The Law Family Commission on Civil Society

PRO BONO ECONOMICS

Understanding the ecosystem: charities and public services

A large proportion of the UK's 160,000 charities and the 910,000 people who work for them play a fundamental role in providing public services – from mental health to social care, children's and youth services to housing. In some of these areas, the social sector is the leading provider of publicly procured services. And through its ability to reach communities which are often excluded, its focus on prevention, its values – putting maximising outcomes over profit – and its versatility in adapting to changing needs, the social sector can produce better results than the private sector.

Yet there are barriers which prevent the social sector from winning grants and contracts to provide public services. The social sector's valuable insights into how public services can be improved are not always leveraged. And there are many social sector organisations helping to solve problems like crime in communities and loneliness in older populations, but whose contributions are overlooked and underfunded.

Rectifying this situation starts with a better understanding of the public services ecosystem. Better data is needed to understand the social sector's substantial contribution to vital areas like education, justice and health. The upcoming Procurement Bill is an opportunity to reduce some of the barriers to procurement faced by the social sector, but in the long-term it is how these regulations are applied which is likely to make the biggest difference to small organisations. Meanwhile, there are numerous ways to unlock Whitehall to ensure policymakers don't miss out on social sector insights which can improve public services today.

Charities are essential providers of public services in vital areas

Each year, government spends in the region of £15 billion on grants and contracts with the charity sector – with the spending divided equally between national and local government at £7.5bn each.

This is only a small percentage of overall government spending – understandably. After all, utilities provision or large capital expenditure projects like HS2 are unlikely to be led by charities. Neither are voluntary organisations likely to be providers of costly medical or military equipment. However, charities are utterly vital to certain types of important public services. For example, according to procurement analysis undertaken for DCMS, VCSEs won 69% of the total value of contracts awarded for homelessness services between April 2016 and March 2020, as well as 66% of the total value of contracts to support victims of domestic violence and sexual abuse.

In healthcare alone:

- With an estimated 1.5 million people accessing its support, the social sector is the largest provider of NHS-commissioned mental health services.
- Charities invested £1.9bn in medical research in the UK in 2019, accounting for 51% of all public spend on medical research, according to calculations by their umbrella body.
- Only 24% of the total value of health and social care contracts awarded between April 2016 and March 2020 went to VCSEs, but third sector providers of social care are rated more highly than their for-profit counterparts for quality of care.
- 1.7m people volunteer for health or care services across the UK, with the value of the 125,000 volunteers in social care alone estimated to be more than £200m each year.

The UK's public services are bolstered by charity provision

The majority of work that charities undertake is funded independent of the government. Over 70% of the income that charities receive comes from non-governmental sources such as the public and from investments. Yet a proportion of this non-government-funded work is essential to the functioning of public services, supplements public services or even reduces the need for people to access public services in the first place. After supporting the vulnerable, delivering services that the government does not provide is overwhelmingly the most important function that charities fulfil, according to the public

Take education. There are thousands of children's charities operating in the UK, and many work hand-in-hand with schools to give children the best possible start in life. For example:

- 215,000 children receive a nutritious breakfast each school day through Magic Breakfast – which is one of a number of charitable providers of school breakfast clubs.
- In 2020-21, volunteers provided 32,000 tutoring sessions through Action Tutoring – one of hundreds of charities offering additional support to young people facing disadvantage.
- Charities are major providers of in-school mental health support, such as Place2Be which delivered over 33,000 phone support sessions to families in need in 2020.
- The social sector plays a major role in finding and developing teaching staff, with charity Teach First placing 12,000 teachers in its lifetime, 3,800 teachers receiving training from the PTI in 2019-20 and 4,600 governors trained by Governors for Schools in 2020-21.
- Children's centres and nurseries across the country are run by charities, such as the 101 managed by Action for Children and the 180 operated by Barnardo's.
- Millions of children access after-school activities provided by charities, such as the tens of thousands of grassroots football clubs and the 7,500 Scout groups in the UK.

