

When the going gets **tough...**

Charities' experiences of
public service commissioning

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Foreword from Dan Corry, New Philanthropy Capital

The world is changing fast in the way that public services are delivered. Driven both by financial factors and by new beliefs about the way to contract for services, it is going to create a very different world from that which we have been used to.

For those at the sharp end, this is more than an interesting observation: it is a fast-arriving reality. It is being experienced by all citizens, especially those most in need of services, and it is also being experienced by those who provide services.

Charities and other not-for-profit organisations have been delivering public services for years. Some think this is a good thing, but others think it has led to mission drift and to silencing their voice as campaigners. For good or bad, it has certainly developed to the extent that many charities rely heavily on income from government contracts and grants.

And the government wants to go further. It sees in its various public services and localism agendas a world in which charities and social enterprises, as well as for-profit companies, are involved in delivering many more public services as the state pulls back.

So what kind of world is likely to emerge, and how we can ensure that it works well? At NPC, we care very much about the ability of the social sector to help as many beneficiaries as possible, creating a real impact in their lives. The way that commissioning works out and the way it is beginning to shape the social sector matters enormously and will have a major impact on the texture of the society we create. It is early days, but we need to get a handle on what is going on now—not when the deeds have all been done. This survey is one of the first to really try to understand how the new commissioning world is working out for the charitable sector.

We are grateful to Zurich for supporting us in producing this survey, which is fascinating in almost every aspect. It finds that charities are trying to cope and adapt, but they are finding it tough. They are having to deal with deep and fast cuts—especially from local authority commissioners. It finds that subcontracting is growing fast and causing real problems. It finds that the move to more risk-based contracts (such as payment by results or personal budgets) is happening perhaps a bit slower than the policy world's rhetoric suggests, but charities are wondering whether they can cope with the additional risk and where in the end it will benefit the people they care about most.

Of course, everyone finds periods of change difficult, and if new types of contract produce better outcomes more cost effectively, then we should surely pursue them. But we need to keep an eye on what is happening to providers as a result of all this. If we create a world with fewer charities providing services, then we may have lost something precious.

Meanwhile, commissioners and providers can do a lot to make sure that teething problems are overcome and that in the rush to meet much tighter budgets and keep up with the new types of contract, we do not squeeze good not-for-profit providers out of the market. Through surveys like this and work with both commissioners and charities, NPC will play its role in trying to achieve just that.

Dan Corry

Chief Executive, New Philanthropy Capital

Foreword from Paul Emery, Zurich

Like many organisations across the public sector, charities today are operating in a context of change and uncertainty, facing issues like restructuring, evolving public needs, and significantly reduced budgets. Against this context, the government's drive to decentralise public service provision places charities in a new position, at the core of this transformation.

As the valuable research in this report shows, for some organisations, such widespread change may trigger opportunities to generate new income streams and to innovate. But with opportunity and innovation comes risk, and charities should seek to embrace all three appropriately, as they are inextricably linked. The majority of charities are aware that their new operating environment will be riskier, but at the same time, many also believe their organisation will be more resilient due to the changes they are undertaking.

At Zurich, we have a long history of advising charities and the wider public sector on risk and we know that now more than ever, charities need to adopt the right approach to managing and mitigating risk. This is why it was important to us to work with New Philanthropy Capital on this report. When it comes to commissioning, charities may well be facing some risks for the first time. The good news is, these risks can be managed.

Increased accountability and transparency will be major factors in the devolution of services, and service providers will face increasing scrutiny over their success, resilience and delivery models. Importantly, charities taking on the role of lead contractor will also in many cases be taking on responsibility for the success or failure of an entire service supply chain. That is not something charities should be afraid of, but it is critical that this is built into the risk management processes. A key factor of success will be the extent to which charities acting as lead contractor help their delivery partners manage their own risk management structures. Failing to do so could impact a charity's reputation, its bottom line, the services in question and, most importantly, the individuals or groups it is there to support.

This report shows that many charities believe the role of subcontractor to be particularly high risk in terms of impact upon their financial stability. It is therefore important that charities carefully assess tenders before bidding; contracts need to work appropriately for all parties, rather than reducing risks for some at the expense of increasing risks or costs for others.

While some charities are experienced in collaborative and partnership working, the new commissioning drive means that these models will be more prevalent than ever before. Partnerships may be between charity and local authority, charity and community, or between charities themselves in consortia. It seems from this research that, especially when it comes to the latter, there is positive sentiment among charities about the future of collaborative service delivery. Transparency, good communication, and a holistic understanding of the risks faced by all parties will be vital in fostering effective partnerships.

The new world of public service commissioning is set to become the mainstream. For some charities, this may prove too challenging. But for charities that take a measured approach to risk and innovation, it should be possible to navigate the challenges whilst opening doors to new opportunities.

Paul Emery

Head of Community and Social Organisations, Zurich

Executive summary

The charity sector is facing considerable changes to the billions of pounds of government funding that it receives every year (£13.9bn in 2009/2010). Reforms to public services, the deficit reduction programme and the coalition government's Big Society agenda are all affecting the amount of funding going to charities and the way that this money is given.

This report provides an in-depth insight into how these changes are affecting the sector, and how charities are responding. We surveyed charities that have an income over £800,000 and that earn some of this income from government. Over 90% believe they face more risk in the current commissioning environment than before, and this appears to be driven by three elements: new funding mechanisms, delivery of services in partnership, and cuts to charity sector income.

New funding mechanisms

Charities believe that a move towards new funding mechanisms, such as payment by results contracts and personal budgets, will hurt their financial sustainability. More than half of the charities we surveyed believe that payment by results contracts will have a negative impact on their financial security, and more than 40% are worried about the impact of personal budgets, spot contracts and tariff-based contracts. Even when one charity told us it *'didn't mind payment by results'*, it also said that it did *'need working capital to enable [it] to play'*.

Reform of public services is adding an extra layer of uncertainty, most clearly highlighted by reforms to the health service. Some charities report having to develop new relationships with commissioners, even where roles and responsibilities are yet to be decided. Others say that commissioning has been put on hold while the reforms take place.

Block contracts and grants are still preferred by charities: well over three quarters of charities view these traditional forms of funding as having a positive impact on the people they help. The more uncertain types of contract (payment by results or tariff-based contracts) garnered a positive view from less than half the charities surveyed. One charity explained that the payment by results model was not flexible enough for services to young people: *'Young people do not fit neatly into a box.'*

Delivery of services in partnership

Charities are finding themselves in increasingly complex delivery arrangements. Half of our respondents are being subcontracted by other organisations to deliver public services, and this is negatively affecting their finances.

Nearly a third of respondents subcontract work out to other organisations—something that charities appear to welcome. Respondents report having better relationships with the charities that subcontract work to them than private organisations, and they also have more confidence when bidding to work for other charities.

Nearly half of the charities we surveyed are now working in consortia to deliver public services, and most believe that this way of working will help them deliver more effective public services—although they require time and resources to manage the arrangements effectively. As one charity remarked, *'[Consortium working] has brought advantages for securing contracts, but it has been very hard to ensure agreement and consensus from all parties.'*

Cuts to charity sector income

More than a third of respondents have experienced cuts to their income this year, and for 12%, these cuts affect more than a fifth of their income. Cuts to local authority funding are proving particularly severe, particularly for smaller charities—a worrying finding given respondents' reliance on local government funding.

Charities' beneficiaries are inevitably being affected by these changes too. 65% of charities have already closed services or expect to close services, and nearly three quarters have made redundancies or will do in the next 12 months. Reserves are also under pressure—62% of respondents have already used their reserves or plan to use them to cover shortfalls in income.

But the picture is not all bleak. Many respondents report that the cuts have spurred creative thinking and innovation. Three quarters are trying new ways of working, and nearly half plan to harness the power of volunteers, to help offset the impact of a shrinking workforce. Others plan to work more collaboratively with other organisations. One charity that is turning to community participation and volunteering to bolster services told us: *'We HAVE to work differently ... Staff are beginning to understand that working differently does not mean less quality.'*

The way forward

It is in everyone's interests for commissioning to work for charities. If the charity sector is to continue to flourish, if the government is to achieve its vision of the Big Society, and if people in need are to get the best support available, then charities and commissioners must both respond.

For charities

- Charities need to continue to build their skills and capacity to respond to bids and compete effectively for contracts in this new environment.
- They need to develop and strengthen their relationships with potential partners and think about how they can work together—either in consortia or as part of all-charity supply chains. Developing these partnerships before bidding for a contract may help prevent some of the teething problems that come with collaborative working.

For commissioners

- Commissioners and the government need to be aware that opening up contracts to bids from charities is unlikely to achieve a level playing field.
- They need to engage with the sector and encourage dialogue, while national bodies need to establish and encourage best practice in commissioning.

For private funders

- Trusts and foundations can help smooth the transition to these new ways of working, providing core support that gives charities the breathing space to adapt.
- In some cases, funders may be able to use social investment to help charities take advantage of new opportunities.

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Introduction

'By opening up public services ... and calling on our charities, social enterprises and private companies to get involved, we can build world-class public services that are engines of opportunity and that help build our Big Society.'

David Cameron, 23 May 2011¹

The coalition government has a bold vision for the charity sector. Under the banners of localism and the Big Society, it wants to open up public services, paving the way for more opportunities for charities, social enterprises and other community groups. Rather than standing at the sidelines, the government hopes that charities will work at the heart of public services.

This is not all new: the charity sector has long been a recipient of government funding. Over the past ten years this funding has grown so that a third of the sector's funding (£13.9bn in 2009/2010) now comes from government sources and a quarter of charities now have a direct financial relationship with the state. Some of this funding is made up of grants but the vast majority of it (£10.9bn) is in the form of contracts to deliver public services.²

Yet, despite this experience, there are considerable challenges to the government realising its vision. The structure of public sector contracts is changing. Funding mechanisms, such as payment by results contracts and personal budgets, aim to deliver better value for money and achieve better results than traditional funding arrangements. Collaboration and partnership are being encouraged and even mandated in some cases; charities are finding themselves working in consortia or as part of supply chains. There is also growing competition between charities, companies and public sector organisations.

These reforms are happening against the backdrop of the government's deficit reduction programme, with £81bn of spending cuts planned over the next three years.³ Charities have not escaped unscathed: NPC has estimated that the sector will lose between £3.2bn and £5.1bn of its annual funding by the end of this period as a result.⁴ Many are coping with large drops in income, while some have been forced to shut down.

These changes have the potential to shape the charity sector profoundly in the years to come. Whether or not you agree with the government's vision, it should provide a powerful incentive for those who value the sector to make commissioning work for charities.

The purpose of commissioning is to deliver excellent services for those who need help. A healthy mix of providers remaining active in the medium to long term will ensure continued choice for commissioners, and avoid a potential monopoly of supply. This mix ideally has charities and community groups playing a role alongside public and private providers.

About this report

At NPC, we aim to help charities achieve the greatest possible impact. We want charities to make the biggest difference they can with their resources. With a changing and often challenging commissioning environment, we want to understand the barriers and challenges that charities face in both delivering effective public services and achieving their mission.

¹ Speech on the Big Society: <http://www.number10.gov.uk/news/speech-on-the-big-society/>

² Figures are from 2009/2010. NCVO (2012) *The UK civil society almanac 2012*.

³ HM Treasury (2010) *Spending review 2010*.

⁴ Joy, I. (2010) *Preparing for cuts: How funders should support charities in a world of government cuts and changing funding structures*. New Philanthropy Capital.

This report looks at three trends in the commissioning environment, which charities tell us are having an impact on their work:

- Section 1 looks at new funding models.
- Section 2 looks at delivery of public services in partnership (subcontracting and consortia).
- Sections 3 and 4 look at cuts to charity sector income and at how charities have responded to these.

For each of these trends, we paint a picture of charities' experiences—of how they perceive the challenges, risks and opportunities—and look at what commissioning means for their organisations and the people they are trying to help.

As well as looking back at what charities have experienced so far, this report also looks to the future. Section 5 assesses what the outlook is for charities, and what their expectations and anxieties are for the year to come.

We have found a wide variety of experiences among charities. This partly reflects the sheer number of commissioning bodies at local, regional and national levels running bidding processes for a wide range of sectors, including social services, education, sport, housing and health. It also reflects the huge variation in commissioning practices.

The picture we paint in the report inevitably involves aggregating this range of experiences. We hope that it will inform funders, policymakers and the sector about the barriers and challenges charities face in delivering effective public services and achieving their mission, and what can be done to support them to be as effective as possible in improving people's lives.

Methodology

In order to target organisations with experience of receiving government funding, we surveyed the largest 750 charities registered in England and Wales that receive earned charitable income.⁵ We received 101 responses—a response rate of 13.5%. A full methodology is available in Appendix A and the survey questions are in Appendix B.

Respondent characteristics

- The annual income of charities surveyed ranges from £800,000 to £500m. Responses broadly match the income brackets of the sampled population, although larger charities (annual income over £10m) were more likely to respond to the survey than smaller ones (annual income under £10m).
- More than half of respondents operate in health and social care sectors. Other dominant areas are advice and advocacy, employment and training, children's services and awareness raising. (Note that respondents could select more than one sector.) This spread is broadly consistent with NCVO's findings.⁶
- Respondents are reliant on government funding: two-thirds draw more than half of their total income from government. Note, however, that this does not reflect the wider charity population: it reflects our sampling strategy to select organisations already receiving government funding.

A fuller breakdown of respondent characteristics is contained in Appendix A.

⁵ By earned charitable income, we mean incoming resources from charitable activities, which is defined in the Statement of Recommended Practice 2005 as '*any incoming resources that are a payment for goods or services provided for the benefit of the charity's beneficiaries*'. See Appendix A for more details.

⁶ NCVO (2012) *The UK civil society almanac 2012*.

Interpreting the results

Readers should bear several factors in mind when interpreting the results from this report. Firstly, the findings are based on the subjective opinions of the charities we surveyed rather than on objective measures. This makes the findings more open to bias. For example, some respondents might be overly optimistic or pessimistic about their charity's situation.

Secondly, this report does not reflect the experience of the entire charity sector. Instead, it explores the experiences of charities already delivering public services. This means that the views of charities that have been unsuccessful in bidding for government contracts are not reflected. Smaller charities are likely to be under-represented, as we have targeted larger organisations that are more likely to have contracts.

Finally, this report aggregates the views of charities working across many different areas. But each sector will be affected differently by changes in commissioning. Where possible, we have analysed the impact on different sectors. However the sample size makes it difficult to draw strong conclusions here, so this analysis should be treated with caution.

