Civil Society Strategy Consultation

About Locality

Locality is the national membership network supporting local community organisations to be strong and successful. Locality supports local community organisations to unlock the power in their community to build a fairer society.

Our member network of over 600 community organisations creates the services their community needs most in spaces where everyone belongs. Every week our membership network supports over 400,000 people, helping to transform lives. Locality provides specialist advice, peer-learning, resources, and campaigns to create better operating conditions for our members.

Why we need a Civil Society Strategy

Community organisations are an essential part of the fabric of our civil society. Firmly rooted in and focused on the local area, local community organisations are uniquely placed to provide solutions to many of the intractable economic, social and environmental problems we face in society. They know the place, the problems, the people and they care. They bring local people together. They are adaptable, cost-effective and responsive.

Locality members overwhelmingly operate in areas that are struggling with high levels of deprivation. 80% of our members work in areas in the country that are considered deprived. Our members are dealing with rising demand for services and increasingly acute needs, at a time when budgets have been squeezed year-on-year for nearly a decade. Increasingly large public service contracts are also crowding out local community organisations and the decline in infrastructure support is preventing local civil society from meeting the needs of the communities they serve.

It is therefore essential that the Civil Society Strategy starts from a recognition of the current conditions in which communities operate. Our places have huge reserves of skill, expertise, wisdom, commitment and passion; but these are often prevented from reaching their potential by long-term economic challenges or top-down approaches to policy making. So our key message is that the Civil Society Strategy
needs to unlock the power of community and create the right conditions for community organisations to drive their neighbourhoods forwards. In order to do this, it must be ambitious and reach across government in order to tackle the inequalities and social injustices our country currently faces. Without this focus, the Strategy can only be a sticking plaster that will merely ameliorate the impacts of government actions which are elsewhere harming civil society and the people and communities it serves.

We believe that in order to strengthen the capacity of civil society organisations to transform lives, we require a Strategy that is:

- Ambitious about the enabling role of government;
- Provides a clear statement of government support for community organisations and a framework for government activity to create the right conditions for community organisations to be strong and successful;
- Includes real support to back up the Strategy through new funding streams and changes in taxation, regulation and legislation where necessary.

Our big ideas

We welcome the government’s call for bold recommendations in setting out their intentions in the Civil Society Strategy. We believe that government has a number of substantial opportunities to make real change and unlock the power of community: by leveraging existing funding and commissioning power within central and local government; and by putting a commitment to localism at the heart of economic and social policy making.

Our four key recommendations for how the Civil Society Strategy can unlock the power of community:

1. **A renewed commitment to localism at the heart of government**: Localism provides the opportunities for unlocking the capacity of civil society, creating partnerships between all sectors around place, and unlocking the power of the community. This commitment should be championed by the Department for Digital, Culture, Media and Sport and Ministry of Housing, Communities and Local Government and embedded across central government.

   A commitment to localism requires tangible action from government in creating the conditions for community power to flourish. Localism cannot succeed without community capacity, local infrastructure and resources. Social and economic barriers to participation embed inequalities. A thriving local civil society can strengthen voice and power, but we also require a fundamental restructuring of our social and economic policy-making and political systems in order to reverse these inequalities and ensure that every community thrives.

2. **Leveraging Dormant Assets funding to strengthen the sustainability of our community infrastructure by investing in community assets**: The
Dormant Assets Commission have identified a potential £2billion of funding from dormant assets, such as pensions and insurance and stocks and shares. These funds are already committed to being used for good causes. We believe there is substantial scope for considering how this new funding could be most effectively channelled into strategic, long-term investment in civil society.

Locality have long been calling for £500 million of this funding to be invested in a community assets investment plan. Instead of lying dormant, these vital resources could become the beating heart of community life. The government could establish a sizeable pot of central funding, leading by example and committing to match fund and coordinate contributions from other funders such as foundations and social investment funds. We outline this proposal in full on pages 17-18.

3. **Transforming commissioning:** We believe commissioning local community organisations to provide services can transform lives and invest in the local economy. We need to move beyond large-scale, top-down procurement approaches, which have been crowding local organisations out of the local public service landscape. Instead, commissioning should seek to harness the power of community through simpler, more proportionate funding arrangements. This should include a greater use of grant-funding, a focus on community-centred approaches, and greater weighting to social value. Government can use its power both as a commissioner itself, and also to lead systems-change in local government commissioning.

4. **Using the successor fund for EU structural funds to tackle inequality and help create a fairer society:** The future UK Shared Prosperity Fund must focus on inequality, removing the obstacles that stand in the way of areas achieving their economic potential. The fund should support community economic development, be based on long-term timeframes, be focused on area-based disadvantage, and be accessible to local community organisations.

Our response has been written through consultation with Locality members. We have also integrated the findings from our most recent research reports, including:

- **Powerful Communities, Strong Economies:** Our Powerful Communities Strong Economies report details the findings of our Keep it Local for Economic Resilience work, funded by the Friends Provident Foundation. The report is the culmination of action research undertaken in six local authorities, to investigate the role community organisations play in the local economy, and how this can be harnessed through local commissioning.¹

¹ Locality, 2017. ‘Powerful Communities, Strong Economies.’ Available at: https://locality.org.uk/about/key-publications/powerful-communities-strong-economies-report/
• **The Commission on the Future of Localism:** chaired by Lord Kerslake, this Commission brought together a panel of experts\(^2\) to consider the future of local democracy and community power. The report of our findings was published in ‘People Power’\(^3\) in January 2018.

• **The Future Places Network:** Locality convened a network of Locality members to discuss the implications of Brexit for our communities, and the possibilities to build a better future for our communities. This work focused on the role of community organisations in building community power, promoting community cohesion and driving community economic development. Our findings were launched in ‘Future Places’ in February 2018\(^4\)

• **The Future of European structural funds:** our recommendations on the future of EU structural funds\(^5\) highlighted how the UK Shared Prosperity Fund can support community economic development, be based on long-term timeframes, be focused on area-based disadvantage, and be accessible to local community organisations.

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\(^2\) Including Lisa Nandy (MP for Wigan), Councillor Sharon Taylor (leader of Stevenage Borough Council), Laura Sandys (former MP for South Thanet), Professor Jane Wills (author of Locating Localism), Alison Haskins (CEO of Halifax Opportunities Trust), Neil Johnston (CEO of Paddington Development Trust), and Joanna Holmes (CEO of Barton Hill Settlement).


Our civil society

What are the strengths of civil society today? You might consider its mission and motivation, services for the public, difference to quality of life or economic and/or social impact.

We live in a time of huge challenges. Across the country, communities are facing rising inequality and growing social isolation. Services are struggling with increasing demand, work is insecure and our environment is in decline. However, while we live in uncertain times, we know that we can rely on the incredible resourcefulness of our communities. Through community organisations that are rooted in and focused on the local area, local people can respond to local need and drive their own neighbourhoods forward.

Locality members are ambitious and enterprising multi-purpose community organisations that provide a vital role in their communities in the following key ways:

- **They build power locally:** The EU referendum brought to the fore the divides in our society, and that many feel they lack agency and are not in control of the places they live. Indeed, recent polling commissioned by Locality found that 71 percent of people feel they have little or no control over local decisions. Community organisations are an essential component of the fabric of our communities, building local capacity, stimulating community action and putting local people in charge of the important activities in their area. Their role is more important now than ever.

- **They bring people together and help unite communities:** Community organisations can play a facilitative role in their local neighbourhoods, offering a safe and welcoming space where people can come together, meet their neighbours and build trusting relationships. They can promote greater community cohesion, and bridge divides within communities, whether across ages, class or ethnicity, often bringing diverse groups together to work together for the local neighbourhood. They often act as a “hub” for community groups and organisations in the area, and in many cases provide venue space for them, alongside micro and small enterprises.

