



IPPR  
NORTH

REPORT

# TOO SMALL TO FAIL



HOW SMALL AND MEDIUM-SIZED CHARITIES  
ARE ADAPTING TO CHANGE AND CHALLENGES

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with Anna Round

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Institute for Public Policy Research

## THE FUTURE OF CIVIL SOCIETY IN THE NORTH

This report is part of a three-year programme of work by IPPR North on the state of civil society and the voluntary sector in the North of England.

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## SUMMARY

Small and medium-sized charities<sup>1</sup> are a vital part of civil society in Britain today. If we exclude micro-organisations<sup>2</sup> (which constitute over 60 per cent of all voluntary sector organisations), they make up over 90 per cent of all organisations in the voluntary sector, and with an income of around £7 billion in England and Wales alone they account for one-fifth of the sector's income (NCVO 2016). They are working in every community in the country, and have helped create and deliver many of the services that we now regard as essential to the quality of our lives, from education to health to child protection.

This report reviews the evidence of the value of small and medium-sized charities (defined as those with annual incomes of between £25,000 and £1 million), and how recent changes to public policy have impacted upon them. It draws upon evidence published by academics, thinktanks and third-sector organisations, as well as material gathered through a wider call for evidence issued as part of this project.

From the wealth of literature that demonstrates the merits of small and medium-sized charities, the following insights are of particular interest.

- Many smaller charities are **rooted** or **embedded** in their local areas, which brings with it an intimate knowledge and understanding of those areas' strengths and needs; allows them to draw upon a willing workforce of local volunteers; and means that they can act as 'anchors' within their communities, providing stability and flexibility and being responsive to local needs.
- Small and medium-sized charities can also play a key role in **building and nurturing social networks**, and in creating positive and enabling relationships between people who live and work in a particular community. They can help to boost levels of local social capital by building local capacity, and by developing links both within particular communities and between communities and other networks, including national and local government and their agencies.
- Many smaller charities are considered uniquely placed to **engage directly with those who are hardest to reach**, because their independence, situation within the community and ability to draw upon local volunteers fosters greater levels of trust. Many smaller charities are longstanding and well-known local institutions, with an established history of helping individuals and communities through difficult times. Such organisations are considered experts in working 'holistically', or in a 'person-centred' way that is responsive to individual and local contexts.

However, although there are thousands of organisations doing valuable work in communities across the country, successive reviews have found little evidence of a distinctive 'offer' from the voluntary sector as a whole, or from small charities in particular. While there are many well-intentioned qualitative appraisals of the strengths of the small charity sector, there is a lack of rigorous evidence to support many of the claims that are made for it.

This is to be expected: the small charity sector is very diverse, and contains organisations of widely varying focus and scope. What's more, many organisations *outside* of the charity sector are equally embedded in local communities, and as such may be equally well-placed to boost social capital or work with those with complex needs – the charity sector does not have a monopoly on creating social value.

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1 Here defined as voluntary sector organisations with annual incomes of between £25,000 and £1 million.

2 That is, organisations with an annual income below £25,000.

At a local level, smaller charities can go some way towards developing their own frameworks of evidence, in order to attract funding from public and private sources. However, not only are there limits to how some aspects of their work can be usefully quantified, but small organisations also face considerable challenges to evidencing their work due to their limited capacity. Those that are able to produce the most reliable and comprehensive evidence base are not necessarily those that are most embedded in their communities.

Ironically, while it is hard to measure the contributions that small and medium-sized charities make while they are in operation, these contributions are much easier to notice when they are gone – and the risk that many small charities will disappear is an increasingly real one. Cuts and changes to local and central government funding pose a serious risk to many small and medium-sized organisations.

- Against a backdrop of rising demand and the long-term reduction in grants in favour of contracts, the income that the voluntary sector as a whole receives from government has fallen, and smaller organisations have been hit particularly hard. For example, between 2008/09 and 2012/13, charities with annual incomes of £100,000–£500,000, and of between £500,000 and £1 million, experienced large falls in their income from contracts (of 32 and 37 per cent respectively), while larger charities fared much better (NCVO 2016).
- Since 2010, the nature of public service delivery has changed significantly, with a shift towards the use of competitive commissioning models in which all types of provider compete to deliver public services. There is compelling evidence to suggest that large organisations, including some large charities, are increasingly dominating the market for public service provision, to the detriment of small and medium-sized organisations.

The charity sector as a whole, and smaller organisations in particular, have historically shown great resilience in the face of changes in their income, but organisations working in deprived areas are far more exposed to risk than others. Current trends suggest that these organisations, which are most reliant on state funding and least able to draw upon alternative sources of funds, are losing out most of all, and will continue to do so. They are also likely to experience the greatest increases in demand because of changes to the welfare state, and the increasingly precarious nature of the job market.

In line with these findings, the research presented in this report leads us to make the following recommendations.

1. Although there are limits to the extent to which any measurement will capture the contributions that they make to society, small and medium-sized charities need to be able to provide better evidence of their value and impacts. While the tools and methods for doing so already exist, most of these charities need more and better support from umbrella organisations in order to use them, as well as greater capacity to introduce methods for monitoring and evaluation. Grant funders who typically support such charities could consider innovative ways of funding this kind of work within, or in addition to, existing grants.
2. Commissioning and procurement teams within local authorities, clinical commissioning groups and other public agencies should be made more accountable for delivering social value. Legislation already provides for this: under the provisions of the Public Services (Social Value) Act 2012, authorities in England and Wales are required to consider how the services they commission and procure might improve the economic, social and environmental wellbeing of their area. However, in practice, implementation of the Act has been hampered by uneven awareness and take-up; inconsistencies in its implementation because of poor understanding; and the lack of a clear means of measuring social value (Cabinet Office 2015). Furthermore, many public authorities continue to regard unit cost as the

primary factor when making procurement decisions. While a recent review (ibid) set out how the Cabinet Office can help to remove some of these obstacles, more could be done to strengthen the Act by, for example, requiring authorities to ‘account’ for the social value that they generate, rather than just having to ‘consider’ it, as has been proposed by the National Council for Voluntary Organisations (NCVO).<sup>3</sup>

3. The Coalition government prioritised diversity of scale in its general procurement agenda by introducing a goal for 25 per cent of central government spending to go to small and medium-sized enterprises by 2015. The government has announced that this target was met in 2014/15,<sup>4</sup> and the 2015 Conservative party manifesto included a pledge to increase the percentage of spending going to small and medium-sized businesses to one-third. It is significant that the current government has made a commitment to work with smaller private companies to overcome the particular obstacles that they face, but not with charities. We recommend, therefore, that the government makes a similar pledge for small and medium-sized charities that may be offering greater social value through the goods and services they provide.

Local authorities could also benefit from following the example set by central government, by setting their own targets for contracting with smaller organisations (including private<sup>5</sup> as well as voluntary sector organisations).

4. Those organisations that have moved away from, or are moving away from, grant-giving in favour of commissioning or more complex forms of social finance need to review the impact that this has on small and medium-sized charities that might not be able or willing to engage with such forms of funding. These charities might still provide greater *social* value-for-money than those that are more adept at bidding for funding and providing formal evidence of outcome improvements. Although commissioning based on hard evidence of impact makes good sense in theory, in practice the bureaucratic demands that it places on small charities may exclude some of the best among them. Funders and commissioners also need to recognise that it is particularly rare for charities in deprived neighbourhoods to be able to access the kinds of gifts and endowments that some charities in richer areas can rely upon. Local authorities should follow the example set by Camden borough council in developing a locally determined framework for small charities commissioning, including, if appropriate, a dedicated pot of long-term funding for small local organisations.<sup>6</sup>

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3 See <http://blogs.ncvo.org.uk/2015/02/13/the-social-value-act-review-welcome-steps-and-missed-opportunities/>

4 Official figures indicate that 27.1 per cent of central government buying was with small businesses, either directly (10.9 per cent) or through the supply chain (16.2 per cent). See <https://www.gov.uk/government/news/small-business-benefited-from-121-billion-in-government-spending-in-2014-2015>

5 Analysis of local government spending data has suggested that spending on small firms varies considerably between local authorities. See <http://centreforentrepreneurs.org/wp-content/uploads/2015/11/Procurement-Report-WEB.pdf>

6 Camden borough council is currently consulting on proposals to offer seven-year contracts to local organisations working in areas of need. A strategic partners fund worth between £1.5 and £2.0 million will be available in areas of high deprivation to provide unrestricted core funding, meaning that organisations are free to choose how best to use that funding in order to meet the outcomes set, either within a particular locale or across a particular equalities theme.

# 1. INTRODUCTION

Small and medium-sized charities<sup>7</sup> are a vital part of civil society in Britain today. If we exclude micro-organisations<sup>8</sup> (which constitute over 60 per cent of all voluntary sector organisations), they make up over 90 per cent of all organisations in the voluntary sector, and with an income of around £7 billion in England and Wales alone they account for one-fifth of the sector's income (NCVO 2016). They have played a crucial part in society for centuries, and both helped create and now often deliver many of the services that we have come to regard as essential to the quality of our lives – from education to health to child protection.

The role of the small charity sector has continuously evolved, and it will continue to do so in the years ahead – both through the choices that charities make of their own volition, and in reaction to wider trends, including in the changing role of the public and private sectors around it.

And change is certainly afoot at present. Since Labour left power in 2010, most of the big government initiatives to support the voluntary sector have dried up. This has disproportionately affected organisations in poorer areas, which are more likely to be dependent on public money, and grants in particular.

