Whither value?

Voluntary organisations and the delivery of public services

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About the author

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Winners and losers

In 2015, the UK Civil Society Almanac reported cuts in central and local government spending with the voluntary sector had totalled £1.9bn since its peak in 200/10 – a fall of 12.5%[1]. This is in the midst of the Coalition Government's austerity programme, which saw spending on public services fall by 4.4%[2]. £900m of this fall was accounted for by losses of public sector contracts.[3]

Yet despite the downward pressure on public spending many large private companies have continued to win significant number of contracts and increase their revenues from public sector business.[4] In 2013, the National Audit Office conducted a review into the role of major contractors in the delivery of public services analysed the role of four major 'outsourcing' companies: Atos, Capita, G4S and Serco.[5]

It found that these four companies occupied a growing role in the delivery of public services, being responsible for delivering around £4bn in public service contracts in 2012-13. The top 20 companies receive around £10bn in public service contracts.[6] Although small in the context of the estimated £93.5bn of spending on goods and services outsourced by central and local government, these large companies have come to occupy a strategically important position in public service delivery, often being the prime contractors for key programmes and covering a wide range of services beyond service delivery.

As the Institute of Government has noted, data on suppliers of public sector contracts is poor particularly for small and medium sized organisations. Voluntary sector representative bodies have been pressing the government to do more on transparency and the next government should do more to make data on non-public sector providers of public service providers more comprehensive and easily accessible.

Although the NAO did not provide specific data on the growth of these companies UK public sector revenues over the course of the Parliament, the revenues of all four companies have grown – in some cases significantly, with Atos recording an 86% rise in revenue. One of the primary drivers behind the "rapid growth" of these large contractors was their success at winning new public sector contracts and the acquisition of small and medium sized companies delivering public services.[7] In a year when the voluntary sector lost £886m in contracts, these large private providers saw their income grow by £551m according to the NAO data.

[1] https://data.ncvo.org.uk/a/almanac15/government/
[2] Institute of Fiscal Studies, Green Budget 2016, p.126
[3] https://data.ncvo.org.uk/a/almanac15/government/
[4] A trend that was also identified by Social Enterprise UK's "Shadow State" reports in 2012 and 2013
[5] "The role of major contractors in the delivery of public services", National Audit Office, November 2013
[6] Public data, private providers, Institute of Government, June 2014
[7] Ibid., p.26-27

Table 1 – Public sector revenues of "big four" government outsourcers 2010/11-2012/13, (£000,000)

Company	2010/11	2011/12	2012/13
Atos	904	1195	1679
Capita	2607	2823	3232
G4S	1548	1591	1851
Serco	2586	2587	2731

Their growing importance comes at a time when the market is likely to grow significantly in the years ahead. Arvato's UK Outsourcing Index has reported that the value of public sector contracts grew by 168% in the first quarter of 2014, with local government seeing a 58% year on year increase in deal values.[8] This trend appears to have continued in the first quarter of 2015, with a 26% rise in government spending on outsourcing deals.[9] The Government has also published a pipeline of public sector contracts worth over £177bn across 19 sectors to encourage potential providers to make the necessary investments.[10] To take one example further, Capita PLC has seen its revenues grow by over £1bn between 2012 and 2015, primarily driven by public sector outsourcing. It has an average revenue growth rate of 12.4% per year currently.[11]

This development is of interest for the voluntary sector because it indicates that although there have been cuts in overall public sector spending, it is not inevitable that its income from the public sector should fall – or at least fall as much research indicates it has done. Ministers at the start of the last government stated that although there would be a smaller contracts 'pie', the sector should win a bigger slice.

The question that is raised by the success of these major companies is: how have they managed to keep growing their businesses in the midst of cuts in government spending whilst charities have struggled?

It is particularly important because the last government made one of its core objectives through the *Open Public Services* agenda, increasing the role voluntary organisations and social enterprises in provision.[12] There is also a market benefit from an increased role for voluntary organisations and social enterprises as increasing the role of these organisations will help to make the market place more competitive, improving the choice and quality of providers available to public sector commissioners.

This paper will argue that the reason behind the success of these major contractors is two-fold.

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[8] "Value of UK public sector outsourcing deals up 168%", Public Procurement Insider, 19th May 2014 http://www.publicprocurementinsider.com/2014/05/19/value-of-uk-public-sector-outsourcing-deals-up-168-in-q1-2014-infographic/
[9] http://www.arvato.co.uk/outsourcing-index/2014-full-year-review
[10] https://www.gov.uk/government/news/billions-worth-of-potential-public-contracts-published
[11] http://markets.ft.com/research/Markets/Tearsheets/Forecasts?s=CPI:LSE
[12] Open Public Services, July 2011

On the one hand, the public sector is not structured in a way that enables it to fully account for the social value[13] generated by providers and to benefit from long term savings created through social value-sensitive commissioning and procurement.

On the other hand, the voluntary sector is not structured in a way that enables efficiencies to be easily generated, raising the price of its services and thus disadvantaging organisations it in the contract bidding process. Although some of this inefficiency is balanced by the increased specialism that is created by having distinct organisations building expertise and relationships within local communities. This is particularly important in the midst of a tough spending environment.

What's valuable?

The UK public service market is fragmented with a wide variety of different bodies purchasing services for key public services. Central government departments, non-ministerial departments, devolved governments, local authorities, police and crime commissioners, clinical commissioning groups, foundation trusts, academies and many other quasi-autonomous nongovernmental organisations all purchase goods and services on behalf of the public.

Sometimes they operate in partnership, but more often than not, they continue to purchase goods and services individually, with only their core purpose[14] (improving health outcomes, educational outcomes, public safety outcomes) in mind.

