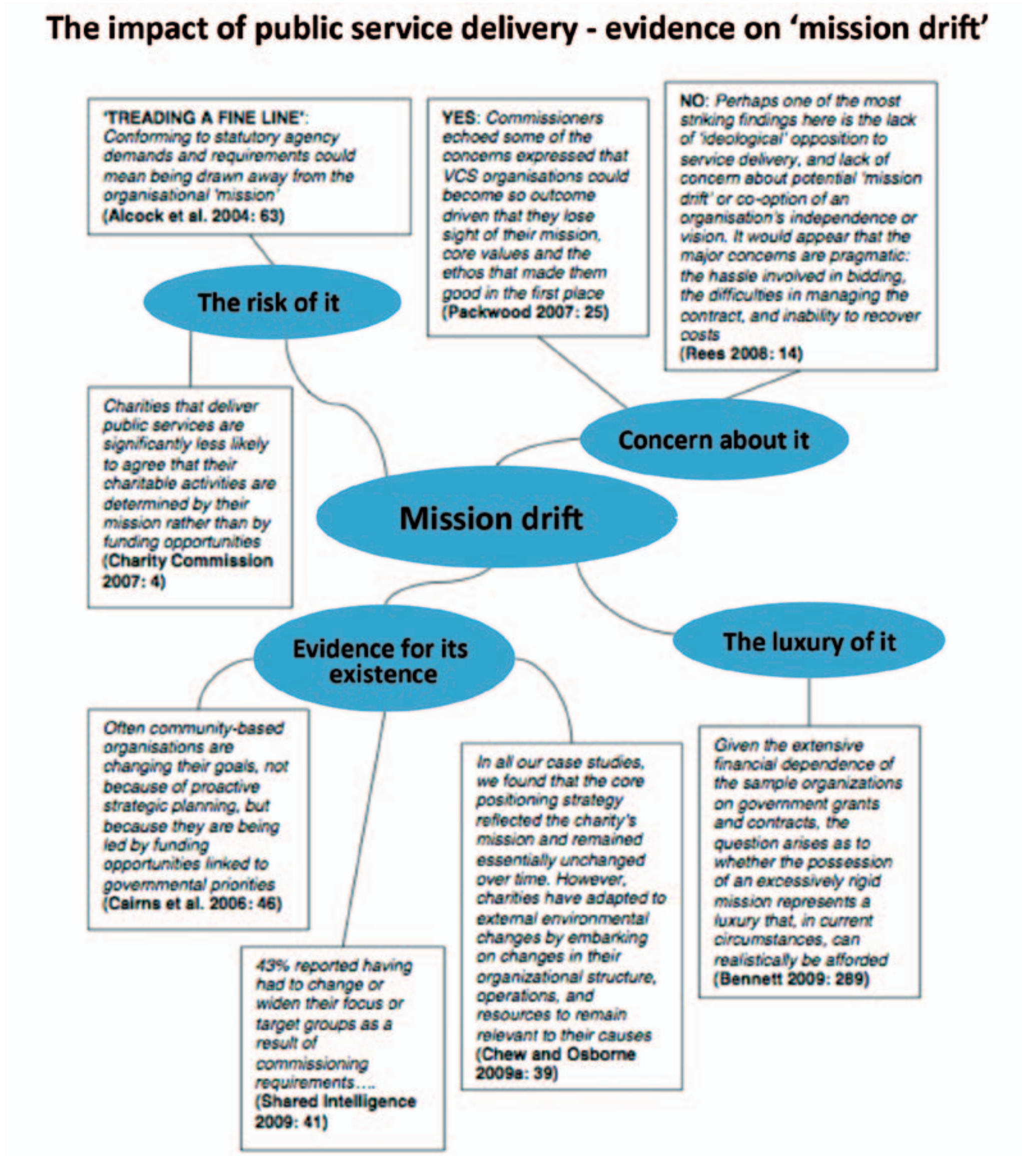
92. D Julius, *Public Services Industry Review*, Dept of Business Enterprise & Regulatory Reform (BERR), July 2008, p25
93. Analysis conducted in 2008 for the Dept of Business Enterprise & Regulatory Reform (BERR)

Fig. 6. The Difficulties of 'Mission Drift'



Source: *Macmillan, R. The third sector delivering public services: an evidence review, July 2010, p22*

On the second, we may turn to an example.

2.3.2 Costs, Slipped Targets and the Need for New Approaches

We argued earlier that the welfare to work arrangements served to militate against civil society's wholesale involvement in delivery. Despite the best efforts with various commissioning infrastructures, the reality of the system was that civil society tended to be marginalised. Only in one major instance, which we discuss in the next chapter, has civil society been able to play a major role in the system.

All of which makes a recent report from the Public Accounts Committee (PAC) on the performance of prime providers in the pathways to work scheme all the more concerning. The PAC reported a catalogue of failures with the model used. Most damningly, the private sector companies concerned not only failed to meet their success targets and required substantial additional contingency funds to be pumped into their systems as the costs of failure kicked in; but they also served their target group badly. "The performance by the mainly private sector providers has been universally poor in relation to their main target group, those people who are required to go on the Pathways programme."[94]

This, then, is another paradigm failure of centrally specified, individually oriented services which lack the resilience and dynamism of locally driven ones. It is no coincidence that the locally situated JobCentre Plus – much maligned by many – for all its foibles actually performed better than the prime provider model across the target areas.

This is the state of Government thinking – and across many commissioning paradigms, it threatens to persist. Ambitious targets are set. Ambitious targets are missed. Contingency measures are put in place. These contingency measures mean that the cost of the service balloons. Systems theorists have been bemoaning the caprice of such arrangements for years. All the while, in Government at any rate, as a wider pathways programme that uses the same approach is inexorably rolled out, there is little discussion of whether alternative approaches are possible, amidst the increasing failure to cut costs through these scale-based approaches. The current model tends to pull public services, their commissioning, their support, and their provision back towards the centre, when the evidence suggests that precisely the opposite needs to be happening. Understanding why is the object of the next chapter.

94. *Support to incapacity benefits claimants through Pathways to Work*, Public Accounts Committee, 13 September 2010

Chapter Three:
Commissioning the Commissioners

"*Our understanding of intelligent commissioning is that it should be based on a knowledge of potential providers and of desired outcomes, based on user needs. Intelligent commissioners should be able to make judgements such as whether contracts or grants are the right way to fund a service, how important price should be in determining who wins a contract,* ***and whether there is scope for innovative methods of delivery...***"[95] (our emphasis)

The former head of the Office of Government Commerce (OGC), Nigel Smith, in a recent speech to delegates at the SmartGov Live conference, warned of the limited lifespan of the current way of commissioning, with one department attempting to solve one of its needs through one transaction or contract. He was speaking in this context about the need to develop services that can be used across departments, however his words have particular resonance when it comes to the idea of joining up commissioning.

'Resonance' because we are at a moment of great convergence, where local, civil communities and social action take on ever greater resonance and prominence, both in our everyday lives, and in the institutional life of our public services. Part of the catalyst behind this is the rise of technology. Since the advent of the Coalition Government, for example, there have been several high-profile open data initiatives announced, most notably by Cabinet Office Minister Francis Maude and Secretary of State for Communities and Local Government Eric Pickles. As this trend towards transparency and decentralisation develops, and a culture of online civil society that develops and visualises this data emerges, civil society can expect new opportunities to emerge with it.

However, as we noted earlier, it can also expect difficulties. After all, if that which is made transparent is simply the cost of services, the benefits brought by civil society organisations, whose benefits are social and often reduce demand on the state down the line rather than up front, could be subsumed even further within rather more monolithic commissioning frames. Secondly, questions remain about how and who 'visualises' and interprets such open data and how reliable and safe such visualisations are from vested interests. Efficiencies are possible; whether better ways to deliver services and to manage the nexus between civil society and commissioners follows necessarily therefrom is a more contentious matter.

What is exciting about this future are the possibilities. The saving possibilities are immense. Currently, electronic auctions are only used for 2% of public sector spending, even though average savings are about 20% and often more than 30%.[96] In the above-mentioned speech, Smith argued that, in the near future, "*all tenders will be electronic and e-auctions will be a standard tool. And, yes, we will have an Amazon e-marketplace with a repository of pre-procured solutions, to increase the supplier base and increase best value.*"

Technology is but one element of this convergence, and the effect of communications technology can be to magnify relationships as well as savings. Today, in many different dimensions, the idea of collaboration fills the consciousness of service deliverers and a new breed of service designers, who use video and story to understand how users interact with the systems we create. Using such methods, the relationship between customers and suppliers becomes more collaborative and relational.

95. House of Commons Public Administration Select Committee, *Public Services and the Third Sector: Rhetoric and Reality Eleventh Report of Session 2007–08 Volume I*, TSO House of Commons, 9 July 2008, p3
96. Taken from a speech by former Office of Government Commerce head Nigel Smith at Smart Gov on 15 June 2010

Collaboration leads us to make better sense of choice. Where there is a choice of services for a commissioner to purchase, choice anxiety may not be high. Where there is a choice of commissioners as well as a choice of services – the market in commissioners we identified in the previous chapter – there accrue a number of potential coordination problems that modern communications technology is well placed to solve. This leads to a downward shift in bureaucracy. Access to supplier opportunities could become simpler, with standardised pre- qualification questionnaires (PQQs), among other innovations. Smith agrees: "My prediction is that we will have a standardised reusable and flexible PQQ process, universally applied and based on e-tendering platforms with full interoperability." The question then for reformers is what steps can we do now to set our systems in line with this convergence; to ease us onto the path to a more relational, more dynamic future for our public services.

"When it comes to the future of public services, for every social problem, there is not one but several solutions, and several people looking for those solutions."

In this chapter, we track this convergence and how new approaches can work to change the service delivery systems we have. The emergence of structures that enable civil society to multiply the matrix of relationships each civil society organisation naturally creates, as well as new commissioning techniques that enable relational approaches to tackling bureaucracy, efficiency and delivering real empowerment to targeted groups of service users play a huge role. Whether it is the staff of one organisation learning from the approaches of another; or more formal innovative networks that can take voluntary organisations and enable scale through information sharing and shared supply chains, association in the modern age brings significant benefits. The result of such convergence is that, when it comes to the future of public services, for every social problem, there is not one but several solutions, and several people looking for those solutions. And so it presents an antidote to the zestless strictures of centralisation.

3.1 The New Collaborative Commissioning: 'The Push Effect'

3.3.1 Co-production and Solutions to Multi-polar Problems

If current commissioning orthodoxy tends to failure, it is because it fails to improve its own systems. Consider the DWP Pathways example, outlined at the end of the previous chapter. One of the conclusions of the critical report was that the failings of the approach might have been remedied by better risk assessment and a questioning of the targets discussed. It is difficult to see how a system that worked for so few people would have worked for significantly more given these changes, absent a more fine-grained understanding of the nature and purpose of the service involved and the people who need to be helped by it. Simply ferrying people off welfare and into work through a target-based system is doomed to fail; a better approach identifies the struggles and difficulties of the service user and goes with the grain of his/her needs. It is difficult to push someone through a targeted structure to independence. It builds more skills, and creates that independence in its own right, when that package of support is created in collaboration with them.

This sort of co-production is an emergent, radical commissioning and delivery technique. It is an innovative approach-cum-design method that, when done properly, lubricates the interface between civil society organisations and the state.

> "*Co-production is a partnership between citizens and public services for a valued outcome. Such partnerships empower citizens to contribute more of their own resources (time, willpower, expertise and effort) and have greater control over service management and outcomes.*"[97]

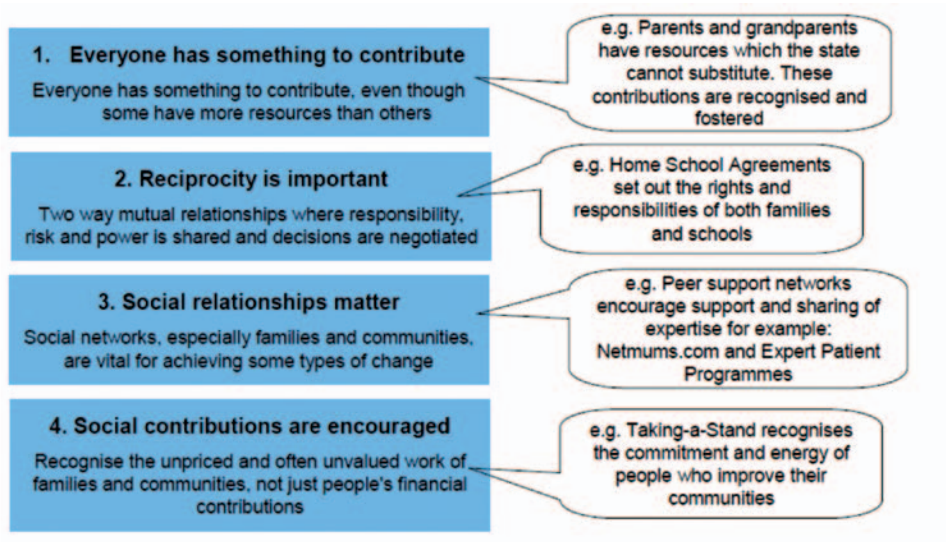
97. Definition from M Horne and T Shirley, *Co-production is Public services' new partnership with citizens*, Cabinet Office, The Strategy Unit, March 2009, p6

This can prove very advantageous on three accounts:

- **Co-production is a means to improve outcomes** – involving the stakeholders in designing and development of services helps in tailoring the services to the desired outcome.
- **Active participation by the public** – provides the platform for active direct participation from the users of the service in designing it, thus making them greater stakeholders in the process.
- **The added value of citizens' input** – active public participation results in a high degree of tangible and non-tangible gains to service development. The economic benefits of this, too, can be enormous.

Another way of looking at the value of co-production is through the following schematic:

Fig. 7. Co-production and Social Relationships



Source: Cabinet Office[98]

We are already world leaders when it comes to getting more people involved in our public services, albeit in territory that is new; expanding yet hardly mainstream. When it comes to reforming our public services, there is a vast repository of energy and good will that suggests that our society, is 'up for' collaborating on solutions. This level of social solidarity means that commissioners ignore the possibilities of co-production – and the key role that civil society organisations play in delivering support and infrastructure to would-be co-producers – at their peril.

98. M Horne and T Shirley, *Co-production is Public services' new partnership with citizens*, Cabinet Office, The Strategy Unit, March 2009, p12

Fig. 8-9. An EU survey shows that people in the UK are more likely to believe that they can make a difference to public outcomes through doing more themselves. The same survey shows that levels of involvement in public services is highest in the UK.

Fig. 8

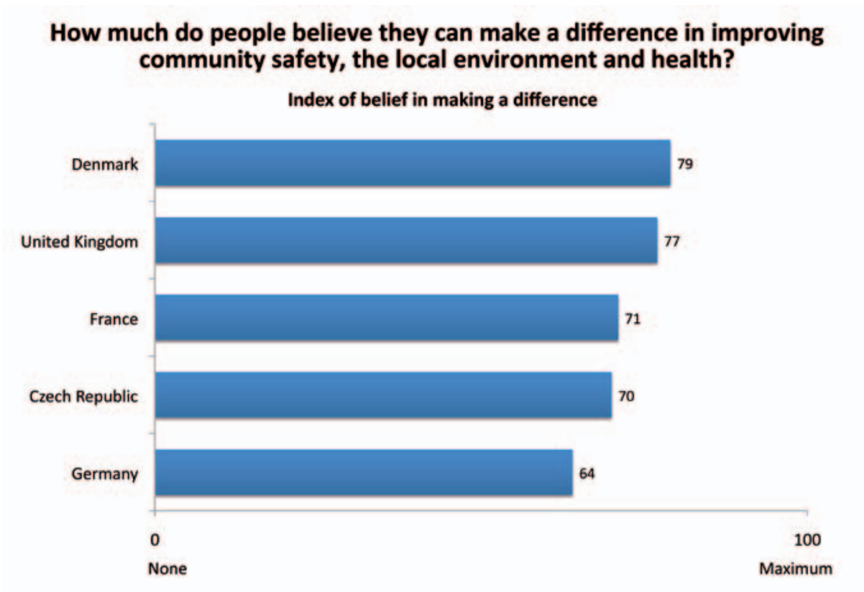
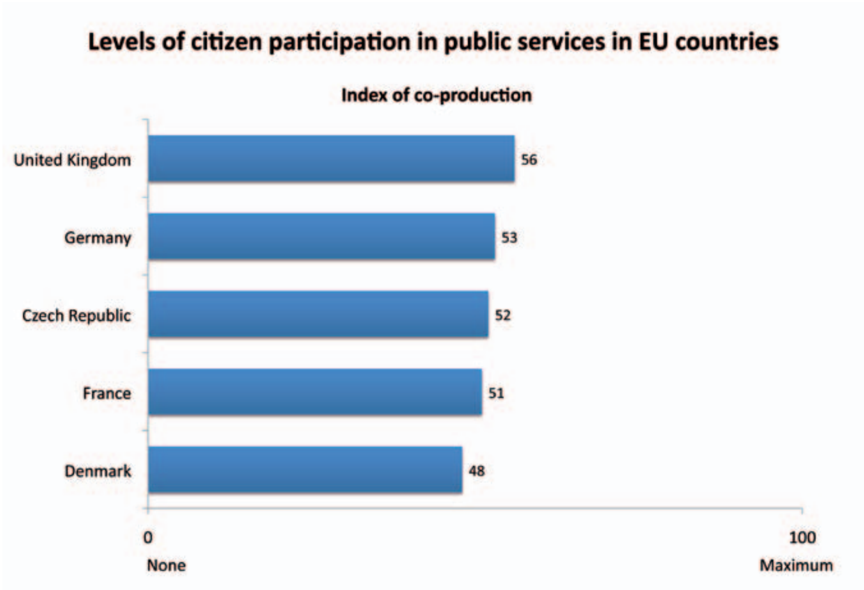


Fig. 9



(Source: Loffer[99]*)*

99. Loffer et al., *If you want to go fast, walk alone. If you want to go far walk together: citizens and the co-production of public services*, October 2008

In-control and Shop4support.com

In-control, the brainchild of welfare reformer Simon Duffy, is the archetypal social enterprise that facilitates personal budgeting. Personal budgeting – which allows the user of a public service to hypothecate the budget their care would cost and spend it themselves, with support from the social enterprise and family and social networks – allows multiple forms of co-production as the technology allows new, fine-grained services to be produced and reiterated with ease, and without the bureaucracy of re-commissioning a service. In that sense, it is a truly modern, responsive service.