This report presents a review of current literature on small and medium-sized charities. It will explore the reported strengths and weaknesses of smaller charities as perceived by stakeholders both within and outside the charity sector. It will explore the literature about the reported social and economic value that such charities deliver, and consider what barriers smaller organisations in particular encounter that can prevent them from effectively measuring their impact. Finally, it will offer a brief summary of the impact that changes to public funding models have had on the sector.

The charity sector as a whole is very diverse, and includes organisations that vary widely in terms of their scope, mission, approach and values. Above all else, it has been able to demonstrate a high level of durability and flexibility, making use of its financial, human and creative assets in order to adapt to changing circumstances. However, a vital cohort of organisations that work in areas of high deprivation may need more support than they are currently receiving.

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## Our call for evidence

As part of this project, we issued a call for evidence<sup>9</sup> from relevant bodies. This was publicised online and through IPPR's networks. We received submissions from the following organisations, for which we are extremely grateful.

- Charity Finance Group (CFG)
- Clinks
- Community Action Southwark
- Cumbria County Council
- Cumbria CVS (Council for Voluntary Service)
- Garfield Weston Foundation

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7 Here defined as voluntary sector organisations with income between £25,000 and £1 million.

8 That is, organisations with an annual income below £25,000.

9 <http://www.ippr.org/publications/small-and-medium-sized-charities-call-for-evidence>



- Dr Kelly Prince, Keele University
- Nova Wakefield
- Tony Chapman, Durham University.

We also engaged informally with representatives from the following bodies:

- Association of Chief Executives of Voluntary Organisations (ACEVO) North
  - Involve Yorkshire & Humber
  - Locality
  - Manchester Community Central (MACC)
  - National Association for Voluntary and Community Action (NAVCA)
  - Third Sector Research Centre
  - Voluntary Organisations' Network North East (VONNE).
-

## 2. THE STRENGTHS OF SMALL AND MEDIUM-SIZED CHARITIES

The charity sector as a whole is very diverse, and includes organisations with a wide variety of scopes, missions, approaches and values. This report is particularly concerned with small and medium-sized charities that work at the local level to tackle disadvantage. This includes organisations working in one or more of three areas: voluntary and community work, service delivery, and campaigning and advocacy. For some forms of disadvantage such as domestic abuse and mental health issues, direct services are typically delivered by small and local organisations in the voluntary sector, with larger, national organisations leading on policy and campaigning. This splitting of responsibilities is reflected in the federated structure of many major charities, such as Women's Aid, the Citizens Advice Bureau and Mind, which consist of both central organisations and a number of local ones (Van Vliet and Wharton 2014).

The benefits these organisations deliver vary across policy and geographical areas, as well as between organisations of different sizes, scopes and organisational remits. However, within the literature some common themes emerge from studies of the charity sector in general, and of smaller charities in particular. Building upon these themes, this chapter sets out a broad framework for understanding the particular strengths of small organisations in terms of providing social value. It then goes on to assess the strength of evidence behind these assertions.

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### Small and medium-sized charities

A charity's size is normally measured in terms of its income. For the purposes of this report, we focus on voluntary sector organisations with an income of between £25,000 and £1 million. Different definitions are used in the wider literature, however, and in this report we endeavour to identify any instances in which a different categorisation has been used.

According to the data from the latest NCVO *UK Civil Society Almanac*, there are just under 42,000 registered voluntary organisations with a yearly income of between £25,000 and £1 million in England and Wales (NCVO 2016). If smaller 'micro' organisations with an income of less than £25,000 (of which there are 87,000 registered) are excluded, then smaller charities thus defined make up 91 per cent of all voluntary organisations (ibid).

The charity sector as a whole is financially dominated by a small number of large organisations. The 577 UK charities with an annual income greater than £10 million account for nearly half of the sector's total income (ibid). The latest figures (for 2012/13) suggest that total annual expenditure by small and medium-sized organisations (in this case defined as organisations with income between £10,000 and £1 million) is approximately £8.7 billion, which represents 22 per cent of the overall expenditure of the sector as a whole (ibid).

Analysis has suggested that the voluntary sector as a whole, in 2014, employed 821,000 people; of them, almost half (48 per cent) worked for organisations with fewer than 25 employees (NCVO 2015), although it is not possible to determine how many of these organisations would, by virtue of their income, count as 'small and medium-sized'. In general, the organisational distribution of the voluntary sector is skewed more heavily towards smaller organisations than that of other sectors (Chapman 2015).

The latest figures suggest that the voluntary sector as a whole contributes £12.1 billion to the UK economy in terms of GVA (NCVO 2015), although this figure does not take into account the contribution of volunteers, which was estimated to be worth around £23.9 billion – 1.5 per cent of GDP – in 2012 (Foster 2013). A breakdown of GVA as it

relates to smaller charities specifically has not been undertaken, but despite the large number of small and medium-sized charities, their contribution is likely to be overshadowed by that of the small number of very large charities.

Small charities tend to be experts who work with and for a particular community of individuals. 'Community' in this sense could mean a community of interest such as BAME groups or survivors of domestic violence, or it could refer to a particular place or locality. This report is concerned primarily with charities that serve a particular locality, particularly those that deal with social welfare for those facing disadvantage.

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## 2.1 Local knowledge and understanding

Many small and medium-sized charities are *rooted* or *embedded* in their local communities.<sup>10</sup> They are often longstanding and well-recognised institutions within their particular localities, having earned the respect and trust of the local population and elected representatives. Beyond their physical presence in an area, such organisations are 'woven into the social fabric' (Baker et al 2011).

Data from the Third Sector Trends survey<sup>11</sup> of organisations based in Yorkshire and Humber shows that 45 per cent of charities with an annual income of between £10,000 and £50,000 operate solely at a neighbourhood or village level. This is true of 32 per cent of those with incomes of between £50,000 and £250,000, and 13 per cent of those with incomes of between £250,000 and £1,000,000.<sup>12</sup> Assuming that these trends are reflected nationally, it can be said that the smaller the organisation, the more likely it is to work locally in and for a particular community – although the same statistics suggest that more than half of small and medium-sized charities do *not* consider themselves 'rooted' in this sense.

This 'embeddedness' brings with it several advantages.

Firstly, being connected to local areas can mean that small charities have an acute understanding of the communities in which they work.<sup>13</sup> As articulated in a recent set of essays on the value of the voluntary sector, smaller charities are particularly 'connected to their locality and they know it because they are part of it. [...This] means that their work is trusted and it meets real needs drawn from insightful intelligence' (Robinson 2014).

This understanding of the people and communities that they serve allows small charities to deliver services in original and effective ways, informed by local contexts (Independence Panel 2015). This was recognised, in rhetoric if not necessarily in practice, by the Coalition government, and reflected in its attempts to reform commissioning (see chapter 4). Enabling the charity sector to play a wider role in delivering public services, it was argued, would enhance those services' responsiveness to the needs and priorities of local communities and ensure that they reach some of the most disadvantaged groups in society. It would also support local economic growth and increase community involvement in activities that support local areas (Cabinet Office 2010).

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10 See for example Slocock 2014a.

11 See Chapman 2014.

12 Camden borough council is currently consulting on proposals to offer seven-year contracts to local organisations working in areas of need. A strategic partners fund worth between £1.5 and £2 million will be available in areas of high deprivation to provide unrestricted core funding – meaning that organisations will be free to choose how to make best use of that funding in order to meet the agreed outcomes, either within a particular locale or across a particular equalities theme. Analysis provided by Tony Chapman of Durham University.

13 <http://www.fundraising.co.uk/2015/09/10/why-charities-should-make-a-big-deal-of-being-small/>

Secondly, small local charities are able to deploy a willing workforce of volunteers, and in doing so draw upon and develop creative and productive capital that is inaccessible to other organisations, and use it for the benefit of local communities. In this way, they act as ‘a “currency convertor” between the “core economy” of family, friendship and community, and the “cash economy” where everyone and everything must be paid for’ (Evans 2014).

Thirdly, small and medium-sized charities can act as ‘anchors’ within their community, providing stability and flexibility and responding to local needs (Locality 2015a). Beyond making substantial contributions to their communities and neighbourhoods in their own right, such organisations can also nurture wider civil society networks and small businesses by providing support to new and existing community groups within their locality (Thake 2009). This can include providing physical space and infrastructure, applying for funding on their behalf, and providing in-kind support – particularly during their start-up phases, and at times of crisis. Thus both directly and indirectly they help to ensure that local people have an appropriate, diverse and responsive range of services available to them in their community (Baker et al 2011).

Finally, working within local communities provides opportunities for small charities to work in a preventative way to communicate awareness of risks, signpost people to relevant services and, when the need for support arises, offer help and support at an early stage (Bull et al 2014).

## 2.2 Boosting local social capital

Small charities play a key role in building and nurturing social networks, and in creating positive and enabling relationships between people who live and work in a particular community. One of their particular benefits is that they help to boost levels of local social capital by building capacity and developing links both within particular communities and between communities and other networks, including the state (NAVCA 2010). By doing so, they make a crucial contribution towards improving deprived neighbourhoods (Cox and Schmuecker 2010), not least because improvements in social capital are considered vital to mitigating some of the negative impacts of shortfalls in other forms of capital (Mitchell et al 2009, cited in Cinderby 2014: 52).

There are three types of social capital: ‘bonding’, ‘bridging’ and ‘linking’.<sup>14</sup> Small charities arguably contribute to the development of each of them.

### ‘Bonding’ social capital

‘Bonding’ social capital describes strong, close connections between people (such as within families or friendship groups). This can include close-knit and supportive relationships that help people to be more self-assured and more resilient to shocks.