This is partly due to the organic nature of the growth of the British state which took place over hundreds of years, rather than a thoroughly designed system. It is also due to the centralised nature of the British state, with the UK recognised as one of the most centralised states in the developed world.

The challenge for this fragmented system is accounting for the value of public spending holistically. Take Public Body A (PBA), a health commissioning organisation. While PBA may be able to account for or track additional value created through a service delivering better health outcomes[15], due to a lack of knowledge or resource, it cannot account for or track additional value created through better educational or public safety outcomes. As a consequence, PBA is likely to ignore this value, however important it may be for the local community, and focus purely on health outcomes which it more fully understands and can account for.

Moreover, there is no reward for PBA, even if it was to be progressive and consider additional value created outside of its core remit. For example, if PBA was to commission a

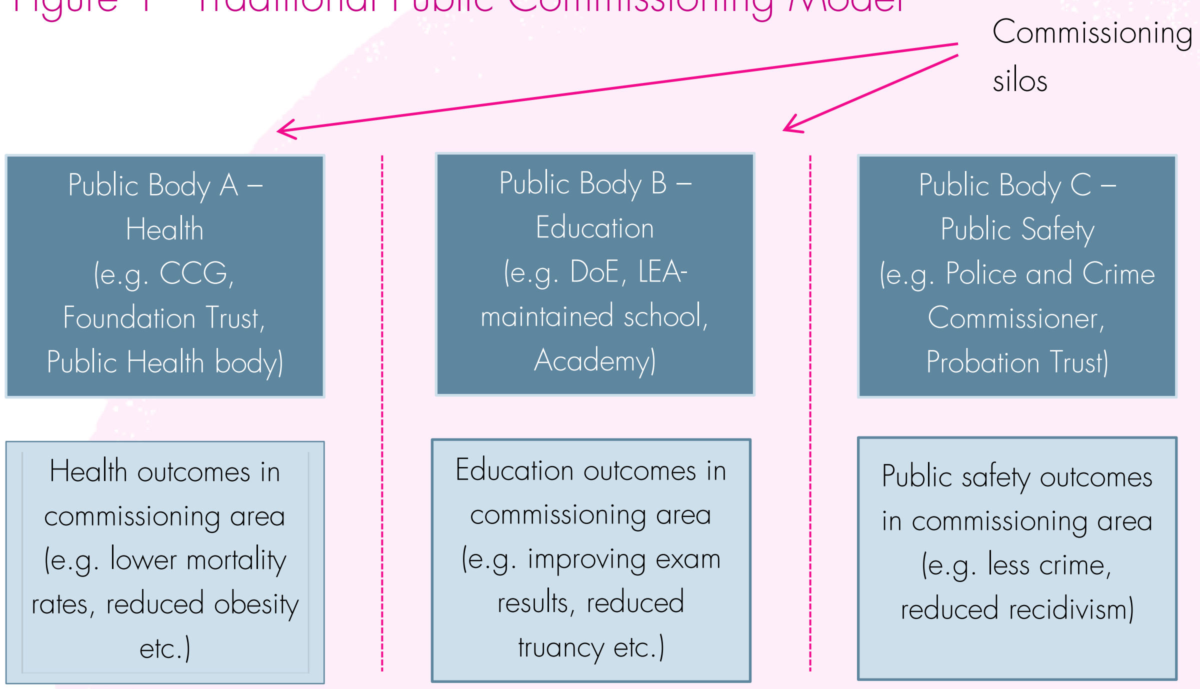
[13] Social value is defined as the additional social, economic and environmental value created by a public service provider above and beyond the delivery of a service, good or work.
[14] Arguably many bodies do not even think in these terms but rather in terms of outputs or maintaining a level of provision. However, this paper assumes that organisations are focused on outcomes rather than just output despite regular reports to the contrary.
[15] Measurement of value is hard and it is important that this is proportionate. Many public bodies are moving towards better outcomes measurement, but the process is slow. There are also risks that measurement can be ‘gamed’ by larger organisations which have the ability to ‘steer’ commissioners to those outcomes which their business model is most able to deliver.

service which is likely to significantly improves public safety, the savings would accrue to Public Body B (e.g. local police and crime commissioner), rather than PBA. This is because A’s budget would be unaffected by these outcomes, whilst PBB would potentially see a reduction in demand and thus have to expend less resources to achieve its desired outcomes. PBA would not, therefore, be rewarded for what the community would consider “good commissioning” but PBB would see the benefits, without necessarily having done anything particular to support it.

There are limited incentives for good commissioning from a corporate point of view, and this hampers the implementation of proposals to improve commissioning such as the Public Services (Social Value) Act 2012 or the soon to be privatised Commissioning Academy which seek to “encourage”, rather than mandate, this kind of commissioning. Warm words from Government on the importance of good commissioning and breaking down silos are also unlikely to lead to any practical changes. Civil servants and officials are held to account for key performance indicators and service delivery requirements that reduce incentives to think broadly in terms of their impact. It also encourages public bodies to parcel up the community into certain aspects, which in fact is an organic and diverse whole.[16]

The outcome is roughly sketched out in Figure 1 below. Public bodies are focused in narrow areas, and then commission for outcomes in those areas. As a consequence, artificial barriers are created between commissioners who are ‘blinkered’ to focus only on those areas that they are directly responsible for.

Figure 1 - Traditional Public Commissioning Model



[16] A good example of how this could be changed is Durham County Council, which has a comprehensive Sustainable Commissioning and Procurement Policy which can direct the work of commissioners and procurement officials and recently won a Social Value Award http://www.durham.gov.uk/media/1022/Sustainable-Commissioning-and-Procurement-Policy/pdf/SustainableProcurementPolicyStatement.pdf

This commissioning structure runs counter to all the evidence that has emerged on how to make interventions by the state more effective[17]. The "Troubled Families" Initiative, for example, developed a holistic approach to tackling breakdown in families recognising that the most complicated social issues cut across these commissioning silos. This was further endorsed recently in the interim report of VCSE Health & Care Sector Review.[18]

It also runs counter to common sense. Individuals are not part-health, part-education, part-public safety, part-local economic development. Interventions or services delivered to them in one capacity inevitably bleed into others. As the standardised service delivery of the 20th Century morphs into the personalised service delivery of the 21st Century, the public sector is woefully unprepared for this change because structures are still organised in a traditional manner.

