Impetus Trust
20 Flaxman Terrace
London WC1H 9PN
020 3384 3940

5 January 2011

Response to Cabinet Office Green Paper re. Modernising Commissioning

Introduction

Impetus Trust is the UK pioneer in venture philanthropy. We invest in charities and social enterprises with distinctive models of intervention that are working to break the cycle of poverty by creating opportunities for the poorest 20% of the UK to gain employment, education and skills. We provide our investees with an integrated package of strategic funding and professional expertise tailored to the needs of the organisation, overseen by hands-on management support from the Impetus investment team. To date, we have invested in 19 organisations, helping them to achieve average annual income growth of 31% (eight times the sector average) and over 40% average annual growth in the number of people helped.

A good example of the Impetus approach in action can be found in our work with St Giles Trust, one of our first investments. Impetus identified that St Giles had an energetic management team and a distinctive model of engagement (peer mentoring) with offenders in custody that significantly reduced reoffending rates, but the organisation lacked a coherent strategy for development and was still primarily focused on undifferentiated day centre work with homeless individuals. We made a long-term (2004-2009) commitment to provide funding and expertise to St Giles in order to help them scale up their work in prisons. With targeted support focused on strategic planning, organisational and team development, support to create a true business development function and to build St Giles's capacity to compete for statutory bids, Impetus helped St Giles to nearly quadruple their income (from £1.34m in the year prior to our investment to £5.1m in 2009/10) and we helped them expand their work from two prisons to 24 (as of 2009/10), so that they now reach thousands of people a year (average annual growth in the number of people helped was 58% during the period of our investment). We believe that we played a significant role in helping St Giles reach a sufficient scale and capacity to be in a position to win the role as a lead service provider in the social impact bond pilot at Peterborough Prison.

One of the most significant issues we have identified that the organisations we support confront in seeking to scale up their social impact is finding sustainable sources of long-term funding. Having funded their early development (including fine-tuning their delivery model and building up a robust evidence base to support the effectiveness and cost-effectiveness of their intervention and their ability to create social value) through grant funding, many of our portfolio organisations naturally look to win public sector contracts as a way to reach many more people. But even with a strong track record and a clear value proposition, winning commissioning bids can be extremely challenging for civil society organisations, particularly smaller and medium-sized organisations, which usually operate with very lean staff structures and often without vast experience of commissioning processes. As such, building the capacity of our portfolio organisations to tender more effectively is an area where we have provided and continue to provide our investees with significant levels of pro bono business expertise. We have worked particularly closely with experts from the Worshipful Company of Management Consultants (WCoMC) in this area; we have read the response to this consultation that they are submitting independently, and we support the suggestions that they have outlined therein. We have also recently participated in

other consultations on issues linked to those addressed here, including the October 2009 consultation on the Social Investment Wholesale Bank and the recent consultation on Supporting a Stronger Civil Society; copies of these responses can be furnished on request and may provide additional insights.

In which public service areas could Government create new opportunities for civil society organisations to deliver?

Subquestion (a): Which public service areas could be opened up to more civil society providers? What are the barriers to more civil society organisations being involved?
Through our screening and due diligence process, we have reviewed the business models of hundreds of civil society organisations, in addition to the small number of organisations that have made it through to investment stage. Having examined a broad swath of the market, we believe that there are virtually no limits to the areas in which civil society organisations have the potential to create social value and provide effective and proven solutions to social problems. Particular areas of public service that are currently being delivered effectively by Impetus portfolio organisations and where we think there is significant opportunity for the public to benefit from further commissioning work being awarded to these organisations include work with offenders and ex-offenders, engagement with hard to reach young people, and helping long-term unemployed find a bridge back into employment. Some of our portfolio organisations achieve these social aims through engaging with hard to reach groups to perform other public services, such as grounds maintenance, waste recycling, helping young people develop ways of avoiding conflict, and provision of housing and employment advice to people coming out of prison. Often, the most innovative solutions involve a single organisation providing services that deliver multiple positive outcomes (e.g. skill development/employment opportunities for long-term unemployed and reduced waste in landfill delivered by FRC Group), services that may traditionally be commissioned by two or more very different bodies, which can make it difficult for the organisation to "get credit" for the full social value that it creates when bidding for public sector contracts (this point is elaborated in our response to subquestion e below).