Many charities work directly with people, particularly those at risk of exclusion, to build their capacities and capabilities and to boost their confidence so that they feel safer and more capable in their everyday interactions both within their local community and beyond. It is argued that charities have many positive effects at the personal or individual level, including developing people’s abilities and knowledge and changing their attitudes or behaviour, including developing coping behaviours and building confidence and skills (Botham and Setkova 2004).

Volunteering is an integral part of this, one that delivers real benefits to individuals and local communities. Volunteering gives people a sense of belonging and wellbeing, and offers them opportunities to contribute to the community (NAVCA, no date). It enables

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14 <http://www.ons.gov.uk/ons/guide-method/user-guidance/social-capital-guide/the-social-capital-project/guide-to-social-capital.html>

people to put new skills into practice and to build their self-esteem. A comprehensive literature review from the Kings Fund found that volunteering was positively associated with improved self-esteem, wellbeing and social engagement from both the beneficiaries of volunteering activity and the volunteers themselves (Mundle et al 2012); there is also evidence that volunteering supports employability (Paine et al 2013). Using data on life satisfaction, a report for the Department for Work and Pensions quantified the value of the ‘wellbeing benefit’ that each frequent volunteer gains from volunteering to be approximately £13,500 per year (Fujiwara et al 2013).

### **‘Bridging’ social capital**

‘Bridging’ social capital describes looser links with wider networks, such as business contacts and ‘friends of friends’, which help people to ‘get ahead’ in life.

Small charities nurture this form of social capital by bringing people together based on common interests or shared needs (Thomson and Caulier-Grice 2007; Vyas 2006). They often operate out of a community hub, creating a safe and informal environment in which local residents can meet, interact and communicate, thus allowing them to become more connected (Botham and Setkova 2004). Voluntary organisations, including faith and community groups, are seen as key locations for advice and services that mitigate against poverty, and for informed signposting and networking (McCabe et al 2013). Jochum et al (2005) suggest that the voluntary and community sector is considered particularly suited to this role because of its ability to:

- provide services that are based on people’s needs
- offer an environment where people feel safe and supported
- promote a sense of ownership and belonging
- offer a sense of authenticity
- provide a convivial and social space
- bring people together from across social and cultural boundaries.

### **‘Linking’ social capital**

‘Linking’ social capital describes people’s connections with people in power (or rather, connections between people and/or organisations whose relationship involves a hierarchy or power differential), usually those outside of most people’s everyday lives.

Small and local charities are considered useful intermediaries between local community networks and wider national and regional networks, including the public sector. Botham and Setkova (2004) argue that local charities are well placed to influence macro-level change by ensuring that the views of local people are fed into strategies and programmes that affect that community. Others suggest that the ‘grassroots’ element of charitable organisations is vital to attempts to build stronger communities by working from the bottom up (VSNW and CLES 2009) – an idea that the Labour governments of 1997 to 2010 were particularly committed to.<sup>15</sup>

However, there is some evidence that attempts to formalise this grassroots dynamic and incorporate it into wider networks have failed. The intention behind local strategic partnerships was to bring representatives from the voluntary sector together with different parts of the public and private sectors so that they could work together at a local level (Sandford 2013). However, public and voluntary sector participants alike raised questions about how deeply rooted third-sector organisations were as stakeholders in such bodies (Johnson and Schmuecker 2009). In any case, since the funding associated with such partnerships stopped when the Coalition government introduced local enterprise partnerships, most have ceased to function.

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<sup>15</sup> See for example HM Treasury and Cabinet Office (2007) *The future role of the third sector in social and economic regeneration: final report July 2007*, the Stationery Office. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/228900/7189.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/228900/7189.pdf)

There is evidence that small and medium-sized charities do have valuable informal relationships with other charities. Data from the Third Sector Trends survey suggests that a significant majority of charities with an income of £50,000–£250,000 (70 per cent of them), and of those with incomes of between £250,000 and £1 million (84 per cent of them), have useful informal relationships with other charities.<sup>16</sup>

### 2.3 Working with complex needs

Working alongside statutory agencies, small and medium-sized organisations are often considered essential to improving outcomes for people with multiple and complex needs (Rosengard et al 2007; Revolving Doors Agency 2013). Battrick et al (2014), for example, found that better co-ordinated interventions from statutory and voluntary agencies can reduce the costs of wider service use for people with multiple needs by up to a quarter.

Many small charities are considered uniquely placed to engage directly with those who are hardest to reach (CSJ 2013; Armstrong 2010: 28). This is because their independence, their situation within the community, and their ability to draw upon local volunteers fosters higher levels of trust (MEAM et al 2013; CSJ 2013). Furthermore, many small charities are longstanding and well-known local institutions with an established history of helping individuals and communities through difficult times (Baker et al 2011). Small charities themselves see one of their key strengths as being their ability to develop strong, trusting relationships with service users (Local Giving 2015).

An additional strength of small charities is that they are considered experts in working ‘holistically’ (CDF 2014; Armstrong 2010), or in a ‘person-centred’ way that is responsive to individual and local contexts (Knight and Robson 2007) – a quality that is of utmost importance when working with people with complex needs (Terry 2015; Rosengard et al 2007), who are normally known to multiple agencies and organisations (Lankelly Chase 2015). Charities tend to offer care for the ‘whole person’ – whether their needs are medical, emotional or social – and provide support throughout an individual’s journey to recovery (Bull et al 2014).

Finally, small charities are also in a position to offer peer support and opportunities for volunteering, which have been acknowledged as vitally important for desistance and recovery (Richmond 2015).

### 2.4 Service delivery

The voluntary sector as a whole receives around 35 per cent of its income from statutory sources, 83 per cent of which is for contracts or fees for services (NCVO 2015). State funding often goes to charities working with disadvantaged or marginalised client groups – an area in which the voluntary sector’s ability to reach and empower diverse communities, its specialist expertise and its independent voice are especially valuable (Sloccock 2014b).

In many countries there has, in recent years, been a push towards partnership working in the commissioning and provision of public services (Bovaird 2014). Furthermore, there is now a widespread belief among policymakers in the unique capabilities of voluntary sector organisations to provide services that are both more effective and efficient (HM Treasury 2007; Cabinet Office 2010; HM Government 2014), although this belief doesn’t necessarily translate into practice.

The size of voluntary sector organisations is considered an important element of their greater efficacy: small organisations are believed to outperform their larger equivalents in terms of fostering relationships and providing individualised care.

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<sup>16</sup> Analysis provided to the author by Tony Chapman of Durham University.

There is some evidence to support this: the productivity of micro-businesses (those with nine employees or fewer) in social work has been found to be, on average, 38 per cent higher than that for the sector as a whole; similarly micro-businesses in education were found to be 20 per cent more efficient (Dellot 2015). A small-scale multi-methods study also found that micro-providers are more effective at delivering personalised social care (Needham et al 2015).

Small charities are also widely considered more innovative than other organisations, particularly those in the public sector (Osborne et al 2008). This is partly because of their independence from centralised decision-making, which makes them more agile than public sector bodies (CSJ 2013), but it is also because of their size – small organisations are, on the whole, considered more capable of innovating than their larger rivals (Dellot 2015).

However, there is some evidence to suggest that voluntary organisations as a whole are ‘better at believing they are innovative than being innovative’ (Hopkins 2010), and that innovation is not an inherent quality of voluntary organisations (Osborne et al 2008). Indeed, many small charities are constrained by their limited resources and risk-averse governance, and so may tend to act conservatively (HoC-PASC 2011). Even the evidence for small firms in general is ambiguous in this regard: many small firms struggle to innovate, with just 13 percent engaging in internal research and development, compared with 23 percent of large firms (Dellot 2015). However, there is evidence that small firms are more efficient at innovation (ibid).

The enthusiasm for the delivery of services by small and local charities among policymakers and other actors stems from growing criticism of the current model of public service delivery in terms of how it deals with entrenched and complex social issues.<sup>17</sup> Yet despite this recognition of the value of small charities, public contracts are increasingly likely to be offered at scale. A 2013 survey of voluntary, community and social enterprises by Locality found that nearly 42 per cent of respondents believed that contracts had become larger over the previous five years, and 52 per cent expected them to become larger still over the next five years. Eighty per cent said that this would provide them with less opportunities and a lower range and quality of services in their area (unpublished Locality research, cited in NCVO, no date).

Locality recently offered a critique of the ‘myth’ that cost efficiencies will be achieved by commissioning at scale to large providers that are able to drive down unit costs through large-scale purchasing and standardised operations (Locality 2014). This industrial approach to public service delivery is wholly inappropriate, the authors argue, because it relies upon a one-size-fits-all approach to service delivery, whereas what many service users require is a responsive and adaptive local system that allows frontline staff to work proactively in order to meet their specific needs. The current approach, it is argued, leads to ‘failure demand’,<sup>18</sup> meaning that it drives up costs rather than fixing problems as and when they present themselves (ibid; see also Cottam 2011).

Furthermore, small charities argue that a focus on unit cost obscures the wider value that they offer, and that services suffer when contracts are awarded to the provider that is able to make the cheapest offer (LBF 2015). There is some

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17 See for example McNeil C and Hunter J (2015) *Breaking boundaries: Towards a ‘Troubled Lives’ programme for people facing multiple and complex needs*, IPPR. <http://www.ippr.org/publications/breaking-boundaries-towards-a-troubled-lives-programme>

18 ‘Failure demand’ is generated when services fail to provide what people need in order to solve the problems for which they are seeking help, meaning that ever-greater resources are diverted to tackling spiralling levels of need, and costs are driven upwards (Locality 2013).



evidence to support these arguments. Bovaird (2014), having drawn upon a wide range of literature, concludes that the widespread assumption that economies of scale should be the prime consideration for local government services is not based on reliable evidence. Instead, the focus should be on ‘economies of *scope*’, whereby services are designed to increase the range of services supplied by a single provider (ibid; see also Reino 2010). One study from Holland provides evidence that, specifically within the voluntary sector, large charities do not necessarily deliver economies of scale by virtue of their size: a survey of more than 1,000 voluntary organisations found that there were no economies of scale in levels of program-spending efficiency and administrative efficiency between small and large charities (van der Heijden 2013).