Moreover, if it is assumed that there can be equivalence between different outcomes (or at least standardised unit measurement can be developed) then it doesn't matter for the community who has commissioned services that have created this value. It only matters that it is being created and that it is meeting local needs.

While this may be a great loss for the public sector (and the community as a whole), it is not obvious why this should negatively affect voluntary organisations in particular when it comes to the delivery of public services.

This paper argues that this system of commissioning and accounting for value disadvantages voluntary organisations, because they generally work in a holistic way, focusing on social outcomes for their beneficiaries as a whole, generating significant social value that cannot be taken into account by commissioning bodies.

Whose value?

Voluntary organisations seek to generate positive social outcomes for their beneficiaries. If they have charitable status then they are legally mandated to focus on achieving their charitable objectives, although they are often broadly defined. These objectives encourage voluntary organisations to think broadly about their work and to develop approaches that generate the best outcomes for their beneficiaries.

Many voluntary organisations that deliver public services are not set up to provide a specific service, but rather are set up to achieve high level outcomes (e.g. reducing poverty).

As a consequence, voluntary organisations tend to adapt themselves around the needs of their users in a holistic way providing services or interventions that achieve these outcomes, rather than exclusively focusing on providing a specific service – often the reserve of the

[17] An excellent example of this was the Allen review into Early Intervention, January 2011, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/284086/early-intervention-next-steps2.pdf

[18] Joint review of investment in Voluntary, Community and Social Enterprise organisations in health and social care sector, Interim Report, March 2015 http://www.voluntarysectorhealthcare.org.uk/EasysiteWeb/getresource.axd?AssetID=40627&type=full&servicetype=Inline

public sector. The upshot of this is that voluntary organisations provide services that often generate significant amounts of social value because they spill-over into many other service areas. This is outlined in Figure 2.

Figure 1 - Traditional Public Commissioning Model

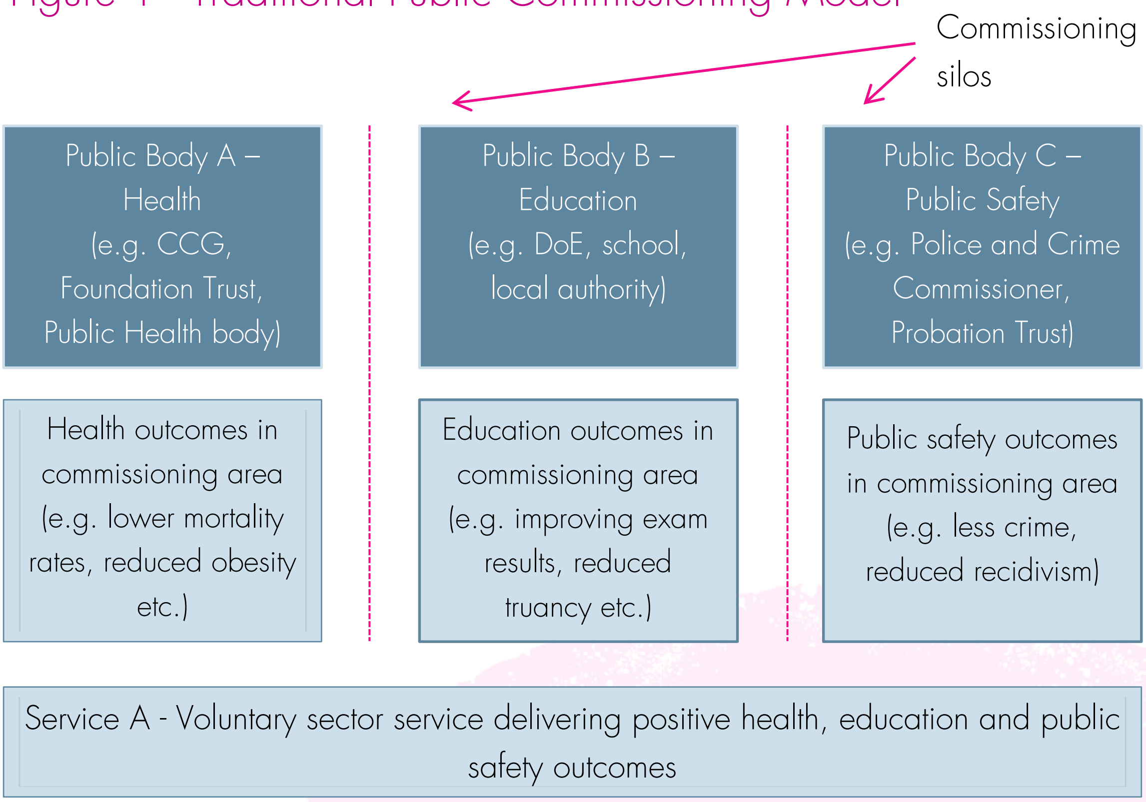


Figure 2 is an abstract representation of this, but there are countless examples of voluntary organisations which have silo-cutting interventions that generate benefits across health, education, public safety etc. But Figure 2 also highlights how the silos with public sector commissioning and procurement are not designed to recognise or capture the total value of a service, let alone its social value. When Service A is delivered, different parts of the public sector can only accounts for limited parts of its value. Again, this has practical outcomes. Let us assume that Service A is being funded by Public Body A. It generates £100000 worth of social outcomes[19] but it costs £50000 to deliver the service[20]. This seems like an excellent deal for the public sector as it is generating £2 of social outcomes for every £1 of spending. However, if in this example the positive social outcomes are evenly distributed across the three outcome areas above[21], then we can see that it only generates £33333 of health

