

Commissioning: Possible Greater Manchester VCS Organisations' Experiences in Public Sector Commissioning

Executive Summary

Written on behalf of the GMCVO-based and PCT-funded Health Partnership Project, this report is intended to provide an insight into the experiences of third sector organisations in Greater Manchester with public sector commissioning and make recommendations for improving voluntary and community sector (VCS) organisations' chances to contribute to health in Greater Manchester. The material presented is based on twenty in-depth semi-structured interviews with VCS organisations across Greater Manchester that had public sector funding either in the form of block grants, service level agreements or contracts. Based on the assumption that commissioners have different possible funding arrangements at their disposal when commissioning services from the VCS, the research included organisations with experience both in competitive processes (tendering or competitive bidding) and in non-competitive informal processes. The findings are not intended to be representative, but to highlight a spectrum of issues that are of relevance in public sector relations with voluntary sector agencies. The report presents key findings on the three stages of the commissioning cycle – commissioning, procurement and contract management – along with a section on the impact of statutory funding relationships on third sector organisations.

Designing and Learning about Opportunities

- The commissioning landscape is complex territory to navigate.
- Many respondents seemed at a loss with regard to learning about opportunities.
- Most interviewees felt that commissioners do not have good awareness of the voluntary sector market offer and do not engage with the breadth of the sector.
- Findings from our interviews suggest that the ability of forging good relationships with those in charge of funding services determines success in obtaining contracts.
- There is a tension between legal requirements to put contracts out to tender and the desire to maintain working relationships that have proven successful.
- Needs-based commissioning is often initiated by third sector organisations.
- Involvement of VCS organisations in service design is often limited to organisations that are playing a representative role and/or that have obtained a seat at the decision-making table.
- Local infrastructure organisations often do not have sufficient capacity themselves to support the sector in issues related to commissioning and procurement.

Applying for Opportunities and Contract Negotiation

- Current application procedures with respect to timing and deadlines often make bidding very difficult or impossible even for organisations that have a track record of successfully bidding for contracts.
- Written and verbal communication during the application process is not always consistent, clear and timely.
- There is an issue with drawing up appropriate contracts for working with voluntary sector providers.
- Although full cost recovery is sometimes explicitly encouraged, services have often not been costed realistically by commissioners for providers to recover their full cost.
- Voluntary sector providers often have to fight for their right to negotiate.
- Organisations face barriers with regard to challenging bad practice.

Contract Management

- Voluntary sector service providers value good contract management characterised by regular meetings and an ongoing interest in their work.
- Monitoring is usually recognised as beneficial when the rationale for collecting certain data is clear and when monitoring requirements are agreed jointly and their usefulness periodically revisited.
- Successful contract management meetings can be a forum for mutual learning and ensuring that the service evolves according to need. However, many funding arrangements with voluntary sector providers are managed remotely, without any direct contact, and some contracts have run for years without any necessary adjustments having been made with regard to funding levels.
- Many of the organisations we spoke to had experienced growth, or developed a sharper focus, a boost in reputation and more planning security as a result of taking on a statutory contract. Notwithstanding, there were also a number of cases where there were some negative impacts on the organisation as a whole in terms of independence, sustainability, and staff retention.

Based on these findings, the report makes the following recommendations for statutory commissioning from the voluntary and community sector in Greater Manchester:

1. Widen the range of contacts with the VCS with regard to service design and access to opportunities by developing a framework for third sector involvement in service design and ensuring fair and equal access to opportunities by a range of VCS organisations. This requires more clarity about the VCS market offer so that there is better awareness about the full range of organisations relevant to

any given service. Consider compensating VCS organisations for their consultative role in service design.

2. Acknowledge the important role of personal relationships for all stages of the commissioning cycle, but move away from a situation in which what you know depends on who you know. Create a transparent and inclusive framework in which the VCS and commissioners can engage with each other and learn about each other's requirements/organisational cultures.

3. As far as possible try to standardise commissioning procedures and arrangements across localities and, possibly, the sub-region.

4. Raise awareness among commissioners and the VCS alike of the mutual benefits of full-cost recovery and develop a better understanding of the negative repercussions of VCS organisations subsidising statutory services for future sustainability and service users. Raise awareness of the difficulty of costing some services, especially if they are new, and allow for future adjustments.

5. Maintain a variety of possible funding arrangements within the commissioning framework to safeguard the contribution of smaller organisations, innovation, local reach, and trust.

6. Emphasise the uses and benefits of good contract management and monitoring. Recognise and harness the role of two-way communication throughout this process in order to make the purpose of monitoring data clear to service providers and to ensure that data that is collected is meaningful in view of service improvement. Utilise contract management to provide a forum for building the working relationship, flagging up emerging issues with the service and ensuring that funded service provision keeps pace with user demand.

7. Take advantage of the ability of long-term contractual arrangements to demonstrate health impact and a social return on investment through outcomes-based commissioning.

8. Approach contractual relationships in a spirit of partnership working, which recognises the expertise of each partner and enables both partners to learn from each other. Recognise this relationship as an ongoing dialogue, one of whose main elements is negotiation, where flexibility to respond to changing circumstances and emerging lessons is built into the process.

9. Improve and resource the role and capacity of VCS infrastructure to support all of the above and create links between the VCS and commissioners. Resources spent on VCS infrastructure should not be diverted from existing resources for service delivery.

1. Introduction

This report has been written on behalf of the Health Partnership Project, a project hosted by the Greater Manchester Centre for Voluntary Organisation (GMCVO). The broad aim of the project is to embed third sector service provision into the Greater Manchester health agenda and thereby maximise the third sector contribution to improving health and tackling health inequalities. As such, the Health Partnership Project has been trying to act as a bridge between the voluntary sector and health commissioners to try to inform the commissioning process from a voluntary sector perspective.

The objective of this report is to support this work by providing an insight into the experiences of third sector organisations in Greater Manchester with public sector commissioning and making recommendations for improving voluntary sector organisations' chances to contribute to health in Greater Manchester. Following a brief discussion of methodological issues, the report will present key findings on the three stages of the commissioning cycle – commissioning, procurement and contract management – along with a section on how this affects third sector organisations in their ability to deliver the services in question. The conclusion will highlight cross-cutting issues, followed by recommendations.

2. Methodology

The material presented in this report is based on twenty in-depth semi-structured interviews with voluntary sector organisations across Greater Manchester. The organisations, all of which had public sector funding either in the form of block grants, service level agreements (SLA) or contracts, were asked a wide range of questions on their experience with different aspects of commissioning, procurement and public service delivery. Typically, they would pick one example of a recent experience, but some spoke about their experiences in general. This methodology was intended to shed light on the different stages of the commissioning cycle, the impact certain arrangements can have on the ability of an organisation to deliver the funded service, as well as examples of good practice.

An assumption was made that when commissioning a service from voluntary sector organisations commissioners have different possible funding arrangements at their disposal. Therefore, the research included organisations with experience both in competitive processes -- tendering or competitive bidding -- and in non-competitive informal processes. Most of the organisations interviewed are providing

services in the area of health, well-being or social care. One exception is a small community-based organisation, which had expressed an interest in delivering health education to its constituency. Another is a local infrastructure organisation. While an effort was made to cover different groups in terms of size, location and type of relationship with the statutory sector, the findings are not intended to be representative, but to highlight a spectrum of issues that are of relevance in public sector relations with voluntary sector agencies. However, we believe that whilst some issues that the interviews brought out may not be commonly faced by all VCS participants, it is still important to note such issues, because those involved in designing opportunities would benefit from being cognisant of the range of problems that can potentially turn up during such a process. In light of this, the strength of our approach is not necessarily in numbers, but in the amount of detail it can bring to the discussion.

It should be noted that this methodology constitutes a broad-brush approach on several issues of importance to the broad theme of commissioning and involving the voluntary sector in it. As a result, the depth in which each of these issues can be explored in this report is limited by definition. Similarly, in order to develop a full understanding of each of the processes organisations went through and in order to contextualise an individual organisation's experience, one would have to speak to other stakeholders in the process as well. Unfortunately, this was outside of the scope of this piece of work, whose remit was to focus on the voluntary sector perspective. However, it might be worth thinking about whether such an in-depth exploration would be warranted in future.

