A Review of Funding Patterns to the Third Sector
A review of funding patterns to the third sector

Old Bell 3 Ltd

Views expressed in this report are those of the researcher and not necessarily those of the Welsh Assembly Government

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EXECUTIVE SUMMARY

This report outlines the findings of a Review of Funding Patterns to the Third Sector in Wales carried out for the Department for Social Justice and Local Government (DSJLG) of the Welsh Assembly Government (WAG) by Old Bell 3 Ltd.

The Review was commissioned as a result of on-going deliberations by the Third Sector Partnership Council (TSPC). At its meeting in November 2008, the TSPC discussed issues highlighted in a paper prepared by the Wales Council for Voluntary Action (WCVA) entitled “The political economy of funding the Third Sector in Wales: Towards a new Paradigm?”.

The TSPC agreed that the issues outlined in WCVA’s paper warranted further scrutiny and this Review is intended to help inform further deliberations as to how funding patterns should look to achieve best outcomes for and from the Third Sector in Wales.

The Review was undertaken between August and December 2009 with the specific objectives of:

- Reviewing existing literature around funding patterns across the four nations and the impact of funding patterns on the outputs of, and outcomes for, Third Sector Organisations in Wales;
- Undertaking qualitative research with funders on how their patterns of funding to the Third Sector in Wales has changed over time;
- Gathering the views of funders of the Third Sector and grant recipients within the Third Sector on how patterns of funding should be constructed to achieve the best outcomes for, and from, the Third Sector;
• Considering possible new approaches to achieving sustainability based upon the ideas proposed in the “Political economy of funding the Third Sector” paper;
• Making practical recommendations on how any changes in funding patterns might be implemented.

The work programme for the Review involved an extensive literature review and analysis of data relating to Third Sector Funding. Interviews were undertaken with Third Sector funders and a series of four focus groups with Third Sector organisations were held across Wales. Finally, a small consultation event was arranged, drawing together representatives from public sector funding agencies and Third Sector organisations to discuss the report’s findings and refine the recommendations laid out in Section 6.

Findings from the literature review include:
• The post devolution policy context for the Third Sector in Wales in general and specifically in terms of funding to the sector has developed rapidly and is very supportive of the sector;
• The issues and challenges concerning the distribution of funding to the Third Sector (such as funding timescales, the mix of available funding mechanisms and funding sustainability) seem well rehearsed and well understood by policy makers and key stakeholders in Wales. This has resulted in substantive efforts being made and measures being put in place (such as the Funding Code of Practice) to alleviate and try to overcome some of these issues. It is clear however that some of these initiatives are in their early stages and as the National Assembly’s Culture and Communities Committee highlights, there is still some way to go towards achieving full implementation of policy and funding principles;
• The funding mix in Wales to date is arguably rather conservative, made up in the main of various grant, service level agreement and
procurement mechanisms. Wales seems to be lagging behind Scotland in particular where investment and endowment mechanisms seem to be much further advanced as mainstream funding mechanisms;

- In terms of the level of guidance and support offered to statutory funders, Wales seems to be at least as well placed as the other home nations. The issue for Wales is ensuring that the policy direction is fully followed through with a robust and on-going focus on implementing the principles outlined in WAG policies and guidance.

Findings from the **data analysis** include:

- Recent funding trends across the UK demonstrate that funding from statutory sources to the Third Sector has increased steadily over the past decade;

- Between 2005 and 2007, most recent data shows that prior to the UK entering recession and impending public sector spending constraints, statutory spending through the Third Sector had increased at a faster rate than total Government spending;

- Statutory funding to the Third Sector is unevenly spread. Larger Third Sector organisations are more dependent on public sector funding and account for the large majority of public sector spending on and through the Sector. This is true in Wales and for the UK as a whole;

- Funding per head of population to the Third Sector in Wales is lower than in Scotland and for the UK as a whole but is higher than in Northern Ireland. The proportion of public sector spending through the Third Sector in Wales is broadly in line with that of Scotland;

- The mix of funding from the Public Sector to the Third Sector is changing at a UK level. Public grant income for the sector is declining while revenue from publicly financed contracts (procurement) is rising. To date however, there is little in the way
of concrete data to suggest that this change is particularly pronounced in Wales;

- There is a pronounced spatial variation in terms of the level of income from the public sector amongst Third Sector organisations in Wales;
- Most local authority spending with the Third Sector relates to social services;
- In UK terms, European funding represents a very small proportion of overall revenues to the sector. Wales however is more dependent on EU funding than the UK as a whole to finance the Third Sector;
- In terms of individual giving, Wales performs well and enjoys a higher average proportion of donors in relation to the population than the UK as a whole;
- Very few loan and investment finance sources appear to be available to the Third Sector in Wales.

The findings from research with Funders and representatives of the Third Sector include:

- In line with published statistics, stakeholders agree that overall funding to the sector has increased substantially over the past decade (leading up to the recent recession);
- Most funders have a clear appreciation and respect for the work of the Third Sector and the added value that the sector brings in terms of delivering excellent public and community services;
- Whilst progress has been made in developing the funder – funding recipient relationship in Wales, there is still work to be done to professionalise the approaches of funders and Third Sector organisations in a number of key areas. Fundamental to this is the need to ensure that progress is made on both sides in understanding and wanting to overcome respective barriers and challenges;
• Short funding timescales remain a key obstacle to the stability and survivability of many Third Sector organisations in Wales. Despite the efforts of various tiers of Government (with Codes of Practice, guidance and compacts), there is evidence to suggest that three year funding periods are still not treated by some as a minimum and bad practice (e.g. in taking eleventh hour funding decisions) remains to be fully weeded out;

• A wide variety of funding mechanisms are in active use to fund and commission services and activities from the Third Sector in Wales;

• Selecting the most appropriate funding mechanism is not always a straightforward exercise for funders. There is a risk of widespread confusion on the part of funders between commissioning and procurement;

• There is also a concern that in moving towards increased transparency and professionalism, procurement is seen as the default position;

• Funders are not receptive to the concept of ring fencing or allocating a proportion of their budgets to any one specific sector. There are fundamental misgivings about such an approach running counter to the need for transparency;

• The issues and challenges faced by the Third Sector in respect of procurement are in practice very similar to those of micro and small businesses and efforts to help the Third Sector “sell itself” more effectively need to be stepped up;

• Commissioners need to make sure that when they procure, they use appropriate techniques that are flexible, user friendly and proportionate;

• Defining outcomes related to Third Sector funding has not been a strength in Wales. There are signs however that this is improving and that funders and the Third Sector are now taking this more seriously;
• It is perfectly acceptable for the public sector to procure a service which specifies inputs - “the how” - as well as outcomes in some circumstances, but this should be the exception rather than the rule;

• Monitoring systems are fundamental to successful funding relationships that take outcomes seriously. There are signs that both funders and the Third Sector are committed to improving their practices;

• There is evidence to suggest that much more needs to be done to disseminate, and ensure the implementation of, WAG’s Code of Practice and funding guidance. Local Government also needs to step up its work in this area;

• There are mixed messages about the impact of the recession. Some in the Third Sector have already experienced substantial cuts while others are aware of services being taken “back in house” within the public sector. However, there is also evidence to suggest that some funders will outsource more as a result of the recession;

• There are significant opportunities and efficiency gains on offer to funders and the Third Sector by increasing collaborative working approaches;

• There is a lack of awareness and understanding of alternative, more investment based, funding approaches in Wales. There appears to be a clear need and opportunity to demystify and develop investment based funding approaches more vigorously in the immediate term.

The report makes a series of 12 recommendations focused on funding timescales, funding related outcomes and funding mechanisms.
On funding timescales:

**Recommendation 1**

Where there is a clear medium-term (five to seven years) need for a particular service delivered by the Third Sector, where the provision of that service fits well with established policy and where there is clear political consensus around the importance of addressing the need and the appropriateness of the service in doing so, a funder should commit in principle (i.e. by entering into a binding contract) to provide stability over this timeframe. It should be accepted that underneath this longer term commitment in principle, precise budget allocations will need to be determined on a recurring (possibly annual or bi-annual) basis. Efforts by the Welsh Assembly Government, local government and other funders should be re-doubled to ensure that what is in effect an already agreed principle becomes mainstreamed practice.

**Recommendation 2**

The Welsh Assembly Government should re-double its efforts in disseminating and promoting the use of the Third Sector Funding Code of Practice across internal departments, Assembly Government Sponsored Bodies and more widely in the Welsh public sector. The Social Justice and Local Government Department should continue to take a lead role in this respect, proactively offering advice and guidance to commissioners of services from the Third Sector to supplement the Code itself and in particular to focus on implementing its recommendations in respect of funding timescales.

**Recommendation 3**

More effective monitoring practices need to be agreed, introduced and implemented by funders, with performance related break clauses (e.g. three years with an option to extend for a further two) built in and
agreed up front by both parties. The Third Sector in turn needs to sharpen the way it responds to monitoring requirements.

**Recommendation 4**

Where shorter term funding is justified (e.g. pilots), the parameters and outcome expectations set by funders, regardless of the funding mechanism selected, need to be proportionate and funders need to provide clarity on how it is intended to mainstream successful approaches.

In terms of defining **funding related outcomes**:

**Recommendation 5**

The Welsh Assembly Government, local authorities and other funders of the Third Sector need to re-double their efforts to ensure that commissioners understand the principles of an outcome based approach to funding which are already set out in the Code of Practice. Nothing less than a step change in this respect will suffice in order to revitalise trust in, and the professionalisation of, the funder – recipient relationship. This does not require the commissioning of any new work since the principles are already agreed by the stakeholders and are already in place. Rather, the focus should be on a sustained and proactive implementation of a programme of communicating and disseminating advice and good practice to commissioners aimed specifically at accelerating the pace of change.

**Recommendation 6**

Where funders decide that they are outcomes driven, they need to avoid the temptation to over-specify **how** things are to be delivered. It should also be remembered however that it may be legitimate and acceptable for funders to procure well defined services which require
specific inputs as well as outcomes. This should not be misconstrued as obstructing innovation.

In relation to funding mechanisms:

**Recommendation 7**

Accepting that transparency is essential, funders should avoid a “knee jerk reaction” of using procurement as the default for engaging with the Third Sector. While procurement is helping to advance outcome based funding practices, it should not be seen as the only solution to achieving this goal. The Welsh Assembly Government’s guidance should be used more fully to help inform the best approach to selecting the most appropriate funding mechanisms. Procurement professionals need to recognise this and need to reflect it more fully in the advice they give to those who commission services from the Third Sector.

**Recommendation 8**

Where procurement is the most appropriate engagement mechanism, funders need to use appropriate techniques that are proportionate and relevant to the type of services being commissioned. This means that one size does not fit all and procurement professionals need to ensure that the advice they give to commissioners of services from the Third Sector appropriately reflects the nature and scale of those services being procured.

**Recommendation 9**

The Third Sector needs to improve its response to the procurement agenda and in particular the way it sells itself to commissioners and purchasers. In this respect, sector umbrella bodies and other agencies (such as Value Wales and the Department for Economy and Transport) need to ensure that the sector’s support needs are catered for and that
support mechanisms are being utilised by the Sector. This support needs to increasingly focus on getting the sector to collaborate in competing for and delivering public services. There is little value in expecting a quick win style outcome from this work. It needs to involve a sustained approach and requires the unequivocal commitment of the Third Sector to play its full part. Without this, the Third Sector will be left behind by the procurement agenda.

**Recommendation 10**

Maintaining a balanced portfolio of funding is important both for funders and the Third Sector and funders need to recognise that grants still have a fundamental role to play in the future funding landscape. Wherever possible, the key funders of any given organisation should ensure that there are good lines of communication and collaborative working arrangements in place between them, so that there is a high level of strategic awareness and effective planning in relation to the commissioning of services.

**Recommendation 11**

Funders, including those who operate grants and Trust Funds, need to consider how they can reduce the proportions of ineligible or inappropriate applications submitted – drawing on innovative models which provide development support to potential applicants. More also needs to be done to help prepare and inform applicants in advance (for example by specifying outcomes and detailing expectations in terms of the application process) so that applications are more relevant and of higher quality.

**Recommendation 12**

The Welsh Assembly Government, key Third Sector funders and the sector itself needs to explore investment based funding mechanisms
with a greater appetite and sense of urgency. A small delegation made up of key Welsh Assembly Government officials and other stakeholders (possibly as a sub group of the TSPC) should arrange and undertake a practical study visit to Scotland to explore and learn the lessons of the investment and endowment based approaches to funding adopted there. Full advantage should also be taken of the remaining EU funding period over the next few years, along with other sources (such as funds from dormant bank accounts) to pump prime investment based approaches with the clear objective that they should become self sufficient as part of a broader funding infrastructure. The Welsh Assembly Government should set clear objectives and a programme of activity to take this forward which should include nominating a lead official within the Department for Social Justice and Local Government to champion the agenda and to report regularly on progress to the TSPC.
1.0 INTRODUCTION

*Old Bell 3 Ltd.* was commissioned by the Department for Social Justice and Local Government (DSJLG) of the Welsh Assembly Government (WAG) in August 2009 to undertake a review of patterns of funding, namely the sources, nature and intention of funding to the Third Sector in Wales, compared to the other home nations, and where possible, to draw inferences on whether and how different funding patterns impact on the outcomes for and from Third Sector organisations.

This review was commissioned as a result of on-going deliberations by the Third Sector Partnership Council (TSPC). The TSPC has been established to enable effective working between WAG and the Third Sector. The Council consists of the Minister for Social Justice and Local Government (as the Minister with responsibility for the Third Sector) and 25 representatives appointed from the Third Sector representing distinct strategic areas of interest.

At its meeting in November 2008, the TSPC discussed issues highlighted in a paper prepared by the Wales Council for Voluntary Action (WCVA) entitled “The political economy of funding the Third Sector in Wales: Towards a new Paradigm?”.

The TSPC agreed that this subject deserved further scrutiny and this research is intended to help inform further deliberations as to how funding patterns should look to achieve best outcomes for and from the Third Sector in Wales.

The specific objectives of the research are therefore:

- To review existing literature around funding patterns to the Third Sector across the four nations and the impact of funding
patterns on the outputs of, and outcomes for, Third Sector Organisations in Wales.

- To undertake qualitative research with funders on how their pattern of funding to the Third Sector in Wales has changed over time. Where possible, this should be a trend analysis and make comparison with funding patterns to the Third Sector in England, Scotland and Northern Ireland.
- To gather views of funders to the Third Sector and grant recipients within the Third Sector on how patterns of funding to the Third Sector should be constructed to achieve the best outcomes for, and from, the Third Sector.
- To consider possible new approaches to achieving sustainability based upon the ideas proposed in the “Political economy of funding the Third Sector” paper
- To make practical recommendations on how any changes in funding pattern might be implemented.

1.1 Work Programme

The work programme for this review has included the following stages:

- A desk based review of literature and data relating to Third Sector Funding across the UK. More than 50 documentary and data/information sources were reviewed;
- A mix of face to face and telephone interviews with 32 representatives of public sector organisations involved with Third Sector funding in Wales and the UK;
- Undertaking interviews and arranging a series of four focus groups with 23 representatives of Third Sector organisations across Wales;
- Presenting our emerging findings for discussion at a meeting of the TSPC during November 2009;
• Arranging a small consultation event in December 2009, drawing together representatives from public sector funding agencies and Third Sector organisations to discuss the report’s findings and refine the recommendations laid out in Section 6.

1.2 Report Structure

In the remainder of this report, we review literature relating to Third Sector funding in Wales and other parts of the UK (Section 3). We then turn our attention to analyse various sources of funding data (Section 4) before outlining the findings of our research with funders and Third Sector organisations (Section 5). Finally, we present our conclusions and recommendations (Section 6).
2.0 FINDINGS – LITERATURE REVIEW

In this section, we consider various sources of literature concerning Third Sector funding. We deal with:

- The definition of the Third Sector;
- Policy and literature relating to Wales;
- The UK context;
- The English context;
- The Scottish context;
- The Northern Irish context.

2.1 Definition

According to WAG, the Third Sector is a very broad group “spanning every facet of human interest”. It forms part of “civil society”, the classification adopted by the National Council for Voluntary Organisations (NCVO), the coordination body for the Third Sector in England and Wales.

Various definitions of the Third Sector are available from different sources within the UK. In Wales, the sector is defined in clause 2.1 of the Voluntary Sector Scheme (WAG) as including:

“voluntary organisations, community groups, volunteers, self-help groups, community co-operatives and enterprises, religious organisations and other not for profit organisations of benefit to the communities and people of Wales”.

The Scheme also points out that Third Sector organisations share the following characteristics:

1. The Third Dimension: Strategic Action Plan for the delivery of the Voluntary Sector Scheme
   Welsh Assembly Government 2008
2. UK Civil Society Almanac NCVO 2009
3. The Third Dimension: Strategic Action Plan for the delivery of the Voluntary Sector Scheme
   Welsh Assembly Government 2008
• “Independent non-governmental bodies;
• Established voluntarily by citizens who chose to organise;
• Value driven and motivated by the desire to further social, cultural
  or environmental objectives, rather than simply make a profit: and
• Committed to reinvesting their surpluses to further their social,
  cultural or environmental objectives”

2.2 Policy and Literature relating to Wales

The Third Sector has historically made a very important, though
arguably not always a sufficiently well recognised, socio-economic
contribution across a range of policy and service delivery areas in
Wales.

Post devolution, the policies of the National Assembly and latterly WAG
have gradually raised the profile of the Third Sector and have arguably
helped formalise the value of the contribution that it makes in Wales.
As well as a wider and deeper understanding of the value the Third
Sector brings, the day to day pressures and in particular the funding
challenges that Third Sector organisations face are also becoming
increasingly visible to decision makers and funders in Wales.

2.2.1 WAG Policy

Shortly after its creation in 1999, the National Assembly for Wales
published the Voluntary Sector Scheme (2000) which effectively
placed the Third Sector and its 30,000 or so organisations in Wales on
an “equal footing” with local government and the business sector as
formal partners of what later became known as the Welsh Assembly

\(^4\) The Third Dimension: Strategic Action Plan for the delivery of the Voluntary Sector Scheme
Welsh Assembly Government 2008

\(^5\) These include voluntary organisations, community groups, volunteers, self-help groups,
community co-operatives and enterprises, religious organisations and other not-for-profit
organisations.
Government (WAG). The Scheme also laid down a clear statement of intent with regards to Third Sector Funding, outlining that:

“Across the range of its functions, the Assembly is committed to establishing and maintaining procedures to ensure accepted best practice in the administration of its grant schemes and those of agencies which administer funds on its behalf... The Assembly will maintain a Code of Practice for funding the voluntary sector....”

As a result of the Scheme, the Voluntary Sector Partnership Council was established in October 2000. The TSPC put in place a formal structure for dialogue and partnership working between the sector and the National Assembly. In the wake of the Government of Wales Act (2006), the name and constitution of the Partnership was changed: it is now known as the Third Sector Partnership Council (TSPC) and consists of Welsh Assembly Government (chaired by a WAG Minister) and Third Sector Representatives.

The “Third Dimension – A Strategic Action Plan for the Voluntary Sector Scheme” (January 2008) considers key priorities relating to the Third Sector putting these in the context firstly of the evolution of the Voluntary Sector Scheme, secondly of revised powers to WAG under the Government of Wales Act 2006 and finally of course ‘One Wales’ – the four year programme of Government for the current Coalition Administration in Cardiff Bay.

The Third Dimension also summarises the Third Sector’s “three overlapping spheres of interest” as being:

- Stronger Communities – which involves people making a voluntary contribution to the “vibrancy and regeneration of their...”

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7 A progressive agenda for the government of Wales. An agreement between the Labour and Plaid Cymru Groups in the National Assembly 27th June 2007.
“communities” and which has key outcomes in terms of building “people’s confidence and skills”;

- Better Public Services – which relates to the “innovative and transforming” role the Third Sector can play in making public services “reach more people and become more sensitive to their needs”;

- Better Policy – which involves the Third Sector helping to “shape policies, procedures and services” based on front-line knowledge and expertise⁸.

An overarching theme in these documents is WAG’s on-going commitment to support the Third Sector in Wales deliver within these three spheres, with One Wales in particular making clear that “we [WAG] will continue and further support the Voluntary Sector Scheme and further enhance the role of the sector in policy formation⁹”.

Sitting beneath the One Wales commitment is however, a recognition that the way in which the sector itself is funded is both complex and uncertain. The Third Dimension outlines the main sources of funding to the Third Sector in Wales, pointing to at least seven different sources of funding which feed the sector, with Government, Local Government and the NHS combined, contributing around a third of all income¹⁰, though an important distinction within the “Government” proportion (highlighted in the Code of Practice for Funding the Third Sector) is that this covers both grants and procurement – i.e. service contracts which, via open tender, Third Sector organisations are engaged to deliver.

The Third Dimension also points to some of the issues and problems connected with Third Sector Funding, stating that “over the years a number of practices have developed between public sector

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⁹ One Wales. Page 28.
¹⁰ The Third Dimension Page 5.
commissioners and Third Sector providers which now need to be challenged”.

In particular, the Third Dimension points to the use of “restricted funding arrangements” adopted by some funders, which prevent Third Sector organisations from spending money outside “strictly designated purposes”. This type of approach is highlighted as causing a “disincentive to the making of efficiency gains and is an unacceptable encroachment on the autonomy of independent organisations”\(^\text{11}\).

Moreover, the Third Dimension also puts forward a case that, in the context of revenue generated from open procurement, “like any other provider, a Third Sector body should be able to bid for a contract on the basis of price” and that regardless of the constitutional make-up of a bidder “once a contract has been awarded, performance should be judged on outputs, outcomes and the impact of the service delivered”\(^\text{12}\).

In terms of exploring alternative models and approaches of financing and investing in the Third Sector, the Third Dimension points to the fact that WAG would look to introduce a “Third Sector Invest to Serve Fund”\(^\text{13}\). This fund was later announced by (then) Minister for Social Justice, Dr Brian Gibbons in August 2009:

“The Welsh Assembly Government will provide £1million over three years for the ‘Invest to Serve’ fund, which will be enhanced by further resources from the Welsh Council for Voluntary Action’s Community Investment Fund, the Unity Trust Bank and the Welsh European Funding Office”.