Those who argue for a focus on economies of *scope* often point to the comparative advantage of small and voluntary organisations in this field, which are thought to be able to provide more holistic support,<sup>19</sup> and to provide valuable ancillary services that can be delivered at the same time and for low marginal cost (Milbourne 2009). Alternatively, economies of *scope* could be achieved by a mix of small (and large) providers working together to combine resources and specialisms in order to best serve and address the needs of local communities.

However, there is no rigorous research that proves whether or not small organisations, and smaller charities in particular, are best placed to deliver economies of *scope* in public services (Rees et al 2012).

Indeed, successive reviews of evidence have failed to identify a robust case for the distinctiveness of the voluntary sector in service delivery as a whole (HoC-PASC 2008; Macmillan 2012; Andrews and Entwistle 2010). A study of the outcomes of public services across different sectors in adult social care and early-years education by Dobbs and Clark (2010) found that variations in outcomes *within* the same sector were just as great as those *between* sectors, and discovered little or no systematic differences in outcomes between voluntary-sector providers and those from the public and private sectors. Another study, on social care provision, suggested that the belief that the voluntary sector as a whole is distinctive in terms of levels of innovation, commitment and quality is ‘more of a gut feeling than one which is grounded in specific forms of evidence’ (Dickinson et al 2014).

Furthermore, and despite the claims made for the sector from both within and without, there is little definitive evidence of the particular distinctiveness of smaller charities. Existing research either highlights the fact that there is no clear evidence of advantages or disadvantages to small organisations delivering services (Reino 2010), or suggests the need for further work to be undertaken to draw out the particular qualities of smaller organisations relative to others (Dickinson et al 2014).

## 2.5 Discussion

The argument that the voluntary sector in general provides unique value, and that small and medium-sized charities in particular do so, often *feels* compelling, and is often made. Small charities are often an essential part of their local communities, and a wealth of qualitative and anecdotal research and reporting – some of which has been cited above – attests to the real and distinctive value that they bring to society.

However, despite the large number of reports that make this case, hard and statistical evidence in support of it is often lacking.

Likewise, the wider claims made for the sector, in terms of its distinctiveness and the value that it offers, tend to be driven from *within* the sector itself, and so are often ‘rather promotional and one-sided’ (Macmillan 2012). Many of the claims made about

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<sup>19</sup> See for example Bull et al 2014.



the value provided by small charities, even though they may intuitively make good sense, are based upon *a priori* arguments about how the voluntary sector is defined. The local dimension of the work of small charities, for example, is inherent in their definition; as such it is normally assumed that small charities are more connected to the community, have a greater understanding of its needs and so on.

This perhaps is unsurprising. The voluntary sector – the vast majority of which is composed of small and medium-sized organisations – has been described as a ‘loose and baggy monster’ (Kendall and Knapp 1994), and various studies have pointed to a high degree of ‘fuzziness’ in terms of the distinctions between the public, private and charity sectors (Westall 2009a; Brandsen et al 2005), and even *within* single organisations, which can adapt and transform their behaviour over time (Heins and Bennett 2015). Drawing firm conclusions about a significant proportion of the voluntary sector is therefore likely to be an impossible task.

It should also be noted that the voluntary sector does not have a monopoly on ‘social value’: indeed, it is created in and by all sectors (Auerswald 2007). Although voluntary organisations, led by a belief in their distinct offer, are arguably more likely to measure their wider impacts, private and public organisations also provide ancillary benefits for their customers and their workforce, even if they are unaware of it. Lord Young, for example, noted in his review of the Public Services (Social Value) Act 2012 that many small businesses feel that they are well placed to provide the kind of additional social benefits described in the Act (Cabinet Office 2015). This diversity of sources of social value should therefore be considered in any evaluation of accounts of third sector value (Westall 2009b). However, it should also be borne in mind that the private and government sectors are no better at measuring social value than the voluntary sector.

Measurement is indeed a problem, given that many of the benefits claimed for small charity work are framed as abstract outcomes (‘holistic’ working, for example) or impossible to measure directly (social capital, for instance). Botham and Setkova (2004) argue that ‘soft’ outcomes, such as an increase in a service-user’s self-confidence or improved social relationships, are hard to gauge using quantitative tools that deliver comparable data. This further limits our ability to draw generalised conclusions. Indeed, many in the charity sector would argue that the real added value of their work is intuitive and unmeasurable (Weaver 2014).

This may not be a problem in itself, provided that those who fund and commission smaller organisations are intuitively aware of the perceived value of small charities. There is certainly a sense among the general public of the inherent value of such organisations: an Ipsos MORI study for the Charity Commission found that people tend to trust smaller and local charities over larger charities, partly because they spend money locally and were therefore felt to benefit local people (Ipsos MORI 2014). Smaller charities also tend to be seen as more rooted in their local areas (Hall et al 2013).

However, many commissioners, who are themselves facing cuts to their resources, are reluctant to manage a large number of relationships with small charities (Hedley and Joy 2012). In addition, wholesale changes to the way that commissioning is organised, including a trend towards larger contracts and prime provider contracts, mean that existing relationships between the voluntary and public sectors risk being broken (see chapter 4 for further discussion of these changes). Due to the growth in sub-contracting and provider consortia, public sector commissioners are, in many service areas, becoming less connected to smaller and social sector providers (Crowe et al 2014; FSI 2012).

Furthermore, commissioners are operating under increasing pressure to both justify public spending and reduce unit costs (Bull et al 2014), and as such it becomes increasingly necessary for charities bidding for public funds to comply with demands to evidence their worth.

However, demonstrating hard evidence for the benefits of small and medium-sized charities poses real methodological challenges. In the next chapter we explore the numerous tools that may offer means of providing that hard evidence, and discuss their limitations when it comes to small and medium-sized charities in particular.

### 3.

## MEASURING THE SOCIAL VALUE OF SMALL AND MEDIUM-SIZED CHARITIES

Few would argue that measuring the income or GVA of voluntary organisations accurately reflects their overall contribution to society, or their ‘social value’ (Mulgan 2010).

No single accepted description of ‘social value’ or ‘social impact’ exists (Harlock 2013; Polonsky and Grau 2010), although it is variously associated with changes in social capital, community cohesion, empowerment of individuals and communities, and a range of individual benefits such as improvement in physical or psychological wellbeing.

The range of frameworks and tools for evaluating wider impact in the voluntary sector is extensive (Harlock 2013), and has increased substantially in recent years (Ní Ógáin et al 2012). This growth has been demand-led. The reasons for this demand vary between organisations, although studies have pointed to several key incentives, including funders’ concern that money is spent wisely (Ostrander 2007), and government’s growing emphasis on evidence-based policymaking.

### 3.1 Popular frameworks for valuing small charities’ activities

This chapter provides brief descriptions of some influential and widely used frameworks, along with some examples of their use, through which individual charities, and groups of charities, have been able to measure and articulate their value. It concludes with an overview of some of the main issues in voluntary sector evaluations, particularly those associated with smaller organisations.

#### Cost–benefit analysis

One of the most popular ways of capturing added or social value is a cost–benefit analysis (CBA), which involves establishing the value of an intervention by demonstrating the savings that accrue to different public bodies as well as to citizens as a result of it. The key advantage of a CBA approach relative to others is the use of an agreed unit cost database (such as New Economy’s unit cost database<sup>20</sup>), which ensures a consistent approach that allows for easy comparison (Holloway 2015).

The fiscal benefits of a given intervention are calculated by compiling the relevant fiscal values of observed project outcomes. The fiscal benefit of a unemployed individual entering work, for example, is just over £10,000 per year, which accrues to the Department for Work and Pensions in the form of savings from lower benefits payments, and to the NHS in terms of reduced expenditure related to the health costs of being out of work. Furthermore, that individual entering work will deliver a net benefit to the local economy of over £14,000 per year as a result of increased earnings.<sup>21</sup> These benefits are offset by capital and revenue costs, as well as in-kind costs such as volunteers’ time and use of free or subsidised facilities.

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20 [http://neweconomymanchester.com/stories/1966-cost\\_benefit\\_analysis](http://neweconomymanchester.com/stories/1966-cost_benefit_analysis)

21 See <http://neweconomymanchester.com/our-work/research-evaluation-cost-benefit-analysis/cost-benefit-analysis/unit-cost-database>

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## Costs and benefits: case studies

### *Community Action Southwark*

Community Action Southwark<sup>22</sup>, an umbrella organisation for voluntary and community organisations in the south London borough, reports that a local sanctuary service for women experiencing domestic violence helped 215 clients feel safer in their homes and helped enable them to retain their tenancies. Using the average cost that one incident of domestic violence incurs across the health sector, the criminal justice sector, the police, and the local authority (children's social services and housing services) – £12,331 in total – they calculated that the sanctuary service had delivered a saving of £2,651,165. This figure assumes that the charity played a role in preventing at least one incident of domestic violence incident per client (CAS, no date).

### *Hele's Angels*

Hele's Angels<sup>23</sup> is a community-led partnership that seeks to improve the quality of life of residents that live in Hele and Lower Barton in Torquay. The organisation is responsible for a number of local initiatives, including a one-stop-shop for residents in the neighbourhood where they can receive help, advice and information; a community shop; and a project that aims to improve the green spaces in the area. These initiatives are all run by volunteers, with support from the coordinator.