[19] This paper does not endorse a monetisation of social outcomes, but merely uses this approach for simplicity. “Value” and “worth” are always contested concepts.
[20] It should also be mentioned here that voluntary organisations often subsidise funding for the delivery of services. The latest data from CFG’s *Finance Count* indicates that for many organisations breaking even or a small loss is the best that can be hoped for.
[21] Recognising that it is highly likely that a voluntary organisation providing an education service is likely to be skewed towards educational outcomes, the point of this example is that it shouldn’t matter from the macro level. For Community A, if £100000 of social outcomes is being created then how it is distributed is irrelevant, to the extent that it meets local need. It is only relevant for Public Body A, and this is the central problem in the structure of public service commissioning.

outcomes for £50000 of spending by Public Body A. Therefore, to the 'siloed' Public Body A this seems like a terrible waste of public money which should be either cut or replaced with a cheaper/more effective intervention.

Service A may be saved if Public Bodies A & C talk with B and highlight the value created in their areas – but they may not have regular discussions. Even if they are talking, Public Bodies A & C may have no way to account or demonstrates these savings, so the £66667 of additional social outcomes are merely a phantom for Public Body A.

Moreover, even if they are talking and can account for these savings, as mentioned above, there is no way for the benefits to be accorded to Public Body A. The officials and commissioners have no incentive to consider these savings in the final decision making process because they will not be judged on total savings or total impact for the local area – only in their specific area of responsibility.

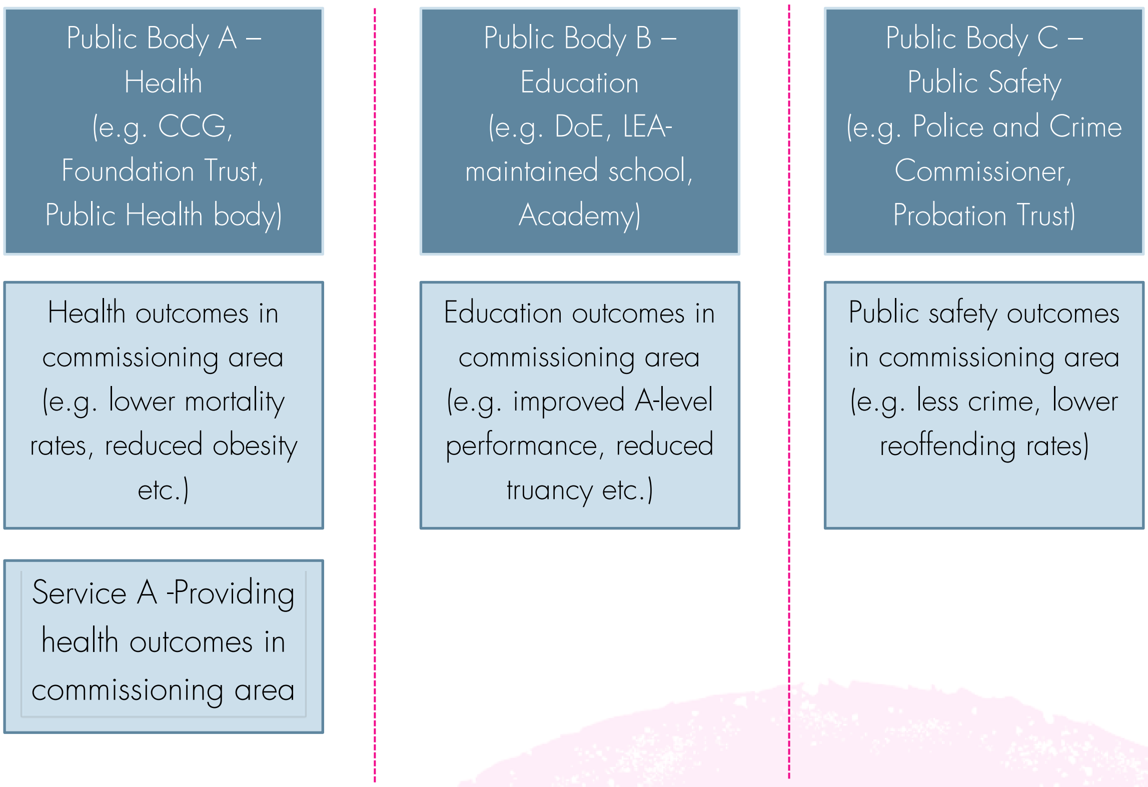
In any case, it is not hard to see why voluntary organisations are often disadvantaged in the procurement processes. While this can be rectified through good commissioning (i.e. building services that seek to generate social value, better communication between commissioning bodies), often this can still result in defeat when it comes to the tendering process as the consideration of value generated, is still not broad enough.

Voluntary organisations (or other socially focused organisations) do not operate exclusively in this space, however. As highlighted above private businesses also seek to deliver public services. Their motivations are significantly different to voluntary organisations, focused primarily on maximising profit and owner/shareholder value.

In general terms, for a private business the aim is to generate valued outputs or outcomes at the cheapest possible price, at the minimum standard that does not undermine the long term sustainability of the company, with the maximum amount of profit. Sometimes a business will seek to improve quality or generate social value, but usually only because there is a market incentive (e.g. public bodies favour "socially responsible" businesses or they recognise the need to take action to improve the long term sustainability of the market). However from a corporate perspective, a business is not motivated by a desire to achieve social good – any additional value it generates is *incidental* to the profit motive. The fundamental principle of the competitive market is that the 'invisible hand' generates positive social outcomes *despite* the unsocial behaviour of its participants. Social sector organisations are directly opposite in the sense that positive social outcomes are generated *because* of the social motivations of the organisations.