At the outset of this investigation, there was a certain expectation that one or more examples would be identified that constitute good practice throughout the commissioning cycle. However, in reality it appears that, whilst there are elements of good practice scattered throughout organisations' experiences in commissioning, these never cover the entire experience. So, whilst a commissioning process might have begun along good practice lines by involving local organisations in the development of the specification, the process later on might have been marred by bad timing of the tender notice and tight deadlines, tardy disbursement of funds, or meaningless monitoring. On the other hand, an arrangement that might have first gone through a very rocky phase at first, for example due to a badly written contract, might have improved over time into a good working relationship.

3. Key Findings

There appear to be three distinct phases, the structure of which determines in what way third sector organisations are able to participate in public service delivery. The first is the pre-award phase, where a need for a certain service is identified and, based on market knowledge, a decision is made whether the market will be used to fill this need or whether an opportunity is informally given to a suitable provider. The second phase is the procurement phase, where the service is actually purchased and a contract agreed. The third phase is the contract management phase, during which the service is finally delivered and monitored and which could ideally create a link back to the first phase through feeding back into needs analysis and market awareness.

3.1. Designing and Learning About Opportunities

- The commissioning landscape is complex territory to navigate.
- Many respondents seemed at a loss with regard to learning about opportunities.
- Most interviewees felt that commissioners do not have good awareness of the voluntary sector market offer and do not engage with the breadth of the sector.
- Findings from our interviews suggest that the ability of forging good relationships with those in charge of funding services determines success in obtaining contracts.
- There is a tension between legal requirements to put contracts out to tender and the desire to maintain working relationships that have proven successful.
- Needs-based commissioning is often initiated by third sector organisations.
- Involvement of VCS organisations in service design is often limited to organisations that are playing a representative role and/or that have obtained a seat at the decision-making table.
- Local infrastructure organisations often do not have sufficient capacity themselves to support the sector in issues related to commissioning and procurement.

Over half (11) of the interviewees had obtained their statutory funding through informal non-competitive processes. Only six of the organisations interviewed for this project had gone through some sort of competitive process to obtain their statutory funding. A few of the cases did not fit snugly into this division between competitive and non-competitive. For example, one recent start-up social enterprise that was at the time of the interview serving clients with individual budgets would prefer to work like that in future, rather than responding to tenders and/or being commissioned by the statutory sector. One organisation had gone through a formal tendering process, but this could not be called competitive as

such. One organisation had succeeded in formalising a number of its historical funding relationships into contracts.

Although the research was not representative enough to conclude from the above that the majority of voluntary sector organisations in Greater Manchester obtain contracts and/or funding through informal channels, it is fair to say that informal processes currently co-exist with more formalised and competitive processes in which voluntary organisations are expected to compete with each other and with statutory and/or private providers. In many cases, organisations are in a transitional period, because commissioning processes are only just being devised for certain strands of work. Whilst it was acknowledged that different agencies will always have slightly different processes, the absence of coherent strategies for commissioning from all statutory bodies in any given locality was seen as spreading confusion and standing in the way of joint working, including joint working between statutory agencies. In such an environment potential providers have a hard time knowing what services will be commissioned in future and therefore cannot respond or prepare adequately. Reference was made to a number of councils where commissioning strategies were being drawn up which would take into account the voluntary sector. However, so far, only one council in Greater Manchester appears to have conducted an in-depth inquiry into commissioning practices and the experience of the voluntary sector with these practices in the form of a scrutiny review. Another council was in the midst of such a process at the time of writing.

Currently, the processes organisations have to go through in order to obtain funding for the services they deliver vary widely, depending on the locality, the statutory body, the department, the line of work the voluntary organisation is engaged in (i.e. mental health is different from social care) and the size of the market and/or the extent of market awareness of commissioners. Because of this, the commissioning landscape is a complicated territory to navigate and many respondents seemed at a loss with regard to learning about opportunities. Not surprisingly, this included organisations that had not had previous experience with tendering, but interestingly, it also included an organisation whose grant funding had moved to tender and who had had some experience with bidding for contracts. Some organisations specifically expressed the wish to be commissioned for their services, but just did not know where to start. Reference was made to the fact that opportunities are often not widely advertised to the voluntary sector on a routine basis, but there is also evidence of funders beginning to work with VCS infrastructure to disseminate opportunities more widely. According to

a recent report, the top support need of organisations wanting to bid for contracts is support with finding out about opportunities in the first place.¹ The Salford Health Investment Procurement Project also identified lack of knowledge of upcoming opportunities and lack of knowledge about the services the public sector are interested in commissioning as barriers to VCS organisations' involvement in delivering commissioned services.²

3.1.1. Historic Funding Relationships

There was a feeling among interviewees that historic funding relationships are an obstacle in the path of voluntary sector providers entering the market for public sector contracts and that commissioners have a tendency to stick with the usual suspects, although they might not necessarily provide the best or most appropriate service available in the market. Interviewees saw this as symptomatic of a system in which commissioners do not have good awareness of the voluntary sector market offer and as a result do not engage with the breadth of the sector. Whilst a few interviewees attributed this tendency to convenience, the absence of a level playing field and lack of contract management, some felt that this was a way for funders to safeguard their previous investment into a voluntary organisation's ability to deliver a certain service. Interviews conducted also suggest that there is a tension between legal requirements to put contracts out to tender and the desire to maintain working relationships that have proven successful. Conversely, an instance was brought to our attention where an uncompromising drive towards competitive tendering put vital services at risk because the organisations that run them were not successful in the competition. On the other hand, there was one example where, before putting existing contracts out to tender, officials took stock of the provision and exempted provision deemed essential from the market-driven process.

3.1.2. Personal Relationships and Networking

Personal relationships and networking played a significant role at this stage. From our interviews it appeared that it is an organisation's ability of forging good relationships with those in charge of funding services provided by the voluntary sector that determines how successful it is in obtaining contracts. This can influence whether an organisation learns about an existing opportunity in the first place or whether an organisation is able to capitalise on an opportunity that presents itself in the form of an idea for a new service. It can also determine whether an organisation is compensated fairly for a service it already provides. For example, one organisation utilised personal connections to flag up that it increasingly was serving clients from another local authority in order to obtain funding for that service

Bury Tendering Round for Children's Services

In Bury, grants to organisations delivering children's services went out to tender. The tendering process that had been set up along good practice guidelines turned out to have unintended consequences. The commissioning panel set up by Children's Services worked with Bury Third Sector Development Agency (B3SDA), the local voluntary and community sector infrastructure body, to ensure that the application was voluntary and community sector friendly. B3SDA also ran a session to help applicants fill in their form and helped with facilitating the panel. Although the process was considered fair and inclusive and many good projects were funded, unfortunately, one outcome was that a small number of organisations, all of which were running important projects in a very deprived area lost their funding because they were not successful in the bidding. At the time of writing, alternative arrangements for funding service provision that was considered essential were being worked out.

provision. In the end, this resulted in obtaining a contract for providing services directly from an office in that authority. One organisation reported that it obtains most of its funding arrangements as a result of statutory personnel approaching the organisation for specific pieces of work. Whilst this could be a sign that officers trust that organisation and are utilising its expertise, it could also be an indication that a close personal relationship has developed, in which officers prefer that organisation at the exclusion of others of the same kind. In reality, there is probably an element of both contained in such relationships. The importance of forging personal relationships is also borne out by the findings of another report, which ranked help with "developing relationships with organisations awarding contracts" high among VCS support needs.³

3.1.3. Voluntary Sector Input into Service Design

Getting voluntary sector organisations' input on service and specification design does currently appear to happen via the following mechanisms:

- Consultation events
- Service review processes that gather VCS perspectives through interviews
- Raising service and specification design issues at local partnership meetings that have a VCS representative
- Responding to VCS organisations' ideas for new services
- Involvement of VCS providers at the policy level

This research has not found much evidence of broad-based approaches to systematically gather a range of VCS input into service and specification design by attempting to understand the market and tap into the expertise of a number of existing providers. Instead, there appears to be a tendency to approach the issue through organisations that have taken on a role as the VCS representatives on thematic partnership meetings, as well as responding to initiatives of individual organisations. Working through representative structures such as the Local Strategic Partnership is limited by the actual quality of representation and the degree to which representatives feed back information to the sector overall, as well as feeding information from the sector into such meetings. Sometimes, the quality of representation and the extent of the sector being taken seriously as a partner can vary by thematic partnership in the same location. A small number of organisations that were interviewed by this project have managed to actually get a seat at the decision-making table and reported the ability to have significant input into policies such as transforming social care, disability policies and the local implementation of national policy initiatives.