Or take crime. From prevention to rehabilitation, the UK's charity sector is essential to securing safer communities. For example:

- Victims' charities provide advice and aid both at scale – with charity Victim Support providing help to 153,100 people in 2020-21 – and as specialists, such as Surviving Economic Abuse which has trained 1,000 professionals to deal with a poorly-understood and complex type of abuse.
- Within the justice system, numerous charitable interventions are proven to help cut reoffending rates – with some charitable programmes associated with a reduction in one-year reoffending rates of 40% to 24%.
- Research from the United States suggests that for every 10 additional local non-profit organisations focusing on reducing crime and building stronger communities in a city with 100,000 residents, there is a 9% reduction in the murder rate, a 6% reduction in the violent crime rate, and a 4% reduction in the property crime rate.
- Volunteers also play important roles alongside the police force, through the 9,000 special constables and 8,000 police support volunteers such as independent custody visitors, as well as the 90,000 volunteers making up the Neighbourhood Watch and those volunteering for Community Speedwatch schemes, the police cadets and street pastors.

Many of these charitable services are partially but not fully funded by the public purse. For example, Magic Breakfast suggests that only one in four schools considered to meet the government's criteria for disadvantage have access to government funding for school breakfast provision. Around three-quarters of Victim Support's funding comes from the state, but it fundraises to deliver specialist and innovative projects, such as those for children and young people for which it does not have statutory funding. In total, 12% of Place2Be's funding, 64% of

Action Tutoring's and 27% of Surviving Economic Abuse's funding originated from government grants and contracts in 2020-21.

This complex mix is one of the reasons why care must be taken when discussing the role of charities in what services should be ***provided*** by the state, what services should be ***funded*** by the state, and how public services can be improved.

1. Should charities provide more public services?

Social sector organisations have a number of fundamental strengths which make them uniquely well-placed to deliver a range of public services. These strengths include:

- **Trust.** Charities and community groups are highly trusted - more so than businesses, MPs, social services or local authorities. They therefore have an ability to reach communities which might otherwise be excluded from public services, such as rough sleepers, individuals from minority ethnic groups and the LGBT+ community.
- **Agility.** Social sector organisations can combine the nimbleness of the private sector with values that the public sector embodies to respond at speed to changing situations. During the pandemic, for example, charities were first to act to support the vulnerable.
- **Community.** As charities are firmly embedded within the communities they operate in, they can understand and elevate the needs and views of the people who might otherwise not be heard by the state. Indeed, campaigning for positive change in society is the third most important role that charities and community groups play according to the public.
- **Purpose.** In contrast to profit-seeking organisations, the primary focus of social sector organisations is on delivering the best possible outcomes for the people that they serve. This does not mean that they do not contribute to growth – indeed, they play a major role in the economy. But their charitable objectives bind them to prioritise social impact.
- **Prevention.** Many charities focus on early intervention and preventative action, to halt problems before they occur and save taxpayers' money in the long-term. For example, charities providing respite breaks for carers can improve physical and mental health to such a degree that it can lead to both fewer days taken off work and savings for the NHS as a result of fewer GP appointments. Similarly, charities providing emergency accommodation and homelessness prevention to veterans can save the public purse substantial amounts by getting beneficiaries into work, reducing on benefits and health services. These approaches can be both cost-effective and create better outcomes.

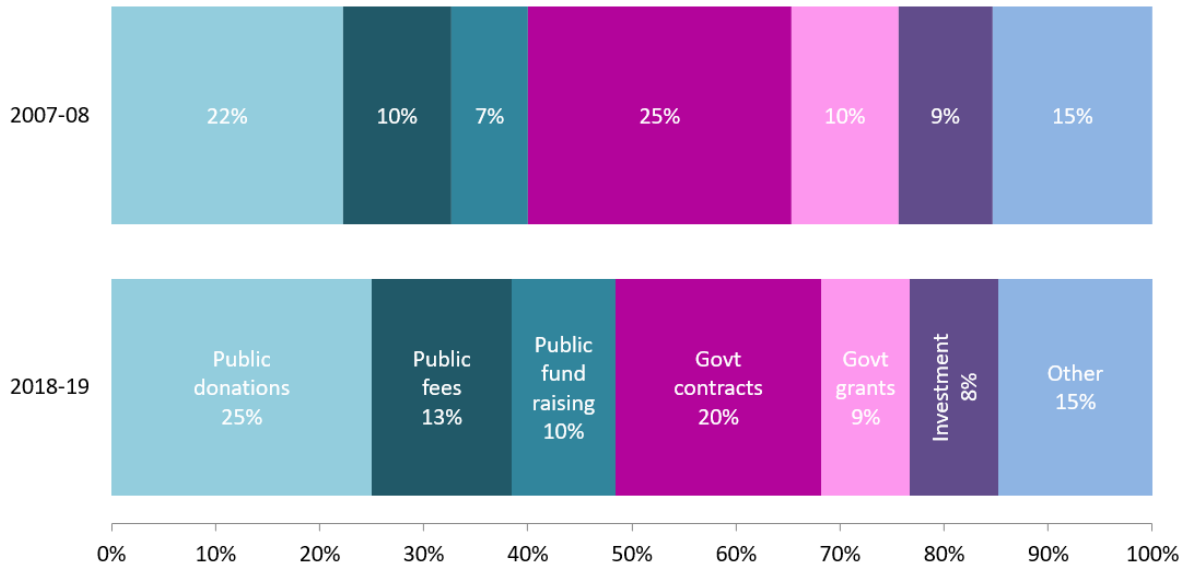
This combination of trust, agility, community, purpose and prevention is a powerful recipe which positions charities well to deliver many kinds of public services. And many charities certainly have an appetite for directly providing a greater proportion of public services.

