

Replacing the State?

Towards a dramatic expansion of third sector public service delivery'

Edited by Julia Unwin

“What matters is what works, not the delivery mechanism”

Tony Blair MP

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Foreword, by Stephen Bubb

Editorial, by Julia Unwin

Replacing the State? by Paul Ormerod

Over the past century and more the size and scope of the state has grown dramatically. However, there appears to be little, if any, relationship between the size of state activity and the achievement of broad social democratic aims such as low unemployment. This paper examines how an enhanced and expanded third sector might compete with the state in the provision of services. Would the existing public sector providers be driven out, leaving the field left open to purely voluntary or private participation?

1. The growth of the state

A distinguishing feature of the social and economic history of the twentieth century is the enormous rise in the role of the state throughout the Western world. Gradually, many of the functions previously within the domain of the third or private sectors have been embraced within the public sector. In the UK, for example, the most avowedly socialist government in our history was that of Clement Attlee from 1945 to 1951. Yet the share of the public sector in the economy as a whole under Attlee was less than it was during the government of Mrs Thatcher, renowned for her robust approach to the privatisation of state activities.

The usual way in which the share of the public sector in GDP is presented is by taking the total spending of the public sector and dividing it by GDP. The current figure in the UK is just over 40 per cent.

However, public sector spending includes a large amount of “transfer payments”, in which taxes raised from some individuals are given out as benefits to others. In the calculation of GDP, these are all subsumed into the income of the personal sector. In other words, although the 40 per cent figure tells us about the overall tax burden, it does not provide an accurate measurement of the public sector’s size.

To illustrate the point, we can imagine an economy in which the state performs no functions at all. There is no defence, no state education, no state spending on infrastructure, or anything else. However, the rate of tax is 100 per cent on all income, which is deducted automatically at source, and then credited back in exactly the same amount as a benefit. In this economy, by definition the total spending of the public sector is equivalent to the entire economy. The total value of benefits paid out by the state is 100 per cent of GDP. But, in contrast, no one is employed by the public sector, which provides no services to the population.

This hypothetical case shows quite clearly that the usual way of looking at the share of the public sector in the economy, by taking total public spending and dividing it by GDP, can give a quite misleading picture of the role of the state. Although it does convey valuable information about the size of the tax burden in the economy, it does not necessarily give us an informative picture of public sector activity.

A more accurate picture of public sector claims on resources is given by its current expenditure in as a percentage of GDP. As a simplification, this tells us how many people are employed in the sector relative to employment as a whole, and how much they are paid, again relative to overall pay. The various creative accounting activities of

recent years have somewhat confused the issue. But this percentage is still a good indicator of the scale of state activity in the provision of services.

Here is the picture over a long period of time.

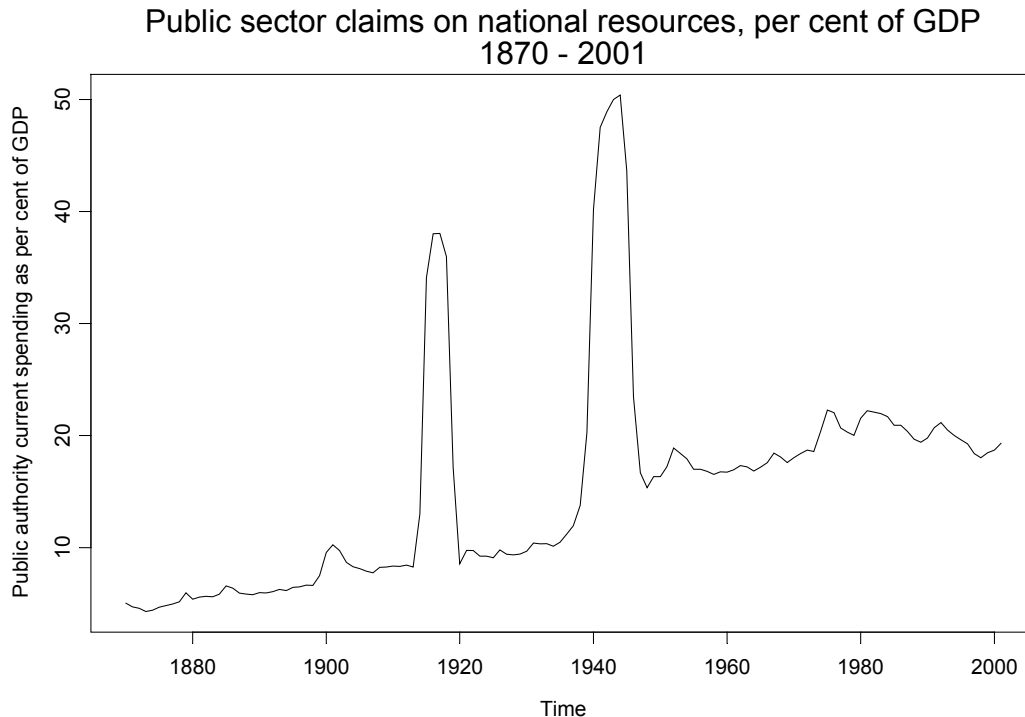


Figure 1 Source: C.H. Feinstein *National Income, Expenditure and Output in the UK*, Cambridge University Press, 1972 for data 1870-1965, and *Economic Trends Annual Supplement*, HMSO, for 1966-2001.

The huge increases in the wars are obvious in the chart. Millions of people either volunteered for or were conscripted into the armed forces, for example, which increased the claims of the state on the economy very sharply.

The most striking general feature of the chart is the steady rise in the importance of the public sector in the economy as a whole over the 1870-2001 period. In the late 19th century, public sector claims on resources averaged just over 5 per cent of GDP. In the late 20th century, this figure has been around 20 per cent.

We can translate these rather abstract percentages into cash terms. At present, 1 per cent of the UK GDP amounts to some £10 billion. So each year, in the late 20th century the state is making a claim on national resources which is around £150 billion more than it would have been if the late 19th century claim as a percentage of GDP had continued to hold.

A considerable proportion of the increase appears to be warranted in the following sense. A distinguishing feature of societies is that as they get richer, the demand for services such as health and education grows more quickly than the economy as a whole. My grandfather, for example, born at the end of the 19th century, went to school

for half the day at the age of 12 and to work for the other half. The following year he had left school completely. His experience was entirely typical of his generation. Now, even the least qualified young person is in education until 16, most are in the system until 18, and an increasing proportion do not leave until they are 21.

In other words, there has been a massive increase in the amount of education which is provided. There is no immutable law requiring this expansion to be provided by the state. But whether it had taken place under public or private sector auspices, a large rise in the proportion of GDP spent on education would have happened regardless.

Without in any way wishing to provide an exhaustive list of similar examples, it is worth considering briefly the question of the elderly. The cost of old age is becoming more marked. Old people live longer and they cost more to keep. This is well known.

There are, however, two implications of this which are conceptually quite distinct. First, the cost of pension provision has risen sharply. However, this is financed by transfers of income – from taxpayers to pensioners, for example – which affects the *total* amount of public spending and hence the size of the tax burden, but does not alter the claims on resources. Second, there is the increased technical ability to provide health care for the old plus additional bureaucratic costs involved in administering these provisions. These latter costs *are* an additional claim on resources, and as such feature in our chart in Figure 1.

We can put the data in Figure 1 under the microscope and look in more detail at the post-war years. This is both instructive in itself, and gives rise to examples of additional public sector claims on resources which are not so obviously justified.

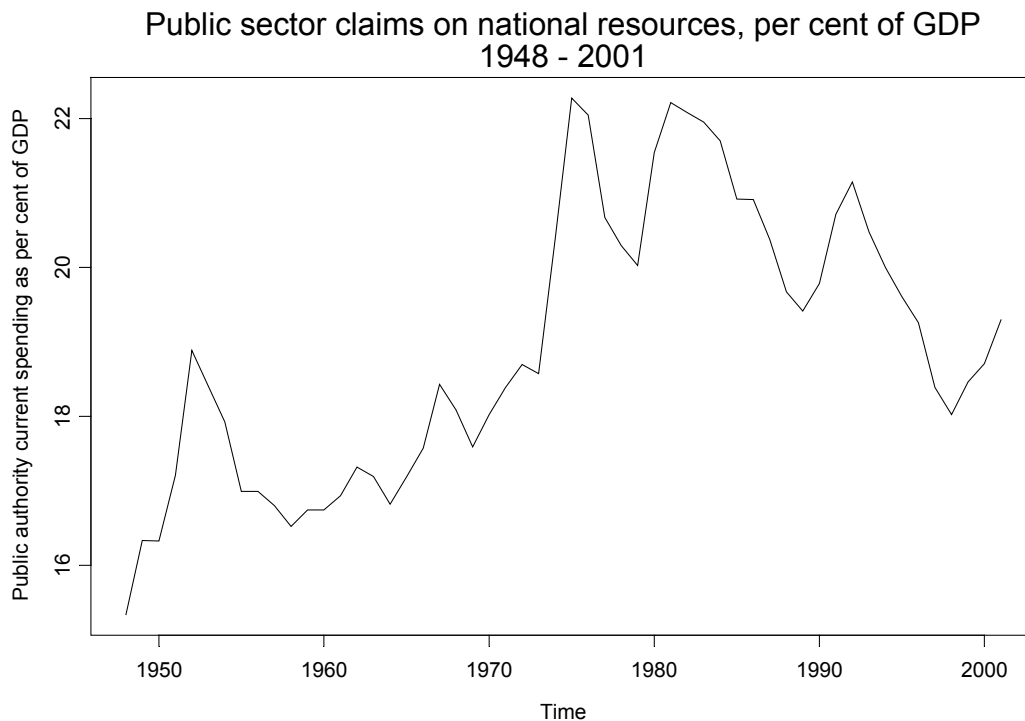


Figure 2

Figure 2 illustrates the point that for almost the whole of the Conservative period 1979-97, the state was making a bigger claim on resources than it did under Attlee (1945-1951).

