

Communities and Culture Committee

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Inquiry into the funding of voluntary sector organisations in Wales - Wales Council for Voluntary Action

1. Purpose

Wales Council for Voluntary Action has prepared this paper to inform the Committee on funding issues for voluntary sector organisations.

2. Introduction

There are an estimated 30,000 organisations in Wales that make up the third sector. These include voluntary organisations, community groups, volunteers, self-help groups, community co-operatives and enterprises, religious organisations and other not for profit organisations of benefit to communities and people in Wales.

WCVA's national database holds details of over 25,000 groups, which can be categorised by their main activities and by their area of benefit (national, regional, local). 87% of organisations are local, working at a local authority or a more local level.

1.57 million adults in Wales volunteer, mostly with voluntary organisations. They give an average 9 hours a month and are equivalent to 90,015 full time workers. The sector involves approximately 253,000 trustees or members of management groups, and employs 46,400 people (24,100 full time and 22,300 part time), representing 2.2 per cent of the workforce in Wales in 2003.

65% of all organisations have an income of less than £10,000, whilst less than 2% (*i.e.* less than 500 organisations) have an income of over £1m. The small organisations make up 1.3% of the total income, whilst the largest organisations, make up 38% of the total income

3. Overview of the third sector's income in Wales

Income for the third sector in Wales has grown steadily over the last decade from around £600 million in 1995 to current estimates of £1.2 b in 2007 (Funding survey WCVA, 2007).

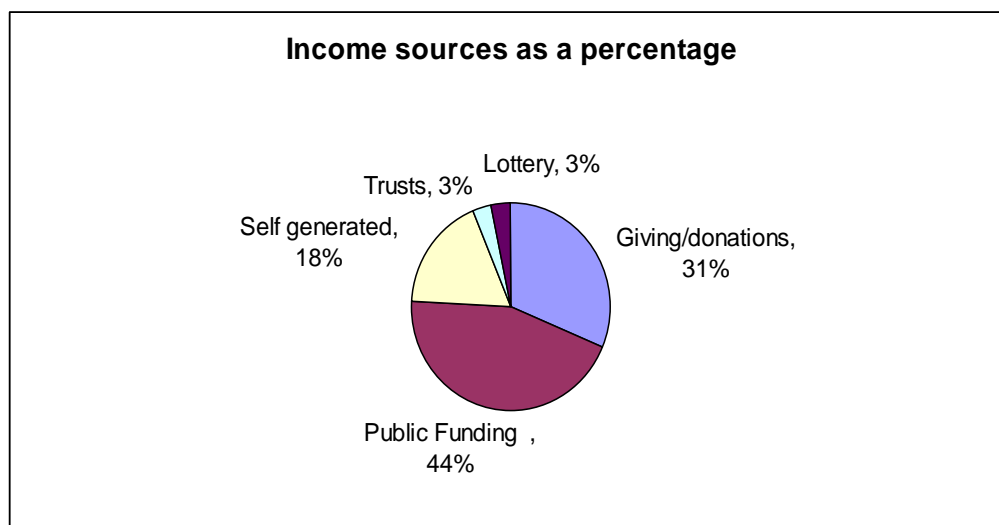
Giving/donations have historically been the main source of income for the third sector, but by 2005 this had changed with the public sector becoming the largest source of income.

However, the majority of the third sector consists of small local groups that are not reliant on income streams from public sector, but source their income via their members/donations and rely on relatively small amounts of money to achieve their aims.

During this same period, self-generated funds (charity shops, enterprise activities, housing rent) amount to 18%; income from trusts, 3%; and Lottery funding 3%

(WCVA Almanac, 2007). The table below shows the distribution between the various funding sources.

Table 2 Funding sources 2004/2005



4. Public funding for the third sector

Assembly Government funding of the sector is reported on as part of the Annual Report of the Voluntary Sector Scheme. The 2005/2006 Annual Report detailed public funding as follows:

Assembly Government Departments/Divisions	2005/2006
Enterprise, Innovation and Networks	£19,611,622
Education and Lifelong Learning	£8,643,507
Environment, Planning and Countryside	£6,355,642
Health and Social Care	£6,697,676
Local Government and Culture	£2,631,561
Strategic, Equality and Communications	£349,841
Social Justice and Regeneration	£118,392,352
CADW	£62,324
Total	£162,545,352
Assembly Sponsored Public Bodies	
Arts Council for Wales (<i>although actual voluntary sector funding is believed to total £9m</i>)	£26,202,000
Countryside Council for Wales	£3,015,000
ELWa	£16,615,000
Sports Council for Wales	£4,860,000
Wales Tourist Board	£356,000
Welsh Development Agency	£8,644,000
Welsh Language Board	£4,167,000
Total	£63,889,000
Total, Local Health Boards	£13,361,000

Funding from local authorities was £160 million in 2005-06, an increase of 27% from two years previously. Of this income, 70% was payment for services (contracts and service level agreements). The remainder was classed as grant funding.

