

From: Roger Gough, Leader of the Council
Mike Hill, Cabinet Member for Community and Regulatory Services
David Cockburn, Head of Paid Service

To: **Cabinet – 16 May 2022**

Subject: **Findings from New Philanthropy Capital Research – Full Cost Recovery and commissioning the VCSE**

Electoral Division: Countywide- all divisions affected

Summary:

This report summarises the headline findings from a research project undertaken by New Philanthropy Capital (NPC) for Kent County Council (KCC), the final report is attached at Annex A. This research was commissioned in response to the action plan developed by the VCS Covid Recovery Cell and a subsequent commitment made in the recently adopted KCC Civil Society Strategy.

This research focused on the issues surrounding full cost recovery in KCC's commissioning of the VCSE in Kent, however by its nature the research has provided insights into some of the wider challenges found within commissioning models and the VCSE.

Recommendation(s):

For Cabinet to:

- 1) Endorse and comment on the research findings.
- 2) Agree the next steps in addressing the challenges set out in the report.

1. Background

- 1.1 This report summarises the headline findings from a research project undertaken by New Philanthropy Capital (NPC) for Kent County Council (KCC) and is underpinned by an extensive full report, provided at Annex A. The findings are based on a piece of rapid research (11 weeks) using structured interviews as the primary methodology.
- 1.2 The research was commissioned by the Director of Strategy, Policy, Relationships and Corporate Assurance and Strategic Policy Lead for the VCS following the work of the VCS Covid Recovery Cell, which highlighted in its assessment and action plan, issues with KCC's commissioning of the VCSE and particularly in relation to full cost recovery (FCR). This action was then taken forward into the VCSE Steering Group, which was established after the cell was stood down and has become a strategic engagement forum for KCC and the sector. The research was also discussed with the VCS Strategic Partnership Board, Chaired by Mike Hill, Cabinet Member for Community and Regulatory Services and there is interest from both district councils and the NHS, who are represented on the Board in the learning from the final report.

- 1.3 Whilst the issue of FCR is long-standing and not one that KCC faces alone, it was emphasised during the pandemic when organisations were not able to fundraise and voluntary income was reduced, putting pressure on budgets, particularly where this supplemented KCC contracts for service delivery. The report states that through this work it has been apparent *that KCC is forward thinking compared to peers in grappling with the question of full cost recovery (FCR). Much has been written in the past about good commissioning with the Voluntary, Community and Social Enterprise (VCSE) sector. However, the issue has been deprioritised through Covid-19, and there is relatively little public discourse about commissioning practices generally, let alone the specific issue of FCR. There has therefore been real interest in the findings of this research among national interviewees.*
- 1.4 The primary methodology was structured interviews, using a standard guide based on research questions indicated in the original research specification, and developed through the initial stages of the project through consultation with stakeholders at KCC and the VCSE Steering Group. We are grateful to all those who gave their insights to inform the research and to our local authority colleagues who provided case studies.
- 1.5 Interviewees were identified jointly based on early conversations with KCC stakeholders, the VCSE Steering Group, and NPC sector knowledge. Stakeholders were selected to cover a range of perspectives and experiences. In total NPC conducted 41 interviews including ten stakeholders from KCC (including staff and elected members), 21 VCSE organisations (including both lead providers and subcontracted organisations), four peer authorities, five national experts (including infrastructure organisations), and one private sector representative. In addition, they reviewed over 20 key documents—including documents specific to the Kent context, and wider discussions about the voluntary sector in commissioning—using the same research question framework.
- 1.6 Financial case studies were developed using publicly available financial information and management accounting information shared by three Kent VCSE organisations. These are included to illustrate the different funding models and income streams used by VCSE organisations. These have been anonymised and financial figures rounded to make them more difficult to identify (although proportions of cost are accurate).
- 1.7 The report sets out in detail some of the existing challenges with commissioning models in relation to the development of a VCSE ‘market’ over the last 20 years of public policy development. Many of these are nationally recognised issues and not specific to Kent, however this issue has not been looked at in detail elsewhere in the country both nationally and at a local level. This work is testament to the strategic engagement and partnership working, which developed between KCC and the VCSE over the pandemic and whilst this research was not intended to provide the solution it offers insights that provide the catalyst for change and to assist in the evolution of our commissioning in relation to the VCSE.

2 Summary of Key Findings:

- 2.1 The research found that there is some excellent commissioning practice within KCC and there are particularly good examples of contract management relationships between commissioners and providers. VCSE providers reported that the KCC standard of contract management is high once providers are actively engaged in delivering a commissioned service. They also had positive experiences both prior to and through Covid-19 of building these relationships with KCC commissioners and

reported finding them responsive and engaged in positive cooperative working relationships.