The chart shows that there was a sharp rise in the size of the state in the late 1960s to mid-1970s, which has proved to be very hard to reverse. At the very far right hand side of the chart, the renewed increase in the size of the public sector under New Labour is beginning to show, a rise which will be even more distinct once data for 2002 and 2003 are available.

The increase over the past thirty-odd years coincides with the rise in a new, or at least vastly expanded, set of middle class professions. So, for example, we have a greatly expanded Health and Safety Executive, long after the major killing jobs - mines, ships, heavy industry- have all but disappeared. Similar arguments apply to Social Services

2. The state and wider social objectives

Peter Mandelson is the chairman of Policy Network, a left of centre grouping which brings together prominent centre-left leaders from all over the world. In a recent article, he cast doubt upon the concept that a larger state sector is a necessary condition for the achievement of wider social objectives:

'The issue at stake is not bigger or smaller government. Nations are viable with very different shares of public spending and GDP. It is the capacity of the state to act as an agent of greater prosperity and social justice that is key, and that requires continuous and far-reaching reform.' (*Guardian* newspaper, 7 July 2003)

His insight has possibly even more empirical backing than he imagined. We can take the data in Figure 1, and examine the relationship between the size of the public sector in the UK over a long period of time, and the rate of unemployment.

Of course, the government may rely upon short-term changes in policy instruments such as interest rates or tax cuts to try to modulate fluctuations in unemployment. But there is a large literature which shows that such efforts are in general rather futile. It is not the purpose of this paper to go into detail on this topic, but there are two rather fundamental defects with conventional short-term intervention to try to control unemployment. First, the ability to predict the future course of the economy, even in the short-term, is very seriously limited¹. Second, the various models of the economy which purport to quantify the impact of policy changes disagree wildly about the effect of any such measures². So governments lack the ability to make consistently accurate predictions about where the economy might be in the absence of policy change, and have a highly imperfect

¹ see, for example, C.Mellis and R.Whittaker, (1998), 'The Treasury forecasting record: some new results', *National Institute Economic Review*, 164, pp.65-79 and P.Ormerod and C.Mounfield, (2000), 'Random Matrix Theory and the Failure of Macro-economic Forecasting', *Physica A*, 280, 497-504

² see, for example, J.Bray, S.Hall, A.Kuleshov, J.Nixon and P.Westaway (1995), 'The Interfaces between Policy Makers, Markets and Modellers', *Economic Journal*, vol.105, pp.989-1000

understanding of the impact of short-term changes in policy variables such as interest rates or tax cuts.

We might, however, expect to find a relationship over the longer term between the size of the public sector in the economy and the rate of unemployment. A larger public sector might cushion the economy more effectively from the various shocks to which it is subjected from time to time, and help preserve the level of employment in difficult times.

Figure 3 plots this relationship, and shows the rate of unemployment and the claims of the public sector as a percentage of GDP over the 1870-2001 period.

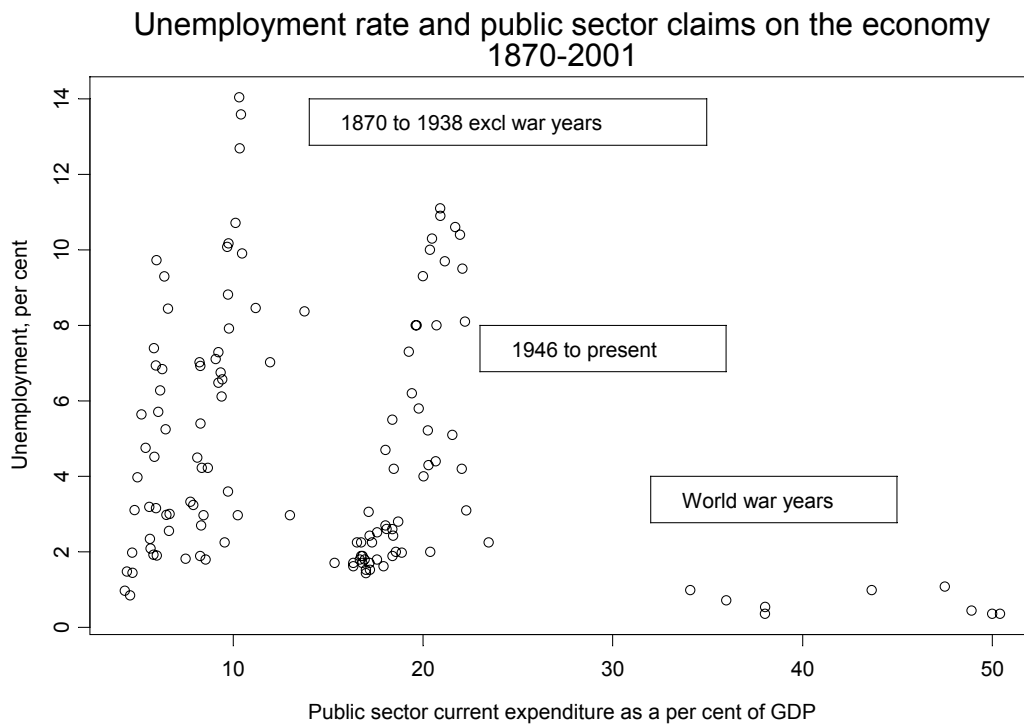


Figure 3 Source: as Figure 1

Each point in the chart corresponds to a particular year. Reading onto the left hand axis from any point, we can see the rate of unemployment in that year, and reading down to the bottom axis we see public sector current expenditure as a percentage of GDP in the same year.

The striking feature of Figure 3 is the way the data organises itself into three more or less separate clusters. The left hand collection of points relates to years when public spending was low, at around 10 per cent of GDP. With the exception of 1915-18, all these points are from the period 1870-1938. The second cluster relates to all the years from 1946 onwards, and the final small group at the far right of the chart are for the world war years.

Comparing the periods before and after the Second World War, we see that public spending has been much higher in the latter than the former, at approximately 20 per

cent of GDP instead of approximately 10 per cent. But this doubling of public expenditure in its share of GDP appears to have very little connection with the average rate of unemployment over these two periods. Table 1 gives the relevant numbers.

Table 1 Unemployment rate and current public spending as a percent of GDP

Period	Public spending average, per cent	Unemployment		
		average	minimum	maximum
1870-1938 (Excl WW1)	7.9	4.9	0.4	14.0
1946 onwards	19.0	4.5	1.4	11.1

Source: calculated from Feinstein and ETAS

So the more precise calculation shows that comparing the two periods, the relative importance of the public sector more than doubled. Yet to all intents and purposes, the average rate of unemployment was the same in both periods, 4.5 per cent after World War 2 compared to 4.9 before. The fluctuations were slightly large before the Second World War, with unemployment ranging from 0.4 to 14 per cent, compared to 1.4 to 11.1 per cent after.

In other words, British economic history presents us with two distinct examples of policy regime as far as the size of the state is concerned. In one, it is fairly high, and in the other, very much lower. Yet the two are very similar in terms of their experience of unemployment. The data show very clearly that the size of the public sector *per se* over a period of time has no connection with the rate of unemployment.

3. Specific social aims and the potential impact of the third sector

The growth of the public sector does not appear to have removed general social and economic problems. Of course, a great deal of such expenditure has specific as well as general aims. For example, we provide an education service through the state, in the hope of educating the population. The health service aims to cope with a wide range of issues connected with the physical and mental well-being of the population.

Opinions differ widely about the extent to which the state has succeeded in meeting its specific social aims. What might happen if services that are already provided by the public sector were opened up to competition on a much larger scale than has previously been attempted?

A smaller state sector as such need not necessarily compromise the achievement of broader social and economic goals, as we have seen. But there is an understandable reluctance amongst many people to entrust the provision of services such as health and education purely to the impersonal workings of the market and the profit motive.

The example of NGOs in places like Afghanistan and Iraq is instructive. The UK government already uses not-for-profit organisations such as Christian Aid, Oxfam and Save the Children on a substantial scale. They seem to be trusted more than governmental organisations because they work with, not at, their service users, and because they cannot afford the kind of numbing bureaucracy which often pervades government programmes, no matter how well motivated.

It is also useful to remind ourselves that before the Second World War, a considerable amount of services that are now dominated by the state were then provided by the not-for-profit sector. The overall level of provision was much lower than it is now in terms of monetary expenditure, even after allowing for the effect of inflation.

But, to a large part, this is because Britain is now a much richer society than it was even 60 or 70 years ago. Since the late 1930s, average living standards have increased by almost five times, and by nearly three times since the early 1950s. So we can afford much more lavish provision of all kinds of goods and services, be they health and education or cars and foreign holidays. The fact that health care, say, was not as good in the 1930s as it is now is primarily due to our ability to spend so much more on health in real terms in the 21st century. The difference in the level of provision over such a long time scale does not in itself tell us anything about the desirability of any particular form of organisation structure.

The specific details of how a very much larger third sector might function are not the immediate concern of this paper, although it would surely have to operate on the principle of allowing consumers very much more choice than they have at present. We might think of foundation hospitals as an important step in this direction. The government can set a framework and guard against gross failure or corruption, but let local communities and NGOs undertake delivery.

It might seem that an insuperable problem in trying to think about what might happen in such circumstances is the fact that we have no empirical evidence on which to base a judgment. We have never seen the opening up of state services to competition from the not-for-profit sector on a large scale.

The way around this difficulty is a standard one in the social sciences. We can set up a theoretical model, based upon plausible rules of behaviour, which gives a framework for improving our understanding of the issues.

4. Public and not-for-profit sector competition: the model

How models function

We can usefully think of a model as a map. In a geographical context, the most accurate map of an area replicates reality in every single detail. But such a map would be wholly impractical to use. Instead, mapmakers make dramatic simplifications. The key to whether a map is a good one or not is whether the simplifications are chosen well.