Yet there are also benefits to the independence which charities have to operate outside of the constraints conferred by public procurement – such as the ability to innovate and to challenge. A charity which is perceived as an operating arm of a local authority may lose some of the trust it has from its users, while a charity bound tightly by the outcomes prescribed in a public sector procurement contract may lose some of its ability to move nimbly.

2. Should government fund more of the work charities do to supplement public services?

Government plays a role in helping to subsidise all work undertaken by charities through the £5bn in tax relief that the social sector benefits from annually. But the role it plays in directly funding the charity sector's work has changed since the financial crisis. Pre-2008, government sources made up 35% of charitable income. By 2018-19, that had fallen to 28%.

Figure 1: Government spending has reduced as a % of charitable income since 2008
Composition of charity income (by source & type): UK



Sources: PBE analysis NCVO, NCVO Almanac, various

This change has had a variable effect across the UK – with the average charity in the most deprived parts of the country having suffered an average 20% decline in local government financing while those in the most affluent areas have experienced no notable change. In some sectors, it has also had a particular impact on the kind of preventative action which charities have such expertise in, with – for example – real terms local authority spend on early intervention children's services declining 48% between 2010-11 and 2019-20, while spend on late interventions such as youth justice, looked after children and safeguarding increased 34%.

These changes to government funding demonstrate how important a mix of income sources is for the social sector's sustainability. The diversification that charities undertook post-2008 ought to have made them more resilient to changes in government policy. However, it instead had the unfortunate side-effect of making the sector more exposed to the economic effects of the Covid pandemic – as it had become more reliant upon earned income from charity shops which had to shut for months at a time, and on income from public fundraising, which was strongly hampered by social distancing.

Investment from philanthropy, grant-making trusts and foundations plays a particularly crucial role in supporting innovation within the social sector. These funders have the relative freedom to fund ideas, to help charities create proofs of concept and trial new approaches to solving the country's challenges. They are able to take greater risks than the state, which is charged with ensuring effective use of taxpayer's money. By contrast, government funding is crucial to enabling charities to operate at scale. Many medium-sized charities have built interventions, often through philanthropic investment, which are firmly in line with policymakers' objectives and can be shown to generate substantial benefits to their users and to the taxpayer.

Therefore, while it is not appropriate that government should supply even a majority of charity funding, it should be active in considering how to increase charity sector sustainability as well as how to fold charitable interventions which are proven to be impactful for the taxpayer into properly funded public services, where that is the best means by which they can operate at scale.

3. How can charities help public services improve?

Deep and collaborative partnerships between government and the charity sector can help charities to perform their roles more effectively and sustainably, and enable government to improve the effectiveness of policy and delivery. The trusted nature of charities and their links to communities make them strong partners in improving how government delivers policy solutions and public services.

There is clearly a strong bedrock of mutual respect and engagement between policymakers and charities, however research for the Law Family Commission on Civil Society suggests there is a strong case to expand opportunities to deepen links and increase the capacity for joint working – for the benefit of both charities and policymakers.