For a private business, therefore, there is no reason to deliver social value through additional social outcomes in the delivery of a service, unless it is compensated financially by the commissioners or needs to do so in order to increase its chances of gaining the contract. Figure 3 develops this further.

Figure 3 – Private businesses delivering services



Taking our previous example, Public Body A is retendering Service A. Private Business A now decides to bid for this service. It can create the educational outcomes that Public Body B accounts for, worth £33333 for the cost of £33333 (with £3333 of profit). This is in contrast to our voluntary sector example which delivered £33333 worth of educational outcomes for £50000, from the point of view of Public Body B.[22]

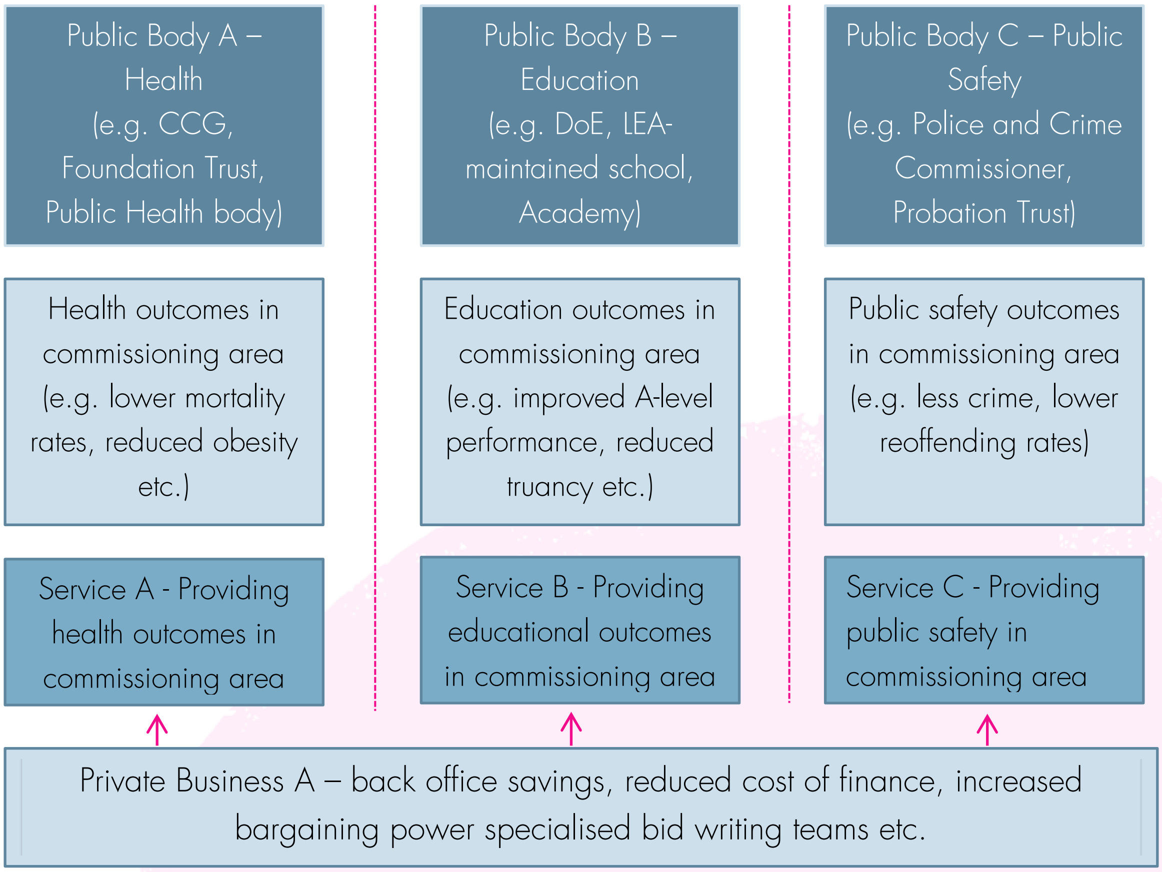
For Public Body A it is an easy decision to make, the private business should win the contract to deliver Service A and the Public Body will make a saving of £16667, which can then be "reinvested" or alternatively, banked as savings. However, from the point of view of the community living in the area, they will see the loss of £66666 worth of social outcomes which far outstrips the £16667 cost saving. **The problem is that this is perfectly rational behaviour from the point of view of Public Body B and this explains why this kind of outcome is reported so frequently by voluntary organisations.**

The perversity of this system can be seen if taken to higher levels. If a large private business' structure is deconstructed. The business does not exist to serve its community but

[22] It should be noted that this abstract example assumes that the private business service will not have any spill over effects, of course, in many cases private interventions will have spill over effects similar to voluntary organisations. However, this author would argue that these are less likely because a) they are not aiming to generate maximum positive outcomes for service users as a whole and b) they are likely to match their services to a specific commissioner's needs rather than considering the local population in the round.

rather to serve its customers. If Business A could structure a service to generate x social outcome for y customer, but y customer does not want it or will not want to pay for it, then it will try to strip out costs related to x social outcome. Therefore, when bidding for the delivery of contracts, it is more likely to narrowly focus on providing exactly what the customer is asking for and no more.[23] Figure 4 demonstrates this but also shows the value accrued to a large private business working across multiple areas.

Figure 4 – Large private businesses delivering services (2)



As Figure 4 shows the larger business is able to generate significant savings through sharing back office functions (whether that is through HR, IT, savings with suppliers etc.), reduced cost of finance due to size, gathering learning from across different sections of its business to improve efficiency and increased bargaining power: which can help maximise business opportunities and improve its shareholder value.