Methods that would hold the promise of a more broad-based approach, such as consultation events and review processes tend to be experienced as

Disability Stockport

Disability Stockport gives information, advice and support to Stockport residents with physical or sensory disabilities. In 2003 the organisation learned about local authority plans to close down a day centre. After having spoken to the centre's users, Disability Stockport became convinced that there was still a need for the day centre. The organisation convinced social services of this and offered to take over the centre. In addition to hiring new staff, Disability Stockport took over existing staff from the centre and worked with them to change the very traditional and regimented way in which the centre had been run. With the existing staff, the organisation absorbed needed expertise on government guidelines and council policy and procedures with regard to operating a day centre. However, the organisation used its own connection to service users (members) to transform the way the centre was run. By introducing an elected management group composed of members of the centre, members became more involved in service design. The centre has become so successful that after sometime people actually asked to be referred to it, thus illustrating the continuing need for this service.

tick-box exercises by the participating organisations. Interviewees said that these processes are quite time-intensive and complained that there is never any feedback on how the information has actually been used.⁴ Even worse, some interviewees told of incidences in which VCS input from consultations was not taken into account at all. At the same time not all of the attendees will be able to benefit from opportunities arising from such exercises, therefore, it is unclear for organisations whether the investment in time and thus money would pay off. Of course, organisations also attend such events for altruistic reasons such as to shape services to better reflect the needs of their client group. However, one interviewee pointed out that pre-event information often fails to allow participants to prepare adequately in order to contribute in a meaningful way. Despite these shortcomings, it appears that, regardless of whether consultations and reviews are tick-box exercises, at least they have the advantage of apprising the local sector of things to come and in that regard make the situation more transparent.

The research has identified a number of cases where needs-based commissioning was initiated by a third sector organisation. In these instances, third sector organisations had identified a need among their service users and had initially obtained charitable funds to pilot a programme and collect evidence on the demand and impact. They then took the evidence from the pilot phase to the LA and/or the PCT to make a case for statutory funding. It is noteworthy that this was much more likely to fall on sympathetic ears in the LAs, rather than the PCTs, which were termed by a number of interviewees as risk-averse and unprogressive in their approach to commissioning. Regardless, it would be beneficial for commissioners to harness VCS organisations' knowledge and expertise about potential needs of their service users in a more organised and strategic way, rather than relying on individual organisations to approach them. Voluntary organisations have taken a pro-active stand on behalf of the needs of service users in other ways, for example by preventing the closure of facilities through advocacy and/or offering to run the service themselves.

This project has also learnt of examples where there was an effort from the statutory side to structure processes in order to facilitate VCS participation. In one example, VCS representatives were involved in the recruitment of a commissioner. In another example, statutory agencies worked with VCS infrastructure to consult on and design a tendering process that took into account the particular constraints of voluntary organisations. Regrettably, this tendering process nevertheless resulted in a few small organisations running services that were considered vital losing their

contract, an outcome that was attributed by some to shortcomings in the information available to the panel that scored applications.

3.1.4. Capacity-Building

We learnt about one example where an infrastructure organisation was able to make a successful case in favour of offering capacity-building alongside funding to organisations. There are two known projects whose sole purpose was to get local VCS organisations procurement-ready. In one case, the CVS is now working on creating and managing a register of approved providers, which has the support of the local PCT. However, in the second case it was never quite clear what procurement-ready meant in the local context and the organisations that were trained up are still waiting for actual opportunities to arise to which their newly earned skills can be applied. There also appeared to be a few situations, in which those holding contracts scheduled to go out to tender had the opportunity to go through a practice run. Some national organisations reported having some access to support and/or procedures and policies through their national affiliation.

Training and advice to prepare the local VCS for competitive bidding has also been offered by local infrastructure organisations. However, not all of our interviewees had actually approached their local CVS for help, usually because they did not perceive it to be much farther ahead of them in terms of dealing with competitive situations and/or knew that their capacity to provide help was not sufficient, especially in situations where a number of local organisations would bid for the same contract and potentially seek help from infrastructure at the same time. As a report about the infrastructure support needs of frontline organisations recently concluded, infrastructure organisations are themselves in need of support to improve their understanding of commissioning and existing support has to be improved to meet rising demand for advice from frontline organisations.⁵

One local infrastructure organisation obtained funding for a staff post dealing with commissioning and procurement from the local voluntary sector and serving as a link between the sector and statutory commissioners. Using evidence for existing support needs and the results of an LA-conducted scrutiny review of the third sector, this organisation was able to establish a commissioning action group that included all relevant commissioners in the locality and which put together an action plan on improving and streamlining commissioning with the sector. Another CVS obtained some funding from the sub-regional VCS infrastructure consortium to develop relationships with local commissioners and clarify which opportunities existed for the third sector in the

Manchester Partnerships for Older People Programme

The voluntary organisation Manchester Alliance for Community Care (MACC) worked with Manchester City Council to develop the voluntary sector element of a joint bid for the Department of Health's Partnership for Older People Projects (POPP) funding. MACC engaged with the local voluntary sector in shaping the bid and a key finding was an overwhelming need for capacity building alongside investment in low-level preventative services. As a result, the Manchester POPP programme included a business improvement service that helps groups improve their management and infrastructure to ensure that there is a sustainable, diverse range of voluntary sector organisations that can deliver services to and with older people.

area to deliver public services in order to develop third sector organisations' skills accordingly. Lessons learned from these two projects and from research that looked into VCS-friendly commissioning and support practices in the US informed a funding bid by the Greater Manchester VSS Consortium for coordinated commissioning support across Greater Manchester. If the bid is successful, this support would be delivered by three members of staff based in different Greater Manchester boroughs.

Statutory agencies working in partnership with the voluntary sector can in itself build organisations' capacity. For example, at the national level, the Department of Health's POPP programme has reportedly led to capacity-building of local voluntary organisations through partnership approaches. A national evaluation of the programme concluded that an increase in the capacity of the voluntary sector to bid for and provide services had taken place as result of the programme.⁶

How holding a contract with a statutory agency can in itself build the capacity of organisations will be subject of a few paragraphs in the contract management section.

Tameside Third Sector Coalition

Tameside Third Sector Coalition (T3SC), the local infrastructure agency for the voluntary and community sector in Tameside, obtained ChangeUp funding for a part-time worker dedicated to supporting local organisations with securing statutory contracts. Initially, the project worked with commissioners and the sector to see what support was needed in this regard and what barriers organisations were facing. The project also considered whether anything could be changed about these barriers and where this was impossible, training was offered to enable organisations to deal with these barriers. In January 2008 the project established a Commissioning Action Group that includes all the relevant commissioners. This group developed an action plan on the basis of the findings from the first phase of the project and a Third Sector Scrutiny Review that had been conducted by the local authority in 2007. The overall aim is to motivate the market to gear up for commissioning slowly in order to create an environment in which organisations are generally capable of bidding, but opt out of it because they choose to. This includes developing clear communication channels and timely dialogue with the sector about emerging opportunities, but also an acknowledgment that organisations may need seed funding to be able to get to the point where they might consider bidding for funds in the future.