- 2.2 However, there is inconsistency in approach both in relationship management and commissioning practice, particularly in relation to full cost recovery, which is leading to misunderstanding, mistrust, and potentially undermining relationships.
- 2.3 The report highlights the shared responsibility for achieving FCR and the shared risks when this is not achieved. Practice that has evolved in the sector with the delivery of contracts by some VCSE providers not at full cost, has the potential to distort the market and going forward there is a market stewardship role for VCSE providers to overcome this.
- 2.4 However, there are a range of recommendations in the report for KCC to take on board both in the short-medium term and more fundamentally in the longer term. Changes to the existing model could be made in the short-medium term to create a better understanding of overheads and ensuring a more consistent approach across the council to FCR. A more transparent and consistent approach would, enable greater understanding on both sides of cost and quality and help to foster relationships.
- 2.5 Whilst these changes will help to reduce some of the problematic contracting in relation to FCR, it will not the report states, help to tackle the underlying tension of how to achieve shared aims in constrained budgets, this it states will require a more fundamental shift to new models of shared responsibility. Several themes are covered; engaging the VCSE in service and contract design, reframing the role of the commissioner to one based on partnership and to encourage both sides to have a better understanding of each other, and developing a scoring criterion to reflect value based on the achievement of long-term outcomes.
- 2.6 Thinking differently about commissioning will though take time and resources. It would require a fundamental shift in relationship between commissioner and delivery organisations, and so it requires a consensus and shared strategic decision by commissioners, elected members, and policy experts to engage with the VCSE in a different way. This shift from commissioner/provider power dynamic to a partnership where all parties bring expertise and resources, could the report argues create space to design solutions based on a shared understanding of the cost required to deliver at quality, and to draw the maximum benefit from the relative expertise and strengths of the different organisations. It marks a further step in the evolution first from grants to commissioning contract work, on to coproduction.

3. Conclusion

- 3.1 The research is clear that responsibility for FCR does not lie solely with the commissioner, nor solely with the provider. In addition to the overall budget available, it rests on the skills of the provider organisation; the knowledge and flexibility of the commissioner; the structures of commissioning to incentivise positive behaviour of providers; and relationships based on transparency and openness.
- 3.2 Relationships need to be fostered by fair, consistent commissioning structures which build on the expertise of the VCSE; which enable them to take good decisions based on predictable practices, and which support fair access of small providers to the marketplace.

- 3.3 NPC in its research has shared a raft of recommendations for both KCC and its VCSE partners for making improvements within the existing commissioning model. These recommendations, they suggest would hugely support the VCSE in achieving FCR in contracts and thereby support KCC to manage risks and achieve outcomes for Kent residents. But the tension remains between KCC's budgetary pressures and the VCSE's drive for contracts that achieve long term outcomes. Tackling this tension would, they state require a more fundamental rethink of the commissioning model, towards equal partnership in a coproduction approach.
- 3.4 There are also important reflections for the VCSE as providers, and especially as lead contractors. VCSE practices of subsidising services to gain competitive advantage can undercut peers and make it more difficult to make a collective argument about the true costs of delivering a high-quality service. There is a need for frankness and bravery from the VCSE in influencing commissioning practices, as well as a need to balance the competitive dynamics of commissioning with collective approaches. The research concludes that, if KCC takes the brave decision to explore new models of commissioning, it will need VCSE partners ready to adapt and change, keeping the people of Kent, rather than their individual organisations, at the centre.

4. Next Steps – meeting the challenge

- 4.1 Whilst this research has raised some difficult issues, the Council should recognise that it has been forward thinking in attempting to grapple with such long standing and nationally recognised challenges. Indeed, part of our next steps will be to share this report with local authority peers who have already shown an interest in this work and colleagues in the Local Government Association and Department for Digital, Culture, Media and Sport who are also interested in its findings, to supplement some of their own work in this space
- 4.2 There are several short-medium term recommendations set out in the research, which if undertaken could lead to a better relationship with the VCSE and understanding of FCR across the Council. Strategic Commissioning will take forward changes to the existing commissioning model to improve practice so that the good examples identified become the norm. In the short- medium term this will involve building on some of the existing work that is being undertaken by the Commissioning Standards team to develop more informed, timely and proactive engagement, this will be enabled by the commissioning pipeline that has been developed. We will also look at having better dialogue to inform our understanding of overheads and a greater appreciation of the way VCS budgets are developed, building more consistent practice around FCR, and embedding the good practice identified in a more consistent manner, for example around tender submission timelines. We will also look at training and development needs for anyone that undertakes contract management as part of their work. Commissioners will work with the VCSE Steering Group to test out and develop how we approach these changes and will also ensure that smaller VCS organisations are represented in the delivery of these changes, taking on board the challenges raised around lead providers.
- 4.3 However, more fundamental is the challenge the report sets about new models of shared responsibility, which requires us to undertake a fundamental, strategic rethink. The new Strategic Statement for the Council begins to set out some of this direction for the organisation and the detail of this research will be used to help us embed a new approach and enable us to explore the opportunities of more innovative strategic partnerships. The new Procurement Regime and the Health Selection Regime will allow more freedoms to look at partnerships and it will be important that we use these

regulations to enable us to think more creatively whilst remaining legally compliant. We will also look at how we can embed the learning from this research into renewing our Commissioning framework for the Council

- 4.4 However, the delivery of new models will require a partnership approach and as the report concludes there will be a need for the VCSE sector to reflect on its own practices and for us to collectively respond. We will work with the strategic engagement channels we have established with the sector to explore new models in more detail. This will require a mature and indeed challenging dialogue at times, given the pressures that are faced but the strengthening of partnership arrangements over the last year provides a good foundation to take these challenges forward and we are committed to doing so.

5. Recommendations:

For Cabinet to:

- 1) Endorse and comment on the research findings.
- 2) Agree the next steps in addressing the challenges set out in the report.

6. Background Documents

Annex A- Full cost recovery research report. *The experiences of Kent County Council's VCSE partners in public service commissioning*, New Philanthropy Capital.

7. Contact details

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