Economics and the third sector

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About PSSRU
• Stands for Personal Social Services Research Unit
• Director: Martin Knapp
• 40th Anniversary and at LSE since 1996
• Research in social care with an economic focus: evaluation of costs and outcomes of interventions, projection modeling long-term care finance, outcome and resource use measurement, performance measurement
• Topics: Mental health, social care, dementia, autism, children and young people, unpaid care, etc.
• Mission: “the production and dissemination of high-quality research and policy analysis in health and social care”
• Funding from government research grants and other public resources for longer-term projects/partnerships such as the National Collaborating Centre for Social Care

About me
• Mix of practice and academic background in economics and health and social policy
• Employed as full-time researcher at LSE; at the moment 0.5FTE from National Collaborating Centre for Social Care
• Research topics: Perinatal mental health, third sector, community capacity building, support for parents with learning disabilities
The third sector in the UK, in its relationship with the Government

**In the 1980s, early 1990s**
From government to governance
- Contracting out by the State
- Reduction of State as service provider
- State grows in its role as auditor and regulator
- Third sector as service provider alongside for profit organisation, expansion of for-profit provision

**Under New Labour Party, 1994-2010**
Choice and competition
- For first time, strategic policy towards third sector (national ‘Compact’ in 1998 between the State and third sector)
- ‘Horizontal’ funding across the sector rather than linked to service areas
- 36% of total income for charities in England and Wales from government, altogether £12.8bn (Clark et al 2010, p43)
- => Increased profile of the third sector

The Compact is a formal agreement outlining in general terms the relations between the state and the third sector in England, introduced in 1998 and taken up in a number of other countries.

Please note that the following few slides on mixed economy were kindly provided by Martin Knapp
Provider types

- **Public sector**: the state - national, regional or local
- **Voluntary sector**: organisations independent of the state which cannot distribute any surpluses (profits) to owners (aka *Third or non-profit or charitable sector*)
- **Private sector**: also independent of the state, but surpluses (profits) can be distributed (aka *for-profit sector*)
- **Informal sector**: individuals, families and groups without formal rules / structure / governance
Purchasing routes

- **Public sector**: coercive, collective. Public sector acts on behalf of citizens, mandated by democratic processes, funded mainly by taxation.
- **Charitable**: uncoerced, collective. Voluntary organisations use voluntarily-donated funds to finance their own or others’ services.
- **Corporate**: private-sector companies funding services or insurance for employees.
- **Individual (own use)**: payment for goods or services by the individual who will use them.
- **Individual transfers**: payment for goods or services by one individual for use by another.
The mixed economy of care matrix

<table>
<thead>
<tr>
<th>Service purchasers</th>
<th>Public sector</th>
<th>Charitable</th>
<th>Corporate</th>
<th>Individual – own use</th>
<th>Individual transfers</th>
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<td></td>
<td>Public</td>
<td>Voluntary</td>
<td>Private</td>
<td>Informal</td>
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### ‘Governance’ & ‘market’ arrangements

<table>
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<tbody>
<tr>
<td>Public</td>
<td>Hierarchy &amp; quasi-mkts</td>
<td>‘Out-sourcing’ or contracting out</td>
<td>Support for carers</td>
<td></td>
</tr>
<tr>
<td>Charitable</td>
<td>Foundation support</td>
<td></td>
<td>Community grants</td>
<td></td>
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<tr>
<td>Corporate</td>
<td></td>
<td></td>
<td>Paid leave for carers</td>
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<tr>
<td>Individual – own use</td>
<td>User charges</td>
<td>User charges</td>
<td>‘Textbook’ markets</td>
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<tr>
<td>Individual transfers</td>
<td>Donations to the state</td>
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<td>Support for neighbours</td>
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Can markets work in health & social care?

Leaving individuals to purchase their own health or social care is unlikely to produce an efficient or equitable allocation of resources:

- Externalities
- Lack of information (on need, treatments etc.)
- Asymmetric information (risk of exploitation)
- Market power (of providers)
- Inequity (if need linked to economic status)

But do market-like mechanisms have roles to play...?
The third sector in the UK, today