- **They play a key role in place-shaping and local regeneration:** Community organisations can provide an ‘anchor’ for communities, particularly in areas where there might be high levels of deprivation or a transient population. They are firmly rooted in a sense of place and there for the long term, providing a central source of stability as the world changes around them, for all residents regardless of length or type of tenure. They ensure that the wealth they generate through enterprising use of assets is re-distributed in their neighbourhoods, by employing local people in good jobs, using local supply chains, using profit to subsidise services and investing in people to themselves become economically active.
• **They are a key component for local economic resilience:** community organisations are powerful local economic agents, using assets and enterprise to drive regeneration, often in the most disadvantaged areas. Through community economic development, community groups can also put local people at the heart of real local economic change in their neighbourhoods. Recent Locality research has demonstrated the role of community organisations in the local economy, showing the added local economic contribution through commissioning local organisations.  

• **They provide people centred services:** community organisations also play a unique role in the local service landscape – in particular, working with people with complex needs, who find themselves a long way away from the labour market, or who face loneliness or social exclusion. From homelessness to employment support, children’s services to adult social care, community organisations are vital where trusting relationships and innovation are required. This is because they know the place and the people. They are committed, passionate and there for the long-term. They are adaptable, cost-effective and responsive, providing better solutions that transform lives.

**How can government help to increase the impact of civil society?**

The Civil Society Strategy is an important opportunity for the government to cement its long-term commitment to enabling civil society to thrive, working with local organisations and local government to unlock the power of community. Along with MHCLG, DCMS has a fundamental role in ensuring that, across government departments, civil society is an essential partner in tackling the collective challenges that we face as a society.

Ultimately, increasing the impact of civil society will also require tackling deep seated social and economic inequalities. Our members are facing increasing demand on their services as budgets continue to shrink, and increasing pressures on people’s lives is a key barrier to participation. These are long-term trends that cannot be reversed simply by asking civil society to address ever increasing need. It requires a genuine commitment at the highest level of government to tackle the burning injustices facing our society.

We have a number of specific recommendations on how government can help to increase the impact of civil society, which we expand on throughout our contribution to this consultation. These include:

• **A commitment to localism:** strengthening local civil society, putting power and resources in the hands of local people, civil society, local businesses and the public sector, to shape the social and economic priorities for their neighbourhood.
• **Funding sustainable community infrastructure and protecting our community spaces through community asset ownership:** the government can play a key role in leveraging greater funding for community asset ownership through the Dormant Assets fund, as well as championing best practice in local government around community asset transfer (CAT).

• **Transforming commissioning practices:** including disaggregation of big contracts, an increased weighting and accounting for social value, and promotion of a wider pool of funding mechanisms, including increased use of grants.

• **Using the future of EU funding to tackle inequalities:** the future UK Prosperity Fund must focus on inequality, removing the obstacles that stand in the way of areas achieving their economic potential. The fund should support community economic development, be based on long-term timeframes, be focused on area-based disadvantage, and be accessible to local community organisations.

**How can public trust in civil society be built and maintained?**

Public trust is fundamental in sustaining a thriving and healthy civil society, where organisations can advocate for the communities they serve, build a fairer society and transform lives. We recognise the challenges in maintaining public trust in charities and civil society organisations, and the need to address issues facing the sector which undermine trust and require action – such as safeguarding failures and exploitative fundraising strategies. There is also a need to better understand how issues which undermine trust can perpetuate narratives which shape public opinion against civil society.

It is also important to note the extraordinary breath and diversity in the civil society sector, and therefore the need to consider the multiple drivers and sources of ‘public trust’. With over 97% of the voluntary and community sector being small organisations with income of under £1 million, the relationships these organisations have are often deeply rooted in the communities they serve (both communities of place and communities of interest).

Local community organisations, for example, are rooted in a sense of place, committed to achieving positive economic, social and environmental change for their neighbourhoods; building trusted relationships with the community is integral to their mission and purpose. In order to fulfil this role effectively, community organisations will involve local people in the decisions that affect them in the following ways:

• **Community-led governance:** community organisations will have locally based trustees, and their volunteers and staff will be predominantly from the local area.
• **Community engagement**: community organisations will adopt a number of strategies to support greater community engagement, both within their own projects as well as to support people to have a greater say in the decisions that affect them locally.

• **Public services**: community organisations will support co-production, to involve people in decisions about their services and care, which can have a powerful impact on wellbeing, health, autonomy and social connectedness. They are often flexible multipurpose organisations, with a mission to address the ‘whole person’ rather than seeing them purely through the lens of their service needs.

• **Providing open and inclusive spaces where everybody belongs**: community organisations embed an ‘open door’ policy in the way they run their facilities and activities; they provide opportunities for greater social connectedness, bringing people together from different parts of the community.

• **Incubating other community-led initiatives, groups and campaigns**: larger community organisations have a key role to play in developing community ideas and projects, through their productive use of local assets they often provide a catalyst for additional community action.

**How can civil society be supported to have a stronger role in shaping government policy now and/or in the future?**

Civil society should be fully enabled and unrestricted to have a strong role in shaping government policy. This is important not only to ensure that the expertise and experience of civil society organisations can input into the design of more effective policy and public services, but also to ensure that people and communities are empowered to shape the decisions that affect them. The strength of the independence of civil society underpins the strength of our democracy.

Civil society should be at the very heart of policy making, not consigned to the fringes but an embedded voice and key stakeholder in our national debate. In particular, by strengthening localism this will unlock greater opportunities for the direct contribution of civil society at all levels – including individuals and communities – to influence policy-making and decision-making.

• **Civil society expertise should be embedded into public service commissioning cycles**: Public service commissioning cycles should embed co-design and make greater use of the expertise of civil society organisations throughout this process.

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8 See for example New Economics Foundation. (2013). ‘Co-production in mental health: a review.’ Nef. Available at: [http://b.3cdn.net/ nefoundation/ca0975b7cd88125c3e_ywm6bp311.pdf](http://b.3cdn.net/ nefoundation/ca0975b7cd88125c3e_ywm6bp311.pdf)
Civil society should have a strong role in economic policy making: The role of civil society organisations in shaping government policy should not only be considered in social policy terms, but also in terms of economic policy. The sector has a huge role in growing local economies, and community and social enterprises have a wealth of expertise in developing businesses which not only create local jobs, but also generate huge social value within communities. Civil society should be able to influence the way our economy works.

Local bodies, including commissioning bodies and local economic partnerships (LEPs), should reflect the diversity of the civil society sector in their engagement and avoid tokenistic representation and engagement strategies. We are concerned that LEPs, as currently constituted, have weak accountability and narrow understanding of the potential of the social economy. It is critical that the upcoming LEP review widens the experience of LEP boards to include representatives from the local social economy.

Civil society should have independence to campaign: Receipt of government funding should not limit the ability for civil society organisations to campaign, and use their experiences delivering services to shape policy. The Lobbying Act has had a chilling effect on our sector which urgently needs review and consideration by government.

We interpret civil society as inclusive of all those outside of the public sector, who share the mission of building a stronger society and improving lives, regardless of traditional sector boundaries such as charity or private and for profit or not.

What are the advantages of using this interpretation in developing this Strategy? What are the disadvantages of using this interpretation in developing this Strategy?

Civil society encompasses a range of groups, activities, formal and informal organisations, and individual and collective social action. It is an inherently broad concept which does not lend itself to neat definitions. However, while there are advantages to thinking beyond traditional sector boundaries, and considering the role which private sector organisations contribute to ‘building a stronger society and improving lives’ through their social impact, we believe that these organisations should not be interpreted as ‘civil society organisations’.

We believe that motivation and purpose form a core part of the distinctiveness between private sector organisations and civil society organisations. Fundamentally, civil society is ‘not for profit’—ie the decisions they take and the work they carry out is to fulfill their mission and purpose, for their beneficiaries and communities. Civil society organisations that do involve limited profit distribution, such as social
enterprises and cooperatives, will have an ‘asset lock which means that assets developed and surplus retained are locked into the social impact mission.