A one page map of the principal roads of Britain would be of little use to someone trying to locate a particular street in, say, Manchester, but would be helpful for someone looking for a route between, for example, Southampton and Newcastle.

In the same way, a large amount of simplification is needed in order to construct a successful model. Ideally, it is one which contains sufficient of the important relevant detail to improve our understanding of the world, yet at the same time is not so complicated as to become too hard to understand completely.

Another helpful way of considering models such as this is to see them as a game. Each has a description of how the game is set up, and its own rules of behaviour as to how it can develop during the course of the game. In chess, for example, the starting positions of each of the 32 pieces on the board are specified. Each type of piece has specific rules about how it can move about the board, how it can capture other pieces, and so on. Overall, the number of rules about behaviour is very small, with perhaps no more than a dozen in total. Yet this limited number of rules is able to generate a game of immense complexity.

The model described here³ is a rather general one, which considers how a market opened up to competition might evolve, and the factors which drive its development. It is not intended to illustrate any particular market, but to set up a general framework which could be modified to take account of any information which is specific to any given example.

The service: quality and price

To begin with, we imagine a service which only the public sector provides. Apart from defence, in practice it is hard to find an example where the state supplies 100 per cent of the market, but in areas such as health and education, the figure is 90 per cent or more. Before the privatisations of the 1980s, there were more examples of where the share was effectively 100 per cent, in the case of telecommunications, gas and electricity, say. But to keep matters simple, in this model the public sector initially supplies the entire market.

The service is supplied to a large number of consumers. We can make an heroic simplification and assume that each consumer is able to perceive the qualities of this service accurately. Further, we assume that just two features of the service define its overall quality completely. In reality, there may be considerable confusion about what the true qualities of a service actually are, leaving aside the question as to whether the properties of a complex service such as health, say, can be measured in a straightforward way.

From a policymaking perspective, of course, huge simplifications are made every day in terms of how things are measured. The entire output of an economy, its GDP, is summarised in a single number. At present, this is around £1,000 billion at an annual rate for the UK. We are so used to this concept that it is easy to forget that the number is an amalgam of millions of widely different goods and services, and there has been an ongoing debate for many years about factors which should or should not be included in

³ A more technical paper setting out a similar kind of model is available at <http://www.paulormerod.com/research.html> under the heading 'Competition and market structure'

the measure. Yet the GDP figure is not without meaning. GDP per head across the world, for example, correlates strongly but not perfectly with desirable things such as life expectancy, literacy rates, and so on.

So the assumption that the quality of the service in the model can be measured by just two factors is a perfectly normal one to make. We could think of these as being, say, price and quality, or quality and reliability, or whatever. Suppose we imagine them to be price and overall quality.

Provider and consumer behaviour

We now have the straightforward conditions in which the game starts. To get the game moving, we need some rules of behaviour under three separate headings.

- First, how new players, or suppliers of the service as they are, enter the market and what the price and quality of their offer is.
- Second, how consumers respond to these new offers.
- Third, how existing players in the market, including the incumbent monopolist, respond to the new entrants.

The not-for-profit sector is not driven by the same set of motivations as a private company, but it still needs to be very much aware of financial reality. So it seems reasonable to assume that a voluntary competitor to the state will only try to enter a market if it can cover its costs. The best way to deal with this in terms of the rules of the game may seem indirect, but it captures the essential feature.

In reality, whether it is the commercial or third sector, it is hard, indeed often impossible, to discover the price at which an organisation can deliver a service of a given quality, or the quality which it can provide for a given price. Specific information is very hard to come by, often residing solely within the confines of organisations. However, we can get round this problem by assuming that a potential entrant into the market will make its decision on the basis of the price and quality of the offers already in the market. The higher the existing price, the more likely the potential entrant is to try its luck, and the higher the existing quality, the less likely. We express this as a probability of actually entering the market in a given period, which depends as described on the levels of price and quality already out there in the market.

Once an organisation decides to enter a market with its own offer, it faces two problems.

- First, will people actually take it up, given the mix of price and quality?
- Second, and even more importantly, how many customers will actually know that this particular offer is available?

This problem tends to be skirted over in economics, where the assumption that consumers have ready access to large amounts of information dies hard. It is, however, of fundamental concern to marketing departments whenever a new product is launched.

The privatisation of utilities in the UK has given us many examples. In both gas and electricity, say, a household now faces a quite bewildering choice of suppliers, each claiming advantages for its particular offer. I have asked a seminar room full of economists, many of whom insisted fervently that consumers acted as if they had full information, how many of them could name even a complete list of companies involved in the domestic supply of gas and electricity, let alone the details of their offers. Not

surprisingly, none could. The rather baffling choice of numbers now available to replace the old 192 directory enquiry line is but the latest example.

So we make the realistic assumption that only a certain proportion of consumers become aware of the existence of a new entrant. The old adage 'Half my advertising expenditure is wasted, but I don't know which half' is uncomfortably close to the truth. In practice, new entrant into a market might plan to achieve a high level of awareness, but actually obtain a much lower one. There are many factors which determine the actual outcome, which even after the event can be hard to identify and disentangle. We therefore choose the proportion of consumers who become aware of a new offer at random. Some organisations will be lucky and get a high awareness, whilst others will not.

The next issue to consider is how consumers respond to the various offers as they appear. We do not have to believe in the whole apparatus of free market economics to realise that consumers respond to incentives. They will tend to switch to offers which can give them a better overall mix of price and quality. But there are constraints on the extent to which they will do this.

The first step is to assign each consumer a unique preference between price and quality. Some will attach great importance to price, others to quality, and most will be interested in various mixtures of the two. Given these tastes, a consumer may switch from his or her existing supplier to a new one which offers a better price/quality mix as far as he or she is concerned. But consumers can only switch to an offer of which they are aware. An organisation may have a very attractive mixture of price and quality, but have only a low awareness amongst consumers.

Finally, we assume that each consumer has a limited propensity to switch. It is not certain that a consumer will switch to a new supplier, even though objectively the price/quality mix of the new offer is better for the consumer in question. This seems realistic. There may be costs, for example, of switching to a new supplier. Taking a child out of one school putting her into another is by no means costless. Leaving aside any monetary considerations (e.g. new uniform, cost of travel), there is the emotional cost of transfer. Even more importantly, there is uncertainty surrounding both these costs themselves, and the actual quality of the new supplier. The only way to find out whether the offer is as good as it seems is to try it, yet there is comfort in the devil one knows. For example, a company called Ionica entered the residential telecoms market. The offer was very good, indeed almost too good to be true. So good, in fact that Ionica went bust leaving a lot of customers out of pocket and looking for another supplier. So there is real risk to customers looking to switch.

Finally, we give organisations in the market a behaviour which allows them to adjust to new offers which are made. The basic rule is that each organisation tries, in each period, to match the best price and quality offer available in the market. This need not burden us with the full panoply of calculus and profit-maximising behaviour of the economics textbooks. All we need assume is that organisations are motivated to stay in business. And the best way to do this is to ensure that the offer is competitive.

But in practice there will be constraints on the ability of the organisation to do this. The management may not be of sufficient quality, the cost structure may be too high, or whatever. The organisation may fail to match the best offer in the market. Again, in the

model we handle this by giving each organisation a probability of being able to match the best offer.

A distinguishing feature of the not-for-profit sector is its sheer diversity. Different organisations will not only have different capacities to deliver any particular level of service, but may differ in their views as to what constitutes the service which they provide. They will also differ in their ability to adapt to competitive pressures. We do not need to know in advance – indeed it might not be possible to predict – which organisations will prove to be better suited to deliver the service once a state monopoly is opened up to competition. This will only emerge during the process of competition itself. But it is precisely the differences, the divergences between the organisations in the not for profit sector which is its strength. The public sector monopolist may be able to provide from the outset a better service at a lower price than some of its potential not for profit competitors. Yet, amongst the diversity, it is almost certain that some will be found who can do it better.

This completes the set of rules to study how this hypothetical market might evolve over time. It is important to note that we have not biased the direction of the results by making the classic economics assumption of maximising behaviour. If consumers always take up the best offer which exists for them, if firms are always able to match the offer of their most effective competitor, the results of the model are obvious.

Opening up a market to competition under these assumptions about behaviour will increase quality, reduce price, and lead to a market in which many firms survive, in contrast to the initial conditions when there is an incumbent monopolist. It is not too much of a simplification to say that a simple model of this kind underpinned the case for the various commercial privatisations which we have seen.

The model based on a stereotype of Economic Man is not completely divorced from reality. Compared to the old nationalised industry days, services in general *are* of better quality⁴ and prices more competitive than they used to be. The one major disconnection between the predictions of the model and reality is that the original incumbent monopolist has tended to retain a large market share⁵. A share, in fact, which is considered by economists in the various competition authorities to give *prima facie* reasons for believing that the market is not competitive. Yet, transparently, the market in, say, telecoms is highly competitive. Quality has improved dramatically and prices have fallen (in real terms, and sometimes even in absolute terms).

The results

The rules of behaviour in our model mean that consumers and firms do tend to follow their own best interests, but they do so under many constraints. They either do not or cannot always follow the ‘best’ course of action, whatever that might be.

⁴ the possible exception to this is rail, but even here there were distinct signs of improvement before the catastrophic interventions of Stephen Byers.

⁵ this has been true even of British Airways, despite the best efforts of ‘Cool Britannia’ Bob Ayling and Lord Marshall. If they had not had the endowment of slots at Heathrow, then BA could have succumbed to competition.

Nevertheless, when we simulate the behaviour of this market on the computer, we still find that:

- price is reduced from the level charged initially by the monopolist
- quality is improved from that offered initially by the monopolist

Importantly, however:

- the monopolist tends to be able to retain a large market share

In other words, the model produces results which are more in accordance to what we have actually seen when state monopolies are opened up to competition. The market does have competitive properties in that the price/quality mix to the consumer is improved. But in general the original public sector provider retains a large market share.