Take our example from before. If there are three public bodies commissioning services advertised at £33333 each to generate £33333 worth of social outcomes in their particular areas (health, education and public safety), then Private Business A has an incentive to deliver the service exactly worth £33333 of social outcomes at £33333. Even if due to savings and specialisation, size, finance etc. it can deliver these outcomes at the cost of

[23] Unless it can convince Public Body A to demand what Private Business A is uniquely able to provide, in which case it may generate additional outcomes but for which it will charge for or add some other incentive (longer contract time).

£30000 for each service. It may seek to bid for less than £33333 to gain a competitive advantage and reduce its price down to £30000 and still turn a profit.[24] But if it is able to run each service for £30000 across all three contracts and receive £33333 for each service contract, then it generates £9999 worth of profit which can then be either reinvested or paid out as dividends, bonuses etc.

Value is being created, but it does not accrue to the community or the public body contracting the service, it accrues to the owners of the business or management behind closed doors. Public bodies and communities may receive a share of the savings if the competitive process forces Private Business A to cut its costs to win a tender but in some markets this is not guaranteed (and the increasing aggregation of contracts limiting the pool of providers reduces the bargaining power of the public sector further).

It is not difficult to see, however, how the fractured nature of the public service commissioning environment favours the larger private business rather than smaller businesses or voluntary organisations, which can play the system effectively.

From the theoretical analysis above, there seems to be two remedies that present themselves.

Firstly, we need a way to better account for the value accruing to the community from the delivery of public goods and services. A broader accounting of value across silos will give a truer picture of the value of services and reward organisations that create as much social value as possible.

Secondly, we need a way for voluntary organisations (or small providers in general) to better come together to reduce costs so that they can win in the tendering process. Contracts will always have a cost element to them, and voluntary organisations cannot deliver social value with no consideration to how to reduce the costs of producing it.

[24] Some larger businesses will even bid at a slightly loss in terms of profitability if it wards off other competitors or it can subsidise after parts of its business delivery, which helps it retain margins elsewhere. This would explain why there have been recent reports of major contractors losing money on public service contracts.

Community Budgets

This section deals with the first issue through the vehicle of community budgets.

Figure 5 – Community Budgets and service delivery

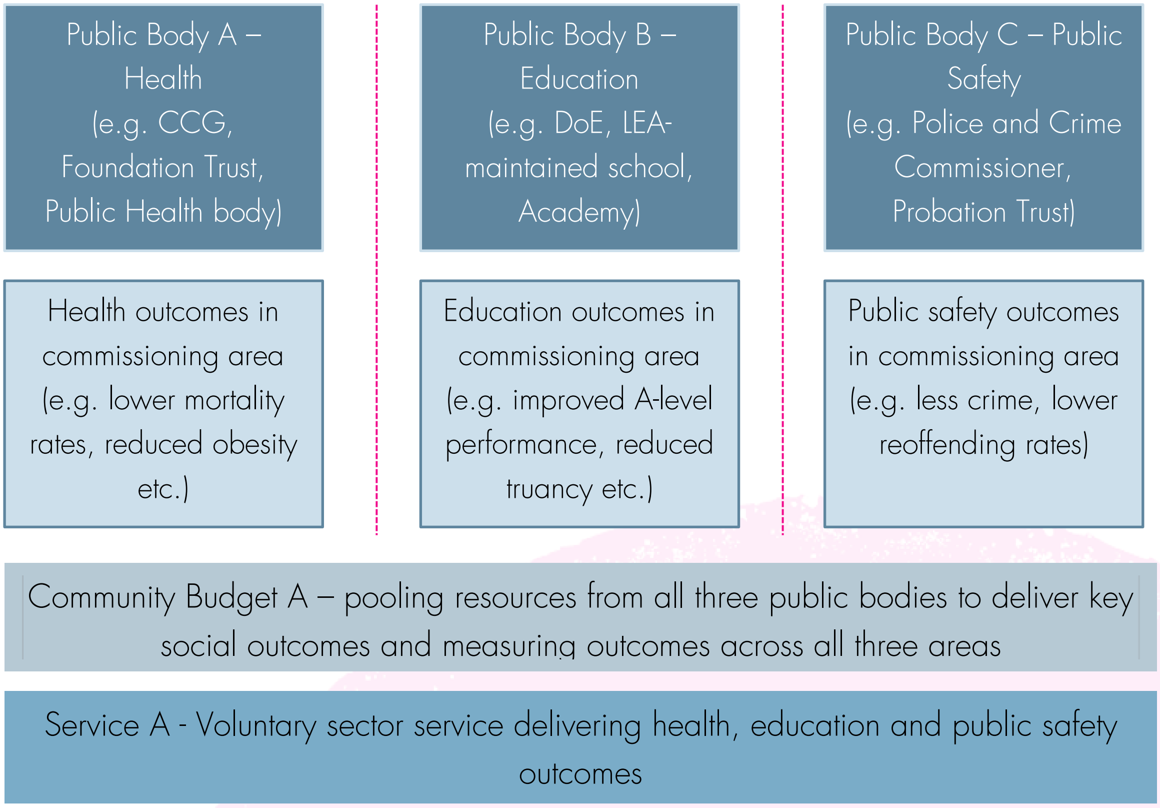


Figure 5 is a highly simplified and idealised version of Community Budgets. Community Budgets are defined as budgets which are designed to spend with place, rather than an individual organisation or service, in mind. The last Government has taken up the previous Labour Government's programme to deliver this, which is now termed "Whole Place Community Budgets"[25] and has delivered pilots in West Cheshire, Greater Manchester, Essex and the Tri-Borough area (Kensington & Chelsea, Hammersmith & Fulham, and Westminster). This has been followed by other initiatives such as Our Place[26] administered by Locality and Community Development Foundation.