Box 1: Definitions

Throughout this report, we use the term 'government income' to refer to grants and contracts received directly from central government, local government, local health commissioners, and government agencies and quangos. It also refers to income received from other charities and private providers, where they are subcontracting to charities to deliver government services.

We refer to several different types of funding mechanisms that may be used to commission services from charities:

- **Grant:** Charitable funding that can be unrestricted (given for the charity to use for any purpose) or restricted (given for a particular purpose). Restricted grants include service level agreements.
- **Block contract:** An agreement that guarantees the provider a certain amount of business over the contract term.
- **Payment by results contract:** An arrangement where a proportion of funding is conditional on the provider achieving a certain agreed target.
- **Tariff-based contract:** An arrangement where a provider is paid a fixed fee for every activity undertaken.
- **Personal budget:** An arrangement where the person receiving the service is given some control of what services are delivered and the organisations that provide it. This includes direct payments and individual budgets.
- **Spot contract:** A one-off arrangement where the price and terms of the contract are decided in relation to a single unit of services, such as social care for one older person.

1. Changing funding mechanisms

The structure of a contract affects the outcomes it achieves. The charity sector has historically received funding from the state in the form of fairly unstructured block contracts and grants. However, many charities are now being commissioned—often for the first time—using different funding mechanisms that aim to give better value for money and improve results for services users (see Box 1).

Prominent among these are payment by results contracts, championed by the current government as a way to reduce waste and increase the quality of public services. The personalisation agenda of the past decade has resulted in personal budgets and direct payments in social and health care. Tariffs (where a fixed price is paid for each activity) are being expanded beyond health care into new areas, such as palliative care.

Many of these models are new to many organisations in the charity sector, and require them to manage more risk. They can be complex, resulting in charities needing to devote more time and resources to manage the contract. They may also require charities to manage more uncertain demand for services, and therefore income, for example, with spot contracts. Commissioners may also be less engaged with the sector with some of these models: personal budgets, for example, mean that charities do not necessarily have a direct relationship with the government commissioner.

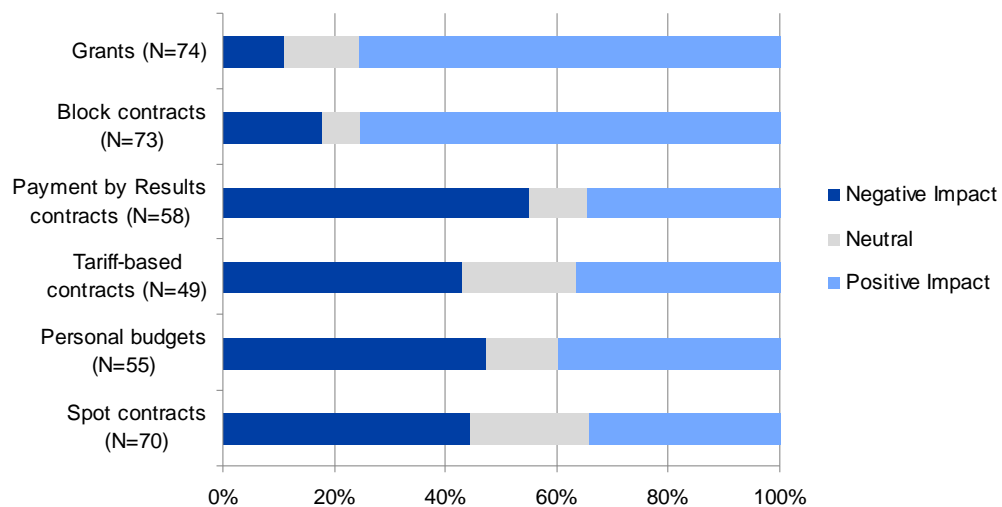
Our survey shows that many charities are anxious about these new models and are concerned about the impact they are having on their organisation's financial security and on beneficiaries' lives. Respondents report a shift towards new funding mechanisms, although this shift appears to be happening gradually.

The impact of different funding mechanisms

More than half of the charities surveyed (55%) believe that payment by results contracts will have a negative impact on their financial security, and more than 40% are worried about the impact of personal budgets, tariff-based contracts and spot contracts (see Figure 1). By contrast, only 11% of respondents think grants have a negative impact and only 18% think this of block contracts.

There were some differences between charities working in different sectors, although the small sample size makes it difficult to be conclusive. Respondents most likely to rate payment by results contracts as having a negative impact were environmental charities and organisations working in crisis and emergency situations. Respondents working in children's services, education and research were most likely to rate personal budgets as having a negative impact. There were no major differences between smaller and larger charities.

Figure 1: Charities' perceptions of how different types of contracts affect (or will affect) their financial security



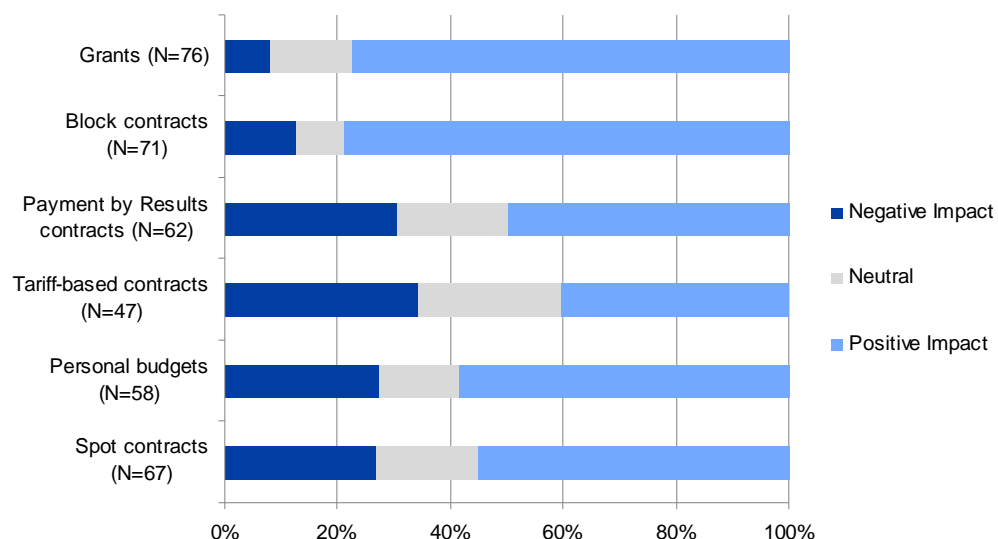
Impact on beneficiaries' lives

There is scepticism about whether new funding mechanisms will result in better outcomes for beneficiaries, compared to more traditional forms of funding. As can be seen in Figure 2, nearly 80% of respondents think block contracts and grants have a positive impact on beneficiary outcomes, compared to 59% for personal budgets and 54% for spot contracts. Even fewer charities think that payment by results and tariff-based contracts will have a positive impact.

Smaller respondents are slightly more likely to be pessimistic about the impact on beneficiaries of personal budgets and payment by results contracts. For example, 42% of smaller organisations believe the impact of personal budgets will be negative, compared to 25% of larger ones.

There were some differences between charities working in different sectors, although the small sample size makes it difficult to be conclusive. Respondents most likely to rate payment by results contracts as having a negative impact were sports charities and organisations working in crisis and emergency situations. Respondents working in palliative care and crisis and emergency situations were most likely to rate personal budgets as having a negative impact.

Figure 2: Charities' perceptions of how different types of contracts affect (or will affect) their beneficiaries



Analysis of the comments shows a wide range of concerns. One small charity worried that a single target as part of a payment by results arrangement was not flexible enough for measuring the success of its work with young people: *‘Young people do not fit neatly into a box ... if a young person leaves treatment and returns within 12 months this is deemed [by commissioners] as a negative outcome. We feel it is positive as they have re-engaged. Also young people’s lives and vulnerabilities can change much more quickly than adults’ lives.’*

Another charity working with young people worried that a shift to spot contracts would *‘change ... the nature of the partnership with the commissioner ... planning and collaborating on a strategic level to innovate and improve young people’s experiences of local services becomes much harder—we will be more of a supplier, less of a partner, and therefore less able to contribute to whole systems approaches to service improvement’.*

Another respondent from a large national charity doubted the impact that types of contract actually have on beneficiaries: *‘The different contract types don’t really have the scope to improve outcomes for beneficiaries. They have the potential though to make it more difficult for charities to manage how they operate contracts or to provide all the care that they otherwise could provide, though strong and well run charities can often reduce that effect.’*

While respondents think that block contracts and grants produce the best results for beneficiaries, it is perhaps encouraging that they do not think that all the new mechanisms will be disastrous for the people they help. For example, nearly 60% of respondents believe that personal budgets will have a positive impact for beneficiaries. Half of respondents think the same about payment by results.

Impact on charities

The opinion that new funding mechanisms will not impact poorly on beneficiaries’ lives contrasts with the negative impact on charities themselves. For example, 47% of charities think personal budgets will have a negative impact on their financial sustainability, but only 28% believe it will result in poor results for beneficiaries. The picture is similar for payment by results.

This situation is also reflected in several comments: *‘[We see] personal budgets as a way of improving participation which is beneficial, although it does create uncertainty.’* As another charity put it, *‘[We] don’t mind [payment by results], but need working capital to enable us to play.’*

Perhaps the most pressing challenge of these newer types of contract is therefore to do with getting them to work for charities, and helping them with the transition to these new models, rather than concern about their impact on beneficiaries.

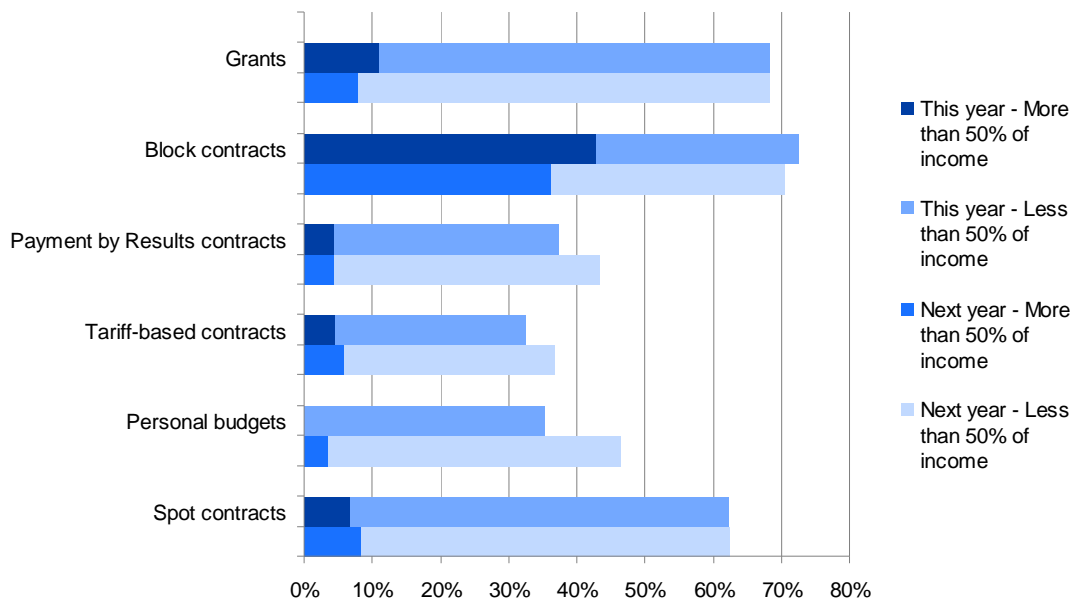
How are contracts changing?

The respondents anticipate small reductions in block contracts next year and some increases in personal budgets, payment by results contracts and tariff-based contracts.

This is illustrated in Figure 3, which compares the type of contracts charities have this financial year with what they expect to have next year. For example, 35% of charities say they are currently receiving funding from personal budgets, and 46% expect to receive funding from this source next year.

Figure 3 also shows that reliance on income from different funding mechanisms is changing. For example, 43% of charities are receiving more than half of their government income this year in the form of block contracts. However, this reliance looks set to decrease: only 36% of charities expect to receive more than half of their funding this way next year.

Figure 3: Proportion of charities receiving funding from different contracts this financial year and next



So changes are happening, but they do not constitute a seismic shift towards new funding mechanisms for respondents. Our survey shows that the most common types of funding mechanisms are still block contracts and grants, and this is unlikely to change in the next 12 months. This is particularly true of smaller charities: 42% of respondents from smaller charities receive more than half of their government income from block contracts, compared to 31% of larger charities.

This is surprising given the level of concern about the impact of these contracts on charities, and the pace of change set by government. It may be that respondents are underestimating the level of change their organisation is experiencing. Or it might be that they are worried about something that is not really happening on the ground. A third possibility is that, where these changes are happening, their impact is being very keenly felt. As our case study from Action for Children illustrates, charities may spend a lot of time thinking about how they should adapt to new funding models without seeing much change on the ground (see Case Study 1).

Summary of key findings

- Charities believe that moves towards new funding mechanisms, such as payment by results contracts and personal budgets, will hurt their financial sustainability. More than half of respondents say that payment by results contracts will have a negative impact on their financial security.
- There is scepticism about whether new funding mechanisms will result in better outcomes for beneficiaries, compared to more traditional forms of funding. Charities say that block contracts and grants will produce better results for the people they help, compared to payment by results and tariff-based contracts.
- Respondents anticipate small reductions in block contracts next year and some increases in personal budgets, payment by results contracts and tariff-based contracts. These changes are fairly small but they appear to be very keenly felt.

Case Study 1: Action for Children

Action for Children is one of the largest children's charities in the UK, working to break the cycle of deprivation facing the country's most vulnerable and neglected children. It receives 85% of its income from contracts, for services including family support, adoption and fostering, and specialist schools.