The fund is intended to provide loans for Third Sector organisations at lower rates of interest than the open market. The loans will be used to

\(^{11}\) The Third Dimension. Page 40.  
\(^{12}\) The Third Dimension. Page 40.  
\(^{13}\) The Third Dimension. Page 38.
help Third Sector organisations “develop their services to compete for and win public sector contracts”.

Announcing the fund, the Minister said that “Investing this money in our Third Sector organisations to help them become more sustainable, will see everybody benefit as they will be able to offer services to public sector organisations at more competitive rates”\(^\text{14}\).

In January 2009, WAG published a Code of Practice on Funding the Voluntary Sector. The Code sets out the key principles which underpin WAG funding for the Third Sector and what it expects in return. The principles outlined in the Code of Practice are “obligatory for all Assembly Government departments, Assembly Government Sponsored Bodies (AGSB’s), NHS bodies and other third party funders”.

In it, WAG outlines its aim of delivering an “effective and sustainable funding framework” based on the following 12 key principles:

| **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 Government 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. |

\(^{14}\) Source: http://wales.gov.uk/news/topic/publicservices/2009/090820investtoserve/;jsessionid=5WSvLRRcngtk6XFw0hVDQZTSPnGnC5hT9fYPH4snTCHb2cPRFQYPf6869781937?lang=en
**Timely decisions** – notification of grant 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 to support a sustainable approach to funding: up to 5-7 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 at least equal to inflation uplifts for public sectors can be built into bids.

**Full Cost Recovery** – Levels of grant funding will be based on and reflect the principles of Full Cost Recovery.

**Fair procurement** – procurement funding will be based on price, not cost, and will follow the good practice guidance set out by Value Wales in *Procurement and the Third Sector: Guidance for the Public Sector in Wales*.

**Payment in advance** – provision for advance payment of grant, where a clear financial need is established, including those schemes provided by Assembly Government Sponsored 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 Third 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.

While enforcement of the Code of Practice is restricted to WAG Departments and directly sponsored agencies (and thus is not binding on local government or UK Government bodies operating in Wales, for example), WAG has also published wider guidance entitled Procurement and the Third Sector: Guidance for the Public Sector in Wales in March 2008. This guide, aimed at all funders and commissioners of the Third Sector outlines a number of key challenges and barriers faced by the sector, including a:

- “Lack of early and effective consultation with Third Sector organisations in the development of policy, programmes and commissioning strategies, leading to poorly packaged and unattractive procurements.
- Failure to properly assess Third Sector organisations’ capabilities and to consider them as serious contenders.
- Insufficient recognition given to their strengths and skills particularly in key service areas.
- Risk-averse procurers who are worried that Third Sector organisations lack the resources, organisation and business skills to deliver.
- Difficulty in finding out about contract opportunities and public sector procurement procedures and who to approach to become a supplier / provider.
- A trend towards using large scale contracts, such as national or regional frameworks, and rationalisation of the supply base which can rule out many Third Sector organisations, particularly if they
have difficulty forging sub-contractor alliances with prime contractors.

- Complex and costly pre-qualification and tendering procedures with unrealistic timescales, prescriptive specifications and excessive contract terms which means invitations to tender may often be consigned to the “too difficult” pile.
- Procurers also sometimes have a tendency to favour known providers.
- Inappropriate allocation / balance of risks between Third Sector organisations and contracting authorities.
- Short term contracts which create too much risk for Third Sector organisations, in terms of not being able to recoup start-up costs and investment, and in the longer term making it difficult to plan and invest in service development.
- Excessive monitoring, evaluation and reporting requirements which are disproportionate to the size of the contracts.
- A move by many local authorities away from the provision of grants to competitive tendering but little communication to providers about the reason for the change”.

The guidance also goes on to identify what it describes as “critical success factors” in dealing with and commissioning (mainly via procurement it has to be said) the Third Sector. These are:

- “Understanding the market through ongoing dialogue. Get to know the Third Sector organisations within it, their organisation and capabilities, their problems in dealing with you.
- Consult early on viability of policies, programmes and procurement strategies. This should form part of a wider commissioning process.
- Open contract opportunities with Third Sector organisations by providing information about how to become a supplier, wide publication of contracts in accessible media, training and support.
- Focus procurement on outputs / outcomes rather than processes
to incentivise Third Sector organisations and capture their expertise and innovation.

- Keep it simple and proportionate – reducing complexity and bureaucracy in turn reducing costs of procurement to Third Sector organisations”.

2.2.2 The National Assembly’s Communities and Culture Committee Report

In May 2008, the National Assembly for Wales’ Communities and Culture Committee published a review entitled The Funding of Voluntary Sector Organisations in Wales.

In its report, the committee makes a series of 25 recommendations, many of which have by now been implemented and most of which were aimed at WAG. In headline terms, the report recommended that WAG:

- “Along with local authorities and other public bodies should treat the Third Sector as a strategic partner, when planning, commissioning and delivering public services;
- Should sponsor pilot projects to provide training and practical support to help smaller organisations become more self-sufficient;
- Should commission WCVA to develop and maintain a central portal providing information on funding;
- Should review its funding criteria, with the aim of increasing core funding for established projects, whilst recognising the need to encourage innovation;
- Should endorse and support the Community Foundation in Wales as an appropriate vehicle to steward, and maximise the value of, unclaimed assets and dormant and inactive funds from varied sources. The purpose would be for the Foundation to create endowment funds to provide a sustainable long-term, independent source of funding for the Third Sector; with the added value of the Foundation levering in additional private sector funds (businesses,
individuals and trusts) to enhance this investment in local community groups, projects and charities across Wales;

- Should monitor the extent to which three-year funding is becoming the norm, in accordance with the funding code of practice; and identify types of projects where longer term funding might be more appropriate;
- Should review various funding streams to identify scope for consolidation;
- Should commission WCVA to review the means of providing funding to organisations providing an all-Wales service, to obviate the need for multiple grant applications;
- Should review its code of practice on funding, to enable Third Sector organisations to plan their activities more strategically;
- Should commission WCVA to carry out a review of existing public sector codes of practice on funding the Third Sector; to identify and disseminate good practice;
- Should commission WCVA to review application forms and related procedures;
- Should publish information on the availability and allocation of European Union funding regularly via the Welsh European Funding Office and [WCVA’s] web-based information portal;
- Should via WEFO establish an advice centre to assist Third Sector organisations in their applications for European funding;
- Should, when the Dormant Accounts Scheme has been established, ensure that Wales receives an appropriate share and that a significant amount is directed towards the Third Sector;
- Should hold discussions with the BIG Lottery and other National Lottery distributors; with a view to learning from them how to simplify funding procedures and disseminate good practice;
- Should review its staff procedures to maintain accessible channels of communication between relevant departments and the Third Sector;
• Should ensure that Third Sector organisations are aware of the Assembly Government’s Code of Practice on Complaints;
• Should hold regular equality training sessions for members of staff responsible for communicating with and supporting Third Sector organisations;
• Should review monitoring and evaluation procedures; with the objective of making them more appropriate to the size of grant and more focused on measuring outcomes rather than activity;
• Should, along with local authorities and other funding bodies include ‘gender budgeting’ as a specific issue in their codes of practice and in their monitoring procedures;
• Should review the marketing and branding of Third Sector funding; and produce a strategy to raise public awareness of the source, allocation and outcomes of such funding”.

The committee also recommended that:

“All relevant public sector organisations (including local authorities, local health boards and other statutory funding bodies) should develop and implement codes of practice for funding the Third Sector (both the allocation of grants and the procurement of services) by December 2009”.

2.2.3 WCVA’s “Funding Paradigm” Paper

In 2008, WCVA prepared a short discussion paper entitled Beyond the Paradigm – The Political Economy of Funding the Third Sector which in many respects focuses on a number of the issues already highlighted in the Third Dimension. The aims of the Funding Paradigm paper were outlined as being twofold. Firstly, to review current trends in funding for the Third Sector and to propose ways in which different funding bodies could develop mechanisms that can produce “independent community institutions” and secondly to suggest that
“there is scope to develop current funding policies to achieve more sustainable benefits”.

In terms of reviewing the experience of recent times, the paper outlines that the “political economy of funding over the last decade has five significant characteristics”:

**The gradual increase in central government funding of the Third Sector.**
The most significant aspect of central government funding is its “strategic core funding” - a long term commitment to the core funding of organisations, networks or partnerships with Wales wide coverage.

**The increase in local government funding.**
While local government is a significant core funder of local organisations the trend has been to secure local service agreements, which are potentially long term.

**The importance of giving.**
Giving is critical to the functioning and independence of the sector. This has been reflected in recent government initiatives to simplify and promote giving and by charities developing new opportunities for giving which appeal to a wider public. Such initiatives have stopped the decline in giving but have achieved only modest increases.

**The growth in trading.**
Many Third Sector organisations have a greater understanding and expertise in creating their own revenue streams though few will ever achieve (nor aim to achieve) complete financial self sufficiency.

**The growth in short term high revenue grants.**
Both European and lottery programmes have invested heavily (c £500,000,000 since 1999) in predominantly short term proportionately
large revenue high impact service providing projects but it is questionable whether the long term impact of these has been commensurate to the size of the resources made available.\textsuperscript{15} The paper goes on to challenge thinking around a number of “funding myths and orthodoxies”, which according to WCVA include that:

- “Three years is long term funding;
- Long term outcomes and services are achievable with short term funding;
- Governments can only fund for three years at a time;
- Long term funding makes organisations complacent and lazy;
- There are many sources of long term/continuation money;
- European, lottery or trust money are the sustainable exit strategy;
- There’s always another windfall fund coming;
- Government cannot afford to fund the sector.”\textsuperscript{16}

The paper then outlines its vision for a new “funding paradigm” based on the following six propositions:

- “All applicants and funders would take a longer term view – what are we trying to achieve by say 2015 or 2020?
- Application processes should give as much attention to the longer term as to immediate.
- Funders need to be clear as to whether they are short or long term funders.
- Long term functions and services would be funded over long term, recurrent periods of time, in same way as statutory services.
- Government commitment to Third Sector delivery would be backed and judged by % of overall budget going to sector (e.g., 1% of health budget).
- Short term funders would consider targeting their short term funds on long term benefit, assets and capabilities, which strengthen an

\textsuperscript{15} Funding Paradigm. Page 3.
\textsuperscript{16} Funding Paradigm. Page 5.
independent civil society, empower communities, increase initiative, and achieve satisfying and sustainable outcomes”.

Finally, WCVA puts forward a case for “innovation programmes” which would “throw up ideas and methods which could be replicated, franchised or scaled up in other areas” providing a “short cut into potential mainstream funding such as Crossroads or Homestart”.

According to the paper, such innovation programmes would “invite applications for grants, loans and endowments” which would “help create non statutory funding streams or resource which in turn, would sustain the activity or organization and could include:

- “Grant/loan to purchase buildings or land but only if the use of that asset could demonstrate a revenue stream that could either be returned in loan or used to finance a (revenue) activity or service;
- Grant/loan to facilitate the transfer and use of assets from the public to the Third Sector;
- Grant/loan to purchase equipment or plant (e.g. generators, windmills, print, IT), which, in turn, can produce a revenue stream;
- Endowments to create a secure and permanent revenue stream and service.(e.g. under existing revenue intensive scheme applicants could apply for £1m over 3 years to develop services employing 4 paid development staff. The larger the revenue grant the less likely it is to last beyond 3 years. An alternative approach would be to give the £1m as an endowment and finance a part time development post from the interest for ever);
- Initiatives which are sustainable by design including mutual aid, volunteering and time bank schemes;

17 A financial endowment is a transfer of money or property donated to an institution, usually with the stipulation that it be invested, and the principal remain intact in perpetuity or for a defined time period. This allows for the donation to have an impact over a longer period of time than if it were spent all at once. The total value of an institution’s investments is referred to as the institution’s endowment. Source: Wikipedia.
• Endowments to create independent small grants schemes for ever”.

2.3 The UK Context

There have been a number of policy or legislative developments, not instigated directly by WAG that have nevertheless had an impact on the Third Sector in Wales. These include:

• The Dormant Bank and Building Society Accounts Act 2008. In November 2008 UK Central Government passed the Dormant Bank and Building Society Accounts Act. One of the major principles of the act is to reinvest unclaimed money in such accounts back into the community.

• The Charities Act, November 2006, reformed charity law. Its aim was to improve the regulation of charity fundraising, and reduce regulation on the sector, especially for smaller charities. It aimed to provide a clear definition of charitable status with an emphasis on public benefit. The Act also modernised the Charity Commission's functions and powers.

• In 2005, the UK Government launched the Community Interest Company, providing a new lightly regulated legal form for social enterprise.

• The Getting Britain Giving package announced in Budget 2000 made a number of changes to make the tax effective giving framework more flexible and has been followed up by a series of technical changes and promotional work, including the Giving Campaign and the Payroll Giving Grants Scheme to encourage a greater culture of giving.


18 Funding paradigm. Page 7.
the ground rules of relations between Government and the Voluntary Sector was agreed. It provided a framework to guide partnership working between the state and the Third Sector.

Local Compacts are now operational or in development in 99% of local authority areas in England and there are also local level agreements for partnership working. A *Commissioner for the Compact* was appointed in 2007 in England. A refresh of the Compact in England was due to be published as this report was being written.

In Wales the picture is different. An objective of the Voluntary Sector Scheme in Wales includes “*ensuring local government support by promoting local compacts and agreeing levels of financial contributions to voluntary sector regeneration projects…*” WCVA regularly undertakes a survey in respect of the implementation of Compacts in Wales with the most recent having been reported to the Third Sector Partnership Council in November 2009. The key findings of the 2009 WCVA Compact Survey highlighted that:

- “There is no reported effective overall strategic and compact-based liaison arrangement between the Third Sector and local government in Swansea, Torfaen, and Bridgend, as last year and now Rhondda Cynon Taff too. The effectiveness of the arrangements in Monmouthshire will need to be evaluated locally;
- Where Joint Liaison Committees exist, there continues to be good representation from local government and Local Health Boards;
- In all but one area the County Voluntary Council is a core member of the Local Service Board and 8 are involving other Third Sector bodies;
- Codes of Funding Practice are still not widely enough adopted in unitary authority areas, although this is a priority for the Third Sector;
- Nearly all respondents consider the Local Service Board, partnerships, European funding, volunteering, scrutiny and
commissioning to be important. They are being addressed to varying degrees by Joint Liaison Committees;

- Denbighshire, Vale of Glamorgan and Bridgend all commented that the relationship with the local authority needs improvement”.

2.4 England

Whilst there are many similarities and overlaps between the Third Sectors in England and Wales, there is quite a different policy context. The approach to the Third Sector by the UK Government is characterised by the co-ordination of government effort through a dedicated, centralised resource.

**The Office of the Third Sector** (OTS) is part of the Cabinet Office. It leads work across government to support and promote an environment in which the Third Sector will thrive. Its brief is to enable the sector to campaign for change, deliver public services, promote social enterprise and strengthen communities. It offers a direct ministerial link on all Third Sector issues and has developed the present strategic funding programmes.

“The OTS was created at the centre of government in May 2006 in recognition of the increasingly important role the Third Sector plays in both society and the economy.”\(^\text{19}\)

In 2002 and 2004, **cross cutting reviews** took place in England of the role of the Third Sector in public service delivery. These reviews developed recognition of the role of the sector in the transformation of public services (including as an alternative way of delivering services currently delivered within the public sector) and identified the importance of investment in the capacity of the sector.

\(^{19}\) Source: OTS.
An Action Plan for Third Sector Public Service Delivery was published in December 2006. It set out measures to further improve the commissioning and procurement landscape, bringing together activity from across Government. The four main programmes in the Action Plan were: Futurebuilders, Capacitybuilders, The Community Assets programme and The National Programme for Third Sector Commissioners (run by the Improvement and Development Agency, IDeA).

**FutureBuilders** provides access to loan capital for Third Sector organisations. Government responsibility for Futurebuilders lies within the Office of the Third Sector and is overseen by the Minister for the Third Sector. At the heart of the programme is the £125 million Futurebuilders (England) Fund which is currently run by Futurebuilders England Ltd. An additional £25 million funding was made available in 2007/08 bringing the Fund to a total of £150 million. A further £65 million was being made available for the continuation of the programme from 2009.

**Capacitybuilders** and its programmes are also funded by the Office of the Third Sector. Over the period 2008-2011 the Office of the Third Sector has allocated up to £88.5 million. Capacitybuilders invests this in a variety of programmes that make support services available to the Third Sector. Services include a website and outreach support programmes. Capacitybuilders will be offering some direct funding through a modernisation programme worth £8m in partnership with Futurebuilders. Capacitybuilders also run a £17.5m programme to meet the support needs of those working with groups in marginalised areas. It is similar to the “Invest to Serve” programme being developed in Wales.

The £30 million **Community Assets programme**, led by the Big Lottery Fund aims to empower communities by encouraging the transfer of underused local authority assets to local organisations. The
fund provides grants for refurbishment of local authority buildings, to ensure that high-quality spaces and facilities are transferred to Third Sector ownership. The Big Lottery Fund in Wales and the Welsh Assembly Government launched a Community Asset Transfer Programme for Wales in October 2009.\(^\text{20}\)

**The National Programme for Third Sector Commissioners** managed by the Improvement and Development Agency (IDeA) aims to improve commissioners' understanding of the potential of the Third Sector in designing, delivering and improving public services. The programme is engaging with up to 2,000 commissioners working across the public sector to increase awareness of the contribution the Third Sector can make in commissioning of public services.

The 2002 *strategy for success* and subsequent *2006 Social Enterprise Action Plan* set out a vision for a sustainable social enterprise sector. The action plan includes commitments from 12 government departments and bodies. The Action Plan is reviewed annually and progress by departments on their commitments is reported. For instance one action was to “*Consult on the use of £10m for co-investment in social enterprise*”. Action updates are reported annually.

At a local level in England, Local Strategic Partnerships have responsibility for developing and delivering Community Plans. The Third Sector is fully involved with these partnerships. They were introduced as a result of the 2000 Local Government Act. Funds are drawn down from Central Government through the Local Authority and the system of Local Area Agreements. In some cases, they have developed a strategic commissioning role.

\(^{20}\) Source: http://www2.biglotteryfund.org.uk/prog_community_asset_transfer
According to a recent report by the Audit Commission, the maturity of partnerships is a contributory factor to the ability to involve others and undertake strategic commissioning. Mature partnerships are more likely to agree to share out the resources (including to Third Sector organisations). For example, “The Oldham Partnership shares £15 million of the ABG [Area based Grant] across five themes in line with locally agreed priorities”\textsuperscript{21}

2.5 **Scotland**

The approach to Third Sector funding in Scotland is characterised by a strong recent emphasis on support for investment programmes.

The **Government Economic Strategy** (2007) highlights the Third Sector as a critical part of the strategy delivery mechanism: “It is only by working together – across government and across the public, private and Third Sectors – that we can achieve our purpose.”\textsuperscript{22} The strategy also outlines the two significant funding regimes in Scotland, the Scottish Investment Fund and the Third Sector Enterprise Fund which support the delivery of this strategy.

**The Enterprising Third Sector Action Plan** lays out the right conditions in which an enterprising Third Sector can thrive, “enabling the Third Sector to play a full role in the development, design and delivery of policy and services in Scotland”. It identifies the importance of the Third Sector in helping the Scottish Government achieve its aim of sustainable economic growth and is intended to help meet the Scottish Government national indicator to increase social economy turnover in Scotland. It contains a series of actions to be delivered over the period 2008-11 focused around seven objectives as follows:

- “Opening markets to an enterprising Third Sector;
- Investing more intelligently;
- Promoting social entrepreneurship;”

\textsuperscript{21} Audit Commission Working Better Together
\textsuperscript{22} Government Economic Strategy Scottish Government 2007
• **Investing in skills, learning and leadership across the Third Sector**;
• **Providing support for business growth**;
• **Raising the profile of enterprise in the Third Sector**;
• **Developing the evidence base**.

The action plan is funded through £8.75 million of the £93 million identified for the development and support of the Third Sector in the Scottish Government budget in November 2007. In addition to this, £30 million has been allocated to the Scottish Investment Fund and £12 million for direct investment in enterprising Third Sector organisations through the Third Sector Enterprise Fund.

The approach involves the following key measures:

- **A reduction in bureaucracy.** Action 2.4 in the action plan commits the Government to working “in a coordinated manner with regulators and those funders supporting enterprise and financial sustainability within the Third Sector. This will include established funders such as the Big Lottery as well as new initiatives including Inspiring Scotland and any distributor emerging from the consultation on Dormant Bank Accounts. We will continue to work with all levels of Scotland's Funders' Forum, building on work such as the recently published Turning the Tables report.”

- **Leverage of new funds on behalf of the Third Sector.** Action 2.5 is to encourage the development of new funds for enterprising activity: “We will work with providers of loan finance including Social Investment Scotland and the commercial banks to encourage greater investment in an enterprising Third Sector and to ensure that a suite of opportunities are available to the sector. These should include products such as patient capital, where repayment 'holidays' can be granted to the loan recipient, and

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23 **Enterprising Third Sector Action Plan** Scottish Government 2007
equity-type funding, where the investor takes a greater interest in the enterprise. We will use the leverage provided by our direct funding (though the Scottish Investment Fund and the Third Sector Enterprise Fund) to maximise the amount of loan funding taken by individual organisations.”

- **The Scottish Investment Fund** is a £30 million fund provided by the Scottish Government to be delivered over the period from 2008-2011. The fund’s overall aim is to build capacity, capability and financial sustainability in the Third Sector to help it fulfil its potential and to contribute to the overall national outcomes of the Scottish Government. Social Investment Scotland (SIS) has been appointed by the Scottish Government to be the lead delivery partner of the Scottish Investment Fund. The fund provides a mix of both strategic investment and loan funding to organisations that are considered to be “Investment Ready”. These are larger Third Sector organisations with investment needs in excess of £100,000. As it has only recently been established, no evaluation work has been done to assess the success or otherwise of this fund in meeting objectives.