3.2. Applying for Opportunities and Contract Negotiation

- Current application procedures with respect to timing and deadlines often make bidding very difficult or impossible even for organisations that have a track record of successfully bidding for contracts.
- Written and verbal communication during the application process is not always consistent, clear and timely.
- There is an issue with drawing up appropriate contracts for working with voluntary sector providers.
- Although full cost recovery is sometimes explicitly encouraged, services have often not been costed realistically by commissioners for providers to recover their full cost.
- Voluntary sector providers often have to fight for their right to negotiate.
- Organisations face barriers with regard to challenging bad practice.

As noted above, some opportunities do not become widely known and are given to organisations or even generated based on the existence of personal connections. However, good personal relationships

with commissioners were also viewed as a plus when competitive processes were employed instead of informal arrangements. For example, some interviewees referred to the need to have an ally on the commissioning board for applications to be viewed favourably and some went as far as implying that even in tendering neutrality is a myth. The way certain tendering processes were described to us seems to indicate that whilst on the face of it the process may appear transparent and competitive, rumour, hearsay and personal intrigues can still have a persistent role in the background. In addition, at the same time as noting the importance of building good personal relationships the difficulty of doing so was also acknowledged, especially in light of frequent changes of personnel. This might explain why on the whole, it appeared that interviewees found the PCTs, which have gone through reorganisation, more opaque and harder to approach than the LAs.

3.2.1. Applying for Opportunities

3.2.1.1. Issues of Timing

Even when opportunities are publicly advertised, this is often done at unsuitable times and subject to insufficient deadlines. Whilst timelines varied, some tendering rounds had timelines as short as one or two weeks. In a number of cases, tendering opportunities were advertised over holiday periods, when organisations tend to be short of staff. What is already a challenge for many organisations thus becomes even more challenging and effectively may serve as a pre-selection mechanism to exclude organisations that cannot operate under such tight deadlines.

Whilst those organising such tight competitions might be under the impression that organisations not capable of applying are those not capable of delivering a service, this is almost certainly wrong. Even interviewees from organisations that have a track record of successfully bidding for contracts quoted examples of how short deadlines have made bidding very difficult or prevented them from bidding for a contract that they could have easily delivered altogether. Therefore, such conditions will almost certainly preclude applications from organisations that do not routinely apply for tenders or that do not have a staff member whose time is dedicated to writing applications. They might also scare organisations away whose remit is not narrowly defined and therefore might not have the ability to prepare in advance information that goes into applications in order to make responding to opportunities more efficient. Tight deadlines also have disadvantages for organisations that decide to submit a bid, as they usually do not have sufficient time to involve partner organisations and/or staff in the process. Whilst bids will obviously be assessed on their quality, tight

deadlines might generate bids of a lower quality across the board and this might mean that bidders have not put as much thought into their proposals as would normally be the case. The question has to be posed whether this might not in the end affect the quality of the service, too.

3.2.1.2. Issues of Communication

Apart from the timing, one of the most prevalent issues interviewees brought to our attention with regard to bidding processes was about communication. This concerned the information provided in the tendering document, the communication processes throughout the tendering process, the type of information a tendering document asked for, and the information provided about the results of the bidding process.

Interviewees pointed out that tender documents are often so detailed that it is easy to get lost in information. In addition, reference was made to the overly legalistic and jargonistic language many tender documents are written in. On the other side of the spectrum, some organisations thought that tenders failed to be explicit enough about the desired service by making only vague references to legislation and/or policy. In processes where there is not a specific service being put out to tender but where organisations are encouraged to submit bids for services that will contribute to policy priorities, it would be helpful for bidders to know how the overall sum will be shared out in order to arrive at a realistically priced bid.

Alongside examples that were noted for their excessive vagueness, there were others that were highlighted because of their overly prescriptive nature. It appears that specifications are not always put together very carefully. For example, in one case, the specification had apparently been lifted from the description of the service an existing provider was delivering, down to details such as opening times. When one of the applicants pointed this out, they were simply told to ignore this aspect of the specification. In one case, a tender asked for information that an organisation is not permitted to supply to third parties due to confidentiality requirements.

As for communication during the tendering process, it appeared to be somewhat common that the rules of the game changed throughout the process. For example, one case was cited where the process from advertisement of the opportunity to signing a contract spanned a period of several years, during which time bidders were asked to submit revised bids three times. In one case, the terms of payment in the specification changed from number of units

of a service to a flat sum, prompting an organisation to pull out of the bidding. It is potentially a waste of applicants' time to change the rules during the process, in light of the fact that organisations will have made their decision whether or not to bid based on the information available at the time. This effect is exacerbated further when there is a failure to share new information fairly across the entire group of bidders. One case came to our attention during which the type of service requested in a specification had changed, only that not all bidders had been informed of it. Clearly, if this happened it would make for a very uneven playing field. One example of good practice that might be adapted for such purposes is a web-based system where information about any given bidding process is posted for all applicants to see. This system was employed for posting responses to questions bidders had asked, so that all bidders could benefit from the information given out as a result.

Other issues with communication and information-sharing that have been highlighted during this research affected the availability of personnel to respond to certain issues expected to be thrown up by the tender document. In one case, there were issues around TUPE that brought up questions among bidders. However, those questions could not be dealt with adequately because the appropriate officer was on holiday for most of the application period. Bidders also were not notified in a timely fashion of whether or not they had made it through to the next round, negatively affecting their ability to prepare for the next stage, which sometimes involved a presentation.

Room for improvement exists with regard to communication about the outcome of the bidding process. Some interviewees complained that they were not given any feedback on failed bids, even though they specifically asked for it. One organisation reported that it had never received anything in writing about its failure to obtain the contract it had bid for, but that it had to rely on verbal information. Interestingly, in this instance, the organisation actually ended up re-gaining the contract, after a prolonged period of uncertainty.

3.2.2. Negotiating a Contract

The information gathered during this project suggests that there is an issue with drawing up appropriate contracts for working with voluntary sector providers. The nature of contracts varied widely. At one end of the spectrum funds were disbursed just based on a very basic and sometimes very old contract letter, at the other end of the spectrum contracts were very prescriptive and allowed little flexibility to the organisation.

Most organisations saw obtaining a contract as a form of desirable security and predictability, enabling them to better plan and run their operations. However, in some cases, organisations trying to obtain the security of a contract were not successful in formalising funding relationships in this manner. Sometimes, the funder noted that it would not be possible to formalise the relationship without putting the contract out to tender. In other cases, the organisation suspected that their contract sum is too insignificant for the funder to actually go through the effort of formalising it into a contractual one.

3.2.2.1. Contractual Clarity

Even when organisations had obtained contracts, a common source of friction between funders and providers was lack of contractual clarity. In many cases contracts leave much room for interpretation or they leave certain issues unaddressed, a state of affairs that defies the very benefit a contract is supposed to have for both parties. In one case, the contract did not mention full-cost recovery, but the organisation submitted its budgets on a full-cost recovery model, which caused the funder to question every item on the budget. Another contract did not mention rules for how the funds would be disbursed and that money that has not been spent in the quarter it has been allocated to would be lost. Other areas that were affected by lack of clarity are risk and accountability, assumptions about the manner in which the service will be delivered, and the exact definition of targets and monitoring requirements.

Organisations also gave many examples of certain aspects of the contractual relationship not being sufficiently formalised. When contracts are found lacking in certain regards, for example in terms of full cost recovery, there is often reliance on verbal agreements. For instance, one organisation's lack of experience in contracting caused it to enter a contract with the PCT that did not include overheads. Whilst the PCT ended up paying for these costs as well, there was apparently never a written agreement to that effect. Another organisation, whose service provision changed by request of the statutory authorities commissioning the service, was asked to submit a budget forecast but only has verbal assurances of a budget review being held after one year to ascertain the real cost of running the service in the new form. In another case, an organisation has an annual agreement for funding that it has only been verbally assured will be available for three years. Therefore, whilst there is reason to believe that it will be funded for three years, it can only rely on a one-year duration.

It appears from this that contract negotiation and design is a step in the process that should not be

taken lightly and that it is difficult to account for every eventuality from the beginning, especially when the funder-provider relationship is a new one and there is not enough precedent to draw from.

