Voluntary Organisations Disabilities Group and Centre for Public Service Partnerships

Maximising service outcomes – the contribution of capital finance and assets

Introduction

This paper is jointly published by VODG and the Centre for Public Service Partnerships. It is based on a "Chatham House" rule workshop which involved senior executives from VODG member organisations, local authority senior executives, a social investment expert, and senior executives from the Cabinet Office Efficiency and Reform Team and Local Partnerships. The discussion was facilitated by John Tizard, Director, Centre for Public Service Partnerships.

Background

Many voluntary organisations are in need of capital to develop and modernise service provision and to underpin their operational business. Capital is both difficult to secure from banks and other financial institutions and is expensive. These challenges are amplified by the fact that public sector contracts for services delivered by these organisations are often short term and public sector clients are attempting to reduce the level of fees paid. Although many voluntary organisations have secured "full cost recovery" level fees for contracted services many have not, and often these fees do not cover the cost of capital.

The Government has recently withdrawn seed investment through the Future Builders' loan scheme which was funded by the Cabinet Office to facilitate voluntary sector bidding for public sector contracts. The planned Big Society Bank is expected initially to only have access to £60m funds and this may grow to £400m within a few years but these are still low numbers compared with the demand. These demands on this fund will come from a range of community and third sector organisations so the amounts likely to be available for organisations seeking to modernise properties and services will be limited.

Social impact bonds and other sources of social financial provide some new capital for the voluntary sector.

However, many voluntary organisations own significant property and land holdings many of which are used for the delivery of services or for administrative purposes. Residential care homes would be one such category of property. All too often these properties have had under investment in maintenance and upgrading for many years and indeed decades. They may also no longer be fit for purpose because they do not comply with new statutory and practice standards or contemporary models of service provision; and they may be in the wrong location. However, these properties will have a capital value if and when they are available for disposal.

Meanwhile the Government and local authorities are reviewing the public estate. The objectives are to rationalise the estate; make it fit for purpose and improve the quality and accessibility of services; to reduce revenue expenditure on facilities management, energy and similar property related costs; and to realise capital receipts. Initially under the auspices of the "Total Place" pilot programme and now under the Coalition Government's Efficiency and Reform and "place based budget" programmes a number of local authorities are working with their public sector partners and central government to develop a place based property strategy.

Typically these strategies will include mapping all the public estate; creating a shared database on properties and land, and information on these properties including usage, utilisation, value, long term maintenance budgets, etc; and identifying opportunities for agencies to share premises and share the benefits which are realised.

Other demands on capital for the third sector relate to operational and cash flow management requirements. When the public sector contracts on a payment by outcomes basis as in the national workless programmes the capital demands are considerable.

Opportunities

Availability of capital

There would appear to be some significant amounts of private capital potentially available to invest in third sector projects as banks and investment funds consider social investment opportunities. However, the projects and their sponsoring organisations will require having at least treble B credit ratings. They will also need to have the competencies and confidence at executive and trustee level to engage and borrow.

The "Big Society Bank" and other forms of social investment including Charity Bank and Unity Trust can offer cheaper forms of capital in the right circumstances.

Future Builders had provided loans and advice which was of value to third sector organisations which were developing services to respond to public contracts and/or to modernise the existing estate.

The organisations which borrow are keen and have sometimes been able to de-risk the loans to some extent by borrowing against the asset that is being developed and not their total balance sheet.

Again this points to the need for the sector to have access to affordable specialist advice and skills.

Social Impact Bonds are more likely to be appropriate for investing in preventative services such as prisoner rehabilitation and some children's services. They are less likely to be relevant to social care services.

Utilising assets – mapping local assets

There is an opportunity for the voluntary sector to be partners to such place based property/estate strategies. The sector is the provider of public services every bit as much as the public sector. The voluntary sector is independent of the state and charitable organisations have a duty to protect their assets and finances but where there is an opportunity to secure the charitable aims by sharing or pooling properties subject to fiduciary safeguards this would be appropriate.