Subquestion (b): What are the implications of payment by results for civil society organisations?
We echo the risks (proper identification of success metrics and the cashflow risk associated with operating on a payment by results basis when it may take years to see the results of the work) identified in the WCoMC response and are in agreement with the solutions that they propose.

How could Government make existing public service markets more accessible to civil society organisations?

Subquestions (c and d): What issues should commissioners take into account in order to increase civil society organisations' involvement in existing public service markets? What issues should the Red Tape Taskforce consider in order to reduce the bureaucratic burden of commissioning?
Again, we support the recommendations set out in the WCoMC response document. In addition, we would recommend that:

- Commissioning opportunities be publicised as early as possible to enable smaller organisations the time to form effective consortia (and negotiate favourable terms, as it is likely that they may end up in a subcontractor position) and to be able to find resources to respond to the opportunity, as many smaller organisations are quite leanly staffed. We have heard from our portfolio organisations that there have often been opportunities that they felt they would be well-placed to deliver but did not have sufficient time to develop a competitive bid.
- Reporting requirements should, where possible, be simplified and standardised across local areas so that an organisation delivering on multiple contracts that aim to

achieve similar outcomes can track and report on their work in a consistent manner. We frequently hear from our investees that keeping up with the different reporting requirements of their various funders represents a significant administrative burden; encouraging local authorities to work together to create a more streamlined approach conducive to all parties would alleviate pressure and waste.

- We would echo the point made in the WCoMC response that, where possible, structuring a tender in a way so that TUPE does not apply would remove a significant barrier to smaller and medium-sized organisations participating in public service delivery. We have significant anecdotal evidence from our portfolio organisations that they have had to walk away from opportunities where they believed they could create significant value due to the risk of having to take on existing staff on a TUPE basis.

Subquestion (e): What issues should Government consider in order to ensure that civil society organisations are assessed on their ability to achieve the best outcomes for the most competitive price?

An area of frustration for several of our portfolio organisations is that they do not feel that they are able to "get credit" for all the social value that they create when they are bidding for public sector contracts because the commissioner is not empowered or willing to take into account value created in areas outside the specific remit of the commissioner. Two examples from the Impetus portfolio:

- **FRC Group** runs a social enterprise in Liverpool called Bulky Bob's. Bulky Bob's has several contracts with local authorities to collect bulky household waste, which they then help to ensure is reused, recycled or refurbished before being sold at a highly subsidised price to people on low incomes. In addition to diverting a significant percentage of this waste from landfill (often far more than private sector competitors can commit to divert), FRC Group provides employment, training and placements to long-term unemployed in Liverpool, helping move some of the very hardest to reach into sustainable employment. Figures from FRC Group's most recently published impact report show that 71% of those completing FRC's training programme moved into employment or further training; 2,713 families on low incomes in the Merseyside area were able to purchase great quality "pre-loved" furniture from FRC's Revive stores during the prior year; and that 5,113 tonnes of bulky household waste and 58,373 items of furniture and appliances were diverted from landfill during the prior year. Local authorities that have contracted with FRC Group to date have found their service to be cost-competitive with other providers, as well as generating significant social and environmental value. Multiple social benefits and cost savings are derived via new skill development, creation of employment opportunities, access to low-cost furniture, and reductions in landfill.
- **Blue Sky Development and Regeneration** is a social enterprise that employs ex-offenders in grounds maintenance and related areas. Local authorities that engage with Blue Sky find that Blue Sky can match or improve on the quality available elsewhere, while also providing the added social benefit of offering employment to local residents that struggle to find employment elsewhere, helping them achieve qualifications (in 2009/10, 70% of Blue Sky employees left with an accredited vocational qualification) and move into sustainable employment (46% of Blue Sky "graduates" move into a sustained employment upon leaving Blue Sky), thereby contributing to a significant reduction in reoffending (Blue Sky "graduates" have an overall 15% rate of reoffending vs. a two-year national average of c. 60%). Multiple social benefits and cost savings are achieved via new skill development, creation of employment opportunities, and reduced reoffending costs.