Civil servants, who play a crucial part in gathering input on policy development and on designing contracts and commissioning processes, believe charities should play a much stronger role in policymaking:

- Four in 10 civil servants believe their departments should establish closer links with charities and community groups.
- Half (50%) of civil servants believe charities and community groups are effective partners in policymaking – but less than a third (31%) believe charities and community groups effectively influence government.
- Only a third (32%) of civil servants agree the government pays enough attention to charities and community groups.

The public also agree with government and charities working more closely together: twice as many people think the country would be a better place if charities had more influence than those who think the opposite.

A radical approach to improving public services with charities would look beyond legislation

Charities have provided a range of evidence to the Commission which suggests that they face specific barriers to winning grants and contracts to provide public services at both national and local level – from challenges with the 'merry-go-round' of bidding for contracts and grants and a lack of bid-writing skills within the sector, to service level agreements being halted mid-contract or with just weeks of notice.

One of the serious consequences of this is the need for charity leaders, staff and volunteers to spend very significant portions of their time applying for multiple streams of often short-term funding, reducing the resource available to spend delivering charitable activities and creating value for their beneficiaries, communities and the nation. It also reduces their ability to improve their capabilities, effectiveness and productivity by investing in better systems or training staff and volunteers.

Where government does operate differently to ensure that commissioning is done well, the response is enthusiastically positive.

"Angus actually has a really good mechanism, known as the External Funding Department. This is a department specifically set up to help support organisations get funding. They're aware of all the grants that are coming in from trusts, from the national government, UK Government, and as they come in, they're analysing them, they're building up a database of local organisations. And

they will then help support them to write applications. If you haven't done an application before they'll come in and they'll talk [you] through the process. I think it's a really good example of best practice. And I think in that respect, Angus Council does a great job." – Kirrie Connections

The newly introduced Procurement Bill's stated purpose is to 'make public procurement more accessible for new entrants such as small businesses and voluntary, charitable and social enterprises' through a simpler, more transparent regime – which is a welcome intention.

Analysis of the legislation is still underway to assess how successful it will be at achieving this goal, but it is evident that much of the Bill's relevant content is very permissive. A permissive approach is important in order to provide flexibility, but if contracting authorities only undertake the minimum required of them the Bill may fall short of its intention of making public procurement more accessible for voluntary, charitable and social enterprises. For example, as the draft Bill stands, it creates the framework by which contracting authorities may undertake preliminary engagement with the market (an important opportunity for social sector organisations to input into contract design before tenders are published) but does not require them to do so in any circumstances. This may mean those designing contracts and tenders miss out on vital input into how to design public service contracts effectively, particularly for people-focused services. Similarly, the Bill instructs contracting authorities to 'have regard' to the importance of public benefit and the national procurement policy statement which encourages contracting authorities to consider social value, but it does not require contracting authorities to prioritise or pursue these elements.

This is not the case in all areas. For example, as drafted, the Bill is much stronger on ensuring that contracts are broken down into lots wherever possible – something which has the potential to open up greater numbers of opportunities for smaller charities, if implemented effectively.

Getting the balance right is difficult, and legislation, regulations and guidance all have an important role to play. If significant power is placed in the hands of individual contracting authorities to open up opportunities for charities and other social sector organisations, they need to have confidence to use those powers – such as how to pursue social value in the awards criteria they compile and how to choose realistic KPIs. The package of guidance and training which will accompany the Bill also has the potential to make a notable difference to charities.

However, a radical approach to improving public services in partnership with the charity sector would not just focus on government contracts. It would look at the barriers small and non-profit organisations experience when trying to win grants and their eligibility for other forms of finance. Such a review would examine both national and local-level funding, and would look at the restraints and requirements placed on central funding streams provided to local government, which can be highly restrictive, for example excluding spending on social infrastructure or on activities that build community relationships, connections and trust. The evidence suggests that better approaches are needed across public bodies to accelerate the availability of opportunities, but that greater support to boost capacity in the charity sector is also required so that charities can make the most of both existing and new opportunities.

Deeper relationships between government and charities is key

Regardless of the contracting arrangements in place, the social sector holds valuable insights into how public services can be improved. These are not always leveraged. Many social sector organisations are helping to solve problems like crime in communities and loneliness in older

populations, but their contributions to policies in these areas can be overlooked and the services they provide underfunded.