Action for Children is beginning to look at new types of contract, including payment by results. Hugh Thornbery, the charity's director of children's services, sees the potential payment by results offers: *'It should move the market towards providers who can guarantee the outcomes local authorities want. If you get it right, you get greater specificity in the contract about what's to be achieved, which benefits all involved. Providers that can prove they can deliver come to the top, and over time, local authorities move away from those that don't deliver so well.'*

But although the potential is there, in practice there are a lot of challenges. *'There's anxiety around whether payment by results leaves charities with cashflow problems, which most of them aren't able to manage,'* says Hugh. Charities deliver their services sometimes months before they receive funding. *'We're increasingly paid in arrears in normal contracts, so incur all the costs of delivering a service for months before we're paid. With payment by results, the amount of time before payment is longer.'* These cashflow problems could dissuade charities from signing up for payment by results agreements. *'There's a degree of risk inherent in any contract now that most charities wouldn't be able to take on—yet they may be the best providers.'*

There is a second set of challenges around measuring results, particularly relevant in Action for Children's field of work, where outcomes are not always clear cut. When many different agencies work with a child, attributing a positive change to one organisation is difficult. But there is a more fundamental problem of defining what a positive change looks like. *'If you're working with prisoners, it's straightforward—if somebody reoffends that's a bad thing and if they don't it's good.'* In children's services, identifying a good outcome can be embroiled in policy debates. For example, the cost of putting children into care makes keeping them out a natural choice for payment by results contracts, with a strong financial incentive for success. But, says Hugh, *'there's a big debate about whether care's a good or a bad thing. If a child comes into care inappropriately, that's not good, but if they're kept out of care and at risk with their parents, that's bad too.'*

So has Action for Children seen an explosion in the number of payment by results contracts out there? *'At the moment it's difficult to call,'* says Hugh. *'There's a lot of talk about it but we bid for about 190 contracts last year and payment by results wasn't part of any.'* He compares it to discussions around personalisation over the last decade. *'There was a strong political drive for personal budgets and a lot of rhetoric around it—but actually the market changed very little.'*

Action for Children suffered a loss of income in 2011/2012 as a consequence of cuts to local authority budgets. But Hugh is reasonably optimistic for the future: *'Last year we won our biggest ever contract—we're seeing a move from being awarded contracts for a share of the market, to local authorities outsourcing the whole lot to one provider.'* While this works to the benefit of large organisations like Action for Children, Hugh thinks it will be at the cost of smaller organisations. *'I don't feel very comfortable about that—you want a thriving local sector as well as organisations like ours.'*

2. Delivering services in partnership

Involving the charity sector in public services throws up many challenges—particularly when it comes to small, local groups. Many commissioners, who are themselves facing cuts to their resources, are reluctant to manage lots of relationships with small voluntary organisations. At the same time, few charities have the capacity or appetite to bid for and manage large contracts, and many worry about the impact that rapid growth would have on their organisation and the people they help.

Delivering public services in partnership with other organisations—including other charities, businesses and public sector organisations—is one solution many commissioners and charities too are considering. Two main models have emerged:

- **Subcontracting:** In this model, one or more 'lead' or 'prime' providers head up the delivery of a particular service. These lead providers then subcontract work to smaller organisations. The most high-profile use of this model has been used to manage the government's welfare-to-work scheme, the Work Programme, which also uses a payment by results mechanism.
- **Consortia:** In this model, networks of organisations come together and jointly bid to deliver a service. There may be one or more organisations leading the consortium, but the emphasis is on partnership.

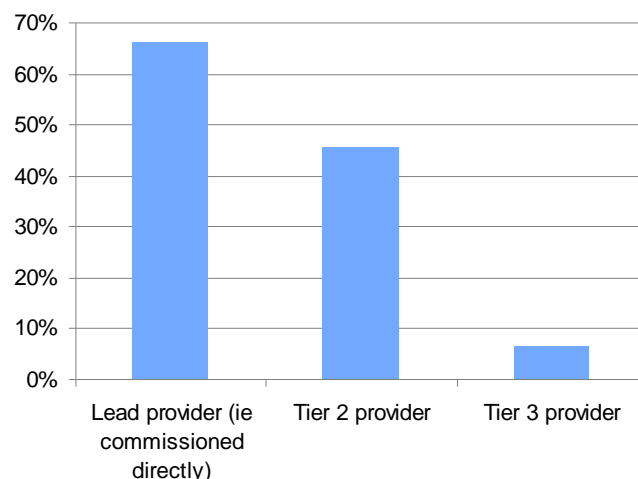
Respondents to our survey included charities that hold the direct financial relationship with the commissioner, including lead providers who subcontract to other organisations, and charities that are subcontractors. They generally prefer holding the direct financial relationship with the commissioner and are concerned about the negative financial impact of being a subcontractor.

Many respondents are also delivering or bidding for work as part of consortia, which respondents feel has a positive impact on their services. But many comments point to the time, resources and other challenges involved with running a consortium.

Subcontracting

Nearly half (46%) of the charities that responded to our survey are being subcontracted by another organisation to deliver services (see Figure 4). Tier 2 providers are subcontracted by a lead provider, and Tier 3 providers are subcontracted by another subcontractor.

Figure 4: Proportion of charities working as different types of provider to deliver contracts

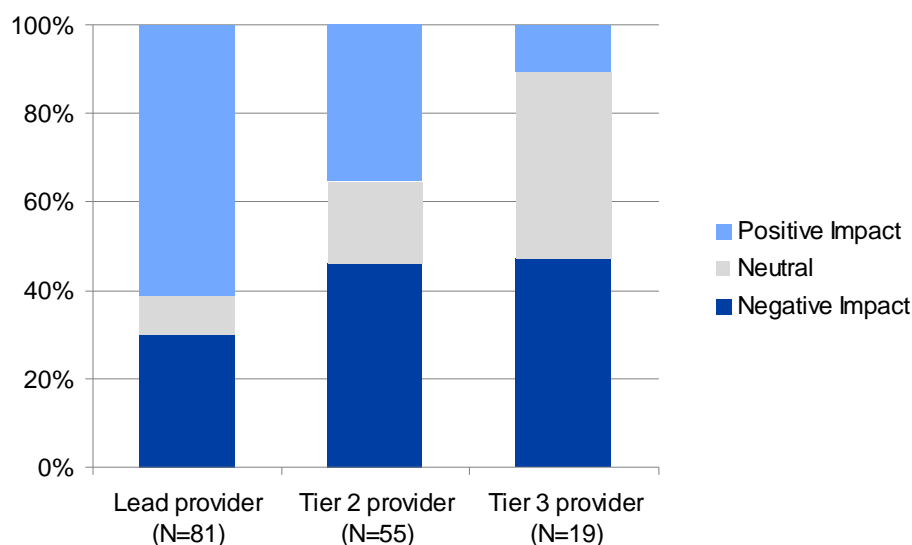


Analysis shows no strong differences between sectors, and no big differences between smaller and larger respondents.

Impact of subcontracting

Respondents are concerned about the negative impact being a subcontractor has on their financial security (see Figure 5). Compared to holding the relationship directly with the commissioner, being a Tier 2 provider is more commonly thought to have a negative impact on financial security and less commonly thought to have a positive one. Being a Tier 3 provider is associated with an even worse impact, although the small number of responses makes it difficult to draw any strong conclusions.

Figure 5: Charities' perceptions of how the position within the supply chain affects their financial security¹



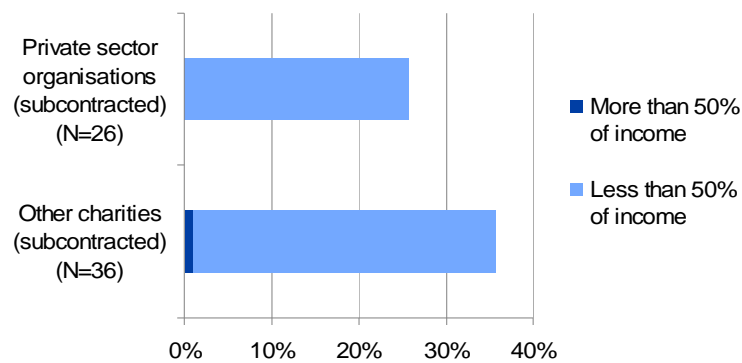
One large charity that works across England observed that the unequal balance of power was part of the challenge of this type of arrangement: *“Partnership conflict” is a challenging dynamic ... Charities are far more likely to get into difficulty here if they are subcontracting, because the lead contractor is always likely to be “first amongst equals” and the subcontractor will have relatively limited influence over the contract (regardless of the contracting and project governance arrangements which might be in place).*

Who is subcontracting charities?

More than a third of respondents to our survey (35%) are subcontracted by another charity, while a quarter (26%) are subcontracted by private sector organisations (see Figure 6).

¹ This question was open to all respondents, which explains the different number of responses to the question in Figure 4.

Figure 6: Proportion of charities that are subcontractors to private sector organisations or other charities



Charities show a clear preference for being subcontracted by other charities, rather than by private sector organisations. 80% say that they have a good relationship with their charity lead providers compared with 41% who say the same about private organisations (see Figure 7). Respondents also say they have more confidence in the bidding process conducted by other charities than by private sector organisations (see Figure 8).

Figure 7: Charities' rating of their relationship with private sector organisations and other charities where they are subcontractors

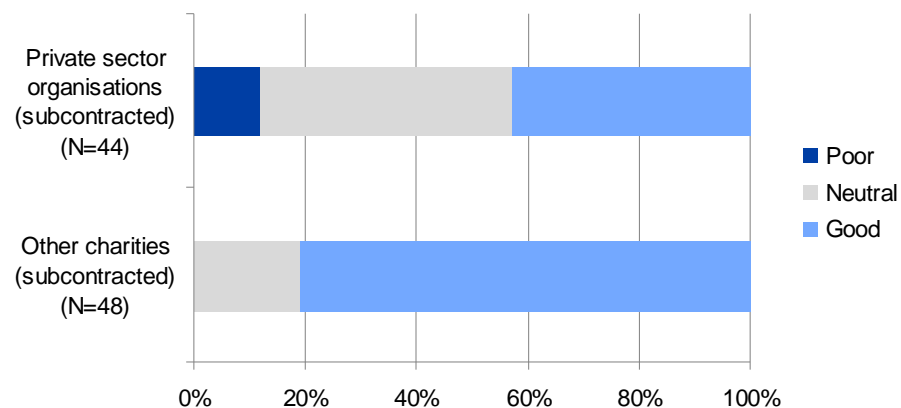
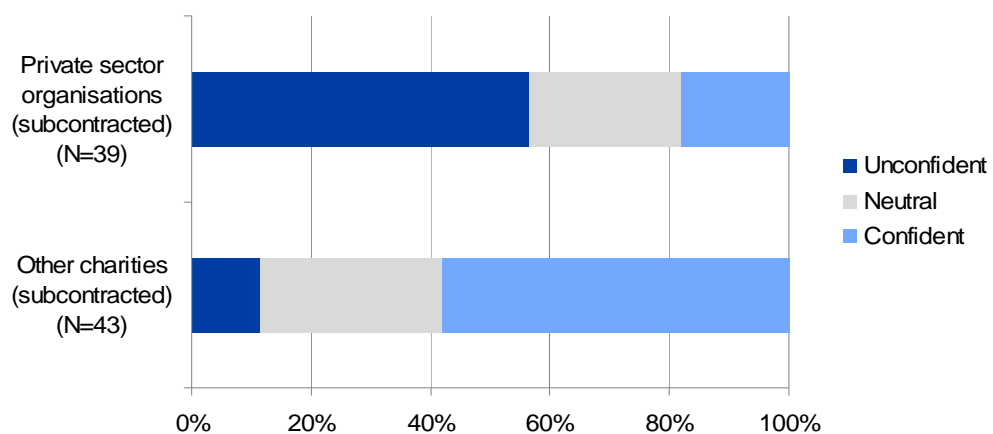
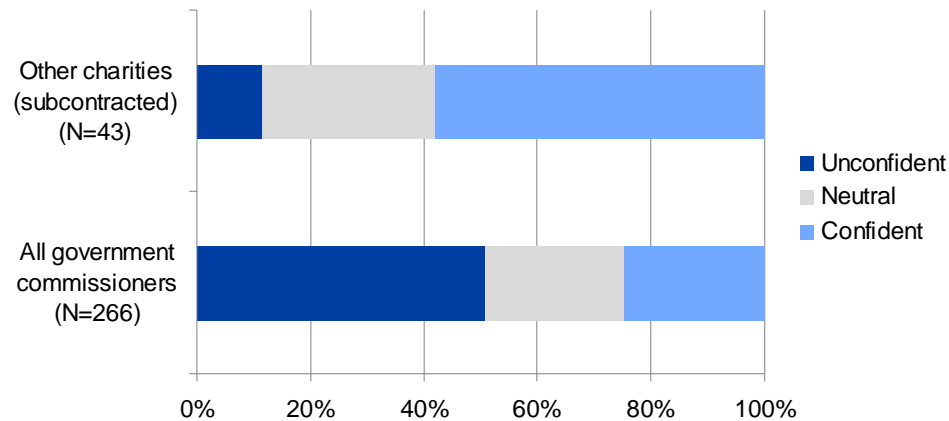


Figure 8: Confidence that bidding processes run by private sector organisations and other charities is fair to charities



Charities also have greater confidence in charities' subcontracting processes than bidding processes run by government commissioners. 51% of charities are not confident that government commissioners run bidding processes in a way that is fair to charities, compared to only 12% that lack confidence in other charities' processes (see Figure 9).¹

Figure 9: Confidence that bidding processes run by government commissioners and other charities is fair to charities



The finding that charities prefer working with other charities is likely to reflect the idea that they are more likely to understand their financial model, to be aligned with their mission and values, and to be part of their existing networks.

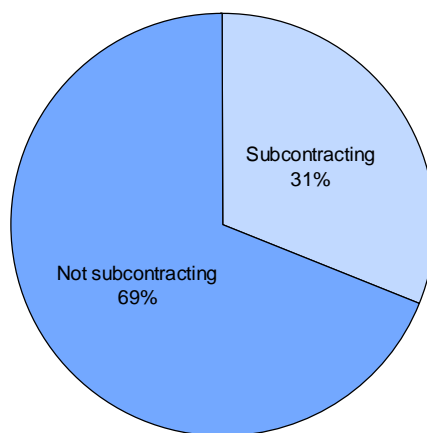
However, it does throw up an interesting set of questions for charities that are deciding how to enter public services markets: should they bid for work directly from commissioners, which is most likely to have a positive impact on their financial security but involves bidding processes that charities feel are stacked against them? Or is it better for them to work as subcontractors to other charities, which are in many ways natural partners, but which may have a negative impact on financial security?