As part of Locality's 'Our Place' programme, Hele's Angels undertook a cost-benefit analysis of their activities. The positive outcomes that were modelled included reduced exclusions from school, the reduced costs of mental health interventions, and improved wellbeing among individuals, families and communities. A deadweight was included, as well as a correction for optimism bias. Overall, the analysis calculated that since 2014, the partnership delivered a total of £370,000 in direct fiscal benefits, compared to £170,000 costs. The economic benefits (that is to say, the wider benefits beyond direct savings for the taxpayer in terms of reduced services) of the partnership's activities were put at £1.3 million, which indicated an overall return on investment of over 7:1 (Locality 2015b).

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CBA is a rough way of calculating value, not least because it relies upon generalised assumptions about the 'cashability' of savings made (New Economy 2015). In reality, the lack of rigorous data collection means that estimates of cash savings, particularly for smaller organisations, are founded upon very broad assumptions about their actual impact (this is particularly true of the Community Action Southwark example cited in the box-out above). However, a CAB is a useful tool for evaluating the desirability of the work of a particular small charity from the point of view of the taxpayer. By including both direct and indirect savings achieved as a result of charitable and voluntary activity, it goes some way towards capturing the wider contributions that such organisations make to social, as well as economic, value.

## **Social return on investment (SROI) analysis**

SROI is a type of CBA that was developed to capture the value of intangible social benefits in a way that more straightforward CBA has sometimes failed to do (Arvidson et al 2014). Rather than using a predefined list of cost-savings as in conventional CBA, SROI places greater emphasis on stakeholders' involvement in determining value provided (Arvidson et al 2010). The intention behind SROI is to provide a 'better evidence framework for how to achieve good lives and human well-being' (Vardakoulias 2013).

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22 <http://casouthwark.org.uk/>

23 <http://www.helesangels.org.uk/>

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### SROI cost–benefit analysis: a case study

Arvidson et al (2014) carried out a SROI for Acacia Family Support,<sup>24</sup> a small Christian charity working to improve the lives of families affected by pre- and post-natal depression in Birmingham. Its services include weekly one-to-one support sessions, telephone support, and awareness-raising work with professionals and related organisations, all of which are delivered by trained volunteers.

Evidence for this analysis was gathered from quantitative data, interviews and a literature review. It examined the short-, medium- and long-term effects of the charity's activities, and attributed monetary values to social outcomes.

The analysis identified several positive outcomes, including reduced use of primary care services, reduced behavioural problems in children, and improved family functioning. Using financial proxies, it was estimated that the service provided a return of £6.50 for every £1.00 invested.

The authors noted, however, that resources did not allow for in-depth consultation with all stakeholders, and that therefore the overall value of the charity's activities may be understated. They also noted that there was no accepted method for identifying financial values for a number of the benefits identified in this analysis, particularly those related to mental health.

Source: Arvidson et al 2014

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Although SROI has the advantage of being informed from the bottom up, in the sense that it captures value as perceived by all stakeholders, its emphasis on stakeholder involvement results in diverse sets of indicators, and therefore creates difficulties in terms of comparing like with like. Indeed, there is guidance recommending against comparing SROI ratios across different activities, whereas CBA is designed to produce results that are directly comparable (Arvidson et al 2010).

On the other hand, both SROI and CBA are criticised in similar terms: namely that because the scope of such analyses is restricted to the savings accrued (directly or indirectly) to the taxpayer, they are limited in terms of the extent to which they can capture the benefits of improved quality of life or wellbeing. This is despite the fact that such improvements are often precisely what charities seek to deliver (CDF 2014). Acknowledgement of this shortcoming has led to the development of alternative approaches that attempt to measure improvements to individuals' lives, rather than savings to the public purse.

### Wellbeing valuation

One such alternative approach is 'wellbeing valuation' (Fujiwara et al 2013), which measures the success of a social intervention by how much it increases people's wellbeing, via financial proxies. This approach has come to dominate current thinking on social impact measurement among key stakeholders in the voluntary sector, government and academia; it was recently included in the Treasury's *Green Book*, which provides guidance on commissioning and assessment in the public sector.<sup>25</sup>

Wellbeing valuation uses data on self-reported wellbeing and life circumstances, and the analysis then calculates the equivalent amount of money needed to increase someone's wellbeing to the same degree. The consistent way in which these values have been derived from various surveys using the same methodology allows for 'like for like' comparisons when examining the values of different types of outcome. However, it also aims to provide data based on actual improvements in people's lives (Trotter et al 2014).

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24 <http://www.acacia.org.uk/>

25 <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>

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### Charity Street: The value of charity to British households

In 2014, IPPR used a wellbeing valuation approach to evaluate the overall impact of charitable activity on individual households, rather than the impact of one specific charity and the cost-effectiveness of it as an investment (Glennie and Whillans-Welldrake 2014). Case study interviews were held with individuals living in three locations in the south of England in order to identify the specific changes that these individuals had made to their lives as a result of interactions with local charities. The overall social value of the charitable sector for each case study was then calculated using values taken from the Social Value Bank.<sup>26</sup>

To take one example, a housing association enabled a family to move into their own home, and a son's attendance at local youth groups and boxing classes increased feelings of community belonging, as well as boosting activity levels. Overall, the charity sector's impact on this household across a single year was estimated at £9,600 (after deadweight calculations was applied). For other households, annual benefits varied from just over £2,000 for a family who used the local playgroup for their young child, to £42,000 for an individual who underwent a period of counselling for anxiety, received physical therapy from a charitable centre, and volunteers for two national charities.

Source: Glennie and Whillans-Welldrake 2014

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A wellbeing valuation approach can help us to assess the more intangible outcomes of the work of small charities that other approaches cannot take into account. In focussing on the improvements made to individuals' actual lives, it can offer a broader sense of the real value of what these charities do.

However, like CBA and SROI, a wellbeing valuation approach can only ever provide a partial account of value provided. Gibbon and Dey (2011) suggest that while quantitative analyses create an 'apparent simplicity' that is appealing to funders and policymakers, they often rely on assumptions and highly subjective factors. This means that the associated calculations should be treated with caution, as they could be 'potentially meaningless or even misleading' (ibid). The multiple sources and methodologies used in creating proxies make any estimates of actual costs saved a very rough guess (Trotter et al 2014). Some have questioned whether expressing value in financial terms is a useful or meaningful exercise (Arvidson et al 2010), not least because the 'value' provided is likely to mean different things to different people and in different contexts (Westall 2009b; Vardakoulias 2013).

## 3.2 Challenges to measuring value for small and medium-sized charities

Small charities face particular challenges in relation to evaluation, and as a result are less likely to engage in impact measurement at all. In 2012, a study found that almost half of charities with an annual income of less than £100,000 did not measure impact at all, compared to 25 per cent of all organisations across the voluntary sector (Ní Ógáin et al 2012). It was also found that smaller charities were less likely than larger ones to have increased their monitoring activities. This may reflect the fact that they are also less likely than larger charities to be funded by the state (ibid), and hence do not face the demands for evaluation and monitoring that that entails. However, there are other obstacles that smaller charities are more likely to face than others.

- First and foremost, a key obstacle is organisational capacity and resource issues. It takes substantial amounts of time to gather and analyse data for evaluation (and it therefore impinges on staff capacity to concentrate on service delivery), and it requires reasonably high levels of skill among staff

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26 <http://www.hact.org.uk/social-value-bank>

(Ní Ógáin et al 2012: 46). Furthermore, workers in small charities frequently reported financial and technical barriers to carrying out such evaluations, as well as a sense of excessive external pressure to do so (ibid).

- Second, the marginal costs of impact measurement are likely to be higher among smaller organisations. A survey of members of the Charity Finance Directors Group found that the greatest cost was data collection, followed by analysis, the design of measures, and the writing and dissemination of findings (Breckell et al 2011: 12). Around a third of respondents felt that the costs of evaluation for their organisation *outweighed* its benefits (ibid). At the same time, while funders' expectations of evaluation and monitoring may be relatively high, these expectations are sometimes not matched by allocation of funds for these purposes (Ellis and Gregory 2008). This is a particular issue for government funding, which typically requires more extensive monitoring and evaluation, and is more costly than any other funding type (Harlock 2013).
- Third, the cultures associated with evaluation and other activities that effectively measure or test the work of an organisation may sometimes be at odds with the ethos of small voluntary sector bodies. Many systems that echo aspects of performance management – even if they do not explicitly employ them – may 'clash' with the personal commitment and intrinsic motivations that frequently characterise charitable and voluntary bodies (Arvidson 2009). Impact measurement may be perceived as part of a general shift towards more 'business-like' practice and cultures, and associated with pressure to 'do more with less' in a period of austerity and diminishing resources (Metcalf 2013). Problems may also arise if funds are seen to be 'diverted' from frontline activities (Waters 2010: 462).
- Finally, in relation to complex social problems, attempting to identify a causal link between the work of a particular small charity and positive outcomes for the service user may prove a fruitless task, particularly when other organisations and networks are likely to have also made a contribution to those outcomes (Weaver 2014).

Of the above examples of different methodologies being put into practice, all were carried out by or with the support of external organisations, rather than a small charity doing it alone. Although many smaller organisations do carry out evaluations of their own work, the particular obstacles noted above mean that it may be unrealistic to imagine that small organisations can find the necessary resources to properly evidence their work on their own. This is significant – it suggests that an organisation's ability to evaluate its impact is likely to be an indication of that organisation's ability to secure funding or in-kind support for that evaluation, rather than being proof of any distinctive offer.