Each individual solution of the model is unique, and differs from every other. This is because consumers and the organisations supplying the service do not act deterministically. In other words, they do always take the same decision when faced by identical circumstances, but will choose between alternatives on a probabilistic basis. This gives a *range* of results which can be obtained from the model. We might, indeed can, find examples where the original state monopolist is driven out of the market entirely, At the other extreme, it may be able to see off competitive threats and retain a monopoly.

The crucial feature which influences – although by no means determines completely – the market share of the public sector provider is its ability to respond to the new competition. If it is slow and unwieldy, the chances are that its share of the market will collapse. In this sense, the present government is quite correct in its belief that fundamental changes are required in how the public sector operates, although its ability to deliver on this perception has been rather more questionable.

5. Conclusions: not-for-profit delivery of public services

There is a very important implication for third sector organisations in all of this. We have set up a hypothetical model, based on realistic rules of behaviour, in which a state monopoly is opened up to competition from new providers. In areas such as health and education, many people are understandably wary of profit-oriented firms, so the third sector in principle would have a great opportunity to extend its scope and enter these markets.

Yet any organisation that does so faces considerable risks. In the model, as in reality, most new entrants into the market fail. The reasons vary from case to case, but success is by no means easy. Incumbency, both in economics and biology, is a very strong card to hold. Dominant species are hard to shift from their niches. And monopolists usually retain a large market share even when they are opened up to competition.

The good news is that the overall quality of the offer to the consumer will almost certainly improve over time. This result is obtained despite the fact that we do not incorporate the 'rational' maximising behaviour of Economic Man into our model. In principle, it would be advantageous to open up to the offers of the third sector services over which the

state at present has a near monopoly. But attempts to enter such markets by the third sector carry a distinct risk of failure for any individual would-be player in the game.

Disciplined pluralism and third sector public service delivery, by John Kay (tbc)

Voluntary Finance Initiative - From Grants to Social Payments, by Ed Mayo⁶

The third sector has outgrown many of its traditional images. The professionalisation of the sector has gone hand-in-hand with new models of user involvement. The rise of social enterprise strategies is contributing to a significant transformation in the quality and capacity of not for profits in the UK. But there is one thing that has changed little, which is the eccentric and dated way in which third sector activity is grant funded.

1. The downsides of grant-based funding

It is true that the sector is far more robust than the image of grant-dependent charities might suggest. More income is now raised for the sector from its investments than is donated from the general public. Third sector organisations raise over a third of their income, £5.5 billion in 2001, from the sales of goods and services. Over the last decade, the proportion of general charities' income coming from sales and contracts has increased by over a half. Less than one in two larger charities generated income in 1990; that figure is now two out of every three. Net assets, according to NCVO, stand at £68.2 billion. That is a powerful asset base for any social entrepreneur. The sector has started to be far more astute in using debt-based financial mechanisms, such as community development financial institutions, to lever social impact. But it remains the case that grants and donations from consumers, institutional donors and from government represent a key component of the capital available to not for profits for their activity. Indeed, there has been a 40% increase in government funding of voluntary organisations in real terms since 1982, excluding housing.

The downsides of grant expenditure are that:

- the amounts available are capped.
- the practical incentives in terms of winning funding are distorted. If you do well, there is no guarantee of more funding. If you do poorly no guarantee of less. The incentives are to play the funding game; good bids count more than good performance.
- transaction costs are likely to be higher.
- voluntary organisations are entrepreneurial, but their entrepreneurialism can be diverted into raising funds from the myriad of different sources.

Similar downsides hold for those making the grant. Consumers have little open and reliable information to draw on when deciding to whom to give money, so the best fundraiser rather than the best organisation wins out. This often favours the larger brand-name organisations that are able to make heavy investments in fundraising infrastructure. Fundraising literature such as Annual Reports rarely offer a 'true and fair' picture of the effectiveness of an organisation. Even the institutional funders find it hard to relate their funding to outcomes, and, research suggests, are uncritical when they do so, caught up in the desire to believe the best. With the honourable exception of a

⁶ Ed Mayo is Executive Director of the National Consumer Council

number of disability charities, the third sector has tended to resist voluntary accountability mechanisms such as league tables, social reporting and models of democratic governance. At the same time, some fundraising innovations such as child sponsorship have helped to build transparency, connecting consumers to beneficiaries and redefining development charities as intermediaries rather than simply transnational NGOs.

But it is the public sector grant regimes that are in most urgent need of overhaul. Central government has made steps to improve the consistency of the grant application process, and more could be done to improve the stability and transparency of grant funds, and, where appropriate, to shift grant-making from government to not for profit specialists. But there are other, more fundamental ways in which a “Voluntary Finance Initiative” could transform the way in which the public sector funds not for profit activity.

2. Towards a “Voluntary Finance Initiative”

In economic theory, private sector investment is allocated by capital markets and, where the information gaps (or 'asymmetries') require it, by intermediaries such as banks. The third sector 'capital market' operates in a more eccentric way, with capital formation and allocation rationed through a wide range of intermediaries with varied concerns in terms of social outcomes. In some ways, this is what you would want and expect. But there are downsides. The insecurity and opacity of many local authority grant funds, from respite care to youth work looks good, for example, to a committee juggling short-term budget priorities but is grossly inefficient and wasting in economic terms.

A more far-reaching modernisation for certain activities would be to move from grants paid in advance, rationed by the pot available, to 'social payments' (or 'mission payments') made according to outcomes, with expenditure determined by performance. This would not simply be a more efficient way of funding the activity of a voluntary organisation, with improved 'incentive compatibility' between funding and performance. It would build what the Cabinet Office calls 'public value' (aligning incentives with outcomes, satisfaction and, potentially, trust). But also, if the outcomes associated with such social payments generate net cost savings to government, it will quite simply be a more efficient way of allocating public expenditure.

This would only operate for activities that were clearly bounded and quantifiable – generating a clear 'social return on investment'. Such returns might include keeping young people from re-offending, enabling adults to stop smoking, providing support and respite for carers that look after people in need, or achieving sustainable levels of household recycling in a neighbourhood. For activities with multiple desired outcomes, or where outcomes are shaped by a more complex set of interventions, outcome funding of this kind will be harder to implement.

Social Return on Investment

The New Economics Foundation is developing work, supported by the Hadley Trust, to look at whether a clearer understanding of 'social returns on investment' could help to foster a more efficient capital market for third sector and social enterprise activity. For example, there is at present a swathe of closures of traditional day centres for people experiencing enduring and cyclical mental health problems, including severe learning difficulties. One response is the development of 'social firms', enterprises providing employment for people with disabilities, and covering some part of the costs through income generation.

Ian Pepperdine of the Shaw Trust reports that to maintain somebody in the community through a business has an estimated health saving to the public purse of £1,200 to £1,400 per week – with additional savings from reduced reliance on day hospital and community mental health staff. However, without an accepted framework for assessing such social returns, social firms that operate with a high degree of subsidy are being excluded from consideration, even though numerous studies demonstrate that all but a tiny minority of people with disabilities want to work.

A system that replaced rationing with social payments (resource allocation based on social return) would work in the following way. An accredited organisation achieving social outcomes, such as reducing youth re-offending, would draw down a revenue stream funded out of taxation, to cover their costs. Funding would be:

- at a 'social market' rate – that is set not at the input costs of achieving the 'social outcome', but at the marginal cost of social benefit (for example including cost savings, such as savings in court time, or improvements to a public good, such as a sense of security).
- 'unrestricted' in terms of charity accounting as it relates to trading activities already completed, and would contribute to the balance sheet of charities.
- probably offer a margin over costs, which creates an incentive for voluntary organisations to innovate and to invest, drawing on loan or equity equivalent finance, where appropriate in tackling the problem.

If youth offending falls through more organisations tackling, it, the 'social market' price will also fall, as the public benefits of dealing with the remainder have decreased, so that a balance of supply and demand can be found.

Approaches like this have been canvassed in relation to issues such as energy efficiency and carbon trading. With energy efficiency, rather than paying for 'watts' of

energy, a market has been proposed for the production and trade of 'negawatts' of energy savings. In carbon trading, initiatives for carbon sequestration are funded out of the social market price received by companies or countries wishing to reduce their net carbon emissions in line with sustainable levels. There have also been experiments in the public sector in which prisons have been funded in part according to their success in reducing recidivism, and employment zones are funded according to a sliding scale of success in placing people in jobs.

Social payments would be made to the not for profit sector under stable 'social performance contracts' that tie funding to results, in the form of outputs or outcomes actually delivered to target beneficiaries. Traditional contract approaches for third sector activity typically have static and indirect links between funding and results on the ground. This can lead to disappointing results. Incentives for efficiency and innovation are weak. Accountability for performance is poor. And opportunities for leveraging public resources through private financing are limited. Social payments, agreed in social performance contracts, address these weaknesses by applying the following six criteria:

- Target development outcomes: reflected in the approach to defining eligible recipients and the specification of output or outcome-related performance measures.
- Results-focus: performance contracts link payments to actual outputs or outcomes.
- Opportunities for innovation: service providers may be contracted on a competitive basis and the approach can create powerful incentives for innovation and experimentation.
- Building accountability: where the results of organisations under the contract can be verified and compared by funders and consumers more widely.
- Providing incentives for efficiency and high-performance: if payments are made promptly but withheld where satisfactory delivery of services has not been achieved.
- Mobilizing private finance: can help not for profits attract private financing by contributing to a secure business model, clearly demonstrating the social return on investment.

Case Study: Princes' Trust

Prince's Trust is a charitable social enterprise with a history of supporting disadvantaged young people through self-employment. The Trust, with a strong reputation and influential networks, has been a pioneer in testing a stable social performance contract approach.