Charities subcontracting to other organisations

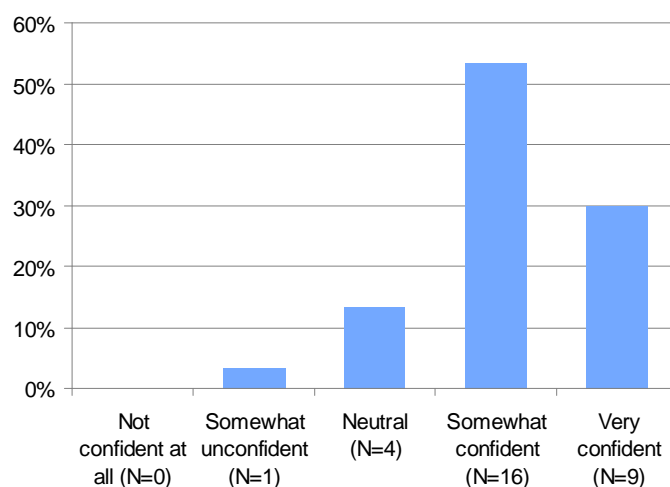
31% of survey respondents are subcontracting work to other charities (see Figure 10)—a surprisingly high figure. This may reflect our sample, which includes larger organisations with a track record of delivering services, rather than the sector as a whole.

Analysis by size shows that larger organisations (income over £10m) are more than twice as likely to be subcontracting work to other charities than smaller organisations. Analysis by sector shows that organisations working in research, community development and crisis and emergency work are most likely to be subcontracting work to other organisations. Charities working in palliative care and in sports and recreation are least likely to be subcontracting work to other organisations.

¹ In 'All government commissioners', we have combined the responses provided for local authorities, central government, local health commissioners and government agencies (such as quangos).

Figure 10: Proportion of charities subcontracting work to other organisations

Charities that are subcontracting work to other organisations are confident they are doing a good job. Over 80% believe they have the skills and capacity to manage the subcontracting process effectively (see Figure 11). Given that subcontracting is likely to be a relatively new activity for many charities, this is a surprising finding. This may not be true of the sector as a whole—there may be some optimism bias at work, or it may simply reflect our sample. It is interesting that smaller respondents that are subcontracting work to other organisations are generally more pessimistic about their abilities than larger ones.

Figure 11: Confidence among charities subcontracting work to other organisations that they have the right skills to manage the process effectively

If charities feel more confident working with and being subcontracted by other charities than by private sector organisations, and if charity lead providers feel they are up to the job of subcontracting out, then all-charity supply chains could be an interesting way for commissioners to engage the third sector.

Problems are likely to arise if charity subcontractors are not able to perform to expected standards or meet targets. In these cases, charity lead providers may be put in the uncomfortable position of imposing sanctions against their subcontractors or even taking them out of the supply chain altogether—which may place the charity in dire straits. It is not clear how many charities will have the appetite for this.

Case Study 2 illustrates the experience of Restore, a small mental health charity in Oxfordshire, which has recently started subcontracting to other organisations.

Case Study 2: Restore

Restore has supported people with mental health problems in Oxfordshire for 35 years. Three quarters of its income comes from contracts for the delivery of statutory services, including Individual Placement Support (IPS) and group-based support to help people in their recovery and to help them move into employment, training or volunteering.

In the past, Restore has been a subcontractor, which, says chief executive Benedict Leigh, was a mixed experience. Restore was once included in a bid as a subcontractor to a larger organisation that did not refer a single client. When contractors did refer clients, Restore was often left with the hardest cases: *'There was a lot of parking going on,'* says Benedict. *'It wasn't a good basis from which to start a therapeutic relationship for us or our clients.'*

Around 18 months ago, the local primary care trust (PCT) reduced the number of contracts for mental health support from 16 to two, with a 20% cut in the budget. Restore had to decide whether to bid for the work alone or to include smaller organisations as subcontractors. *'It was a difficult discussion for us because choosing to use subcontractors meant we were choosing not to take all the money we could have,'* says Benedict. *'And that meant making some staff redundant who we might not have had to otherwise.'*

Restore considered the long-term effects on mental health services in the county if these smaller charities went under, which Benedict feared they would without access to statutory funding. *'Oxfordshire has a very strong local voluntary sector. We felt we had a responsibility to support that. Even if it was in our short-term interests to get as much money as we could, it was in our and our clients' longer-term strategic interests to ensure that the sector was thriving.'* Restore decided to advertise for subcontractors, eventually choosing three charities it already knew. Although these relationships have changed as a result, Restore tries to keep the contract management separate from ongoing relationships.

Restore's own experiences as a subcontractor inform how it manages the process. *'We've tried not to do the things we didn't like,'* says Benedict. To try to prevent the problem of parking, for example, Restore is transparent about how it manages the flow of clients, dividing them up by geography. Benedict thinks it is key that subcontractors feel in control of their work, and the people they help do not feel like they are getting second best.

There have been challenges. *'We assumed we were all talking the same language at the start, which we weren't,'* says Benedict. *'We did a lot of work supporting people to move from grant-based to contract-based funding.'* But now the process is working reasonably well, and more importantly, the smaller charities that add so much to Oxfordshire's mental health services are still there. As Benedict says, *'That's good for the sector and good for service users, who have a range of choices even though everyone has less money.'*

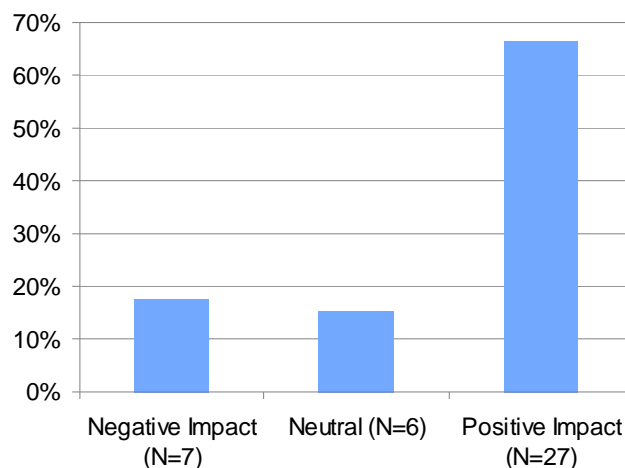
Restore is staying positive about the future—but the latest bout of cuts feels more serious than past austerity drives. *'We've always managed to be reasonably flexible in responding to changing commissioning and I'm confident we'll continue to be,'* says Benedict. *'But it's almost impossible to tell what the overall strategic direction for local and national mental health services is at the moment, and that's very difficult to manage.'*

Consortia

44% of respondents work as part of a consortium, and most of these (67%) believe it has a positive impact on their ability to deliver effective public services (see Figure 12). Consortia appear to have a slightly more positive impact for larger organisations: 73% said they have a positive impact, compared to 64% of smaller respondents.

Analysis by sector shows that charities working in offender management, community development and youth services sectors are most likely to be working in consortia.

Figure 12: Charities assessment of how working as part of a consortium affects their ability to deliver effective public services



This is very encouraging—consortia look to be a promising way of engaging charities to deliver public services. One charity based in the south west of England commented that consortia working could widen a charity's reach to more people: *'Consortia allow agencies to combine their service delivery to cover wider geographical areas.'* Another organisation said that such collaborative working had meant *'learning from consortium partners'* and *'avoiding duplication'*.

Other comments highlight some of the challenges of running these arrangements, particularly the time it takes to coordinate action and make decisions. A small charity based in the North West told us, *'[Consortium working] has brought advantages for securing contracts, but it has been very hard to ensure agreement and consensus from all parties, especially in relation to budgets and control. It can be more difficult to address not only operational issues (eg, staffing), but also strategic issues (eg, addressing allocation priorities, etc).'*

One charity working in palliative care felt that it had no choice but to work in a consortium despite uncertain benefits: *'We are being pressured into forming a consortium with a wide range of providers, but apart from some obvious collaborative working with [a neighbouring charity], the cost/benefit case is far from proven.'*

Case Study 3 highlights the approach that the national end of life care charity, Marie Curie, has taken towards partnership and collaboration.

Summary of key findings

- Half of the charities that responded to this survey are subcontracted by another organisation to deliver public services. Respondents think that not holding a direct relationship with the commissioner tends to have a negative impact on financial security.

- Nearly a third of respondents subcontract work out to other organisations—something that other charities appear to welcome. Charities that are subcontracting work to other organisations believe they are up to the job, indicating that there may be a role for all-charity supply chains.
- Nearly half of the charities we surveyed work in consortia to deliver public services. Most believe that this way of working will help them deliver more effective public services—although they require time and resources to manage the arrangement effectively.

Case Study 3: Marie Curie

Marie Curie has been working collaboratively for a long time but has recently increased this emphasis. *‘Our own patients are the patients of others too and benefit if we work collaboratively. Our focus though goes wider—improving end of life care and choice about place of death for everyone, not just those we provide care for,’* says David Shaw, Marie Curie’s head of service development. This approach lends itself well not just to England’s increasingly competitive commissioning environment, which requires more partnership, but also to more collaborative commissioning environments elsewhere in the UK.

The charity is a leading provider of end of life care through both the Marie Curie Nursing Service, providing care at home, and its hospices. It is commissioned directly by the NHS as a provider or prime contractor, and by NHS community providers as a subcontractor. It collaborates formally through its Delivering Choice Programme, working with the NHS, health and social care charities and public sector social care providers to develop the best possible palliative care services so patients are cared for in the place of their choice. By working in this way, the benefits of local knowledge and experience combine with the capacity of a national charity and the advantages this can bring. Marie Curie also has many informal partnerships with care providers.

The first step for any collaboration, says David, is a shared view of need: *‘Rather than starting with a discussion of who is going to do what, we try to identify what areas of care are lacking, and which will have the biggest impact.’* From this starting point, those involved share their views with commissioners. *‘Sometimes the commissioner feels that what is needed is a tweak to an existing contract. In other cases they accept a whole new service is needed and will run a tendering process for it,’* says David. Whilst providers may compete for contracts, the strong relationships they have built up mean they can still work together once bids have been won.

Local healthcare providers work closely to deliver services, but not always in a formal partnership. *‘In most cases each organisation is a prime provider for its own services but there is good collaboration sideways. It is more like a collection of co-primes than formal consortia.’* Overall, this collaboration leads to a better quality of care in the area, says David: *‘When a commissioner realises everyone involved in delivering care has a shared view as to what the gaps are and can see potential to improve care in a cost-effective way, it certainly helps.’* The result is often more choice about end of life care for patients and their families—a shared aim amongst palliative care charities.

Marie Curie’s experience of collaboration offers some key lessons. *‘Cultural fit is important for success. We want to work with people who have a shared understanding of how things stand and of how things ought to be improved—there’s a good chance of having that cultural fit with other charities.’* But Marie Curie knows that changes to commissioning will have implications: *‘In future we’ll have to work increasingly with private providers, whether or not they are directly involved with providing end of life care themselves,’* says David.

Building relationships strong enough to support this kind of collaborative working is not easy, and takes a lot of commitment, which is why the charity has increased its capacity in this area. *‘The most important thing is trust, and trust takes time,’* says David. *‘That trust is easier to forge when you are not in the middle of responding to a tender. The trust needs to be built earlier. It goes beyond just talking about a specific service.’*

3. Cuts to charity sector income

Our survey demonstrates that cuts to charities' income are happening across the board and that reduced funding from local authorities is hitting respondents particularly hard. Charities say that this loss of income is largely down to pressure on prices and a reduction in the services being provided.

These findings reflect conclusions from other studies. The State of the Sector survey by Third Sector magazine and nfpSynergy conducted earlier this year showed that nearly half of charities have seen a drop in their income.¹ Analysis by Acevo of the Transition Fund pointed to a very bleak picture, with applicants facing average cuts of 45% of their total income, prompting suggestions that public sector agencies are passing disproportionate cuts on to the sector.²

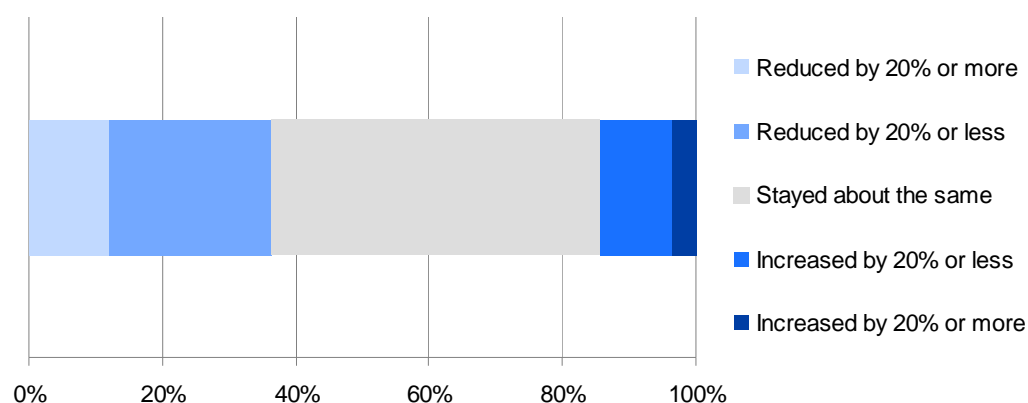
Among the gloom, there is hope that the government's Big Society and localism agendas will create new opportunities for the sector. The State of the Sector survey found that 30% of respondents had seen an increase in their overall income, although it is not clear if that growth is from statutory or voluntary sources or elsewhere.³

Cuts to income this year

More than a third of respondents (36%) report cuts to government income, with 12% saying that it has been reduced by a fifth or more (see Figure 13).

Analysis by size suggests that charities working in crisis and emergency work and in sports and recreation are being particularly badly hit by the cuts this year. The income of charities working in palliative care appears to be the most static. Environmental charities are experiencing the greatest turbulence, with some organisations experiencing fairly large cuts, while others are seeing increases. However, the small sample size makes it difficult to be conclusive.

Figure 13: Charities' estimates of how their total government income has changed in this financial year compared to the previous year (N=272)



¹ www.thirdsector.co.uk/news/1111133/State-Sector-survey-indicates-nearly-half-charities-lost-income

² Acevo (2011) *Cuts to the Third Sector: What can we learn from Transition Fund applications?* It is worth noting that the Cabinet Office believes that many charities overstated their expected cuts, and so have questioned the reliability of figures in the report (<https://update.cabinetoffice.gov.uk/resource-library/transition-fund-interim-findings>).