### 3.3 Discussion

The above sections illustrate the wide range of methods used by voluntary organisations to demonstrate their value. Each method represents an attempt to move beyond straightforward assessments economic contribution of charities in order to capture something of their wider impacts on communities, society and the public purse. These attempts are motivated, at least in part, by the sense that the real 'value' of the charitable sector lies beyond simple calculations of its output.

A lot of this work is very useful in terms of demonstrating the wider value provided by small and medium-sized charities – even if most methods rely upon significant assumptions.

Many of the available frameworks for measuring social value include principles for converting 'intangibles' into numerical values. The quantification of outcomes according to recognised metrics, such as the estimated financial savings of a



particular intervention, makes the benefits of an intervention readily accessible and comprehensible to non-expert audiences, and any changes over time can be represented in a straightforward way.

However, such quantification will always involve an element of reinterpretation, and some information will inevitably be lost in translation. Selecting a means of quantifying non-numerical outcomes requires careful and detailed consideration in order to ensure that any data that *cannot* be quantified is represented adequately elsewhere. This may necessitate the use of qualitative data to supplement quantitative analysis. Qualitative data can offer 'richness', and can capture subtle and complex elements of change and causality that may be lost in quantitative accounts. Good qualitative data can also overcome some of the challenges associated with very small samples when adopting a quantitative approach (Radcliffe and Hunter 2013).

The examples cited above demonstrate that small charities have gone some way towards developing their own frameworks of evidence in order to attract funds from public and private sources. However, there are also limitations to what can be quantified in a useful way, as well as considerable challenges for small organisations in attempting to evidence their work. A contribution to social wellbeing in the community is a valuable outcome – one that is hard to measure when it is being made, but easy to measure when it is absent (Chapman and Robinson 2014).

It may therefore be unrealistic for funders to expect all small and medium-sized charities to adequately demonstrate their impact: the ability to do so is arguably proof of nothing more than an organisation's ability to attract funding and/or in-kind support to perform a useful evaluation of their activities. Those that are able to produce the most reliable and comprehensive evidence base are not necessarily those that are most valued in their communities.



## 4.

# THE IMPACT OF PUBLIC FUNDING MODELS

This chapter reports on the impacts that changes to public funding have had on small and medium-sized charities, as identified in multiple recent ‘state of the sector’ reports and submissions to the call for evidence that we issued as part of this project.

First, we explore the policy context behind trends in public funding models; second, we highlight the particular issues for small and medium-sized charities that have arisen as a consequence of those trends; and finally, we consider the evidence on the impact that these changes have had on organisations across the country.

### 4.1 Policy context

Since 2010, the direction of public service delivery has shifted radically (Livingstone and Macmillan 2015). More competitive commissioning models have emerged in which all types of provider compete to deliver public services (Cabinet Office 2011). Furthermore, new finance and contracting models have proliferated, including the ‘prime provider’ model and ‘payment by results’. The rationales behind these new models often prioritise ‘value for taxpayer’s money’ (ibid) – a term that is sometimes associated with an ‘obsession with unit cost’ rather than a focus on long-term worth (Locality 2014; LBF 2015). The 2010–2015 Coalition government also introduced new rights for communities and public sector employees to take on the provision of local services where they believed that they could do so differently or better.

Behind many of these reforms has been a greater emphasis on the ‘opening up’ of commissioning processes, with the explicit goal of allowing voluntary sector organisations ‘much greater involvement in the running of public services’ (HM Government 2010). Behind this goal is recognition of the fact that the voluntary sector has an ‘enormous amount of value to add’ in terms of helping to ‘shape and deliver better services’ (HM Government 2012). This focus is not new – successive governments have argued for changes to the way public services are funded, specifically in order to boost the role played by voluntary organisations. However, the changes that have been introduced over the past five years have been ‘in many respects radical’ (Rees et al 2012) in terms of putting a new approach to service delivery into practice.

However, many argue that preference is being given to corporate contractors, with market competition and private enterprise now being positioned as the means of resolving service problems more efficiently, and voluntary organisations increasingly relegated to either largely unpaid community work or to the role of corporate subcontractor (Milbourne and Cushman 2014). It is argued that the state and voluntary sectors are being decoupled, with drastically less direct funding available to the latter (Macmillan 2013).

Furthermore, public funding to voluntary sector organisations through grants has steadily declined over the last decade (NCVO 2015). Grants ‘may be [the] most appropriate way of funding a voluntary organisation to deliver services at a local level – particularly if the service is niche, small scale and/or innovative’ (NCVO, no date). However, over the last few years the value of government

grants has fallen, with the balance tipping in favour of contracts, which now account for £11.1 billion of the sector's overall income (NCVO 2015).

In 2003/04, grants to the voluntary sector as a whole peaked at £6 billion – then over half of the sector's total income from government. Since then, contracts have grown in size and prevalence and the value of grants has fallen: in 2012/13 grants made up just 17 per cent of the voluntary sector's income from government, or £2.2 billion (NCVO 2015). The tightening of local government finances has arguably precipitated further cuts to grant funding, which is not ringfenced: freedom of information requests revealed that 50 per cent of the local authorities that responded to those requests (71 out of 141) had, in 2011/12, disproportionately cut voluntary sector grant funding relative to other reductions in spending (Bhati and Heywood 2013). These cuts are likely to have been driven by councils' need to prioritise the delivery of their statutory duties (such as social care provision) in the context of significant reductions to their overall spending power. Furthermore, local authorities' lack of financial autonomy, coupled with the short-term and unpredictable nature of central government funding, inhibits their ability to invest in long-term and preventative work of the sort that the charity sector is often engaged in.

#### 4.2 Particular issues for small and medium-sized charities

While there have long been concerns that the increasing prevalence of contracting arrangements would benefit larger organisations more than smaller ones, and so lead to a 'Tesco-isation' of the charity sector, these concerns have, in the past, been shown to be unfounded. A cross-sectional and longitudinal study, which analysed the period 1997–2008, found no evidence that the share of total charity income accounted for by the biggest charities had grown compared to that of smaller organisations (Backus and Clifford 2012).

There is, however, some evidence to suggest that this equilibrium has been disrupted since 2010, and that large organisations, including some large charities, are now increasingly dominating the market for public service provision.

For example, recent research indicates that winners and losers are beginning to emerge from new programmes, such as the Work Programme, for which larger charities and private companies are gaining a greater share of contracts (Ishkanian 2014; Rees et al 2013). This is despite the fact that it was intended that the Work Programme would represent a significant financial investment in the sector (DWP 2012).

Medium-sized charities have felt the impact of reduced funding from government contracts particularly keenly. Overall, income to the voluntary sector from government contracts has declined slightly since its peak in 2010/11 – down from £12.3 billion in 2010/11 to £11.1 billion in 2012/13 (NCVO 2015). However, smaller organisations are more likely to have experienced a reduction in such income, with medium-sized organisations the most adversely affected. Between 2008/09 and 2012/13, charities with annual incomes of between £100,000 and £500,000, and between £500,000 and £1 million, experienced large falls in their income from contracts (32 and 37 per cent respectively). Larger charities, on the other hand, fared much better: those with an income of between £10 million and £100 million experienced a fall in income from contracts of only 5 per cent on average, while those with an income greater than £100 million enjoyed a 34 per cent *rise* (NCVO 2016).

Small and medium-sized organisations have also been adversely affected by the overall contraction in government grants, as they tend to be more reliant on this particular source of income. Grants have been found to make up around 25 per cent of the government income of small and medium-sized organisations, compared to around 15 per cent of that of larger organisations (ibid). Between 2008/09 and

2012/13, small and medium-sized organisations experienced a drop in income from grants, with those in the £25,000–£100,000 annual income band experiencing the biggest fall in government grant income: a drop of almost two-thirds (ibid).

Voluntary organisations that work in deprived areas are particularly likely to be reliant on grants to survive (Chapman and Robinson 2015; Cox and Schmuecker 2013). It is therefore likely that such organisations have been more severely affected by the overall negative trend in the availability of grants (Chapman and Robinson 2015).

Overall, the voluntary sector has seen a contraction in its income from government, although among the very largest organisations the opposite appears to have occurred. Between 2008/09 and 2012/13, central and local government income decreased for voluntary sector organisations of all income bands except the largest (those with incomes of over £100 million). The central government income of the latter *increased* by 49 per cent, and their local government income increased by 22 per cent (NCVO 2016). In general, the smaller an organisation's income, the more it lost in proportional income from both local and central government (ibid).

These headline figures suggest that recent changes in policy have had particularly severe effects on small and medium-sized charities. Indeed, many argue that the size of voluntary sector organisations is a key factor in determining how well they have fared over the last few years (Milbourne and Murray 2014). However, while there is a great deal of evidence that suggests that small organisations are more likely to have been negatively impacted, the overall picture is more complicated than that: it is not simply the case that *all* smaller organisations have been badly affected.

First, changes to the levels of funding received by small and medium-sized charities are strongly related to the wider landscape of local government funding. Organisations in the North East and London, the two regions that have suffered the largest average local government cuts to spending per person over the last five years (Innes and Tetlow 2015), experienced the greatest loss of local government income between 2008/09 and 2012/13 (NCVO 2016).

Second, within the broad and varied array of small and medium-sized charities, there are inevitably those that are managing to adapt their activities in order to survive, or even thrive, under new circumstances, and those that are struggling to survive. This inevitably implies that some smaller organisations are feeling the pinch far more than others. The uneven state of the sector's finances is explored later in this chapter (section 4.3).

Why is it, though, that small and medium-sized charities seem to be particularly affected by changes in the funding landscape? The following subsections explore some of the barriers and issues that these charities face in terms of obtaining public funding, particularly through contracts.