There is a willingness and interest in the public sector to involve those third sector organisations which wish to be engage in local public estate mapping and on local property data bases. This will allow these organisations to explore alternative uses for some or all of their properties and to identify potential publicly owned properties that could be useful to them.

The public sector has and will increasingly have surplus properties and estate. There are opportunities for exploring how the third sector could rent or lease or even buy such properties.

The Government is about to legislate for the community right to request surplus public estate which could lead to some opportunities for third sector organisations. It also has a very ambitious target for sales of surplus properties. It will be keen to locate staff into other organisations' properties to save money and where appropriate through co-location to transform services and public access.

The Cabinet Office and local authorities would be keen to involve the third sector in their asset programmes.

There are many opportunities in localities for the third sector to buy into public sector energy, facilities management and similar services and contracts to reduce their costs.

The third sector needs to engage with planners and property executives in the public sector in order to maximise the potential of and more effectively manage their existing properties.

Impact of Commissioning

Local authorities and NHS GPs as commissioners will not wish to be dependent on single suppliers and will wish to benefit from some supplier competition. However, as part of the market development and management element of strategic commissioning they will wish to ensure that their providers have access to suitable premises.

In times of austerity it will be essential that full cost recovery is maintained and that this includes the cost of capital, leasing and investment.

Where voluntary organisations have properties that are currently utilised to provide services and the properties require replacing or major investment there is a need to consider working with the local authority to transform or replace the buildings that serve a wider and more contemporary need.

Personalisation and direct payments will have a significant commercial impact on third sector providers of social services. There will no longer be guaranteed revenue streams against which to borrow. This development as well as a realisation that the core business of VODG members is the provision of care and not being landlords could see a greater move to partnerships with RSLs and provision to homes rented or owned by service users.

Future VODG activity on assets and capital

VODG will work in partnership to:

- **ensure investment in existing assets leads to more personalised outcomes for disabled people.**
- **maximise the efficient utilisation of existing assets to achieve better value for money**

VODG will continue to facilitate

- the sharing of expertise and experience between its members, in particular:
  - sessions between social investment and other investors to explore further the opportunities to access capital
  - promoting member participation in place based public estate strategies
  - how facilities management, energy and other similar costs might be reduced through partnership arrangements with local public agencies
  - the means of borrowing monies from the commercial sector using these properties and long term revenue contracts from the public sector as collateral
- the dialogue with central and local government and the NHS on property related issues
- national advice to local public agencies encouraging the involvement of the third sector in asset and property strategies, management, procurement and mapping – it will work with Local Partnerships, the Cabinet Office and feed directly into the National Market Development Group bulletins (already done).
- dialogue between commissioners and providers on a national basis

- how the switch from public sector let contracts to personalised individually purchased services will impact on the above concepts
- how the voluntary sector can work with local authorities and others to ensure that within the constraints of planning and other laws to ensure that the value of sites and properties are maximised
- creating models for shared voluntary, private and public sector use of premises including addressing tax and other legal issues

It will also explore

- how alternative forms of social investment can be developed, funded and employed to invest in property and service modernisation
- developing some form of third sector “PFI” scheme – forms of Voluntary Sector Private Finance Partnerships - based on guaranteed revenue streams from contracts

John Tizard

Director, Centre for Public Service Partnerships

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Roundtable Participants

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- Jenny Coombs - Project Director, Local Partnership Property and Asset Management Team
- Richard Jones - Adass President & Executive Director for Adult Social Care, Community, Cultural and Customer services, Lancashire Council
- Stuart Ladds - Director Government Property Unit, Efficiency & Reform Group
- Matthew Lester - Director of Operations, the Papworth Trust
- Mark Milton - Chief Operating Officer, the National Autistic Society
- Bill Mumford - Managing Director, MacIntyre & VODG Chair
- Geetha Rabindrakumar - Director of Finance, Scope
- John Tizard - Director, Centre for Public Service Partnerships & Roundtable Facilitator
- Brian Walsh - Director of Community Services Coventry City Council