- **The Third Sector Enterprise Fund** is a £12 million fund to help established Third Sector organisations to become more sustainable and increase their capacity and capability. Eligible organisations are at an earlier stage of enterprise development than applicants to the Scottish Investment Fund. The fund offers awards of between £25,000 to £100,000 to Third Sector organisations who can demonstrate how they intend to make transformational step changes to their capacity, capability and sustainability. This fund had not been reviewed or evaluated at the time of writing.

- **Community Planning Partnerships.** In 2007, a Concordat was agreed between the Scottish Government and Local Government. A key element was Single Outcome Agreements. The Single Outcome Agreement is the means by which Community Planning
Partnerships (CPPs) agree their strategic priorities for their local area. These priorities are expressed as outcomes to be delivered by the partners, either individually or jointly, while showing how those outcomes should contribute to the Scottish Government’s relevant National Outcomes. Through CPPs, local leaders work with communities, the third and private sectors to develop the long term vision for the area and work towards that vision. Third Sector organisations are able to engage with this local level planning to access local funding.

- **Third Sector Resilience Fund.** The Scottish Government launched a special £1.7 million resilience fund to help voluntary organisations and charities to combat the effects of recession in September 2009.

2.6 **Northern Ireland**

The focus of Government policy in Northern Ireland in respect of the Third Sector has focused largely in recent years on developing more positive relationships between Government and the sector itself.

A taskforce was convened in 2003 to investigate “Resourcing the Voluntary and Community Sector”. Late in 2003, the taskforce published a position paper called *Pathways for Change*[^24]. At the time of the launch of this paper, the taskforce Chairperson, John McGrath spoke about the context for the work of this taskforce:

“There are real anxieties and concerns… across the sector about the future of services, projects, organisations and jobs. Short-term funding programmes delivered through grants or contracts, many providing support for only one year, has made it difficult for organisations to plan properly and to develop work of a high quality. There are also concerns about less money being available from 2006, partly due to the ending

or restructuring of EU funding. After a period of consultation, a report from the taskforce was published in October 2004 called “Investing Together”. The government subsequently responded to this with a policy called “Positive Steps”.

Positive Steps is “a cross-departmental strategy which recognizes the valuable contribution by the sector to the achievement of Government objectives and commits both the Government and the sector to developing the partnership further to the mutual advantage of our community.”

The main thrust of the policy was to cut bureaucracy and provide secure funding for groups that were doing “an essential job in improving society in Northern Ireland”. Positive Steps promised to facilitate the involvement of the voluntary and community sector in service delivery.

A Positive Steps Implementation Group was established in November 2005 consisting of senior officials within each department with responsibility for oversight of relationships with the voluntary and community sector. The Implementation Group was chaired by the Minister for Social Development who oversaw the implementation of the commitments made in Positive Steps.

The key features of Positive Steps in relation to funding of the Third Sector included:

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25 Press Release 2 December 2003 Department for Social Development
27 POSITIVE STEPS The Government’s Response to Investing Together: Report of the Task Force on Resourcing the Voluntary and Community Sector, Department for Social Development in Northern Ireland 2005
- **Full cost recovery:** “voluntary and community organizations must be able to include full overhead costs related to delivering a contracted service”;

- **Lead funder:** “where recipients receive funding from more than one funding body it is good practice to appoint a lead funder”. The lead funder’s role was to streamline and coordinate monitoring and inspecting arrangements. There would be a single audit coordinated by the funding bodies with the express objective of preventing the use of unnecessary resources for both funders and those funded;

- **Longer term funding:** Positive Steps committed the Government to promoting a seven to ten year approach to programmes concentrating on outcomes. The policy document acknowledges that it was a policy that would take time to implement and that some short term funding programmes would need to be retained to “support new groups or new approaches which, if successful, may have the potential to attract longer-term funding”. The transition to this longer term funding involved a three yearly review process;

- **More robust monitoring arrangements:** “We will monitor and evaluate performance in moving towards longer term outcomes with regular reviews at least every three years in line with normal Government budgetary cycles”\(^{28}\).

- **Funding related to outcomes:** A clear link was made between funding and outcomes. The outcomes based approach was based on the premise that “social capital indicators…have the potential to measure the added value of voluntary and community based activity...[they] need to be embedded in funding relationships from the outset”\(^{29}\).

\(^{28}\) POSITIVE STEPS The Government’s Response to Investing Together: Report of the Task Force on Resourcing the Voluntary and Community Sector, Department for Social Development in Northern Ireland 2005 page 6

\(^{29}\) POSITIVE STEPS The Government’s Response to Investing Together: Report of the Task Force on Resourcing the Voluntary and Community Sector, Department for Social Development in Northern Ireland 2005 page 6
Regular evaluation and review was an important part of Positive Steps and a regular panel survey was built in. The evaluation reports show that the Positive Steps approach as having generated mixed impacts. Many of the non-funding related elements seem to have made reasonable progress. The Minister commented, on the publication of the evaluation in 2008, that “The implementation of the ‘Positive Steps’ initiative has resulted in significant change and greater consistency of practice in its dealings with the sector.”

However, the Third Sector’s response has not been so positive. Just 7.9% of respondents in a 2008 survey of members of the Northern Ireland Council for Voluntary Action (NICVA) felt that Positive Steps “would have a great impact over the next five years”, a decline from previous surveys. According to NICVA this is “signifying a huge erosion in confidence.” Only one in five respondents believed that Positive Steps has had a “great deal” or “some” impact on how they operate and interact with Government.

On those elements that relate directly to funding, the survey found that just 5.1% of organisations had witnessed a significant change in the relationship with Government on longer-term funding. However, almost a third of panel survey respondents felt that they achieved full cost recovery.

The earliest membership surveys found increasing numbers of respondents who believed there had been a great deal or some positive change in relation to the introduction of a lead funder approach, however this had significantly decreased by 2008.

“A gradually increasing number (55.3%) of panel respondents believe

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30 Press Release 4 June 2008 Department of Social Development Councillor Richie report ‘positive steps’ progress
31 Thornbury A How positive was positive steps? NICVA 2008
that nothing will really change despite what is recommended in Positive Steps.”

As well as driving the Positive Steps policy, the Department of Social Development in Northern Ireland is also involved in two other notable programmes related to funding in the Third Sector. These are:

- **The Northern Ireland Central Investment fund for Charities.** It was identified that many Northern Ireland charities were finding that the buying power of the income they receive from investments had fallen steadily over the years. Although trustees are now given wider powers to invest, some charities have insufficient capital to allow them to maintain their income while others do not want to become involved in investment problems. The Northern Ireland Central Investment fund for Charities was established to help. The Fund gives trustees the opportunity to invest all or part of their assets with the benefit of expert supervision. It is managed by the Department for Social Development through recognised fund managers, but its investment policy is guided by an Advisory Committee. The Fund invests in fixed-interest securities and selected ordinary shares. The allocation between fixed-interest securities and shares is altered from time to time to meet changing circumstances.

- **The Modernisation Fund** was a programme administered by the Department through 2007 and 2008. The objective of the modernisation fund was to support voluntary and community organisations to modernise and allow them to become more sustainable and deliver new and better services. A £15 million capital programme was established to encourage collaboration and resource sharing among voluntary and community organisations through the development of physical infrastructure. The programme placed particular priority on access to services and facilities for disadvantaged children and
young people. The delivery partnership comprised three organisations: Co-Operation Ireland, Community Evaluation Northern Ireland, and Community Technical Aid.

2.7 Conclusions

In summary, the literature review has highlighted that:

- The post devolution policy context for the Third Sector in Wales in general and specifically in terms of funding to the sector has developed rapidly and is very supportive of the sector;

- The issues and challenges concerning the distribution of funding to the Third Sector (such as funding timescales, the mix of available funding mechanisms and funding sustainability) seem well rehearsed and well understood by policy makers and key stakeholders in Wales. This has resulted in substantive efforts being made and measures being put in place (such as the Funding Code of Practice) to alleviate and try to overcome some of these issues. It is clear however that some of these initiatives are in their early stages and as the National Assembly’s Culture and Communities Committee highlights, there is still some way to go towards achieving full implementation of policy and funding principles;

- The funding mix in Wales to date is arguably rather conservative, made up in the main of various grant, service level agreement and procurement mechanisms. Whilst there are signs (e.g. with the Invest to Serve Fund) that WAG and its partner agencies are keen to try new, more investment based and arguably innovative (and therefore possibly higher risk) approaches (such as loans and endowments), these are yet to bear real fruit in the mainstream. In this context, Wales seems to be lagging behind Scotland in particular where investment and endowment mechanisms seem to be much further advanced as mainstream funding mechanisms;

- In terms of the level of guidance and support offered to statutory funders, Wales seems to be at least as well placed as the other home
nations. The issue for Wales now, as is highlighted by the Assembly’s Culture and Communities Committee report is ensuring that the policy direction is fully followed through with a robust and on-going focus on implementing the principles outlined in WAG policies and guidance.
3.0 FINDINGS – DATA REVIEW

In this section we analyse various sources of data relating to Third Sector funding from Wales and UK sources. In it we deal with:

- Definitional issues affecting data analysis;
- Overall funding levels to the Third Sector;
- The relevance of organisational size in the context of funding;
- Public sector spending;
- The funding mix;
- Local Government funding;
- European and international funding sources;
- Spending by service area;
- Other income sources;
- The satisfaction levels of funding recipients with available funding sources.

3.1 Definitional Issues

One of the main sources of UK data on the Third Sector is the National Council for Voluntary Organisations (NCVO). NCVO’s preferred sector description is that of “Civil Society”, which encompasses WAG’s definition of the Third Sector but is generally further reaching. While we do not propose to explore in any detail some of the challenges presented by different definitions in interpreting data sets, it is important to understand that it can make considerable differences in terms of analysis when large sub-sectors such as Housing Associations, Universities, Trade Unions, Building Societies and Community Interest Companies are either included in or excluded from various definitions.
3.2 Overall Funding Levels

According to the Wales Council for Voluntary Action (WCVA), there are around 30,000 Third Sector organisations in Wales\(^{32}\). In the UK, there were around 870,000 civil society organisations\(^{33}\) in 2006/07. In Wales, there are around the same numbers of organisations per head of population as Scotland but significantly fewer than in England.

Income into the Third Sector in Wales during 2007 was estimated by WCVA to be in the region of £1.2bn per annum\(^{34}\). This sum was estimated by analysing survey data and annual reports prepared by various funding providers to the sector. A similar approach to collecting data is taken in the other home nations. As an indication of the scale of this level of income, the total Gross Value Added (GVA) for Wales in the same year (2007) was £44.3 bn.

The total Third Sector income in Wales is the equivalent of approximately £46,000 for every Third Sector organisation, although, as we will show later, the actual spread of these resources is not at all even.

NCVO note that the sector’s resources are distributed unevenly across the UK:

“Although London and the South East are home to a disproportionate number of organisations… regions such as the North East and Wales benefit from a greater level of charitable expenditure than estimates previously expected”\(^{35}\).

The table that follows (Figure 1) gives an overview of the size of the sector and the funding received using data from each of the home nations.
nations. Comparing the data across nations must be treated with caution because of the variations in definitions of the sector (previously mentioned) but the table does offer an interesting breakdown of each nation’s Third Sector funding position.

Figure 1: Summary of data available for the Third Sector (or nearest definition) by home nation (Data from 2006/07 unless otherwise stated)

<table>
<thead>
<tr>
<th></th>
<th>UK</th>
<th>Northern Ireland</th>
<th>Scotland</th>
<th>Wales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Organisations</td>
<td>870,000</td>
<td>4,700</td>
<td>45,000</td>
<td>26,000</td>
</tr>
<tr>
<td>Total income</td>
<td>£116bn</td>
<td>£570.1m</td>
<td>£4.1bn</td>
<td>£1.29bn</td>
</tr>
<tr>
<td>(civil society)</td>
<td></td>
<td>(2008)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(charities)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td>£210bn</td>
<td>£737.5m</td>
<td>£8.6bn</td>
<td></td>
</tr>
<tr>
<td>Mean income</td>
<td>£38,000</td>
<td>£121,000</td>
<td>£91,000</td>
<td>£46,000</td>
</tr>
<tr>
<td>(charities)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income per head of</td>
<td>£540</td>
<td>£321</td>
<td>£793</td>
<td>£431</td>
</tr>
<tr>
<td>population</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment</td>
<td>634,000</td>
<td>26,737</td>
<td>N/A</td>
<td>46,600</td>
</tr>
<tr>
<td>Total statutory funding</td>
<td>£12bn</td>
<td>£349.8m</td>
<td>£1.56bn</td>
<td>£441m</td>
</tr>
<tr>
<td>% funding that is</td>
<td>36%</td>
<td>61%</td>
<td>39%</td>
<td>44%</td>
</tr>
<tr>
<td>statutory funding</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statutory funding per org</td>
<td>£13,700</td>
<td>£73,800</td>
<td>£35,500</td>
<td>£17,000</td>
</tr>
<tr>
<td>Statutory funding per head</td>
<td>£195</td>
<td>£197</td>
<td>£309</td>
<td>£147</td>
</tr>
<tr>
<td>population</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Population estimate mid 2008</td>
<td>61,383</td>
<td>1,775</td>
<td>5169</td>
<td>2,993</td>
</tr>
<tr>
<td>(000s)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Orgs per 1000 in</td>
<td>14.2</td>
<td>2.6</td>
<td>8.7</td>
<td>8.6</td>
</tr>
<tr>
<td>population</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: WCVA Almanac 2008, NCVO Almanac 2009, SCVO, NICVA.

Our calculations, given these caveats, would suggest that Wales has a similar density of Third Sector organisations to Scotland (in relation to numbers per head of population). Northern Ireland in contrast seems to have relatively fewer Third Sector organisations per head of population.

36 Collis B, Almanac: The Third Sector in Wales 2008 (draft)
37 UK Civil Society Almanac NCVO 2009
38 The Third Sector Evidence Library Third Sector dataset Scottish Government/ SCVO
39 State of the Sector V 2009 NICVA
Average funding of Third Sector organisations in Wales appears to be lower than that of Scottish and Northern Irish Third Sector organisations. The Scottish definition includes Housing Associations and this accounts for almost a third (30%) of all income, but even after removing the Housing Associations allocation, the average funding per organisation remains lower in Wales. Funding per charitable organisation in the UK as a whole is slightly lower than for the Welsh Third Sector.

Funding to the Third Sector per head of population shows that the entire Third Sector in Wales receives some £431 for every person, compared to Scotland at £793 (after extracting the 30% for Housing Associations this is a more comparable £555 per head). Northern Ireland’s far fewer Third Sector organisations share £321 per head of population. Registered charities (rather than the broader Civil Society grouping) across the UK receive £540 per head from all sources. This would suggest, that funding per head of population in Wales is low compared to the other home nations since the Third Sector definition in Wales is more expansive than in any of the other home nations (once the Scottish Housing Associations and Civil Society definitions are excluded).

Bearing in mind all the caveats about differences in definitions, the contributions from the statutory sector also appear from this indicative comparison to be relatively low in Wales. Whilst 44% of total funding initially appears broadly in-line with the Scottish picture at 39%, in outright terms, this actually represents £17,000 per organisation as compared to £35,500 per Scottish organisation and £73,800 in Northern Ireland. Across the UK, the amount spent is £13,700 per organisation or £195 per person living in the UK. In Wales £147 per person is spent and in Scotland £309.
3.3 Funding and Organisational Size

The size of Third Sector organisations is an important consideration when analysing funding patterns. The funding position of organisations varies to such extremes that in most areas it is difficult to draw any broad conclusions for the sector as a whole. In Wales, 65% of organisations have an income of less than £10,000 and less than 2 percent have an income over £1 million.\(^{40}\) In Scotland, typical of the home nations in this respect, 64% of Third Sector organisations turnover less than £25,000 per year and, combined, these organisations account for less than 2% of the total income to the sector. Meanwhile two per cent of Scottish Third Sector organisations have a turnover of more than £1 million and enjoy a 62% share of total income for the sector.\(^{41}\)

WCVA shows in its Sustainable Funding Report of 2007 that the picture in Wales is quite similar, with a small number of large voluntary organisations in receipt of the lion’s share of overall revenues to the sector.

\(^{40}\) Collis B, *Almanac: The Third Sector in Wales* 2008 (draft)
\(^{41}\) *Scottish Voluntary Sector Statistics* SCVO 2007
Proportionately fewer large Third Sector organisations are located in Wales as compared with England and the same is also true of grant making trusts\(^{43}\).

In Wales, 4% of Third Sector organisations are national organisations, 5% regional organisations and 88% are local organisations. A further 3% are branch or project offices. This is not a distinction made generally in the home nations data but is used by WCVA to draw out some interesting features of the Third Sector in Wales.

The large national organisations are largely (two thirds) located in Cardiff or the South Wales local authority areas. Only one tenth of these larger organisations are located in North Wales. These larger organisations (defined as turning over in excess of £500,000 per year) attract over half of the entire income of the Third Sector in Wales.\(^{44}\)

Figure 3 below shows that within the UK, smaller organizations are far more likely to be dependant on support from non-governmental

\(^{42}\) Sustainable funding Project, Baseline Survey, November 2007
\(^{43}\) The Third Dimension: Strategic Action Plan for the delivery of the Voluntary Sector Scheme Welsh Assembly Government 2008
\(^{44}\) Collis B, Almanac: The Third Sector in Wales 2008 (draft) page 32
sources such as individual giving. The Office for the Third Sector estimates that in England, 117,000 voluntary sector organisations, 75% of the sector, are not funded by government or in receipt of contract income. Many of these are small or micro organizations (with income under £100,000).

**Figure 3: Breakdown of funding type by size of organisation (size defined by overall income)**

The picture across the UK would seem to suggest that small and micro organisations either do not seek Government funding or are not particularly successful in attracting it. The 16,772 small sized organisations in the UK with a total income of about £1.7bn attract £324m from statutory sources or 18% of their funding. In contrast, the 2,609 large organisations with a total income of £10.6bn receive £3.9 billion or 36% of their income from the statutory sector.

This means that 32% of statutory funding goes to large organisations which make up 6.5% of the sector population.
NCVO asked Debra Allcock Tyler Chief Executive, Directory of Social Change to comment on this pattern in a recent report:\cite{Clark2009}:

“My concern is the gobbling up of ...contracts by large national organisations at the expense of local providers and their connection to the local communities they support and are part of. Over recent years government’s response to the demands of the sector has been to throw money at it. That it’s been thrown with strings and has been thrown to the biggest in the name of efficiency has altered some parts of the sector beyond recognition”.

Interestingly, small organisations which could arguably have a more localised focus are more likely to get their public funding, if they get any at all, from national governments, not from local authorities. Micro and small organisations get the majority of their statutory funding (55%) from central government and less than a third from local government:\cite{Clark2009}.

In contrast, half of the statutory income received by medium to large organisations in the UK is from local government sources, while around three quarters of voluntary organisations do not receive any income.

\begin{table}
\centering
\begin{tabular}{|l|c|c|c|}
\hline
 & Total income (£millions) & Statutory income (£millions) & Number of recipients \tabularnewline
\hline
Micro & 269.7 & 13.0 & 6,813 \tabularnewline
Small & 1,795.4 & 324.3 & 16,772 \tabularnewline
Medium & 6,305.5 & 2,492.8 & 13,196 \tabularnewline
Large & 10,611.2 & 3,901.5 & 2,608 \tabularnewline
Major & 14,190.6 & 5,296.2 & 298 \tabularnewline
\hline
Total & 33,172.5 & 12,027.8 & 39,687 \tabularnewline
\hline
\end{tabular}
\end{table}

\cite{Clark2009} Clark J, Dobbs J, Kane D, Wilding K, The State and the Voluntary Sector: Recent trends in government funding and public service delivery NCVO 2009 section 5

\cite{Clark2009} Clark J, Dobbs J, Kane D, Wilding K, The State and the Voluntary Sector: Recent trends in government funding and public service delivery NCVO 2009 section 5

\cite{Clark2009} Clark J, Dobbs J, Kane D, Wilding K, The State and the Voluntary Sector: Recent trends in government funding and public service delivery NCVO 2009 section 6
3.4 Growth of the Sector

There is some evidence to suggest that, overall, the Third Sector has enjoyed considerable growth in recent times – both in terms of funding receipts and outright numbers of organisations. Referring to the charity sector, NCVO say in their 2009 Almanac that “2006/07 marked yet another year of expansion for the sector with the net addition of 6,800 charities”\(^{49}\). As a further indication of the growth trend, approximately 34% of the Third Sector in Wales are registered charities and the number registering for charitable status has been increasing steadily. The numbers of charities increased by 6.6% from the publication of the 2003 Welsh Almanac to the 2008 Almanac\(^ {50}\).

Overall funding into the sector has also been increasing steadily over the last few years, both in Wales and elsewhere in the UK. The following table shows how funding of the sector has been changing over time in the UK.

**Figure 5: UK income sources to Third Sector 2000/01 – 2006/07 (£bn)**

<table>
<thead>
<tr>
<th>Source</th>
<th>2000/01</th>
<th>2005/06</th>
<th>2006/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory sources (including National Lottery)</td>
<td>8.4</td>
<td>11.5</td>
<td>12.0</td>
</tr>
<tr>
<td>Individuals</td>
<td>9.0</td>
<td>12.0</td>
<td>12.6</td>
</tr>
<tr>
<td>Voluntary sector</td>
<td>1.6</td>
<td>3.6</td>
<td>3.0</td>
</tr>
<tr>
<td>Private sector</td>
<td>1.4</td>
<td>1.4</td>
<td>1.7</td>
</tr>
<tr>
<td>Internally generated</td>
<td>3.7</td>
<td>3.7</td>
<td>3.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>24.2</strong></td>
<td><strong>32.1</strong></td>
<td><strong>33.2</strong></td>
</tr>
</tbody>
</table>

Recent analysis of Charity Commission data by NCVO\(^ {52}\) suggests that there has been a rapid growth of many large charities but the decline in

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\(^{48}\) Clark J, Dobbs J, Kane D, Wilding K, *The State and the Voluntary Sector: Recent trends in government funding and public service delivery* NCVO 2009 section 5

\(^{49}\) UK Civil Society Almanac NCVO 2009

\(^{50}\) Collis B, *Almanac: The Third Sector in Wales* 2008 (draft)

\(^{51}\) UK Civil Society Almanac NCVO 2009

\(^{52}\) Charity Forecast 7 NCVO
the income of many small or medium-sized charities:

“at a UK level [there has been] a 10% increase in income to the sector, this hides the fact that 60% of the smaller organisations have cut expenditure. The income of the sector is changing, for the first time earned income exceeded that of trusts.”