Prince's Trust operates a social performance contract with the Department of Work and Pensions (DWP) to help young people find employment. Targets for the numbers of young people to be helped into employment are set annually, based on agreement between DWP and Prince's Trust. Prince's Trust provides business support, mentoring and start-up financial awards – primarily business loans – to eligible young people as part of their normal program activities. Lump sum 'outcome' payments are made by DWP to Prince's Trust on a quarterly basis for each young person provided with an award. The DWP's aim is to assist people find long-term employment. Hence, an additional 'survival' payment is made to Prince's Trust for every individual that is still employed or trading after 12 months. This provides an added incentive for Prince's Trust to provide high quality support.

For Prince's Trust, funding from the performance contract with DWP represents a secure and stable source of revenue. The social performance contract represents 40% of business programme revenue and 12% of overall Prince's Trust revenue. It is also a flexible source of financing, much welcomed in an arena where funding can be highly restricted. For DWP, the social performance contract provides an effective means for them to deliver services to young unemployed people. It delivers both results and ultimately the best use of scarce public funds.

As Henrietta Moore and I argued in the New Economics Foundation pocketbook, *The Mutual State*, 'with social performance contracts, government is able to harness the innovation, flexibility and client focus of a third sector body without drawing it into often destructive and bureaucratic contracting or bidding regimes.'

3. Conclusion

The premise of the Voluntary Finance Initiative is that government is well-placed to provide more stable funding for not for profit organisations for services in the public interest and to structure finance in ways that promote better outcomes and lever finance from other sources. Rather than raise finance in a novel way but disburse it in traditional ways that suffer from all the weaknesses of bureaucratic grant regimes, the model of social payments, at least where clear outcomes can be identified, offers a modern way to fund and incentivise third sector activity. It clearly needs testing, and a pilot would need to be sensitive to issues such as phasing, risk and the timing of payments.

Social payments, however, are not simply about a new role for the third sector. They symbolise a new approach for the state, recognising the comparative strength it has in terms of raising finance (through taxation or leveraging private finance at scale), but also promoting what Keynes called a 'social investment' model for public expenditure, in which preventative expenditure is justified by the savings or returns made down the line. This, in economic terms, is the great hidden asset of the third sector: that in promoting activities of public value, it is cutting the costs of poverty and other scourges to society more widely. Without its activities, from carers to neighbourhood watch, the fiscal price tag would be far higher. The great rationale for a significant, intelligent increase in resources for third sector activity through social payments funded through the Voluntary Finance Initiative is that it will be cost-saving.

Government will never be able to stand in for the free and voluntary association of people, coming together for a cause. But it can do far more to modernise the funding infrastructure for the third sector to flourish, as an investment by society in its own freedom and future.

Case studies

St Andrew's Group of Hospitals

St Andrew's Group of Hospitals has been in existence since 1838 as a trading charity within the independent and voluntary sector providing specialist mental health, learning disability and acquired brain injury services. St Andrew's has led the way in service innovation particularly in adolescent psychiatry and brain injury identifying national needs and providing service solutions to meet the needs. During the last 55 years St Andrew's has witnessed the birth, growth, and many changes within the NHS. It is the NHS that now represents St Andrew's most significant customer funding the majority of the patients treated in the 600 beds at its sites in Northampton, Basildon and Harrow.

St Andrew's forms part of the 'independent healthcare sector' which itself represents approximately one third of the specialist mental health and learning disabilities secure in-patient beds in the UK. Patients placed at St Andrew's are generally those that the NHS is unable to place within its own services due to lack of a bed or because the patient requires a specialist service. St Andrew's purpose is to work in partnership with the NHS to provide complementary and supplementary services to those provided in the NHS.

Despite the NHS reliance on independent sector beds for the treatment of these patient groups, generally the independent sector has been regarded as a 'necessary evil' which should be dispensed with as soon as the NHS can become 'self sufficient'. This attitude has hampered effective long term 'joined up' planning between the independent and statutory sectors in the provision of many important services. Instead of promoting partnership working, seeking innovative and specialist solutions and developing long term contracts for these services, 'spot purchasing arrangements' have been the norm.

This has meant that charitable organisations like St Andrew's have had to operate entirely at their own risk. St Andrew's has invested significantly in new buildings and services to improve the quality of its services. However this substantial capital investment has had to be made without firm commitment from the NHS to use these services. Indeed, at the same time the NHS has been planning to invest in their own services.

In the last few years the picture has begun to change and progress made towards improved planning as the Government has acknowledged that the independent sector has a role to play in the provision of these specialist services. St Andrew's has been invited by the NHS to join strategic planning groups and in another case a 'partnership forum' has been established to bring together NHS commissioners and independent sector providers to facilitate improved joint working. St Andrew's has also recently agreed a 3 year contract for services with one of its local commissioners which represents a positive shift away from the 'spot purchasing' environment.

A change in attitude towards the independent sector has been perceived in recent years. However, the NHS remains both a commissioner and provider of services and, there is still a long way to go before St Andrew's and other similar organisations are regarded as part of the family of healthcare service providers and embraced in planning at all levels. The Government's Foundation Hospitals concept could provide the opportunity for charities such as St Andrew's to be truly embraced within long term NHS strategy. Foundation Hospitals will be independent, not-for-profit self governing trusts which is precisely what St Andrew's Hospital has been for the last 170 years.

John Brigstocke (July 2003)

Tomorrow's People Trust: Getting London Working

Who are Tomorrow's People?

Tomorrow's People is a specialist charitable trust, with 19 years' experience in helping unemployed people from welfare to work. We facilitate between Government, business and individuals, and assist on average 7,000 people a year, and over the lifetime of the trust have helped over 365,000 people.

Getting London Working

Getting London Working (GLW) is a successful community regeneration initiative, launched in October 1999 by a 14-strong partnership brought together by Tomorrow's People. GLW targets chronic unemployment in deprived areas of Lambeth, Southwark, Islington and Camden. In 2002, a GLW project was established in East London, covering Hackney, Tower Hamlets and Newham. From 2001 -2003 the King's Fund financed an additional specialist health adviser to work with clients in Southwark with physical and mental health issues, disability or dependence on alcohol or drugs.

Getting London Working is an expert labour market intermediary which:

1. Provides support to unemployed people, helps them secure skills, and assists with all aspects of job search and preparation to move into employment
2. Helps employers fill their recruitment needs with skilled, job-ready candidates from the pool of local people without work, through targeted job-matching
3. Contributes to local economic regeneration by matching supply and demand sides of the labour market to improve business productivity and reduce unemployment

How and why does Getting London Working work?

One-to-one client support

GLW gives clients individual attention and continuous support throughout the job search process. We deliver a variety of services such as confidence-building, job search, CV-writing and interview technique, and once a client is in work, GLW provides aftercare to help keep them in their job. We offer debt and financial advice through the *Moneywise* service, and refer clients for specialist help and/or training to our many partner agencies.

GLW emphasises soft outcomes such as confidence-building, basic or personal skills, punctuality and communication. This is particularly important for clients who have a history of offending or substance misuse.

Our service works because:

- Clients trust us because as an intermediary, our service is not related to payment of benefits;
- We spend as long as necessary to really understand their barriers to employment and build trusting relationships;
- Staff are totally committed to clients and have a 'can-do' mentality.

Continuity and time with advisers creates successful outcomes, yet in contrast our clients report anecdotally that appointments at Jobcentre Plus take about 15 minutes.

Where we operate

Since 2000, GLW has worked in partnership with a network of more than 100 local community-based organisations to access and support clients near their homes. Outreaches include community centres, health centres, libraries, neighbourhood housing offices, colleges, mosques and churches. Permanent resource centres in Lambeth and Islington offer free phones, faxes and newspapers for job search; career guidance software and internet access.

Effective Employer Partnerships

The GLW Employer Team works with employers to understand the specific requirements of the job on offer, and their expectations of the recruit. Precise job-matching ensures the “right” clients are sent to the most appropriate employer, thus saving time and money, and increasing the likelihood of job retention. Feedback indicates this approach is greatly preferable to that of Jobcentre Plus who ‘swamp’ employers with candidates who are not job ready. Employer and employee receive aftercare, to resolve teething problems swiftly, and ensure employment is sustained.

Seeing a need, GLW developed *Workmate*, a handbook of essential information about employment law, specifically written for small and medium enterprises. Additionally, GLW ran customised pre-recruitment training for the Tate Gallery of Modern Art: 60% of successful applicants were GLW graduates, in competition against candidates from the normal national advertising and recruitment process.

Funding

In order to provide a full range of services to clients, GLW sources funds from a cocktail of 8 different funding streams. This places heavy demands on management time, but reducing the number of funders would mean cutting a section of the service.

Matters are complicated further because each funder:

- Has their own rules, e.g. specification of clients, postcodes or what the money can be spent on;
- Has individual requirements for financial and beneficiary monitoring and audit;
- Has a different timetable: With the exception of SRB (6 years), the remaining funders operate on 12-24 month basis, leading to discontinuity and instability. Not all funders work to a financial year, so budget planning is particularly difficult. Frequently, programmes end before the funder has indicated whether further monies will be available to continue the service, and GLW carries a significant risk in deciding to continue the service rather than stop it. The latter reduces quality of service to clients because of staff redundancies, lower morale and interruption to the client intervention.

This funding quagmire is also extremely costly: Tomorrow’s People has to subsidise the full cost of managing the process, because funders do not meet any costs incurred in the securing of funds.

The social and economic case for expanding *Getting London Working* is clear:

- i) For the unemployed person who enters work, a wage is earned, and their self-esteem lifts. Employers fill a vacancy, save money on recruitment and reduce staff turnover. The State also benefits: the estimated annual cost in Government benefits of one person remaining unemployed is in the region of £9,000. Furthermore, each person entering work contributes to revenue through NIC and taxes, ultimately helping the taxpayer, since funds can be re-prioritised.