We believe that while the purpose of the government’s Civil Society Strategy should be to consider how all sectors – including the private sector and public sector – can contribute to the strength of civil society, broadening the definition of civil society to include for-profit organisations is the wrong approach. A key disadvantage of using this definition within the Civil Society Strategy is that under a broad and inclusive interpretation of civil society, the distinctive value of civil society organisations (including charities, social enterprises and cooperatives) and social action (such as volunteering, community ownership and campaigning) may be missed within policy development. We would also be concerned about the potential consequences in opening up definitions in this way, in terms of accessing funding and finance.

Ultimately this Strategy needs to be about strengthening and enabling the capacity of civil society organisations to transform lives, backed up by real commitments of support, including making strategic use of new and existing funding streams. We therefore firmly believe that strengthening civil society and civil society organisations through bold, ambitious and tangible commitments from government should be the core purpose and function of the Strategy.
People

Enabling more people to play an active role in society

**Our key recommendation:** We are calling for a renewed commitment to localism from government. This must recognise that for community participation to flourish we require strong community institutions, organisations that strengthen voice and power particularly in areas facing social and economic barriers to participation, and the sustainable community spaces for people to come together, participate and belong.

*What is required to enable people to play an active role in society?*

**Barriers to participation:**

Locality’s Commission on the Future of Localism was set up in 2017 to investigate what is required to unlock greater community action and enable local initiatives to thrive. Over nine months, we gathered case studies, ideas and recommendations from community groups, local leaders and policy experts, at evidence events across the country. We heard about the enormous impact which can be achieved by people working together to change their neighbourhoods.

However, we also heard about the blockages and barriers to local action which constrain people’s ability to play an active role in society. A YouGov poll, commissioned by Locality, found that 71% of people feel that they have not much or no control over the important decisions that affect their neighbourhood and local community. Our research highlighted that often top-down decision making locally and a lack of participatory decision-making can reinforce feelings of powerlessness.

Successive governments have sought to bring power closer to communities and increase the opportunities for people to be involved in the important activity affecting their neighbourhood. Most recently the Community Rights, introduced through the Localism Act, enabled people to make real change in their neighbourhood. However, the extent to which communities are able to successfully make use of these Rights, is still very dependent on local context: the resources and capacity within the community, including the strength of existing community organisations, and the willingness and openness of local government and other public bodies to embrace community-led ideas.

Particular consideration needs to be given to how poverty and social and economic marginalisation intersect with the ability to participate and exercise agency and control. Whilst the drive to organise, campaign and participate exist in all communities, when the pressures that people are facing mean that they are too busy worrying about surviving to the end of the week, this has a huge impact on

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participation. In this way, people are actively excluded from citizenship and power through economic disadvantage.

Enablers of participation

Community participation and social action can be impacted by a number of interrelated factors, including individual motivations, resources and opportunities. Motivations include identity, values, beliefs – how connected people feel to the place where they live. Resources might be practical resources (time, money access to transport), but also include felt resources – such as confidence and a sense of efficacy, and social resources, such as networks and local relationships. Lastly, ‘opportunities’ refer to the shape of local institutions and politics – and the presence and effectiveness of local groups, organisations, community spaces and events.¹⁰

The strength of local civil society is a key factor in the extent to which people have the ability to play an active role in society. Community organisations often provide the spaces and opportunities for social action. Through the buildings they own, they can provide spaces for local community projects. Larger community organisations often support the development of new local enterprise, incubating small projects or providing back-office support to get initial ideas up and running. Using community development and community organising techniques, they start from the point of view of ‘where people are’ – and build confidence and small-scale ideas into larger community projects.

Case study: Addressing barriers to participation: Collyhurst Big Local

Evidence to our Localism Commission from Collyhurst Big Local showed how important addressing social and economic exclusion has been in their approach to community participation. For example, they established a partnership with Gateway Debt Advice and Money Education Centre to support local people with debt, welfare and housing issues. They recognised that if people are worried about money and housing security, they are not necessarily in the ‘right place’ to be getting involved in community-led initiatives.

A key opportunity for building community participation is in linking informal community action - i.e. events, litter picking, volunteering in the community, knitting groups – into the formal in terms of decisions and participation. These are spaces/activities where people talk to each other, and are invested in being part of the community. Providing the space and time for informal discussions on local issues without a pre-agreed agenda can lead to opportunities to develop other courses for local action.

Capturing these informal units of organising is essential in ensuring localism and empowerment is broad-based and participation is developed. It can re-engage

¹⁰ Involve, NCVO, IVR. Pathways to Participation [online]. Available at: https://www.involve.org.uk/programmes/pathways/
communities who feel powerless and provide the impetus for further community action. Community organisations can provide these bridges between types of social action. The value of such ‘small scale’ informal social action should be recognised at a more strategic level by both government and funders.

Case study: Community involvement in planning and regeneration: Tadcaster and Rural Community Interest Company

Tadcaster & Rural is a Community Interest Company which works in Tadcaster, North Yorkshire and the surrounding area. In 2015, flooding led to the collapse of Tadcaster Bridge - the main road link between the east and west of the town.

Tadcaster & Rural see their role as driving forward ideas that come from the community and can be then delivered in and by the community. The organisation has supported three local parish councils in their Neighbourhood Planning process. Throughout, Tadcaster and Rural have helped to ensure that all members of communities affected by the plans are involved in decision-making.

Tadcaster & Rural also see their role providing the community with unmediated information as an important aspect of community empowerment. They edit and produce the community magazine, Tadcaster Today, which includes quarterly updates on all that is going on locally and the ways in which people can get involved.

The Trustee Board at Tadcaster & Rural is made up of local people, and this goes some way to providing the organisation with legitimacy in the local area. However, direct engagement on specific projects – and the involvement of new groups according to the project - is the process local people cite as that which gives the group its true community legitimacy. In addition, the ad-hoc role Tadcaster & Rural plays in acting as a link between the community and Town and County councils is recognised as important in providing an alternative, non-political, voice for local people.

Recommendations: enabling greater opportunities for people to play an active role in society.

Our Commission on the Future of Localism found that strengthening community capacity and participation requires strong community infrastructure. Ultimately we need a renewed focus on localism in government policy. In particular, it makes the following recommendations:
• **Sustainable funding streams for local civic and social infrastructure:** There is a lack of direct funding for community development activities and while this remains a core purpose and function of community organisations, pressures elsewhere, including the decline in grant funding and squeeze on income through contracts\(^\text{11}\), alongside rising demand, can have a significant impact on organisational sustainability and divert time and resources from community development activities.

  We require sustainable funding streams for our community infrastructure, including through the ownership and management of community assets.

• **Sustainable spaces for participation:** government, funders and local authorities can support community spaces for participation, deliberation and community action through community ownership of assets, including greater support for Community Asset Transfer. We expand on our recommendations within our ‘localism’ section in this consultation.

• **Programmes and resources designed to specifically enable participation from underrepresented minority groups**

**Encouraging more young people to participate in society:**

We believe it is unhelpful to single out one demographic in the development of a Civil Society Strategy. We echo comments from Children England, that children and young people, like adults, are not solely service users or potential volunteers, but rounded citizens who should be able to participate in civil society on their own terms with support that respects their rights and capability. We would also echo their recommendation that, in regards to provision of youth services, this needs to be prioritised and addressed directly through a separate strategy.