3.5 Public Sector Funding

Public sector funding, sometimes referred to as statutory funding, is crucial to the Third Sector. We have already discussed the relative contributions made by the public sector in each of the home countries. We now turn to look at some of the themes and trends underpinning this element of Third Sector funding.

The graph below shows how public sector funding (UK wide) has risen relative to 2001 levels alongside the contribution made to the voluntary sector.
While Government expenditure on public services has been growing steadily since the beginning of the decade, so too the scale and scope of service delivery by the voluntary sector has also increased. In this context it is possible to see that the public sector contribution to the Third Sector has increased proportionately faster than government’s overall expenditure on public services.

However, as NCVO point out in their recent paper on the State and the Voluntary sector “it must be remembered….that although the sector’s income has grown significantly it remains only a small proportion of total government expenditure” In 2000/01 it was 2% and in 2006/07 has risen to 2.2%.\textsuperscript{55}

Statutory funding to the Third Sector has also risen above and beyond the level of overall growth in the Third Sector. The proportion of funding the sector receives from statutory sources has thus increased steadily over time. An analysis of funding received by the sector shows that

\textsuperscript{54} Clark J, Dobbs J, Kane D, Wilding K, The State and the Voluntary Sector: Recent trends in government funding and public service delivery NCVO 2009

\textsuperscript{55} Clark J, Dobbs J, Kane D, Wilding K, The State and the Voluntary Sector: Recent trends in government funding and public service delivery NCVO 2009 section 3
Government grants and contracts in Wales accounted for £441m or 44% of total funds in 2006/07 (the latest data for which this analysis is available), a change of 10 percentage points since 2003\textsuperscript{56}. The graph below, based on UK wide data shows how public funding has changed, in actual terms, over time.\textsuperscript{57}

Statutory or Public Sector funding can be further broken down into local government, central government, European and lottery funding contributions. The combined contributions of UK local authorities in 2006/07 was £5.7 billion (47%) and central government £5.1 billion (43%). Figure 7 shows how local and central government funding has increased since 2003 while Lottery and European funding have remained fairly static at around half a billion pounds each.

Figure 7: Statutory funding to the UK voluntary sector by tier of government 2004/05 – 2006/07 (£billions)

Statutory bodies use both grant and contract mechanisms to transfer

\textsuperscript{56} Collis B, Almanac: The Third Sector in Wales 2008 (draft)
\textsuperscript{57} Clark J, Dobbs J, Kane D, Wilding K, The State and the Voluntary Sector: Recent trends in government funding and public service delivery NCVO 2009
resources to the voluntary sector. Grants worth some £4.2 billion and contracts worth £7.8 billion were awarded to the UK to the Third Sector in 2006/07.  

3.6 The Funding Mix

In Wales, WCVA’s Sustainable Funding Survey of 2007 confirms the extent to which the Third Sector is dependent on public sector funding.

**Figure 8: Sources of funding: percentage of organisations benefiting from a source**

The above graph demonstrates just how significant grant funding is as a source to the Third Sector in Wales, with more than half of the organisations benefitting from this source. In contrast, only 8% of the organisations within WCVA’s sample base received income from contracts. It will be particularly interesting to see whether (in line with the graph below) the proportion of Third Sector income from contracts (as compared with grants) will have increased when WCVA publishes

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the findings of its updated Sustainable Funding survey in 2010.

In analysing Third Sector funding a distinction is often made between earned and non-earned income. Earned income includes contracts but also other payments for services, entry fees and sometimes also includes membership fees. Unearned income is normally defined as including grants, donations and legacies.

The proportion of all income that was earned by Third Sector organizations in Wales rose from 26% to 36 % in 2005-06\textsuperscript{60}. Earned income now makes up over half of UK charities’ income, equating to £17 billion, continuing a long-term trend, and seemingly driven largely by the provision of greater levels of public services under contract.

As is hinted in the above paragraphs, the balance between grant and contract funding has been changing at a UK level. As the table below shows, public grant income in the UK has declined since 2004 by some £400 million whereas in contrast, income to the Third Sector from publicly funded contracts rose by £4 billion over the same period.

\textsuperscript{60} Collis B, Almanac: The Third Sector in Wales 2008 (draft)
NCVO’s foresight work suggests that “the shift from a government which delivers services to a government which buys services from the private and voluntary and community sectors has driven a significant increase in state funding of the voluntary and community sector”\(^{61}\). The report suggests that this trend is set to continue as most mainstream political parties voice their commitment to outsourcing more public services.

However, there is also evidence to suggest that “Third Sector funding regimes have become more complex and sophisticated… this can put start-up funding beyond the reach of embryonic groups that lack the skills needed to beat the competition”\(^{62}\).

\(^{61}\) Williams N, Griffith M, Future Focus 1: What will our funding be like in five years time? NCVO 2009
\(^{62}\) The Third Dimension: Strategic Action Plan for the delivery of the Voluntary Sector Scheme Welsh Assembly Government 2008
WCVA’s Voluntary Sector Strategic Analysis\textsuperscript{63} includes information identifying some underlying trends such as rising user expectations and assertiveness in respect of services, an increasing emphasis on evidence of value for money and efficiency and slow improvements in procurement practice. One particularly relevant issue was that County Voluntary Councils (CVCs) felt that they lacked detailed knowledge to give the necessary contractual support in relation to tendering and procurement.

The chart below shows that the background to public procurement becoming a larger element in the Third Sector funding mix is an increase in the volume, and the proportion of statutory spending which is being contracted out.

**Figure 10: Changes in procurement from private and voluntary sectors (£Bn 2006/07 prices)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Procurement of services</th>
<th>Total spending</th>
<th>Statutory spending</th>
<th>Procurement as proportion of statutory spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995/96</td>
<td>40.7</td>
<td>411.8</td>
<td>9.90%</td>
<td></td>
</tr>
<tr>
<td>1996/97</td>
<td>43.7</td>
<td>404.2</td>
<td>10.80%</td>
<td></td>
</tr>
<tr>
<td>1997/98</td>
<td>43.7</td>
<td>400.3</td>
<td>10.90%</td>
<td></td>
</tr>
<tr>
<td>1998/99</td>
<td>46.7</td>
<td>401.1</td>
<td>11.60%</td>
<td></td>
</tr>
<tr>
<td>1999/00</td>
<td>49.3</td>
<td>407.5</td>
<td>12.10%</td>
<td></td>
</tr>
<tr>
<td>2000/01</td>
<td>53.7</td>
<td>426.7</td>
<td>12.60%</td>
<td></td>
</tr>
<tr>
<td>2001/02</td>
<td>55.7</td>
<td>445.3</td>
<td>12.50%</td>
<td></td>
</tr>
<tr>
<td>2002/03</td>
<td>62.5</td>
<td>467.3</td>
<td>13.40%</td>
<td></td>
</tr>
<tr>
<td>2003/04</td>
<td>68.7</td>
<td>491.3</td>
<td>14.00%</td>
<td></td>
</tr>
<tr>
<td>2004/05</td>
<td>70.5</td>
<td>517.1</td>
<td>13.60%</td>
<td></td>
</tr>
<tr>
<td>2005/06</td>
<td>73.8</td>
<td>538.6</td>
<td>13.70%</td>
<td></td>
</tr>
<tr>
<td>2006/07</td>
<td>76.1</td>
<td>549.7</td>
<td>13.90%</td>
<td></td>
</tr>
<tr>
<td>2007/08</td>
<td>76.9</td>
<td>568.2</td>
<td>13.50%</td>
<td></td>
</tr>
</tbody>
</table>

Source: BERR, The Public Services Industry in the UK (2008), PESA 2008\textsuperscript{64}

\textsuperscript{63} Sustainable Funding Project WCVA 2007
\textsuperscript{64} Clark J, Dobbs J, Kane D, Wilding K, The State and the Voluntary Sector: Recent trends in government funding and public service delivery NCVO 2009 (raw data)
Beneath this overall picture, there are also differences between the distribution of public grants and contracts by different tiers of government. Figure 11 below looks at this over time and shows how within the changes to the balance between central and local government (shown in Figure 7 above), the proportion of overall statutory income coming from central government procurement has risen sharply, while local authority grant funding has declined in relative terms.

### Figure 11: Breakdown of public grants and contracts by tier of government

<table>
<thead>
<tr>
<th>Funder / Type of Funding</th>
<th>£ (billions)</th>
<th>% of total income (from central and local government)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004/05</td>
<td>2006/07</td>
</tr>
<tr>
<td>Central government</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants</td>
<td>2.1</td>
<td>2.1</td>
</tr>
<tr>
<td>Contracts</td>
<td>1.8</td>
<td>3.1</td>
</tr>
<tr>
<td>Sub-total</td>
<td>3.9</td>
<td>5.2</td>
</tr>
<tr>
<td>Local government</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants</td>
<td>1.6</td>
<td>1.3</td>
</tr>
<tr>
<td>Contracts</td>
<td>3.3</td>
<td>4.4</td>
</tr>
<tr>
<td>Sub-total</td>
<td>4.9</td>
<td>5.7</td>
</tr>
<tr>
<td>Total income (from central and local government)</td>
<td>8.8</td>
<td>10.9</td>
</tr>
</tbody>
</table>

Source: NCVO

According to the source of this data, NCVO, “anecdotal evidence suggests smaller, local organisations are finding it harder to get grant funding. Our evidence suggests that local government is largely responsible for the £300 million fall in grant funding since 2004/05 and that central government grant funding has remained static.”

Julia Unwin from the Joseph Rowntree foundation was asked to consider this data and concluded that: “Over the years, grants were replaced by contracts. Government threw away its identity as a kindly godparent and

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65 Clark J, Dobbs J, Kane D, Wilding K, The State and the Voluntary Sector: Recent trends in government funding and public service delivery NCVO 2009 section 11
instead became a more demanding shopper, specifying the return that they sought for their funding. The shape of the sector changed, as new organisations came into the funding circle, others lost their place. The voluntary sector became one of competition and margins, and the funders - now retitled commissioners – talked about the need for cost comparisons and unit prices. Just as the voluntary sector did not flourish in an environment dominated by gift giving, so the harsh commercial reality of contracting is not aiding the development of a healthy thriving sector..... funders need to decide if they want to give gifts or go shopping.. the sector needs both. These figures suggest that the pendulum has swung too far\textsuperscript{66}

To date however, there seems to be little in the way of concrete data to suggest that in Wales the “pendulum swing” described by Julia Unwin has been anything like as drastic as her analysis suggests, or indeed that it is as pronounced as the situation for the UK as a whole, though clearly this position may well have changed since WCVA’s 2007 Sustainable Funding Survey.

3.7 Local Government Funding

A closer look at local government funding of the Third Sector also highlights a number of further interesting issues.

Whilst Third Sector organisations in Wales receive a relatively higher proportion of their funding from statutory sources, data shows that this varies considerably across Wales with some counties in receipt of very low proportions of funding from public sources such as Gwynedd 8%, the second lowest in UK, to high proportions in Wrexham and Flintshire which at 48% is the sixth highest area in the UK.\textsuperscript{67}

\textsuperscript{66} As above, quoting Julia Unwin CBE Chief Executive Joseph Rowntree Foundation
\textsuperscript{67} Data held on the Gwion database The Local Government Data Unit’s Dissemination Website 2009
We know that in terms of geographical distribution, Third Sector groups are largely connected to existing and past administrative boundaries. As administrative boundaries change they leave spatial anomalies in the Third Sector, like the GAVO (Gwent Association of Voluntary Organisations) when Gwent no longer exists. It is important to consider that the attributed location is the address of the office or lead person rather than area of benefit. Nevertheless there are huge differences of contribution by local authorities.

The Data Unit Wales hold data on local government expenditure with the voluntary sector. The table below shows that in Cardiff there is a high level of spend at £155 per head of population, 9% of the local authority’s total revenue expenditure. In Newport it is £20 per person and is only 1% of total revenue expenditure.
Figure 12: Table to show relative expenditure by Local Authorities on the Voluntary sector 2005/06

<table>
<thead>
<tr>
<th></th>
<th>Total grants awarded (£000s)</th>
<th>Total payment for services (£000s)</th>
<th>Total funding of the voluntary sector (£000s)</th>
<th>Total funding of the voluntary sector per head of population (£)</th>
<th>Total funding of the voluntary sector as a % of revenue expenditure (%)</th>
<th>Total revenue expenditure (£000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cardiff</td>
<td>26,572</td>
<td>22,964</td>
<td>49,536</td>
<td>155</td>
<td>9</td>
<td>574,634</td>
</tr>
<tr>
<td>Powys</td>
<td>2,176</td>
<td>10,973</td>
<td>13,150</td>
<td>100</td>
<td>5</td>
<td>243,070</td>
</tr>
<tr>
<td>Ceredigion</td>
<td>835</td>
<td>6,075</td>
<td>6,911</td>
<td>88</td>
<td>5</td>
<td>136,876</td>
</tr>
<tr>
<td>RCT</td>
<td>1,659</td>
<td>18,380</td>
<td>20,039</td>
<td>87</td>
<td>4</td>
<td>453,892</td>
</tr>
<tr>
<td>Torfaen</td>
<td>2,036</td>
<td>2,892</td>
<td>4,929</td>
<td>55</td>
<td>3</td>
<td>174,016</td>
</tr>
<tr>
<td>Bridgend</td>
<td>420</td>
<td>6,335</td>
<td>6,755</td>
<td>52</td>
<td>3</td>
<td>236,933</td>
</tr>
<tr>
<td>Conwy</td>
<td>1,881</td>
<td>3,117</td>
<td>4,998</td>
<td>45</td>
<td>2</td>
<td>206,794</td>
</tr>
<tr>
<td>Pembs</td>
<td>918</td>
<td>3,524</td>
<td>4,442</td>
<td>38</td>
<td>2</td>
<td>202,063</td>
</tr>
<tr>
<td>Swansea</td>
<td>2,083</td>
<td>6,614</td>
<td>8,697</td>
<td>38</td>
<td>2</td>
<td>412,325</td>
</tr>
<tr>
<td>Anglesey</td>
<td>1,617</td>
<td>724</td>
<td>2,342</td>
<td>34</td>
<td>2</td>
<td>130,992</td>
</tr>
<tr>
<td>Denbighshire</td>
<td>2,038</td>
<td>1,231</td>
<td>3,269</td>
<td>34</td>
<td>2</td>
<td>182,629</td>
</tr>
<tr>
<td>Monmouthshire</td>
<td>1,958</td>
<td>712</td>
<td>2,670</td>
<td>30</td>
<td>2</td>
<td>139,966</td>
</tr>
<tr>
<td>Carmarthenshire</td>
<td>1,842</td>
<td>3,282</td>
<td>5,124</td>
<td>29</td>
<td>2</td>
<td>313,598</td>
</tr>
<tr>
<td>Blaenau Gwent</td>
<td>568</td>
<td>1,444</td>
<td>2,012</td>
<td>29</td>
<td>1</td>
<td>142,894</td>
</tr>
<tr>
<td>Caerphilly</td>
<td>1,044</td>
<td>2,848</td>
<td>3,892</td>
<td>23</td>
<td>1</td>
<td>324,502</td>
</tr>
<tr>
<td>Wrexham</td>
<td>50</td>
<td>2,734</td>
<td>2,784</td>
<td>21</td>
<td>1</td>
<td>210,757</td>
</tr>
<tr>
<td>Newport</td>
<td>916</td>
<td>1,882</td>
<td>2,798</td>
<td>20</td>
<td>1</td>
<td>267,572</td>
</tr>
<tr>
<td>VOG</td>
<td>650</td>
<td>0</td>
<td>650</td>
<td>5</td>
<td>0</td>
<td>211,804</td>
</tr>
<tr>
<td>Neath Port Talbot</td>
<td>Full data not submitted</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>267,388</td>
</tr>
<tr>
<td>Merthyr Tydfil</td>
<td>Full data not submitted</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>118,054</td>
</tr>
<tr>
<td>Flintshire</td>
<td>Full data not submitted</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>246,309</td>
</tr>
<tr>
<td>Gwynedd</td>
<td>Full data not submitted</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>220,308</td>
</tr>
</tbody>
</table>

Using the data held on the Local Government Data Unit’s database it is possible to undertake an analysis of funding from various local government service areas. It is interesting to note that over half of local authority spending comes from social services budgets.

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68 Data held on the Gwion database The Local Government Data Unit’s Dissemination Website 2009
Figure 13: Breakdown of funding to the voluntary sector by local government service sector in Wales 2006/07

<table>
<thead>
<tr>
<th>Service Area</th>
<th>(£1000s)</th>
<th>as % of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central services</td>
<td>5295</td>
<td>3.30</td>
</tr>
<tr>
<td>Court and probation services</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Culture and related services</td>
<td>3909</td>
<td>2.44</td>
</tr>
<tr>
<td>Environmental services</td>
<td>2210</td>
<td>1.38</td>
</tr>
<tr>
<td>Planning and development services</td>
<td>10045</td>
<td>6.26</td>
</tr>
<tr>
<td>Education services</td>
<td>5511</td>
<td>3.43</td>
</tr>
<tr>
<td>Highways roads and transport services</td>
<td>856</td>
<td>0.53</td>
</tr>
<tr>
<td>Housing services</td>
<td>39395</td>
<td>24.55</td>
</tr>
<tr>
<td>Social services</td>
<td>91772</td>
<td>57.18</td>
</tr>
<tr>
<td>All service areas</td>
<td>160493</td>
<td>100.00</td>
</tr>
</tbody>
</table>

A breakdown of the social services sector shows that 74% of all funding from social services spent with the voluntary sector is allocated to services for young people. The data therefore shows that at least 42% of the total funding spent by local authorities is spent on services for young people.

Figure 14: Breakdown of Local Authority Social Services funding to the voluntary sector 2005/06

<table>
<thead>
<tr>
<th>Service Area</th>
<th>(£1000s)</th>
<th>% of Social Services funding</th>
<th>% of all services funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services for children</td>
<td>19544</td>
<td>21.30</td>
<td>12.18</td>
</tr>
<tr>
<td>Services for younger adults</td>
<td>67917</td>
<td>74.01</td>
<td>42.32</td>
</tr>
<tr>
<td>Services for older people</td>
<td>8281</td>
<td>9.02</td>
<td>5.16</td>
</tr>
<tr>
<td>Other services</td>
<td>612</td>
<td>0.67</td>
<td>0.38</td>
</tr>
<tr>
<td>Total social services</td>
<td>91772</td>
<td>100.00</td>
<td>57.18</td>
</tr>
</tbody>
</table>

3.8 European and International Sources

European Structural funding represents a small proportion of the total public funding made available to the Third Sector in the UK - between

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69 Data held on the Gwion database The Local Government Data Unit’s Dissemination Website 2009
70 Data held on the Gwion database The Local Government Data Unit’s Dissemination Website 2009
1% and 3%. However in Wales, a higher proportion of total Third Sector public funding is from European sources than in any of the English regions. Nearly 3% of funding to the Third Sector comes from European Union sources in Wales compared to 1% in the next highest area, North West England, highlighting our relative dependence on this source of funding, which in all probability will substantially reduce post 2013.

Figure 15: Percentage of Third Sector income from international sources

<table>
<thead>
<tr>
<th>Region</th>
<th>EU</th>
<th>Other International</th>
</tr>
</thead>
<tbody>
<tr>
<td>England</td>
<td></td>
<td></td>
</tr>
<tr>
<td>North East</td>
<td>0.5%</td>
<td>0.0%</td>
</tr>
<tr>
<td>North West</td>
<td>1.4%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Yorkshire and Humber</td>
<td>1.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>East Midlands</td>
<td>0.2%</td>
<td>0.1%</td>
</tr>
<tr>
<td>West Midlands</td>
<td>0.6%</td>
<td>0.4%</td>
</tr>
<tr>
<td>East of England</td>
<td>0.4%</td>
<td>0.0%</td>
</tr>
<tr>
<td>London</td>
<td>1.1%</td>
<td>1.8%</td>
</tr>
<tr>
<td>South East</td>
<td>0.9%</td>
<td>0.7%</td>
</tr>
<tr>
<td>South West</td>
<td>0.3%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Wales</td>
<td>2.8%</td>
<td>0.0%</td>
</tr>
<tr>
<td>UK</td>
<td>0.9%</td>
<td>0.9%</td>
</tr>
</tbody>
</table>

The overall impact and scale of European funding and the amount accessed by the Third Sector at a UK level is significant but still quite small compared to domestic sources.

Oli Henman, UK and International Campaigns Manager at NCVO said of European Structural Funding “increasingly the types of bids available are so large that voluntary organizations are unable to apply as prime contractors”.

The funding is targeted at the most deprived geographical areas and the withdrawal of this funding post 2013 will have a disproportionate impact in those areas. “Large scale EU funding programmes in Wales will end in 2013 and that other avenues of longer term funding need to

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be identified”.  

3.9 Spending by Service Area

Marked variations between spending on the Third Sector between service areas is true of national as well as local Government. At the UK Government level, the Education and Skills Department spends the largest proportion of its budget on the sector (at 19%), followed the Home Office (16.9%), Culture, Media and Sport (11.9%) and the department for Communities and Local Government (11.6%) (Figure 16a).