- ii) GLW is extremely cost effective, with an average cost per job of £3,532. In comparison, the National Audit Office (*The New Deal for Young People*, February 2002) found that “the average annual cost per additional person of any age in employment lies within the range of £5,000-£8,000”.
- iii) GLW focuses on the hardest to help groups like the long-term unemployed (20% of GLW clients have been unemployed for over three years) and black and minority ethnic (BME) clients (66% of GLW total). Often, clients are caught in the benefits trap, and face other barriers to employment such as lack of basic skills or qualifications, low confidence, low motivation, physical or mental health problems, history of offending or substance misuse, and practical issues such as childcare or transport.
- iv) GLW has achieved outstanding rates of job retention with hardest to help clients (see below). Independent research¹ in 2001 showed that of the people helped into employment, 80% were still in work a year later. Tracking is currently taking place, and confirmation of responses received shows 56% of clients still in work after 12 months, and we believe this will rise to 70% as tracking continues. Although lower than earlier results, given the increasing proportion of the very hardest to help among the long-term unemployed, this is a notable success.

Proven Outcomes²

- 90% of GLW clients who entered employment (January 2000-January 2003) were still in work 3 months later, and 80% were still in work after 6 months.
- 93% of businesses who employed GLW clients and responded to our tracking survey in 2002-03 indicated that they were happy with the quality of the candidate and the service provided by GLW.
- Between January 2000 and 31st March 2003 GLW has:
 - Provided support to 2830 unemployed people
 - Helped 961 people to move into employment, 71% of whom went into full-time work and 66% of whom were from BME backgrounds
 - Created 25 new jobs
 - Provided recruitment and retention advice to 1,141 businesses
 - Secured more than £247,000 of private sector leverage
 - Helped 515 people move onto training, further education or voluntary work experience

Summary

Comparison between *Getting London Working* and mainstream provision in terms of cost and outcomes tells a compelling story. What we do works: our track record of job retention, innovation and experience with the hardest to help clients is outstanding. It is our belief that the Government can meet its long-term ambitions only by broadening the remit of the voluntary sector: to deliver accessible, high quality public services to the neediest in society.

Sources

- ¹ Greater London Enterprise: Getting London Working. A summary of the independent evaluation for the 12 months from March 2000 – its first full year of operation (May 2001)
 - ² Getting London Working: Tracking (June 2003)
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Third sector housing associations

There is currently much interest in a possible dramatic expansion of third sector public service delivery. In all the excitement of debate, it is easy to forget that in one area of public service a dramatic expansion has already taken place, and provides useful examples. In 1974, housing associations managed an insignificant 100,000 homes across England. Thirty years later, that number has risen to 1.8m, and will continue to rise for the foreseeable future. What can we learn from the housing experience? There are both positive and negative lessons for the rest of the voluntary sector.

A few words first about this expansion. From 1974 to 1988, growth was relatively steady. Using government grant and loans, housing associations rehabilitated run-down housing stock, and also produced new homes. In 1988, all of that began to change. For a start, public funding now had to be used alongside private loans. In effect, this was an early version of the PFI, which to date has brought in some £26bn to the sector alongside a similar amount of public funds.

Even more significantly, 1988 saw the beginning of large-scale voluntary transfer. Transfer (also known as 'LSVT') occurs when a local authority sponsors the formation of a new independent housing association, and transfers some or all of the council's homes to that new organisation. Since 1988, almost 800,000 homes have been transferred, leveraging in large sums of private finance, and opening the way to increased tenant satisfaction.

Housing associations are now a substantial sector, with wide expertise in the provision of homes, services and regeneration. Since 1988, they have been the main providers of new affordable homes.

Central to this success has been the concept of partnership. Housing associations have never seen themselves as replacing the state, nor as competing with the public sector. Large-scale voluntary transfer is exactly that - voluntary. The local authority concerned has to decide to pursue transfer, and then a majority of tenants must vote for the proposal before it can proceed. After transfer, housing associations continue to work closely with the local authority for instance on nominations, new developments and regeneration initiatives.

So what are the secrets of housing associations' success? A few obvious factors spring to mind:

- compared to the rest of the voluntary sector, housing associations are a relatively homogenous group of organisations, with a strong collective culture and identity;
- they have an effective and substantial trade body, which has the capacity to negotiate in detail on government proposals, and can take an assertive or pro-active approach when necessary;
- since 1974, housing associations have enjoyed unparalleled access to public funds – as mentioned, some £25bn of public grant has come their way, largely channelled through a dedicated government agency- The Housing Corporation. Until 1988, the funding system was almost entirely risk free, and gave the sector a “turbo-boost” for growth; and
- similarly, housing associations have their own dedicated regulator, also the Housing Corporation. The Corporation has proved highly effective in terms of protecting public funds, and boasts that not one penny of public grant has ever been written off. In addition, housing associations are now inspected by the Audit Commission, and have their own statutory ombudsman.

It would not be impossible to replicate these conditions in other parts of the third sector, but it would need substantial investment, and a highly strategic approach. In particular, the 1974 to 1988 funded “turbo-boost” would be hard to replicate in today's public expenditure framework.

However, it would be wrong to imply that the housing association experience is entirely positive. Housing associations have been criticised for various reasons, including:

- a perceived accountability deficit, based on the fact that they are not from the public sector, and hence not democratically accountable in the same way as local authorities. In response to this, housing associations continue to develop their own stakeholder accountability framework, although criticisms do persist from some quarters;
- for having become bureaucratic and remote, having expanded to greater size; for being too public sector influenced, and inefficient;
- in contrast and contradiction to the previous point, for being over competitive, and overly influenced by the private sector ethos; and
- perhaps most tellingly, for having lost their local roots and accountability.

It is certainly worth dwelling on this last point in more detail. During the 1980's and 90's, government competition policy meant that individual housing association expanded their activities into a great range of geographical areas. As a result, many associations have considerable amounts of scattered stock, and in many neighbourhoods there are illogical patterns of ownership, and more individual housing associations than is sensible.

In response to these actual perceived problems, housing associations are currently taking a current initiative to address them. Under the title of "iN Business for Neighbourhoods", a sector change programme is under way, associated with a strong and positive identity aimed at changing public perceptions of their work. It may be of interest that a similar initiative has been proposed for the wider social enterprise sector, although it is not yet at such an advanced stage. Through the "iN" initiative, housing associations are aiming to rediscover neighbourhood roots, while focussing more effectively on the needs of communities and customers.

After thirty years of expansion, this kind of re-evaluation and repositioning is highly necessary. If the rest of the voluntary sector is to follow a similar path to housing associations, the experience of that – generally fortunate - sector is there for anyone to learn the lessons.

James Tickell

Air Ambulances

In 1986, the concept of using an air ambulance to provide rapid transport for trauma patients was tested in Cornwall. From a health economics perspective, the costs were not considered to be justified by the Department of Health, given the extreme pressure on NHS budgets. However, from the perspective of the local population, they had been exposed to the tremendous advantages of an air ambulance service working in a remote community with only one major A & E Hospital. This emotional response was predictable, given the media support for the service with regular reports of “lives saved”. The message was simple – if local people want an air ambulance, they would have to find ways to fund it. This resulted in the formation of the Cornwall Air Ambulance as the first air ambulance charity in the UK in 1987, entirely funded from local community fundraising efforts. Today, this service has become a local institution and raises sufficient funds to sustain one of the latest and most advanced air ambulance helicopters in service.

The decision not to fund air ambulances from the state set the scene, creating the pattern that has emerged whereby local communities have taken their own initiative, with fifteen charities now operating with 19 helicopters in England and Wales. In Scotland, the air ambulance service is funded through the Scottish Assembly as a part of the Scottish Ambulance Service.

By 1999, the coverage for air ambulances was restricted just to those areas where local charities had been established and services started – namely Cornwall, Devon, Kent, London, Midlands and the North East. The Automobile Association then introduced a major sponsorship deal, with the objective to achieve national coverage by 2002. During this period, a charity was set up – NAAAS – to oversee this process; in total six new services were started with £10.5m being drawn down to kickstart these operations. This was one of the largest ever sponsorship deals for any charity and the intervention of the AA probably speeded development of a national air ambulance service by several years. Despite strident efforts, there are still a few areas without a dedicated air ambulance service – namely Hampshire/ Isle of Wight, Bedfordshire/ Hertfordshire and N Ireland.

With the end of AA funding in 2002, it was clear that the six new charities had not reached a level of sustainability. There was a crisis and these services were at risk of folding, or at least having to reduce their service to five days per week. The Department of Health intervened and provided emergency funding of £2.4m to underwrite the fundraising shortfall – but this was seen as a one-off gesture at the time. For the longer term, it was agreed that all the employment costs for the paramedics used on air ambulances would be covered from the NHS – until then the charities were even expected to pay for these essential staff.

By 2003, most air ambulance charities are able to sustain their services, although many remain financially exposed with limited working capital. Immediate and serious challenges are now having to be faced as new international regulations are being introduced that require ten existing helicopters to upgrade to the latest technology. This will result in an annual increase in costs, on average, from £700k to £1.2m – an increase of 70% to be met through increased fundraising.

Public perception

Recent surveys have indicated that 65% of the population do not realise that air ambulances are generally dependent on the goodwill of the public. As many as 87% believe that this service should be state funded.

However, there is another aspect to this. The regional charities have developed a strong local empathy and have become an integral part of the regional community. Most air ambulances carry the message “supported by the people of “county”” as a key message. Popular enthusiasm is such that the air ambulance engenders a sense of ownership, because the community have had to do this for themselves. Local press and media usually reinforce this support. Most regions have

an army of volunteers that operate with real enthusiasm as the “call to action” is so relevant. The longer a charity has been operating, the more robust the local funding. Once legacy income starts to flow – usually after about five years – the charity becomes financially secure and this creates a deep sense of independence.

It is against this background that any future state funding needs to be considered. Total intervention – whereby all air ambulances are state funded – would create a storm of protest where enormous commitment has been made by the local community. There may be a case for some form of new partnership with the state to help build the capacity in ensuring that there is a national and modern air ambulance service, with appropriate recognition of local charity identity.

Future issues

Road congestion is increasing, to the extent that the current demands for air evacuation and/or medical treatment can only increase. At present, 47% of all missions are for road accidents. In Germany, there are 81 air ambulance helicopters – in the UK, there are 21 in operation in total. In 2002, there were 13000 missions in England and Wales alone.