Shop4Support has itself spun out of the In-control stable. Set up by a user in 2003, this has had a transformative impact on the sector by creating a retail market for social care services and encouraging a culture of adopting personal budgets based on a self-directed support principle. It was set up through a user of In-Control, the seminal personal budgeting service that pump-primed the co-creation marketplace. In essence, it is an eBay-type system that allows personal budgeters to acquire the elements of their social care service needs for the cheapest possible price with the utmost convenience, online. By logging onto the website, individuals can find and buy support they desire, decide on a support plan, administer their personal budget and even employ their own staff. For businesses, it provides an online, easy-to-access platform for accessing large retail demand for social care products and services.

These kinds of multi-action solutions can offer new ways of viewing the commissioning process, activating multiple goods and reducing demand in the ways demanded by the associative commissioning paradigm. This can translate not only into cheaper services, but more humane and better services.

Are these isolated incidences or can they really be applied at scale? At a more widespread level, operating to scale across entire communities, we have Revolving Doors. Their work focusses on helping those who are most vulnerable, and their approach is instructive. The problem of multipolar needs can be incorporated into new management thinking and so give us a refined understanding of how services can work best for us. On their own, each need is usually not severe enough to meet the threshold for statutory services. So, while poor mental health is a core or exacerbating factor, this is usually not considered severe enough to warrant care from statutory mental health services. Common interrelated problems include:

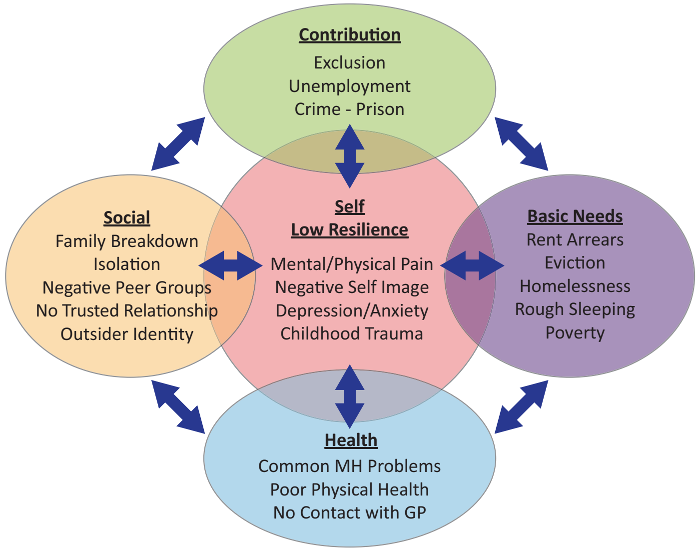
- poor housing or homelessness
- drug and/or alcohol misuse
- physical health problems
- mild to moderate learning difficulties
- poor educational achievement
- institutionalisation
- poverty and debt
- weak or difficult relationships with family

For many, the root causes of these problems can be located in childhood experiences of abuse, trauma or neglect. Problems can be passed down the generations with children whose parents have multiple problems being at high risk. Some people end up with diagnoses of personality disorder, and issues such as self harm are common.

The combined impact of the problems people in this group face is often greater than the sum of the parts. Each problem feeds into and exacerbates another, for example: losing a job leads to losing a relationship and a home; deteriorating mental health leads to misuse of alcohol; debt leads to depression; and isolation leads to solace in drugs. This all creates a negative dynamic or a downward spiral that brings people into contact with the criminal justice system.

Several organisations have attempted to articulate a theory of multiple problems. Revolving Doors' vision of the person is the starting point for their service design.

Fig. 10. Revolving Doors agency model



Central to their idea of tackling multiple needs is allowing the service user to co-design their own care. Revolving Doors make this sort of approach through co-design frameworks, scheduling technology and communications platforms available with an approach that is readily capable of being reiterated. This convergence is not lost on those at Revolving Doors. What is heartening about their approach is that they are producing pilots that will enable them to measure and quantify their outcomes, both in terms of money saved and life impact. Using modelling software, they are measuring their own 'life change' impact and so potentially saving money for commissioners while providing a venue and reason to co-produce. This is a forward-thinking step for the organisation, for co-production, and it is potentially transformative for the commissioning space.

3.1.2 New Management Models: Platforms for Commissioner Markets and Service Markets

The question is not whether these approaches serve the public good, or even whether they should be more widespread, but rather whether we can create models of management and accountability that enable enough commissioners to push these approaches into the mainstream. Publicity is not enough; culture shift is required, culture shift that moreover can be applied in practical situations.

In an age of behavioural economics and evolving management theory, there is, thankfully, an entire science of behaviour change and organisational change management. We might think of this as systems theory, which has been applied to the public sector by thinkers such as John Seddon. In a previous ResPublica publication, Phillip Blond applied these theories to specific policy approaches. He described four fundamental forces that are pivotal to effective public services.

Frontline leadership: the first powerful force that must be harnessed to transform public services is the energy and motivation of frontline staff. Their disengagement is not just a human resource issue: it is a fundamental bar to real improvement. When important decisions are made based on frontline expertise, public services can draw on an often-neglected source of knowledge. Frontline staff frequently confront problems or become aware of opportunities long before strategic managers. Worker involvement improves morale and builds trust, reducing the need for intensive supervision and monitoring. Increased employee involvement would help to cut organisational waste.

Employee ownership: the defining attribute of employee-owned companies is that employees have a controlling stake in the business. This may involve employees owning shares individually, or 'common ownership', where assets are held indivisibly in trust rather than in the names of individual members.

Collegial quality: frontline workers also have an important role to play in ensuring services are high quality. New Public Management has agonised over the question of how to stop incompetent or even criminal staff from abusing the system. The spectre of 'the next Shipman' hangs over most decisions on how to police workers in positions of trust, and has led to an increase in auditors and inspectorates. The frontline leadership has a role to play here as well, as more engaged public service professionals who take responsibility for their services and their wider teams are less likely to shirk their duties.

Public mobilisation: giving frontline workers a meaningful stake in the services that they deliver is a necessary but not sufficient step towards addressing the challenges facing the public sector. Overhauling our rigidly structured public services will also require us to change the way that the public interact with the services that they receive – not just as customers but as stakeholders, designers, deciders, implementers and evaluators.

In *The Ownership State*, Blond argued that the first powerful force that we must harness to transform our public services is the energy and motivation of the frontline staff.[100] A council where employees are under pressure to address user problems in a limited amount of time creates a system where addressing a problem requires a user to contact the council multiple times. Similarly, benefits, housing and immigration applications rejected to meet quotas, or arrests made to meet targets all create unnecessary demand in the form of appeals, repeat applications, police, court and prison time, etc. This extra demand often falls on other agencies. Instead of management being seen as a mechanism for the 'command-and-control' of workers, the role of managers should be first and foremost to study demand from the customers' point of view: to identify patterns, determine predictable and preventable demand, and facilitate frontline workers in tackling that demand. This will not only increase efficiency by reducing failure demand, but improve user and citizen satisfaction.

The ideas of co-operative or mutual management – or at any rate smaller organisations with a power to capture their own budgets – has profound implications for how we commission services. This is the model currently pursued by the next generation of General Practitioner Commissioners in the Coalition's NHS reforms that evolve the short-lived internal market idea of the early 1990s. If we can guarantee autonomy within a small structure of public service commissioners, the onerous targets and management structures that actively prevent frontline commissioners from commissioning small organisations, then we might see more of those small organisations opening up supply chains. Empowered professionals who work with community members in mutual groups are more likely to be attuned to the work of transformative voluntary sector actors in this space, and are more likely to work with and give time to those actors.

The key to this sort of management is harnessing the ownership that comes, not from scaling up, but rather from scaling down. E.F. Schumacher gave this an economic basis when he spoke of the efficiencies of human-sized groups in *Small is Beautiful*.[101] Given the size of the public sector in this country, the presence of budgets captured by frontline professionals in the public sector could have profound effects for commissioning as a whole, as more groups link the quality of their commissioning outcomes, not to the risk criteria set and specified due to down-the-line burdens from central office, but rather to more immediate concerns, such as collegiality, teamwork and the end-of-year bonus. Secondly, scaling down would proliferate the number of commissioners and so have a greater market to add the welcome NHS reforms in the number of commissioners competing for civil society services, or new local consortia creating a coordinated commissioning and capacity base. Ally this to a new generation of citizen commissioners and we have a profound supply-side shock to the market that can drive innovation and efficiency.

100. P Blond, *The Ownership State*, ResPublica, 2010
101. EF Schumacher, *Small is Beautiful*, Harper Perenniel, 1989

This is an emergent strain of management thinking; however, it is certainly one that the government should take the opportunity to consider as it seeks to implement *The Ownership State*'s principal recommendation of allowing public sector workers to set up their own mutuals to deliver the services they run and in turn deliver better services. For example, the principle question is whether the capacity of these new commissioners will tend to push out unusual or innovative approaches or the relational approaches of civil society organisations in favour of more sophisticated 'one-stop shops' that offer a host of benefits. In a sense there needs to be a mutual alongside each mutual; a civil society one-stop hub that sits alongside a budgetary captured company that encourages a flow of grants based on innovative measurements to aid growth and efficiency in the service space. Our recommendations in this publication will seek to evolve these ideas further, as we move towards a paradigm that suggests that the design and structure of a service – and how its 'touch-points'[102] go with the grain of a user's nature – is as important in delivering outcomes as the content or stated aim of a service itself.

"In a sense there needs to be a mutual alongside each mutual; a civil society one-stop hub that sits alongside a budgetary captured company that encourages a flow of grants based on innovative measurements to aid growth and efficiency in the service space."

In essence, these new ideas combine to enable us to do the opposite of what we saw the current system do in the previous chapter. We can spread the commissioning net wider. We can bring more people to help more civil society organisations meet the requirements they need and provide experiential support based on their achievements. This is far more effective than the centralised, bureaucratic support and commissioning structures we saw previously. Indeed, harnessing and understanding this paradigm might well enable us to make radical efficiencies.

Case Study: Housing Associations

Social housing is a major public service, providing homes to some 10m people a year, with multi-billion pound cashflow. The model, however, is not one of expensive commissioning, which can reduce civil society organizations to little more than outsourced bureaucracies delivering publicly defined and funded services to a passive client base.

Instead, the housing model has focused on 'enabling' rather than commissioning. Housing Associations are helped by public capital subsidy to build homes; as a result of effective financial regulation they are able to access private finance at significantly discounted rates. And then, within a framework of minimum standards, including on involvement and engagement with their tenants, they are left to get on with defining and delivering their own services.

Radically different than the top-down commissioning model for other services, this model encourages innovation, and explicitly builds civil society, non-state capacity, with strong user links, rather than going out to a market within which many civil society groups struggle to compete. Services are paid for by direct subsidy of individuals based on ability to pay through housing benefit.

Satisfaction levels amongst the public are an impressive 81% satisfied or very satisfied with their housing association landlord.[103] As a radical 'Big Society model,' the housing association model, as a series of localised innovation hubs, is more structurally simple and potentially more effective than many others: something of a *post-commissioning model*.

102. The points at which a user interacts with the system, a key element of service design
103. See e.g. http://www.tenantservicesauthority.org/server/show/nav.14579

3.2 Networked Civil Society: 'The Pull Effect'

Case Study: Only Connect

NCVO's Only Connect is a visit scheme sponsored by Triodos Bank. It enables a civil society organisation to visit another voluntary and community organisation to learn about their experience and the key issues to consider when generating earned income.

They pay £150 for a member organisation's time and travel to visit another organisation to learn about how they have diversified their income into trading or public service delivery or by using loan finance. They will pay the host organisation £200 as a consultation fee for their time spent with the visitor. All they ask in return is that the visiting organisation write a report of the visit so they can allow others to share learning.

The second element we call the 'pull effect'. Co-production is but one approach that seeks to apply to the design of a service the principle – or community purpose – that we want to see in the content of the service itself. The independence and individuality of personal budgeting is a second design approach. Another set of approaches to better commissioning look to work from the other side of the equation: to enable civil society to magnify its natural relational effect and so in turn to magnify this behavioural effect. The 'Only Connect' scheme is a simple example of this, but within it lies the germ of something profound.

Consider the Young People's Training Consortium. They comprise eight small community organisations who, in 2003, submitted a tender for a contract for what was then the Learning and Skills Council. The organisations did not have the capacity to tender individually, but had a common approach. Each project partner did neighbourhood youth development work, but each used different methods to engage young people, including IT, arts and outdoor activities. By 2004, their tender was successful, and they supply services that genuinely change lives. The Cardigan Centre is another example. The Cardigan Centre was the lead of three organisations collaborating on Active 4 Life, a 'virtual' healthy living centre which ran activities across northwest Leeds. The initiative was designed around the strengths of the three partners, each of whom hosted a specialist staff member. They received funding from their Primary Care Trust in order to advise on extra-palliative and remedial treatments for conditions such as obesity, building social capital and removing demand on hospitals. Consider also SensAbility, run by two organisations who get the best out of each other: Learning Links, an educational charity working across Hampshire and the Isle of Wight with people from disadvantaged groups, including visually impaired people, and Hampshire Deaf Association.

These examples present but a microcosm of organisations that work together, swapping skills and personnel in order to bid for public sector contracts. Understanding how these systems work when they work well is crucial to discerning the way beyond the complex impasses outlined in the previous chapter. Relational working is what civil society is good at – or at least it should be. The development of strong working relationships is formulated as a deliberate and conscious strategy by many civil organisations. Academics refer to this as 'strategic account management'(SAM), which involves:

> "…*differentiating among individual clients, identifying clients whose contracts are critical for the financial well-being of the supplying organisation, and then serving these key clients in a more individual manner...SAM views the buyer–seller linkage in a long-term relational context and stresses the creation, nurture, and maintenance of stronger ties with the customer.*" [104]

104. R Bennett, 'Marketing of Voluntary Organizations as Contract Providers of National and Local Government Welfare Services in the UK', *Voluntas,* 2008, pp273-4

While many academics have noted the ongoing importance of relationships, some have also noted the inherent tensions in this:

> "*Personal relationships continue to be at the centre of the commissioning experience in many ways. On the one hand, they can facilitate mutual understanding and can enhance contract management, opening up opportunities even for smaller organisations; on the other hand, they might stand in the way of broader market awareness and the creation of a level playing field. The question of personal relationships is closely related to the topic of historic funding relationships and how to reconcile a desire to maintain arrangements that are working with the need to be seen as even-handed.*"[105]

The dissonance between fairness, competition and relationality thus once again becomes a key question of principle for policymakers.

3.2.1 Joint Commissioning and Consortia

Consortia can help this delicate balance. Consortia can encourage commissioners to work in more sympathetic ways with civil society organisations; indeed one of the most exciting developments of the last few years has been the rise and evolution of the consortium as a viable bridge between these two ways of working.

A consortium model is based on the idea of creating a common platform that allows a coming together of a group of organisations that share common purpose, for which the consortia is established. These entities may not share a common value, work culture, business model or expertise, but as a member of a consortia they share a combined objective to deliver a particular service or range of services or undertake a project that may require co-operation and the sharing of resources. Consortia can be large or small, geographically diverse or local. In the last few years, many innovative models and platforms have been created or piloted in this space, with variable success. Developing a successful model can have great advantages in terms of logistics, support and indeed growth, owing to:

Shared infrastructure: a successful consortia model encourages pooling or sharing of resources, both tangible such as physical infrastructure and human resources, and non-tangibles like knowledge, skills and competencies, by creating a common platform for exchange.

Building capacity: a model can be adopted that encourages scaling-up by providing a platform for members to merge their resources to jointly bid for contracts or create a larger network of providers and subcontractors to deliver a shared goal. It also provides for greater flexibility in choosing partners that are compatible with each other.

Simplicity: a consortium model can help simplify a diverse market by providing a single reference point for procurement of service packages from a number of organisations for varied population groups on a regional or local basis.