\(^{11}\) From 2010/11 – 2012/13 the value of income from grants and contracts to the voluntary and community sector has fallen by £1.7 billion, NCVO Civil Society Almanac

http://data.ncvo.org.uk/a/almanac15/introduction-2/
Partnership

Working in partnership

*How are partnerships across sectors improving outcomes or realising new potential? What would enable more impactful partnerships across sectors?*

The core important partnerships for community organisations are place-based partnerships: with the public sector, funders, local businesses, communities, local people and residents, and other civil society organisations. We therefore address the core issues relating to these partnership in further detail, in the below section on ‘Place.’ We address these issues through the following themes: public service delivery; community economic development and the local economy; and community development, power and voice.

Instead, here, we include some overarching reflections on the possibilities and practical challenges of partnerships across and within sectors, from the perspective of community organisations:

- **Resource challenges:** for smaller organisations, partnerships take time and resources to forge – particularly with private sector, public sector bodies or potential funders - and they might not be able to commit such resources to these activities. These challenges can be addressed in a number of ways:
  - Proactive engagement of smaller organisations from partners: for example, funders can recognise and fund partnership development in their strategies for small and medium sized organisations
  - Local infrastructure: for example, larger community organisations or council for voluntary service (CVS) can develop and facilitate partnership opportunities for smaller organisations. However, it should be noted that in order for this role of local infrastructure to be possible, it also needs to be adequately funded as an explicit purpose (by both funders and local government)

- **Impact of competition:** with reducing public sector funding and a rise in contracting rather than grants, competition between VCSE organisations can undermine the potential of collaboration and partnership.
  - The negative impact of such competition is reduced where the presence of local infrastructure can support greater collaboration. There is also a responsibility on civil society organisations to pursue genuinely collaborative relationships, to deliver positive outcomes for their neighbourhoods.
  - Consortiums in public service delivery can be a valuable root for collaboration in service delivery. However, these need to be based on genuine partnership, and avoid sub-contracting arrangements which can be harmful to smaller VCSE partners.
• **Inequities in relationships**: our findings from the Localism Commission, found that top-down, hierarchical power dynamics between public bodies and the community can dampen the potential of local action. It also shuts out the potential ideas, resources, skills and capacity of local communities and local civil society.

  o We make a number of recommendations in our response to ‘Place’ below about how to build a more productive ‘power partnership’ between local government and communities.

• **Diversity of income**: for many of our members with diverse income streams, including asset ownership and enterprise, this enables them to engage and advocate on a more equal footing with the council. The stability afforded by their diversity of income, also puts them in a position to encourage and facilitate greater collaboration with their VCSE partners, and they have a responsibility to use this role productively in their communities.

The funding and financing environment

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**Our key recommendation**: we believe there is a significant opportunity for the government to improve the operating conditions of civil society organisations by strategic use of the Dormant Assets fund. This should include a £500million investment in a Community Assets Investment Plan to capitalise communities and secure sustainable community infrastructure and spaces for the long-term.

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**What does an effective pool of funding and financing as well as income opportunities for the voluntary and community sector look like?**

Locality members are sustainable, independent and enterprising organisations. They use assets and enterprise to be resilient and to be able to respond flexibly to changing community need. An effective pool of funding should include a plurality of sources, and many of our members have diverse income streams and leverage funding from multiple sources.

However, we are facing an increasingly challenging funding picture, and there are a number of particular characteristics inherent in the community sector which make long-term financial stability difficult to achieve. These include:

- Few options available for (re)financing and capital – especially when compared to private companies;
- Assets are usually restricted in some way, for example in relation to financial clawback and inappropriate leasehold terms;
• Trading and business activities mainly in the field of social care and people services are people intensive carried out by these organisations typically have low gross margins, with limited potential to increase significantly;
• Low gross margins where salaries account often for up to 75% of expenditure leave little surplus to service debt
• Limited recovery of core costs and overheads or ability to build reserves from restricted funding.

A major challenge relates to the fact that the community sector is currently very under-capitalised, both in terms of assets and reserves, and therefore less resilient and less able to focus on long term impact. The key to establishing long-term sustainability for the sector is therefore through developing a cocktail of investment which allows them to build balance sheet resilience.

In addition, reductions in public sector income can have an extremely destabilising effect on the sector, as public sector contracts and grants are a core source of income for voluntary and community sector organisations. We expand on our recommendations for changes to commissioning in the ‘Place’ section below, including highlighting the importance of grants and the impact of competitive tendering processes including the use of payment by results (PbR).

**Creating sustainable community organisations through Dormant Assets funding**

A key route for financial sustainability is through asset ownership, which, when done well and properly supported, provides a sustainable foundation and robust financial basis for the growth of community and civil society organisations. In 2016, Locality members held £779 million worth of assets, providing an incredible source of strength and resilience as well as supporting a vast array of different activities and services operating out of the assets.\(^\text{12}\) Indeed, the organisations which have best adapted to the impact of the recession have assets which generate revenue, including renting buildings or hosting new services.\(^\text{13}\)

While we recognise that the new Civil Society Strategy cannot commit to introducing new funding streams, it does provide an opportunity for ensuring the existing funding streams can be used strategically and productively. One such significant opportunity is Dormant Assets funding.

The Dormant Assets Commission have identified a potential £2billion of funding from dormant assets, such as pensions and insurance and stocks and shares. These funds are already committed to being used on good causes. We believe there is substantial scope for considering how this new funding could be most effectively channelled into strategic, long-term investment in civil society. As a wider sector, we

have a number of proposals for how the £2billion additional funding could be invested in a strong, vibrant civil society that is able to meet the needs of communities for the long-term, and have recently written to the Minister of Civil Society on this subject.

Locality have long been calling for £500 million of this funding to be invested in a Community Assets Investment Plan. We have also received support for these proposals from sector partners, and it has been a core recommendation of our joint sector submissions to the Treasury in previous Autumn Statements and Spending Reviews.

Instead of lying dormant, these vital resources could become the beating heart of community life. By investing 500 million of this funding in a community assets investment plan, the government could establish a sizeable pot of central funding, leading by example and committing to match fund and coordinate contributions from other funders such as foundations and social investment funds.  

What could a Community Assets Investment Plan achieve?

We are calling for a 200m a year fund for the next five years could deliver support for local community organisations in three key ways:

1. **Advice and support.** Taking ownership of a public building or space can be complicated, and community organisations need expert support and advice throughout the process.

2. **Help to get started and develop plans.** These groups need help to build their skills and check whether their ambitious plans will work out. They often need to pay experts – such as architects and surveyors – to check that the building is suitable, cost any work that needs to be done and technical input into the formal bidding document.

3. **Funding to buy property and deliver building projects.** Community groups lack access to funding to allow them to buy buildings, kick start local fundraising campaigns and fund building and refurbishment projects to make spaces fit for community use and viable for the long term. Private developers will have the money at the ready so community organisations need all the help they can get raising the capital. With the pressure on local authority finance many buildings of community value are being sold off often after years of substantial public investment: community enterprise offers a viable alternative to maintaining community value and offer a foundation for resilient community service delivery.

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Social investment:

Social investment has been a key priority for the government over the last 10 years, and has been seen as a major part of the solution to financing social impact. To some extent, the market has matured, and social investments have been made which have impacted a number of areas. However, concerns remain about the relevance and cost of social investment, and the failure to impact on local communities, where the need is for more patient finance and equity. Inevitably, a lot of focus has been on establishing the social investment market itself rather than the impact it will achieve.

Many activities of many charities are not suitable for social investment, and not all services can be monetised. In addition, we feel that the major focus of social investment has focused on the needs of investors rather than the social outcomes – much of the existing finance that has entered the system has not been cheap enough or at a small enough scale to benefit local charities and social enterprises.

Many Locality members accessed a combination of debt and grant finance through the experimental programmes, Futurebuilders and Communitybuilders. In some cases, although important community organisations were established, they are being distracted from delivering local impact by unsustainable levels of debt. This problem is compounded by the relatively high fixed interest costs of social debt finance no longer reflecting the current low interest rate environment. We also recommend that in the case of the Futurebuilders programme, government should transfer this to SIB with an expectation that loans can be written off to support the social impact and sustainability of organisations who are heavily indebted, based on unrealistic lending before the economic crash.