3.2.2.2. Duration of Funding and Full-Cost Recovery

The length of funding arrangements varied significantly from one arrangement that was for less than a year to three years. A common arrangement seemed to be one-year funding with a view to a three-year contract. Reference was made by some interviewees that funding durations of three or more years are becoming more common. Short-term funding can sometimes be caused by political conditions, for example when it is known that an existing LAA will be replaced by a new one. There is also evidence of voluntary sector organisations working together in networks, often facilitated by the local VCS infrastructure organisation, to successfully lobby funders, such as their LAs or PCTs, for longer funding durations.

There are a good number of cases among our study organisations that have obtained contracts where full cost recovery was specifically encouraged. However, there are some cases where the cost in the specification itself clearly did not allow for full-cost recovery and where the contract sum does not realistically reflect the service. Therefore an organisation bidding for the contract would have to consider subsidising the service from its own reserves. In between these two extremes we found situations in which organisations have recovered their full cost as a result of a flexible enough contract which allowed them to work around the existing sum and still recover their full cost. However, in two cases, full cost recovery was either incidental, generated by a combination of being overpaid and underspending, or based on informal arrangements in addition to the contract. It should be pointed out that issues of full-cost recovery are particularly relevant to smaller organisations that do not have much opportunity to benefit from economies of scale to cut down their cost of delivering a service.

Overall, we found that organisations are very well aware that not all of their services can or should be funded from statutory monies, but that by virtue of providing additional services from charitable funds, they are providing much added value to statutory funders. In addition, organisations showed great readiness to subsidise those services normally funded from statutory sources during times when funding was not disbursed in a timely fashion or funding decisions were made late. Organisations generally sought to cushion impacts on service users resulting from these types of bureaucratic problems, mainly because of concern for their service users. However, at the same time interviewees emphasised that absorbing these

effects sometimes posed unacceptable risks to the organisation, such as losing staff. There was also a perception that statutory sector funders might exploit the ethos of voluntary organisations to put their service users first and to rely on them to subsidise these services by generating additional charitable income instead of having to turn clients away. A few organisations pointed out that they are routinely subsidising services, because the demand exceeds what is covered by statutory funding. This issue of mismatch between demand and contract sum/targets will be treated in further detail in the contract management section.

3.2.2.3. Negotiation

In order to be beneficial and in order to facilitate provision it is clear that a contract must try as much as possible to eliminate areas of ambiguity, make assumptions explicit and clearly state rights, obligations, goals and parameters. In light of the fact that statutory and voluntary organisations have different organisational cultures and aspirations, as well as expertise, it seems that this outcome is only possible if there is a genuine negotiation process. However, in practice, voluntary sector organisations often have to fight for their right to negotiate. From the experiences that voluntary sector organisations described to us it seems that they are sometimes just expected to sign a contract to get it out of the way, regardless of how comfortable they feel with it. One interviewee described a situation where, even in light of known issues with the contract, she was expected to sign it or face loss of funds. The organisation in question only obtained some recognition for its concerns by utilising a personal connection. Another interviewee was presented with a contract based on a template for a private sector provider. When pointing out that this would be an inadequate basis for governing the relationship, officers tried to encourage the interviewee to sign it anyway, along with assurance that the organisation would not be monitored on the elements that it found inadequate.

But many participants in our research appear to have succeeded in influencing contractual arrangements, particularly with regard to monitoring and targets. In many cases, organisations set the targets and funders agreed to them. In one case, an organisation went through a drawn-out negotiation process to resolve an issue around the type of qualification staff needed to have according to the contract. The problem was solved because one of the organisation's board members had an innovative idea on a qualification equivalency scheme that the funder agreed to. Clearly, such a negotiation process is a drain on any small to medium-sized organisation's resources and requires capacity, persistence, resourcefulness and assertiveness that not all organisations possess.

The Jewish Federation

The Jewish Federation's adult social work team has delivered community care assessments to members of the Jewish community on behalf of the Manchester, Salford and Bury local authorities for the past ten years. When the decision to become involved with providing this service was originally made, some in the community felt slightly uncomfortable about the organisation delivering public services and becoming more professional. However, overall, it is felt that the organisation's reputation and legitimacy has been enhanced and that the community has benefited by the Jewish Federation's close involvement in shaping the services that individuals assessed for community care are being offered. However, the contract sums have not kept pace with actual demand and the organisation conducts roughly 30 to 40% more assessments than it is being paid for. Because of this, the organisation is moving towards a point where it will have to start turning people away without additional resources. For an organisation that is firmly grounded in and supported by the community it serves, as its track record of generating just over 60% of its funds through fundraising shows, this is a major problem, as the community has high expectations in return for its support of the organisation.

3.2.3. Challenging Bad Practice

Organisations we interviewed had taken steps to challenge inappropriate practices, usually employing means such as writing letters, directly complaining to the agency in question and/or by resorting to other relationships they have, with varying levels of success. There was no response to one organisation's challenge of the legal soundness of a contract by letter. Another organisation, which questioned the type of information requested on a pre-qualification questionnaire, was nearly taken off the preferred providers list.

Although organisations have employed these means to challenge tendering processes and bad practice in contracting, most organisations said that their awareness of legal means of challenging bad practice needs to be improved. In one case, the ability of challenging bad practice was non-existent because the organisation had no written evidence illustrating the source of its complaints. Another organisation pointed out that challenging such practices would hurt the organisation's reputation with statutory funders and therefore the utility of such a move was doubtful.

3.3. Contract Management

- Voluntary sector service providers value good contract management characterised by regular meetings and an ongoing interest in their work.
 - Monitoring is usually recognised as beneficial when the rationale for collecting certain data is clear and when monitoring requirements are agreed jointly and their usefulness periodically revisited.
 - Successful contract management meetings can be a forum for mutual learning and ensuring that the service evolves according to need. However, many funding arrangements with voluntary sector providers are managed remotely, without any direct contact, and some contracts have run for years without any necessary adjustments having been made with regard to funding levels.
 - Many of the organisations we spoke to had experienced growth, developed a sharper focus, a boost in reputation and more planning security as a result of taking on a statutory contract.
- Notwithstanding, there were also a number of cases where there were some negative impacts on the organisation as a whole in terms of independence, sustainability, and staff retention.

Contract management plays a crucial role in shaping the commissioning and procurement environment, as this is the stage where it is proven whether or not a model for service provision is working, relationships are formed and deepened, an improved awareness of the capabilities and nature of the voluntary sector market offer is developed and information is gathered to inform future service development. It is in contract management or the lack thereof that a climate is formed in which services are either provided by a set number of known and – wrongly or rightly – trusted organisations or one in which services are constantly being changed, adapted or improved, which in turn might mean that opportunities open up for new providers. The connection between good contract management and the ability to develop adequate future provision was recently pointed out in the *Health Service Journal* by the Tameside and Glossop chief executive: “Knowing what you are currently doing is a huge issue. A lot of PCTs are going to find that quite a challenge if there has not been in all areas an approach to strengthen contract management.”⁷

By and large, organisations we spoke to perceived good contract management as beneficial and appeared to prefer regular personal meetings to remote arrangements by fax or post. Organisations appreciated when contract managers took an active and ongoing interest in their work, and they valued regular meetings as an opportunity to discuss and sort out emerging problems in a timely fashion. Interestingly, many organisations noted that they had to lobby for such meetings to take place at all.

However, where there were face to face meetings, they often allowed for a genuine working relationship to develop. Through personal encounters it was felt that trust could be built and statutory personnel's awareness of the VCS market offer developed. One interviewee noted that based on personal visits to an organisation, success and failure can be better contextualised and targets become more meaningful when there is first-hand knowledge about the type of work an organisation does. Clearly, ongoing first-hand experience can enhance understanding of the constraints that VCS organisations face, but also of the opportunities that working with them represents.