Localism: consortia can act as a powerful tool in supporting localism, as they can bring together small individual civil society organisations, which usually offer services within a limited geographical area. This gives an option to small organisations to operate economies of scale while retaining their localised character.

Reduced risk: a successful consortium helps in mitigating risk by distributing liabilities for individual participants.

105. S Martikke, *Commissioning: Possible Greater Manchester VCS Organisations' Experiences in Public Sector Commissioning*, GMCVO, 2008, p17

3.2.1.1 Types of Consortia[106]

A consortium is usually based on an agreement that may include sharing information and resources and is generally accompanied by a confidentiality agreement between the parties. Any such agreement has to deal with many issues that may require detailed assessment by the members that plan to form or join consortia. This may include assessment of member organisations' financial health, cash flow position, liabilities, insurance cover, risk management processes adopted by the individual members, members' past performance record and more.

There is a wide range of established consortium models already, and many new ideas are coming to the fore in this fast-changing industry. In a traditional large model, a new legal body is usually established to manage the contract where one member organisation takes the lead responsibility, or in some cases an external non-delivering organisation takes the lead, or a model wherein the management is entirely in the hands of the lead provider that sub-contracts to other organisations on a case-by-case basis. Below we list a few examples of the traditional consortia types.

3.2.1.2 The Consensus Models

a) Steering Group Model

This model type is based on a mutual agreement adopted by member organisations without creating an external legal entity. This type of consortium is led by a joint steering group with all the members as its participants, one of whom takes the role of lead contractor for tendering and contracting purposes. In this model, compatibility is the key to issues that may include individual members' ethos, business approach and culture. The approach demands strong business and operational working relationships from its members and may require a high degree of integration in terms of resource pooling. All arrangements are governed by a Consortium Agreement to which all members sign up, and which is discussed by the steering group.

Case Study: ProDiverse

ProDiverse, UK is a social enterprise that delivers a wide range of training, recruitment and consultancy services in partnership with the Third Sector. Many of its services are delivered on a consortium platform where this company acts as a lead body with a number of local Third Sector organisations as members on a steering board. These members are chosen on the basis of their experience in employer engagement, linking jobs with training and support in their local community, the kind of services delivered by this company. This approach has worked: ProDiverse and the consortium members (image below) have repeatedly exceeded contractual targets and have provided significant added value through complementary programmes delivered by their partners, including vocational training and ESOL/Basic Skills.

106. Definitions of these model types are derived from: Cabinet Office, *Working as a Consortium – A guide for third sector organisations involved in public delivery*, Cabinet Office, Office of Third Sector, 2008, Appendix D; and Social Enterprise London (SEL), *Consortium Model for Childcare Social Enterprises*, SEL, 2003, p16

Fig. 11. ProDiverse and its Consortia Members

b) Model of a Partnership-Led Consortium[107]

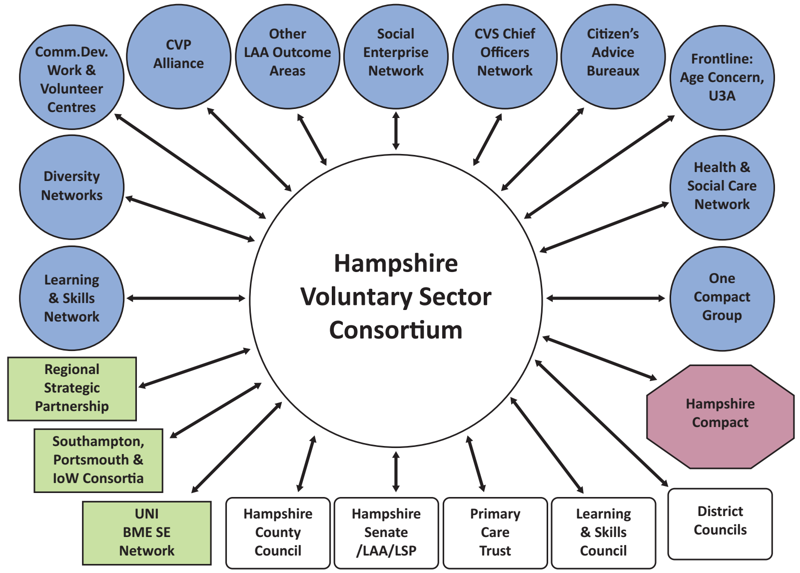
These are based on a loose partnership arrangement, particularly when it involves several statutory agencies. Usually a lead agency or organisation that has sufficient infrastructure to provide centralised services is chosen to deal with administrative responsibilities and for monitoring of service agreements between the members. All partners have a representative on the Partnership Board which is responsible for the strategic management of the consortium. This model is usually created for joint funding bids.

Case Study: Hampshire Voluntary Sector Consortium

This consortium is based on a partnership agreement with all member organisations as signatories. The agreement defines the member organisations' types, common ethos, common purpose and convergence on key issues, i.e. their willingness and enthusiasm to promote civil society support service development. A separate agency, Community Action Hampshire, acts as the accountable and leadership body for the consortium with responsibilities to manage its financial and administration needs on day-to-day basis and to also ensure that the Consortium meets the necessary deadlines. What is exciting about the loose model is that it enables members to be that much more flexible and to work with each other as required, in ever more interesting ways.

107. SEL, *Consortium Model for Childcare Social Enterprises*, p16

Fig 12. Structure of Hampshire Voluntary Sector Consortium

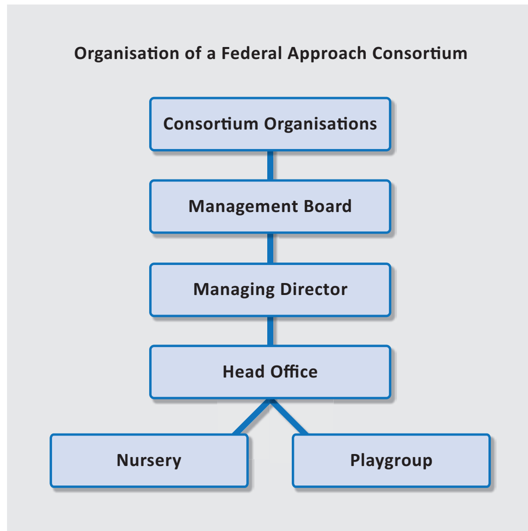


Hampshire Voluntary Sector Consortium - Stakeholder & Reference Groups (September 08)

c) Federal Approach Model

This model uses a 'bottom-up' approach whereby a group of organisations come together, each with an equal say in the running of the consortium. From this group, a management board is selected to represent the consortium in its trade activities and governance. The chart below, an example of such a model, shows the structure of this consortium type.

Fig. 13. *Source: SEL, Consortium models for childcare social enterprises, 2003, p16*



3.2.1.3 The Leadership Models

a) Lead Contractor Model

This model, similar to the prime provider model, is based on identifying a lead contractor that is willing and able to undertake this role. This selection may be based on the size of organisation, the value of financial assets or contribution, expertise, etc. The other members act as sub-contractors to the lead contractor. All the members agree to a general overarching Agreement that sets out the terms, benefits and contribution to the effective delivery of the contract for all the participants. This consortium model rests on contractual rights and obligations as agreed by all its participants. The contractual arrangement is usually based on the following principles:

- Every member agrees to associate with the consortium as independent contractors.
- Apart from agreeing on a general overarching agreement, each consortium member also signs an individual contract with the assigned Lead Contractor. These contracts include terms of service delivery, standards, numbers and levels expected from each member.
- Liability for contractual compliance rests with each consortium member and the profits are shared on the basis of the individual contractual agreements.

Case Study: 'Ensuring Positive Futures' – Positively Women (now called Positive UK) - DWP[108]

Positively UK champions the rights of people living with HIV and related health conditions in the UK. It provides emotional and practical support to HIV-infected citizens that includes managing their physical or mental health, helping them with new diagnosis and treatments, family or financial concerns.

In 2005, the grouped formed the 'Ensuring Positive Futures Partnership' to deliver employability projects for people living with HIV under the European Social Fund's Equal programme. For this, a Lead Contractor model-based consortium was formed by five small, medium and large third sector organisations with previous experience of working together in the area of sexual health. The UK Coalition of People Living with HIV (UKC) adopted the role as lead body for the consortium. The overarching agreement was agreed with DWP, who administered the funding and managed finances on behalf of the partnership. Individual legal agreements between the members were ratified and a Steering Group was formed.

b) Single Stakeholder Consortium[109]

This model is based on a community-based governing council idea where, for instance, a group of local parents in a community come together to set up infrastructure for children, i.e. a playground, and to do so they form a management board. This board is a democratic body with voting rights to all its members that are used to implement strategic direction of the organisation. Here the Management Board acts as a single stakeholder for the consortium.

108. Office of Third Sector, *Working in a consortium- A guide for third sector organisation involved in public service delivery*, Cabinet office, Office of Third Sector, 2008, p27
109. SEL, *Consortium Model for Childcare Social Enterprises*, p16

3.2.1.4 External Support Models

a) Prime Contractor Model

This is among the most widely used consortium models and is based on the idea of creating a network of prime and sub-contractors to deliver large public services contracts on behalf of a Government Department, Local Authority, etc. This requires a tendering round to first identify one or more 'Prime Contractors'. The Prime Contractor then sub-contracts a number of specified organisations to form a supply chain of several layers of sub-contracting. This prime contractor's role may be undertaken by a large public, financial or corporate institution. It is the prime contractor's responsibility to manage the supply chain to ensure that all of the services are delivered effectively. It is rare for the prime contractor to itself deliver services.

Example: Every Action Counts - Defra

The Every Action Counts programme, sponsored by the then Department for Environment, Food and Rural Affairs (DEFRA), ran between 2006 and 2009 with an aim to involve local community organisations to address the challenges presented by climate change. The objective was to galvanise community voluntary groups to tackle local environmental issues such as energy and resource optimisation. To do so, a consortium of 25 national voluntary and community sector networks was developed by the Community Sector Coalition (CSC). The Community Development Foundation (CDF), a non-departmental Public Body and member of this consortium, acted as the prime accountable body (i.e. the Prime contractor) to the consortium. CDF itself did not deliver the services but was instead chosen as prime contractor based on its experience of running large grant programmes.

3.2.2 Next Generation Consortia

One approach that has been suggested to the problem of scale and the necessity to retain mission and focus is to scale up not civil society organisations themselves, but the consortia models that underpin them. Super consortia, as we may think of them, present intriguing possibilities and challenges. The move to larger contracts enhances the constraints faced by small organisations. Many of these organisations are also unable to find out about opportunities: information dissemination and unavailability of a knowledge and support infrastructure are some of the real problems faced especially by small civil society organisations. They often require aid in understanding pre-qualification criteria and bidding documents, financial support and advice.

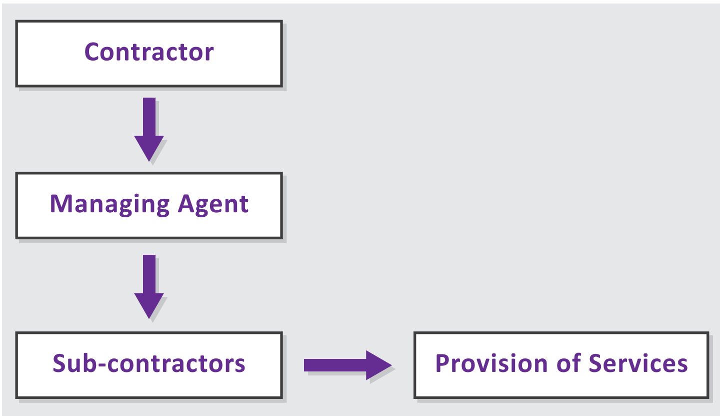
3.2.2.1 The '3SC'

3SC was set up in 2009 to operate as a prime contractor to bid for large public sector contracts on behalf of its member service delivery organisations. 3SC's board of partners is comprised of ten civil society organisations, including London Learning Consortium, who bring expertise in the delivery of public services. Around a thousand organisations of all sizes and across all areas of service delivery registered their interest in playing a part in consortia managed by the organisation.

In essence, 3SC acts as a 'Managing Agent' that directly contracts with a number of sub-contractors that deliver the services. The 3SC by itself does not deliver services; instead it creates and manages the supply chain. It creates the infrastructure for support to help smaller organisations with documentation, contract preparation bid writing, financial modelling, contract negotiation and performance management, so removing some of the biggest problems from the pre-contract experience. What 3SC does is to form the 'top-slice' of the contract with the responsibility to manage performance, quality and finance of the supply chain. It bids for and wins the contracts and sets up consortia, and the consortia members deliver the services. It is an infrastructure for large-scale joint commissioning that enables organisations that do not have the capacity to deliver to structure, scale or specification, to participate in large public contracts. 3SC is managed by a board of ten civil society organisations that bring expertise in the delivery of public services.

3.2.2.2 The 3SC Model

Fig. 14. The Dynamics of the Managing Agent Model



Source: The Social Investment Business

In this type of consortium a separate legal entity called the Super Provider is created with the providers as the members. The super provider is an overarching shell company that brings together a large number of smaller providers in a legal arrangement. The management model used is the traditional hub and spoke model, which is governed by the management board whose members are elected by the providers. The board may also include independent members such as local government and other public agencies. An example of this consortium type is the Sheffield Well-Being Consortium that brings together fifty civil society member organisations located across Sheffield to deliver a wide range of public health services. It handles more than £1m of public contracts.

3.2.2.3 Evaluation: 3SC in Action[110]

The 3SC consortium met with early success. In October 2009 it won the first bid it tendered for, a £21 million contract from the Department of Work and Pensions (DWP) to create 3,000 jobs for young people. This contract under the DWP's £1bn Future Jobs Fund, aims to create 150,000 additional jobs for young people between the ages of 18 and 24 who have been out of work for nearly a year in areas ranging from gardening and energy efficiency advice to sports coaching and social care in the first phase of this fund. The 3SC consortium, a joint venture between The Social Investment Business and Eastside Consulting, aims to deliver 3,000 jobs by next March, and 5,000 in total, in a range of opportunities aimed at benefiting local communities. 3SC moreover recently submitted a bid for National Offender Management Service European Social Fund funding of £37 million to manage the delivery of services in six regions of the UK to support ex-offenders and another, larger DWP bid.

The model is young and certainly requires some reiteration. Despite early successes, there are challenges. These tools, after all, are management models that demand some adjustment, compromise or shift from the current status quo from participants. This raises the fundamental issues on the nature and structure of Third Sector organisations. In the current tough economic climate, moreover, the interviews we conducted with participants suggested that this can quickly take on a dimension of internal conflict within these organisations, a conflict between a traditionalist democratic approach to management and corporate/business-oriented strategies. As Neil Coulson from The Social Investment Business puts it, the answer may lie in the quality of human resource these new structures are able to attract:

"*The one thing that will work is the quality of individuals. We need entrepreneurs, people with the right attitude and aptitude. With a strong skill set and can-do approach.*"

Which is an admirable sentiment provided the 3SC is the right structure in terms of the mission of the civil society organisation concerned. For example, a large consortium requires management, and the style of management used is key to success. Replicating the 'big government' approach to controlling costs and delivering outputs clearly is not sustainable. The idea of 'change management' as part of the consortia model – which 3SC's founders advocate – must itself be kept in check when 'change management' moves to distort the mission in the way we suggested public and private partners tended to do in the previous chapter. When we interviewed members of the 3SC consortium as well as its managers as part of this publication, these delicate balances were thrown into some relief, with the issues raised as follows:

- Traditional democratic culture of civil society versus business focus
- Internal competition within the sector
- Inconsistencies in quality
- 'Ensuring contestability'
- Accommodating micro providers with a turnover of less than £50k

As with all new innovations, success in not without qualification. However, as an example of what consortia can achieve, especially in terms of the success it has had and the possibilities it presents for the future, 3SC represents a triumph of association. We will explore policy options that can help evolve the model in chapter five.

110. http://www.regen.net/news/ByDiscipline/Business/946885/Charity-consortium-3SC-wins-21-million-Future-Jobs-Fund-contract/, accessed on 13 August 2010

3.2.3 Next Generation Consortia, Part Two: Hub Models

"Rather than being formed and then transmitted to others, knowledge in the creative economy is constituted within the interaction itself and it is from that engagement that value itself is derived."
- Geoffrey Crossick, University of London

Consortia need not be formal associations: they can also derive worth through informal association: group activity that can pass on and disperse knowledge. As such, the idea of creating social hubs – as an infrastructure for local businesses, entrepreneurs, artists and innovators to come together on a common platform to exchange ideas and develop business relationships – is gaining traction.

Across a range of sectors, from social enterprise support to food production, the worth of community hubs is being realised. Consider the advantages of creating infrastructures that enable more organisations to associate and to hub.

- **Resource Pooling:** Pooling by small businesses and civil society organisations is one way to increase their competitiveness, giving them access to the benefits of economies of scale. Pooling can also facilitate sharing of services infrastructure and provide an opportunity to build larger supply chains for public sector contracts.
- **Information Pooling:** One of the important functions that a local hub may take on is providing a platform for information sharing within the sector. Hubs can become a powerful information source that can facilitate the adoption of better practices and ideas within the community.
- **Innovation Hub:** By using the innovative power of network building and brainstorming for ideas, hubs can act as a one-stop innovation lab for the community. Its members are able to spread process innovation and benefit from their collective experience to offset the inherent advantages of larger scale operations.
- **Social Capital:** Small, local businesses are in a unique position to develop social capital in their client communities by building trust in the local chain and familiarity with the individuals.