5. Why do public bodies fund the sector?

Public bodies may wish to fund the sector because it:

- Acts as a voice for new and unrecognised needs and is a force for change, raising public awareness and campaigning to influence government policy;
- constantly develops new ways of meeting society's needs and providing better services;
- provides a way for people to take part in the public life of their community and nurtures community leadership and local democracy;
- takes place close to local communities and is flexible enough to respond to local needs
- is a respected source of independent information, advice and advocacy;
- offers people a stake in society, promoting equality of opportunity for those who are marginalised;
- provides an enormous range of practical services to people in every aspect of modern life and is the lead provider in many areas;
- allows people as volunteers to use their skills, gain experience, build confidence whether for personal fulfilment, community benefit or to improve their employment prospects.
- can bring in additional funds that are retained within the local community.

These reasons could be seen as covering a spectrum from – at one end, supporting local voluntary and community activity for its own sake and for the contribution it makes to the well-being of people and communities, to – at the other end, procuring specific services through a competitive tendering and contracting regime. And current trends demonstrate that there is an increasing shift away from grant aid for voluntary and community activity, and towards contracts for service delivery.

The public service reform agenda, however, informed by the Beecham Review of Local Services, suggests that the idea of choosing between grants for small groups and contracts for essential services is no longer appropriate. Improving public services requires a more sophisticated approach, one that integrates formal services with broader community responses, that fosters self-help and supportive communities. Rather than making a choice between investing in communities or investing in specific services, the viability and sustainability of formal service provision is inextricably linked with the capacity of communities to take and sustain their own action.

6. Why does the Assembly Government fund the sector?

The Assembly Government's Strategic Action Plan for the Voluntary Sector Scheme, which was the subject of consultation in early 2007, identified three key roles of the sector that government wished to support.

Firstly, its role as "a catalyst and facilitator of self-help, citizen engagement and socially beneficial action in communities of place and interest".

Secondly, "the contribution the sector can make through its front-line experience to the design, evaluation and reshaping of policies, procedures and practices".

Thirdly, its role in “helping implement Assembly government programmes through the design and delivery of public services”.

WCVA has described these aspects of the sector as follows:

- **Stronger communities**
The third sector is the route for community involvement for most people. It provides our “social capital” – the local activities and services organised by thousands of groups that are part of people’s everyday lives, and a vital ingredient of community regeneration. Volunteering and community involvement provide stepping-stones to building confidence, learning new and transferable skills, and overcoming economic inactivity.
- **Better policy**
The third sector has a central role in identifying, advocating for and representing the needs and priorities of different communities of place and interest. Many of these organisations have expertise and experience that can help to inform policy development, achieve citizen buy-in to new approaches, advance equalities and human rights, and achieve sustainable development at all levels of government.
- **Better public services**
In many areas of public service delivery the sector can help to develop different and better models of service to meet changing needs. It is particularly interested in collaborative approaches to reshaping services rather than simply be considered as alternative providers of existing services – transformation rather than transfer. It has the potential for better user focus, better reach and better outcomes than the state.

The Strategic Action Plan proposed that the third sector was in a particularly strong position to provide front line services when:

- Users have multiple disadvantages, requiring a coordinated portfolio of services from an informed provider;
- the service needs to be directed at sections of the community that have been excluded from traditional service provision;
- the service is targeted at users who are likely to mistrust businesses or state providers;
- the service is labour-intensive, where the flexibility and commitment of volunteers can be an asset;
- the needs of service users are highly variable;
- the quality of service required by procurers is difficult to specify, measure and monitor; and
- where procurers are unsure of the exact service required, and are seeking innovative proposals.

The Strategic Action Plan also proposed that each Assembly Government department should agree with the sector specific objectives in its own departmental plan. This should provide the opportunity to review the areas in which each department may wish to increase its support for the sector, and to ensure that it has the right funding mechanisms in place to do this.