Lessons are being learnt about the levels of sustainable gearing and the sustainable level of finance charges for voluntary and community sector organisations, and there has recently been a more welcome renewed focus on more modest size investment which is more appropriate to most organisations. Some local authorities are also recognising the importance of social sector organisations to achieving their objectives in local service delivery and are beginning to offer more appropriate low cost long term replacement finance. However, there remains a significant gap in blended models of social investment – which offer grants alongside loan finance – which there is a real need for in the community sector.
We are calling for an independent review of the impact of social investment

The Civil Society Strategy is a good opportunity to set out a review of the current market, progress made to date, challenges and problems. This review should consider:

- The demand-side social impact investment needs of the community and social economy sector for greatest impact
- The current effectiveness of SITR and potential areas for extension of use to develop the huge potential of the retail market for social impact investment
- The option of separating out Merlin and unclaimed asset funds in order to enable the provision of more patient forms of capital, with lower risk-adjusted rates of return
- The scope and operating focus of key organisations in the social investment market, including Big Society Capital
- The gaps in other sources of funding to enable social investment to impact on local communities by subsidising finance to the end user
- More effective involvement of stakeholders from the voluntary and community sector in governance structures

Social impact bonds:

There are a number of reasons why Social Impact Bonds can often be inaccessible or inappropriate for community organisations. Below we outline some of these challenges, and offer some recommendations of how to mitigate them:

- Complex and often protracted contract negotiation to establish baseline and outcome payments, as well as the requirement for bespoke legal documents, often require costs and skills which are beyond the capacity of community organisations. This process can be further complicated if there is a requirement to establish a special purpose vehicle for contract delivery. This difficulty can in part be mitigated by good access to grant funding for contract readiness.

- Wider difficulties of attempting to specify detailed targets and transfer financial risk (recent examples of the difficulties in setting the right balance of risk transfer in public procurement include, Carillion and East Coast Mainline) have been high profile and while longer term contracts are to be welcomed, PbR contracts without sufficient flex can lead to perverse incentives and poorer outcomes.
• The financial risk which is transferred through the PbR model is often borne largely by the weaker partner. This requires sophisticated management information systems to evidence performance and manage risk. In developing SIBs, contracts should be designed so that outcomes payments are structured to reflect additional risk. Support for the establishment of management information systems would also be helpful to community organisations delivering through SIBs.

• The debt finance requirement within SIBs to fund working capital adds to costs of the organisation, and for smaller organisations with limited assets on their balance sheets this may be difficult to obtain. Organisations may have to grant security over their assets which may jeopardise their wider operations. It is therefore important to ensure adequate supply of unsecured debt finance from providers who understand community organisations.

• SIBs have tended to be used for larger contracts which means they are not accessible to smaller local organisations, despite the fact that local service delivery often provides the highest quality services, most reflective of local need, and offering best value for money. Although in theory contracts can be delivered by consortia of local organisations, these present other challenges and issues and community organisations at the bottom of a complex contracting chain have reported very poor experiences to date.

• Given that SIBs tend to favour larger established and better capitalised organisations, we recommend that funding is established specifically to commission smaller and newer organisations to trial new and innovative approaches.

Community investment and community shares

Community organisations play a critical role in creating accessible local financial institutions to support small businesses, social enterprises and social entrepreneurs. They do this through peer-to-peer lending, affordable finance, local currencies, community shares, and community development finance institutions and credit unions.

We have a number of recommendations for strengthening the power and potential of community investment models, including:

• National government support for community shares programme
• Modifications of the Social Investment Tax Relief in order to enable greater community investment in the areas of land and asset ownership and renewable energy
• Modifications to the Community Investment Tax Relief, to support community share offers carried out by community investment intermediaries
• Work with HMRC to ensure that streamlining the Advance Assurance service does not create barriers for communities seeking to raise money and benefit from tax reliefs
• Wider publicity and further guidance of how enterprise tax reliefs can be used by investors through PAYE would widen the growing pool of local investors.
• Use governments convening power to bring together community organisations, crowdfunding providers and socially purposed financial institutions, to explore opportunities presented by co-operative and community benefit society bonds now being eligible for holding in the Innovative Finance ISA.
Place

Devolution/localism

*Our key recommendation:* we require a new power partnership between local government and communities, and a renewed commitment for central government in creating the conditions for localism to flourish. Central government commitment needs to reflect the need for communities to have the capacity, powers and resources to drive forward place-based change.

There is growing political consensus on the need to decentralise. It is clear that the scale and complexity of our social challenges is so great, they are unlikely to be effectively addressed from Westminster. Following the vote to leave the European Union, the mandate for reinvigorating localism has arguably never been greater. The demand to ‘take back control’ which perforated the referendum campaign, reflected a sense of powerlessness of people lacking a stake in their communities and futures.

Strengthening localism offers the potential to tackle disadvantage, rebalance our economy, and revitalise democracy. Ultimately, devolution and localism need to empower the ability of people and communities, supported by local civil society, to take action and improve outcomes for places, and bring together partnerships from all sectors to enable positive place-based change and transform lives. Without explicit recognition and embodiment of this purpose, there is a risk that devolution is seen as purely a reorganisation of public sector responsibilities and that any economic reorganisation is focused on regional level industrial strategies. We are concerned that, too date, engagement of civil society in the devolution agenda has been too limited, and therefore the devolution agenda is missing the opportunities to unlock the local level innovation we require.15

We believe there is huge potential to strengthen localism in the context of devolution, and we outline below the benefits that can be brought about for our local economies, public services and in building greater community power. Our recommendations throughout this section have been drawn, in the main, from the findings from our Commission on the Future of Localism.

Localism and strengthening connectedness and belonging

Localism must be about giving voice, choice and control to communities that are seldom heard by our political and economic institutions. Localism should enable local solutions through partnership and collaboration around place, and provide the conditions for social action to thrive.

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15 NCVO, 2017. ‘Local needs, local voices’ Available at: https://www.ncvo.org.uk/images/documents/about_us/media-centre/Local-needs-local-voices.pdf
Feeling part of the community where you live can have a positive impact on your personal wellbeing and health, reducing isolation and tackling loneliness and involvement in local social action can strengthen feelings of community cohesion and generate a greater sense of civic pride and purpose. One of the most valuable outcomes of community action is the feeling of collective power, as well as personal agency that comes with the proof of what can be achieved in partnership with neighbours for a shared purpose.

The consequence of a representative democracy is that often the expression of democratic participation can become largely transactional. Power is given from the electorate to MPs and councillors at elections, and further political and policy engagement is too often limited to consultation, rather than collaboration and conversation. Advocates for localism too often fall into a narrative trap of arguing for power to be ‘handed’ from the centre ‘downwards’ to communities, inevitably in ever diminishing packages. Through our Commission on the Future of Localism, we have heard how we need to make the case that power starts with people: power doesn’t belong to decision-makers to ‘give away’. The task of the political system and our local leaders is to harness this power through ongoing relationship, engagement and co-creation.

Localism is about more than local governance structures or decentralising decision-making. It is about the connections and feelings of belonging that unite people within their communities. It is about how people perceive their own power and ability to make change in their local area alongside their neighbours. However, in order to ensure that the expression of such social action translates into real change, communities need to have meaningful connection to governance and the ability and capacity to exercise such power.

**Localism and the economy**

We support the government’s ambition to ensure that the benefits of economic growth are felt across the whole country. The key route to rebalancing the economy is through greater devolution of spending power and decision making to the most local level possible.