3.2.3.1 Hub Examples: Social Enterprise Lablets

The model of local incubator hubs or 'lablets' was proposed by the author in a ResPublica report entitled *The Venture Society*. The aim is to harness the capacity of people to use their entrepreneurial energy to achieve specifically social purposes. It seeds them with the help of institutional and retail philanthropic investors in order to achieve large-scale social initiatives. This community lablets programme offers a local network of support infrastructure for venture funding, incubation, local dragons' dens, awards and citations, and places grass-roots entrepreneurship in local civil society alongside CVSs, libraries, CDFIs and more. This creates an infrastructure for the social R&D we mentioned in chapter one at the grass roots, where businesses are able connect through online networks to people of similar and specialist interests. That report argued that we should work with already existent hubs, and use communications technology to optimise the connection between them and large central funds like UnLtd or NESTA, so bringing the benefits of scale to local, community organisations.

The idea of hubbing to innovate, to lever in finance and to encourage relationships with outside innovators such as universities and high growth businesses is already used to good effect in regions such as the Lombardy region in Italy and Silicon Valley in California. Wider informal hubs, or business clusters, have driven the growth of the video games industry in Dundee and the so-called Silicon Fen in Cambridge.

The Kings Cross Hub, London

Kings Cross Hub in London is a dynamic space which offers a radical new way of working and connecting. The traditional office space is replaced with a vibrant flexible hot-desking workspace which incorporates a cafe and meeting rooms.

"The best element is that the Hub is packed with charities, social enterprises and people/groups that serve these groups. I'll often bump into contacts and familiar faces. I'm pleased to see that the Hub is offering a deal to WorkSnug users, so you get a chance to sample its delights."
– Howard Lake, a blogger on www.worksnug.com

SHINE Business Centre, Leeds

Shine is a business and social hub located at the distance of one mile from Leeds city centre that offers an open, shared and serviced office space, conference halls, meetings and events facilities and other infrastructure to meet up and socialise. Shine is also an example of innovative social enterprise that re-invests nearly 91% of the profits in supporting entrepreneurs in some of the most deprived neighbourhoods in Leeds.

US Tides Model

The inspiration for *The Venture Society* model, Tides Center provides back-office services, a legal framework, and capacity-building support for civil society projects. It provides infrastructure and services to hundreds of nonprofit projects across America. Projects work to effect change in the areas of social justice, economic development, civic engagement, environmental sustainability, environmental justice, human rights, community development, international affairs, and nonprofit capacity building, among others. What is exciting about the Tides model is how wide the net is spread. A Tides Franchise can vary in size from a single dedicated volunteer to a staff of hundreds. This idea forms the essence of an exciting strand of development in civil society support.

3.2.3.2 Hubs in Industry Commissioning: Food Hubs

The term 'food hub' refers to a range of organisational forms for coordinating food supply. This may include commercial ventures or non-profit associations. Some are retailer-led or public sector-led, others may take on the form of co-operative partnerships between member producers, or be owned by a single producer or third party facilitator. They are typically based on the idea of resource pooling, which helps mitigate risk and the high costs of doing business with a multitude of small producers, by providing a single streamlined channel for contact, communication, delivery and payment.

Case Study: Plumgarths Hub and the ASDA Local Sourcing Initiative

Plumgarths Hub, located just inside the Lake District National Park in Kendall, was founded in 2001 by local farmer John Geldard as a means to bring together local farmers' produce and provide a sustainable route to market. Its model is based on the idea of linking small specialist food producers to the larger supply chain. Supermarket chain Asda was the first to stock the Hub's produce in 2001, and since then the venture has expanded to 14 other regions.

Certainly, in a potential marketplace of more public service deliverers and more public service commissioners, the hub as a common exchange or source of ideas that allows new entrants into the market and that secures its fundamentals, offers huge possibilities for a more efficient and dynamic public service delivery space, especially at the local level. The hub model could potentially be where coproduction, better systems management, market coordination and consortia join together. Such examples of Government acting as platform can actively enjoin local civil society, local government and local finance. It is to the third of these that we finally turn.

3.3 A New Commissioning Multi-Market

"In the long term, the government should be a catalyst for enabling charities to get resources from non-state sources," - Nick Hurd MP, All Party Parliamentary Group on the Voluntary Sector

New innovations in association structures and communication platforms mean that we can conceive of a more competitive yet independent civil society. However, emergent developments in civil society finance mean that we can also conceive of its funding, at the national, but also at the local level, in such a way that circumvents the traditional difficulties with civil society finance that we discussed in the previous chapter.

There have been successful recent attempts by civil society to tap the capital markets. Most recently this happened in India where one of the world's largest microfinance companies *SKS Microfinance* successfully raised US$350m from the Bombay Stock Exchange listing.[111] However, this can be only part of the story, otherwise social investment will focus entirely on financial return at the expense of social impact, and success is not guaranteed, especially in a volatile economic environment.

The most attractive options that are emerging are within the secondary market space for raising seeding capital for social investment based on ideas to blend social impact with financial returns. As the statistics in the previous chapter have shown, the need for social investment is too great to be left to existing models of private philanthropy or bank lending alone. The need is to channel and target these available resources to build infrastructure that is receptive to local needs, that is imaginative, self-sustainable and profitable to its investors wherever possible. A flurry of new pioneering ideas are gaining strength.

3.3.1 The Blended Economy and the Instruments that Emerge from It

The new consensus on private participation in social finance has gained momentum across the developed world in the last two years and is opening doors for initiatives and pioneering projects with support from governments, large private sector banks and social organisations. There is now substantial evidence to qualify this rising interest as a trend that is fast catching on. Take for instance the abovementioned Deutsche Bank Americas Foundation's US$15.8m Eye Fund[112] that the bank established in collaboration with Ashoka, a foundation that supports systems-changing social entrepreneurs the world over, with the aim to address the problems of eye diseases and blindness in the developing world. Ashoka introduced the bank to a network of frontline organisations and hospitals that provided low-cost interventions subsidised by charging market rates to those who can afford it. The bank started this fund as a means to raise capital for equipment and expansion, and it increased business capability for these frontline organisations. At just US$1m, Deutsche Bank is not the largest investor in the fund, but it has created the infrastructure that has allowed many similar investors to jump in, multiplying the fund value manifold.

Another example is Bridges Ventures, a mission-driven private equity investor that has used public money as a catalyst in order to raise new private capital for the sector. The project emerged from the recommendations of the Social Investment Task Force, who recommended that £100m of public money be

111. *New York Times* report on 16 August 2010, http://www.nytimes.com/2010/08/17/business/global/17micro.html
112. *Good Deals 2009, Social Investment Almanack*, 'Seeing is believing', pp36-37

used to kick-start Community Development venture capital companies, following a model established in the US.[113] £20m of Government money was used as a cornerstone investment for their first fund, which was focused on regeneration. Another £20m was raised on the back of public money in the private sector. A second fund successfully raised £75m from the private sector alone based on the track record of the first fund. UK funds are also beginning to incorporate these instruments and offer them to a broader investor base. Triodos Bank in the UK, too for instance, has an excellent track record of leveraging private equity and capital into ethical and social spaces. In Holland, their green fund has leveraged in over £300m, thanks to carefully matched low-profit returns and targeted tax breaks.

The intermediaries are in place; however, the complaint that all too often arises is that there is too little demand from civil society organisations to take up this kind of investment. Nonetheless, a few new developments are changing this and ramping up the demand required at the local level.

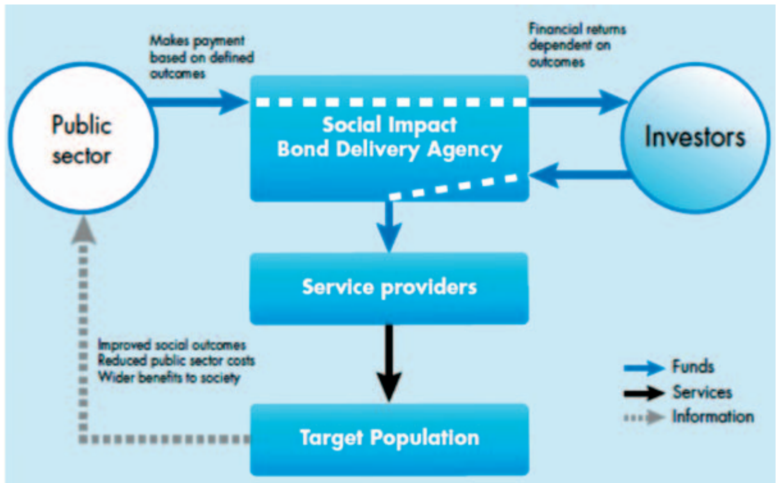
3.3.2 First Step: Social Impact Bonds

A Social Impact Bond, developed by London-based Social Finance, is a unique product that blends social outcomes with financial incentives for investors. It is similar to a traditional financial bond but the returns from this investment are a function of social outcomes-based returns for the investors. It locks in the three players in a mutually beneficial structure.

These three players are: firstly, the government, who acts as the 'guarantor' to the bond and is bound by contracting and financing mechanisms wherein the government gives a commitment to use a proportion of the savings that result from improved social outcomes to reward non-government investors who fund this bond. The second category of players is the non-government investors, who receive returns on their investments based on the improvements in the social outcome. That is, if the interventions are successful and the social outcomes improve, the government pays investors a reward based on the pre-agreed payment schedule. This creates a wider scope for private participation by:

a) providing a means to be a socially responsible investment and yet gain financial returns
b) that is based on tangible outcomes, and
c) is easier than donating to specific individual charities.

Fig. 15. The Structure and Mechanism of the Social Impact Bond *(Source: Social Finance)*



113. Social Investment Task Force, *Report to the Chancellor from the Social Investment Task Force*, October 2000

Pilot Project
Earlier this year, The Social Investment Business provided a grant to Social Finance (SF) to launch the first Social Impact Bond (SIB) in the UK. Social Finance and the Ministry of Justice (MOJ) have since forged an agreement to apply the SIB model within the criminal justice system in order to reduce re-offending rates amongst short term prison leavers, with a range of investors including the Barrow Cadbury Trust and Friends Provident being levered in.

The funds invested initially supported the establishment of the service, the legal infrastructure of the bond agreement and the raising of investment. This first issue will fund social organisations working to reduce re-offending rates of short sentence male prisoners leaving Peterborough Prison.

During the Peterborough Prison pilot, experienced social sector organisations such as St Giles Trust will provide intensive support to 3,000 short-term prisoners over a six-year period, both inside prison and after release, to help them resettle into the community. If this initiative reduces re-offending by 7.5% or more, investors will receive from Government a share of the long-term savings. If the Social Investment Bond delivers a drop in re-offending beyond the threshold, investors will receive an increasing return the greater the success at achieving the social outcome, up to a maximum of 13%. Social Finance will raise up to £5m to fund the Peterborough Prison pilot.

Social Finance are bullish about the prospect of social impact bonds: "If successful, Social Impact Bonds could develop into a new asset class that aligns social and financial returns and brings in new capital to address social problems."

We are similarly excited by this opportunity to tackle cash-flow problems and bring more investors into the business of supporting many small service deliverers. The social impact bond is an innovative project, and while it relies upon a heavy evidence base to deliver its specified outcome for measurement and payment there are surely more areas, such as obesity, in which social impact bonds may play a role. The next generation of social impact bonds, once a track record has been built, should require less rigorous specification and will be tradable, so providing a market investment. The future for such equity models that 'price in' social impact to financial investments using these quantificatory mechanisms is bright – to the extent that the Big Lottery Fund made an £11m commitment in August 2010 to develop these models.[114]

3.2.3 Intermediate Steps: A Big Society Bank

The social impact bond is one of the first blended vehicles that connect directly in to the public sector delivery space in the UK. The question of how we enable more such vehicles to flourish has been approached head-on by both Government and opposition. The question for those who wish to see the space expand is whether there really is demand for investors to give at sub-market return rather than give at full loss and to do so on a wider, more sustainable base than pure philanthropy. The evidence is unclear on this – though the global philanthropy market and so the potential blended economy market is in the trillions – but there are some examples of impact, which we will discuss.

The original impetus for a Social Investment Bank, now the Big Society Bank, came from the Commission on Unclaimed Assets, an independent group under the chairmanship of Sir Ronald Cohen, established by the government to advise on the possible use of proceeds from transferring balances of dormant

114. Reported in civilsociety.co.uk on 31 August 2010

bank accounts in the United Kingdom. It reported in March 2007. One of the Commission's main recommendations was the creation of a social investment bank to support a new breed of social finance intermediaries which endeavour to connect social entrepreneurs with capital.

The **Big Society Bank** is conceptualised as an independent social investment making body, drawing assets from dormant accounts that can help support the UK's vibrant and diverse but under-capitalised civil society sector, including social enterprise, community development and voluntary organisations. Built on the theme of blended economy, this bank is envisaged as an adaptable and innovative body that will bring together the best of the financial and social sectors. It is intended to function as a 'wholesaler of capital', working through existing and new financial intermediaries, assisting their development and encouraging their growth.

We list the bank here as an opportunity, for, provided that it is adequately capitalised from dormant accounts money, it could provide the pump-prime into co-investment and community bonds in a way that could make a significant difference. The caveat to that however, is that, absent proper capitalisation, it is difficult to see how other government programmes will overcome the shortfall in community loan and equity type finance given the current environment. In chapter five, we will make recommendations as to what the characteristics of the 'ideal' Big Society Bank should be.

3.2.4 The Bridge: Social Intermediaries Working in Partnership with Traditional Intermediaries

Building up the blended economy and the Big Society Bank will take some time. As such, we must also look to bridging examples of opportunities to gain finance. In this sphere, there have been examples of a range of existing intermediaries working together to trickle down social return values onto an initial financial investment. Using chains of intermediaries, including banks, capital can get to innovative public service products, even in the current funding environment.

An exciting example of a large commercial bank's participation is the **RBS Community Banking initiative**, ***Scotcash***, a social enterprise set up to offer financial services to the section of population that is targeted by predatory lenders in Glasgow in the UK. This social enterprise was created to find answers to the problem of persistent poverty among Glasgow Housing Association's tenants. The Royal Bank of Scotland, Glasgow Housing Association, Glasgow City Council and the Scottish Government came together to from this unique public/private sector initiative. This was designed as a win-win scenario for the parties involved, including the private bank (RBS), as it created a new market for the bank. Eric Munro, director of community banking at RBS described the aim of this initiative thus: "By ensuring financially excluded groups could avoid resorting to very expensive forms of credit we would also grow the number of people in Glasgow opening one of our basic bank accounts. Once they were in the financial mainstream, they would not only be saving huge amounts of money, but would also eventually be able to access other appropriate financial services."[115]

The Social Investment Business have also made headway in this space, using loan finance from the Futurebuilders stable and in so doing have expanded the horizons of several civil society organisations. One such is Foresight. Foresight originally worked only with blind and visually impaired people, but, encouraged by its local authority purchasers, it has expanded its user group to include people with any manner of physical, learning or sensory impairment. They provide a wide range of services including training, events, recreational and social activities, an information and guidance service and a summer school for disabled teenagers, helping individuals to lead a full and independent lifestyle.

115. *Good Deals 2009, Social Investment Almanack*, 'RBS Community Banking', p60

The organisation recognised the need to move to larger premises to enable it to move forward with plans for growth in service delivery to meet the needs of service users. As a relatively small organisation with no borrowing history, a heavy reliance upon grant funding and a board of directors nervous of commercial banks, their options for funding were limited.

The organisation approached Futurebuilders in July 2006 and was awarded a full investment totalling £282,500. This investment included not only the capital required to purchase and refurbish the new premises, but also revenue and capacity building grants to fund the salary costs of the Chief Officer and a Finance Officer and to strengthen the Board of Trustees through training in managing a community building, strategic income planning and a review of financial management skills.

The new centre opened in January 2008 and the additional activities proved to be very popular both with their original users and its widened user group of adults and children with all physical, learning and sensory disabilities. Demand for their services grew to an extent whereby they required additional space to increase existing activities even further and to introduce new ones.

Foresight were awarded an additional loan of £60,000 from Futurebuilders, and together with a donation from V (volunteering charity) were able to convert the roof space of their building, giving an additional space from which they deliver a number of new services, which include a 'youth hub', operating in the evenings. As well as social activities, this allows for IT resources and information and guidance on areas such as bullying, sexual health and teenage pregnancy.

To meet raised demand for services that accrued the organisation recently funded the purchase of the adjoining property and plans to combine this with their existing premises to provide more space for provision of services. This project requires funding to enable them to undertake the necessary renovation works. Foresight has approached and received loan finance of £300,000 from Charity Bank to undertake this.

Keeping the supply lines of credit and investment flowing will be crucial to achieving the ultimate end of a sustained and sustainable environment for local innovation in civil society, public service bids, commissioner information and support and a local financing picture that supports these ends. Powered by business, universities, communities and indeed blended with the appropriate service budgets of local authorities, we could well see the establishment of a mass local economy that could have wider ramifications for our economic security. This stepped approach is a good example of the kind of market intermediary that can make a difference, part of a spectrum of new and intermediate solutions to the eminently solvable difficulties of getting risk capital to civil society organisations.