Although overall funding from contracts to small and medium-sized charities has increased significantly in recent years (Chapman and Robinson 2015), the overall proportion of such charities that are bidding for contracts remains low, and many perceive barriers to engagement, or would require more information or support, before they would do so (FSI 2014).

Clearly, then, there are issues with the design of the contracting process that are affecting the ability of smaller charities to compete on a level playing-field with other organisations. Submissions to our call for evidence and lessons from the wider literature indicated a number of reasons for this.

### **Exclusion from bids**

Smaller organisations are, in many instances, being excluded from bidding for contracts altogether because they are unable to meet the stipulated conditions. These may include minimum percentage turnover requirements, or a requirement for certain levels of public liability insurance, which may not be proportionate to the scale and complexity of a project (Bagwell et al 2015).

Survey data from Lloyds Bank Foundation suggests that 61 per cent of small and medium-sized charities have bid for contracts as either a lead provider or as part of a consortium (LBF 2015). However, this figure masks significant variance between charities of different sizes: roughly 30 per cent of charities with an annual income of under £50,000 have bid for contracts, compared to 88 per cent of charities with an income of more than £500,000 (ibid).

Furthermore, charities that focus on preventative action and whole-person care may struggle to win public contracts (Bagwell et al 2015). Where commissioners are under pressure to make short-term cost savings, funding is allocated to guarantee a minimum standard of care, and to ensure that statutory obligations are met, rather than to invest in preventative and holistic solutions (ibid).

NCVO ascribes the exclusion of smaller organisation from the bidding process to local governments' lack of pre-procurement engagement with suppliers. Voluntary organisations, it is argued, are often well-placed to contribute at this stage, advocating on behalf of service users and advising on how to improve services. However, many public authorities and their commissioning teams fail to communicate properly with the voluntary sector during the design of their contracts (NCVO 2013).

As a result of changes to an EU directive, the government has recently introduced new rules on procurement. They include provisions stipulating that contracting authorities will not be able to set turnover requirements at more than twice the value of the contract itself, except where there is a specific justification for doing so. They also encourage purchasers to split contracts into smaller 'lots'. These new rules may go some way towards making it easier for smaller organisations, including small charities, to bid for contracts. However, the difference they will make in practice is not yet clear, especially as there are few incentives to actually create smaller contracts in cases where individual commissioning and procurement teams continue to focus on driving down unit cost (Bagwell et al 2015).

### **Commissioning at scale and the prime provider model**

Smaller organisations encounter an uneven playing-field when bidding for work through large-scale commissioning arrangements such as 'prime provider' models. Small charities say that they find it hard to compete for contracts with larger organisations that are likely to operate at a scale sufficient to run more generic services across a wider area (or to a wider population), and which have the resources to pay for expertise in bidding (LBF 2015).

In a prime provider model, for example, local or central government contracts a single lead provider for a large geographical area. This lead provider then has responsibility for managing the entire supply chain, normally including subcontracting to other organisations that may be considered more expert in dealing with tough cases. The intention is to shift the risk of commissioning away from government and onto the private sector, and in doing so allow for providers to adopt a 'black box' approach to service delivery (Institute for Government 2013) – an approach which in theory allows them to work flexibly and in a non-prescribed way to achieve specified outcomes, rather than delivering predetermined services. The Work Programme is the most established national scheme that utilises a prime provider model, but that model is

also a core feature of the government's new approach to reoffending and rehabilitating (the 'Transforming Rehabilitation' reforms<sup>27</sup>).

By its very design, the prime provider model excludes smaller organisations from taking on a direct contract with government because of the size of the contracts on offer.<sup>28</sup> Instead, small charities must bid for subcontracts from the 'primes' (which are often, but not always, large private companies), with no guarantee of a regular flow of clients. This has significant effects on the capacity of smaller charities to take on such contracts, as is illustrated below.

Because it is not involved in the contract negotiations with the commissioner, a charity in this position may inherit contract clauses that are prohibitively risky or burdensome, or pricing plans that make either a surplus or even a full recovery of costs impossible.

Various reports have highlighted the voluntary sector's increasingly marginalised role in welfare-to-work programmes, and this is particularly true of smaller and specialist organisations (Rees et al 2013). This has given rise to claims that specialist voluntary organisations have been used as 'bid candy' to secure prime contracts (ibid; LBF 2015), and that organisations have responded to perverse incentives within the payment-by-results mechanism by 'creaming' the easiest cases while 'parking' those considered most difficult to work with (Rees et al 2013).

However, it is not only small charities that have found it difficult to work as subcontractors to prime providers. A recent report suggested that what were often perceived as 'third sector issues' within the Work Programme are actually systemic programme design issues that affect organisations of all sectors. Specifically, being a 'second tier' provider entails a lack of assured workflow that impacts upon financial sustainability, regardless of sector or organisational size (Rees et al 2013).

Large-scale contracts create monopoly conditions that dampen competition and drag down the quality of services. The House of Commons Public Accounts Committee (2014) has warned the government that it must guard against suppliers becoming 'too important to fail', and suggested that it should encourage competition by, for example, disaggregating contracts in order to encourage small and medium-sized enterprises to bid for work.

### **Payment-by-results and risk management**

Many public contracts utilise a form of payment-by-results (PbR) as part of their payment mechanism. By making a part, or the whole, of payment contingent upon the successful demonstration of positive outcomes, the government is able to transfer the risk involved in commissioning public services off its books. From the provider side, PbR offers them greater freedoms in terms of how they pursue the desired outcomes than they otherwise would have had.

While this arrangement may have its advantages, small and medium-sized charities often struggle to deliver services on a PbR basis. With limited funds, or often none at all, offered at the start of a contract (Drinkwater 2015), charities are forced to use their reserves or to cross-subsidise from other work in order to fund activity in anticipation of a payment on successful completion – something that many struggle to do (Birmingham City Council 2015). Smaller organisations may experience particularly acute difficulties in this regard, as they are less likely to have sufficient funds to cover the period between starting work and receiving payment.

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<sup>27</sup> <https://www.gov.uk/government/publications/transforming-rehabilitation-a-strategy-for-reform>

<sup>28</sup> Organisations wishing to deliver one of 40 prime contracts within the Work Programme must demonstrate an annual turnover of at least £20 million.

There are also issues around the measurement of results: the National Audit Office found that for programmes trying to achieve complex, long-term outcomes, it is difficult to design a payment model based on individual clients' progress (NAO 2015). Furthermore, PbR is usually linked to successful outcomes on one or more metrics, meaning that the 'added value' that smaller charities claim to provide is not accounted for in the payment mechanism. The use of a binary measure for success, with no payment for progress towards a target, coupled with the potential for failings in related services that are outside the provider's control, means that taking on a PbR contract may involve a greater degree of risk than a small charity can manage (Keohane et al 2013). Some have suggested that this may be an issue of governance, and that charities should improve their risk-management arrangements to enable them to become more entrepreneurial (CFDG 2012).

### **Bidding processes**

Developing a contract application is a resource-intensive process, and putting together a quality bid that looks and 'feels' right requires considerable skill that many smaller charities lack. It also costs money: as the Charity Finance Group pointed out in their submission to our call for evidence, contracts are often more expensive than grants because of the increased resources needed to complete a tender.

These difficulties are exacerbated by the local government purchasing model. NCVO has cited 'widespread anecdotal evidence' that the divide between commissioning and procurement teams underpins poor decision-making processes. Procurement teams, in contrast to commissioners, will not have spent time engaging with local suppliers; they also have rigid specifications concerning risk-management and value for money (criteria that are likely to favour larger organisations, unless a careful case has been made around social value) (NCVO 2013). As such, they are likely to have little understanding of the nuances of local need and the services required to fulfil it.

Short procurement timescales often mean that charities do not have time to put together a quality submission that follows what are sometimes complex tender requirements, or to form a partnership or consortium that may be their only means of achieving the capacity to deliver larger contracts (NCVO, no date). The short timeframes involved in procurement, as well as the fact that contracts themselves are often issued at short notice, also has financial implications for charities, which often cannot rely upon a secure stream of income.

In theory, the Public Services (Social Value) Act 2012 offers opportunities to level the playing field for small charities. However, awareness of how best to use the Act remains low among key decision-makers in the public sector (Social Enterprise 2014) – not least because taking social value into consideration is assumed to make contracts more expensive, which runs contrary to the cost-cutting mentality that is communicated to commissioners from above (Steed 2012). Some local authorities still have Voluntary Sector Compact<sup>29</sup> arrangements in place; in other areas these have been shelved. There may be an opportunity to refresh Compact processes in certain circumstances, although many would need to be made more detailed – in most cases they only ever represented high-level frameworks for action.

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29 <https://www.gov.uk/government/news/government-and-voluntary-sector-agree-new-compact>



### 4.3 The impact of public funding models on small and medium-sized charities

Bearing in mind the overall trends in voluntary sector income, and the particular issues encountered by small and medium-sized charities, some clear patterns emerge.

As explored above, headline figures indicate an overall reduction in the voluntary sector's income in recent years. Against a backdrop of increased demand, including greater severity and complexity of need and the impacts of welfare reforms, as well as reduced access to pro bono or low-cost facilities and support and increasing difficulties in recruiting volunteers (Birmingham City Council 2013), many organisations are likely to be feeling the squeeze. One recent survey suggests that just over 80 per cent of small and medium-sized charities are struggling to obtain enough funding, and that 63 per cent believe that securing ongoing funding will become harder over the next two years (LBF 2015).