Yet while our economic strategy is increasingly regional, it is still far from local. Indeed, the economic benefits of city region agglomeration which are driving the Northern Powerhouse are likely to exacerbate inequalities within places, even as some of the differences between them are levelled out. As the UK looks to find a new path after Brexit, we have the opportunity build inclusive economic growth from the ground up, and make localisation a counterweight to globalisation. The EU referendum demonstrated that globalisation has not benefitted all communities equally, with many areas becoming ‘left behind’. So rather than economic strategy

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16 Public Health England. (2015). ‘Social relationships are key to good health’. PHE. Available at: https://publichealthmatters.blog.gov.uk/2015/12/08/loneliness-and-isolation-social-relationships-are-key-to-good-health/

only looking outwards, localisation first looks inwards towards the assets that exist within a place and seeks to harness them for the maximum benefit of the local community.

The focus on economic growth through the devolution agenda to date has been too narrow, neglecting the importance of building strong communities and an inclusive local economy. As well as there being huge social benefits, the economic case for focusing on building resilient local economies, which tackle inequality, is strong. Inequality, poor health, low educational attainment, and low skill levels undermine economic growth, and in countries where income inequality is decreasing, growth is higher than in those countries where inequality is rising.\(^\text{18}\)

Community organisations deliver for the local economy in the following ways:

- **Representing communities seeking a different economic model:** giving communities a stronger voice in economic decision making, including through community economic development: the process of economic development within a specific area to benefit local people, maximising neighbourhood-level economic opportunity and creating dynamic local economies.

- **Creating positive money flows:** by employing local people in good jobs and using local supply chains, community organisations act as economic multipliers. They keep money flowing around the neighbourhood, attracting inward investment and keeping it there, ensuring the benefits of economic growth reach the people in the community who need it.

- **Productive use of assets for the common good:** recognising how the assets in the community – including its people, buildings and land – can be used productively for the common good.

- **Supporting and developing an ecosystem of local enterprise:** community organisations are deeply embedded part of a local ecosystem. They incubate other micro-businesses and entrepreneurs, provide space for people to meet and join other social enterprises and community businesses, and work interdependently with the local public and private sectors.

\[^{18}\text{http://www.oecd.org/newsroom/inequality-hurts-economic-growth.htm}\]
The voluntary and community sector has so far been a missing voice in the debate around economic growth and devolution, despite having much to contribute to discussions about how best to secure growth which is also rooted in social justice and equality. Community and social enterprises have a wealth of expertise in

Case study: Supporting local enterprise – Skills Work and Enterprise Development Agency (SWEDA)

SWEDA was founded in 1989 by local women who saw a need to address the barriers faced by women getting into training, employment or business. Since then, the organisation has shifted its focus from solely women to all communities across Sandwell and the Black Country. Their charitable mission is to “encourage, inspire and promote the personal and professional development of its clients to achieve their goals regardless of age, intellect, talent or heritage”. This is in pursuit of SWEDA’s vision of a society where “all deprived communities have access to equal opportunities for employment”.

SWEDA’s target clients are likely to be those who find it hardest to access decent work or get into self-employment, including young people not in education, employment or training (NEET), mothers and women returners, lone parents, carers, Black and Minority Ethnic individuals, and people needing to retrain or upskill themselves. Their current programme for NEET young people has a 90% retention rate.

Most of the employability and skills training offered by SWEDA is free at the point of use to service users, and funded through a number of sources and organisations including Sandwell Metropolitan Borough Council, the Department for Work and Pensions and European funds. The organisation also provides enterprise and business support to local individuals and organisations, which plays a vital role in building a more resilient local economy. As part of this work, SWEDA seeks to build local enterprise networks to encourage cross-pollination of ideas and joint-working and collaboration between new businesses in the area.

SWEDA’s key objective is to support and encourage individuals to develop new skills, confidence and to fulfil their potential. Through their holistic service provision each year SWEDA supports over 1,400 individuals from diverse communities. SWEDA prides itself in providing a unique warm and sensitive approach with on-going, long term support. Their support is responsive to local needs and enables their clients to increase their self-esteem, confidence, personal and professional development.
developing businesses which not only create local jobs, but also generate huge social value within communities.

Locality was one of a partnership of organisations led by Co-operatives UK that delivered MHCLG’s Community Economic Development (CED) programme. The programme highlighted the role of CED in re-shaping the underlying economic system in a place, so that it works in the interests of local people. This approach sees the economy as a means to an end, not an end in itself. Crucially it recognises that the power to drive change lies with the local community, and depends on the formation of strong and trusting partnerships between residents, local businesses, local service providers, community organisations and the local authority.

**Localism and community ownership**

Community ownership of land and buildings creates genuine community control, strengthens the local economy, supports community-led regeneration and transforms local services.

Through the Localism Act, the Right to Bid and Asset of Community Value (ACV) listings have given communities the route to mobilise around much loved local buildings and spaces and fight against unpopular re-development plans, knowing that there is a formal process to back them up. However, there are significant challenges with the Right to Bid legislation. Crucially, communities do not have a genuine ‘Community Right to Buy.’ First refusal is not granted to communities, who instead have to compete with commercial bidders at the point of sale. Raising the capital required presents the biggest barrier, and raising the funds within the current window of 6 months is often not enough time to build community support, set up an incorporated organisational structure and governance model, and complete application cycles for funders and investors.

We believe there is significant potential to unlock the capacity in local communities through Community Asset Transfer (CAT). The benefits of which are as follows:

- **Capacity building in communities:** The process of community asset can build organisational capacity within community organisations, and can support emergent community groups to develop their capacity, governance and financial management. In a Locality survey of community organisations, 72% of respondents said that the skills and capacity of their board and/or staff had improved as a result of a CAT process.  

- **Supporting the local economy:** Community owned buildings can support the development of other local enterprises, through providing low-rents to community enterprises and small and medium sized businesses.  

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20 CRSR and JRF, 2016. ‘Community-led approaches to reducing poverty,’ Available at: [https://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/community-led-approaches-to-reducing-poverty-in-neighbourhoods.pdf](https://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/community-led-approaches-to-reducing-poverty-in-neighbourhoods.pdf)
contribution analysis of 10 community organisations\textsuperscript{21} shows that together they were found to have enabled approximately 1,400 jobs and approximately £120m of gross value added to the local economy. The role of enterprise development through community assets can be particularly powerful in areas of multiple disadvantage which have experienced underinvestment and withdrawal of services and amenities from the private sector.

- **Strengthening local partnership:** Community asset ownership can be a central part of transforming the relationships between the community and the public sector, and the creation of a common vision between communities and councils to support a whole-system approach to place-making. A survey of community organisations\textsuperscript{22} found that 58\% of community organisations surveyed reported that their relationship with the local authority has been strengthened through community ownership and for local authorities, 75\% reported an increase in more effective community engagement.

- **Strengthening community power:** Community owned spaces are the heart of community, where local people come together, access vital services and amenities and support each other. They provide a basis for community networks, attachment and belonging, and can support the community to address local challenges and leverage volunteer capacity and local creativity.

  Community assets can be a key source of civic pride, embodying the power of local activism and civic engagement. And, community asset ownership supports local regeneration by bringing redundant and underused land and buildings back into use (or preventing such assets becoming redundant).

- **Protecting cherished local assets and regeneration local areas:** Asset transfer is valuable simply because it protects cherished local assets that might otherwise fall into disrepair. Community owners are also often able to access external funding to develop assets which public owners would not be able to, such as from foundation trusts, leveraging new resources into the local areas.

- **Sustainability of community infrastructure:** as previously referenced throughout this response, community asset ownership is part of the solution to supporting a sustainable and thriving local civil society. Evidence shows that the organisations which have best adapted to the impact of the recession have assets which generate revenue, including renting buildings or hosting new services\textsuperscript{23}.

\textsuperscript{21} Locality, 2017. ‘Powerful Communities, Strong Economies.’ Available at: http://locality.org.uk/resources/powerful-communities-strong-economies-report/


Recommendations:

Our recent Localism Commission found that strengthening localism requires action in four key ‘domains’ of localism:

1. **Institutions for localism:** healthy local governance structures across the country, integrated within wider systems of governance, to ensure that power sticks at the local level.