- **Office for Civil Society** (former Office of the Third Sector) => responsible only for England (not the other UK countries)
- **Simplification** of tax relief for charities
- Support for **volunteering**: White Paper 2012 on *Giving*, but not supported by specific legislation or proposals
- Volunteering opportunities for 16yrs old school leavers
- More **competitive** markets for public contracts: *Open Public Services* White Paper 2011 extended service provision role for third sector and for profit providers; but not supported by legislative proposals => major contracting agencies are large private companies
- Report to look at the barriers to voluntary and community action, Cabinet Office 2011, *Unshackling Good Neighbours*
- Improved version of the Compact
- Social Investment Bank: **Big Society Capital**, with £200m from major retail banks
- **Mutualisation**: new ‘right to provide’ for public sector workers to form employee-owned cooperatives, task force
- Community building: **Community First budget** of £80m, small grants to local organisations
- Overall reduction in financial support for community organisations in the spirit of **Localism Act** (‘right to challenge’ local service delivery, ‘right to buy’ assets from local authority, ‘right to provide’ for public sector employees)
The impact of the financial crisis on the third sector in the UK

- Spending Review in 2010: cut to Office for Civil Society and Cabinet Office almost 60%
- Stop to ‘horizontal’ funding
- Cuts to finance scheme established under New Labour
- Local authorities budget reductions by 10-25% over four years

⇒ Diminished infrastructure of third sector
⇒ Cynical view on Big Society, from potential for legacy to policy that covers for cuts

Experience repeated from previous recession in 1990
- Sector very aware but not able to cope with increasing demand whilst experiencing budget cuts (Taylor Glooby 1994)
- Small organisations much more vulnerable to budget cuts (Hems and Passey 1998)
The third sector in the UK, *an outlook*

- A new discourse, way from the ‘third sector’ towards new organisational concepts and partnerships and a wider notion of social relations
- The term ‘civil society’ suggests a much wider remit and responsibility for government to shape social relations and promote civic participation
- Reality at the moment is quite far away from this promise
Why does the third sector exists (in the UK)?

POLITICAL REASONS

- Democracy and value of freedom of expression
- Healthy pluralism, creative chaos
- Depending on function: service provision, advocacy, watchdog, campaigning, catalyst for social change, community building/ social capital, volunteering and civic engagement
- Disillusion with market solutions that are highly dependent on economic situation
- Distrust towards government to provide services efficiently, in equitable manager, and meet service users’ expectations
- Image of third sector
Why does the third sector exist?
Reasons derived from economic theory

- Market failure and externalities: leaves most third sector activity unpriced or with prices that do not reflect full societal costs (examples: unpaid care and voluntary work)
- Information asymmetries and transaction costs => Trust or experience goods
- Low start up and entry costs
- Vulnerable users or beneficiaries who might be exploited by profit providers
- Possibly limited ability to exercise voice or exit rights
- Rare conditions, small or heterogeneous groups => not enough demand for market or efficient government provision (lack of economies of scale)
- Stigmatized groups for which public mainstream provision has failed
- Perception that third sector provides higher quality and/or lower costs, and ensures greater equity, is more innovative
Perception that the third sector provides...

- Services at lower costs, higher quality, greater equity, greater innovativeness?
  - Employment of volunteers
  - Lower wages of staff
  - Lower overheads, less bureaucracy
  - Highly committed staff
  - Close to the community and responsive to needs
  - Specialisation
  - Good motivation
  - Risk taking

BUT most this is difficult to prove empirically and there are also many counterarguments:
  - Wasteful use of resources due to lack of planning
  - Wanting to do good doesn’t mean doing good (bias and blindness)
  - Less regulation, less information and knowledge about how resources are spent

Etc.

=> Not a general rule that third sector provides the above .. But it might do under certain conditions so that the question is ‘What are the conditions under which the third sector provides better quality, at lower costs, greater equity, and innovation’
Should there be performance measurement in the third sector?

- Sector gets majority of income from public sector funds
- Accountability towards the public and transparency to ensure efficient resource allocation
- Any narrow definition of PM might not achieve the intended outcomes
- Too much government control can reduce ability of sector to act as independent advocate and critical voice
- Social needs difficult to define and not always government priorities
- Risk of sector activity to be not taken seriously in budget negotiations if their value remains invisible
Challenges of measuring performance in the third sector

• Nature of third sector: constitutionally independent of State but do not generate profits;
• Concerned with meeting social needs which are difficult to define
• Complex governance arrangements: accountability to multiple funding bodies and stakeholders
• Insecure, short-term funding translates into short-term reporting
• Apathy of the sector towards measuring performance which is perceived as top-down, patronising and in conflict with the ethos of the sector
• Limited data collection capacity of often small organisation
• Informal nature of typical activities makes it more difficult to get reliable data
Challenges of measuring performance in the third sector