3.3.1. Monitoring

Apart from the view that there should probably not be any monitoring at all as long as the service in question is provided, there seem to be two main attitudes to monitoring: some perceive it as an onerous and not particularly useful obligation, whilst others recognise it as a beneficial activity. Which side any particular organisation is on will largely depend on whether or not the rationale for collecting the information in the first place is transparent and to what extent the organisation itself is shaping the process. It should be noted that organisations operating sub-regionally can find monitoring more burdensome, simply because of the larger number of contracts they have in place. There was one organisation among our sample that was successful in negotiating a monitoring pro forma for all its LA funders, thereby simplifying the process. However, not all organisations see themselves as having sufficient leverage to create efficiencies in reporting requirements in this manner.

Based on our interviews, it appears that organisations that viewed monitoring as useful are those that are aware of how to use monitoring data to their advantage by showcasing their achievements and/or to better understand their own performance. Those that found monitoring rather useless complained that they could not see how the data is actually put to use. They also commented that the data is not suitable to tell a good story of the organisation's success and the quality of its work and that monitoring information did not generate any useful feedback on the service from contract managers.

Setting the right targets for monitoring a certain service appears to be quite tricky, leading to situations in which the monitoring data requested kept changing, thus placing a disproportionate burden on the VCS organisation delivering the service. Another situation can be that delays caused by delayed funding confirmation and/or drawn-out contract negotiation processes cause organisations to fall behind meeting their targets from the very beginning. One interviewee whose organisation had entered into the existing

contract in a hurried fashion because it was striving to close a gap in service provision, discovered that the targets in the contract had not been properly set and were altogether unrealistic. Other interviewees explicitly referred to the difficulty of setting correct targets. Research conducted by the Charities Evaluation Services found that there is a tendency to agree unrealistic targets in an attempt to seem more competitive and that funders and commissioners are not necessarily better placed to understand what would be realistic for an organisation to achieve.⁸

Based on this, it appears that the right targets for any given service, especially for ones that are new and/or where no precedents exist, can be elusive at the beginning of a project and might possibly only evolve over time. Much points to organisations and statutory clients working jointly on improving monitoring procedures over the lifetime of a contract. There are also a few cases in which VCS organisations are hoping to benefit from the introduction of monitoring procedures as part of a statutory contract. In one case, for example, the statutory body has match-funded computer equipment to be used by the VCS organisation to facilitate monitoring data collection and aligning it with that collected by the statutory body. A small local organisation and its statutory funder worked jointly to generate a monitoring spreadsheet for use by the organisation.

3.3.2. Contract Management as an Arena for VCS Influence

Our research shows that VCS organisations with statutory funding arrangements often try to use contract management as a way of ensuring that service provision keeps pace with user demand. A number of organisations took evidence of demand outstripping the initial contract targets to the funder and were able to negotiate adjustments in funding and/or staffing levels. Similarly, a network of organisations delivering services for LAs and PCTs was able to obtain recognition of the need to fund changing skills sets to deliver the service to different client groups. One organisation running a day centre was able to influence funding to take into account a need for more intensive care for certain clients, as well as negotiating a funding raise in response to service improvements.

Organisations also reported using in-house monitoring to educate funders about new trends and/or needs. Typically, it appears that VCS organisations tend to take the lead in educating statutory funders on moving towards outcomes-based monitoring. One organisation even provided outcomes-based data to the funder without ever having been asked to do so. Another organisation has designed a simple tool to help statutory funders visualise the extent to which

Greater Manchester Sexual Health Network

The Greater Manchester Sexual Health Network was officially launched in 2004 and includes clinicians, PCT, local authority and voluntary sector representatives with an aim of planning and delivering services in an integrated and coordinated manner. This provides voluntary sector organisations that are delivering sexual health services across the sub-region with a channel of communication to commissioners, clinicians and other key colleagues. The voluntary sector representatives have used this forum to discuss commissioners' agreement to a set of principles of funding the voluntary and community sector. Key issues include contract durations of three years, fair shares funding (each PCT and/or LA to fund organisations according to the share of beneficiaries originating from each district), a move towards outcomes-based monitoring, and the consideration of changing skills requirements when determining funding levels. Although overall implementation still has some way to go, some progress has been made since these principles were agreed.

they are funding the service, compared to the actual service provision and compared to other funders. Occasionally, organisations have been successful in utilising the contract management stage to obtain recognition for mitigating circumstances. A number of organisations specifically referred to the fact that statutory partners see them as experts in their field and/or in serving a particular client group and are keen to draw on that expertise.

Despite the positive examples of provider influence highlighted above, in the majority of the cases which became known to us, contracts appeared to have run for years without any adjustments having been made in the funding levels, despite organisations exceeding their targets and evidencing increasing demand levels to their funders. One organisation reported providing 30 to 40% more of a certain service than it is contracted to. In addition, among the research participants there were organisations whose contracts were managed remotely, without any personal contacts. In some cases, monitoring meetings did take place, but it did not appear that the information provided ever had any consequences and in one case it even turned out that an organisation did not have a realistic idea of its actual standing with a statutory client despite regular monitoring meetings having taken place over years.

3.3.3. Impact on Third Sector

Provider Organisations

From our interviews it appears that when VCS organisations are handling statutory contracts there is potential for mutual learning if contract management is a genuine process of communication. Several organisations acknowledged that there is a period in which differences and misunderstandings have to be ironed out, before the contract becomes easier to handle. Moreover, for less experienced organisations handling statutory contracts can be an opportunity to build their capacity. Throughout our conversations with organisations it became clear that many of them had experienced growth, developed a sharper focus, a boost in reputation and more planning security as a result of taking on a statutory contract. Notwithstanding, there were also a number of cases where there were some negative impacts on the organisation as a whole. By and large, organisations made an attempt to hedge against such negative implications by maintaining a diverse funding base and never becoming too reliant on one funding relationship. Not surprisingly, it is the organisations whose funding is not diverse enough that are more easily thrown into disarray if things do not go smoothly with contracts and that tend to have weaker leverage over shaping their contracts unless they have good personal relationships with their funders.

3.3.3.1. Focus of Work and Independence

Two organisations reported that their focus had been sharpened by taking on a statutory contract. One of them said that government targets and procedures had helped to put in focus what had previously been a bit undefined. The other organisation noted how contract management had helped it to become more organised and how collecting monitoring information associated with the contract had improved its own understanding of the impact of its work and the progress that had been made on a certain project.

On the other hand four organisations spoke about the danger of losing control over one's work as a result of statutory funders' interference. Two of them had experiences with a statutory funder who is overly directive and appears to be under the impression that as a result of the funding given it should have control over the entire work the organisation is doing. This might be related to a lack of appreciation that an organisation may handle more than one contract at a time. The third one reported experiencing a drain on its resources by being requested to attend many different meetings in connection with just one of its many contracts and not feeling in a position to turn any of these invitations down, because they were coming from a funder. Yet another had a problem with a statutory funder suddenly pulling the funding for a service which had just been initiated. In the event, the

organisation and the funder did not see eye to eye with regard to the feasibility and need for the service. Whereas the organisation argued that the service had not had enough time to prove itself and that its benefits could not just be measured in financial data, the funder had already reached the conclusion that it was not the best use of resources and that the need could be met by other existing provision.

However, there are many cases in which organisations have been able to defend their own way of working against attempts by statutory funders to influence the way they deliver the service. On occasion, third sector providers had to clarify that their service is restricted to a certain type of client or turn down requests for information by the statutory funder. Ideally, of course, the statutory work an organisation takes on should correspond to its mission. However, as one organisation noted, with the political environment ever-changing, future national government guidance on certain aspects of delivering services to specific client groups can put pressure on organisations to align their operations accordingly. For example, an organisational policy of only seeing clients that have come to the service voluntarily might be put into question by national guidance.

Salford Heart Care

Salford Heart Care (SHC) is a small charity that serves heart patients in Salford. Since its inception in 1987 it has relied on volunteers, but in a very informal way, where volunteers – usually former patients, their carers or families – helped out at meetings rather than specifically having been recruited as volunteers. When the organisation informed the Salford PCT of its success in obtaining an Attend grant for a part-time volunteer coordinator post the PCT offered funding through a service level agreement to make this post full-time. In exchange, SHC was to operate a buddies scheme for cardiac patients. Whilst this development did not fundamentally alter the organisation's overall aim to approach volunteer involvement in a more systematic way, it gave it a more specific direction than it might have otherwise had. Organisational learning on using monitoring data to enhance planning and on operating in a demand-driven situation has been significant. Its approach to volunteer recruitment and retention is now more systematic than before and has put it into the position for the first time to actively market its services as a service provider.