The Air Ambulance Foundation has identified three areas of key funding need. Firstly, sustainability – in order to ensure that all existing services are viable. Secondly, upgrade – to fund the extra costs involved in meeting new regulatory standards with new generation helicopters. Finally, expand – to complete the cover of dedicated air ambulance services to include Hampshire/ Isle of Wight and N Ireland as immediate priorities.

Landing sites at hospitals are generally inadequate – to the extent that less than 50% of A & E departments can trolley the patient directly from the aircraft to the hospital. This is an issue, but it is seen as a Department of Health estates issue and not necessarily an issue for the air ambulance community to resolve. It is in this area that some major intervention by Government would make an enormous positive impact on the quality of the services being provided by the air ambulance charities.

In its role as the umbrella organisation for the majority of air ambulances, the Air Ambulance Foundation is seeking to raise funds at a national level to add value to regional charity efforts. We envisage a role for state funding that recognises the independence and credibility of regional charities that have fought hard to achieve “their” service. This would be through working with the Air Ambulance Foundation as a central body to add value and build capacity throughout the air ambulance community, by providing some grant funding at a central level. Secondly, a substantial commitment to providing safe and proper landing sites within a target time frame would demonstrate a partnership approach that would have a direct impact on patient care.

Jon Scourse

Executive Director, Air Ambulance Foundation 25/7/03

Surrey Wildlife Trust: A Natural Partnership for Surrey

In the 1930's Surrey County Council pioneered the concept that evolved into Green Belt legislation, protecting countryside for the enjoyment and education of an increasingly urbanised population. They christened this new enterprise the Countryside Estate and their first success was the acquisition of Norbury Park, a magnificent parkland near Leatherhead. Over the next sixty years, in pursuit of this policy, the Council secured an enviable portfolio of land, in the process acquiring many prestigious sites, all with significant social, historical and environmental value. In parallel public access agreements with private landowners ensured other flagship sites were available for people to visit and enjoy.

Surrey County Council's Countryside Estate eventually covered 10,000 acres of the county, of which the Council actually owns 6,500, embracing many areas of tremendous scenic and environmental value. But Surrey County Council's Countryside Estate is more than the sum of its parts. It is an estate in the true sense of the word, employing people who depend upon it for their livelihoods and supporting a number of farms and businesses that themselves have employees, customers and suppliers.

By 1998 the County Council began to acknowledge that the Countryside Estate demanded levels and types of investment that it was not well positioned to deliver. On top of other responsibilities, by that time over 75% of the Estate carried one or more designations for nature conservation, an additional burden on already over stretched resources.

It was this pressure and the fundamental obligation to maintain these sites as high quality public amenities that prompted Council Officers to recommend a review of the management structures to Members. They recognised that the proper care of these sites would always have to be a secondary priority for the Local Authority and could not be allocated the time or money that they really deserved or needed. The Council wanted to ensure the long term future of these irreplaceable natural assets and recognised that a new approach was necessary in order to truly safeguard them.

Accordingly, following an internal review of the possible options, a discussion document was circulated to interested parties inviting proposals for the future management of the Countryside Estate. Of all the responses received Surrey Wildlife Trust's was considered the most comprehensive and in 1999 preliminary discussions began.

With no real precedents to draw on it took three years of negotiation before Surrey Wildlife Trust and Surrey County Council reached a satisfactory agreement; but the outcome could become a template for the management of publicly owned land across the United Kingdom in the 21st century.

Against the background of a 50-year lease covering the land and other assets Surrey Wildlife Trust assumed, under the terms of a service agreement, management responsibility for the Estate. Surrey County Council guaranteed an annual, inflation proof, payment that met its revenue expense objectives and provided the core of funding for the new operations. A forty one point service delivery specification is in place that ensures delivery of the Council's aims and objectives.

In recognition of the diverse facets of the new organisation Surrey Wildlife Trust set up a new, wholly owned, subsidiary company to put the management of all the Trust's land under one roof. Surrey Wildlife Trust Countryside Services will operate alongside other Surrey Wildlife Trust activities to offer a complete portfolio of advice and information plus the practical implementation of environmental policies and best practice.

Overall responsibility for the financial administration, marketing and fundraising for all of these functions will remain within the Surrey Wildlife Trust headquarters at Pirbright. One of the factors

that instigated the Council's original decision to explore different arrangements was the opportunity to fundraise on behalf of the Estate from sources normally closed to Local Government.

Whilst, in this day and age, it is not unusual for local authorities to outsource their service provision, a partnership with a nature conservation charity is a revolutionary step that other councils and non governmental organisations are watching with keen interest.

The Trust is committed to protecting and enhancing the hard won status that many parts of the Countryside Estate so richly deserve. Chobham Common is one of 14 registered commons in the portfolio and a National Nature Reserve especially valued for bird life. Beyond a very special significance to the local community it has an international reputation that demands special attention. Norbury Park, listed on the English Heritage Register of Historic Parks and Gardens, lies within an Area of Outstanding Natural Beauty and is designated as a Site of Special Scientific Interest.

But these high profile sites form only part of a mosaic of heathland, chalk downland, woodland and farmland that is the Countryside Estate, areas of land that are extensively used and treasured by local communities and provide invaluable havens for wildlife. Surrey Wildlife Trust and Surrey County Council are shaping a natural partnership for Surrey that will dictate the profile of the county for the next half century.

A year in we are still in the infancy of this new relationship. In many aspects it is a learning curve for both sides and for all the staff involved, but already the benefits are beginning to appear and we are intent that this enterprise, in all its complexities, will succeed, to the benefit of the people and wildlife of Surrey.

Rethink severe mental illness

This example shows how a partnership approach can allow highly sensitive work to be co-provided with the voluntary sector in a way which fully recognises new NHS developments. A task group has been working on modernisation of mental health helplines and this project is seen as setting a template for the future model of work between the voluntary sector and the NHS in mental health. This project has reached a critical stage and Focusline is one illustration of what the programme can achieve.

Mental health crisis intervention is a highly sensitive area where a series of high profile inquiries have shown the importance of integrated working and effective information exchange.

Telephone helplines are a key part of crisis response, easy for service users to access. However, traditional voluntary sector helplines have operated remotely from NHS services, often disconnected from locally based statutory teams. NHS Direct and crisis resolution services have changed the scene substantially, offering opportunities for new partnership approaches.

As shown in the attached brief, Rethink's Focusline in the East Midlands is a locally commissioned and highly integrated service working in an effective local network. Widely promoted and seen as accessible by service users and carers, it receives a high level of calls, now over 20,000 per year. Some calls are for reassurance and emotional support or for information, but over 50% are for crisis intervention following intent to self-harm or attempt suicide. The service is able to support many callers through their crisis, backed up by a face-to-face service and support house. Around 10% of callers need emergency support, and here the links with NHS Direct and statutory crisis teams come into their own.

The service has two-way call transfer protocols with NHS Direct and NHS mental health teams. The local basis of the service means that personal contacts, cross training and promotion work can build effective joint working with primary and secondary care services. The partnership approach makes mental health crisis response more accessible while reducing the burden on hard pressed statutory teams by acting as a well targeted and constantly evaluated filter.

Rethink Focusline and Churchill House

The Churchill House Project was set up in October 2000 and consists of three elements: Focus Line (Telephone Help Line), a face-to-face facility, and a support house (temporary short stay accommodation). The service provides support for those affected by mental health issues and is closely integrated with the local statutory services. The primary aim of the service is to prevent inappropriate hospital admissions, particularly the high proportion, which are caused by social problems.

The Focus Line element covers Nottingham City, Greater Nottingham and the whole of Derbyshire, Leicester, Leicestershire and Rutland. The face-face facility and the support house are funded only by Nottingham PCTs and cover the Nottingham City and Greater Nottingham. The Nottingham based service was set up as a result of the views put forward by service users and carers.

Focus Line offers support and a listening ear to anyone affected by mental health issues, whether it is a person experiencing mental health distress or a carer. It can also provide information on mental health services in the locality and nationally. We have an extensive resource system and will send out information on various subjects, including publications on medication and various mental health problems. We also link directly with NHS Direct if someone requires advice on medication or if someone is experiencing a medical crisis for which they require medical attention. Focus Line can arrange emergency and specialist support through CHMTS, inpatient services, social services emergency duty team, GP services and the ambulance service.

The face-to-face facility provides support at the project for those who are experiencing mental health distress, and for whom the telephone support is no longer adequate or appropriate. An individual can access this facility via Focus Line at any time of day or their care coordinator can refer them. People may stay from one to two hours or they may stay for longer periods of several hours.

The support house provides temporary short-stay accommodation for mental health service users who require some time-out due to a social crisis. The crisis could result in a person having to be admitted into hospital. The support house offers an alternative to hospital and can prevent deterioration in mental health by providing respite for maximum of seven days.

The service has a strong commitment to empowering people to gain control over their lives. Individuals use the service as a coping strategy. At the same time care is taken not to create dependency, so people are encouraged to use their own resources as well as the service.

There are fifteen members of staff at the project who all have had experience of dealing with mental health problems. For some staff this experience has come from personal experience as a user of mental health services or as a carer. For other staff this has come from working within mental health services. Staff receive an intensive training induction programme, which covers workshops on dealing with different types of calls, counselling skills, risk assessment and management and mental illness.

The service is developing all the time. We have installed a new telephone system and database to improve the efficiency of the service and will be linking up with the NHS Direct database. We have also set up a wider focus group for ideas to further develop the service and promote partnership working. Representatives on the group include those from voluntary and statutory sectors and from the Asian and African-Caribbean communities. We have also received further funding from Nottingham PCTs to refurbish an outbuilding into a suite to allow access for those with a physical disability. Finally as a result of a number of our calls being of a social nature, we are setting up a befriending line, which will be staffed by volunteers.