- Inputs can be measured in monetary form but much more difficult to assign monetary value to outputs or even outcomes
- Multiple stakeholders: whose values to include when objectives differ between stakeholders
- Methodological challenges (see later slides)
- Still useful exercise to at least make the relationship between input and outputs by different stakeholders explicit (but often difficult to distinguish them)
'In terms of measuring voluntary sector performance, there is a belief that there is still a great deal of paternalism, with the UK Government believing it can demand information from the voluntary sector and have control over how money is spent’ (Little 2005, p833)

Moxham and Boaden (2007, p837) reported about their research that ‘all case organisations offered confidential activities [...] where the beneficiaries are not known’
Reality of how performance gets measured in the third sector...

- Patchy and inconsistent
- Organisations employing different tools (e.g. Harlock 2013)
- Broad frameworks and simple tools to avoid adverse effects of PM e.g. ‘logic model approach’: Aim to give priority to learning and development rather than monitoring (Whitman 2008, Harlock 2013)
- Role of evaluations including economic evaluations to demonstrate the potential value in particular of smaller organisations
Production of welfare framework

Davies and Knapp 1981

=> Foundation for performance evaluation

- Costs: include costs of resource inputs, total budget of the agency, opportunity costs (expressed in monetary terms)
- Resource inputs: e.g. staff, volunteers, members and capital
- Non-resource inputs: no identifiable price but influence the achievement of outcomes. E.g. opinions, attitudes, ideologies which shape the contextual environment
- Intermediate outputs: volumes of service output (quality dimension)
- Final outcomes: changes in welfare, quality of life and field-specific status; externality effects- influenced by the volume and quality of services provided (user and carer satisfaction)
Production of welfare framework

EFFICIENCY

Costs or budget → Resource inputs → Intermediate outputs → Final outcomes

ECONOMY

EFFECTIVENESS (intermediate) → EQUITY (intermediate)

Non-resource inputs

EFFECTIVENESS (final) → EQUITY (final)
Performance indicators for the third sector, derived from Kendall and Knapp 2000

EFFICIENCY

• Resource inputs (by activity), expenditure, average costs; number of volunteers and hours volunteered; volume for example events organised, users seen

EFFECTIVENESS

• Comparative impact on outcomes; satisfaction ratings; subjective measures of opportunity of impact; quality; outputs/ volume

EQUITY

• Market concentration index; service targeting, accessibility, redistributive policy consistency; benefit/burden ratio
Application of economic evaluation in a performance management context

Economics can contribute to all stages of the evaluation process:

• Clarifying objectives
• Convert objectives into measurable outcomes
• Distinguish between inputs, outputs, process and outcomes
• More systematic and rigorous assessment of outcomes, in particular causality
• Comprehensiveness, opportunity cost principle, societal and multiple perspective

Types of economic evaluations

**Cost-effectiveness:** consequences measured using single outcome in natural units e.g. life years gained

**Cost-utility:** consequences measured using a single outcome in terms of utility e.g. QALY (in health care) and social care QALY

**Cost-consequences:** consequences measured using multiple outcomes, one by one

**Cost-benefit:** consequences measured in £ i.e. assigning £ values to outcomes
Cost benefit vs. social return on investment analysis (SROI)

- Both have in common that they aim to translate outcomes into monetary values
- Cost benefit analysis often focused on consequences that translate directly into savings (e.g. reduction in hospital admission)
- SROI has specific focus on involving stakeholders
- SROI uses method. non-validated proxy indicators with the aim to value all benefits including intangible
- SROI easier subject to manipulation and bias
Economic evaluation of third sector projects: 

**Measuring outcomes**

- Outcomes often not clearly defined at the beginning of the intervention because of its personalised process-focused nature
- Many groups of beneficiaries: users, their families, volunteers, unpaid carers, community members
- Not one single outcome measure that is sensitive to capture all changes even for one group
- Many benefits occur only long-term
- Ideally all perspectives would need to be captured through different outcomes measures and over sufficiently long time periods to evaluate the full value or impact

...impractical/ impossible, instead:

- Iterative process in consultation with key stakeholders
- Defining the most important objectives and tracing pathways between outputs, intermediate and final outcomes
- Utilise evidence from the literature and other sources to link outputs or intermediate to final outcomes and extrapolate outcomes beyond observed time periods

=> Decision modelling
Economic evaluation of third sector projects: *Measuring costs*