3.3.5 Localised Examples: Citylife Bonds

A final example in this section has particular resonance for the agenda that wishes to centralise and localise provision to reduce bureaucracy. While civil society tends towards the grass-roots and the local, to be able to buttress this action with dedicated local finance could provide the financial support for the kind of mass localism that a world of more public sector mutuals and hub-based organisations could provide. An imperfect but exciting example is Citylife.

Citylife is a national charitable membership society who have pioneered the issue of community-based charitable bonds for major cities with high levels of deprivation. Their methodology is to encourage local people and companies to invest in their own localities through a secure five-year loan product. The Bond was piloted in Sheffield in 1999 by a partnership of several players who had not previously worked together, including a housing association and a social enterprise construction company among others.

Over 500 individuals, many businesses, churches and charities bought bonds. Almost £800,000 invested led to a £600,000 affordable housing investment, and £200,000 to direct employment and enterprise projects delivered by each of the partner organisations. The micro-lending programme run by the enterprise agency brought in private sector bank investment against its own guarantee fund. A total of 35 businesses were established. A community enterprise loan fund was created and 20 jobs funded in voluntary and community organisations. Other similar bonds have been issued in:

- Newcastle (£2 million)
- East London (£2 million)
- The Welsh Valleys (£400,000).

The North East Enterprise Bond (NEEB), launched in April 2006 is perhaps their most famous offering. It aimed to raise a £5 million bond (or its financial equivalent through a combination of bond investments and gifts). The money raised was used to buy and run two 'launch pads' – mobile presentation vehicles designed to inspire enterprise throughout the North East by encouraging people to consider setting up their own business. When the NEEB closed on 31 October 2006, it had raised the equivalent of a £7 million bond:

- £3.83m from public, private and voluntary sector gifts
- Grants totalling £750,000
- £750,000 each from six councils
- Grant funding from the regional development agency.

The bond is a five-year, interest-free, fully guaranteed repayment mechanism issued by a charitable industrial and provident society. Citylife has now issued over £10m of these bonds in total, and is looking to develop new ideas for product and distribution so that it can move to a higher delivery level where ultimately every citizen and organisation will be able to invest securely in communities and causes they care about.

An assessment of outcomes was performed by the Id&A agency. It found:

- Over 4,000 people have been provided with advice, support and training
- 1,000 people have been helped into jobs
- Over 200 people have been helped to start their own business
- This has led to substantial job creation
- Hundreds of individuals are being helped out of doorstep debt (Sheffield Moneyline projected to lend an initial 220 emergency loans, with the funds recycled for many rounds).

Interestingly, an evaluation has also been undertaken with investors, which suggests that they lend on average four to ten times as much as they would otherwise gift to the same cause. This can be an extremely powerful tool for charitable and social investment.

It sounds positive and yet this sort of bond is complex and risky. Seven separate bonds have been issued, but there have been attempts to start many more, and costs have rarely been recouped. There is clearly a demand for such products. Whether they are sustainable in the long term depends upon how successful the Big Society Bank is in helping create a more vibrant and mobile market for them.

3.4 Training-up for the Commissioning Multi-Market

The approaches we have outlined in this chapter share a common bond. They include more and seek to create a platform to bring yet more people into the public sphere. They skill people up, or leverage existing skills. They are innovative and proactive, offering more avenues for more people to get involved at each point of the delivery cycle.

Technology radically extends these effects. Where more community members have a voice, more can offer their skills or appraise a service. If this has reached critical mass – as we suggest it has – it represents huge possibilities to change the way we commission our services. No longer would the role of the state be to set frameworks and specify measurements for success, or even keep track of these. No longer would its role be to train organisations up to take part. Rather its role is coordination. To provide platforms for people with different skills to offer them to the supply chain, to enable people to share those skills, to remove the barriers to their participation and to find new venues for these skills to make a difference.

In this way a new model begins to emerge: one that stresses the importance to government, not of commissioning, but of enabling services; not of measurement but of removing the barriers to change; *not of building capacity, but of facilitating capability*. By capability, we mean here the skills, whether hard or soft, that can make public services work better. A family carer offers huge capabilities in terms of relationships, fine-grained care and more. A business person can offer much to a jobseeker. Local government's role is to use the technological tools at its disposal to understand the capability deficits of its area and to offer support accordingly.; to crowdsource and measure this aspect of its fiefdom: not to micromanage delivery, which as we have seen, is an exercise in failure. The list of community capabilities goes on, and the role of Government is to bring these together and enable those who wish to develop them to do so, while having to move through as few bureaucratic hurdles as possible in order to get set up, get seed funding, join with others in common cause, to get it done.

The final section of this chapter is a postscript and perhaps a note of caution in light of these developments. Here we emphasise the need for better commissioner training, which, as we have seen, will grow ever more complex as they find themselves not just commissioning services but competing for service providers.

Commissioner training was a flagship programme of the previous Government's offering. Training and capacity building is a positive step; however, there are several routes to gaining these skills. The key will be to incorporate within future such training the clear reformed management structures that we wish to see in place; the potential of consortia and evolved networks; and the idea of placing commissioning practice within a coherent vision of the future of government services and of the commissioner themselves as part of the notion of government as platform; and of contributing in this way to society's R&D. In conventional R&D, a 1% increase in public R&D spending can lead to a 0.17% across the board productivity rise.[116] Reorienting the commissioner role as pioneers of social R&D will be a key culture shift.

This is no easy task, especially with the diversification of who is commissioning. Under coalition plans, with GPs, local commissioning consortia and more adding to the commissioning mix, all of whose training needs will be very different, there remains the possibility of more invention in the training space. That said, if the future of public service commissioning, and so the future of public services, is a vibrant, exciting marketplace of joined up civil society, financed through innovative instruments, working in partnership with frontline public sector professionals and service users themselves to deliver services that tackle social problems better and reach the hardest-to-reach more effectively, then this will have to form part of the package of reform. If we provide a platform for civil society, local business, service designers, citizens, service users, and local government to interact to the end of better services, commissioners must be part of that interaction. Perhaps, as the example of 'Only Connect' suggests, the simple act of association would be the best training of all.

116. Taken from a Speech by David Willets MP to the Royal Institution, citing an OECD report to the same effect, July 2010

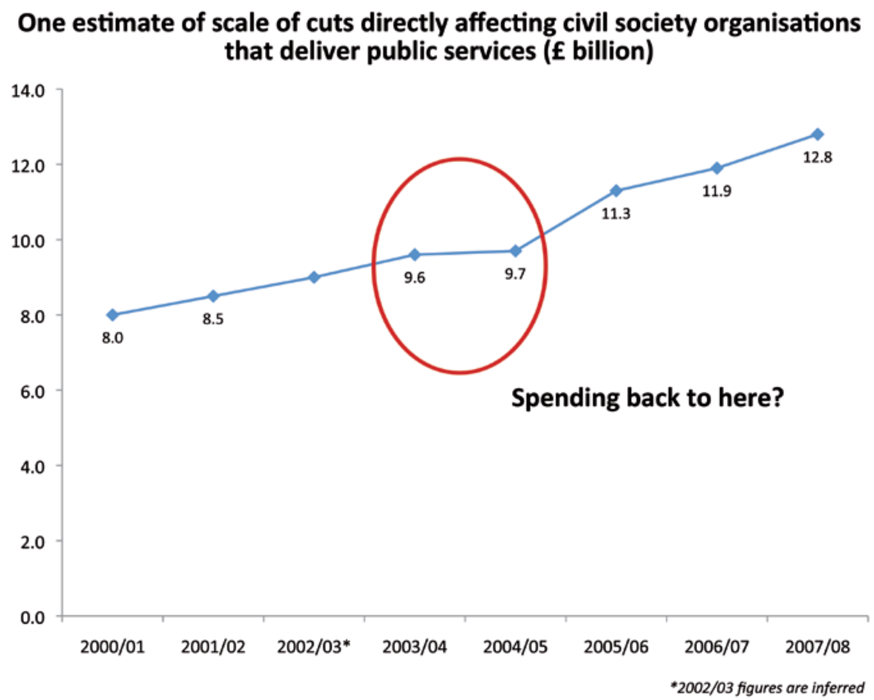
Chapter Four:
The Culture Shift Required

Given the possibilities presented by the convergence of technology, service user production and local finance and localised management models, it is worth taking a moment to understand what imperils this and what imperils any structures and any policies we might create to evolve the commissioning process so that it captures the benefits of civil society's mission, and transmits those benefits to a new generation of service users.

4.1 Delivery and Finance: The Cost Barrier

One well-tread line of argument is that cost pressures mean that civil society's time will come not now but later. Consortia and blended finance, for example, require government action to create stimuli, whether in terms of direct finance or advocacy, which now more than ever will be in short supply. Moreover, cost pressures create fear of risk among the public sector and civil society organisations. The problems of scale, structure and public policy, especially in a time of decreased public sector funding, will only get worse as more back office efficiencies are sought, and the innovations we have outlined, some might say, will have to wait for a more pliant funding environment if they are to ever to have their benefits realised.

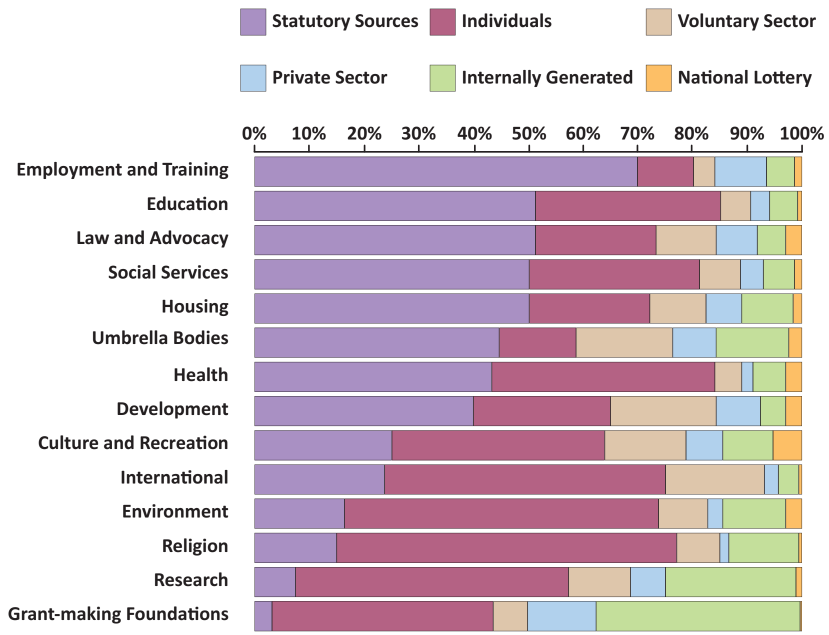
Fig. 16



Source: NCVO Almanac 2010; question raised on NCVO blog

As we saw in the first chapter, a majority of the sector do not have a direct financial relationship with the state in any of its forms. The NCVO estimate that 40,000 VCOs are the recipients of this £12.8 billion. Almost three-quarters of organisations with an annual income of more than £10 million receive a grant or a contract. Over 1 in 2 medium-sized organisations – those with an income between £100,000 and £1 million – are at risk of funding cuts.[117] As we saw in the first chapter, small and micro organisations receive a much smaller proportion of their income from statutory bodies.

Fig. 17. Funding Sources for Small and Micro Organisations



So there will be less money available overall across a range of different departments that will necessarily compromise the ability of current civil society actors to continue the work they do. The NCVO are running a crowdsourcing exercise to collate more fine-grained data on the cuts and how they affect different actors.

Rather than bemoan the necessary adjustments to the public finances however, these realities only serve to underscore the need for Government to support and incentivise innovative frameworks and structures that can create entirely new generations of civil society deliverers, or indeed open up existing market players to new contracting experiences.

It underscores the need for Government to take a broader view on what works, factoring in the measurements created by users and organisations and incorporating those community measures of capability and performance into a more responsive, inclusive framework. In so doing, we not only preserve the funding of civil society organisations; we also create a sense of resilience and independence within civil society that can form some response to the line that civil society is losing its independence through entering into innovative contractual and funding arrangements. It may seem clear, and yet the systems of government are very resistant to change that trammels these terms.

117. NCVO Almanac 2010; blog by Karl Wilding, available at http://www.ncvo-vol.org.uk/networking-discussions/blogs/209/10/05/25/axeman-cometh

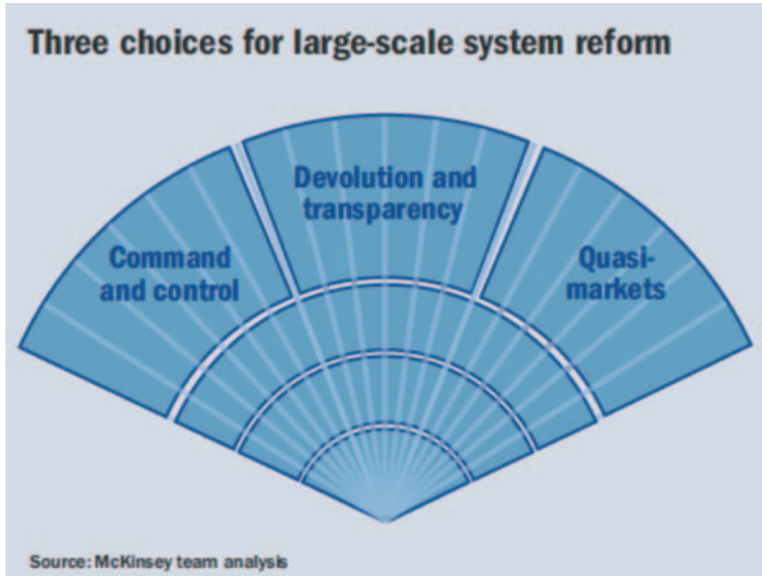
4.2 Inside the Culture of Centralised Specification

"*We will remove unjustified targets and the bureaucracy which sustains them. In their place, we will introduce an Outcomes Framework to set out what the service should achieve, leaving the professionals to develop how.*"
– UK Secretary of State for Health, Andrew Lansley

One of the things that the funding squeeze will tend to do is to whet the Treasury's appetite for centralised commissioning and procurement arrangements that deliver efficiencies of scale and can be monitored using traditional target-based methods. As the retreat away from innovation towards safety and prudence increases, this sets us on course to follow a dangerous precedent.

Sir Michael Barber, the head of Prime Minister's Delivery Unit under the previous government worked within a now well-known policy framework. He divided public services into twenty focus areas based on services that were most important to citizens and were measurable, such as crime and railway. He set the framework around delivery targets and devised 'delivery plans' for agencies and programmers. A timetable for regular reports and problem-solving meetings was induced to take this agenda forward.

Fig. 18. Michael Barber's Three Paradigms



Barber defined a 'three paradigm' structure in a paper, *Transforming Government,* published by McKinsey & Company, as a means to reform large-scale public service delivery across the public sector. These were command and control, devolution and transparency, and quasi-markets.

'Command and control', or in other words a top-down command structure, was seen as the first tool of governments to implement changes or policies.

On the other end of this fan structure was the **'quasi-markets'** paradigm. This was based on the idea of involving market forces i.e. using corporate sector participation to deliver public services. But the option for full privatisation was considered politically risky or unfeasible thus a system of "quasi-markets" was created, that is to in-part encourage the private sector to deliver public services by introducing options and clauses to retain public control of commissioning services while doing so. Various public-private-partnership models such as PFIs were encouraged.

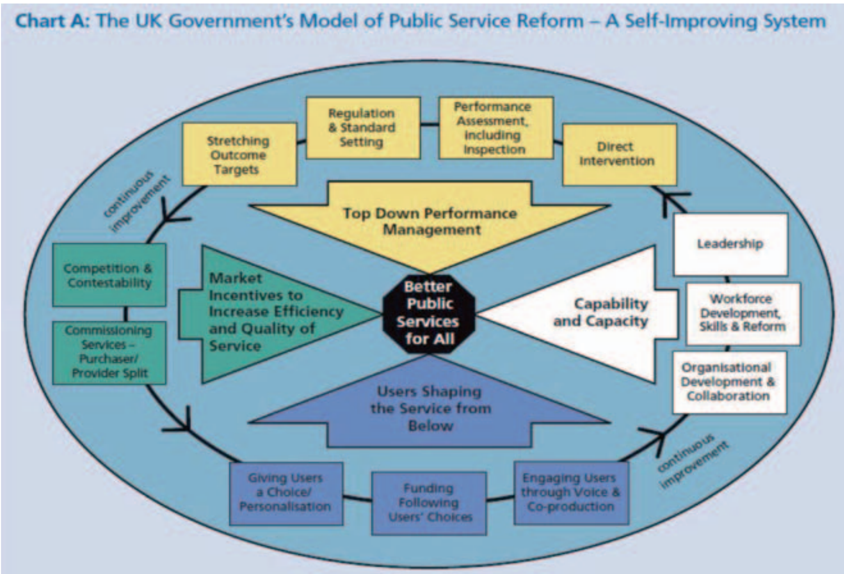
The middle part of the 'fan' that he described as '**devolution and transparency**' was created as a tool for the government to devolve its responsibility to the frontline workers that deliver public services. This was to be based on the idea of public data transparency, as a means to promote accountability and drive performance within the sector. The frontline units that succeeded in meeting their set targets could then be rewarded based on this evaluation criteria.