"We find that it's difficult to set the agenda … if you're receiving funding, it's usually because the local government has that money available in the budget, and they need to find someone who they can pay to do these services or provide the services … [B]ut it's a lot harder to approach the local government and say, how about this and suggesting something that they haven't already thought of, or making your own case for something new." – Refugee Action Kingston

"What hinders more collaboration is that we don't speak each other's language. We are aliens to each other's lived everyday experience." - Kinsman and Treningle Tenants and Residents Association

There are numerous ways in which government and charities can work more closely together to improve policymaking and public service delivery – learning from the ways in which government collaborates with business and what worked when the Compact designed by the New Labour government and updated by the coalition government was in operation. A number of recommendations have emerged particularly strongly from the Commission's discussions with policymakers and civil society alike. These include the need for:

- Dedicated Ministers. Given the essential nature of charities to both the economy and public services, they should make up an explicit part of a Treasury Minister's duties – just as small businesses, women in the economy and freeports do. The restoration of a dedicated Minister on Civil Society would also help boost the capacity of the government to make the bold decisions needed to properly unlock the potential of this sector.
- Departmental civil society liaisons. Government should explore creating a civil society liaison post within departments which currently have less well-developed relationships with charities. This would provide an entry point for charities and a way of connecting them with the right people within Whitehall. These positions could also be helpful for civil servants outside the department, for instance Treasury teams, to have a 'go-to' person who could advise and connect them with charities in a field that could provide good quality evidence, insight or examples of specific issues. The post would ideally be at a fairly senior level (such as a Grade 5) in order to have the necessary influence across the Department.
- A review of membership of working groups, sector councils and advisory boards. The Cabinet Office and DCMS should conduct a review of the membership of working groups, sector councils and advisory boards across government to ensure that Ministers are receiving the most accurate perspectives on policy. This review should assess whether these forums have appropriate civil society representation and invite new organisations in if a gap is identified. For example, it is striking that the Retail Sector Council does not include a charity shop voice within it. Similarly, the Hospitality Sector Council does not include civil society representation, despite there being multiple charities working with the most vulnerable people working in that industry. Where civil society is not sufficiently represented, this should be corrected.

Better data is essential for both policymakers and the social sector

Alongside better policies, better guidance and better relationships, better data for, from and about charities is essential for three reasons. Firstly, better data would allow stronger evaluation of the most impactful charitable services working in each area so they can get the financial support they need to operate at scale. Secondly, it would support charities in understanding their own

strengths and weaknesses so that they can continually improve their services and achieve greater impact. And third, it would help policymakers to better understand how to get greatest value for money for taxpayers through the services they procure.

Better data starts with a UK social economy satellite account, as promised in the government's Levelling Up White Paper – taking the UK's national statistics on non-profits a step closer to its national statistics on profit-making enterprises. In addition, the government, Charity Commission, ONS and the social sector should work together to audit existing administrative and survey data; to publish regular, timely indicators on the social sector; and to modernise the collection of social sector data. Welcome steps have already been made towards this, and the Commission hopes to see these being taken forwards at pace through the cross-sector Social Sector Data Standards and Coordination Working Group.

Conclusion

With their unique combination of trust, agility, community, purpose and prevention, the charity sector is a powerful part of the public services ecosystem, with the potential to do even more than it does today. From mental health to social care, children's and youth services to housing, a large proportion of the UK's 160,000 charities and the 910,000 people who work for them play a fundamental role in providing or supplementing public services – achieving the same aims as policymakers without direct funding from them.

But care must be taken when discussing the role of charities in what services should be provided by the state, what services should be funded by the state, and how public services can be improved. Answering these questions well requires strong evidence.

Policymakers need to be aware of the breadth of services charities provide, and the evidence from interventions that are already working well. They should strive to learn from charitable services which operate independently and look to help scale them where they demonstrate effective use of money. Greater efforts should be made to open up Whitehall to charities, in order to ensure that policymakers hear from those closest to service users and can make improvements. And where there are gaps in the evidence of what works best, policymakers and the charity sector need to work together to fill them.

The upcoming Procurement Bill offers some opportunities to recognise the strengths of the charity sector in providing many types of public services, and to increase flexibility to level the playing field between charities and their competitors. However, legislation is only one tool available to policymakers. A fuller review looking to unleash the potential of charities to provide public services would also investigate the barriers charities face in accessing grants and funding streams across local and national government, and examine the investment needed in the charity sector's capacity to access those grants and contracts.