Figure 16a: Spend on Voluntary and Community Sector by Central Government (Whitehall) Department as a percentage of their total spend

(does not include Devolved Governments or those that did not submit data)

<table>
<thead>
<tr>
<th>Department</th>
<th>Spending on voluntary and community organisations, £m</th>
<th>% of total spending on Third Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education and Skills</td>
<td>621</td>
<td>19.0</td>
</tr>
<tr>
<td>Home Office</td>
<td>551</td>
<td>16.9</td>
</tr>
<tr>
<td>Culture, media and sport</td>
<td>388</td>
<td>11.9</td>
</tr>
<tr>
<td>CLG Communities</td>
<td>379</td>
<td>11.6</td>
</tr>
<tr>
<td>International Development</td>
<td>269</td>
<td>8.2</td>
</tr>
<tr>
<td>Work and Pensions</td>
<td>269</td>
<td>8.2</td>
</tr>
<tr>
<td>Scotland</td>
<td>229</td>
<td>7.0</td>
</tr>
<tr>
<td>N. Ireland</td>
<td>120</td>
<td>3.7</td>
</tr>
<tr>
<td>Wales</td>
<td>116</td>
<td>3.6</td>
</tr>
<tr>
<td>Trade and Industry</td>
<td>108</td>
<td>3.3</td>
</tr>
<tr>
<td>Other</td>
<td>216</td>
<td>6.6</td>
</tr>
</tbody>
</table>

Source: NCVO

72 The Third Dimension: Strategic Action Plan for the delivery of the Voluntary Sector Scheme
Welsh Assembly Government 2008
73 Clark J, Dobb J, Kane D, Wilding K, The State and the Voluntary Sector: Recent trends in
government funding and public service delivery NCVO 2009
Figure 16b: Welsh Assembly Divisional Funding to the Voluntary Sector 2007-08

<table>
<thead>
<tr>
<th>Assembly Division</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constitutional Affairs</td>
<td>1,059,582</td>
</tr>
<tr>
<td>Environment, sustainability and housing</td>
<td>131,018,397</td>
</tr>
<tr>
<td>Children, Education, Lifelong learning and skills (pre April 2008)</td>
<td>44,097,498</td>
</tr>
<tr>
<td>Economy and Transport</td>
<td>42,728,557</td>
</tr>
<tr>
<td>Department of the First Minister</td>
<td>387,854</td>
</tr>
<tr>
<td>Health and Social Services</td>
<td>12,566,871</td>
</tr>
<tr>
<td>Public services and performance</td>
<td>695,879</td>
</tr>
<tr>
<td>Public Health and Health Professions</td>
<td>1,804,897</td>
</tr>
<tr>
<td>Human Resources</td>
<td>252,112</td>
</tr>
<tr>
<td>Rural Affairs and heritage</td>
<td>25,481,118</td>
</tr>
<tr>
<td>Social Justice and Local Government</td>
<td>35,275,883</td>
</tr>
<tr>
<td>Total 2007/08</td>
<td>294,568,646</td>
</tr>
</tbody>
</table>

In Wales, WCVA has undertaken a breakdown of WAG departmental spend on the Third Sector using the Voluntary Sector scheme reports. The amounts spent per department from the latest of these reports is shown above (no percentages are published). Housing and communities are the two most substantial areas of WAG spend on the Third Sector with Housing accounting for well over half the whole spend. WAG housing and communities funding has fluctuated considerably between 2001/02 and 2005/06 with no clear or discernable pattern.

Figure 17 shows the statutory spend by theme of Third Sector organisations, giving an overall picture of funding to the Third Sector in Wales.

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74 Voluntary Sector Scheme Annual report 2007/08
75 Jon Matthews The Funding Challenge 2008
76 Jon Matthews The funding Challenge 2008
The following table provides a more detailed breakdown.

**Figure 18: Breakdown of sources of Third Sector funding in Wales by theme of organisation.**

<table>
<thead>
<tr>
<th>Theme of Organisation</th>
<th>% from statutory sources</th>
<th>% from individuals</th>
<th>% from voluntary sector</th>
<th>% from private sector</th>
<th>% internally generated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment and training</td>
<td>72</td>
<td>10</td>
<td>4</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Law and advocacy</td>
<td>54</td>
<td>22</td>
<td>11</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Education</td>
<td>52</td>
<td>34</td>
<td>6</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Housing</td>
<td>51</td>
<td>23</td>
<td>10</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>Social services</td>
<td>51</td>
<td>32</td>
<td>7</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Umbrella bodies</td>
<td>47</td>
<td>14</td>
<td>18</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>Health</td>
<td>47</td>
<td>41</td>
<td>5</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Development</td>
<td>43</td>
<td>25</td>
<td>19</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>Culture and recreation</td>
<td>30</td>
<td>39</td>
<td>15</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>International</td>
<td>24</td>
<td>51</td>
<td>18</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Environment</td>
<td>19</td>
<td>58</td>
<td>9</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>Religion</td>
<td>16</td>
<td>62</td>
<td>8</td>
<td>2</td>
<td>13</td>
</tr>
<tr>
<td>Research</td>
<td>8</td>
<td>50</td>
<td>11</td>
<td>6</td>
<td>24</td>
</tr>
<tr>
<td>Grant-making foundations</td>
<td>3</td>
<td>41</td>
<td>6</td>
<td>12</td>
<td>38</td>
</tr>
</tbody>
</table>
Whilst care must be taken in comparing the spending levels of UK Government Departments with data on funding received by theme of Third Sector organisations in Wales, it is at least possible to see a number of similarities in terms of trends between Wales and the UK. In particular, the service areas of employment, education, training and skills, law and advocacy and social services are areas where Wales in common with the UK, appears to have relatively high levels of spending channelled through the Third Sector. In contrast, it seems that in relative terms, spending on Third Sector culture, media and sport services and activities may well be proportionately greater in the UK than it is in Wales.

3.10 Other Income Sources

The UK Individual Giving\textsuperscript{77} survey estimates that in the UK, 56\% of adults, almost 28 million people, gave to charity each month in 2007/08. In addition to a small rise in the participation rate, evidence also suggests that the average donation increased to £33 per donor whilst the median gift by donors each month was £11.

In 2006/07 the general public gave £9.5 billion to charity, a slight increase over the previous year. Individual giving was expected to continue to rise gradually before the onset of recession.

The survey\textsuperscript{78} shows that the average amount given by people in Wales is £14 per month, per head of population (£20 per donor), compared to the UK average of £15 per month per head (£27 per donor). However the percentage of donors in Wales was 67\% (the highest for any region) compared to a UK average of 58\%.

One other potential funding growth area is large donations by wealthy individuals, sometimes referred to as the “new philanthropists”.

\textsuperscript{77}UK Giving Survey 2009 Charities Aid Foundation and NCVO 2009
\textsuperscript{78}UK Giving Survey 2009 Charities Aid Foundation and NCVO 2009
Corporate giving in contrast is thought likely to remain very low due to a long term shift away from giving in favour of broader notions of socially responsible business practices.

In *the Funding Challenge*\(^79\) it is shown that giving patterns have changed, and research suggests that these changes are likely to continue during the coming years: “The last decade has seen single donations made in excess of £1 million to organisations, and donors have more choice and information than ever before on who to give to, and they are also expecting more in return. Fundraising has also become harder work, the amount of money spent compared to the income received has reduced in all areas over the last five years, the one exception being local fundraising”.

To date, there seems to be a degree of uncertainty as to the effects of the recession on private financing. The new Funding Commission, set up by NCVO has been tasked with exploring where the sector’s income might come from over the next decade. Its chair Rachel Lomax says that the Funding Commission will be looking at issues such as “what the drop in house prices will do to legacies, how will the great fall in markets affect endowed foundations?”\(^80\) In large part, these remain unknown entities at present.

While the Third Dimension by WAG\(^81\) notes that “there are only a few grant-making trusts” in Wales in practice it seems that grant-making trusts and foundations seem likely to continue to be an important part of the funding mix and active players in policy discussions in Wales.

Grant-making by UK Trusts and Charities\(^82\) provides statistics about non-governmental grant makers in the UK and the nature and extent of their

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\(^79\) *The Funding Challenge* no publisher or date given

\(^80\) *The agenda setter* NCVO press release April 2009

\(^81\) *The Third Dimension: Strategic Action Plan for the delivery of the Voluntary Sector Scheme* Welsh Assembly Government 2008

\(^82\) *Grantmaking by UK Trusts and Charities*
grant making. The amount of money available from Trusts had been continually rising (pre recession): in 1994/5 income was £915 million (making grants of £746 million) and in 2005 was £4,526 million (making grant of £2,728 million).

The report also highlights the huge number of ineligible applications made to Trusts, this ranged from 44% to 64% depending upon the size of grant available. It also showed that between 63% and 85% of eligible applications were funded. The number of ineligible applications represents a huge amount of wasted time and investment by those making grant applications.

NCVO’s foresight group states that loan finance has emerged as an important future funding option and its use is likely to increase as the state seeks to “both rapidly increase the capacity of organisations to deliver public services and to recoup some of the money invested in order to re-invest it (known as ‘recycling capital’)”.

As identified in the Third Dimension there are presently very few sources of loan finance available to the Third Sector in Wales and in practice at least it seems that England and Scotland are further advanced in developing such schemes.

There are different approaches to loan and investment finance. At one end of the spectrum are strategic and engaged funders who view their contribution less as a gift, and more as an investment for which they seek a “social return”. Engaged funders can offer different types of support to organisations. An extreme example of engaged funding is “venture philanthropy” where individuals take a very hands-on approach to improving the performance of organizations whilst at the other end of the spectrum more conventional loan schemes are sometimes operated.

3.11 Satisfaction Levels

Despite the policies in place across the UK, voluntary sector organisations are generally not satisfied with the opportunities for three-year funding either at a national government and a local government level. Larger organisations are more likely to report that they are satisfied with their access to three-year funding, as are organisations in certain sub-sectors. The evidence certainly suggests that three-year funding is not yet seen as standard practice.\(^\text{83}\)

**Figure 19: Percentage of UK Third Sector organisations satisfied with opportunities for 3 year funding by organization size 2009**

<table>
<thead>
<tr>
<th>Category</th>
<th>Under £100k</th>
<th>£100k - £1m</th>
<th>Over £1m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local funding</td>
<td>12%</td>
<td>21%</td>
<td>24%</td>
</tr>
<tr>
<td>National funding</td>
<td>10%</td>
<td>20%</td>
<td>27%</td>
</tr>
</tbody>
</table>

*Source: NCVO*

The following table shows the satisfaction levels, as percentages, with three year funding by different themes of organisation. It shows that there are much higher levels of dissatisfaction than satisfaction. Those most likely to be satisfied operate in housing whilst those most likely to be dissatisfied operate within training and economic well-being.

**Figure 20: Satisfaction with opportunities for 3 year funding by theme 2009 NCVO**

<table>
<thead>
<tr>
<th>Category</th>
<th>Satisfied</th>
<th>Dissatisfied</th>
</tr>
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<tr>
<td>Other charitable, social or community purposes</td>
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<td>Community development and mutual aid</td>
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<tr>
<td>Others</td>
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<tr>
<td>Education and lifelong learning</td>
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<tr>
<td>Religious / faith-based activity</td>
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\(^{83}\) Clark J, Dobbs J, Kane D, Wilding K, *The State and the Voluntary Sector: Recent trends in government funding and public service delivery* NCVO 2009 (raw data)
3.12 Conclusions

In summary, the data review has highlighted that:

- Recent funding trends across the UK demonstrate that funding from statutory sources to the Third Sector has increased steadily over the past decade;

- Between 2005 and 2007, most recent data shows that prior to the UK entering recession and impending public sector spending constraints, statutory spending through the Third Sector had increased at a faster rate than total Government spending;

- Statutory funding to the Third Sector is unevenly spread. Larger Third Sector organisations are more dependent on public sector funding and account for the large majority of public sector spending on and through the Sector. This is true in Wales and for the UK as a whole;

- Funding per head of population to the Third Sector in Wales is lower than in Scotland and for the UK as a whole but is higher than in Northern Ireland;

- The proportion of public sector spending through the Third Sector in Wales is broadly in line with that of Scotland. In real terms, spend per Third Sector organisation is higher in Wales (at an average of £17,000 per organisation) than it is in the whole of the UK (at £13,700 per organisation) but is lower than in Scotland (at an average of £24,850 per organisation);

- There are proportionately fewer large (£1m plus turnover) Third Sector organisations in Wales as compared with England;

- The mix of funding from the Public Sector to the Third Sector is changing at a UK level. Public grant income for the sector is declining while revenue from publicly financed contracts (procurement) is rising. To date however, there is little in the

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84 OTS/NCVO in Clark J, Dobbs J, Kane D, Wilding K, The State and the Voluntary Sector: Recent trends in government funding and public service delivery NCVO 2009
way of concrete data to suggest that this change is particularly pronounced in Wales;

- There is however a pronounced spatial variation in terms of the level of public sector income amongst Third Sector organisations in Wales. Third Sector organisations in Gwynedd on average receive the lowest levels of public funding whilst those in Wrexham receive the most on average;

- Most local authority spending with the Third Sector relates to social services with the majority of that money being spend on services for young people;

- In UK terms, European funding represents a very small proportion of overall revenues to the sector. Wales however is more dependent on EU funding than the UK as a whole to finance the Third Sector, raising concerns that the sector could face a substantive funding deficit when current EU programmes end in 2013;

- Overall, the biggest spending service areas with the Third Sector in Wales are: employment and training, law and advocacy; housing and social services;

- In terms of individual giving, Wales performs well and enjoys a higher average proportion of donors in relation to the population than the UK as a whole. Donations per head per month are also in line with the UK average;

- Very few loan and investment finance sources appear to be available to the Third Sector in Wales;

- Overall, Third sector organisations (at a UK level) seem dissatisfied with the funding options and opportunities available to them.
4.0 FINDINGS – QUALITATIVE RESEARCH

In this section, we report the findings from our discussions with funders, strategic informants and Third Sector organisations. The Section deals with:

- The relationship between funders and funding recipients;
- Current funding practices;
- The relationship between funding and outcomes;
- The importance of monitoring;
- Implementing codes of practice, guidance and compacts;
- The impact of recession and public sector spending constraints;
- The issue of full cost recovery;
- Collaborative working arrangements;
- Achieving funding sustainability.

4.1 The Relationship between Funders and Funding Recipients

4.1.1 Overall Funding Levels

Most of the funders that we interviewed said that in their experience (and in line with our data analysis in Section 3) funding to the Third Sector had increased over the past decade or so. One funder commented that the starting point for any discussion in relation to Third Sector Funding is that:

“We’ve seen an increase across the board.”

Others thought that (pre–recession) “things have been very good overall” and that it was “probably fair to say that all ways of funding the sector have seen an increase, but it does seem to be that local authorities are increasingly turning to contractual type arrangements”. This latter informant thought that, while grant giving had probably been
increasing in recent years, procurement had been increasing at a faster rate (in line with the UK level data explored in Section 3 above).

Several stakeholders thought that the increase in funding being allocated to the Third Sector (across the UK) was in large measure “politically driven” and followed this up by suggesting that “you may well see this change if we have a change of government [at a UK level] in the next year”.

A number of funders were also keen to point out however that the growth pattern in terms of funding to the Third Sector may very partially be attributed to better systems of monitoring financial allocations and spending. One informant for example said that their systems of monitoring funding allocated to the Third Sector had improved considerably over the past few years and that this increased sophistication had enabled a broader quantification of spend (e.g. across departments). Previously, this person pointed out that “we had no aggregate way of tracking the spend, other than that which was done through the BACS\(^{85}\) system”.

In line with the findings of our data review, several informants were also keen to point out that not all Third Sector organisations had enjoyed funding increases to the same degree. The implication here, as one informant put it was that “large national charities have done better - and have responded better to contract delivery”. Interestingly, this informant also thought that “the very small ones are also probably OK, based on membership subscriptions and donations” which meant that “what we’ve seen is a real squeeze in the middle where organisations have found it increasingly difficult to evidence impact”.

\(^{85}\) Banker’s Automated Clearing Services.
4.1.2 Benefits of working with the Third Sector

Our fieldwork with funders revealed a detailed appreciation of the specific benefits that working with the Third Sector can bring. In this context, it was interesting that a significant number of the public sector funders we interviewed had previously worked for and had “cut their teeth in” the Third Sector. The identified benefits of working with the Third Sector were many and varied, but a number of common themes emerged and are explored in the following paragraphs.

Several funders pointed to the fact that Third Sector organisations offer high levels of experience and expertise in delivering services for the public sector. A key benefit in this sense was thought to be that the Third Sector often has closer links and an affinity with their local communities or specific communities of interest. For example, one funder commented that “if you talk about advocacy services for the elderly, then organisations like Help the Aged can provide these services better than the public sector can. So it’s not just that the Third Sector has good community links but also, more simply, that the Third Sector would provide a better service in many cases”.

A range of funders that we spoke to also saw strong advantages in working with Third Sector organisations based within and connected to deprived communities– often where “target clients” are located as opposed to being in “brand new shiny offices”.

One funder commented that “they [Third Sector Organisations] are embedded in the community and better able to get to the nub of what the issues and resulting needs are”. This person added that the Third Sector is particularly good at “identifying gaps or shortcomings in statutory provision”.

Several funders also pointed to the fact that their service delivery contracts increasingly contain strong requirements for providers to
have a permanent presence in key locations, rather than to operate through an outreach model. In practice, it was thought that this way of working was likely to favour “established players”, particularly those within the Third Sector, over any potential new entrants. There was also some evidence to suggest that, for example with the reconfiguration of Local Health Boards, the strength of local Third Sector organisations in being able to “plug into” their communities would become even more significant.

A further benefit of working with the Third Sector was considered to be the use of volunteers. Being able to draw on a volunteer base was highly appealing to a number of the funders we spoke to. One specific example included a funder who saw the volunteer base of Third Sector providers having a crucial role to play in “sifting and signposting clients” through to the most appropriate fully qualified (and paid) staff members. This facility offered the Third Sector organisations in question a key competitive advantage over any potential private sector competitor in that this was a highly efficient and cost effective way of ensuring that eligible beneficiaries were being appropriately and professionally dealt with in a structured way. Moreover, the fact that volunteers could also offer complementary assistance to non-eligible beneficiaries was also a key “selling point” to the funder in question.

Several funders thought that Third Sector organisations were “as well placed as any private sector competitors” to deliver an effective service and could often add value through complementary services delivered through other funding streams. One funder pointed to the fact that they had “absolutely no objection” to Third Sector organisations using contract income as match funding to draw down and un-lock additional funding streams.
4.1.3 Perceptions and Attitudes

While funders were very clear about the range of benefits that working with the Third Sector could bring, several also pointed out that “they [the Third Sector] need to become smarter in how they engage with us”.

A key point raised by funders was that arrangements with Third Sector organisations were often long standing and historical in nature. For many of the funders we spoke to, this had led to a culture of “expecting funding by right”. This was a significant issue for some funders who thought that the approach of “we do this and want funding to continue doing this” was no longer acceptable on a number of levels. One funder went on to say that “what they [the Third Sector] should be doing in the future is saying: let me come and talk to you about your current requirements, your current priorities, and let’s see if we can meet some of those”. This person stressed that a “different mentality” was needed.

Others pointed to the fact that “coming to us cap in hand for funding for a new service is not a very effective approach”. This person added that “They [Third Sector] need to be very aware of what the priorities are in the areas which are relevant to them. It’s a two way thing – yes, the statutory sector must disseminate information on their priorities and needs but also, the voluntary sector must sniff out opportunities not just come to us cap in hand”.

In this context, a number of stakeholders pointed to the need for closer working relationships to be developed between the statutory sector and the Third Sector in relation to consulting on and disseminating key policy and service delivery priorities in advance of commissioning.

A number of Third Sector organisations also told us that in their experience the best funder/Third Sector relationships happened when
funders decided to consult and collaborate with them in advance of commissioning projects or services. “It works best when they talk to us in advance, discuss what the need is, how best to go about it and what the outcomes are”. This particular individual highlighted the Communities@One Programme which, via the Wales Co-operative Centre had adopted a “Community Broker” model to delivering a multi million pound digital inclusion grant programme with Third Sector organisations.

In contrast, another Third Sector organisation told us that they had recently had a “heartbreaking” experience of using three members of staff for 80% of their time drafting an onerous application which was ultimately unsuccessful.

“It took us a good three months to put in all the things they wanted in the application, then it took them six months to decide….these six, nine months lead times for applications are impossible”.

We also encountered widespread recognition that the Third Sector is not a homogeneous group. Several commentators pointed to the fact that some organisations within the Third Sector have “very altruistic” objectives and are arguably similar to the public sector in terms of their characteristics (e.g. funding sources and governance) and that “these organisations will never change, so funders just have to decide whether or not they value that and want to continue funding it”.

Indeed, one informant wondered “if you are reliant on public money – particularly long term and sizeable levels of public funding – are you really a Third Sector organisation or are you public sector”?

In the same context, another funder was worried that “there is danger that sometimes they [Third Sector Organisations] can become too native”. This concern was raised by several informants, with one
describing the issue as that of “isomorphism”\textsuperscript{86} i.e. that the behaviours and structures of Third Sector organisations mirror those of the statutory agencies that fund them. In a handful of instances, this had led to serious concerns as to the extent to which some Third Sector organisations were able to retain their independence and autonomy from the statutory sector.

The funders we spoke to also had mixed views about the perceived effectiveness and efficiency of the Third Sector and in particular management and leadership capacity. Several funders questioned whether some Third Sector organisations in Wales had become overly dependent on “one or two key individuals” and suggested that this had resulted in the sector having “become a bit stale” as a result of “little change at the top for quite a number of years”. These funders also suggested that there was perhaps a need to look at developing “the next generation” and to encourage more innovation. A number of funders and Third Sector organisations also suggested that the relationship between WCVA and CVCs was not always as clear as it might be, with one summarising this by saying that “the landscape is not entirely clear in terms of the leadership of the sector”.

Some funders suggested that there was considerable scope for the Third Sector to raise its game in finding new ways of addressing old problems, though there was also a recognition that this was extremely difficult in the light of “the sheer slog of trying to work out where the next grant is coming from and the difficulty of breaking out of the annual funding cycle”.