Following on Barber's recommendations, the government tried to create 'self-improving systems' by setting targets as measurement tools to improve the capability and capacity of civil and public servants. This was described as a 'self-improving system', as it was backed by a structure for rewards and punishments based on the ability of civil and public servants to meet these targets. The key features of this policy were:

- A system of top-down performance management;
- Competition and contestability in the provision of public services i.e. completion within the units based on targets review;
- Greater recognition of public opinion; and
- Other measures to strengthen the capability and capacity of civil and public servants.

This led to a huge increase in public spending that was sanctioned by greater and tighter control and target-setting based on a framework of setting minimum quantity, quality standards, performance assessments and inspections.

Fig. 19. The 'Washing Machine' Model of Public Service Delivery



Even as public spending decreases, it may well be that the Barber approach endures. Public Service Agreements, or PSAs, were a key cog in assessing the role of departments under this approach. While the coalition Government has been quick to cease using these, and to disband the Audit Commission, which carried this framework through to local government, the question of whether the endemic culture of Whitehall remains to target, specify, measure and so offer its funding streams to local government and to civil society under these terms. Put another way, while the bones of the leviathan may have been stripped away, will the meat remain intact and the culture of centralisation, specification and audit persist, albeit in a more pernicious, informal form?

Key to answering this question will be to articulate a new 'meta-policy' that aids localised, decentralised, mission-driven commissioning that is comprehensible to Whitehall and Town Hall officials and can be translated into effective policy. The formulation of such a new meta-policy is beyond the scope of this publication; however, we can point to some positive examples, and there is no doubt that to deliver its vision, the policy units at Communities and Local Government and Downing Street will need to research this issue carefully. In his book, The Hidden Wealth of Nations, David Halpern, former member of the Prime Minister's strategy unit and head of the so-called 'Nudge Unit' suggests an alternative way. If the Barber model gave rise to the model included above, a new management model might be able to carry the developments of the present into the future, as below.

Fig. 20. An Evolved Model of Public Service Delivery

Source: Cabinet Office "Excellence and Fairness: Achieving world class public services, p12

The three new dimension of this model:

Empowering citizens to shape the services they receive: the emerging ideas around co-creation as discussed earlier in chapter three form the basis of this dimension. The public knows best as to what works or does not work for them. Users' ideas, concerns and functionalities should be reflected in the design and delivery of services. For this, a platform and infrastructure for collaboration between, for instance, parents and schools, patients and doctors, residents and police is vital for better design and delivery of these services. Transparency and easy access to information must form the bedrock of such action.

Professionalism at the frontline: it is the frontline staff at hospitals, schools and police stations that deliver public services, not policy makers in Whitehall. For a world class service that is responsive to public needs, flexibility and innovation at the frontline is the key. Consistency, self-improvement and responsiveness must be driven from within the public services themselves. Therefore energising, training and supporting the workforce forms the vital element here.

Strategic leadership: The new role for the governments must be to provide strategic leadership by setting a clear vision, a stable framework, adequate resources, and incentives for growth to the frontline workers, and not give into the temptation of micro-managing the delivery process. The government should also be actively involved in broad policy making, in reviewing the progress and providing easy access to information at all levels.

This very much fits with the government's current agenda to devolve power, localise and create a 'bigger society'. The task for us is to create structures that actualise this paradigm and so remove the up-front costs – in so far as it is possible to do so – from this sort of devolution. ResPublica started this process in *The Ownership State*, and continued it in *The Venture Society*. Our policies in this publication will seek to evolve it further and so evolve our commissioning settlement for the better.

4.3 A Last Word on Civil Society: 'The Sector Itself'

What we have not been arguing for in this piece is wholesale, uninhibited outsourcing of public services to any civil society group going. We reject the language that suggests that the sector as a whole has to become more like the state or indeed has to replace it in some way; this would hardly be an improvement on the current state of affairs. The mission of the state as a rectifier of market failure is additional to the mission of civil society, as an expression of social justice, collective action, independence and what makes life worth living. However this piece would not be complete without acknowledging that there are certain optimisations that civil society organisations could make in order to facilitate their own mission and so enable commissioning relationships to work better.

While there may be good reasons why Chapman et al found, on the basis of a survey of 356 civil society organisations in the North East of England, that much of civil society in North East England is uninformed [23%], unwilling [17%] or ill-prepared [39%] to engage with the government's contracting agenda, there is little reason in an age of information for particular business and strategic planning skills to be absent.[118] Many small and medium-sized VCOs lack capacity and capability in terms of business planning and strategic planning because they have inadequate governance structures in place to provide the support the organisation needs. As a result, organisations run on a 'hand-to-mouth basis in the belief that a new funding source will come along soon.[119]

This is no way to run a business; let alone a civil society organisation whose sustenance is vital for the people whose lives depend on its services. "Some VCS organisations reasoned that they spend so much time struggling for survival that they have very little time or energy to develop leadership skills, or to undertake the research needed to gain a clear picture of what is coming round the corner."[120]

Legal support, trustee competence building, understanding consortia and mergers and general tips on intellectual property were all cited by the Third Sector Research Centre as necessary areas of skill building. Who will help build these skills? The number of dedicated commissioning and procurement support workers in local infrastructure organisations is relatively small and growing slowly. Of 103 respondents, 73% were involved in influencing local commissioning strategies, 70% were delivering awareness-raising events with the local sector, 60% were providing general information and advice on tendering, and 59% were facilitating relationships between purchaser and provider. However, only 42% provided individual information and advice, and only 33% provided individual support for writing tender bids.

118. T Chapman, J Brown and R Crow, 'Entering a brave new world? An assessment of third sector readiness to tender for the delivery of public services in the United Kingdom', *Policy Studies* 29(1), March 2008, p9, percentages derived from table 1, p7
119. Taken from literature review by R Tabb, supra.
120. D Packwood, *Commissioning, Contracting and Service Delivery of Children's Services in the Voluntary and Community Sector*, London, VCS Engage, p36; and A Wynne, *Support for Success: Commissioning and contracting in Greater Manchester*, Manchester, GMVSS Consortium, March 2008

One of the benefits of loan funds such as Futurebuilders was that this support was provided. We must now establish more opportunities for this kind of support to proliferate, but they cannot follow the old model of the central state dictating the pattern and rhythm of what local organisations need to do, as ChangeUp tried and failed to do. This way lies bureaucracy and failure. The better way is to harness the knowledge and will that is increasingly available to more.[121]

And we have to make it happen. As the Charity Commission said in 2007, "There is clearly a need for increased support to locally-based, lower-income charities that want to get involved in delivering public services but which currently lack the capacity to do so. There is government recognition that there is also a need to build the capacity of parts of the public sector to work in true partnership with charities and the wider sector. The government may also wish to consider what can be done to ensure that smaller and more local organisations have access to appropriate capacity building opportunities. Potential barriers created by current frameworks for commissioning services, procurement and contracting, funding and monitoring need to be fully investigated, understood and addressed."[122]

The essential question is not only whether there are enough civil society organisations to take advantage of the opportunities to help deliver public services within the terms of their missions; it is how effectively we create the structures that allow them and indeed others who can bring skills or who have transformative ideas to take these opportunities. It is through structured partnership and better management that the cost savings and better services we need can be realised. Reforming commissioning goes hand-in-hand with understanding the matrix of relationships in which civil society organisations flourish and the way that learning flourishes through association. Embellish these ideas, and the health of our public services will only be embellished with them.

121. Ibid
122. R MacMillan, *The third sector delivering public services: an evidence review*, July 2010, pp15-19

Chapter Five:
The Civil Effect: Policy Recommendations

We are presented here with a huge task: to outline the role of government in improving its own commissioning processes. Clearly, the 'self-improving model' we saw in chapter four is not the way to achieve this. Yet the convergence that we noted in chapter three offers the prospect of a new set of solutions and the imperative for radical improvements.

Just as government has had to look more widely for its services, we see the future of commissioning as government looking more widely for its commissioners. Just as we have an evolved market that enables us to commission services, so we need to foster a similarly evolved market in the breadth and diversity of actors available who are in a position to bring new services into the marketplace. This is the essence of next generation commissioning.

In this new evolved model, the role of government is to enable more users to commission their own services and to empower civil society providers to set the terms of their own engagement. It is a vision of a civil society of large and small organisations gaining increased access to money that would go into public services, and spending it in ever more interesting ways. The idea of a market of commissioners as well as a market for public services would seem an overly complex relationship to some. However, it offers the best opportunities for a more resilient, two-way relationship between the state and civil society, where commissioners compete for the services of civil society organisations, as well as the other way around.

"Just as government has had to look more widely for its services, we see the future of commissioning as government looking more widely for its commissioners."

We see the role of government here to act as a guardian of civil society's interests; to remove the barriers to organisations that wish to take part in public service delivery, and also to ensure that the conditions are correct for the benefits of a capitalised civil society to reach the communities it serves to the greatest possible extent. However, the role must also be to suggest intermediate structures that enable civil society organisations to continue their missions while unlocking public service money supply through reducing demand on the state. Local structure, local finance and local measurements are among the best ways of guaranteeing these goods. Enabling more people to offer support and articulate skill shortages is vital.

All this will require changes to the way that government enables and constructs rules around commissioning; it will also require changes to the way that new innovations in finance are supported and in the way that new developments in technology are introduced into the commissioning space. However, fundamentally, it requires a new concordat between communities, commissioners and the civil society groups that ultimately places the lives improved at its heart. It requires an approach that is '*post-commissioning* and *post-capacity building*.'

5.1 More People Supporting the Multi-Commissioner Marketplace

5.1.1 Capacity and Commissioning: Supporting the Next Generation

We have discussed at length the rise in co-production and other models of user-commissioned services, as well as the creation of management models that allow these services to flourish. There remain, however, several questions. First, there is the extent to which government action can lever in private resources to support co-production while simultaneously enabling those who want to commission their own services to do so. Secondly, there is the issue of whether a new series of commissioner markets will help or hinder that trend. It is not beyond the realm of possibility that the models we outlined in chapter three, which use communications technology to aggregate services from a variety of providers, could fuel a 'big bang' in co-production, provided that we are able to remove barriers currently in existence and also provided that we can create associative venues where co-creation can most profitably take place; and if we can convert the role of a commissioner to that of a pioneer and investor in what we have referred to as Social R&D. By the same token, without the right forums and venues of support, the 'big bang' could become a 'damp squib'.

"By the same token, without the right forums and venues of support, the 'big bang' [in user-driven commissioning] could become a 'damp squib'."

What excites about co-creation is that it offers opportunities for social action to leverage the cost savings of private endeavour and pass those savings on to government, as the net of support and expertise is spread more widely and structures become more local and communal. This effect is what we attempt to harness in our policy recommendations.

The Civil Effect:
An integrated policy programme to deliver a better public services infrastructure

1. **An evolved network of co-commissioning hubs**. It is time for a reappraisal of how public services come to be, who creates them and how they are supported. A network of *co-commissioning hubs* is key to this. The hubs would be localised; they would be focussed on civil society organisations, which would use the resources of the hub as a base to form consortia and bid for services. Through shared support from a broader group of civil society actors, the hub would broaden the resources and funding available to civil society organisations and their increasingly cash-strapped support agencies by acting as **a shop window, a design exchange for service co-creators, personal budgeters and community activists, and a reputable brand that levers in funding and support**.

The US Tides Model, outlined in chapter three of the report, offers an exemplar of the approach to which we refer. One dedicated worker can set up a local Tides chapter and so begin a process that leverages the brand for community support. This would be the model we would adopt for the next generation of support services: a model that suggests even one dedicated person can make a huge difference. Where that person can summon tool reserves, disused community assets or buildings or similar, within a framework of minimum standards, new venues of creative social action become possible. The opportunity here is great, and so we recommend that the Cabinet convene a **Commissioning Hub Working Group** to lead on outlining what those minimum framework standards might be; a selection of the kinds of capabilities that should be supported and how existing support organisations can drive the process; and how these standards interact with the capabilities we seek to bring in, so as to truly bring in better public services, involving more people, for less.

2. **A Minimum Standards Framework that gives autonomy to commissioners and users to manage and measure their own services**. Co-commissioning hubs enable a framework approach that separates central specification and service management. The **Minimum Standards Framework** is the Government's obligatory safety net. Rules for service standards, management and measurement are set locally, by commissioners and service users within the hub network. As such, we envision an **increased role for grants** and a plurality of forms of blended finance through aligning co-commissioning hubs to spun-out public service mutuals, GP local commissioning consortia and other new co-creators and holders of personal budgets. Aligning hubs to these new

networks of support and commissioning would allow users to set the terms of their bureaucracy and so reduce inefficiency and paperwork. Within a framework of minimum standards, as apply to housing associations, the hub could create innovations in tandem with local government and private organisations that supply service and civil society needs and offer room for innovation.

3. **A Local Skills Exchange, an open source web portal**. The other aspect of this approach is the need to effectively map the capabilities within a local labour market. We see a facilitative role here for organisations such as the Big Lottery Fund and local councils. We also see a role for locally-driven crowdsourcing-type exercises to determine skill sets. That is why we recommend that Government should commission a **Local Skills Exchange** pilot. This would include an **open source framework web portal** for resources exchange to enable commissioners and service users to identify local opportunities, which co-commissioning hubs or local councils could then customise.

4. **A local challenge competition to co-produce public services** and create social capital and grass roots interest, along the lines of NESTA's Big Green Challenge, would provide some data and analysis in pilot areas to make practical sense of the community capabilities paradigm.

5. **There are certainly commissioning 'quick-wins' when it comes to next-generation consortia**. The following would help lubricate the gears when it comes to supporting innovative forms of super-consortia and other inclusive capabilities builders. Commissioners should take into account the operational experience of not just the prime provider but of all the partners in a particular tender; commissioners should review guidance of balance sheet requirements; commissioners should reassess the rule that 50% or more of the contract delivered should be delivered by the prime provider; Britain should amend its commissioning law to block the disregard on competition for social enterprises.

6. **The Big Society Bank is key to financing a stronger civil society**. The idea should be that it gives a short-term boost to the social investment marketplace through investing in local financing models, such as evolved City Life bonds for local infrastructure projects or even co-commissioning hubs themselves, which can offer return based upon the public service contracts and grants they bring in. It should have a limited life span and look to increase the resilience of the social investment market, with specialist instruments for public-service-delivering organisations and for consortia. Its success should be measured by the quality of the market it leaves behind after a five to eight year time frame. It should also be judged on the evidence it creates, about the new marketplace of social bonds and similar products.

7. **We recommend that a working group be convened by the Office for Civil Society to scope the possibilities for more international work that leverages European Social Fund Financing** – and how Government, or indeed the Big Society Bank, might provide indemnity funding or brokerage for such international ventures, with an appropriate measure of return.

8. **Further work for the upcoming white paper.** We welcome the white paper on commissioning announced by Government for later this year. We would add two top line recommendations for cost-benefit analysis discussion in this forum. The first is a **delivery infrastructure levy** on prime providers delivering public services, which would encourage such organisations where appropriate to provide funding and support to sub-contractors. The second is a loan guarantee scheme for service-delivering civil society organisations. A **civic loan guarantee** scheme would seek in the first instance to break with indemnifying single organisations and instead focus upon the benefits of hub-based, super-commissioner or super-consortia funds that we have shown to be able to get more organisations delivering the services we need.

5.1.1.1 The Story of Support Structures: Government as Platform

In previous ResPublica publications, The Ownership State and The Venture Society, we outlined the value of small community organisations that could act as venues, commissioners, or places of accountability and so act as platforms for new types of community action. Whether that action consists of employees 'spinning out' and running a public service as a civil company or miniature foundation, as we discussed in the former publication, or whether that action consists of setting up a shared support space that enables social businesses to come together, to be incubated together, and to present a united front within a common floating brand that makes these businesses more capable of attracting private capital, and buying common resources in bulk at cheaper prices, or sharing experiences and innovations, as we discussed in the latter, the possibilities of the small and the local, of leveraged community ownership and identity, form a golden thread that runs through all successful approaches to this newly emergent, civil society-driven environment.

Government intervention in these spaces needs to move from directly incentivising and funding innovation – 'picking winners' – to creating the conditions for innovation to take place. The approach – of government as platform – seeks to enable as many community organisations as possible to interact with as many people who are able to shape the public services they provide. The key is to be able to lever in as much outside expertise as possible to refine the terms of engagement, and then moreover to enable local government and indeed central government to realise and harness the benefits of these organisations.

There were some questions in the popular response to The Venture Society about how and who would create these agencies. The idea behind the 'lablets' programme was not to create new organisations that displaced old ones, but rather to give existing community hubs the opportunity to join the network, perhaps for a nominal subscription fee, and enjoy the benefits of the brand that it brings (the decision to charge any fee would of course remain with the lablet and depend upon the health of its own finances). The larger organisations – social labs – that helped build the platform and the brand at the centre, would simply act as advocates and brokers, establishing a narrative of success where appropriate or support in other cases; acting as an interface between the lablets and the private sector.