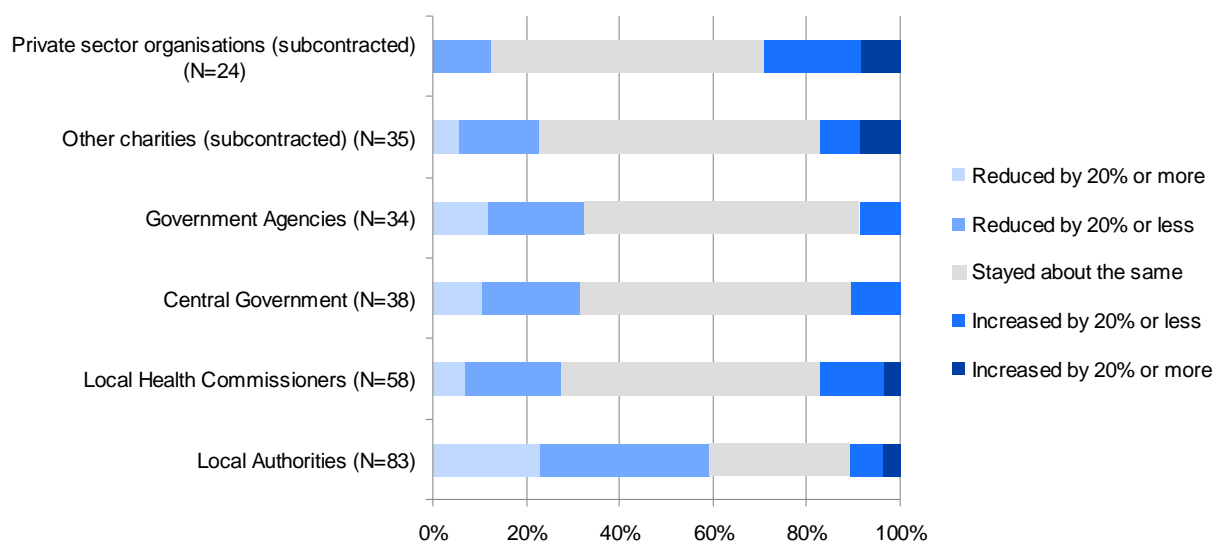
³ www.thirdsector.co.uk/news/1111133/State-Sector-survey-indicates-nearly-half-charities-lost-income. We have taken the 30% figure from the chart in the article rather than the 40% figure given in the article.

Cuts to local authority funding appear to be hitting charities particularly hard, compared to other commissioners (see Case Study 5). 59% of charities say they are experiencing cuts in funding from local authorities, and 23% say that these cuts are over 20% (see Figure 14). Smaller organisations appear to be slightly worse affected: 61% report cuts to local authority income compared to 55% of larger organisations.

Income from local health commissioners

Income from local health commissioners appears to be holding up better in comparison, and 17% of charities have seen increases in their income from this source in the current financial year (see Figure 14). This growth might just reflect the transfer of contracts to new providers or, in some cases, it might be a product of more NHS services being outsourced to new providers.

Figure 14: Charities' estimates of how their income from different government commissioners has changed in this financial year compared to the previous year



It is important to be cautious when interpreting these results. As well as (and sometimes because of) the cuts, commissioning is being restructured considerably. There is also great competition for contracts among different providers. Some of the reductions and increases we are witnessing in the survey may be reflecting these trends rather than just the government's deficit reduction programme.

At the same time, we have only asked about change between two years. Changes to longer-term contracts that are not up for renewal will therefore not be picked up by this question. This probably accounts for the large number of responses that said income stayed about the same.

Reasons for cuts

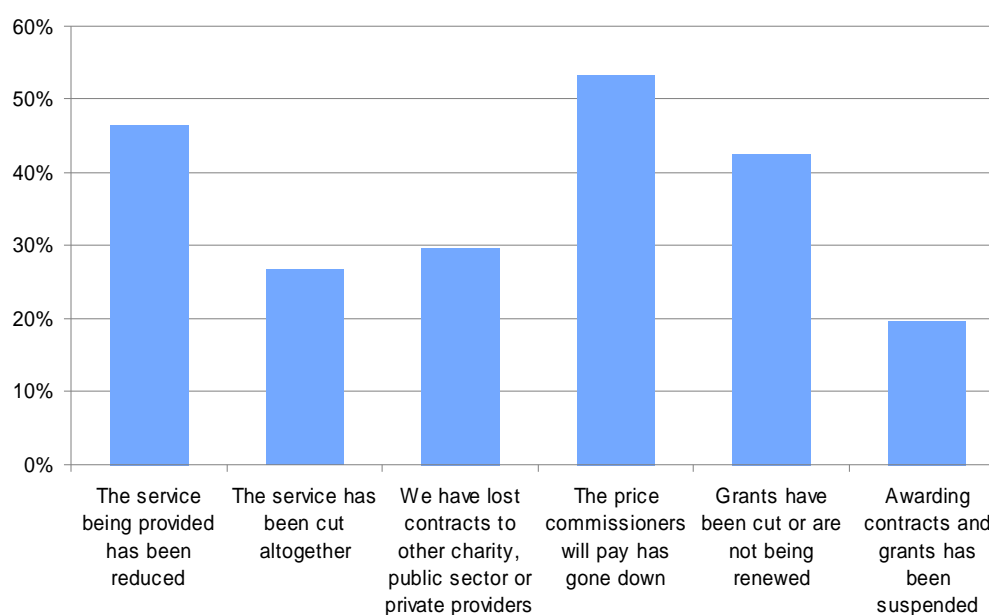
Respondents are seeing reductions in their government income for a number of reasons. For 27%, it is because the service has been cut altogether (see Figure 15). Unsurprisingly, 43% of respondents say that grants from government—the most discretionary area of spending—have been cut.

Just over half (53%) have lost income because the price commissioners are prepared to pay for a service has gone down, and just under half (47%) say that they have experienced a reduction in the level of service commissioners are prepared to pay for. These reductions may be driven by:

- charities winning lower-value contracts;
- charities losing contracts because they cannot compete on price; or
- charities choosing not to bid for contracts because they cannot provide an effective service at that price or volume.

It is likely to be a combination of all three.

Figure 15: Charities' perceptions of the main reasons for cuts to their government income



Increased competition is another reason why income has dropped, according to 30% of charities (Figure 15). This might be due to a reduction in the number of contracts available for charities to bid for, or as a result of government introducing greater competition into the system.

We analysed the responses by charity size, finding that smaller charities are more likely to perceive the causes for drops in their income to be a squeeze on the price commissioners will pay, and a reduction in the amount of grant income available. Larger charities more commonly perceive the level of services being reduced and the suspension of grants and awards as the main reason why their income has fallen.

Two comments also suggest that the move to different types of contract and funding mechanism is another reason why charities have lost income. For one charity, *'working capital requirements of [payment by results contracts] limit us'*. Another commented that it had lost funding because of the *'move from block contracts to frameworks and the impact of the personalisation agenda'*.

Summary of key findings

- More than a third of respondents report cuts to government income, with 12% saying that it has been reduced by a fifth or more. Charities working in crisis and emergency work and in sports and recreation appear to be particularly badly hit.
- Cuts to local authority funding are proving to be particularly severe, compared to cuts from other commissioners. Smaller charities seem to be affected slightly more than larger ones.
- Charities cite a range of reasons for their falling income, including price pressure, more intense competition for contracts, and services no longer being commissioned.

Case Study 4: Keyhouse

For the past 25 years, Keyhouse has provided housing support and legal advice for people in and around Bradford, and training for professionals working in housing.

Keyhouse receives between 65% and 70% of its income from statutory sources—including from Bradford City Council for its supported housing, and the Legal Services Commission (LSC) for its advice work. It has therefore been hit by local authorities' recent efforts to make savings.

Graham Mynott, Keyhouse's head of project, says the impact has been mixed. *'The LSC pays a fixed fee per case, and it cut that by 10% back in 2010. Funding for our work in the courts was cut by 10%. And although most of our local authority funding for advice and housing support has held up, we have seen cuts of between 8% and 12% across the various services.'*

The charity has fought off attempts to de-commission some projects. As Graham puts it: *'The local authority wanted to cut one of our supported housing contracts entirely. Part of the problem was the title—'generic floating support'—which stands out when you are looking for places to cut. We pulled together the data on who was being supported and showed that these are some of the most vulnerable people in Bradford with multiple complex issues, so the name is a bit misleading!'*

Working on the front line of the housing sector, Keyhouse sees the effects of a recession firsthand. *'There is a lag between when a recession takes place and when homelessness peaks. But we are seeing more people coming to us saying they are homeless, and we are starting to see people affected by changes to housing benefit.'*

The charity has been able to manage the effects on its beneficiaries because the cuts it has experienced have been in level of income, rather than losing funding for whole services. *'At the moment we haven't closed any services or reduced the number of people we support. But staff have left and we haven't replaced them. In the long run if we keep doing that quality on the front line begins to suffer. But when the pressure is on us from funders, our job is to try and insulate our clients as much as possible.'*

Graham adds: *'We have a lot of stressed staff and you start to see cracks. We have tried to be creative, trying to find other funding streams, diversify our funding, and do more joint working with other organisations. But we have relied on contract work for a long time so we don't have a long history of churning out grant applications. There is money around—but it's about having the time and resources to actually pursue it.'*

Keyhouse is involved in an innovative project with London homelessness charity Centrepoin, which put together a corporate sponsorship deal with the building firm Taylor Wimpey. Not being a national charity, it put the firm in touch with others doing similar work around the country, which is how Keyhouse joined the scheme. *'At the end of the day what they are interested in is youth homelessness like the rest of us,'* says Graham. *'And if this enables more money to be brought in to tackle it then that's part of their mission—even if they don't get the money themselves.'*

Graham accepts cuts are necessary, but would prefer funders to take a collaborative approach when deciding where to make them. *'Everybody understands there is huge pressure on public finances so we all have to save money. But I'd much rather a funder came to me and said we need to find 10% savings, what can you do? And probably, within a month I'd come back and say, yep we can do that.'*

4. Responses to cuts

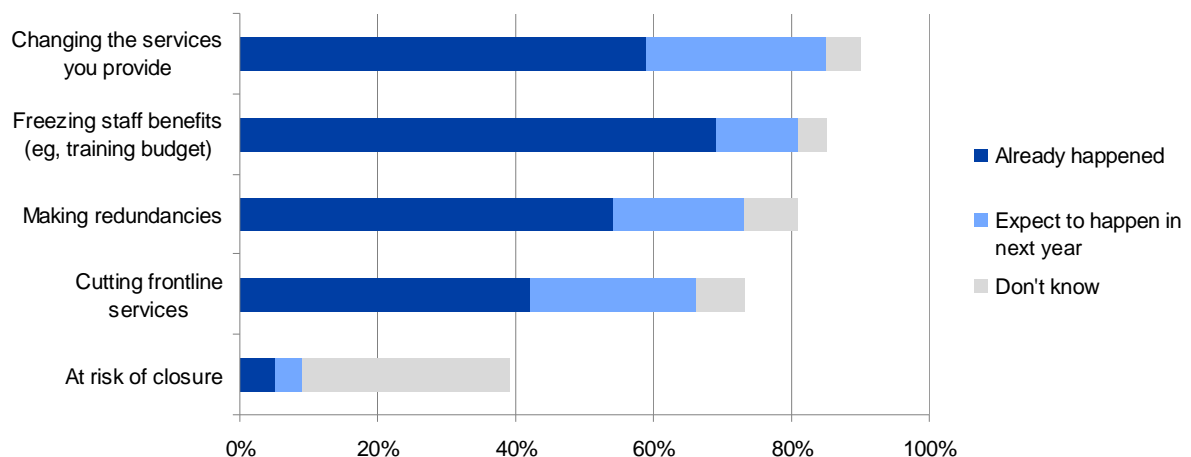
How are charities responding to the big falls in income? Our survey shows that they are having to make tough choices about the front-line services they provide for the people they are trying to help. Cuts are also having an impact on the size and structure of organisations, and even their ability to survive.

Our survey also shows that charities believe that these difficult times will make them more resilient in future. Respondents say they are adapting to the new environment by trying out new ways of working and drawing on other resources, such as volunteers and other charities.

Tough choices

Respondents tell us that the cuts are having an impact on their beneficiaries, on their staff and on the future of their charity (see Figure 16).

Figure 16: Charities' assessment of the impact that cuts to government funding has (or will have) on them



Beneficiaries

Over 65% of respondents have closed or expect to close front-line services as a result of the cuts (see Figure 16). This will inevitably have a knock-on effect for the people they are trying to help, as one comment from a medium-sized charity illustrates: *'We have lost a four-person contract in the North East which means older people and vulnerable people will not be able to access support to keep them in their homes, meaning more evictions, more associated behaviour (eg, alcoholism) and more people on the streets or in unsuitable accommodation.'*¹

It is likely then that we will see higher unmet need in future. A recent report has shown that charities are seeing a rise in demand for their services.² This extra demand would be hard to meet in a good financial climate; charities will really struggle in an era of shrinking support.

Charities are changing their services in response to cuts. 85% of respondents say they have changed the services they provide to beneficiaries or expect to in the next year. It is difficult to understand the scale of this change. It may involve finding more cost-effective ways of meeting the same beneficiary needs. One charity we spoke to told us that cuts had forced it to make its services more user-led and that, as a result, outcomes had actually improved.

¹ Note that this comment assumed the contract was cut altogether, rather than awarded to a different organisation.

² PwC, CFG and Institute of Fundraising (2012) *Managing charities in the new normal—A perfect storm?*

In some cases though, these changes may be less positive and there is a risk that services are changed to fit with what commissioners are prepared to pay for, rather than for what beneficiaries need.

Workforce

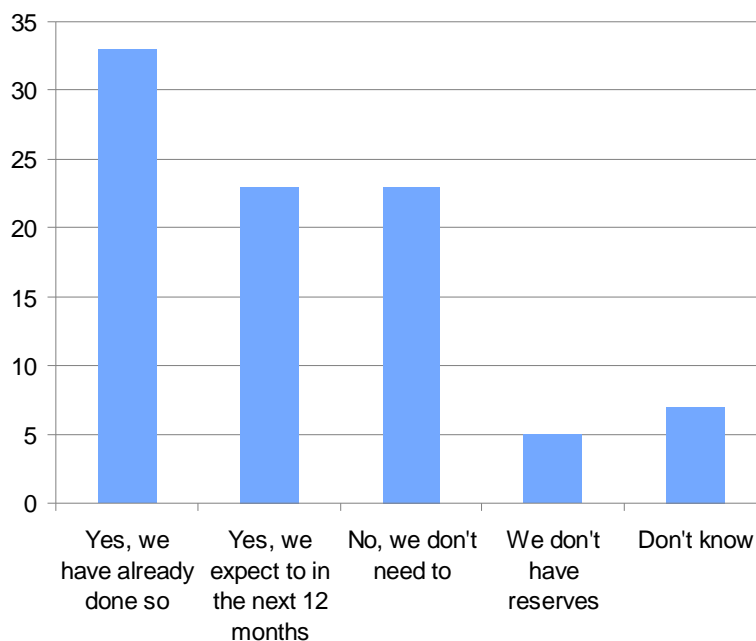
Charities are also shrinking their workforce in response to the cuts. 54% of charities have already made redundancies, and a further 19% expect to in the next 12 months. For the staff who remain, working conditions are likely to become less comfortable: 81% of charities are freezing or will freeze staff benefits.