Others thought that in some parts of the sector there was too great an attachment to “pet projects” and even a tendency to encourage a

\textsuperscript{86}“Informally, an isomorphism is a kind of mapping between objects, which shows a relationship between two properties or operations. If there exists an isomorphism between two structures, we call the two structures isomorphic. In a certain sense, isomorphic structures are structurally identical, if you choose to ignore finer-grained differences that may arise from how they are defined”. Source: Wikipedia.
dependency culture on the part of those who were assisted: “confusing doing something for needy people with doing a good job”. Again, the grant funding cycle arguably encouraged the perpetuation of this.

Our research suggested that there were some real concerns amongst Third Sector organisations relating to the attitude of some funders towards them.

“There’s a real danger that funders are now seeing the Third Sector more like the private sector. For some, that is appropriate but for others, who are more aligned with the public sector, it risks devaluing the purely altruistic nature of their existence and their objectives”.

Others within the sector showed concern that, particularly during recession and in the period of public sector spending constraint, the public sector might increasingly see the Third Sector as the “cheap option” and that engagement with the sector would increasingly be based on wanting to achieve lower costs as opposed to better service delivery or overall value.

One Third Sector organisation argued that there was little consistency within or across WAG departments as to whether the Third Sector should be seen as a group of independent organisations that also do a good job of delivering public services (as can other providers) or whether the sector in practice is seen purely and exclusively as a vehicle for implementing public provision – in which case its independence could be severely questioned.

“the confusion in the Assembly is fundamental in that it is a little bit schizophrenic when it comes to the Third Sector….it doesn’t really know if it wants a mixed of economy of public service provision or just public sector provision”.

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Funders in turn, also had concerns that the Third Sector continued to “plead the special case” though conceded that part of the problem in this respect was that “unfortunately, the begging bowl approach still seems to work”. Another agreed that “I think it’s over optimistic to think that the begging bowl will be put away anytime soon”.

4.2 Current Funding Practices

4.2.1 Funding Timescales

The issue of funding timescales was highlighted as, arguably the most significant concern within WCVA’s “Funding Paradigms” paper. The paper made clear that WCVA does not view three years as long term funding, while the WAG Code of Practice for Funding the Third Sector outlines that “longer term commitments, subject to performance….with up to five to seven years for strategic core funding” should be a core principle.

We encountered some support for this position amongst a number of the funders that participated in our research. One funder had recently undertaken a review of their funding arrangements with one of the key recommendations of this work being to issue guidance that all contractual relationships should be “at least three years” on the basis that too much officer time and resource would be absorbed by annual re-tendering exercises. It was also identified that such contracts were being rolled forward “year after year”, resulting in the risk that some, cumulative contract sums could in practice exceed EU regulation thresholds.

A number of funders also considered that short term funding undermined Third Sector organisations’ stability, particularly in respect of staffing. This was underlined by most of the Third Sector

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organisations in our focus groups. “Short term funding not only makes it difficult for us to retain our existing staff, but when you can only offer short term contracts, it also has a direct bearing on the calibre of candidates you attract in the first place”.

Several funders agreed that ideally, it was desirable to work towards longer term agreements, provided there were appropriate break clauses. The example of three years with an option to extend for a further two dependent on performance monitoring was held up as being the “sensible approach”.

One funder commented that longer term funding (by which this person meant between five and seven years) “makes sense, if only because good voluntary organisations are working hard to develop their capacity only to find that they are under constant pressure as to whether they will be funded next time”.

Another funder outlined that they now funded for three to five year periods as standard practice. However, this funder also stressed that “we make it clear that we are not a source of continuous funding”. This particular organisation had come to the conclusion that “if you fund for three years the first year is lost setting up the project while the final year is lost with exit planning activities. By funding for five years you get three times the amount of real output for only 1.66 times the overall cost”.

Funders also stressed that the issue of funding timescales needed to be closely linked to the development of more robust and monitoring arrangements. “If a voluntary organisation’s performance indicators consistently show a ‘green light’, and it is foreseen that the service they provide will be needed in the future, then why not agree a longer term funding period?”
Funders did however raise a number of key issues that in practice worked against committing to longer term funding commitments. Foremost amongst these was the fact that political cycles work on a four or five year basis and that “no-one wants to tie themselves in for anything longer than this” on the basis that political change could bring with it completely different priorities.

In reality, funders saw the political cycle as being as much - if not more - of a barrier to setting longer term funding agreements in train, than budgeting restrictions, procurement regulations or business planning cycles.

One funder suggested that for anything more than three years “you are into all sorts of problems with political timescales and making commitments that future Governments might not want to adhere to”. Others agreed with this view and suggested that “we are aware of the debate surrounding long term funding but think that our current SLAs are about right”.

Others thought that three year contracts were sufficiently long to give a degree of stability to contractors while not being so long as to tie the funder (working in this case on an annual budgeting round) for too long a period.

One informant commented that “there’s nothing in theory from a procurement point of view that would stop three or four years funding. The issues are all practical: does a local authority know what funding is available for this period, what happens when strategies and priorities change, what is the impact of the political cycle?”

We encountered some views that funders were very conscious of the effect that shorter scale funding arrangements can have on Third Sector organisations and were keen to explore ways in which this could be addressed. One commented that “I would love to think that we
could move to four or five year funding or some sort of other way of expressing ourselves”.

This particular funder pointed to the arrangements that DCLG88 have with Key Partner Organisations in England and suggested that “it would be good to try to find a way of establishing this sort of expectation in Wales”

As a general point of principle, this funder went on to suggest that in planning for a new Government, officials should work on the basis that “most things will carry on and we’ll change the things that we’re told to change”, rather than assuming that as few as possible ongoing commitments should be entered into.

We also found some sympathy amongst funders for the view that long term outcomes are sometimes required from short term funding mechanisms. One suggested that “too many of the funding regimes are short term or annualised compared with what we actually want to achieve…there doesn’t appear to be much correlation” and another that “in many ways it is a historical accident what is fully funded through the state and what is mostly left to voluntary and community action”.

While there may have been sympathy with regards to funding timescales amongst funders, several interviewees argued there was also a rather harsh reality that given the recession and on-going levels of Government debt “now is not the best time to be arguing for much longer timescales”. Others however suggested that there was no reason in principle why at least some budgets could not be committed over a greater number of years in advance “it’s a question of managing your commitments” – provided that the cumulative total did not reduce the flexibility to cope with changing circumstances too greatly. From

88 Department of Communities and Local Government.
this point of view, it is clear that those statutory organisations or departments which channel the highest proportions of their own funding via the Third Sector or through commissioning are likely to be most wary of committing to long term arrangements as the general rule.

Most of the Third Sector organisations in our focus groups welcomed this type of approach, but one or two suggested that in their experience the “in principle” commitment needed to be binding since funders were often “scared about putting commitments in principle down in writing”.

One of the key concerns highlighted by the Third Sector in our focus groups was that funders “constantly change their minds on a whim” and that “what’s critically important one day is old news the next”. This issue was often intrinsically linked with very short (one year) funding cycles and was felt to be a destabilising factor by Third Sector organisations and resulted in “the constant need to re-invent ourselves and the way we package our services”.

4.2.2 Funding Mechanisms

Our fieldwork with funders and the focus groups with Third Sector organisations confirmed that a wide range of practices and mechanisms are currently being used to fund the sector.

It was clear that even within public sector departments a “mish-mash” of different approaches can be in place. These included:

- Core Funding Arrangements;
- Service Level Agreements;
- Competitive grant schemes;
- Project/Programme bidding rounds;
- Open procurement;
• Transfer of assets (though only in a very small number of cases).

There was also a mix in terms of the extent to which funding mechanisms were restricted to the Third Sector or were open more widely to others to compete for. While core funding arrangements were more likely to be restricted or ring-fenced to Third Sector organisations, competitive programmes and procurement processes generally meant a more open approach and therefore an implicitly higher level of competition for Third Sector suppliers.

A number of Third Sector organisations drew our attention to the fact that ensuring a mix of restricted and unrestricted funds was very important and that the prevalence of restricted funding was a problem. “If your restricted money is completely restricted to certain activities and for whatever reason you haven’t spent that much, it’s so limited it’s almost crippling what you want to do”. Several funded organisations referred to one national grant scheme as being particularly problematic in this respect. “It’s so restricted. It’s restricted at the level of pounds spent per budget line” “There’s always things in budgeting you always miss, little things…. and in that particular grant there is absolutely no flexibility…. instead of being able to say we’d be much better off to move it from there to there to get the outcomes we both want”.

A notable finding from our fieldwork with funders and Third Sector recipients was the lack of experimentation with asset-based, endowment or investment approaches. Several informants pointed to “a great deal of nervousness” about asset based approaches and that “people were extremely concerned” about falling foul of EU State Aid rules. There was also a concern that asset transfer could be a mixed blessing from the point of view of the Third Sector: as one informant told us “one person’s asset is often another’s liability”. 
There were two exceptions to this. Firstly, in the case of Registered Social Landlords (RSLs) many of these had been formed by the transfer of housing stock to the organisation, where these assets were an essential part of the financial model which enabled investment in upgrading the estate.

Secondly, the Big Lottery Fund had recently launched a Community Asset Transfer programme bringing together capital and revenue funding to support the transfer of under-used land and buildings from the public sector to community ownership and management. This is a partnership grant programme which combines WAG capital funding and Big Lottery revenue funding to a total of £13million to be administered via a single application process.

One of the funders we interviewed outlined that they were currently working on some proposals to develop a Welsh Housing Bond, which would enable RSLs to raise money on the financial markets over a much longer term than their current mortgage based finance. This was based loosely on the Dwr Cymru model. Another example of a development involving asset transfer was in the field of community-based renewable energy projects, where the funder in question was accessing EU funding to create social enterprises which would benefit from and reuse the revenue stream created as a result of capital investment in generating capacity as well as realising environmental benefits.

More generally however, we encountered very little understanding of or experience in endowment based approaches to Third Sector funding in Wales and this was highlighted by a small number of stakeholders as a key cause of concern and an area which needed to be taken forward strategically by WAG and other partners.

One funder pointed out that (although limited to a small number of cases), funding was sometimes “given as a sop”, as a way of
demonstrating some concern on “intractable difficult things” rather than in any expectation that it would be particularly effective at grappling with a fundamental problem. In this person’s view, this often led to the creation of “pilot projects” where there was no capacity or intention to roll out or mainstream any successful approaches more widely. In a similar vein, other funders also pointed to a frustration that current ways of working meant an inability to build on and replicate things that worked well and that after successful pilots “everyone’s always back to square one”.

It was also the case that none of the funders we spoke to worked on the basis of allocating or ring fencing a pre-determined proportion of their budgets specifically to the Third Sector. One funder pointed out that “the aims of our budget are different from that”. None of the funders we spoke to saw potential for moving towards setting targets for spending levels with the Third Sector (or any other sector for that matter) since such an approach would run contrary to the need for increased transparency. This was the case regardless of the funding methodologies being adopted, but was particularly true in the context of funders involved in procuring services who raised fundamental concerns about such an approach being perceived as anti-competitive.

4.2.3 The Funding Mix and the Role of Procurement

Our research revealed divergent views between funders and the Third Sector with regard to the various funding mechanisms used with and available to the Third Sector in Wales.

Thus, one funder was of the view that the data indicating a shift in funding patterns in favour of procurement and away from core grant funding was “definitely there” and was leading to serious questions about the “equilibrium of funding diversity” to the Third Sector across the UK.
A number of funders concurred with this position:

- “We’re moving away from core funding. We used to have eight arrangements in place and we are now down to two. Those remaining two are being phased out over the next three years. We understand that’s a shock to the system but it is absolutely the right thing to do”.
- “In the past we used partnership agreements that were just too vague and indefensible. They just weren’t satisfactory”.

Several funders also suggested that the trend towards procurement was here to stay and that:

- “The procurement ethos [within WAG] is strong these days. Everything is in some way tendered or competed for”.
- “We’ve been accused in the past of showing favouritism. That’s just not on. This is the only way around it”.
- “The Third Sector has a choice. They either buy into this and see it as an opportunity – which it is because we are substantially increasing the amount we are outsourcing. Or - they get left behind”.

Another funder agreed that there was “most definitely” a strong tendency within WAG to go down the procurement route in terms of services which had in the past often been delivered by SLAs with specific organisations. This was “being driven corporately – very clearly, we are getting very clear instruction at corporate level that this is the route we should be doing down”.

Funders told us that the main arguments for increasing the use of procurement and reducing core grants related to the need for increased fairness and transparency. One funder told us that:
“There is a basic principle of fairness at work here that gives other people the opportunity to say - from whatever sector - that we can do that same job as well for less money”.

Another funder told us that senior managers within their organisation were now actively and strongly discouraging “quasi-contractual” funding relationships such as SLAs on the basis that relationships should be based either on a contractual basis – in which case there was a strong presumption in favour of competitive tendering - or grant-based, in which case there should be a “funding agreement” setting out what the funding was intended to achieve and placing the relationship with the Third Sector on a stronger contractual footing.

In contrast, very few of the Third Sector organisations that we spoke to thought that the swing towards procurement had been particularly evident as yet. While several told us that “core grant funding is extremely hard to come by these days”, and that “competition for grants has increased drastically”, a key message to emerge was that “we haven’t seen a real trend as yet towards more procurement”.

Other Third Sector organisations pointed to the fact that the reduction in grant availability meant that they were having to rely more heavily on their own fundraising activities. One organisation told us that in the current climate “we’re finding that really tough” and that “we’re having to ask a lot of local SMEs”.

European Funding was also highlighted by a number of funders as playing a part in accelerating the process of moving towards procurement but that in reality “it was all heading in that direction anyway”. Some funders also pointed out that increased procurement requirements under the 2007-13 Programmes operational in Wales meant that a number of large Third Sector organisations were now having to be far more transparent in the way they delivered EU funded projects, having to rely themselves on using formal procurement
processes, and that this “poacher turned game keeper” situation was “very healthy” and had led to “them seeing our side of it for the first time”.

Some of the funders we spoke to had concerns about the impact of the procurement route on the community development infrastructure “in some cases, there is a case to say that we actually want a community infrastructure… and that we should be careful about that disappearing by default because of the constant pressure of procurement, which can allow certain organisations we value to get pushed aside”.

While there were strong arguments for procurement from the point of view of fairness and efficiency, some funders also raised questions about the appropriateness of the approaches being used. One informant told us that in their view “there is a real danger” in using procurement when it is not necessarily the most appropriate mechanism. Third Sector organisations also raised concerns in our focus groups that procurement practices are not always well suited to the services in question. There was some sympathy with this view amongst funders, with a number acknowledging that some inappropriate procurement processes which had been designed for large companies tendering for construction or structural engineering contracts ended up being used with small Third Sector organisations. As a result, as one funder put it “there’s a risk that smaller organisations are getting squeezed out” although as mentioned earlier, this did not come through strongly from the Third Sector’s point of view (as yet at least) during our research.

Another funder commented that “there is a complete mismatch. Systems which were set up for one thing do not fit the sort of thing we are doing at all. We’ve got to recognise that and do something about it before going wholesale down the procurement route”.
Despite the various Codes of Practice and guidance documents available, there was also evidence to suggest that funders were not always clear as to which funding mechanism they should opt for or which would be most appropriate in any given situation. One funder told us that “my guess is there is some confusion still between things that are grant funded and things that are contractual and I don’t think that we’ve always got that right in the extent to which we are responding to a bottom up demand or setting a service provision”.

Funders also recognised that the perceived drive for more transparency and professionalisation increasingly meant turning to procurement as the default position when in reality, this might not be the most effective engagement mechanism. In several instances, this had also meant funders increasing the formality of engagement processes (with, for example, less capacity to consult and work informally with Third Sector organisations who were currently funded on defining the nature of the service for fear of being seen to advantage them), with one admitting that “we are very good at bureaucracy”.

There was a feeling amongst some stakeholders that the increasing use of procurement in some cases provided increased funding security for Third Sector organisations and also meant that the relationship between funding and outcomes was given greater clarity and proportionality.

“The standard practice under our procurement rules is for three years with an option to extend. With the old core funding arrangements, we were having to agree those on an annual basis. So I would argue that procurement can potentially offer more security”.

Some also argued that procurement helped address the concerns about the prevalence of restricted grant funding arguing that contracting was quite an attractive alternative since it allowed
organisations to work creatively to generate surpluses: i.e. if outputs could be generated with a lower level of inputs, these savings would not be clawed back under the terms of a contract in the same way as they would with a grant based approach.

Others however contested this more upbeat view of procurement, with one saying that “my experience of procurement is that funders tend to procure only when they want to change things…. rather than by principle, though to be fair that is changing. But if people don’t want to procure, there’s usually a way round”.

We encountered little evidence from either the funders or the Third Sector organisations that we interviewed to suggest that procurement had led to increased interest or competition from private sector organisations. We only came across one instance of a “for profit” organisation winning a community services contract which had caused some upset amongst the Third Sector locally. Other than this, funders pointed to competitions as a result of tenders “almost invariably being contests within the Third Sector”.

Several stakeholders also underlined the fact that the Third Sector is by no means a special case in facing the challenge of increasing procurement. “The procurement problems faced by the Third Sector are also faced to a large extent by small businesses”.

4.2.4 Procurement Support – Third Sector

A number of informants pointed to an increase in the level of procurement support activity being offered to the Third Sector. Examples included “how to bid” workshops and mentoring support activity jointly organised by Value Wales and WAG for potential contractors.
Several funders underlined the importance of such activity and agreed with one funder who thought that some Third Sector organisations are “abysmal at selling themselves”.

“They [Third Sector] definitely need to raise their standards. The passion they have for what they do is fantastic. That’s unquestioned. But they need to back that up with professionalism. That means us [Public Sector] being more up front with what we expect of them. It also means competition in one way or another and the Third Sector has to learn not to take that personally”.

Several Third Sector organisations told us that identifying and communicating their key strengths was a real challenge for them.

“Although we’re catching up a bit now, we still don’t find it particularly natural to shout about what we do”.

This was not a universal view however, with some funders saying that in their experience, Third Sector organisations were far better at tendering than typical private sector operations: “they are head and shoulders above the private sector”. This particular funder did not see this as surprising since in their view there was not a great deal of difference between submitting grant applications and writing a tender. This person went on to say that any concerns on the part of organisations within the Third Sector about being squeezed out by the private sector, were “seriously exaggerated”.

Some cautioned against expecting immediate results from offering support through tendering workshops. One informant suggested that “because you are challenging people to change their ways…then you must accept that these changes will take a long time”. This suggests that if support is to be given (e.g. training) it may need to be structured, long term and delivered in relation to other areas of support, such as quality written guidance available by accessing the internet. According
to the same informant, funders should not “expect short, one off training events to have much impact on their own”.

The quid pro quo to this was that there must also be a positive response from the Third Sector in taking up available support. One informant commented that “they [Third Sector] must get involved with the support” while another added that “there must also be an onus on the voluntary sector to equip themselves to be able to respond to commissioning requirements”. According to some of those we interviewed, there is “some evidence that they are but it does vary a lot”. In this respect, there were some concerns that the very smallest Third Sector organisations are not engaged as much as they could or should be. However the fact that many very small organisations do not have paid staff may well be a significant restriction in their ability to take full advantage of such support.

There were also good examples of commissioning organisations having worked effectively with Third Sector partners. Thus one Local Authority and a Local Health Board had formed a “triumvirate” with the local CVC which had worked to “collect and disseminate information very well. They [the local CVC] have voluntary sector liaison committees that seem to work well in ensuring that the sector is up to date on latest developments”.

Third Sector organisations also stressed the need for commissioners to be more proactive and responsible in providing constructive and timely feedback in respect of both successful and unsuccessful tender proposals and grant applications. Some Third Sector organisations had had positive experiences in this respect. One commented that “The one thing they [WAG] are excellent at is at being honest with us. So they will say, this is really rubbish but there is not much we can do about it….they’ve done a brilliant job…I don’t have a bad thing to say about the people we deal with”.

We encountered several examples however, of funders recounting “feedback that was very slow and painful to get” and that “when it did come it wasn’t particularly helpful” in the context of identifying what improvements were needed. This was highlighted as a key concern for Third Sector organisations and a very clear message was that efforts by public sector funders should be re-doubled to ensure that constructive feedback is seen as an essential part of the commissioning aimed at improving the experience and commercial outlook of all suppliers, not just the Third Sector.

4.2.5 Procurement Support – Public Sector

A clear message to come through from our research is that while supporting the Third Sector to enable them to bid for contracts is essential, there is an even greater need for training and support for those within the statutory sector involved in commissioning or procuring services in order to ensure that appropriate and proportionate practices are adopted. Several Third Sector organisations who attended our focus groups thought that funders often used a “sledgehammer to crack a nut” approach.

A key concern in this context is that procurement professionals provide appropriate advice to commissioners of the Third Sector to ensure that the most appropriate funding mechanisms and processes are engaged: “It’s crucial that a better understanding of the Third Sector flows through to procurement officers”.

There are signs that this issue is being taken seriously in Wales, with Value Wales for example developing a Procurement Route Planner (PRP) which apparently seeks to promote a more structured, step-by-step approach to procurement throughout the Welsh public sector.
The PRP has apparently been developed on evidence that smaller organisations (private and Third Sector) are struggling to deal with changes in the procurement landscape.

Several informants expressed concern that procurement systems do not allow for discretion with bidders being “marked upon what they submit” suggesting that a greater degree of flexibility (whilst maintaining appropriate levels of transparency and rigour) is required within the system. One informant commented that:

“I’ve been told of occasions when Assessment Panels have known full well that a Third Sector organisation could do this or that, but because they haven’t said so in their tender then they’ve not received marks for it.”

This was a problem particularly given a culture within many Third Sector organisations of not, in the words of one interviewee, being “as forthright in telling people what they have done and what they can do”.

Another issue to emerge from our discussions is that funders are not always aware of the difference between commissioning and procurement and that all too often funders “fall into the trap” of assuming that procurement is the only way to commission. Third Sector organisations pointed out quite rightly that the public sector can commission services without necessarily having to go to open and competitive tender and that this needed to be made clearer in the advice given to commissioners by procurement professionals.