By creating a series of interactive networks, each sustainable, each with their own local identity, with lobbying presence at the centre, the role and profile of these 'community lablets' could be enhanced. We cited the role of organisations such as UnLtd - the Foundation for Social Entrepreneurs, and NESTA, as brokers of innovation and efficiency, and advocates and carriers of the brand to private investors.

We have been heartened by the response to this publication. What is apparent, as we suspected, is that there are several organisations who are realising these principles already and are paradigm examples of the sort of organisations that could benefit even further from a more networked approach to support. They manage to provide dynamic branding, shared space and the benefits of scale for their users and members, who otherwise would encounter even more difficulties. Yet we also see an opportunity for similar organisations to tap the commissioning space and lever in public sector funds to civil society organisations that reduce demand on the state.
Interestingly, some of these models do not just attract private sector funding; they are also able to use their pulling power and network reputation to diversify the market available to local government commissioners. Can such organisations circumvent the difficulties we have outlined in the previous chapter? Not entirely, but they are making huge strides.

An excellent example of an organisation that follows this hub model is EarlyArts. EarlyArts is a social enterprise dedicated to improving the quality of arts and creative education. The tangible benefits of such interventions are many: better health, well-being, capability across a number of different criteria. What is moreover interesting about their model is that they adopt an innovative networked approach to growing their business: they harness the power of the macro-brand and the reputational benefits it brings.

What does this mean in practice? A number of partners work with EarlyArts and carry the brand and the philosophy to other parts of the country. EarlyArts provide training and a management infrastructure that offers these mini hubs a measure of purchasing power. With the EarlyArts brand added to their own, they are able to better equip themselves to lever in private funding and also, even more interestingly, to get better access and be better equipped to treat with local government and to so enter the public service commissioning space.

What is particularly exciting about this model is the breadth of potential partners. Some are fully formed organisations. Others are simply groups of people, geographically located, who bring different tools and skills, that in concert can create an outfit that is investment-ready, either privately or in order to reduce demand on the state.

EarlyArts covers one policy area and is only just moving into profit, through the training, support and management analysis that it provides each partner. It has been set up using a combination of public money, foundation funding and private investment; in that sense, it is a paradigm social investment. Yet, following on from our work in the Venture Society, and taking into account the burgeoning success of other hub models that we mentioned in chapter three, the reality is there that this really is not a question of reinventing the wheel, but of optimising many of the great approaches that are currently in the market space. This, we submit, is the role of Government: to provide support and infrastructure for other organisations who wish to do the same thing and to provide the powers and optimisations for more organisations to take part in these common, local venues of support.

5.1.1.2 Mutuals Supporting Mutuals: Co-Commissioning Hubs

Of course, we already have several networks of many different types of local infrastructure organisation serving civil society in the UK today. Community Volunteer Services (CVSs) are but one. These provide support for volunteers, accounts, training, programmes, can identify gaps in local service provision and more. We would like to build on these networks rather than displace them. The question is how to best do this in an age of coproduction and consortia.

Here the GP example is once again instructive. The Royal College of General Practitioners, in a report released in September 2010, predicted that the market for commissioning support will consolidate around 'one-stop shop' solutions from large outsourcing companies and organisations with a track record of delivering 'best in class' solutions for the various aspects of commissioning. It stated that a small number of external organisations could evolve to support large numbers of commissioning consortia if this happens; although the report suggested that consortia will need to cover populations of at least 500,000 to justify the costs involved.

Where do civil society organisations fit into this vision of the future, with the multi-polar solutions they provide that can significantly improve the quality of care? **This is where civil society organisations need their own one-stop shop; and this is why the traditional methods of civil society support need to actively be modernised.**

Building on the work of *The Venture Society*, we recommend an approach that we refer to as joined up commissioning. In an evolved commissioning arena, where there is a market not just of public services, but also of commissioners, there need to be local partners that provide a vital coordination function. In this fragmented, localised world of bottom-up commissioning, personal budgeting, coproduction through spun-out public sector foundations and more, joined up commissioning would help provide what we think of as a 'one-stop shop' for civil society organisations and commissioners: a consortium of local infrastructure organisations, similar to the Hampshire model we outlined in chapter three. Let us consider why this is needed before going on to understand what these **co-commissioning hubs** would do.

Fig. 21

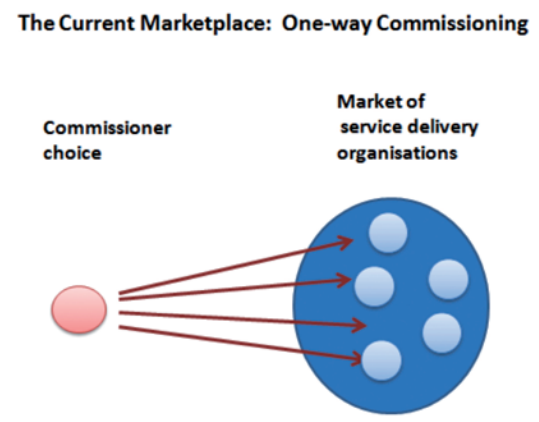


Fig. 22. The future without co-commissioning hubs:

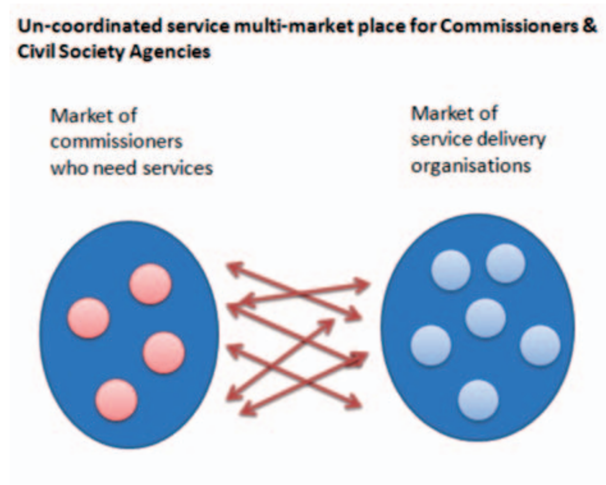
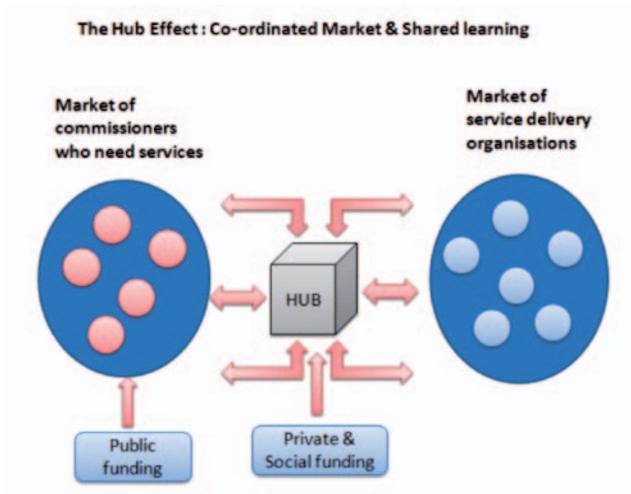


Fig. 23



The coordination function we show above is but one virtue of having a common hub where civil society organisations and other smaller service deliverers can associate, form partnerships, and assess common goals. This was the role of the lablet in The Venture Society in terms of private funding for social entrepreneurs. It can be the role of co-commissioning hubs in a fragmented commissioner marketplace.

CVSs at their best work on the principle of having a common venue that enables local services to come together, exchange messages, swap tools and invite users to co-create services. Other infrastructure organisations work by reaching specific hard to reach groups such as BME networks. By enabling linkages to be made between these organisations, community lablets, social franchises, and other commissioning hub models such as Sure Start, a full array of services can be made available to commissioners and civil society groups for a given area, including the ability to manage and specify one's impact, in a venue that can provide multiple outcomes and enable association on multiple levels. In theory this should mean that we are in the realm of being able to create a surrogate one-stop shop for services across a broad range of sectors that encourages community members to help fashion and co-create more innovative services and encourages traditional silos to be broken. For example, a homelessness charity and a mental health charity working together with an organisation like Revolving Doors could present a wider whole-person approach to helping some of the most disadvantaged people in society.

What is most exciting about the multi-commissioner market in the digital age is that collaborative practices can form more informal networks and yield potentially more radical results – and these informal practices can be looped into a wider whole. The fact that organisations such as CVSs, when they do work well, sit on Local Service Partnerships only adds to the power of a unified support hub of this kind as a real local voice directly accessing frontline professionals. The Hampshire support model we outlined in chapter three is a good example of the potential partnerships that could be made. This, ideally, is the model that ChangeUp would have implemented.

However, it did not happen. ChangeUp funding went directly to support organisations who formed consortia, only to be expended meeting the programme's conditional, bureaucratic requirements. In a sense, such funding was too exclusive, too narrow. Now the capacity of CVSs to rise to the challenge must be in doubt. They are typically locally funded, and have borne the brunt of local authority cuts, as they are not frontline, and many are funded out of non-core LAA reward money which no longer exists post-election. Would a 'restructuring fund' help rescue a sector that is wobbling badly in financial terms? It may be a start, but it is clear that we will need to think more radically.

The key is to secure the fundamentals of support, just as we have sought to secure the fundamentals of the sector, and to never endure the waste offered by the bureaucracy of centrally delivered programmes. In the models we have examined that mirror this approach, the power of a network produces precisely this ripple effect. Organisation at the centre is able to coagulate disparate groups of actors to common ends. An example of this occurred in the EarlyArts stable, where one partner organisation is actually a completely disparate group of separately skilled individuals and organisations, who have come together to swap ideas and form a cohesive organisation. A facilitative centre actually creates stronger local outcomes.

An entire generation of potential co-producers and service commissioners is out there. Yet we need to create common management structure for the movement to take hold. We want to see a greater, more diverse range of collaborative hubs in the marketplace that allow civil society organisations to co-create with service users but to see these hubs working to join together and form support consortia to provide a coordinated local commissioning venue. And this cannot be done with top-down funding approaches, trickling from the regional level, such as those suggested by the ill-fated ChangeUp programme.

Instead, we need to think more radically about the role of infrastructure organisations in this new paradigm. Infrastructure organisations need to move from being bare support organisations to being brand-builders. They need to act as shop windows for civil society organisations that use their services and also for commissioners who are looking for services. As well as being places where civil society

organisations come to band together, they also need to be places where commissioners come to talk and to compete for civil society approaches. They need to cease being places where capacity is built and become places where capabilities are attracted, merged, seeded and incubated, and where the capability mapping efforts of local councils find their home.

The incentive for creating this one-stop shop – bound together informally or formally – is improving service quality, but it should ideally also reside in the range of tools on offer and in the convenience of obtaining those tools in one place. New online ways of allocating virtual funds and creating virtual tools and training can offer incentives for those who create services that unlock public sector funding, receiving a share of the profits from any successful transaction. And, with the addition of local government officials and competing commissioners assessing the offering of each local network, there would accrue a common rise in capacity and understanding between sector and state that has hitherto been lacking and that typical training methods find difficult to replicate. All have an incentive to form part of a local co-commissioning hub and so part of the future of civil society support; co-commissioning hubs would be companion mutuals in an age of spin-out public sector mutuals, coproduction and local commissioning consortia.

5.1.1.3 The Power of Local Branding

A co-commissioning hub should be clearly tied to a local place, either through branding or through location, so as to attract local government commissioners to it, as well as local service users.

The idea of unifying the several support structures available to civil society organisations under a common brand is key, as it produces clarity for frontline professionals and co-creators who are interested in commissioning or collaborating on services. The central drive to help platform such brands could come from central government itself, through DCLG or the Office for Civil Society, or from support agencies who step in.

5.1.1.4 The Grant Factor and Opportunities to Minimise Bureaucracy

What is particularly exciting is the opportunity to cut bureaucracy and reinvigorate grants (or indeed blended value loan or equity instruments that ape grants but with additional private investment and results-focus such as the social impact bond) in this new commissioning marketplace. The opportunity is no less than a re-envisioning of what commissioning is and the role of local government in it. The mutual model enables a light framework of standards that in turn enables far more people to take part or be skilled up and avail themselves of services to develop their own capabilities to the end of their communities.

> *"Co-commissioning hubs would be companion mutuals in an age of spin-out public sector mutuals, coproduction and local commissioning consortia."*

We noted earlier the fall in grant funding from local authorities as we enter the contract paradigm. One of the felicities of the new management model is that it resurrects the role for commissioning through grants. Commissioning is often assumed to be concerned solely with competitive tendering, contracting and outsourcing services to civil society or private sector. Commissioners, however, are not obliged to outsource services to a third party; they may instead choose to commission services in-house. However, it would not be appropriate for an organisation to be thus involved in coproduction and then invited to tender for the service against other organisations that hadn't been so involved (this would infringe procurement law on the basis of being anti-competitive), unless all potential providers were involved equally in coproduction/service design, then there would be nothing to stop the commissioner from opening up a bidding completion amongst those providers for the resultant tender, as no one organisation would have been disadvantaged through this process.

However, it would be entirely appropriate for an organisation to be involved in coproduction of a service and then be commissioned to deliver that service through a non-competitive approach such as a grant. The new management model presents an important set of incentives that can breathe new life into grants and give a real push to the coproduction agenda. Civil society organisations could pay co-commissioning hub partners a sub for their services as shop window and trainer. In return, that sub could go to a common pot that incentivises organisations through bonus structures to create value and bring money from public service contracts into the hub. Offering coproduction opportunities to the new range of commissioners would enable local to be 'nudged' and so to reconsider the possibility of using grants to encourage successful coproduction approaches as the only viable means of obtaining the service delivered. Coproduction, given the rules of tendering, makes grants viable again, provided that the bigger network stands behind the receiving charity**. With public sector mutuals and new commissioners enjoying powers of budgetary capture, new services could be granted, measured and reiterated and improved at a micro-local level, without the bureaucracy of the contract process.** With the re-emergence of the grant, certainly for those smaller charities, an iniquity of the current system would be remedied.

Co-commissioning hubs would be a counterpart to the civil companies we recommended establishing in The Ownership State, and could wrap in the community lablets we recommended in The Venture Society. In a similar vein, civil companies could seek to set up their own co-commissioning hubs particular to their own services, so offering a partner venue for their own enterprise and offering bureaucracy-lite grants from their captured budgets in order to create reiterative, responsive services.

5.1.1.5 Using Technology to Pump-Prime Co-commissioning Hubs

There is much that central government can do to improve what is happening at the local level. Low-cost communications technology can play a key role in building the competencies of each organisation and moreover in creating cheaper and better suppliers. Many sound recommendations were made in this regard during OGC Chief Nigel Smith's speech, above. The basic message appears to be one of multiplying the numbers who can bid for contracts and also multiplying and breaking up contracts to allow more people to offer more of what they can. A web application can coordinate these inputs and offer efficiencies.

Organisations like Shop4Support are pioneering the ways that service providers and co-creators are accessing the tools and products needed to create their services. The question is the extent to which Government is able to liberalise its own supply needs and so interact with a new generation of service deliverers. This is a question for now but also for the future. At this stage, we outline some ideas that can make a difference.

We agree that the time to create a portal to enable councils and organisations to allow goods to be bid upon online is now. This open innovation exchange could become a vital online addition to the arsenal of any co-commissioning hub. It could be co-developed by a commissioned entity – perhaps commissioned by DCLG – and then made open source so that the software could be customised by each individual council. We would also recommend that Government convene a pilot to make use of a virtual **Local Skills Exchange** that crowdsources the mapping of service-specific capabilities in its area and so ensures that more capacity-type funding goes directly to useful projects that build capabilities rather than to support organisations. This too, if created through open source software, could then be taken up by other authorities.

The ideal characteristics of such a website would be to enable suppliers to bid for services online, to provide specialist options for co-creators and to host advice and information sessions for people who wish to get started. In this way, it would create an entire civil platform of support and advice around the service.

Case study: Socialevaluator.eu

The social e-valuator is an online tool developed with an aim to measure the social impact of investments made by organisations, not just civil society. The tool on the SROI methodology (Social Return on Investment) as explained above. This tool is devised as theory of change with a view that social investment funds are usually unable to measure the impact they make, which results in misallocation of resources and thus a potential waste of money. With these tools the company aims to:

- provide an affordable tool to **measure the social impact of an investment.**
- to offer better **efficiency** and a higher **transparency** in decision-making and a great **monitoring** process
- to contribute to shaping a new and global instrument for accuracy and professionalism in social impact measurement.

It works as follows:

Step 1 and 2: introduction and theory of change, i.e. to define what the social issue you are addressing is, how you plan to do that, what the urgency and scale of the issue is, and your specific objectives, etc.

Step 3, 4 and 5: information on stakeholders, finances and activities for the company

Step 6, 7, 8 and 9: production output, impact calculation and indicators

Step 10: online report is generated

5.1.1.6 National Competitions

We also see a role for competitions to stimulate public service innovation. One of the most innovative competitions that has stimulated original public service delivery responses in the last few years is NESTA's Big Green Challenge, which encouraged groups to submit transformative ideas in furtherance of a national competition, so building knowledge and social capital.