In doing so, the Assembly Government itself is faced with similar challenges as other public bodies. How does it link formal service provision with the capacity of

communities to take and sustain their own action? How does it balance investment in representative and umbrella bodies able to advocate and provide a voice for different groups in the community, with investment in service delivery?

7. Funding procedures

Code of Practice for Funding the Voluntary Sector

The Code of Practice is the Welsh Assembly Government code that sets out the key principles which will underpin Assembly funding for the voluntary sector and what the Assembly expects in return. Through the Code the Assembly is also committed to promoting best practice by other funders, including those administering funds on its behalf. This includes promoting the Code to Assembly Government Public Bodies and Local authorities. The Code is published as part of the Voluntary Sector Scheme which states that: “*The Assembly will maintain ... a Code of Practice for funding the voluntary sector...*”

The Code takes forward the recommendations of the Strategic Funding Review on Funding the Voluntary Sector undertaken by the Voluntary Sector Partnership Council. The Code is a ‘living’ document, maintained on the Assembly Government website and updated regularly. The Code takes the form of a question and answer document structured around four key issues:

- Principles of Assembly Funding for Voluntary Organisations
- How does my organisation apply for funding from the National Assembly?
- What happens to our application once we send it to the National Assembly?
- What do organisations with successful grant applications need to know?

The principles set out in the Code are:

- *Delivery of strategic policy objectives* – acknowledgement of the role the sector can play in delivering these.
- *Respect for the sector’s independence* – recognition that the sector can often reach groups that the Assembly cannot and provides innovation.
- *Early and constructive dialogue* – opportunities to discuss proposals well in advance of the formal application deadline and early in the budget planning cycle.
- *Timely decisions* – notification of approvals for each financial year by 31 December of the preceding year unless, in exceptional circumstances, notice has already been given of an alternative timescale.
- *Security of funding* – longer term commitments, subject to performance: 3 years for strategic core funding and commitment for the life of any specific projects which are funded, providing firm year one funding and clear baselines for subsequent years.
- *Fair funding levels* – Levels of funding for the sector should be determined no differently than for other sectors or agencies where increases for inflation and growth can be built into bids.
- *Payment in advance* – provision under all grant schemes for advance payment of grant, where a clear financial need is established, including those schemes provided by Assembly Sponsored Public Bodies and European funding provided through the Wales European Funding Office.
- *Fair and reasonable treatment* – prior discussion and reasonable notice before any policy changes or decisions which would lead to withdrawal or significant reduction of grants.

- *Joint approach to monitoring and evaluation* - the simplest procedures consistent with ensuring proper use of public funds.
- *Who does what best* – commitment to identifying where the voluntary sector might take the lead in or contribute to the implementation of new policies, and ensuring that there are the appropriate funding mechanisms in place.

Welsh Assembly Government Compliance monitoring exercise

In June 2006 the Assembly government undertook an internal exercise to assess compliance with the Voluntary Sector Scheme and the Funding Code of Practice. The exercise highlighted areas of non-compliance and the need for further training and awareness-raising amongst Assembly Government officials. The compliance exercise was repeated in summer 2007 and efforts are ongoing to address the deficiencies identified.

Local authority Codes of Practice for Funding

WCVA's 2007 survey of local authority and voluntary sector relationships, conducted through county voluntary councils, found that although there is slight improvement in the number of counties with funding codes of practice, the monitoring of those Codes is not universal. The survey found that:

- A funding code of practice does not exist in Blaenau Gwent, Flintshire, Monmouthshire, Rhondda Cynon Taff and Swansea. In Torfaen they are 'unaware of it' and in Merthyr Tydfil it has never been 'fully implemented'. All other counties either have one or there is a draft.
- The annual actual or proposed monitoring of the funding code, by the Joint Liaison Committee, or another body agreed by it, has risen from 3 to 10 counties since the last survey in 2006.

8. Funding methods

Voluntary organisations would welcome clarity on the funding methods available to public bodies to use. In particular, organisations are concerned about confusion between the use of grants and of procurement.

Government accounting guidance, quoted in the Strategic Action Plan, provides the following clarification.

- **Procurement**
Procurement is used for the acquisition of goods and services from third party suppliers under legally binding contractual terms where all the conditions necessary to form a legal contract have been met. Such acquisitions are for the direct benefit of the contracting authority, necessary for the delivery of its service or for the running of its own business.
- **Grants**
Grants can be provided by public bodies as a means of offering financial support to third sector organisations to enable them to undertake activities they wish to support. Grants may be aimed at assisting with the core costs of running and developing an organisation or more specifically to help it carry out a particular project or service. The grant giver is not contracting for a service that forms part of its own business. Procurement should not be used in circumstances where a particular service meets the criteria for using grant aid.