LGA and Ernst & Young analysis has indicated that there are between £9-£20bn worth of savings to be had through national implementation of Community Budgets.[27] However

[25] http://communitybudgets.org.uk/
[26] http://mycommunity.org.uk/wp-content/uploads/2015/03/Our-Place-starter-pack-V-4.pdf
[27] "Whole Place Community Budgets: A Review of the Potential for Aggregation", Local Government Association, January 2013 http://www.local.gov.uk/c/document_library/get_file?uuid=29b7253f-3132-4617-be79-88ada11cf5e0&groupId=10180

putting the national savings to one side[28], from an abstract point of view, the outcomes are much better for communities and for voluntary organisations bidding for contracts.

Taking our previous example of a voluntary sector delivered Service A – with Community Budgets, there is now an opportunity for evaluation of costs and benefits across the community. So returning to our previous scenario with Service A delivering £100000 worth of social outcomes and costing £50000 with the budget setting of the three public bodies. This ensures that savings and the impact of the service are captured by the public bodies and the community.

Even if Private Business A was able to deliver £10000 of social outcomes for £5000, at least the onus has now been placed on efficiency and deliverability for the community and would force the business to work on designing services that can generate greater value for the whole area rather than maximising profitability through playing off the public sector's silos.

If we believe, and we should, that the voluntary sector is good at developing innovative solutions that cut across these different areas and maximise social value, then it seems clear that the Community Budgets policy is *essential* if the voluntary sector is to win public service contracts and play a significant role in service delivery. The 'noughties' period of winning a larger share of grants and contracts was more a consequence of the generally rising tide of government spending lifting the sectors income. In a period of spending restraint, the system of commissioning is now acting against the sector.

The Social Value Act and other initiatives cannot level the playing field on their own, given these structural problems. Although they have provided encouragement to forward thinking public bodies, they do not address the fact that public bodies are still commissioning and procuring services in silos, with no way of formal method of accounting for the benefits or analysing the cost/benefits as a whole and no way of monitoring long term savings across an area to incentivise investment in interventions that work.

Concerns about attribution aside, even if we could demonstrate that Service A delivered £500000 of long term savings to Public Bodies A, B & C in Community A, there is no way currently of tracking that or rewarding officials who commission for those long term cross-community savings. It is rational, even desirable, for Public Body A to decommission Service A, if it cannot appropriate enough of the long term savings – regardless of the loss to Community A. It is this kind of approach that stifles innovation across public services and prevents investment in effective preventative services.

A 'placed-based' approach to commissioning services is needed. For example Community A may find outcomes in the three areas that we outlined above equally as valuable. Community B may need less on health outcomes and it would be more socially valuable to deliver public safety outcomes. Community C may find education outcomes more valuable etc. There is a need to better account for value in the public sector and this should not be narrowly constructed.

There are, of course, a number of challenges with Community Budgets. These include:

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[28] Any figure should be sandwiched between the usual caveats about the small sample size and the complexities of dealing with engrained social challenges

- How do you compare educational outcomes with health outcomes? (The Apples v Oranges Conundrum)
- How do you determine what the Community needs?
- How do you set an effective commissioning strategy across a whole community with constrained resources?
- What if there is no "natural" community area (the Tri-Borough is demonstrating how economic areas evolve over time and flexibility is required)?
- How do you break down silos between organisations (if they retain their separate identities)?
- How do you engage local communities and make it democratic when accountability is not designed on a community-wide basis?
- How do you measure value created?
- How do you make these reporting requirements effective and not a burden?
- How do you make sure that place based commissioners have the resources and skills required to do their work?

However, the starting base with Community Budgets is far more favourable to the needs of communities and voluntary sector providers. A move towards Unitary Local Authorities with broad powers of commissioning would also help to make public services more effective as it would break down internal silos, which Community Budgets seek to work with rather than abolish. It is no surprise that Durham County Council, one of the largest Unitary Authorities in England, was one of the early pathfinders of social value and has won an award for Social Value Leadership Award.

Community Budgets are not a silver bullet, but they are the first step towards a more effective commissioning structure, which is needed to arrest the decline in the sector's ability to win contracts and transform services.

Developing community-focused economies of scale

A recent report by membership body Locality[29], which has received significant support from the voluntary sector, criticised "diseconomies of scale" stating that services need to be delivered local by default. This report has many useful examples of the value of services provided by voluntary organisations, and hits at one part of the problem that we have outlined above.

We need commissioning which takes into account value across a place and is able to rationally weigh up the cost/benefits to a community through the delivery of services. This requires a change in commissioning and procurement structures so that value is accounted for across a community, savings are tracked and properly attributed and officials rewarded for the successfully commissioning/procuring for long-term savings.

[29] "Diseconomies of scale", Locality, March 2014 http://locality.org.uk/wp-content/uploads/Locality-Report-Diseconomies-web-version.pdf

While there are certainly 'diseconomies of scale' in public service provision, economies of scale are a powerful tool that could be harnessed to make the sector more effective, support specialisation as well as enabling tried and test interventions to be scaled up and replicated as necessary, to reduce the cost of finance and reduce risk (of a kind). It is necessary to separate the 'good' economies of scale which focus on these savings, from the 'bad' economies of scale which focus on standardisation and impersonal service delivery – which Locality has rightly criticised.

The other critical question with discussions around economies of scale, as with accounting for value as described above, is not whether we should use them – but who benefits from them?

As we saw above, large private businesses generate significant economies of scale which they use to generate profits. This is the appropriation of savings for the benefit of the private business and while it can generate improvements (as organisations have an incentive to find cheaper and more efficient ways to deliver public goods/services) if not sufficiently competitive or targeted, can generate excessive profits for little public benefit.