On average we now receive around 1,800 – 2,000 calls per month to Focus Line. Half of these involve people with ideas of self-harm or suicide.

The service is about to be evaluated in order to assess its impact on the care pathways for individuals and its effect on the use of other parts of the mental health service locally, including acute psychiatric beds. Work is also being done to see how the service could expand its reach and increase access from people from black and minority ethnic groups. Rethink would like to find other localities in which this service model could be developed with local statutory partners.

A longer-term, more strategic approach to funding the voluntary sector to develop such services could assist in providing a firm base and greater certainty from which to plan assertive promotion of the model in other localities. It would also help in providing the core development capacity and infrastructure necessary to achieve new development and to ensure on-going evaluation and quality assurance measures.

Brandon Trust – People Supporting People

Since 1996 The Brandon Trust has transferred in excess of £20 million of services from the NHS and Local Authorities.

We are a provider of high quality services for people with learning disabilities. Currently we provide services and support for some 956 people who previously received services from the NHS and Local Authorities. We employ on a permanent or adhoc basis in excess of 1200 employees, having started with an employee base of 5 in 1994.

An example of the flexibility that the third sector has was reflected in the transfer of a full day service from a local authority under a modernisation agenda. This agenda will be more flexibly achieved outside of the public sector, whilst at the same time embracing Valuing People.

We have transferred in excess of 800 staff to the Trust from the public sector and have been able to achieve more flexible and person centred working conditions and pay. This has had the effect of raising moral and stabilising cash flow. At the same time we have been able to give our employees stability in the public sector; reorganisations in the NHS tend to be a regular occurrence. As an independent charity we have been able to offer a longer term view of the future and whilst recognising that nothing is forever it is acknowledged that our future structure is largely in our own hands and not at the mercy of external sources.

Equally, some may be interested to know, that we have been able to provide these services at least 10% cheaper than previously provided.

Sadly though, our biggest hurdle is that we have not been recognised as a significant provider source and just a charity. Organisations such as ourselves bring to the table access to capital, flexible short term and long term planning and responsive thinking.

Public services - are you really serious about partnership?

Stephen Bennett

Chief Executive

Naz Project London

Naz Project London (NPL) is the only pan-London specialist BME sexual health and HIV service provider.

NPL is engaged in three main areas of public service: sexual health promotion and STI/HIV prevention, support and care for people living with HIV, and training and consultancy for mainstream sexual health and HIV service providers to BME communities. Most recently we have also become involved in sexual health research among BME youth. NPL is BME led. Its staff are all from BME communities. And it provides services almost exclusively to BME communities which are identified by the Department of Health as among those bearing the highest burden of sexual ill health.

In terms of sexual health promotion and STI/HIV prevention, we currently target four major groups. (1) Gay and bisexual men from BME communities: these men are particularly hard to reach because of the stronger cultural taboos surrounding issues of sexuality and sexually transmitted infections. This work includes sexuality support groups, health promotion and condom distribution in nightclubs, and production of culturally and linguistically appropriate information. (2) BME Women, especially women from the Horn of Africa (Eritrea, Ethiopia, and Somalia): these women include many asylum seekers and refugees. This work focuses on providing culturally appropriate information sessions, workshops and health fairs. (3) Naz Brasil: this includes a range of services to Portuguese speaking communities, e.g., people originating from Angola, Brazil, Mozambique and Portugal. (4) Naz Latina: this includes a range of services to Spanish speaking communities, mainly people from Latin/South America. Such prevention work is vital. The Department of health has calculated that the monetary value of preventing a single onward transmission of HIV to be between £500,000 and £1,000,000.

Similarly, the Department of Health estimates that the average lifetime treatments costs for a single person living with HIV to be between £135,000 and £181,000. NPL works with BME people living with HIV. This work begins with someone receiving a positive diagnosis for HIV. However, there are multiple related issues, e.g., late presentation for diagnosis and treatment, uncertain immigration status, no recourse to public funds, homelessness, dispersal, language and cultural barriers, racism, homophobia, and mental health concerns. The work is currently focused in 5 teams: Horn of African, Muslim, Portuguese speaking, Spanish speaking, and South Asian. Services include support groups, advocacy, home and hospital visits, and interpretation. Whereas the sexual health promotion and STI prevention work is largely funded by Primary Care Trusts (on a year by year basis), this work is almost totally funded by the Community Fund (on a three year basis).

NPL's training and consultancy is focused on assisting mainstream (White) sexual health and HIV service providers (including schools) to be more effective in working with their BME clients and students. This service has been provided, for example, to staff in Primary Care Trusts and schools. It addresses social, cultural and religious issues relevant to sexual health and HIV. It also provides support to BME students and youth. In working with youth, the emphasis has been more broadly on sexual health and relationships, STI prevention, and contraception. With two year funding from the Community Fund, NPL is currently embarking on a research project to identify the sexual attitudes, behaviours and lifestyles of BME youth in order to more effectively target its interventions and to produce a nationally available educational resource.

All of this public service can be expanded!

The health promotion and prevention work can be expanded within the existing communities, and also to new BME communities. The care and support work can expand to focus more on assisting clients to adhere to their treatment regimes so as to minimize drug resistance, or on mental health issues of clients including asylum seekers and refugees, or on enabling those who wish to re-enter the labour force. Training and consultancy can be expanded to the professionals within

the NHS, e.g., physicians, nurses and social workers and also to those in training to enter these professions.

This is not an easy field to work in. While the sexual health of the nation continues to decline dramatically, and HIV continues to rise, these are not easy topics to address in any culture. There is much stigma, prejudice and fear. In addition, funding in the voluntary sector is woefully insecure. The central Government seems to be moving towards building a more sustainable voluntary sector that has the ability to consistently provide high quality services. However, certainly in the health sector, the bulk of the funding for these services does not come from the central Government. It often comes from Primary Care Trusts and Local Authorities who only provide year-by-year funding, one year at a time. What minimal increments are provided do not keep up with costs. So, in effect, these annual grants have been consistently declining and voluntary organisations have had to find ways to subsidise public services. This is neither a fair nor viable long-term proposition.

Long-term funding, on a business-like cost recovery basis is essential to the provision of quality and consistent public service delivery. As we already do, these services would be based on identified need, and have clear aims, settings, targets, objectives, resources and monitoring and evaluation procedures. Removing the constant energy-draining annual insecurity around funding would help stabilize and strengthen organisations. This is crucial especially for BME organisations. NPL hopes this will become a reality in the not too distant future.

Bryan Teixeira
Director

Third sector hospices

The modern hospice movement is acknowledged to be one of the great successes of recent times. Founded by Dame Cicely Saunders in the post-war period, it has led not just to the buildings we know as our local hospices, but to a whole new branch of modern medicine: palliative care. Officially recognised by the profession as a specialism in its own right in 1987, palliative medicine focuses on the treatment of symptoms of individuals with an active, progressive, and advanced disease that is not responsive to curative treatment.

What most people do not realise is that these innovations were entirely developed and funded by the voluntary sector while Dame Cicely was working at voluntary hospices in London. Although 65% of us die in hospital, only 27% of this specialist care is provided by the NHS and the average government contribution to voluntary hospices is less than 30% of what they spend. Most patients admitted to a hospice are still surprised to learn that they are not part of the NHS nor 100% funded by the state. There are now 236 hospices in the UK caring for over 60,000 people as inpatients and a further 135,000 in their own homes. It is therefore evident that the third sector is the lead provider of care for the dying in the UK.

Hospitals are an example of entrepreneurship in healthcare outside the NHS. New methods for the control of pain and the relief of other symptoms have been pioneered, ensuring that patients need no longer be in discomfort.

Hospices are generally well thought of particularly in terms of feedback from patients and carers, the majority are well run and are supported by large teams of unpaid volunteers (not currently costed as a resource). Such is the success of palliative medicine that there is now talk of the need to transfer the use of these specialist skills to patients who do not have a terminal illness. Many hospitals could be run on similar lines to hospices with the focus on the patient as the centre of care rather than meeting the increasing bureaucracy of the health care system.

Hospices offer a range of services, including specialist medical and nursing care, counselling, complementary therapies, spiritual support, physiotherapy, beauty treatments and bereavement support. 50% of patients return home having received respite care or had their symptoms better controlled.

Many hospices are facing financial difficulties and have no long term funding security from the government. Although funding has increased to hospices, the increase in running costs has reduced the value of that contribution in real terms. A number of hospices have little influence over the amount of funding offered to them each year and therefore find it difficult to budget comprehensively year on year. Commissioners mistakenly think of charitable reserves as spare money to supplement income.

Within the NHS there is still much to do to ensure that all patients are free of pain and have access to the best possible end of life care that offers them the opportunity to die in the place of their choosing, with dignity and in surroundings of peace and calm. Too often local health and social services break down in the last few days of life, leading to admission to hospital and death on a general hospital ward. This has the dual effect of adding to the pressure on our already overstretched hospitals, as well as rarely providing a suitable environment for patients or their families at the end of life.

Hospices would benefit from agreements in place in exchange for secure funding that reflects the same commitment to health care as other specialist health care services e.g. coronary care, intensive care. What is needed is a clear NHS statement of what a patient and their loved ones have a right to expect from a modern health service in relation to end of life care. Where these services are provided by voluntary sector hospices, they should have adequate and secure funding of these core services from the state, leaving them to fund only additional and innovative services from charitable income.

For example, there is a clear need for hospices to develop their services in order to meet the needs of non cancer patients as well as cancer patients but this will not be possible until a proper funding formula is agreed on a national basis.

This would allow the hospice movement to embark on the next phase of its development – extending its specialist knowledge and skills to reach new types of patients, rather than struggling to maintain what already exists. Voluntary hospices would then also be able to share their specialist skills with GPs, district nurses and hospital staff. This would enable a quantum leap in the quality of care received by millions of NHS patients.

Douglas Bennett, North London Hospice
Steve Kirk, St Gemma's Hospice