Public bodies could be much clearer about the purpose of their funding, and decide whether they are:

- *Shopping* – buying or procuring a service or goods from the best available supplier
- *Giving* – contributing to the overall aims or mission of an organisation
- *Investing* – focusing on a longer term relationship of mutual interest and support

9. Procurement

There is a growing trend towards procurement, and third sector service providers are willing to compete on level terms with providers from the public and private sectors. There are often unfair barriers to the sector, however. A number of conventions commonly persist with public sector commissioners approach to third sector providers, which do not exist in commissioning from other sectors.

These include:

- Inconsistent application of commissioning and procurement across all sectors and services
- short-term funding
- inappropriate balance of risk
- pricing systems that impede full cost recovery
- inadequate engagement between commissioners and providers
- excessive monitoring and evaluation requirements.

There is also scope for developing service and tender specification criteria that enable commissioners to judge the extent to which potential providers can place the wider interests of citizens/service users at the heart of their service, and deliver wider and more sustainable benefits – for example, through increasing community and service user participation in service management and delivery, synergy with other services, drawing on wider networks of formal and informal support, supporting the personal development of service users, maximising local economic and environmental impact.

As part of its public service reform programme, the Assembly Government should proceed with its proposal for a third sector charter for commissioning services from the third sector, to include:

- Guidance on the funding options open to commissioners (grants, open competitive tendering, preferred bidders) for supporting third sector service delivery, and the circumstances in which each can be used;
- guidance on ensuring a level playing field for potential providers in any sector;
- guidance on developing service specifications and assessment criteria that include and measure citizen-centredness, sustainability, additionality and local impact;
- an analysis of the circumstances in which the third sector may be identified as the preferred provider of particular types of services;
- guidance on full engagement with potential providers at all stages
- commitment to the principle of full cost recovery;
- commitment to the sector's independence;
- guidance on balancing risks between provider and commissioner;
- guidance on appropriate monitoring and evaluation.

There are also issues to consider about the sector's involvement in commissioning and procurement decisions. Sir Jeremy Beecham's Review of Local Services in Wales emphasised the role of the third sector in "championing the voice of citizens and service users at every level." The sector's involvement in commissioning is essential to bringing challenge from a citizen and service user perspective to designing services and determining how and by whom they are delivered.

Current commissioning practice, however, is ambiguous about the sector's involvement. There are some models of good practice, where the sector is fully involved in joint commissioning through pooled budgets. But the sector is frequently excluded because some individual organisations are potential service providers and therefore have a vested interest.

However, the involvement of statutory bodies in commissioning that are also major service providers (local authorities, health trusts, police, probation service) is unquestioned. Moreover, far from providing a level playing field, commissioning frequently adopts a twin-track approach of short-term contracts and regular re-tendering exercises for "contracted-out" services, and unquestioned ongoing funding for "in-house" services.

It is unsurprising, therefore, that current commissioning arrangements have been seen as public sector provider-led and unresponsive to citizens in the eyes of many service user and carer organisations. As part of its public service reform programme, the Assembly Government should provide consistent guidance on commissioning public services that confirms its expectation that:

- The third sector should be a full and equal member of relevant commissioning bodies;
- the sector's representation should provide a citizen perspective to commissioning processes;
- commissioning bodies should have robust and transparent procedures in place to address any conflicts of interest of any of the organisations involved in commissioning process, whether they are statutory or third sector organisations.

10. Grants

It is not apparent that there are always clear procedures for determining when grants or procurement should apply, and public bodies may go down the procurement route unnecessarily. There remains confusion about which funding mechanism to use (grants or tendering); the clarification provided by the Strategic Action Plan is helpful but is not yet affecting practice.

Grants can provide a vehicle for a partnership and investment approach, in line with Beecham's recommended collaborative rather than competitive approach to service reform and improvement. Grants can also be used to provide stable, core funding for organisations whose role is vital to public services – either because they bring the views and concerns of service users, carers and local groups into the planning process, or because they provide independent advocacy services for vulnerable people, or because they provide essential, complementary services.