Sustainability

For a minority of respondents (9%), the cuts have had such a devastating effect on their finances that they are facing closure (see Figure 16).

Some charities are keeping afloat by dipping into their reserves: 62% of respondents have already used their reserves or plan to use them in the next 12 months to cover shortfalls in income (see Figure 17).

Figure 17: Number of charities that expect to use their reserves to cover shortfalls in income (rather than for capital expenditure)



The comments provide interesting insights into the situation of several charities. One small social care organisation told us: *'We have had to use our reserves for the last two years and if we are unable to obtain more business, we will close in the next 12–18 months.'*

Another medium-sized charity commented: *'We may well have to use reserves as a significant number of our services are at risk and we do not yet know whether our efforts to develop new provision in different markets to offset losses will be successful.'*

Charities are also looking to fundraising and voluntary donations to cover funding gaps in government income:

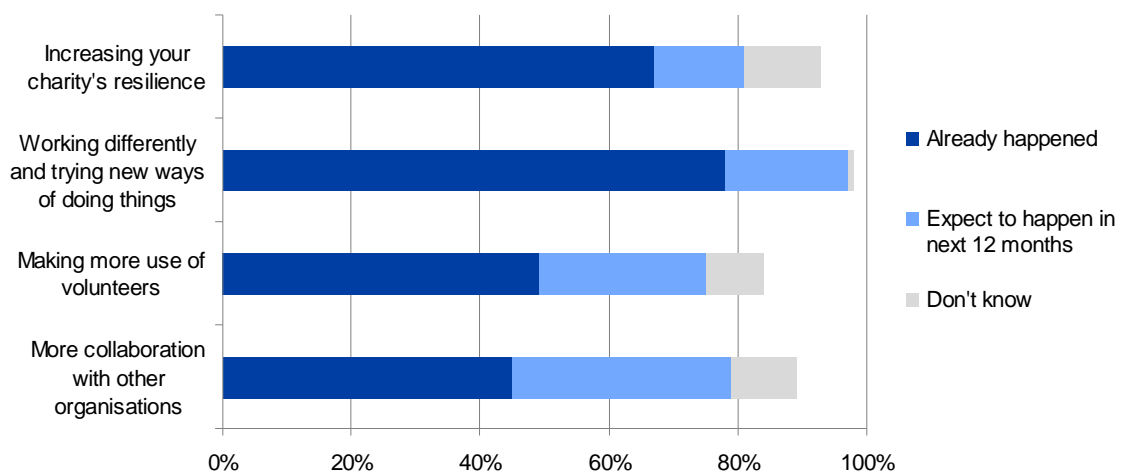
- *'We have ... appealed to our independent funders to "bridge the gap" which would enable us to keep five community centres open (we had already reduced from 26 to 16 centres). Their response was very positive, and the centres remain open.'*
- *'A potentially dire financial situation was rescued by an exceptional legacy, and we are now reasonably OK but still face setting a deficit budget which of course is not sustainable. We need to change our business model over the next couple of years to make us less reliant on government and legacy income.'*

But as another London-based respondent makes clear, fundraising for voluntary income is unlikely to provide a long-term solution: *'Seeking funds from trusts and other sources is becoming an increasingly competitive environment and not knowing if the organisation will be funded throughout the year makes us vulnerable to refusal from non government funding sources.'*

Tough responses

Despite this gloomy outlook, Figure 18 illustrates that charities are not despairing; many are adapting and responding creatively in the face of cuts.

Figure 18: Charities' assessment of the impact that cuts to government funding has (or will have) on them



97% of respondents are or expect to be working differently or trying new ways of doing things. One children's charity is hoping to increase community participation and volunteering to build more sustainable services: *'Difficult times ahead but ... we HAVE to work differently ... Staff are beginning to understand that working differently does not mean less quality.'*

Three quarters of respondents are hoping to harness the power of volunteers, in many cases in order to help offset the impact of a shrinking workforce. Charities also plan to work more collaboratively with other organisations. Case Study 5 highlights the partnership experience of Open Age, a charity helping older people in London.

Charities believe that these tough times will, in the long run, make them hardier organisations. 81% of respondents believe that the cuts have increased their resilience or will increase it in the future.

Summary of key findings

- Over 65% of respondents have closed or expect to close front-line services as a result of cuts. Redundancies and pay freezes are also affecting more than half of respondents.

- Charities are digging into reserves. 62% of respondents have already used their reserves or plan to use them in the next 12 months to cover shortfalls in income.
- However, respondents say they are embracing change and many believe they are becoming more resilient. Nearly all plan to work differently: three quarters have harnessed or plan to harness the power of volunteers to help offset the impact of a shrinking workforce, and many plan to work more collaboratively with other organisations as well.

Case Study 5: Open Age

Open Age supports older people in the London boroughs of Westminster, Kensington and Chelsea to keep fit physically and mentally, through a range of activities that develop new skills and encourage social interaction. The charity also runs a programme that supports people aged over 50 into employment and training. Open Age receives statutory funding from its local primary care trust (PCT) and local councils in addition to funds from trusts and foundations. But it has been hit by changes to commissioning because of its size.

As a small, specialist charity, with a turnover of around £1 million, Open Age is not always in a position to bid for large contracts, so has had to increase the amount of subcontracting and partnership work it is involved in particularly around its employment related work. *'We've really been hit by the new Work Programme which has impacted heavily on us because we're too small to be part of it,'* say the charity's director, Helen Leech.

Open Age works informally with other local charities to provide activities for their beneficiaries. It is also involved in more formal partnerships—for example leading the consortium that runs the New Horizons Centre in Chelsea. One new partnership that has the potential to be really successful involves working with the local PCT to provide exercise classes to people in the borough who have fallen or are likely to suffer from falls. *'We were contacted by Westminster joint commissioners who told us they had some one-off funding for falls prevention work,'* says Helen. *'They knew we already worked in an informal partnership with the NHS falls team and wanted to look at ways we could work together more and develop something from this pot of money.'* After hearing about the scheme, neighbouring borough Kensington and Chelsea became involved too, and the project has now secured funding for two years. The partners collaborate closely, with Open Age even recruiting a clinical exercise specialist through the NHS job site.

Helen believes this partnership works particularly well because of the different skills the partners bring to the table: *'The local NHS health trust have got the clinical expertise, and we've got the community expertise and the experience with working with older people.'* But partnerships are less successful where the partners do very similar things, as it is frustrating to have to spend a lot of time coordinating who will do what, and feeling it would be quicker just to do it alone. *'Unless you've got very different skills, what is the point of creating more meetings and bureaucracy to agree work that could just as easily be done independently. We like to move forward and get things done rather than spend our time talking about it.'* It is also important to acknowledge that one partner will be dominant in the relationship. *'Somebody's got to lead—to manage the finances and staff.'* In the falls prevention partnership, this is Open Age's role.

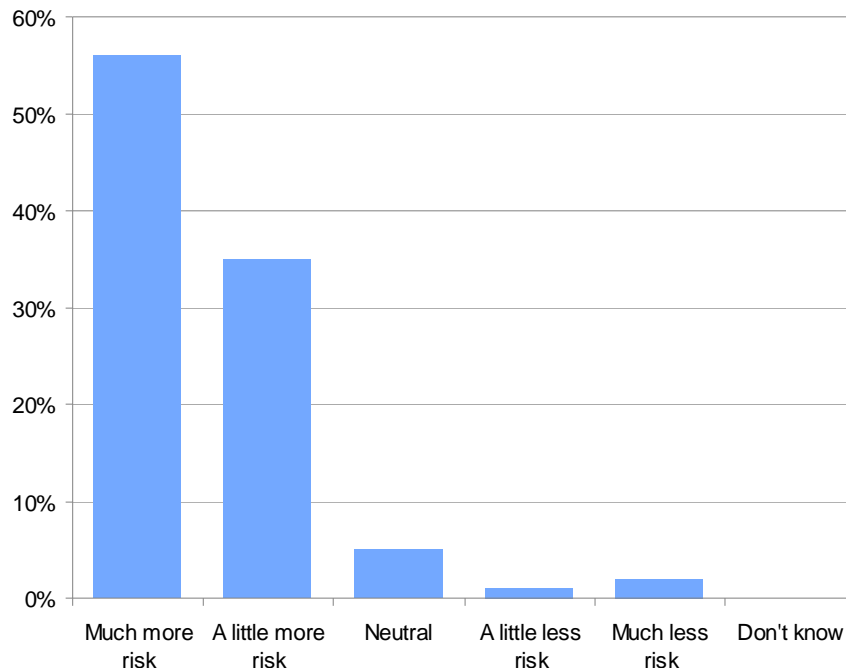
In Open Age's experience, it seems partnership for the sake of it is time-consuming and unnecessary. But it can add real value when two partners bring together different skills to create something new. As Helen says, *'In the falls prevention partnership, somebody saw we were working together already and had the wherewithal to think this could work. It's different from a tender or application which says you have to have a partner.'*

In the new commissioning environment, sometimes there is no other option for small charities but to form a partnership to win work. But Open Age has also been very successful at winning tenders on its own, bringing in £600,000 of new contracts in Westminster alone last year. *'I didn't think as a small charity that we would have that opportunity,'* says Helen, *'but it does look in the last few months as if that is happening. So maybe things are not going to be quite as bad as I thought!'*

5. The challenge ahead

What is the outlook for charities delivering public services? Over 90% of survey respondents believe that their charity now faces greater risk (see Figure 19). More than half (56%) believe that the current commissioning environment is much more risky for charities.

Figure 19: Charities' assessment of the level of risk they face in the current commissioning environment compared to last year



Government reforms to commissioning structures are a major driver of this uncertainty. Health commissioning is a clear example of this: NHS reforms, abolition of primary care trusts and the introduction of clinical commissioning groups (CCGs) are all adding uncertainty.

Respondents told us:

- *'The uncertainty about how services will be commissioned by the NHS in the future is resulting in paralysis. Evidence-based community interventions are not being considered because of commissioner uncertainty.'*
- *'[We] are seeing huge changes locally with CCGs emerging. There are new relationships to develop—both with CCGs and local authorities—and this is time-consuming, especially when they are not yet totally clear about their role and responsibilities. Given that only about 12% of our income comes from the NHS we are finding we are spending an increasing amount of time on "serving" these contractual/grant relationships.'*

A further source of risk is charities' perception that the odds are stacked against them when bidding for contracts against private and public sector organisations. 47% of respondents are not confident that commissioning processes are fair for charities.

This figure is even worse when splitting out local authority commissioners, which provide the greatest proportion of government funding to our respondents. 55% of respondents told us they are not confident that local authority commissioners conduct the bidding process in a way that is fair to charities.

Comments suggest that some charities perceive that part of this bias is down to commissioners using price as the main criterion for awarding contracts: *“Cheapness” has won out, despite the commissioner’s stated desire for quality.*

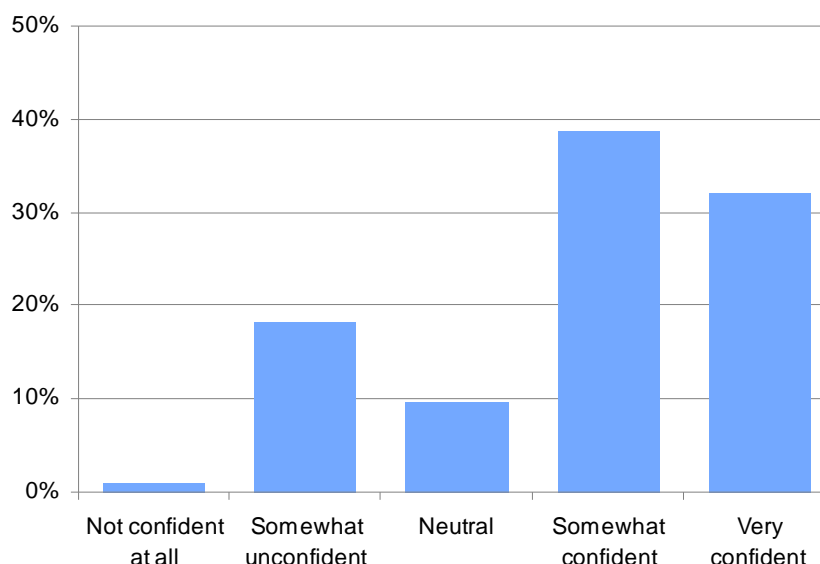
Charities feel they cannot compete on this basis and are often undercut by other bidders, particularly private sector organisations. *‘With the opening up of the sector to the private sector, we will continue to lose work where bigger organisations (A4E/Deloittes etc) are able to undercut and provide reduced rate services.’*

Two comments suggest that charities feel that commissioners do not understand the services they can offer. One respondent from a large, national charity wrote: *‘Government needs to understand far better what it will lose if charities are not more productively involved in public service delivery. We are much better at reaching the most difficult to help, are increasingly efficient, invariably go the extra mile for beneficiaries and, unlike private sector providers, often match public funding with other charitably raised funds, thereby making the public money go further and deeper.’*

Another respondent from a large charity believed that a move to create a ‘level playing field’ for private, public and voluntary sector organisations was having the opposite effect: *‘Commissioners ... [tend] to assume that ... not differentiating between types of provider ... amounts to creating a level playing field. The additional issues that apply to charities—for example, restrictions in objects ... can make it more difficult for charities to meet those requirements, meaning that the resulting playing field is not level.’*

Despite the perceived unfairness of many commissioning processes, charities believe they are well placed to win contracts. Figure 20 shows that more than 70% of respondents are confident that they have the right skills and capacity to successfully bid for contracts. This is a high figure, especially given the perceived unfairness of commissioning processes. It may reflect the characteristics of our sample, which is over-representative of larger organisations that have been successful at winning contracts. The results may also reflect some optimism bias.