4.3 The Relationship Between Funding and Outcomes

A key theme of our research with funders and Third Sector organisations has been the extent to which the Third Sector funding infrastructure in Wales is outcome driven (or not).
Both funders and Third Sector organisations acknowledged that historically speaking, the process of defining and monitoring outcomes linked to Third Sector funding has not been a particular strength in Wales. Funders and recipients talked of a tendency to frequently confuse outputs with outcomes and in some instances even with inputs. Several informants stressed however that Wales was not alone and that the picture in England was very similar. In this respect, one informant commented that “the language of outcomes” was not particularly well understood in Wales.

One funder commented that the governance framework for grant schemes in particular had not developed in pace with the rapid expansion of resources which had been allocated to them: “we are probably quite often spec-ing up the wrong bit…the system pushes us towards greater bureaucracy” which this individual argued hampered innovation.

In general terms, this funder felt that most funding regimes were still too heavily focused on inputs “the how” and not focused enough on outcomes “the what we want to achieve at the end”. At the same time, some funders did not think that it was always preferable to work on the basis of prescribing only outcomes. In this respect, funders were clear that, at times, it was perfectly acceptable for the public sector to procure well defined and specified services (for example where high levels of consistency and quality control are required on an all-Wales basis). In such circumstances, funders argued that it was entirely reasonable to specify the method (inputs) well as the end result (outcomes).

Others however, including Third Sector organisations complained that performance indicators and associated monitoring systems were often complex, disproportionate and therefore overly burdensome in relation to the levels of funding in question.
A key message in this respect was that there is a need to improve the way in which funders pre-define outcome measures and that these are kept as simple as possible and crucially “in proportion” to funding levels. Several of our informants thought that focusing on inputs or outputs was often the symptom of a funder not knowing, or not being clear about the outcomes of an intervention before it is commissioned. One informant commented that:

“They need to know, or at least have some idea of, the sorts of outcome that they want from the funding. It’s not just handing over money so that a service can be delivered. They will need to judge whether methods proposed by Third Sector applicants can realistically achieve the desired outcomes”.

In response, funders were also very keen that Third Sector organisations “up their game” in engaging with and “taking ownership over” outcomes and monitoring systems since at present, as one informant put it “historically the approach [from fundees] was very much: we do X and Y and for that we get Z funding. The outcomes were almost added bonuses”.

One informant told us that the shift from “what we have done” to “what we have achieved” is clearly a difficult one for many in the Third Sector because (as with the public sector) it requires additional skills and resources that might not be easily available. This lack of expertise in measuring outcomes was particularly clear for example in health and social care services where “softer outcomes” which are more difficult to measure (such as changes in behaviour, attitudinal changes, changes in quality of life etc.) need to be monitored.

An issue highlighted during the course of the focus groups with Third Sector organisations was that it is not always clear when a public sector body is an outcomes funder. We interviewed one funder who described themselves as just that, with the funder in question saying
that “it’s something that some applicants find difficult”. According to this funder, one of the main problems related to the measurement of social (or soft) outcomes. “How do you measure performance in a robust way? Things like quality of life for an older person who goes out twice a week when previously she didn’t”.

One funder suggested that outcomes for volunteers also needed to be “recognised more formally” within the measures identified by funders, since this was often a very valuable outcome, but one which, in reality is often under valued.

Some funders told us that although there was substantial room for improvement in defining and monitoring outcomes, some positive progress had been made in recent years. One funder told us that that two or three years ago there would certainly have been examples of grant funded relationships where Third Sector organisations were given funding because they “always had been” or because “they had strong relationships with politicians”, but more recently there had been a move to a much clearer focus on articulating what was expected from funding (outcomes) and a recognition that funding “is there to meet the needs of the service users first and foremost…not to maintain the existence of a particular organisation as an end in itself”.

One funder stressed that they worked increasingly closely with funding recipients in order to link activity to identified needs. Identified needs might be based on a local survey completed prior to application and outcomes specific to the project are subsequently developed, including where necessary, softer outcomes such as improvements in quality of life.

Others too said that even within grant funding agreements, there was an increasing tendency to be more “hard nosed” about defining and specifying appropriate outcomes.
One funder recalled that there “has been a very marked trend to focusing on outcomes” with a clear insistence from Ministers after the 2007 Welsh Assembly election that there needed to be a focus on outcomes and with a recognition that there had been “enough capacity building”.

However, a number of informants (both funders and Third Sector organisations) told us that, partly thanks to the large amounts of EU funding available to Wales since 2000 “there’s too much focus on quantification”. According to some, this had exacerbated the overall funding distribution since “larger organisations have more capacity to engage in the outcomes game”.

Indeed, some informants suggested that too much is made of the fact that the Third Sector is not particularly strong at adhering to an outcomes driven approach.

One commented that:

“It would be right to say that there is fear [within the Third Sector] about going too far with an outcomes driven approach particularly in things like social care where measuring outcomes can be very difficult. But all too often local authorities and others are so prescriptive in terms of the services they want that Third Sector are discouraged from ever thinking in an outcomes driven way. It seems to be all about process”.

Others within the public sector thought that it was also important to recognise that some Third Sector organisations existed for such altruistic purposes that in reality they would never become outcomes driven and that this, in some very specific and exceptional circumstances might arguably need to be taken into account by funders within their planning and decision making processes.
4.4 The Importance of Monitoring

A closely related theme to outcome driven funding was the issue of monitoring systems. Both funders and Third Sector organisations told us that robust and proportionate monitoring systems are an essential part of any outcome driven funding mechanism. Without proper monitoring systems, outcomes cannot be measured in any meaningful way which in turn clearly restricts the ability to make value based judgements on services provided.

One of the key issues in this context from a Third Sector perspective is that there seems to be a degree of confusion between on the one hand ensuring that organisations are run with due diligence and financial propriety (which may be checked via audits and inspections) and on the other monitoring performance indicators and outcomes which in reality are quite separate operations.

In the main, the funders we spoke to thought that the financial accountability processes in place with the Third Sector organisations they dealt with were acceptable and robust. In contrast however, several funders pointed to bad experiences with Third Sector organisations where performance monitoring requirements related to funding had not been fulfilled. One funder told us that

“*I don’t think there is a culture of monitoring and evaluation within the voluntary sector. It’s more like: ‘we provide this service, you just give us the money, and don’t delve in too much’.*”

Another said that:

“*I don’t think there is the consciousness within the voluntary sector that they are spending public money, compared to what you find in the statutory sector*.“
Several funders also pointed to the fact that, in their view Third Sector organisations often did not appreciate the potential value of robust monitoring systems. A key message from these funders was that good monitoring and evaluation systems serve to support the promotion of Third Sector activity “not only because they could evidence what they have done and achieved but also because it shows a level of consciousness about how they spend what are public funds. It also shows a level of professionalism, a level of maturity”.

A key criticism from the Third Sector perspective however was that monitoring systems often seem out of kilter with the service or project in question and disproportionate to the levels of funding available. This, in turn led to concerns that Third Sector organisations (particularly smaller organisations) did not have the capacity to respond to and maintain monitoring systems. One organisation commented that “There’s an automatic assumption that we’ve got the capacity to do it”.

Some Third Sector organisations who argued that they had made extensive efforts to comply with monitoring arrangements also pointed to frustrations that funders had not subsequently analysed or used the monitoring data in any meaningful way. “You do your best to meet the monitoring requirements, you fill them in and then the funders don’t even bother to read them”.

Several of the funders we interviewed seemed sympathetic to the challenges presented by the need to monitor performance within the Third Sector. One funder acknowledged that measuring outcomes in the Third Sector was a “real problem” and estimated that “something like 90% of our projects are not measuring outcomes to the extent we’d like to see”. This particular funder attributed the problem to a lack of relevant skills to devise appropriate methods for measuring outcomes but also, more simply, that within the Third Sector “resources are limited and this is seen as a bureaucratic exercise by them”.

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While several funders acknowledged that there was room for improvement in the context of their monitoring systems, others pointed to work already underway to tailor monitoring systems more closely to specific funding mechanisms. One funder told us that for small grant schemes “all we ask for is an end of grant funding report which provides us with details of what the funding was spent on and what was achieved”. This particular funder had taken the decision that formal and detailed outcomes monitoring and evaluation would be inappropriate for programmes offering very small amounts of funding.

This funder went on to tell us that as the size of funding increases, so too does the requirement in terms of outputs and outcome monitoring – in an attempt to ensure that monitoring systems are proportionate to funding. They were also placing an increasing emphasis on ensuring that monitoring systems are fit for purpose in terms of collecting information and data on outcomes. This was particularly challenging in the context of projects which have softer outcome measures such as “quality of life” for example.

Where softer outcomes are an important measure, this funder told us that they had begun implementing a number of “quality of life measures” (such as the well known Rickter Scale for example) which they apply by drawing beneficiary samples, asking them specific questions and then measuring “distance travelled” via an overall score which can be taken at several key milestones during a service or intervention. This particular funder thought that the introduction of such techniques helped bring an element of “academic rigour” to the process of measuring outcomes.

A key message in relation to monitoring systems is that it is should be entirely realistic to expect more progress and improvement in measuring outcomes more rigorously. One funder told us that “it will take time” but that in their experience Third Sector organisations were
increasingly seeing the need for and value of outcomes measurement in terms of showing the lasting impact of their work.

4.5 Implementing Codes of Practice, Guidance and Compacts

A key challenge highlighted both by funders and the Third Sector is the need to engender greater ownership over existing Codes of Practice, Guidance and Compacts and ensure more widespread and mainstream application of their underlying principles.

Whilst it must be acknowledged that WAG’s Code of Practice for Funding the Third Sector is a relatively recent piece of work (January 2009), we found little evidence in our discussions with funders or Third Sector organisations to suggest that it had yet resulted in widespread fundamental changes to funder behaviour patterns.

Whilst many funders had heard of the Code of Practice and were broadly aware of its existence, in practice, few within WAG departments and even fewer outside seemed to have fully mainstreamed it into their day-to-day operations and arguably saw it more as a benchmark of good practice than an outline of minimum requirements. This was also the view of some Third Sector organisations who had initially welcomed the publication of the Code but had subsequently been disappointed by the level of impact it had thus managed to achieve.

This was also true in a number of areas with regards to Local Authority Voluntary/Third Sector compacts, where Third Sector organisations complained that guiding principles such as funding notice periods were not being adhered to and bad practice such as “eleventh hour” decisions relating to funding still being made. Indeed, several informants drew our attention to the fact that six local authorities in Wales “still have no compact of any kind in place”.

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One informant told us that the implementation of existing guidance was crucial in terms of changing funder behaviours and ensuring that minimum standards are met:

“The policy direction is right – it’s the implementation that’s wrong. It really isn’t rocket science. It’s already in the guidance to funders. It’s about doing the basics right”.

One of the funders we spoke to suggested that whilst Codes of Practice and Compacts were certainly useful and important, there were also deeper issues to be resolved in terms of funding relationships.

“I don’t think [my] Department has squared the circle between the relationship with the Third Sector and the relationship with local government. I don’t think we’ve got an intellectual model of how we see it”.

Both funders and Third Sector organisations acknowledged that in going forward, ensuring deeper awareness and crucially, implementation of funding Codes of Practice and Compacts (and indeed the development of these in areas where they do not already exist) is very important. In this context, the Department for Social Justice and Local Government is putting in place a team of Relationship Managers to assist officials across all WAG departments and provide proactive and specific advice in relation to the implementation of the Code of Practice for Funding the Third Sector.

4.6 The Impact of Recession and Public Sector Spending Constraints

Given the timing of our research, it is unsurprising that representatives of the public sector and the Third Sector alike were very concerned about the impacts of the economic downturn and public sector spending constraints.
The clear message from Third Sector organisations was that at a time of financial uncertainly, the demand for some of their services (e.g. debt advice and employment services) was higher then ever, which in turn was creating pressures and strains not only on operating budgets but also on staff. This message chimes very closely with the findings of WCVA’s recent surveys on the impact of the recession on the Third Sector which also indicates that “demand for services has increased” particularly in areas such as those organisations providing support with “unemployment, family stress and debt”.89

A number of the funders we spoke to felt that in practice, it was still too early to say how the recession would fully affect funding for the Third Sector. One funder thought that to some extent Convergence funding (particularly in fields such as renewable energy) would cushion any immediate effects of the cut back in public expenditure, although this might not be as true “across the board”.

Several of the Third Sector organisations in our focus groups had however already experienced real term cuts in funding during 2009. Some even highlighted examples of small Third Sector organisations being “on the brink” as a result of cuts whilst others pointed to local authorities and others taking services “back in-house”. Funders also seemed conscious that tighter budgets could spell the end for some Third Sector organisations.

“It’s already happening and some are falling by the wayside. In my experience though, those that fall by the wayside already had underlying health issues”.

Some funders argued that in practice, a rationalisation of the sector was not necessarily a bad thing, since the exponential growth in the

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number of Third Sector organisations over the past decade had led in some instances to unnecessary levels of competition and duplication.

We encountered mixed views as to whether a squeeze on public spending would result in more or less outsourcing. The same funder that thought EU funding might offer a shield, also thought that when cutbacks really started to bite, public authorities might tend to spend less commissioning services from the Third Sector. "The risk is there will be less money going out of the door… but there will be much more focus on whether we are getting as much out of our funding as we could…there may be an opportunity to ask some of those more difficult questions, but I would hope we could do that in an adult way".

A number of Third Sector organisations were concerned by this and we encountered a reasonably widely held fear that public authorities would naturally react by "cutting funding to the Third Sector and keeping things in house to avoid making their own redundancies".

In contrast to experiences recalled by some Third Sector organisations, some funders were convinced that the Third Sector would have an even more important role to play during a period of financial constraint (not least due to the cost savings through using volunteers for front line roles). One funder in particular suggested that their organisation would be looking to increasingly outsource service delivery and that "we need the Third Sector in our area to play more, not less, of a role in these difficult times". This funder went on to explain that "We're looking at different ways of spending our budgets and there are going to be fantastic opportunities, for example in Social Services for Third Sector organisations that are switched on and up for it".

As a result of this expected change in emphasis, this particular funder had arranged a major conference aimed at the Third Sector and other community partners to share information about its service delivery priorities for the next few years and this was seen as a key opportunity
for Third Sector organisations to align themselves with the priorities and direction of travel being outlined.

Others too thought that there was a “logical argument” to suggest that in difficult times, the Third Sector could arguably play an even more significant role in improving value for money. “There are clear areas where the Third Sector can play a big role e.g. hospital discharge, supporting people in the community especially when they have come out of hospital”.

Some however cautioned that the expectations of the Third Sector in the context of spending constraints would need careful consideration and that “clarity of priority” would be especially important in times of recession. One funder commented that “Third Sector stakeholders need to know where the policy direction is, and that appropriate levels of funding will be channelled in that direction” and that in turn this would need to help inform organisational policies and thinking.

A key message from the Third Sector in respect of impending public sector spending constraints was that:

“Government shouldn’t take decisions as a result of the recession that will fundamentally damage the Third Sector”.

Third Sector organisations also cautioned against the presumption that volunteering levels would automatically increase as a result of rising unemployment. There were also concerns that at a practical level the recession might already be limiting long term planning activities, which in turn could exacerbate the problem of short term funding timescales.

4.7 Full Cost Recovery

The issue of full cost recovery seemed to be particularly contentious with funders and Third Sector organisations alike.
Third Sector organisations told us that gaining agreement to full cost recovery with funders was becoming increasingly difficult and that in reality this was even more concerning in the context of reduced core funding availability. One Third Sector organisation argued that funders were increasingly squeezing them by insisting on “marginal as opposed to full cost recovery”.

In contrast, several funders told us that they were actively pressing for greater clarity from Third Sector organisations in how overhead costs are apportioned. One funder told us that this went to the core of their concerns regarding transparency and assessing value for money and that as a funder they were concerned that many of the Third Sector organisations they worked with had “high overhead costs” which often manifested itself in project and service delivery bids as “very high management fee levels”. This particular funder felt that this was unjustifiable and that “the de-coupling of specific project overheads from more general organisational overhead costs was essential” in ensuring that proper apportionment occurred.

Another funder thought that there was no clarity as to what “full cost recovery” in the context of funding the Third Sector meant. While with contracted provision this funder thought that the process of competitive tendering might tend to push down any excess overhead claims, they were worried that with grant funding there might be a tendency to double fund. In this context, greater clarity about how full cost recovery is defined was thought to be a potentially useful addition to the accompanying advice provided by WAG to the Code of Practice and something that local compacts should also cover in greater detail (similar to the way in which HM Treasury have defined Full Cost Recovery in their Guidance)\(^90\).

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\(^90\) Improving financial relationships with the third sector: Guidance to funders and purchasers May 2006.
4.8 Collaborative Working

Many of the funders we spoke to said they thought that Third Sector organisations needed to work more closely together. For some funders, this was important in the sense that there were effectively too many small organisations trying to do the same things in a similar area and all therefore asking for funding from the same or very similar sources. Others pointed to the need for more joined up thinking amongst the Third Sector in terms of collaborative bidding for larger scale service delivery contracts.

One funder provided an interesting example of the potential opportunities on offer to Third Sector organisations that can effectively mobilise collaborations. This funder told us that in the past different parts of their services would have been contracted separately and awarded to separate suppliers which then resulted in the need for referral and signposting to take place. This funder had subsequently decided to amalgamate the two services to cut out the need for the referral process to take place, thereby offering a more “seamless service” to users. This integration process meant that for the first time they were encouraging collaborative bids (as opposed to previously insisting on strict lead and sub-contractor arrangements) which offered a genuine opportunity for Third Sector organisations with relevant expertise to team up and tender for the work as a whole.

“We encourage consortia bids, which for us, reduces the risk of failure, duplication or misalignment with local statutory priorities”.

More generally though, the experiences of Third Sector organisations and funders relayed to us via our fieldwork suggested that collaborative ways of working are not particularly instinctive at present and that, much in the same way as the micro business sector, progress needs to be made in moving this agenda forward at both cultural and practical levels.
There was some sympathy amongst funders however in terms of recognising that collaboration is not easy and rarely leads to positive outcomes if artificially imposed. One funder suggested that in their experience, Third Sector organisations were now more actively developing collaborative approaches which would enable them to bid effectively for contracts. This person recognised however that reaching such agreements could often be complicated in the case of the Third Sector, where there might be tricky governance issues and questions about the appropriateness of extending remits beyond the core goals of a particular organisation which in this person’s view did not prove to be as difficult for private businesses to resolve.

One funder thought that, as a result of increased procurement and “a more competitive situation” the end result might be “that we will see more mergers”.

This particular funder thought that this was an idea advocated by UK Government (e.g. via the Future Builders in England) which was willing to provide support for Third Sector organisations to find suitable partners. However, this funder went on to caution that “I don’t buy the popular view that there are too many charities”. As such, this person thought that the role of Government role should be about “promoting multi-solutional / multi organisational approaches”.

Others also thought that more could and should be done to promote collaborative working in the Third Sector and that this should be a core part of supporting the sector to respond to the increasing use of procurement techniques. In this context funders and several Third Sector organisations were critical of WCVA and CVCs, suggesting that a “more active role” could be played in bringing together smaller local voluntary organisations to tender for contracts. One informant felt that even though consortia bids were encouraged in theory, it was often impossible in practice for small organisations to find partnership models to bid for large contracts, and those procuring services were
often wary of new partnerships which they felt might not survive the life of the contract. This person suggested that CVCs could potentially play a more active role as “prime contractors”, sub-contracting delivery to named organisations who were prepared to work together.

Funders also emphasised that thematic, umbrella and membership organisations (such as Community Housing Cymru or the Mudiad Ysgolion Meithrin for example) have a fundamental role to play in bringing under their wing smaller voluntary organisations and potentially supporting them through collaborative initiatives (for example to secure funding or to jointly tender for service delivery contracts)

Several informants pointed out however that collaborative working should not be seen as the exclusive preserve of the Third Sector and that funders too should be taking practical steps to ensure more joined up commissioning of services. “They really need to get together and do more groundwork jointly so that they establish proper baseline positions and avoid duplication as a result of badly planned commissioning”. The on-going relationship between local authorities and health boards was considered to be a key example where better dialogue and a more strategic approach to the commissioning of services was needed. In this context, the recent review undertaken by Powys Association of Voluntary Organisations91 highlighted a number of practical challenges and solutions including a more joined up approach to contract reviews and monitoring systems.

One Third Sector organisation told us that “they [funders] expect cross cutting themes in what you’re doing, but then when you ask about funding, well ‘it’s got to come from one Department’ and they don’t know where it fits”.

91 Paper TSPC (09) 20 to Third Sector Partnership Council. Developing Commissioning and Funding Arrangements with Third Sector Organisations in Powys.
Other Third Sector organisations underlined the fact that in practice, funders were not always particularly good at communicating their priorities to the Third Sector. “The dissemination of information about funding and more generally on priorities is very hit or miss”. In general, Third Sector organisations also did not perceive that moves to commission services more sub-regionally (e.g. within local government) had moved forward with any conviction as yet: “I think that philosophy is yet to kick in properly”.

A number of funders were also acutely aware that they may well be working in isolation and as such could be unaware of good practice examples or innovation occurring elsewhere which could be particularly relevant to their own circumstances. One funder suggested that a “forum for regular exchange of ideas and good practice” with other Third Sector commissioners would be useful.

4.9 Achieving Sustainability

The challenge of achieving sustainability is paramount for many Third Sector organisations in Wales and the magnitude of this issue is clearly highlighted within WCVA’s Funding Paradigms paper.

Third Sector representatives in our focus groups re-affirmed that this is an on-going challenge and one that in their view is becoming increasingly difficult to meet, given that core grant funding sources are becoming fewer and further between. Related to this, Third Sector organisations also told us that ensuring a balanced revenue portfolio was becoming harder and harder to achieve.

At the heart of the problem, according to many, is the fact that funding timescales are still too short in Wales, which means that Third Sector organisations are continually striving for outright survivability.
One Third Sector organisation highlighted a recent experience in this respect:

“We ran an incredibly successful pilot working with young people in the South Wales Valleys. It was incredibly successful so much so that we were talking to the First Minister the other day and he was talking about it, but no-one wanted to pick it up…it is an issue and they expect you to keep doing it.”