Such a partnership and investment approach is undermined by short-term, insecure funding arrangements. There is no reason why grant funding has to be short-term;

and, subject to properly agreement performance reviews, grant funding could be provided on a long-term or rolling basis.

The use of grants may still be able to be considered as part of more formal service development, particularly where a public body is inviting proposals for innovative approaches to tackling particular needs, rather than tightly specifying a service it wishes to purchase.

As with other funding mechanisms, it is important that there are safeguards to maintain and protect the independence of organisations. Their ability and responsibility to advocate on behalf of their members and constituency needs to be viewed as an asset and not a problem; and any issues that arise should be addressed outside the formal funding arrangements.

11. Loans

There is growing interest in, and some experience of, loans as an alternative to grants for some organisations. Despite changing attitudes, mainstream financial institutions remain unwilling to invest in third sector organisations. Newer initiatives such as the Communities Investment Fund operated by WCVA in partnership with the Cooperative Centre and Development Trust Association, are attracting interest from third sector organisations. The fund can provide a mix of smaller grants and more substantial loans, and can offer competitive terms and flexible repayment arrangements.

In response to the government's recent consultation on Unclaimed Assets, which proposes to make funds from dormant bank accounts available for community benefit, many organisations highlighted the opportunity to use some of the funds released to increase the availability of loans. The Community Investment Fund provides a model for how this can be done.

Public funding invested in loan schemes will underpin the sustainability of individual organisations, as well as ensuring the sustainability of the fund itself as repaid loans become available for new applicants.

It is not a model that will be right for all organisations, but it is likely to be a growing form of intervention for many organisations with viable business propositions demonstrating tangible public and community benefit.

12. Sources of support

It is important that organisations have access to advice on accessing and managing funding. The Assembly Government's Partnership Agreement provides support for WCVA, county voluntary councils (CVCs) and volunteer centres that provide the infrastructure that supports and represents the interests of the sector. Through this agreement CVCs and WCVA have agreed a joint service specification for funding advice that includes:

- A common set of information resources covering all aspects of funding (public sector and European funding, trust funds, contracting and tendering, trading, fundraising, tax-efficient giving, loans etc.)
- A National funding bilingual helpline (general enquiries, information, signposting to other accredited agencies)
- A comprehensive web-site (information, signposting)

- National funding advisory service
- Local funding advice service, covering planning for fundraising, identifying sources of funds, legislation regulations/affecting fundraising and making applications for funding
- A comprehensive training programme
- Funding events
- Research programme to establish funding trends in Wales
- The annual Wales Funding Conference

This is underpinned by a three year Sustainable Funding Cymru project, managed by WCVA and supported by the Big Lottery Fund. This project has developed a comprehensive training, advice and information programme, part of a joint funding advice service in Wales. It provides a dedicated website and monthly newsletter providing comprehensive information tailored to Wales. It has developed a modular training programme directly delivered by WCVA and cascaded through CVCs and other umbrella organisations, giving participants with an understanding of sustainable funding and how it can be implemented. It is working with 30 'champion' organisations that have attended the training courses to help them put into practice sustainable funding strategies in their own organisations.

13. Current issues

- In the light of this overview of third sector funding, it is suggested that there are a number of current issues that a committee review might address.
- How will the vision in the Strategic Action Plan for the third sector be translated into action across all Assembly Government departments and ASPBs?
- Against a trend of increased funding for parts of the sector by public bodies, why are so many local groups still struggling to secure funds for their day-to-day services?
- What happens at the end of a time limited grant? Should public bodies maintain longer-term grant funding where services complement or reduce demand on other public services, provide choice for service users or support people that are unlikely to engage with statutory bodies?
- What are the circumstances in which grants – both short-term pump-priming grants, and long term partnership grants – should be the preferred funding mechanism?
- Is the accelerated trend to procurement and tendering desirable? In what circumstances should we be adopting a partnership and investment approach rather than a competitiveness tendering approach?
- Are current procurement arrangements fair to the sector?
- How should the sector be involved in commissioning and procurement decision-making?
- What is the potential of social enterprise to move beyond grants? Where can the social enterprise methodology work, and what is needed to accelerate progress? And what are the limits – what are the kinds of organisations for which this is not a viable way forward?

- Is a mixed economy of funding (grants, tendering, loans) the way forward?
- How can the independence and advocacy role of organisations be safeguarded when they are in receipt of public funding (of any type)?
- How can the Code of Practice be developed and promoted to ensure good practice in funding the sector across all public sector bodies in Wales?

WCVA, October 2007