Despite evidence that these organisations create significant financial, social and environmental value, they, like many other civil society organisations, often struggle to win new public sector contracts, due to a variety of factors:

- Often, the department responsible for commissioning the service cannot take into account the social value generated by these organisations because the cost savings achieved through the social intervention are enjoyed by another department or level of government. For instance, reducing reoffending ultimately saves money for the Home Office (police) and NOMS (prisons and probation), in addition to being a high-quality, cost effective solution for the local authority that contracts with Blue Sky to deliver services. Creating a mechanism for local commissioners to share in some of the value created through social outcomes they achieve, even when the cost savings are enjoyed by other departments (or, conversely, to charge local authorities for negative social outcomes that they fail to prevent even if the costs will be borne centrally) would incentivise them to take this value into account when awarding bids for other services. Within local authorities, commissioners should be encouraged to take into account value that is created for other departments as well as their own. Organisations such as FRC Group and Blue Sky, which provide cost effective solutions for tackling multiple social problems, could be more accurately assessed if commissioners were encouraged to look at value creation beyond the remit of their specific authority.
- For FRC Group, the bulky household waste portion of the overall waste management contract is often so small that the local commissioner is not willing/able to carve this out and create a separate tender for it, and private sector providers (who have very little incentive to take into account social value creation) may be unwilling to engage with FRC Group as a subcontractor because they don't see much reason to tinker with such a small piece of the overall arrangement. Providing a mechanism to make it easier for civil society organisations that can make a strong case for the social value that they can create to bid for smaller pieces of a contract directly would help drive incremental value creation.

Subquestion (f): What issues should Government consider in the development of the Big Society Bank, in order to enable civil society organisations to take advantage of public service market opportunities?

We will not repeat at length the points that we made in our response to the Government's consultation on the Social Investment Wholesale Bank in 2009, but in general, our view is that the Big Society Bank:

- Must be wholesale and work with, not in competition with, existing players
- Should initially provide smaller amounts of finance so as not to overwhelm the nascent social finance sector, given that demand from civil society organisations is a major constraint today to the amount of non-grant finance that can be put to work
- Capacity building for organisations and their business models is key to stimulating the demand side, and the Big Society Bank should earmark some of its funds for investment in independent, proven capacity-building organisations/intermediaries.
- The Bank should focus more on "mid- and later stage" funding, as this seems to be where there is the biggest gap to help organisations become material in scale, scope and capacity

We would echo the suggestions made in the WCoMC submission that particular functions the Big Society Bank should consider in order to increase the participation of civil society organisations in delivery of public services include the provision of capital to finance the cashflow gap that working to a payment by results contract could impose on civil society organisations and helping to fund capacity building for civil society organisations to scale up.

How could commissioners use assessments of full social, environmental and economic value to inform their commissioning decisions?

Subquestion (g): What approaches would best support commissioning decisions that consider full social, environmental and economic value?

As stated above, we support commissioners being able to break out of "siloed thinking" and consider value creation broadly. We note in the consultation document the statement that

"the Government has already invested in and supported the development of a range of tools, materials and training opportunities for providers and commissioners to fully take account of the wider social, environmental and economic value of commissioning decisions." We are aware that one of these tools is the Social Return on Investment (SROI) methodology that the Cabinet Office helped develop. Impetus has long been committed to encouraging transparency and accountability from the organisations in our portfolio, and helping them to build their capabilities in this area is often part of the crucial work we do with them. As part of our ongoing work in this area, we are currently in the final stages of piloting SROI with a number of our portfolio organisations, and we would be happy to share our findings with the Cabinet Office in more detail when our pilot has concluded. At this stage, what we would urge is that whatever tool is used to demonstrate value, there is broader agreement, among commissioners and providers, as to what the value created by particular social outcomes is, so that all providers can report in a consistent manner and to avoid waste by having individual organisations needing to develop and justify their own estimates (which may be disputed by the commissioning bodies). It is important that whatever methodology is adopted, it is appropriate for organisations of varying sizes, so smaller organisations with fewer resources are not excluded from participating.

Conclusion

We would be delighted to provide further analysis/evidence regarding any of the above points at the Cabinet Office's request.

Respectfully submitted,