   This requires:
   - Strengthening local governance by making it easier to establish parish councils and extending the powers designated to neighbourhood forums in non-parished areas.
   - Ensuring strong and sustainable community organisations, as a key vehicle for local participation and decision making.

2. **Powers and mechanisms for localism:** ensuring there are meaningful powers, levers and resources for communities to take action locally.

   This requires:
   - Strengthening local powers, including a genuine ‘Community Right to Buy’ to take ownership of valued local assets and a ‘Services Partnership Power’ to replace the Right to Challenge and embed community involvement in local services;
   - Embedding localism within the devolution agenda: the devolution agenda currently lacks a coherent neighbourhood dimension. New and existing devolution arrangements should be held to account by whether they enhance neighbourhood control and strengthen the power of community.

3. **Relational localism:** changing culture and behaviours requires embracing risk and establishing trust in devolution to communities, local leaders acting as facilitators for community expertise, and disrupting hierarchies.

   This requires:
   - A new power partnership between local government and communities and a commitment to community-led solutions and ideas in local decisions and policy making
   - Devolving powers and resources to communities, including through community asset transfer (CAT)
   - Embracing perceived ‘risk’ through devolution of budgets to neighbourhoods

4. **Capacity for localism:** ensuring localism is not the preserve of wealthier communities, or those with the loudest voices, requires building community
capacity, supporting community organising, community development and sustainable spaces for participation.

This requires:

- Strong and sustainable community infrastructure including sustainable spaces for participation;
- Tackling the root barriers to participation – including time and resources – and supporting community development in order to strengthen local power and voice.

The role of government in supporting Community Asset Transfer:

- **Champion** local authorities who are leading the way in asset transfer – eg by convening a network of LAs that are really driving forward asset transfer.

- **Commitment** to reviewing future sources of development, revenue and capital funding to support a step change in community ownership – including through the opportunities of the Dormant Assets funding.

- **Make community assets a core part of place-based working.** Recognise and champion the role of asset transfer in social innovation and service transformation around place -such as through awards competitions, guidance documents, or best practice case studies.

- **Improved data on asset transfer:** continued support for the new Assets of Community Value platform, currently being developed and funded by Power to Change and supported by MHCLG. Funding and support for further integration of data (such as local audits of community assets and community spaces) and ongoing maintenance of the data to ensure the listings are current and there is data on listing outcomes.

- **Extending CAT possibilities to wider publicly-owned assets:** Central government should consider the possibilities of bringing other aspects of the public estate within the scope of CAT – such as NHS or MoD property. This would also support local areas to take a more holistic view of local assets and community space.
Public services

Our key recommendations: In order to transform commissioning and harness the power of local community organisations, we require central government to:

- Amend the Social Value Act to ‘account’ for social value in commissioning;
- Make social value an ‘over-riding procurement policy requirement’ in the Crown Commercial Services guidance, shifting away from a sole focus on cost and competition.
- Level the funding playing field, including a renewed commitment to grant-making and a review of the use of payment by results (PbR)
- Champion and amplify local government best practice, and promote the disaggregation of large contracts and accessible contracting mechanisms.

Most services are, and always will be, delivered by the public sector itself. However, community organisations play a unique role in the local service landscape - in particular, working with people with complex needs, who find themselves a long way away from the labour market, or who face loneliness or social exclusion. From homelessness to employment support, children’s services to adult social care, community organisations are vital where trusting relationships and innovation are required. This is because they know the place and the people. They are committed, passionate and there for the long-term. They are adaptable, cost-effective and responsive, providing better solutions that transform lives.

These are exactly the kind of services that will drive down pressure on the public sector in the long-term by dealing with problems at source and preventing costs mounting up over time as people recycle around multiple services. They also help commissioned services add up to much more than the sum of their parts, by linking service users with other community development activities, encouraging social action and volunteering, and building self-confidence and pride.

By investing in small local providers, councils can ensure that precious public sector resources are used to build community capacity and create maximum benefit to the local economy. This is particularly crucial at a time when local authorities’ financial futures are increasingly dependent on the success of their local economies, with the shift to business rate retention. A recent study published by Locality has shown the local economic impact of commissioning local community organisations to deliver services. Analysis of 10 Locality members by NEF Consulting found that they collectively enabled approximately 1400 jobs and approximately £120m of gross value added to the local economy, through their tenants. They act as local economic multipliers in disadvantaged areas, by employing local people and using local suppliers, helping to ensure economic growth is truly ‘inclusive’ and benefits all communities. For example, we found every £1 of income generated by Bradford
Trident creates £2.52 for the local economy. And every £1 generated by Windmill Hill City Farm in Bristol creates £2.47 for the local economy.24

However, local authorities are facing an increasingly uncertain financial landscape and across the public sector, savings have been sought through outsourcing services at scale: bundling up services into big contracts that go to large providers at the lowest price possible. This trend towards scale means smaller, local providers are crowded out the picture, as they often don’t have the balance sheets to bid for contracts in the first place. Only 6.6 per cent of registered charities have an income of over £500,000; the average outsourcing contract signed by local authorities is £37.8m.25 On top of the sheer size of contracts, the Lloyds Bank Foundation have found ‘hard evidence that systems and processes are both inadvertently and actively undermining the ability of small and medium-sized charities to compete on a level playing field’. Their research tells of charities being cut out of bidding by rules which require them to have a turnover of double the contract value.26

Through Locality’s ‘Keep it Local’ research and campaigns, we have been working with communities and local government to demonstrate how commissioning processes can be better designed and delivered, and how commissioners can steward their local markets, to unlock greater capacity in the community. Rather than commissioning individual services in isolation, we argue that local authorities should seek to co-ordinate services at the neighbourhood level and utilise the full range of local assets to support the ‘whole person.’

We continue to work in partnership with local authorities to support them to ‘Keep it Local’ and we are currently beginning a new project, in partnership with Lloyds Bank Foundation, to embed these recommendations.

Building community capacity:

The foundation of a Keep it Local approach is the presence of enough vibrant community-led organisations who have the capacity to provide high quality local services. But community organisations are currently facing huge financial pressures and deeply entrenched social challenges. They are increasingly being crowded out of the public service marketplace by the trend towards scale and standardisation that favours big corporations and large national charities. NCVO research has found that small and medium-sized charities’ income from government contracts decreased by up to 37% between 2008/09 and 2012/13, while government contracts to the largest charities increased by 34% in the same time.27

26 Lloyds Bank Foundation, 2016. ‘Commissioning in Crisis.’ Available at: https://www.lloydsbankfoundation.org.uk/Commissioning%20in%20Crisis%202016%20Full%20Report.pdf
Local government have a fundamental role as market stewards, to proactively support the development of a thriving network of innovative and sustainable small local providers, who work collaboratively and have the capacity to deliver high-quality services.

Creating a level playing field: funding mechanisms which supports community based services:

- **Use of grants**: As NCVO and ERSA put it, “competitive grant making often provides excellent value for money, from one-off projects to engage with beneficiaries to piloting a new idea where contract design and monitoring is deemed unnecessarily burdensome”. The Grants for Good campaign explain, grant funding “empowers charities and voluntary groups to identify and solve problems, and address needs in a way which is centred around people”.  

- **Break up big contracts**: For years now, both the EU and UK government have been encouraging contracting authorities to disaggregate contracts into smaller lot sizes, to open up opportunities for a wider range of providers. The 2015 EU procurement directive requires contracting authorities to divide up contracts, or explain why they have not. David Cameron promised as far back as 2011 to break up large contracts “wherever possible”. Yet despite all this encouragement, it’s still not happening: in 2016, the average outsourcing contract signed by local authorities rose by 30% to £37.8m.