- Multiple funding bodies
- Different government budgets but usually perspective only taken from the government department that is responsible for funding the intervention (and commissioning the study)
- Multiple needs (co-morbidities): costs hard to disentangle
- Intangible costs such as volunteer’s time, parent’s time, carers’ time
- Out-of-pocket expenditure
- Costs to communities
- Costs can persist for long periods
- Many costs are hidden from view
Economic evaluation of third sector projects: *Identifying the counterfactual*

- No alternative provision by definition (... according to economic theory)
- So counterfactual is ‘doing nothing’
- Ethical implications for study design
- Consideration of other sources that provide information about expected scenarios of what would have happened in the absence of the projects (e.g. neighbourhood statistics)

=> Can be used also in decision modelling
Example of method. challenges: Valuing Volunteering

- Volunteering does not have a formal **market price** => not visibly reflected in GDP => (arguably) less of a government priority
- Different economic methods to assign a value: e.g. **replacement or opportunity cost approach**
- Similar discussion on valuing unpaid care: **Costs of care increase substantially** when costs of unpaid care are included
- Improvement in **standardised data collection** is essential in order to inform government decisions about resource allocations (Stiglitz et al 2009, ONS 2013)
Annual cost of dementia in the UK

Total cost = £26.3 billion
Average cost per person = £32,250
This is a 24% real terms increase in just 7 years

Estimates by PSSRU for Dementia UK: 2nd edition published by the Alzheimer’s Society Sept 2014
Evidence: Community capacity

Some previous (exploratory) economic evidence

We looked at three examples of community capacity building

Knapp, Bauer, Perkins, Snell, Community Development Journal 2013
Our initial findings...

**Time banks**
- Cost per time bank member = £607 p.a.
- Economic pay-offs = c.£1300 per member
- ... of which £187 = short-term cashable to govt.

**Befriending**
- Cost per older person = £90 over 12 weeks
- Economic pay-offs = £490 including QOL gains
- ... of which £38 = short-term cashable to govt.

**Community navigators (benefit & debt advice)**
- Cost per ‘hard-to-reach’ person = £611
- Economic pay-offs = £360 (or £1200 including QOL gains)
Help at Home Scheme

The Help at Home Scheme aims to help older people maintain their independence in their own homes. We have added a new scheme Help at Home Plus which has added benefits. For the Help at Home Plus scheme there is a cost of £22.00 for a two hour session for all practical tasks, and there are several free services available too. The scheme is ISO 9001:2008 accredited and supported by Shropshire Council.

Anyone over the age of sixty may be eligible for this scheme and its services.

To contact us for any of the services below please consult the Contact Age UK page

There are four elements to the Scheme:

1. Providing practical help - This is a chargeable service.
   The Scheme employs paid workers called Home Support workers. They carry out some everyday tasks that an older person may find difficult to manage. Following our referral, a home assessment is made by Co-ordinators to decide how best we can help. A Home Support Worker is then arranged and referred to the same person maintained. All Home Support workers have a 3 day induction programme, enhanced criminal records bureau check which includes a police check and two independent references. Home Support worker calls every time for two hours at a time. Further blocks of two hours can be arranged at the same price, see above.

   Practical tasks can include:
   - vacuuming and dusting
   - bathroom and kitchen cleaning
   - shopping and collecting prescriptions
   - laundry and ironing
   - gardening
   - cleaning inside windows

2. Volunteer Befriending Service - This is a free service. To qualify you must be living in the county of Shropshire excluding Telford and Wrekin. Telford and Wrekin have a similar service called the Self Help Scheme. Please contact the Self Help team for details of this service.

   By volunteering you are a friend to an older person who needs a regular check-in.
Example: Help@home, Age UK Shropshire

**Aims** to enable older people to live independently at home

**Service:** Volunteer-run befriending scheme, free-of-charge, via telephone or personal visits; practical help for which older person is charged; benefits advice service provided alongside

**Method:** Mixed-method including primary data collection including survey to 1,000 participants, existing project data, national sources and decision modelling; outcome measured: social care-related quality of life via Adult Social Care Outcomes Toolkit (ASCOT; PSSRU 2007), self-perceived outcomes and resource use via simple questionnaire; different attempts to consider the counterfactual

**Findings:** Net benefit per older person was altogether £4,861, out of which £1,565 were potential government savings; this was mainly due to potential reduction in hospital use. There was a likely improvement in physical health (or avoidance of worsening physical health); reduced social isolation; mental health improvements. In addition, there was evidence of improvements in social care-related quality of life, redistribution of benefit payments and employment of volunteers.