Locality's report does highlight the problem of failure demand which is well understood in the private and public sector. Systems need to be organised efficiently around the person and with interventions targeted at a person's needs, rather than with the needs of the organisation delivering in mind (i.e. providing cleaning services because that is what Public Body A has budget for, rather than babysitting which is what Person A really needs). Failure demand is a failure of evaluating service user need, usually due to poor service design and structure.

It is recognised across the voluntary sector that there are a variety of benefits that can be generated through use of small organisations and they have a crucial role to play in the delivery of public services. There is a need for the development of structures that can help small organisations to access these economies. We will need to monitor initiatives such as the Public Services Labs supported by Big Society Capital and Catch 22.[30]

Another factor that must be considered as part of this discussion is the need for voluntary organisations to be able to compete with other providers. Cost will always be an important factor in terms of delivering any good or service. The voluntary sector must, therefore, find ways to generate savings that can be used to reduce the cost of its services without impacting on their quality. This is a challenge that the sector must embrace.

There are a number of ways that the voluntary sector can harness economies of scale for its benefit. One basic way could be to use its purchasing power to reduce the cost of its supplies (through setting up purchasing co-operatives to buy in bulk or force suppliers to reduce costs through weight of purchasing power) and share back office functions (e.g. HR & IT). A proposal was muted early in the term of the last Government to enable voluntary organisations to order through central government to benefit from the reduced costs, although this was not implemented subsequently.[31] The voluntary sector should come

[30] http://www.thirdsector.co.uk/big-society-capital-invests-5m-public-service-lab-partnership-involving-catch22/finance/article/1375111
[31] http://www.thirdsector.co.uk/news/Article/1068755/Nick-Hurd-wants-voluntary-sector-save-money-bulk-buying/

together to see what steps can be taken to increase the purchasing power of the sector and work with local authorities and other bulk purchasers within the public sector.

Another way that voluntary organisations can utilise economies of scale is through setting up consortia which can utilise economies of scale to reduce risk, reduce financing costs and create synergies. Charities are trying to come together in partnership more, but there are continuing problems with the VAT exemption for shared services which continues to be costly and complicated, creating a barrier for many charities in working together. Government needs to resolve the tax environment for collaboration if charities are going to be able to build financially sustainable partnerships that can last.

Alternatively, beyond consortia there are other frameworks that voluntary organisations could adopt. One model is a "federated model" for voluntary organisations where local autonomy is preserved, but the benefits of a larger organisation are retained through pooling resources and enabling personnel to switch between different branches, allowing for specialisation (say in bid writing, impact evaluation etc.) bringing skills from one part of the organisation to another. Risks can also be shared, although there is always tension between appropriately allocating risk and reward and some charities have moved away from this due to issues of control and administrative cost. Greater research on the cost/benefits of this kind of model would be helpful for the sector.

New models should also be developed to harness the benefits of economies of scale but across a range of delivery areas. One avenue would be the development of an effective "business to charity" support service market[32] for the voluntary sector, which has boomed in the private sector over the last few decades. Government has touched on this area through the new Local Sustainability Fund, which is due to run this year, but in and of itself will not create a long term legacy. Furthermore, BLF's Big Assist - which works with infrastructure bodies - could provide a platform for future support services for the sector as a whole, but this has not been adequately explored. There is also continued work needed with funders to support them in financing additional support for grant holders.

Conclusion

What does this mean for the voluntary sector and what policy implications are there?

Firstly, voluntary organisations need to come together and support reform of the commissioning and procurement structure of public bodies so that value is appropriately accounted for and bodies are rewarded for generating the best social outcomes possible for the community that they are commissioning on behalf of.

We need more research into the impact of the Community Budgets initiative on the voluntary sector, understanding their development and seeking to shape what will be the next phase of development in public service delivery. As the government considers, Devolution 2.0, Community Budgets are a model that charities to get behind and build upon. There is an

[32] Everything that supports an organisation to grow bar its core functions (i.e. actually delivering x good or service) this would include management consultancy, market research, evaluation, public relations, property management etc.

opportunity, as this is still in the early stages of development, to shape it so that it recognises the role of voluntary organisations both in delivery but also in helping public bodies to understand the needs of communities (building on initiatives such as Turning Point's Community Researchers), brokering different social groups and providing a voice for vulnerable people.

Consideration also needs to be given on how to develop economies of scale within the voluntary sector that improve its efficiency and reduce costs without leading to standardisation or impacting on services or the innovation of smaller organisations.

This should be done through continued support for partnership building and research case studies on successful local consortia so that those lessons are shared more widely. This should also involve collaboration across membership organisations and bodies such as Compact Voice, which already does good work in highlighting best practice.

Practical policy barriers for voluntary organisations working together, such as continued problems with the VAT sharing exemption, must be addressed. Charities need a supportive tax environment, if they are to be able to compete effectively.

Moreover, public bodies and the sector should consider how to develop purchasing groups for voluntary organisations to boost their bargaining power and help to reduce costs of service delivery.

Policy recommendations

1) Charities should campaign for more 'placed-based' commissioning and for more evidence to be gathered on the benefits of pooled budgeting.

2) More research should be undertaken on the impact of Community Budget pilots on voluntary sector provision of public services and lessons learnt – potentially through a Centre for Social Value, advocated by NCVO and other sector bodies.

3) The Department for Communities and Local Government should update and strengthen its guidance on pooled budgets, encouraging commissioners to consider pooled budgeting after consultation in response to the Spending Review cuts.[33]

4) Begin discussions on how charities can come together to increase their bargaining power for core supplies, to reduce the cost of service delivery.

5) Review the VAT cost sharing exemption to see how it can be made simpler and more effective for charities to work together.

6) Voluntary sector funders, government and voluntary organisations should begin discussions about how to create an effective 'support market' for charities to help them become more effective when bidding for contracts.

[33] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/8313/1508565.pdf