We can see the immediate benefits of running such a **national co-production challenge** around the public services arena; to actively push solutions through a framework and so kick-start the funnelling and associative effect of these challenges, and encourage co-production through hubs – and the formation of such hubs in the long term. The prize for the Big Green Challenge was £1m. A substantial prize pot should be part of any funding Government is able to provide towards supporting co-commissioning hubs.

The key would be, with the onset of any such challenge, to enable the co-commissioning groups to stay together and to see how coproduction evolves in the long term and the sort of outcomes it brings. Such longitudinal analysis – for those who are unsuccessful as well as successful – is important and can help us create better measurements for success, which we come to later in this chapter.

5.1.1.7 Funding

Government should seek to support the creation of such hubs and similar measures that bring civil society groups together in ways that enable them to provide a strong offering and in a structure that encourages coproduction with service users. This fits in with their agenda of looking to the future of Voluntary Sector Infrastructure and the capacity question as a companion to the commissioning question. We welcome the coming White Paper on these matters and would recommend that Government explore its role supporting multi-commissioner markets therein.

We want to see government use its influence and position to help create local funds and bonds that blend philanthropic, private and even public capital and expect a return in the longer term. We shall come to these instruments and how government can support their creation in the next section.

The government's recent consultation on the future of support is yet to report. However, there will undoubtedly need to be a change in approach to funding and supporting civil society organisations bidding for public services. If government funds are to be made available for this purpose, we would urge them to be invested in helping consolidate a hybrid fund that marries the best of certain previous approaches. A community co-commissioning fund should enable organisations with suitable management plans to purchase community assets and so petition their local authorities to set up co-commissioning hubs. Based upon previous government investment in this area, such as a Community Asset Transfer Fund (£30m over three years) and Communitybuilders (£70m over three years), a challenge fund of comparable size would be appropriate, and so would be far less than what has previously been spent on direct capacity building support, for example Capacitybuilders, at £230m. There are also alternative sources of funding available. We would expect to be able to raise funds from organisations such as the Big Lottery Fund or other existing support funds. **This would add to any start-up funds Government might be able to directly commit to create a targeted step-one incentive programme to aid both the drive to create civil companies and attendant co-commissioning hubs, and a prize fund for co-produced public services.**

5.1.2 The Civil Effect: the Enduring Possibilities of Consortia

We are excited by the enduring possibilities of consortia to support the wider co-commissioning hub model and help deliver a truly competitive civil society in the services marketplace; and we are confident that, despite the many experiments in the area, the frontiers of success are yet to be trammelled. As we have seen, super-consortia have already helped civil society organisations win a large DWP contract. The future must lie in optimising these models.

As argued above, we are impressed by the role that mini consortia have played in constituting the more informal partners of the EarlyArts model. The key that could leverage the benefits of more collaboration is to move from a consortium centre that acts as a prime provider, bundling, organising and managing contracts, more towards a role as an associative centre, around which the involved civil society groups can associate and swap skills. Co-commissioning hubs could be crucial in this regard, building semi-permanent networks of trust from which future super-consortia could win larger contracts, after the manner of the trailblazers.

The Networked Consortium

Fig. 24. The typical current model

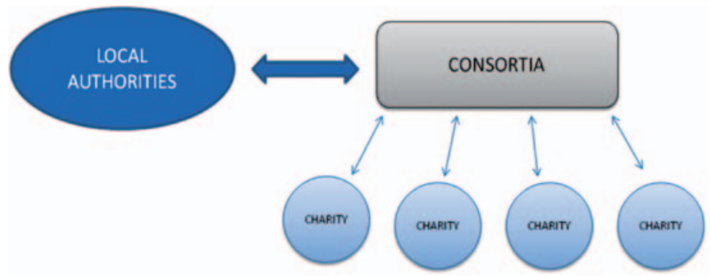


Fig. 25. The relationship between the charities and consortium convenor amplified

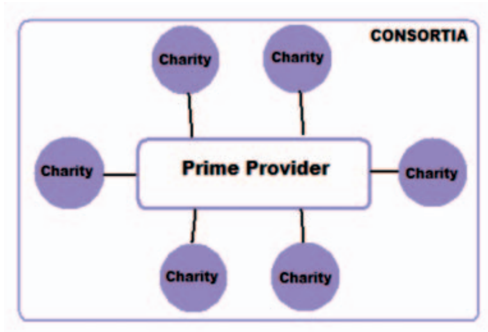
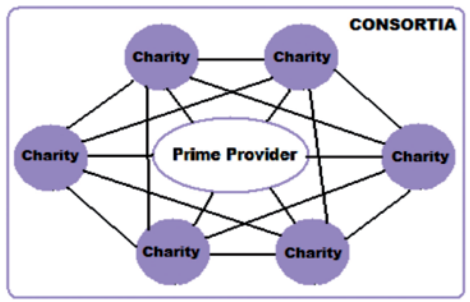


Fig. 26. The ideal relationship: associative, non-bureaucratic, matrix of relationships



Consortia are not for every civil society organisation. But for those who are interested in creating one or being part of one, there are some 'quick wins' that should form immediate amendments to the commissioning space.

5.1.2.1 Quick Wins: Rule Amendments

To reach this point, we will need to push for reform around persistent commissioning rules. In addition to the structural issues, the road to understanding the needs and requirements if we are to see a big bang in consortia and joint commissioning is fraught with small regulatory obstacles. Having civil society organisations associate in this way can provide multiple wins, provided that the purpose of the consortia is not to deflect them from their essential mission. The motivation that emerges from justice and especially social justice is one of the most powerful tools around, and to subordinate that to any sort of provision structure is a large price to pay.

That is why we would argue that:

- Commissioners should change the way they assess experience in management bids to cope with the new consortia paradigm. They should take into account the operational experience of not just the prime provider but of all the partners in a particular tender.
- Commissioners should review guidance of balance sheet requirements.
- Commissioners should reassess the rule that 50% or more of the contract should be delivered by the prime provider.
- Britain should amend its commissioning law to block the disregard on competition for social enterprises.

Allied with a greater network of support infrastructure, the possibilities for more associative consortia would thus be multiplied.

5.2 Getting Blended Money to the Local and National Level

One of the most striking things about good social franchises is that they blend philanthropic, public and private funding in order to achieve their ends. As such, for a 'mass local' – to use a NESTA term – approach to work, it requires 'mass local finance'. As we saw in chapter three, there are several important developments in this regard that government can and must support.

5.2.1 The Role of the Big Society Bank

Here, the Big Society Bank will be crucial. While the first funds from dormant accounts money will emerge in April 2011, now is an opportune moment to restate the role of the Big Society Bank in helping fund service-delivering organisations.

The instinctive conception of it is to suggest that it should not seek to offer instruments that cater specifically to public service delivery, but that it should rather wholesale funds to local CDFIs who make the relevant decisions. This, so the argument goes, would take the government out of the arena of 'picking winners'.

However, there is no doubt that, if we are to fund the aspirations of the big society, in terms of creating capacity for organisations to bid for contracts, to create innovative tenders and enjoin service users in coproduction; as well as to create wider cultures of social entrepreneurship and community action, certain instruments will need to be developed by the Big Society Bank if we are to secure the mass local economy that we need to provide cashflow and lever in private funding to underpin work.

Will the Big Society Bank be able to fill the needs of being a research and development organisation as well as a wholesaler? It depends on the amount of money leveraged in from dormant accounts. The era of a government-financed loan fund is over. However, as we have argued elsewhere, the worst of all worlds would be that the Big Society Bank becomes nothing more than a series of pilots, which is possible if it attempts to do too much with limited funds.

As such, we would moreover urge the Office for Civil Society to privilege the creation and investment in local forms of blended finance, such as evolved forms of the CityLife bond we outlined in chapter three. CityLife bonds that seek to invest directly in more evolved local support structures such as co-commissioning hubs would form a powerful offering for private sector involvement in the health of local civil society and community action. We would urge the Big Society Bank to seek to support service delivery in this way, furnishing the needs of wider civil society as well as those who deliver public services.

For organisations bidding for contracts at the national level, or with a wider reach, we would urge the Big Society Bank to examine the case for a specialised product for next-generation consortia, and for an evolved social impact bond, as approaches that can lever in public and foundation funding on a scale large enough to warrant private investment.

Here, we provide our own brief analysis of how the bank will best help, not as a provider of loan finance, but as a wholesaler and driver of the move towards the blended economy.

1) It should address a fundamental market need: The bank's objective should not be limited to increasing the volume of money into the sector, but also to deliver the best practice in this market, something that the traditional funding market for this sector rarely delivers: long-term risk capital linked with capacity building advice.

2) It should be a co-investor in the sector: This bank will act as a growth vehicle in the social investor market by investing alongside recognised intermediaries in this space as a **co-investor.** The goal is to encourage diversity of supply in a robust market of intermediaries that will engage directly with frontline organisations.

3) The purpose will be to encourage others to invest, preferably on a matched fund basis. It could co-invest directly in a specific opportunity or act as a cornerstone investor in new funds. It will have the flexibility to support a wide range of transactions ranging from grants through to loans and equity or quasi-equity.

4) It should act as catalyst for accelerating the growth in the market: By working as a co-investor to support and strengthen the currently small and fragile ecosystem of intermediaries. It should work to create systems of localised finance that support local organisations and meet their cashflow requirements while banking on the demand they save the state or the future interventions they make and the cashflow they receive as a result.

5) It should be an informal advocate for the sector: it should act as a champion of social investment and support other intermediaries in making the generic 'sell' to mainstream capital, such as banks and pension funds. The advocacy role would extend to showcasing scaleable solutions to stubborn and expensive social problems. The aim would be to persuade government departments to adopt these solutions and co-facilitate an exit for early stage investment capital which can then be recycled.

6) It should seek to improve lives in deprived communities: It will have a specific investment focus. It will only invest in not-for-dividend organisations that are seeking to improve lives in communities which are relatively deprived. The mandate will extend to organisations that are developing social models that could be franchised in relatively deprived communities.

The idea that a short-term boost to the market can come from such an intermediary is a good one. It should have a limited lifespan and look to increase the resilience of the market. Its success would not be measured by the quality of the market it leaves behind after a five-to-eight-year time frame. It should also be judged on the evidence it creates, about the new marketplace of social bonds and similar products.

5.2.2 Social Franchising

As we have seen, social franchising can be a key builder of social capital and innovation, but with only a few pioneering examples, especially in the service delivery arena, more has to be done to understand why more networks are not emerging. We recommend further work be done on the barriers to more widespread social franchising. ResPublica will report on this in upcoming publications.

5.2.3 Measurements

Technology offers new ways to create measurements in relatively quick time. We noted above, for example, the presence of an online SROI-ready reckoner as a simple but powerful technological tool. We would urge government to use its influence to encourage co-commissioning hubs to innovate in terms of measuring its organisations' impact and spread that innovation further afield. There is no reason why, for example, new measurements such as eBay-style feedback systems could not be implemented into the co-commissioning hub network, so that service users could access the hub website and vote on the quality of service received, thus providing commissioners and civil society organisations with feedback and enhanced reputation that they can leverage in lieu of bureaucracy for more contracts and grants.

The incentives for innovation are built into the hub model; however, new impact measurements are emerging all the time. It will be for the Office for Civil Society to keep abreast of developments and work to spread good practice through the sector and its support hubs. To determine ways that the state does not measure or specify its outcomes, but enables users and communities to specify those measurements through such feedback systems. A working group should consider these issues as a matter of first instance.

5.2.4 Money into Good Commissioning Practice through European Means

The Office for Civil Society should also do more to lever money from the European Social Fund into UK civil society by taking its pioneering practices and creating exchange programmes and networks that swap solutions abroad. The potential funds available are vast – they run into the billions – and could be transformative. We recommend that **a working group be convened by the Office for Civil Society to scope the possibilities for more international work – and how Government, or indeed the Big Society Bank, might provide indemnity funding or brokerage for such international ventures, with an appropriate measure of return.**

5.3 Associative Capability Building

Improving the capacity of commissioners, both to understand civil society and to make informed choices in the new marketplace, will be a significant challenge.

A potential invaluable resource in this regard could be the Third Sector Research Centre; match-funded by Government and the ESRC, this has a purely academic function currently. We have used many of its papers in producing this work. However, even more could be gained from this resource were it to be directed more assiduously at the commissioning and measurement process itself.

We recommend that the Third Sector Research Centre be encouraged to develop a member network, with members sitting on co-commissioning hub boards. This would enable future research to be more directly focussed and attuned to the needs of the marketplace.

We also have an opportunity, within a more democratised commissioning framework, to **use communications technology to open up the capability building space to more people with spare time and experience.** New retirees, business people, and professionals on sabbatical should be encouraged to join virtual advisory boards, or to help bring on co-commissioning hubs. The hub should by nature be an open space, a place of business and collaboration. Spreading the net wider would enable different cultural attitudes to enter the support space, as well as different forms of business training and product specification, and here a web portal can play a vital role in building a civic platform. Leveraging the time and expertise of such people is the essence of the Big Society agenda.

5.4 The Civil Effect and the Commissioning White Paper

We would urge the government to consider the recommendations around commissioning and support that we have described already in their review in addition to considering the debate around the following recommendations.

One recommendation that may have some merit, but that will also create an expenditure on Government whose merits would have to be carefully weighted, would be to introduce some form of loan guarantee scheme for service-delivering civil society organisations. This has some merit in a time of reduced bank lending; however, in a time of reduced public sector expenditure, it also carries risks.

One way to mitigate this risk would be to focus the loan scheme on joined up commissioning. A civic loan guarantee scheme would seek in the first instance to break with indemnifying single organisations and instead focus upon the benefits of hub-based, super-commissioner or super-consortia funds that we have shown to be able to get more organisations delivering the services we need.

We note that prior to the election, the Conservative Party sought to get credit moving in a stagnating small business environment by providing a loan guarantee scheme for small businesses worth £100m. Since the election, this scheme has fallen into abeyance. However, we regard it as having been sound, based on the idea of incentivising banks and other intermediaries to help us provide services that we will increasingly need as the shadow recession takes hold.

There was little publically announced about the possibility of extending this scheme to civil society providers who deliver public services. While the Big Society Bank will help fuel and pump-prime the social investment market, there can be no doubt that this is a medium to long-term vision. A loan guarantee scheme for joined up commissioning could form an intermediate measure.

Another, more controversial possibility would be to enact a **delivery infrastructure levy** on prime providers delivering public services. This would take the form of a small amount of seed capital for sub-contracting organisations in a prime provider model offered by the private sector provider to its sub-contractors as a condition of being awarded the contract, which the voluntary organisation could then use to attempt to attract private funding (or indeed a Big Society Bank instrument could be constructed around it). It would be a similar targetted form of the section 106 or community infrastructure levy that compels private developers to build items of social benefit into their properties.

We list below some additional discussion points that warrant investigation as part of the White Paper as our commissioning practice moves into the future:

- encouraging participation in design of commissioning services and tendering at all points of the cycle
- simplification of PQQ and tendering procedures and the idea of a single skeleton PQQ with prefilled fields available online
- the role of full cost recovery plus and whether management charges can be part of the tender fewer bureaucratic rules for the sector, so that it has easier access in certain public sector environments such as health and education where it can make a real difference. We note that some of these may fall under the remit of Lord Hodgson's review of the bureaucratic rules around civil society organisations, to report in February 2011.

5.5 The Future

One of the starkest follies of the last decade or so was the emphasis on using the centre to drive provision. One is tempted to reject this orthodoxy completely and instil some kind of local bias in our commissioning process in order to ensure that it is not repeated; however, this would fall foul of the same disease. Instead, we welcome the coalition's commitment to local approaches, the steps they have already taken, and urge them to continue moving away from the audit and compliance model and towards more local, relational approaches to accountability.

The commitment to localism is not only structural in quality. The future is located in these networks that carry ever smaller, more dynamic units that are flexible and responsive to need. We noted earlier how the commissioning landscape is due to change in a few short years through technology and its effects, with contracts and grants being bid for online in unbundled form and more providers offering the cheapest possible prices for Government, either by online auction or through an Amazon.com-style clearing house. In such a situation, communications technology will be ever more important, and the Government's grasp of it will be key. A localised strategy that understands the benefits of open source, for example, and the empowering effect of customisable, reiterative community portals, as has been created by the Obama government in the US, is key to this. Beyond that, we need nothing less than a new delivery meta-policy, as we discussed in the previous chapter; one that emphasises the small, the local, the civil and that tracks the hidden wealth of relationships and the transformative nature of social justice-driven action. This will take more investigation and understanding of the possibilities of this new 'big society' paradigm. The potential rewards, though, are immense. A more vibrant, capitalised civil society; an end to the bureaucratic malaise of the previous decades; and the possibility of genuine community control and social action that does not just change lives, but also empowers. Investing in this sort of Social R&D will reap rewards that we need if we are to have the public services that we desire and that we deserve.

The Social Investment Business

The Social Investment Business is the UK's fastest growing social investor. Our mission is to strengthen and transform new and existing civil society organisations, helping the sector do more of what it does best – supporting people and communities most in need. We operate across England, managing almost £400m of government funds, offering grants, loans and business support to help the sector prosper.

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Design for ResPublica by BCDesign - Paris