3.3.3.2. Organisational Expansion and Growth

Among our sample were two organisations that appear to have grown as a result of delivering a statutory contract. For one the contract was the foundation for creating a management structure, for the other it meant that it was able to market its services to a wider range of clients and to upgrade its involvement of volunteers. However, doubts were raised by the interviewee from the latter organisation whether the organisation would be able to sustain the benefit of this investment in the long-term. Another interviewee raised a related issue, noting that organisational expansion and growth as a result of delivering statutory contracts might not be sustainable if those contracts disappear in the future due to changing political requirements.

3.3.3.3. Learning and Innovation

As has been noted above organisations frequently use their own charitable funds to pioneer innovative approaches. Therefore, having a diverse enough funding base enables organisations to develop work that would either not be within the remit of a statutory funder or whose value has to be proven before any statutory funder is able to fund it comfortably. It is often posited that delivery of public service stifles innovation. It is reasonable to assume that in situations where an organisation is largely reliant on the funding from one statutory source and contract management is meaningless on top of that, the impetus for innovation might cease to exist. However, depending on how open-minded statutory funders are to trying new approaches and depending on the quality of contract management, it is possible for organisations to receive an impetus for innovation from the statutory side.

Also, it should not be ignored that the only way innovation may get into the mainstream is by engaging with statutory funders in this way. For example, some of the organisations interviewed that had a very close relationship with their local authority argued that it is their very involvement with statutory funders that enables them to make a case for innovation, allows them to have an impact on service design and secure a better deal for their service users. For example, one organisation that serves the needs of a specific community noted that through its direct involvement in the delivery of public services it can ensure that members of the community can also benefit from the range of services that the organisation offers on a voluntary basis.

Learning can take place as a result of statutory contracts. Organisations reported having gained experience in aspects such as costing their services and working with demand-led systems of funding (i.e. voucher systems). Whilst much of this learning is just down to “learning by doing,” organisations sometimes

Tameside and Glossop Association of Mind

Tameside and Glossop Association of Mind has a history of over 30 years in the borough of Tameside, where it originally started out as a solely volunteer-run organisation. Over time, it began obtaining statutory funding, which gradually began to account for nearly 100 percent of its overall funding. Mind service provision included adult day services and counselling. After a review of day centre services across the borough, Mind needed to consider restructuring the way it offered its service in order to continue delivering publicly-funded mental health services in future. This realisation sparked an innovative project, informed by and implemented with full stakeholder consultation, that saw the organisation and its funders working jointly to turn the day centre into a wellbeing centre with an integrated café, which is more accessible to the general population and cuts down on the stigma associated with mental health conditions. Although initially this development was prompted by a change in the external operating environment, with hindsight, the process of change was beneficial, as it allows the organisation to serve a wider range of clients and help them to help themselves, rather than the clients becoming dependent on the organisation.

also had access to the same training that was being offered to statutory sector staff, as well as other support, i.e. help with payroll or monitoring systems. One organisation had a very good experience of working alongside seconded staff from its statutory partner. Another organisation mentioned benefiting from the expertise of public sector staff it took over. One organisation received a large portion of its funding under a contract up front, enabling it to experiment and learn at the beginning of the project. More generally, one organisation pointed out that operating in a competitive system drove up quality, as well as enabling the organisation to talk business about what it offers, rather than just depending on handouts.

3.3.3.4. Reputation and Risk

Interviewees felt very strongly about the need for organisations to maintain their identity as third sector providers, independent from the statutory sector. Many of them commented on their service users trusting them particularly because they are not statutory and that a change in how they are perceived would harm that trust. Interestingly, even organisations that are almost entirely funded by statutory monies referred to the importance of having a voluntary sector image. Apparently, service users do not typically make the connection between where

an organisation's funding comes from and the service they are receiving. Only one organisation remarked that some of the community it serves did not condone the step into public service delivery, because they are uncomfortable with the organisation having become more professional as a result. However, the same organisation also noted that its overall reputation has improved as a result of entering public service delivery.

Although generally speaking, most organisations appeared to welcome the ability to talk business about their services that is inherent in the increasing move from grants to contracts, some tendering processes are not professional enough to enable those that lose out to save their reputation. It should also be kept in mind that in some cases, when funds are withdrawn because an organisation loses a competitive process, prior investment into this organisation may be lost, not only because the programme has to be discontinued, but also because that organisation's reputation with the community or the clients it serves might be damaged in a more lasting way. For example, a small organisation serving an ethnic community had put much work and effort in forging community support for a certain project, which it then lost its funding for. Along with the funding the organisation was also threatened with losing its credibility with those whose buy-in it had previously secured.

An organisation's reputation can also be at risk if it does not have the capacity to satisfy the demand for a certain service. In one case, where a community-based and largely community-funded organisation has already subsidised a statutory service for a long time, difficulties may arise when that organisation eventually decides to turn clients away, because it has reached its limit. Clearly, the community has high expectations of this organisation, because individual community members support it through donations. Similarly, one organisation that is contracted to provide a certain service based on a contract that does not reflect the true cost of delivering this service may face difficult choices, such as providing a lesser service to clients who are referred to the organisation based on that contract than to its other clients, whose service is funded from different sources.

Whilst some organisations appreciated the ability to learn about demand-led delivery through statutory contracts, as mentioned above, there were also organisations that experienced contracts that were subject to demand as unfair risk sharing. One organisation was paid according to how many clients with a certain disability they served. There was no target of how many of these clients the organisation should be prepared to serve, and the organisation came to see this sort of arrangement as unacceptable

in terms of risk. Another organisation, which operates a volunteer-based befriending scheme also operates on the basis of a fixed contract sum without a target as to the numbers of clients that will be referred to the scheme. The organisation noted that it can be very tricky to keep volunteers motivated when demand is low and generally matching the supply of volunteers to the very volatile supply of referrals.

3.3.3.5. Uncertainty and Staffing

As mentioned above, an important incentive to enter into a contract is the security and predictability that is associated with contractual arrangements. Interviewees also tended to see competitive processes of awarding contracts in a positive light, because they hold a promise of learning about opportunities earlier and planning for them. However, as we have seen above, this hope is not always justified. Organisations also valued contracts, because they spell out the arrangement, creating an operating environment in which the organisation knows what it is getting into. Again, though, as examples above have shown, this is not always the case.

Apart from the examples already mentioned in the contracts section, the main element of uncertainty organisations in our sample have faced is with regard to the duration and/or continuation of their funding. Contrary to what one would expect, this affected organisations that had gone through tendering processes to obtain their contracts as well as those that had not. It appears that this insecurity around funding is connected to the political environment. For example, in one case, this affected an organisation that was delivering a service to meet outcomes in the LAA and which was due to obtain transitional funding until the new LAA was agreed. The organisation had responsibility for five staff and was negatively affected by the drawn-out lack of written confirmation of transitional funding. Another organisation, which had lost a tendering round to a competitor, reportedly never received written confirmation of this fact, operated in an atmosphere of insecurity for several months, before it finally learnt that the competitor had pulled out and that it would obtain the contract after all. As for the duration of funding, one organisation reported to have verbal assurances of a three-year funding duration, while holding a one-year contract only. One organisation delivering services for three different LAs reports experiencing funding uncertainty every year and apparently did not obtain funding from one of the authorities for one complete year.

The main effect this uncertainty has on organisations is with regard to staff. Most organisations that had experienced uncertainty around their contractual funding commented on the difficulty of recruiting, motivating and retaining staff under such

circumstances. In some cases, a delay of formalising a verbal agreement for funding, made hiring the staff needed risky for the organisation. One organisation lost a few of its employees because of this. Another organisation reported having lost a very qualified staff member as a result of a short-term contract. Others had experienced a difficult tendering process and noted the negative impact this had on staff morale.