Smaller charities generally experience much greater income volatility than larger organisations: much like small private companies, they are significantly more likely to experience big rises or big falls in income (NCVO 2016). This volatility can be exacerbated by the uncertainty of short-term grants and contracts.

So far, however, the small charity sector as a whole is not in terminal decline. Although NCVO data does demonstrate a decline in overall income, it is relatively moderate across the sector as a whole. Many smaller charities can be remarkably resilient, and may be able to diversify their income streams, or cut back on their operations in order to get by.

Indeed, in the North West and Cumbria around about 70 per cent of charities have maintained roughly the same level of income over the last few years, and around 10–15 per cent have increased their incomes (Chapman and Robinson 2015). In Yorkshire, most charities with annual incomes of between £5,000 and £50,000 expect that their incomes will remain stable (Chapman 2014). A number of recent surveys of charities indicate that many have used their reserves to cover a loss of income, although there is some suggestion that this may be more prevalent among larger organisations (ibid).

However, small drops in income across charities as a whole inevitably mask more significant impacts upon particular groups of charities: there is considerable variation behind the headline figures. The FSI suggests that charities fall into distinct clusters in terms of their current outlook, ranging from organisations that are experiencing constraints to their current activity, to those facing a risk to their very survival (FSI 2014). Survey data suggests that medium-sized local charities, for example, which may be more reliant on government funds and may be less able to diversify their income streams, are among those struggling most (Chapman and Robinson 2015). In Birmingham, organisations with an income of between £50,000 and £200,000 were found to be at particular risk (Birmingham City Council 2013), and in Yorkshire those in this bracket were most likely to report a risk that their income may fall (Chapman 2014).

Place is another core determinant. There is evidence showing that voluntary sector organisations operating in more affluent areas are significantly more likely to have had a stable income: only 51 per cent of charities in the poorest areas reported having a stable income between 2012 and 2014, whereas among those in the most affluent locales this figure was 80 per cent (Chapman 2015). Organisations in deprived neighbourhoods are also more likely to have been

affected by rising demand, which is concentrated in poorer areas.<sup>30</sup> In 2012, an analysis of applications to the government's transition fund (set up with the intention of supporting civil society organisations facing public spending cuts) found that the most deprived quartile of local authority areas accounted for 66.4 per cent of the cuts reported in applications to the fund; the least deprived quartile accounted for only 7.5 per cent (ACEVO 2012). The majority of applications were from medium-sized organisations (with incomes of between £100,000 and £1 million), which accounted for 70 per cent of all applicants. However, it was evident that small organisations applying to the fund (those with incomes of less than £100,000) had been disproportionately affected by cuts (ibid).

Finally, there is evidence to suggest that charities working with black, Asian and ethnic minority (BAME) groups, which historically have found it hard to acquire funds, have been disproportionately affected by cuts. This is at least partly because such organisations lack strong relationships with funders (both private and public), many of whom struggle to understand the particular needs of BAME groups (Voice4Change 2015; Lipman 2014).

Overall, it appears that pockets of real pressure are emerging, particularly in areas of high deprivation. Where small charities are affected by reductions in their funding, it is highly likely that they will need to resort to using their reserves in order to cover shortfalls in income. It may also necessitate closing services and reducing their wider community presence in order to get by. Beyond this, such charities risk having to reduce their workforce by making cuts to salaries and working hours, and increasing their use of volunteers at the expense of paid staff (all of which will impact upon charities' ability to deal with demand).

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30 <http://www.ft.com/cms/s/0/c27c6f0a-c753-11e4-8e1f-00144feab7de.html>



## 5. CONCLUSIONS

Small and medium-sized charities make up a large and important part of the voluntary sector as a whole, and contribute considerable value to society. There is a broad consensus, evident from a wealth of reporting, that they have a vital role to play not just in relation to service delivery but also to supporting and nurturing positive relationships, and improving lives, within the local communities that they are part of.

However, despite this consensus, there is a lack of statistical evidence to support many of the claims that are made for smaller charities. This is partly due to the ‘loose and baggy’ nature of the sector, in that it includes a diverse range of different organisations. But it is also because, as explored in this report, any measurement of the value added by small charities implicitly involves a trade-off: trying to capture softer social impacts has implications for the usefulness and comparability of the data collected.

Smaller organisations also face various barriers to measuring value, related to their small size and lack of capacity, which impact upon their ability to evidence their own impact. In the current climate, in which private and public funders are increasingly demanding of evidence of impact, this implies that smaller organisations will increasingly be left at a disadvantage if they lack the capability and capacity to make the case for their work. Furthermore, those that are able to produce the most reliable and comprehensive evidence base are not necessarily the ones that are most valued in their communities.

The charity sector as a whole, and smaller organisations in particular, have historically shown great resilience in the face of changes to their income, but organisations working in deprived areas are far more exposed to risk than others. Current evidence suggests that it is these organisations, which are most reliant on state funding and are least able to draw upon alternative sources of funds, that are losing out most because of cuts. These organisations are also likely to experience the greatest increases in demand as a consequence of changes to welfare state and an increasingly precarious job market.

More broadly, the current funding environment for small and medium-sized charities, often based around short-term contracts, is clearly unsustainable. Ways of creating more secure, long-term funding need to be developed.

The Coalition government prioritised diversity of scale in its general procurement agenda by introducing a goal for 25 per cent of central government spending to go to small and medium-sized enterprises by 2015. This target was met,<sup>31</sup> and the 2015 Conservative manifesto included a pledge to increase that proportion to one-third. Clearly, then, the current government has made a commitment to working with smaller private companies to overcome the particular obstacles they face. We would argue that small and medium-sized charities need a similar commitment from government and other funders.

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31 Official figures indicate that 27.1 per cent of central government buying was through small businesses, either directly (10.9 per cent) or through the supply chain (16.2 per cent). See <https://www.gov.uk/government/news/small-business-benefited-from-121-billion-in-government-spending-in-2014-2015>

Overall, our research leads us to make the following recommendations.

1. Although there are limits to the extent to which any measurement will capture the contributions that they make to society, small and medium-sized charities need to be able to provide better evidence of their value and impacts. While the tools and methods for doing so already exist, most of these charities need more and better support from umbrella organisations in order to use them, as well as greater capacity to introduce methods for monitoring and evaluation. Grant funders who typically support such charities could consider innovative ways of funding this kind of work within, or in addition to, existing grants.
2. Commissioning and procurement teams within local authorities, clinical commissioning groups and other public agencies should be made more accountable for delivering social value. Legislation already provides for this: under the provisions of the Public Services (Social Value) Act 2012, authorities in England and Wales are required to consider how the services they commission and procure might improve the economic, social and environmental wellbeing of their area. However, in practice, implementation of the Act has been hampered by uneven awareness and take-up; inconsistencies in its implementation because of poor understanding; and the lack of a clear means of measuring social value (Cabinet Office 2015). Furthermore, many public authorities continue to regard unit cost as the primary factor when making procurement decisions. While a recent review (ibid) set out how the Cabinet Office can help to remove some of these obstacles, more could be done to strengthen the Act by, for example, requiring authorities to 'account' for the social value that they generate, as has been proposed by the National Council for Voluntary Organisations,<sup>32</sup> rather than just having to 'consider' it.
3. The Coalition government prioritised diversity of scale in its general procurement agenda, by introducing a goal for 25 per cent of central government spending to go to small and medium-sized enterprises by 2015. The government has announced that this target was met in 2014/15,<sup>33</sup> and the 2015 Conservative party manifesto included a pledge to increase the percentage of spending going to small and medium-sized businesses to one-third. It is significant that the current government has made a commitment to work with smaller private companies to overcome the particular obstacles that they face, but this does not include charities. We recommend, therefore, that the government makes a similar pledge for small and medium-sized charities that may be offering greater social value through the goods and services they provide.

Local authorities could also benefit from following the example set by central government, by setting their own targets for contracting with smaller organisations (including private<sup>34</sup> as well as voluntary sector organisations).

4. Those organisations that have moved away from, or are moving away from, grant-giving in favour of commissioning or more complex forms of social finance need to review the impact that this has on small and

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32 See <http://blogs.ncvo.org.uk/2015/02/13/the-social-value-act-review-welcome-steps-and-missed-opportunities/>

33 Official figures indicate that 27.1 per cent of central government buying was with small businesses, either directly (10.9 per cent) or through the supply chain (16.2 per cent). See <https://www.gov.uk/government/news/small-business-benefited-from-121-billion-in-government-spending-in-2014-2015>

34 Analysis of local government spending data has suggested that spending on small firms varies considerably between local authorities. See <http://centreforentrepreneurs.org/wp-content/uploads/2015/11/Procurement-Report-WEB.pdf>

medium-sized charities that might not be able or willing to engage with such forms of funding. These charities might still provide greater *social* value-for-money than those that are more adept at bidding for funding and providing formal evidence of outcome improvements. Although commissioning based on hard evidence of impact makes good sense in theory, in practice the bureaucratic demands that it places on small charities may exclude some of the best among them. Funders and commissioners also need to recognise that it is particularly rare for charities in deprived neighbourhoods to be able to access the kinds of gifts and endowments that some charities in richer areas can rely upon. Local authorities should follow the example set by Camden borough council in developing a locally determined framework for small charities commissioning, including, if appropriate, a dedicated pot of long-term funding for small local organisations.<sup>35</sup>

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<sup>35</sup> Camden borough council is currently consulting on proposals to offer seven-year contracts to local organisations working in areas of need. A strategic partners fund worth between £1.5 and £2 million will be available in areas of high deprivation to provide unrestricted core funding, meaning that organisations are free to choose how best to use that funding in order to meet the outcomes set, either within a particular locale or across a particular equalities theme.

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