Figure 20: Charities’ confidence that they have the right skills and sufficient capacity to bid for contracts



Comments suggest that charities are already investing in their business development teams in order to compete more effectively: one respondent working in the North East told us, *‘We have spent significant time upskilling staff and changing systems to cope with constant bidding and partnering to win ... [This] appears to be the best way forward to maximise the current climate.’*

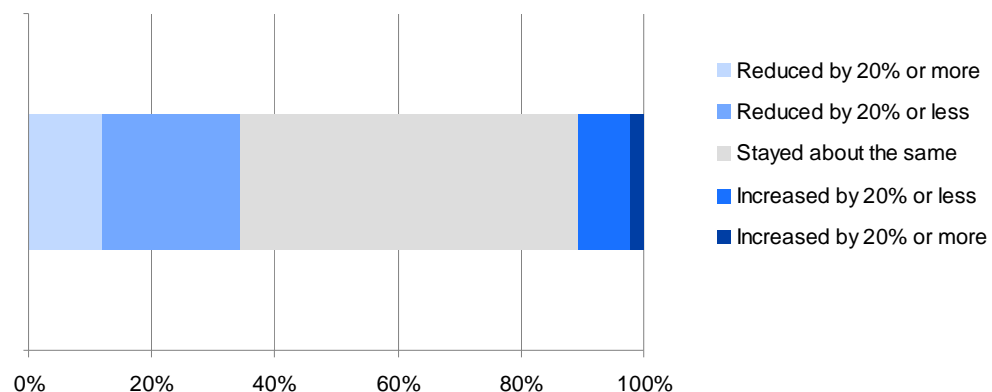
However, the fact that nearly a third of respondents are neutral or not confident about bidding for contracts suggests that there is still a substantial skills deficit within the sector. This is reflected in many of the comments:

- *'Capacity for developing high quality tenders is ... limited and things like key people being on leave, a number of important opportunities coming up together, or commissioner timescales slipping and disrupting workplans can mean we do not have the capacity to respond to some tenders.'*
- *'We have the skills and capacity to bid for a certain amount of contracts but not across all areas for all activities all of the time—which is the way things are going—as this takes staff away from delivering to our customers.'*

One charity pointed out that the demands on charities to bid for contracts is likely to increase in future: *'The charitable sector as a whole will need to improve its skills and capacity to bid for contracts in the future simply to stand still ... Skills and capacity that are sufficient today will [not] be sufficient tomorrow.'*

The government's deficit reduction programme is, of course, here to stay, and charities believe that cuts to their government funding will continue into next year, adding extra uncertainty. A third of responses showed cuts to government income in the next year (see Figure 21). Again, it looks as if cuts to funding from local authorities is likely to affect the sector hardest: 56% of respondents expect their income here to fall.

Figure 21: Charities' estimates of how their total government income will change in the next financial year compared to this year (N=269)



Summary of key findings

- Charities believe that the current commissioning environment is extremely risky. Over 90% of survey respondents say that their charity now faces greater risk, and more than half say they face much more risk.
- There are several drivers of this uncertainty, including government reforms to commissioning structures (especially to the health service), and the perception among charities that commissioning processes are not fair for charities.
- More than 70% of respondents are confident that they have the right skills and capacity to bid successfully for contracts. Despite this positive result, this still suggests that there may be a substantial skills deficit in the sector that needs to be addressed.
- Cuts are here to stay, with a third of respondents expecting reductions in their income in the next financial year. The majority of charities anticipate further falls in their funding from local authorities.

Conclusion

The future is uncertain—over 90% of charities believe they face more risk now than they did last year. Spending cuts show no sign of abating and charities expect their income to drop again in the next financial year. How well-placed are charities to navigate their way through the next few years? Our survey provides causes for both optimism and concern.

Charities tell us they have maintained good relationships with their commissioners and are well-placed to win new business, despite the perceived unfairness of many commissioning processes. More than 70% of respondents are confident that they have the right skills and capacity to bid successfully for contracts—great news for the majority, but a real concern for the 30% who face a skills deficit.

The use of reserves by the majority of respondents to make up for shortfalls in income is also worrying. If the uncertainty continues and charities are not able to develop viable new funding models, then we may see more charities going to the wall in the next few years. Low or no reserves may also prevent charities from taking advantage of new opportunities, such as investing in a new building or taking on new contracts.

Next steps

Ultimately, the purpose of commissioning is to deliver excellent services for those that need help. A healthy mix of providers remaining active in the medium to long term will ensure continued choice for commissioners, and avoid a potential monopoly of supply. This mix ideally has charities and community groups playing a role alongside public and private providers. The government's Open Public Services White Paper is explicit on that aim. Such involvement would have the added benefit of fostering a vibrant civil society.

It is in everyone's interests for commissioning to work for charities. If the charity sector is to continue to flourish, if the government is to achieve its vision of the Big Society, and if people in need are to get the best support available, then charities and commissioners will both have to respond.

Charities delivering public services will need to redouble their efforts in the next year. They will need to continue efforts to build skills and capacity to operate in a more competitive environment. By doing so, they will be able to make the most of the opportunities that new public services bring. If the pace of change is relatively slow right now, as our survey suggests, then now is a window of opportunity for charities to be getting ready before the pace increases.

Charities also need to think about which delivery models work best for them. Our survey suggests that all-charity supply chains and consortia are promising options. Charities need to develop and strengthen their relationships with potential partners and think about how they can work together.

Commissioners and the government need to be aware that just opening up contracts to bids from charities is unlikely to achieve a level playing field. Our survey shows that charities believe many commissioning processes are stacked against them. Commissioners need to engage with the sector and encourage dialogue, while national bodies need to establish and encourage best practice.

Private funding has a part to play too. Trusts and foundations can help smooth the transition to these new ways of working, providing core support that gives charities the breathing space to adapt. In some cases, funders may be able to use social investment to help charities take advantage of new opportunities. With many charities' reserves depleted, social investment may provide an alternative source of capital.

Final thoughts

We are still in the early days of this new world. This report provides a snapshot, but the full impact of changes to commissioning is still emerging. We have by no means provided a full picture either: the charities we surveyed are arguably the best placed to adapt to the new landscape, being larger and already delivering contracts. We need to know more about how small organisations and charities that are struggling to win contracts are managing—we suspect that the picture may be bleaker than the one painted here.

With this in mind, it will be important to continue monitoring how the sector fares over the next few years. If charities are to be as effective as possible in helping people and communities, we need to understand and respond to the challenges they face. The sector is varied and each charity has different experiences. We hope that this report provides a starting point for thinking about the way ahead.

Appendix A: Methodology

Method

Sampling

The survey was sent to the largest 750 front-line charities in the UK that earn at least some of their income.¹ This group was chosen in order to increase the likelihood that the charities surveyed deliver public services, because:

- larger charities are more likely to receive government income than smaller charities; and
- income from government contracts is generally classed as earned charitable income in charity accounts.

Although earned charitable income is the best proxy available for contract income, there are two main limitations. Firstly, this category includes income from trading, such as consultancy services. This means that some charities that do not receive any government income were included in the sample. Secondly, government income received from grants may be classed as voluntary income in charity accounts. This means that charities that receive government income only in the form of grants may have been excluded from the survey.

We excluded charities working in the following sectors from the sample:

Political organisations; Grant-making foundations; Philanthropic intermediaries and voluntarism promotion; International activities; Religious congregations and associations; Business associations; Professional associations; Labour unions; Charities working in animal protection; Housing associations; Schools; Umbrella and infrastructure organisations; Private members' organisations; Non-departmental public bodies and quangos; Awarding bodies; Leisure centres; and organisations not delivering front-line services.

Deployment

The survey was in the field during February 2012. As well as the initial email, charities were sent four reminder emails and a random sample also received telephone reminders.

Responses

We received 102 completed and 19 partial responses to the survey. After excluding duplicate responses and partial responses in which less than half of the survey had been completed, the final sample was made up of 101 organisations. This equates to a response rate of 13.5%, which NPC's experience suggests is a reasonable response for a survey of this kind.

Analysis

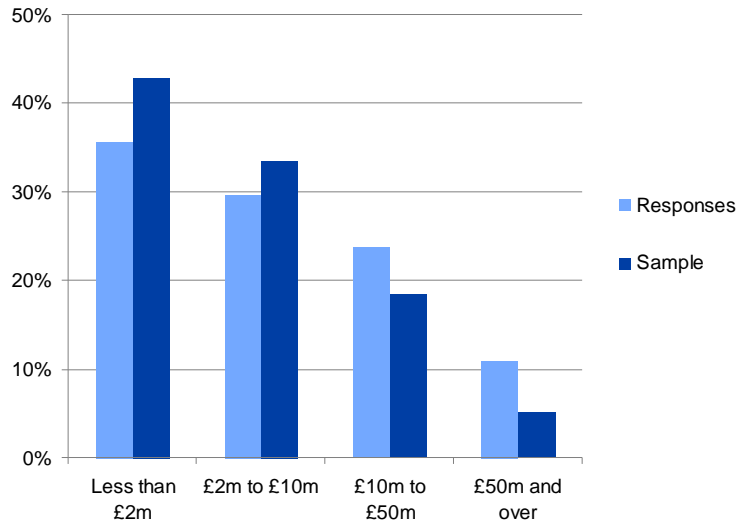
We have removed 'Don't know', 'N/A', and 'Other' responses from many of the graphs presented in this report in order to enable clearer comparisons. Where we have done this, we have included 'n' numbers in the graphs.

¹ This earned charitable income refers to incoming resources from charitable activities, which is defined in the Statement of Recommended Practice 2005 as 'any incoming resources that are a payment for goods or services provided for the benefit of the charity's beneficiaries'. See: www.charity-commission.gov.uk/publications/rs14annexs.aspx#3

Respondent characteristics

Figure 1A shows that responses broadly match the income brackets of the sampled population, although larger charities (annual income over £10m) were more likely to respond to the survey than smaller ones (annual income under £10m).

Figure 1A: Responses and sample by annual income

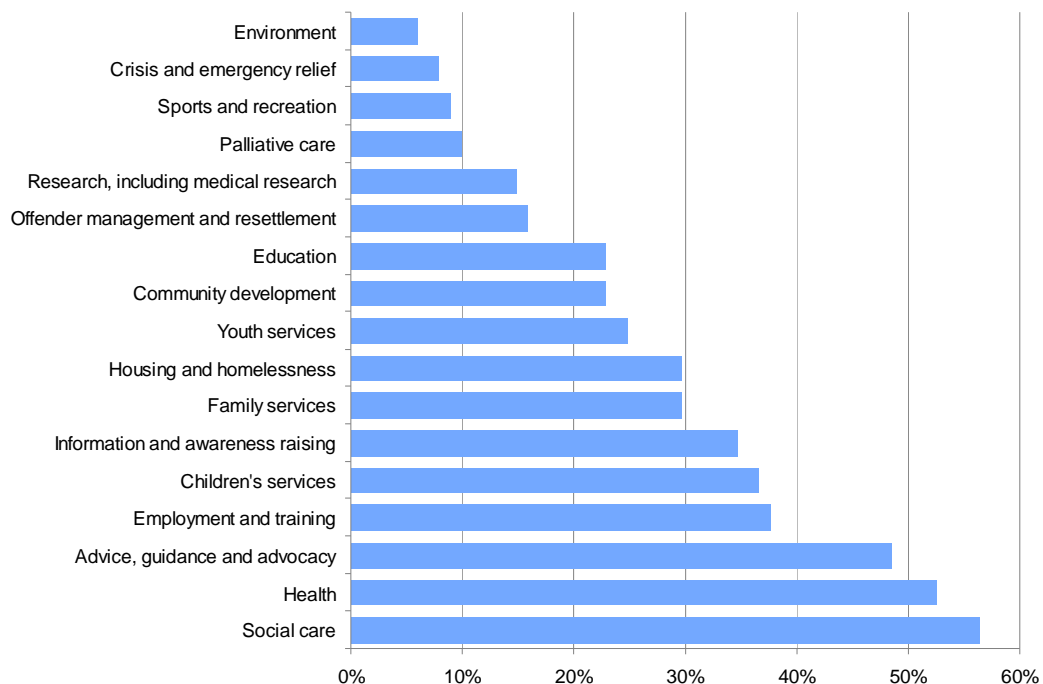


Respondent sector

Figure 2A shows that more than half of respondents operate in health and social care sectors. Other dominant areas are advice and advocacy, employment and training, children's services and awareness raising. Respondents could select more than one sector.

This spread is broadly consistent with NCVO's research, which shows that charities working in employment and training, law and advocacy and social services receive the greatest proportion of their funding from statutory sources.¹

Figure 2A: Respondents by sector



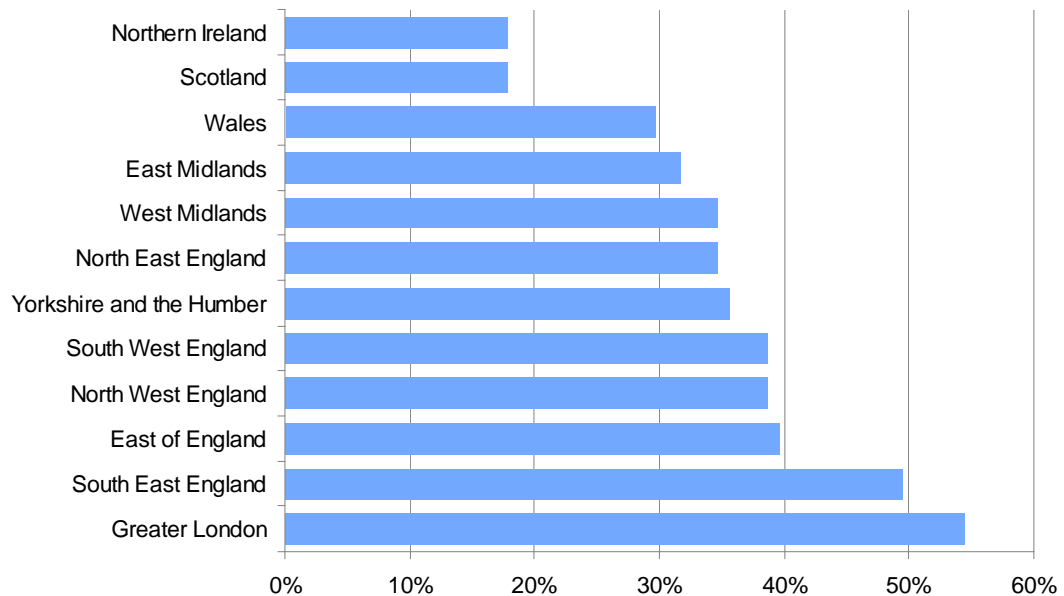
¹ NCVO (2012) *The UK Civil Society Almanac 2012*.

Geographical spread

Figure 3A shows that survey respondents work across the UK, although we received more responses from organisations working in London and the South East than other areas. Note that respondents were able to select more than one answer to this question.

