



# Contracts

## In 2016 we found that 2 in 3 charities delivering public sector contracts were subsidising those contracts with other income

Of respondents who deliver public sector contracts (143 in total), about 2 in 3 (64%) said they have to use other sources of income such as money from fundraising, in order to deliver these contracts. And a further 57% report having to turn down contracts because the operational risk was too high.

## More recently, our focus group of charities think the practice of subsidising contracts is only getting worse

*'A lot of charities are delivering regulated services at a subsidised amount where the local authorities or funders are not willing to pay the cost to cover.'*

Many people we spoke to said that subsidising contracts is happening more often as commissioners put out tenders which are unrealistic to deliver at the price offered and the quality charities want.

*'[Subsidising contracts is] happening more and in different ways, [we are] sometimes asked to bid for work where the finance doesn't cover the work so we either have to cut price or walk away because it's unsustainable, [or] we are asked to put in added value which the charity has to pay for in some way.'*

## Some charities may be sleepwalking into risky contracts

A lack of transparency about the real cost of services is one factor driving this trend, according to some interviewees. Many worried that some charities—often the smaller ones—may not have the skill or expertise to recognise a 'bad deal', and may inadvertently take public sector contracts that are too great a financial risk:

*'As we go more into [public sector] contracts, smaller organisations are less likely to be aware of the financial traps.'*

*'We often find ourselves walking away from a lot of contracts because they're just not viable financially, but I wonder whether other charities have that same expertise and I worry about charities taking on contracts with too much risk.'*

Some felt that, by subsidising contracts, all the risk is borne by the contracted charities whilst local authorities receive investment:

*'I worry about commissioners moving into this territory without really understanding the consequences or demands it places on the provider, and that should be exposed more.'*

## **Many are resisting these contracts but worry about what that means for the future of services**

Interviewees felt that charities will increasingly reject unsustainable contracts and will cease to provide some services.

*'Competition is driving the price down which is definitely having an impact on quality'*

*'The sector needs to stand strong to say this is how much the full cost is and this is how we can do it safely...'*

*'I think the market will get smaller because charities will be nervous and pull away'*

*'Boards and trustees will say we can't afford to do this anymore because we need to use limited resources for other areas... and this leaves a big question about where that leaves us as a nation?'*

At what scale this will happen is uncertain. Only 1% of charities we asked in 2016 reported taking a strategic decision to move away from delivering public sector contracts.

## **Others see subsidy as compatible with mission**

Some people we spoke to felt that there is no problem with subsidising public contracts, so long as the work suits the charity's aims and there is no subsidy for services that are legally required to be provided by Government.

For these respondents, public sector income is just another source of income to be included in the overall organisational budget.

*'We are doing it, but there is a recognition that this is our purpose as an organisation so maybe we just take the hit... yes, the Local Authority should be funding it, [but] as a point of principle should you stop doing it? If charities are driven by their purpose, is it about how do you get in any resource to ensure it's delivered?'*

*'...If you're really focusing on your end users, and your impact, maybe the answer is more to start from what you're trying to change, and then work out how the blend of funding will support it.'*

## There is fear of a major service provider collapse in the social sector

Interviewees reported that a large, public, charity failure in the style of Carillion feels likely, with the potential to cause reputational risk to the sector at a time when public trust is already a strong concern

*'I hope we learn the lesson from it, if we aren't careful this might be just the beginning of it and others will go down in the same way.'*

*'[We] probably will see this type of failure from a large provider because the sector can't sustain that level of subsidising public services, and that could be a scandal that causes some charities to shake if not fold.'*

*'The consequences are huge, and it shouldn't be done. In the end it will catch the sector out because the subsidy will run out.'*

## Subsidised or not, some charities are questioning the very nature of contracts

Some interviewees wondered whether contracts were a suitable or desirable way to finance their work, citing both the cost of quality, the nature of working in difficult circumstances and whether contracts are compatible with charities goal of lasting change.

*'A race to the bottom for who can do it cheaper doesn't have the most benefit for society in the long term...'*

*'I don't see that analysis happening, it's all about price. It's a debate that doesn't happen in sufficiently informed way and so we lurch from initiative to initiative... from payment by results to social investment - has anyone thought this through to what we're trying to achieve through all this?'*

## NPC's plans for 2019

Is the pessimism we heard from charities about contracts justified? Just how much is subsidising happening? Are we due a large charity collapse and how could it be avoided? These are the questions we will be taking forward into our next, full-scale state of the sector research programme.

Please visit our [website](#) or contact [policy@thinknpc.org](mailto:policy@thinknpc.org) if you are interested in supporting this work.