Commissioning processes therefore, need to embed a greater understanding of the local provider market. Commissioners need to ask themselves: how many local organisations could bid for a contract set at this level? If the answer is zero, then commissioning is excluding organisations with a proven track record of supporting local people and who form the roots of the local system.

- **Don’t use payment by results**: PbR has quickly become the first mechanism contracting authorities reach for in ensuring service delivery focuses on achieving outcomes: providers get paid on the basis of the things they 

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29 https://www.dsc.org.uk/grantsforgood/  
achieve. However, an increasingly large body of evidence has emerged that PbR can be problematic for both service users and providers alike. 31

The incentive structures created encourage a ‘quick wins’ culture, neglecting those with the most complex needs. And it can exclude small and medium sized organisations from delivery and create cash-flow problems, meaning that upfront service costs have to be funded through reserves or other income sources. Payment outcomes can also take months, or even years, to be achieved, particularly working with groups of service users with complex needs. Grants are a much more flexible, collaborative and sustainable form of funding; or if a contract is being used, use blended payment mechanisms, which include upfront payments and fee for service.

**Alternative commissioning models:**

As part of our Keep it Local for Economic Resilience project, Locality has been exploring a range of alternative commissioning methods and delivery models. We believe these now need to move from the margins to the mainstream.

For example, “alliance contracting” is an innovative way of structuring the contractual relationship between commissioners and providers. It affords the potential to create a much more joined up approach to service delivery at a local level, encouraging the buyer and suppliers to work as an integrated team because it ties the commercial objectives of all the parties.

We have also been exploring the potential of “innovation partnerships”, a new procedure which gives a commissioner the scope to select a local VCSE provider as its innovation partner to develop and deliver new services. The definition of “innovation” includes new methods for “helping to solve societal challenges”, so this naturally lends itself to a commissioner drawing on the unique knowledge and expertise of local VCSE providers to develop innovative approaches to tackling key social problems in the area. These methods and others are explored in Locality’s “Better Services, Stronger Economy: A Keep it Local guide for commissioners”. 32

**Embedding co-design in commissioning processes:**

The best public services are based on a relationship, rather than a transaction, where the expertise of the professional combines with the experience of the user. Co-design recognises that the way to create the most effective services is to work with people as partners, rather than do things to them as recipients.

The key ways in which co-design can be implemented in practice:

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• **Involve service users early:** in practice, this could mean starting to have different kinds of conversations with people currently using a particular service or set of services.

• **Create an environment where service users and service professionals can talk and work on an equal footing:** Co-design has to be more than “asking people what they think” and gathering up the feedback – the people “in charge” need to be able to work together with the potential beneficiaries of a service, side by side.

• **Start by understanding the outcomes not just the service:** This will ensure that service user experience truly shapes service design, by focusing on the outcomes they wish to achieve.

• **Take an asset-based approach:** Rather than just focusing on the needs and problems, focus on the assets that people bring to a situation. This can bring to the surface different kinds of resources which can help tackle a challenge or achieve a shared goal. Asset-based approaches can build the resilience of individuals by raising their self-esteem and self-confidence, as well as building the capacity of whole communities by augmenting their collective resources.

**Maximise local social value:**

The Public Services (Social Value) Act 2012 is an important tool, however we know that it is not being used to its full potential. Our Keep it Local research ‘Powerful Communities, Strong Economies’ has shown a very mixed picture in the extent to which local authorities are using social value. Some councils have explicit social value policies, frameworks, and strategies in place, and are taking active steps; while others are doing very little to embrace its opportunities.

Key challenges we found, from interviews with local authorities were: even councils that have done detailed social value work have found push back internally to the adoption of policies. There is also a lack of understanding in how to embed social value into contracts in a meaningful way, and ensure that social value is measured and accounted for. We also found that it is possible for larger providers, with sophisticated funding teams, to use social value outcomes as part of a ‘tick box’ process in bidding for contracts, whilst small locally rooted organisations have not been able to demonstrate their added social value in this way.

**Recommendations for government:**

• **Review the legislation:** At present, contracting bodies are only required to ‘consider’ social value. Instead, local authorities should be required to ‘account for’ it. We also recommend that the legislation be widened beyond services to include goods and works.

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33 SEUK, 2016. ‘Procuring for good.’ Available at: https://www.socialenterprise.org.uk/procuring-for-good
• **Be a champion of good practice:** with practice mixed at the local level, government could do much more to raise ambitions of local authorities and bust myths around EU procurement rules that often embed caution and risk aversion. Government could also be clearer about what works in terms of local authority best practice. We’ve found this means having a clear social value policy, which sets out the local authority’s ambitions, aligns social value with its overarching strategic priorities, and provides a clear sense of the change in practice desired. Social value must then be accounted for both early and late in the commissioning cycle – in the service design and contract specification; and in monitoring and evaluation of success.

• **Lead by example:** Manifesto analysis by the Social Economy Alliance\(^3^4\) at the 2017 general election found that all political parties now have commitments to ‘harness the buying power of the taxpayer’ for social good. However, we have yet to see central government clearly demonstrating this through its own procurement practice.

• **Mainstream social value:** social value remains a good practice ‘add on’ rather than a driving force for government policy. A key way to signal central government commitment to social value would be to make social value an ‘over-riding procurement policy requirement’ in the Crown Commercial Services guidance, shifting away from a sole focus on cost and competition.

\(^{3^4}\) [https://socialeconomyalliance.files.wordpress.com/2017/06/final-mashup.pdf](https://socialeconomyalliance.files.wordpress.com/2017/06/final-mashup.pdf)
The Future of EU structural funds

**Key recommendation:** use the successor fund to tackle inequality and help create a fairer society. The future UK Shared Prosperity Fund must focus on inequality, removing the obstacles that stand in the way of areas achieving their economic potential. The fund should support community economic development, be based on long-term timeframes, be focused on area-based disadvantage, and be accessible to local community organisations.

Ever since the EU referendum, we’ve been speaking with our members about how their communities are feeling, and what they think the challenges and opportunities are for their areas at this crucial moment in our national life. Our members are spread all over England, from the areas that voted Leave in huge numbers to the Remain heartlands. What we have discovered from these conversations is that, regardless of how their places voted, there is a common set of challenges that communities are facing and that our members are working tirelessly to address: a growing sense of inequality; a disempowering democratic deficit; the challenge of community cohesion.

So we believe that a successor fund must be designed in a way that harnesses the power of community to bridge these divides. In partnership with our members and drawing on evidence about the effectiveness of existing funds, we have developed eight key principles and how the successor fund should operate:

1. It must be targeted on inequality, removing the obstacles that stand in the way of many areas reaching their economic potential.
2. It must support community economic development, the process of economic development within a specific area to benefit the local community.
3. It must be long-term, maintaining ESIF’s current seven year time horizon, to enable a strategic approach and reduce political interference.
4. It must match current ESIF levels and be ring-fenced, preventing these crucial funds being reduced or diverted to support short-term political priorities.
5. It must continue to target area-based disadvantage, with government engaging widely to agree an allocation framework that ensures it supports economic development in the areas that need it most.
6. It must be accessible to local community organisations, with a devolved, blended approach that sees some strategic funds controlled by combined authorities or LEPs, alongside significant targeted funding for place-based partnerships between local authorities and local organisations.
7. It must be flexible, reducing bureaucracy and allowing community organisations to focus on programme quality rather than administration.
8. It must foster collaboration, learning lessons from recent experience in commissioning and blazing a trail for a new approach that brings together the local public, private and social sectors to lead the local economy.

For more detail on these proposals – please see our recent paper: ‘How replacing EU funds can unlock the power of community.’ Available at: https://locality.org.uk/wp-content/uploads/2018/05/Locality_EU-Replacement-Fund_Future-Places_FINAL.pdf