Because we used Charity Commission data, only charities that are registered in England and Wales were included in the sample, so organisations operating just in Scotland or Northern Ireland were excluded.

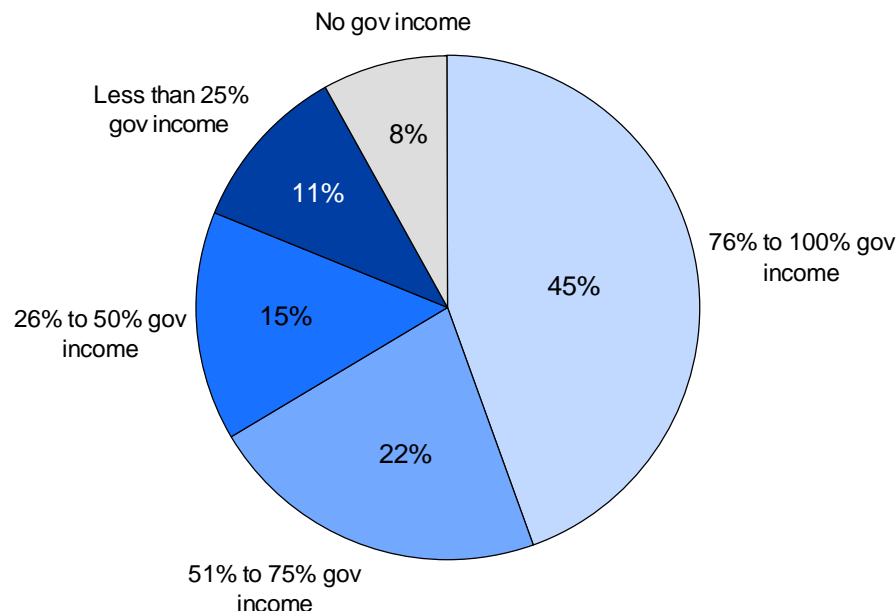
Figure 3A: Proportion of charities working in different regions of the UK



Proportion of government income

Figure 4A shows that respondents are reliant on government funding: two thirds draw more than half of their total income from government. Note, however, that this does not reflect the wider charity population but our sampling strategy to select organisations already in receipt of government funding.

Figure 4A: Respondents by proportion of total income that is government funding



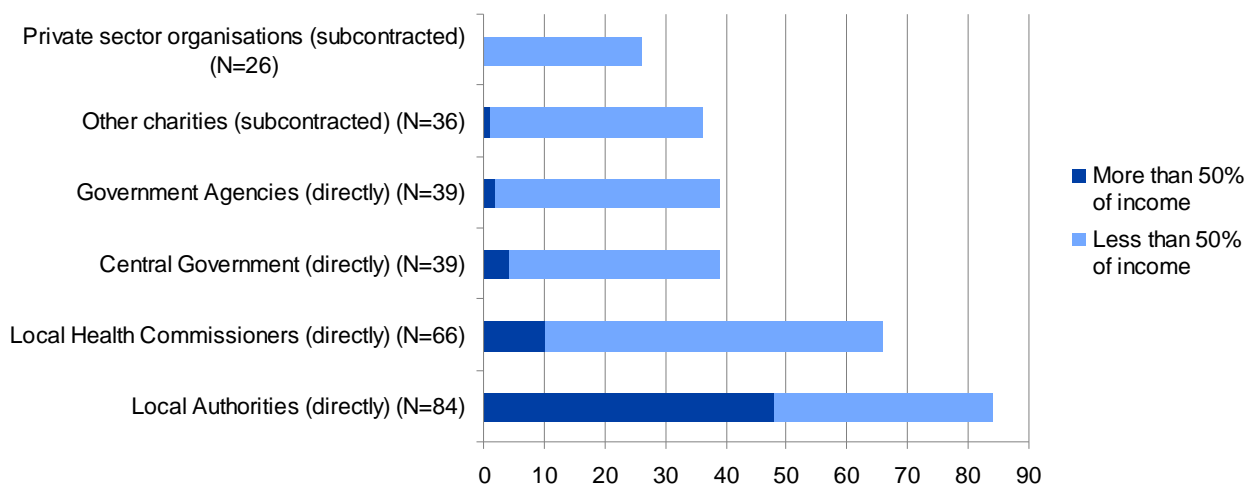
Commissioners

Figure 5A shows that the most common sources of funding for respondents come from local authorities and local health commissioners: 83% and 65% of respondents receive funding from these sources respectively. The least common sources were indirect funding received from private sector organisations (26%) and other charities (36%).

Figure 5A also shows reliance of respondents on different commissioners. For example, nearly 50% of respondents receive at least half of their income from local authorities.

These findings are consistent with NCVO's research, which shows that 51% of funding that charities receive from government comes from local authorities, with 44% coming from central government and the NHS.¹

Figure 5A: Number of charities receiving funding from different government commissioners



¹ NCVO (2012) *The UK Civil Society Almanac 2012*.

Appendix B: Survey questions

1. In which areas does your charity deliver public services? Please select all that apply.

- Advice, guidance and advocacy
- Children's services
- Community development
- Crisis and emergency relief
- Education
- Employment and training
- Environment
- Family services
- Health
- Housing and homelessness
- Information and awareness raising
- Offender management and resettlement
- Palliative care
- Research (including medical research)
- Social care
- Sports and recreation
- Youth services
- Other, please specify

2. In which areas of the UK does your charity work? Please select all that apply.

- East Midlands
- East of England
- Greater London
- North East England
- North West England
- South East England
- South West England
- West Midlands
- Yorkshire and the Humber
- Wales
- Scotland
- Northern Ireland

3. What is your charity's total annual income?

- Less than £2m
- £2m to £10m
- £10m to £50m
- £50m and over
- Don't know

4. What proportion of your charity's total income comes from government?

By 'income from government' we mean grants and contracts received directly from central government, local authorities, local health commissioners, and government agencies and quangos. We also mean income received from other charities and private providers, where they are subcontracting to you to deliver government services.

- No government income
- Less than 25%
- 26% to 50%
- 51% to 75%
- 76% to 100%
- Don't know

5. Please estimate the value of contracts and grants from commissioners as a proportion of your total government income.

	None	Less than 25%	25% to 50%	51% to 75%	More than 75%	Don't know
Local authorities (directly)						
Local health commissioners (directly)						
Central government (directly)						
Government agencies, non-departmental public bodies and quangos (directly)						
Other charities (subcontracted)						
Private sector organisations (subcontracted)						

6. How confident are you that commissioners conduct the bidding process for contracts in a way that is fair to charities?

	Not at all confident	Somewhat unconfident	Neutral	Somewhat confident	Extremely confident	Don't know
Local authorities (directly)						
Local health commissioners (directly)						
Central government (directly)						
Government agencies, non-departmental public bodies and quangos (directly)						
Other charities (subcontracted)						
Private sector organisations (subcontracted)						

7. Please rate the quality of the relationship your charity has with its commissioners.

	Very poor	Poor	Neutral	Good	Very good	Don't know	N/A
Local authorities (directly)							
Local health commissioners (directly)							
Central government (directly)							
Government agencies, non-departmental public bodies and quangos (directly)							
Other charities (subcontracted)							
Private sector organisations (subcontracted)							

8. How confident are you that the activities specified in your contracts and grants fit with your charity's mission and objectives?

- Not confident at all
- Somewhat unconfident
- Neutral
- Somewhat confident
- Very confident
- Don't know

9. How confident are you that your charity has the right skills and sufficient capacity to bid for contracts?

- Not confident at all
- Somewhat unconfident
- Neutral
- Somewhat confident
- Very confident
- Don't know

10. Please use this box to provide comments or examples for any of the answers you have given in this section.

11. In which part of the supply chain (ie, the system of organisations that delivers a service to the user) does your charity work? Please tick all that apply.

- Lead or prime provider, ie, you are commissioned directly from government
- Tier 2 provider, ie, you are subcontracted from the lead or prime provider
- Tier 3 provider, ie, you are subcontracted from a subcontracted organisation
- Don't know
- Other, please specify

12. How does your charity's position within the supply chain affect your charity's financial security?

By 'financial security' we mean how predictable a charity's income and expenditure are, how strong its balance sheet is, and other factors that affect its ability to continue its activities and plan for the medium and long term.

	Very negative impact	Some negative impact	No impact	Some positive impact	Very positive impact	Don't know	N/A
Lead or prime provider, ie, commissioned directly from government							
Tier 2 provider, ie, subcontracted from a lead or prime provider							
Tier 3 provider, ie, subcontracted from a subcontracted organisation							

13. Does your charity subcontract the delivery of public services to other organisations?

- Yes
- No
- Don't know

14. If your charity does subcontract to other organisations, how confident are you that your charity has the right skills to manage the subcontracting process effectively?

- Not confident at all
- Somewhat unconfident
- Neutral
- Somewhat confident
- Very confident
- N/A

15. If your charity works as part of a consortium, how does this affect your charity's ability to deliver effective public services?

- It generally has a negative effect
- It doesn't make much difference
- It generally has a positive effect
- Don't know
- N/A - my charity does not work in any consortia

16. Please use this box to provide comments or examples for any of the answers you have given in this section.

--

17. Thinking about this financial year, please estimate what proportion of your charity's total government income is made up of each of the following types of contract:

	None	Up to 25%	26% - 50%	51% - 75%	More than 75%	Don't know
Block contracts ie, contracts that guarantee the provider a certain amount of business.						
Spot contracts ie, one-off arrangements where price and terms are decided in relation to a single unit of service, eg, social care for one older person.						
Tariff-based contracts ie, an arrangement where a provider is paid a fixed fee for every activity undertaken.						
Payment by results contracts ie, an arrangement where a proportion of funding is conditional on the provider achieving a certain agreed target.						
Personal budgets ie, where the user is given more control over the services and providers they use. Also includes direct payments and individual budgets.						
Grants ie, either an unrestricted or restricted grant to a charity. Restricted grants may include a service level agreement.						
Other						

18. Thinking about the next financial year, please estimate what proportion of your charity's total government income will be made up of each of the following types of contract.

	None	Up to 25%	26% - 50%	51% - 75%	More than 75%	Don't know
Block contracts						
Spot contracts						
Tariff-based contracts						
Payment by results contracts						
Personal budgets						
Grants						
Other						

19. How do you think each of the following types of contracts affect (or will affect) your charity's financial security?

By 'financial security' we mean how predictable a charity's income and expenditure are, how strong its balance sheet is, and other factors that affect its ability to continue its activities and plan for the medium and long term.

	Very negative impact	Some negative impact	No impact	Some positive impact	Very positive impact	Don't know	N/A
Block contracts							
Spot contracts							
Tariff-based contracts							
Payment by results contracts							
Personal budgets							
Grants							
Other							

20. What impact do you think each of the following types of contracts have (or will have) on your charity's outcomes for beneficiaries?

By 'outcomes for beneficiaries' we mean the positive changes the charity makes to the lives of the people it is trying to help or the problem it is trying to solve.

	Very negative impact	Some negative impact	No impact	Some positive impact	Very positive impact	Don't know	N/A
Block contracts							
Spot contracts							
Tariff-based contracts							
Payment by results contracts							
Personal budgets							
Grants							
Other							

21. Please use this box to provide comments or examples for any of the answers you have given in this section.

22. Thinking about the current financial year, please estimate how your charity's total income (grants and contracts) from different areas of government has changed compared to the previous year?

	Reduced by 20% or more	Reduced by 20% or less	Stayed about the same	Increased by 20% or less	Increased by 20% or more	Don't know	N/A
Local authorities (directly)							
Local health commissioners (directly)							
Central government (directly)							
Government agencies, non-departmental public bodies and quangos (directly)							
Other charities (subcontracted)							
Private sector organisations (subcontracted)							

23. Thinking about the next financial year, please estimate how you expect funding for your charity from different areas of government to change compared to the current year?

	Reduce by 20% or more	Reduce by 20% or less	Stay about the same	Increase by 20% or less	Increase by 20% or more	Don't know	N/A
Local authorities (directly)							
Local health commissioners (directly)							
Central government (directly)							
Government agencies, non- departmental public bodies and quangos (directly)							
Other charities (subcontracted)							
Private sector organisations (subcontracted)							

24. If your charity has already experienced, or expects to experience, cuts to government funding, what do you think are the main reasons for this? Please select all that apply.

- The service being provided has been reduced
- The service has been cut altogether
- We have lost contracts to other charity or public sector providers
- We have lost contracts to private providers
- We still have some contracts but the price commissioners will pay has gone down
- Grants have been cut or are not being renewed
- Awarding contracts and grants has been suspended due to reorganisation of commissioning structures
- Don't know
- N/A
- Other, please specify

25. What do you think has been, and will be, the impact of cuts to government funding on your charity? Please select all that apply.

	Already happened	Expect to happen in next 12 months	Don't know	N/A
At risk of closure				
Cutting front-line services				
Making redundancies				
More collaboration with other organisations				
Freezing staff benefits (eg, training budget)				
Making more use of volunteers				
Working differently and trying new ways of doing things				
Increasing your charity's resilience				
Changing the services you provide				
Don't know				

26. Does your charity expect to use its reserves to cover shortfalls in income (rather than for capital expenditure)?

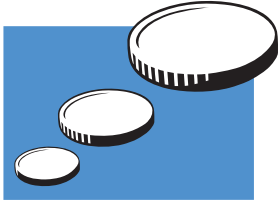
- Yes, we have already done so
- Yes, we expect to in the next 12 months
- No, we don't need to
- Don't know
- We don't have reserves

27. Please use this box to provide comments or examples for any of the answers you have given in this section.

28. Do you think your charity faces more or less risk in the current commissioning environment compared to last year?

- Much more risk
- A little more risk
- Neutral
- A little less risk
- Much less risk
- Don't know

29. Do you have any other comments? Please use the box below to add any other thoughts that haven't been covered so far.



New Philanthropy Capital

New Philanthropy Capital (NPC) is a charity consultancy and think tank dedicated to helping funders and charities to achieve a greater impact.

We provide independent research, tools and advice for funders and charities, and shape the debate about what makes charities effective.

We have an ambitious vision: to create a world in which charities and their funders are as effective as possible in improving people's lives and creating lasting change for the better.

For charities, this means focusing on activities that achieve a real difference, using evidence of results to improve performance, making good use of resources, and being ambitious to solve problems. This requires high-quality leadership and staff, and good financial management.

For funders, this means understanding what makes charities effective and supporting their endeavours to become effective. It includes using evidence of charities' results to make funding decisions and to measure their own impact.

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