3.3.4. The Future

Half of the organisations interviewed gave their views about whether they saw commissioning as a sustainable source of funding for their organisation in the future. Three organisations commented on the volatility of public funding in an environment characterised by policy change. They noted that priorities could change in the future, weakening some organisations' ability to compete for public sector contracts and pointed out that the only sustainable funding strategy is to diversify funding. Two organisations made reference to a future in which they might have to operate in a more genuinely demand-led system and market their services directly to clients on individual budgets. One organisation pointed out that although it was desirable to move towards a more transparent and competitive process of awarding contracts, this might pose a problem for those organisations that have a long-standing reputation based on delivering services for statutory funders, unless the process allows them to evidence this. Yet, even organisations that have had a slightly rocky experience with negotiating their contracts see public service delivery as an option of choice for the future.

4. Conclusion

With a multitude of agencies and departments involved in commissioning, the external environment VCS organisations are operating in is quite complex. There appears to be an information deficit on both sides of the equation: commissioners have incomplete knowledge of the VCS market for any given area of work and VCS organisations are often at a loss when it comes to finding out about opportunities of delivering services for the statutory sector. This is both cause and symptom of a situation, in which personal relationships are paramount; historic arrangements are continued in the absence of real evidence that they are delivering useful outcomes; and commissioning from the VCS lacks a strategic approach to needs analysis and service design. The over-reliance on personal relations has also lured some organisations into a false sense of security, making them vulnerable to future personnel changes and less inclined to diversify their funding, as well as more inclined to accept verbal assurances instead of formalised procedures. Although local infrastructure organisations have already begun building their own

capacity to guide organisations through this complex territory and acting as a broker between the statutory and third sectors, it seems that there is much potential for further institutionalising this bridging function and, more importantly, funding it adequately.

As has been shown above, the organisations in our sample have served as barometers for emerging needs and trends, thereby informing the way services are being delivered. This bears out to some extent the assumption that the third sector can serve as a link to segments of the population that statutory agencies by themselves might have a hard time reaching. Again, in the majority of cases, it seems that this contribution was facilitated by the personal relationships organisations had with their statutory funders and/or by an organisation's membership on a partnership panel, whilst larger scale methods such as consultations were largely seen as tick-box exercises. It appears from this that there is room for developing approaches to tap into the expertise of the voluntary sector on a larger scale and to make the VCS contribution to service design more relevant, transparent and systematic. However, there is also a need to acknowledge that in order to enable all those holding expertise in a specific area of work to attend it might be necessary to contemplate some form of compensation for participating organisations.

Whilst there is much evidence for the existence of a gradual move towards more competitive processes of awarding contracts and/or grants from the statutory sector, personal relationships continue to be at the centre of the commissioning experience in many ways. On the one hand, they can facilitate mutual understanding and can enhance contract management, opening up opportunities even for smaller organisations; on the other hand, they might stand in the way of broader market awareness and the creation of a level playing field. The question of personal relationships is closely related to the topic of historic funding relationships and how to reconcile a desire to maintain arrangements that are working with the need to be seen as even-handed.

In terms of learning about opportunities, timelines, full cost recovery and the ability to negotiate, it is fair to say that smaller organisations, especially those that may not have a narrowly focused speciality, would probably have a hard time operating in a fully competitive environment, thus raising the danger of losing their contribution in such a scenario. However, even if the tendering processes were structured in a way that takes into account the constraints these organisations are under, how can it be ensured that the growth that occurs as a result of taking on a contract is sustainable and not just a short-term phenomenon? In other words, what mechanisms can

be put in place to ensure that smaller organisations have the opportunity to grow at a sustainable pace? In light of the fact that the value smaller, more local organisations bring to service delivery appears to be widely acknowledged by policymakers, there is still a need for developing strategies that enable the harnessing of these strengths without destroying the unique nature of such smaller organisations.

As has been shown above, partnership working with the statutory sector is a learning experience for both parties involved. By guiding smaller organisations as part of a contract and by utilising a contractual relationship as an opportunity for mutual learning, statutory agencies can become more sensitised to issues faced by the third sector and organisations can learn how to operate more efficiently and more accountably. Good contract management can also facilitate feeding back information about service user needs and gaps in provision into commissioning. As our findings suggest, it is likely that more could be done to strengthen this aspect of statutory contractual relationships with the voluntary sector. As a matter of fact, much learning still needs to take place on both sides, particularly with regard to contract design, negotiation and contract management. Especially where service delivery is exploring new paths, it appears that there should be an acknowledgment that the service and a mutual understanding of targets might have to evolve over time to leave enough flexibility for learning.

5. Recommendations

1. Widen the range of contacts with the VCS with regard to service design and access to opportunities by developing a framework for third sector involvement in service design and ensuring fair and equal access to opportunities by a range of VCS organisations. This requires more clarity about the VCS market offer so that there is better awareness about the full range of organisations relevant to any given service. Consider compensating VCS organisations for their consultative role in service design.
2. Acknowledge the important role of personal relationships for all stages of the commissioning cycle, but move away from a situation in which what you know depends on who you know. Create a transparent and inclusive framework in which the VCS and commissioners can engage with each other and learn about each other's requirements/organisational cultures.
3. As far as possible try to standardise commissioning procedures and arrangements across localities and, possibly, the sub-region.

4. Raise awareness among commissioners and the VCS alike of the mutual benefits of full-cost recovery and develop a better understanding of the negative repercussions of VCS organisations subsidising statutory services for future sustainability and service users. Raise awareness of the difficulty of costing some services, especially if they are new, and allow for future adjustments.
5. Maintain a variety of possible funding arrangements within the commissioning framework to safeguard the contribution of smaller organisations, innovation, local reach, and trust.
6. Emphasise the uses and benefits of good contract management and monitoring. Recognise and harness the role of two-way communication throughout this process in order to make the purpose of monitoring data clear to service providers and to ensure that data that is collected is meaningful in view of service improvement. Utilise contract management to provide a forum for building the working relationship, flagging up emerging issues with the service and ensuring that funded service provision keeps pace with user demand.
7. Take advantage of the ability of long-term contractual arrangements to demonstrate health impact and a social return on investment through outcomes-based commissioning.
8. Approach contractual relationships in a spirit of partnership working, which recognises the expertise of each partner and enables both partners to learn from each other. Recognise this relationship as an ongoing dialogue, one of whose main elements is negotiation, where flexibility to respond to changing circumstances and emerging lessons is built into the process.
9. Improve and resource the role and capacity of VCS infrastructure to support all of the above and create links between the VCS and commissioners. Resources spent on VCS infrastructure should not be diverted from existing resources for service delivery.

Footnotes

- 1.** Support for Success: Commissioning and Contracting in Greater Manchester, Andy Wynne, Together Works, Manchester, March 2008, p. 14
- 2.** Salford Health Investment Procurement Project Report, Sue Morris, Salford CVS, Eccles, June 2008, p. 40.
- 3.** Support for Success: Commissioning and Contracting in Greater Manchester, p. 14
- 4.** The problem of tick-box exercise consultations, as well as the problem of lacking feedback has also been highlighted by a recent BERR review of the statutory consultation process. The document argues that consultations should neither take place too early, nor too late in the decision-making process in order to enable meaningful input. Effective Consultation – Asking the Right Questions, Asking the Right People, Listening to the Answers, Government Response, Department for Business Enterprise and Regulatory Reform, December 2007, pp. 6-8, accessed online on September 19, 2008 at <http://www.berr.gov.uk/files/file44374.pdf> .
- 5.** Support for Success: Commissioning and Contracting in Greater Manchester, pp. 5 – 6.
- 6.** National Evaluation of Partnerships for Older People Projects: Interim Report of Progress, University of Hertfordshire, October 2007, p. 6.
- 7.** “Data Shortfalls Hinder World Class Commissioning Efforts,” Health Service Journal, July 17, 2008, accessible online at www.hsj.co.uk .
- 8.** Accountability and Learning: Developing Monitoring and Evaluation in the Third Sector, Research Briefing, Charities Evaluation Services, London, 2008, p. 6.



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