Third Sector organisations were scathing in their views of the approaches currently being adopted by many funders to exit strategies.

One Third Sector organisation told us that “the current approach to writing exit strategies in funding applications is rubbish”, and that what was needed was a recognition that funding should be focused “at least as much on what happened after the initial funding period as what would happen in the first two or three years”.

“They all ask this question of sustainability – you know ‘how will this activity be sustained at the end of the project’ and I always want to write ‘it won’t’. You know, no funding, no project”. “We all put in the words they don’t fully believe, but we have to write anyway”.

In large part, Third Sector organisations argued that this lent even more weight to the need for funders to plan services and programmes further in advance, committing in principle at least to “what’s important and what it is they want to do” for longer term periods as outlined in WAG’s Code of Practice.

Several informants were also at pains to point out that Social Enterprise was often seen, quite incorrectly by many as the “panacea” to funding sustainability. One informant commented that:
“You don’t fund a school for three years and then say, that’s very interesting, now go and form a social enterprise, but you say that to a mental health drop in centre”.

Another informant warned that while the post devolution interest in, and commitment to, developing the social enterprise sector in Wales was very laudable and had brought the sector forward immeasurably “we have to be really very, very careful indeed about the expectation we place on social enterprise as a forward strategy”. This person went on to say that while in principle social enterprise can sometimes be a good forward strategy option, “it’s important that we don’t delude ourselves about the capacity of social enterprises to respond”.

There were also some stark warnings that EU funding also posed sustainability challenges for the Third Sector. One funder cautioned that “when 2013 comes – we’ll have a massive issue with the Third Sector in Wales. Just look at what’s happened in Ireland”.

One of the key issues raised in our literature review is that very few investment based financial mechanisms are sufficiently well developed in Wales and that in this respect, Wales seems to lag being Scotland in particular. While this issue is raised in WCVA’s Funding Paradigm paper (and prior to that had been mentioned in the Third Dimension and in the NAFW Committee Report), our fieldwork with funders and Third Sector organisations suggests that “on the ground” awareness and understanding of investment based funding mechanisms is, at present very limited.

One informant told us that despite a small number of funders (e.g. the BIG Lottery) being keen to explore these avenues and WAG having committed to an “Invest to Serve Fund”, the reality was that there was little appetite for endowment based approaches: “The funders hate it, the sector hates it”. This informant put this lack of desire to move forward with endowments down to Third Sector organisations being
more preoccupied with short term survival and activity than longer term financial security. “The sector colludes, it colludes with politicians, it colludes with the state over short-termism. It likes to have staff, it likes to build its organisation, it doesn’t think very long term”.

A key message in this respect was the need to raise awareness of, demystify and increase buy-in to investment based approaches in Wales with funders and the Third Sector with a view to increasing their use as longer term funding sources, which in the view of WCVA could help create more “independent community institutions”.

4.10 Conclusions

In summary, the fieldwork with funders and Third Sector organisations has highlighted that:

- In line with published statistics, stakeholders agree that overall funding to the sector has increased substantially over the past decade (leading up to the recent recession);
- Most funders have a clear appreciation and respect for the work of the Third Sector and the added value that the sector brings in terms of delivering excellent public and community services;
- Whilst progress has been made in developing the funder – funding recipient relationship in Wales, there is still work to be done to professionalise the approaches of funders and Third Sector organisations in a number of key areas. Fundamental to this is the need to ensure that progress is made on both sides in understanding and wanting to overcome respective barriers and challenges;
- Short funding timescales remain a key obstacle to the stability and survivability of many Third Sector organisations in Wales. Despite the efforts of various tiers of Government (with Codes of Practice, guidance and compacts), there is evidence to suggest
that three year funding periods are still not treated by some as a minimum and bad practice (e.g. in taking eleventh hour funding decisions) remains to be fully weeded out;

- A wide variety of funding mechanisms are in active use to fund and commissions services and activities from the Third Sector in Wales. All agreed that core grants are reducing but whereas funders talked about a marked increase in procurement activity, this had not filtered through to the day to day experiences of many Third Sector organisations;

- Selecting the most appropriate funding mechanism is not always a straightforward exercise for funders. There is a risk of widespread confusion on the part of funders between commissioning and procurement. Some funders may be interpreting the need to commission as being the same thing as procurement when in reality they are separate processes. The advice from procurement professionals to commissioners needs to reflect this more fully;

- There is also a concern that in moving towards increased transparency and professionalism, procurement is seen as the default position. Placing funder and recipient relationships on a stronger contractual footing was something welcomed by all, but procurement is not the only way of achieving this;

- Funders are not at all receptive to the concept of ring fencing or allocating a proportion of their budgets to any one specific sector. None had undertaken this practice to date and there were fundamental misgivings about such an approach running counter to the need for transparency;

- The issues and challenges faced by the Third Sector in respect of procurement are in practice very similar to those of micro and small businesses and efforts to help the Third Sector “sell itself” more effectively need to be stepped up;

- Commissioners need to make sure that when they procure, they use appropriate techniques that are flexible, user friendly and
proportionate. This is not always the case and suggests that more needs to be done to promote awareness of WAG and Value Wales guidance on Third Sector friendly procurement principles;

- Defining outcomes related to Third Sector funding has not been a strength in Wales. There are signs however that this is improving and that funders and the Third Sector are now taking this more seriously. The process of defining outcomes works best when funders consult on desired outcomes at the planning stages, prior to commissioning activity;

- It is perfectly acceptable for the public sector to procure a service which specifies inputs “the how” as well as outcomes in some circumstances, but this should be the exception rather than the rule;

- Monitoring systems are fundamental to successful funding relationships that take outcomes seriously. There are signs that both funders and the Third Sector are committed to improving their practices. A key driver in this respect has to be a focus on keeping systems simple, relevant, proportionate and in-line with already published guidance;

- There is evidence to suggest that much more needs to be done to disseminate, and ensure the implementation of, WAG’s Code of Practice and funding guidance. Local Government also needs to step up its work in this area. This is seen as fundamental to changing funder behaviours and meeting minimum standards and practices. This cannot be achieved by “one off” seminars or training sessions alone, it requires sustained, long term effort to mainstream the core principles that have already been agreed into the everyday actions of commissioners;

- There are mixed messages about the impact of the recession. It is undoubtedly a cause of significant concern to the Third Sector both in the context of increasing levels of demand for some
services and the feared backlash of impending public sector spending constraints. Some in the Third Sector have already experienced substantial cuts while others are aware of services being taken “back in house” within the public sector. However, there is also evidence to suggest that some funders will outsource more as a result of the recession. In this context it will be important not to look at the Third Sector purely as a “cheap alternative” or to take decisions that could damage the vitality of the sector in the longer term;

- There are significant opportunities and efficiency gains on offer to funders and the Third Sector by increasing collaborative working approaches. Funders need to work more closely together in preparing baselines and evidence of need and in commissioning services more strategically. Third sector organisations need to collaborate more effectively to cut down on unnecessary competition and duplication and to offer more innovative solutions to funders based firmly on streamlining service delivery;

- There is a lack of awareness and understanding of alternative, more investment based, funding approaches in Wales. Funders and Third Sector organisations also seem to be very nervous about their potential viability and the risks involved. In this context, the finding of the literature review that Wales lags behind Scotland in this respect certainly rings true “on the ground” and there appears to be a clear need and opportunity to demystify and develop these concepts more vigorously in the immediate term.
5.0 CONCLUSIONS AND RECOMMENDATIONS

This section draws conclusions based on the various strands of research undertaken and focuses on the implications of the main ideas for restructuring funding outlined in WCVA’s “Funding Paradigms” paper. Under each subheading, these conclusions are followed by recommendations aimed at making practical changes to improve the way the Third Sector in Wales is funded in future.

5.1 Funding Timescales

The main thrust of WCVA’s Funding Paradigms paper focuses on the need to address the issue of short term funding cycles, with four of its six key propositions relating specifically to this agenda.\(^{92}\)

Whilst progress in terms of setting the policy direction and making high level commitments has been positive (e.g. with the publication of the WAG Code of Practice and Good Practice Guidance), progress on the ground in terms of funder behaviour and commissioning practices in relation to funding timescales has been disappointing. As such, short term funding cycles seemingly remain in widespread use and continue to cause problems which have the effect of destabilising Third Sector organisations, generating unnecessarily high overhead costs and even waste. In practice at least, it seems that the political cycle, rather than budgetary or statutory constraints is the main barrier to changing the behaviour and practices of many funders.

The fact that neither funders nor Third Sector organisations have been very good at defining outcomes or implementing effective outcome monitoring systems has reduced the willingness on the part of funders to take what they sometimes see as the risk of entering into longer term funding agreements. These shortcoming need to be addressed so

\(^{92}\) Points 1 – 4 on page 6.
that trust on both sides is sufficient to enable longer term funding relationships to flourish and succeed.

There are however some encouraging signs that funders are increasingly convinced of the benefits of longer term planning and committing in principle to fund services on the basis that precise financial allocations are agreed on a recurrent basis according to budget and business planning cycles. The already proven benefits of such an approach (not least of which are efficiency gains and economies of scale) need to be communicated far more widely and with increased vigour, and commissioning officials at all levels of government as well as in other public bodies need to have the support of their political leaders and senior managers to carry this commitment through in practice. It is also critical that when funders commit “in principle” that this is a meaningful undertaking and provides clarity and stability to the funder – recipient relationship. A commitment in principle cannot be a cop out or a fudge or it will be rendered useless and the whole concept will be devalued.

In order to facilitate an increase in this type of longer term planning, funders need to work together to design and commission services much more strategically. They also need to be more proactive in letting the Third Sector know what their strategic priorities and aims are in advance, consulting and discussing potential solutions and outcomes prior to commissioning. It is essential that the process of consulting in detail with organisations which have an interest in delivering a service is not seen as incompatible with more professional commissioning.

The Third Sector in turn needs to move on from the “cap in hand” approach to a more dynamic and responsible way of working focused on identifying connectivity with funder priorities and demonstrating how it can add value.
Arguably of course, none of this is breaking news. These issues are already well rehearsed and in reality, many of the solutions have been identified and agreed for some time in the Code of Practice. What our research shows however, is that the sentiments and solutions are yet to flow through into every day, mainstream thinking and practices. Our recommendations in terms of funding timescales are therefore geared around increasing the pace of progress towards longer term funding patterns.

**Recommendation 1**

Where there is a clear medium-term (five to seven years) need for a particular service delivered by the Third Sector, where the provision of that service fits well with established policy and where there is clear political consensus around the importance of addressing the need and the appropriateness of the service in doing so, a funder should commit in principle (i.e. by entering into a binding contract) to provide stability over this timeframe. It should be accepted that underneath this longer term commitment in principle, precise budget allocations will need to be determined on a recurring (possibly annual or bi-annual) basis. Efforts by the Welsh Assembly Government, local government and other funders should be re-doubled to ensure that what is in effect an already agreed principle becomes mainstreamed practice.

**Recommendation 2**

The Welsh Assembly Government should re-double its efforts in disseminating and promoting the use of the Third Sector Funding Code of Practice across internal departments, Assembly Government Sponsored Bodies and more widely in the Welsh public sector. The Social Justice and Local Government Department should continue to take a lead role in this respect, proactively offering advice and guidance to commissioners of services from the Third Sector to
supplement the Code itself and in particular to focus on implementing its recommendations in respect of funding timescales.

**Recommendation 3**

More effective monitoring practices need to be agreed, introduced and implemented by funders, with performance related break clauses (e.g. three years with an option to extend for a further two) built in and agreed up front by both parties. The Third Sector in turn needs to sharpen the way it responds to monitoring requirements.

**Recommendation 4**

Where shorter term funding is justified (e.g. pilots), the parameters and outcome expectations set by funders, regardless of the funding mechanism selected, need to be proportionate and funders need to provide clarity on how it is intended to mainstream successful approaches.

5.2 **Defining Outcomes**

Not all funders are particularly good at defining outcomes and our research lends weight to the theory that there may be a natural tendency amongst some to specify “how we want it done” rather than “what we want to achieve in the end”. This is exacerbated because funders themselves may not always be clear about what they are trying to achieve.

Equally, not all Third Sector organisations are particularly good at understanding outcomes and are sometimes resistant to taking ownership which can result in a reluctance or unwillingness to provide rigorous monitoring information.
Being clear about outcomes and improving the level of understanding about “the language of outcomes” should be viewed as a critical part of improving the funding infrastructure in Wales. This holds true regardless of the commissioning methodology adopted and improvements are needed on the part of both funders and the Third Sector. It is essential in this context that the Third Sector embraces outcome funding and resists the temptation to see it as a threat. It is equally important that funders make proper use of good quality monitoring information when it is provided to make well informed value based judgements, otherwise funding recipients will see little point in complying.

There are some encouraging signs that progress, albeit arguably at a fairly slow pace, is being made and there seems a pronounced move amongst funders towards a “more business like approach”, placing funding relationships on stronger contractual footings and this is accelerating the process of better defining what funding is meant to achieve.

Whilst there have been numerous calls for funders to clarify whether they are outcome based (or not as the case may be), there is still a high degree of ambivalence about this which needs to be addressed and cleared up. Our findings led weight to the notion that the funder – recipient relationship works best when outcomes are jointly defined at the outset. This process needs to become much more embedded in mainstream activity and seen by all as underpinning the drive to professionalise funding arrangements.

**Recommendation 5**

The Welsh Assembly Government, local authorities and other funders of the Third Sector need to re-double their efforts to ensure that commissioners understand the principles of an outcome based approach to funding which are already set out in the Code of Practice.
Nothing less than a step change in this respect will suffice in order to
revitalise trust in, and the professionalisation of the funder – recipient
relationship. This does not require the commissioning of any new work
since the principles are already agreed by the stakeholders and are
already in place. Rather, the focus should be on a sustained and
proactive implementation of a programme of communicating and
disseminating advice and good practice to commissioners aimed
specifically at accelerating the pace of change.

**Recommendation 6**

Where funders decide that they are outcomes driven, they need to
avoid the temptation to over-specify how things are to be delivered. It
should also be remembered however that it may be legitimate and
acceptable for funders to procure well defined services which require
specific inputs as well as outcomes. This should not be misconstrued
as obstructing innovation.

5.3 Funding Mechanisms

It seems clear that grant funding, in particular core grant funding is in
decline in Wales and across the UK. This was an already established
trend, but the fallout from the current recession and the resulting public
sector spending constraints are likely to mean this gathers extra
momentum. At a UK level, there is talk of a “pendulum swing” away
from grants in favour of procurement and data sources confirm that
procurement is very much in the ascendancy as a funding mechanism.
In Wales, funders refer to the “unstoppable” drivers of transparency
and professionalisation which mean that more procurement is
“inevitable”.

To date however, there is little concrete evidence to show that the
Third Sector in Wales has perceived that there has been a marked
increase in the use of procurement. This may in part be down to a lag
in data, with the situation, according to many of the funders we spoke to, changing quite rapidly for example as a result of increased procurement requirements built into 2007-13 EU programmes in Wales. More worryingly, however, it could signal the early stages of an overall decline in spending with the sector.

Whether or not the talk of the growth of procurement matches experience on the ground, there are some fairly widespread concerns, it has to be said amongst both funders and the Third Sector, that procurement may be being used inappropriately in place of grants or SLAs.

The complexity of procurement systems adopted by some commissioners and the need to apply flexible, user friendly practices have already been highlighted as key issues, not least in WAG’s Guidance and also in the Review undertaken by the Assembly’s Culture and Communities Committee. Our findings again substantiate the argument that sentiment is not necessarily followed up with good practice and it seems clear that a “sledgehammer to crack a nut” approach is still evident in too many procurement practices which is having the effect of either ruling out or scaring some, particularly smaller voluntary groups into submission.

It is clear that some funders see procurement as being helpful in widening choice and introducing competition and this should be accepted as a perfectly legitimate motivation for its use. In this context, there is little doubt that the Third Sector, sees procurement as a threat. According to many funders, this is unfounded since they argue that the Third Sector is well placed to secure contracts in a competitive environment where competition from the private sector is highly improbable.

In contrast, there are clear and unquestionably well founded concerns that the Third Sector does not do a good job of selling itself and is
struggling with procurement. To some, this is a curious situation, and they question how different or how much more difficult it should be to prepare a good quality tender proposal than to fill in a strong grant application (though it might be argued that responding to a tender requires a clearer focus on meeting the requirements of the funder rather than just demonstrating the worth of the activity an organisation delivers – and that the evidence that a high proportion of grant applications to trust funds are ineligible might be a sign that the sector is not always strong at this funding route either). In practice, the challenges faced by the Third Sector and in particular smaller voluntary groups in responding to the growth of procurement hold many similarities to those faced by many micro enterprises in Wales. It follows therefore that the support mechanisms in place also need to create a step change improvement in the way the Third Sector approaches, what is still a relatively new way of working.

There are also, arguably well founded, concerns that public sector agencies see procurement as the only way to improve transparency and to specify outcomes. This needs to be avoided as an automatic assumption and the advice given to commissioners needs to reflect the benefits (to funders and recipients) of having a balanced portfolio of funding mechanisms going forward. In this context, there is a compelling argument that grants still have an important part to play in the future funding infrastructure. Equally, while there is evidence to suggest that procurement is helping to accelerate the process of better defining funding outcomes, it is not the only means of achieving this goal.

For the most part, the Third Sector funding infrastructure as it currently stands in Wales is very traditional and arguably risk averse. There is no doubt that Wales lags behind other similar countries, notably Scotland when it comes to adopting more investment based funding approaches. While there is a commitment to explore the application of investment and endowment based approaches in Wales as part of a
wider portfolio of funding mechanisms, there is not yet unbridled enthusiasm for this on the part of either funders or many Third Sector organisations. There have also been mixed experiences with asset based approaches, which for some of the informants we spoke to has left them licking burnt fingers. Funders were also very sceptical about adopting any approach involving allocating a pre determined or set proportion of their overall budgets to the Third Sector.

WCVA in its Funding Paradigm paper makes the case, quite rightly in our view that the exploration of investment based funding mechanisms needs to be significantly stepped up by WAG and other funders of the Third Sector in Wales. In practice, achieving this is likely to be very challenging, since funders and crucially the Third Sector itself seem quite happy within the comfort zone of the more traditional funding mechanisms currently in place and lack the knowledge and experience with which to progress the investment based agenda. The timing is also arguably less than ideal given the current economic climate and as the Funding Paradigm paper acknowledges, funders will undoubtedly have reservations regarding the inherent levels of risk.

However, with large scale EU Structural Funding coming to an end in Wales in 2013, the case - not just for exploring in a light touch way - but proactively pushing ahead with the development of alternative funding mechanisms is compelling. As such, there needs to be a concerted effort by WAG and other funders to raise awareness of, demystify and implement investment mechanisms in order to enable a vibrant, valuable, independent and sustainable Third Sector in Wales. This will require a mindset shift not only amongst funders but also amongst sceptics within the Third Sector itself.

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93 Within the Third Dimension and with the announcement of the Invest to Serve Fund by WAG.
Recommendation 7

Accepting that transparency is essential, funders should avoid a “knee jerk reaction” of using procurement as the default for engaging with the Third Sector. While procurement is helping to advance outcome based funding practices, it should not be seen as the only solution to achieving this goal. The Welsh Assembly Government’s guidance should be used more fully to help inform the best approach to selecting the most appropriate funding mechanisms. Procurement professionals need to recognise this and need to reflect it more fully in the advice they give to those who commission services from the Third Sector.

Recommendation 8

Where procurement is the most appropriate engagement mechanism, funders need to use appropriate techniques that are proportionate and relevant to the type of services being commissioned. This means that one size does not fit all and procurement professionals need to ensure that the advice they give to commissioners of services from the Third Sector appropriately reflects the nature and scale of those services being procured.

Recommendation 9

The Third Sector needs to improve its response to the procurement agenda and in particular the way it sells itself to commissioners and purchasers. In this respect, sector umbrella bodies and other agencies (such as Value Wales and the Department for Economy and Transport) need to ensure that the sector’s support needs are catered for and that support mechanisms are being utilised by the Sector. This support needs to increasingly focus on getting the sector to collaborate in competing for and delivering public services. There is little value in expecting a quick win style outcome from this work. It needs to involve a sustained approach and requires the unequivocal commitment of the
Third Sector to play its full part. Without this, the Third Sector will be left behind by the procurement agenda.

**Recommendation 10**

Maintaining a balanced portfolio of funding is important both for funders and the Third Sector and funders need to recognise that grants still have a fundamental role to play in the future funding landscape. Wherever possible, the key funders of any given organisation should ensure that there are good lines of communication and collaborative working arrangements in place between them (including where appropriate appointing a lead funder), so that there is a high level of strategic awareness and effective planning in relation to the commissioning of services.

**Recommendation 11**

Funders, including those who operate grants and Trust Funds, need to consider how they can reduce the proportions of ineligible or inappropriate applications submitted – drawing on innovative models which provide development support to potential applicants. More also needs to be done to help prepare and inform applicants in advance (for example by specifying outcomes and detailing expectations in terms of the application process) so that applications are more relevant and of higher quality.

**Recommendation 12**

The Welsh Assembly Government, key Third Sector funders and the sector itself needs to explore investment based funding mechanisms with a greater appetite and sense of urgency. A small delegation made up of key Welsh Assembly Government officials and other stakeholders (possibly as a sub group of the TSPC) should arrange and undertake a practical study visit to Scotland to explore and learn the lessons of the
investment and endowment based approaches to funding adopted there. Full advantage should also be taken of the remaining EU funding period over the next few years, along with other sources (such as funds from dormant bank accounts) to pump prime investment based approaches with the clear objective that they should become self sufficient as part of a broader funding infrastructure. The Welsh Assembly Government should set a clear objectives and a programme of activity to take this forward which should include nominating a lead official within the Department for Social Justice and Local Government to champion the agenda and to report regularly on progress to the TSPC.
Annex 1

List of Consultees

**Funding Organisations and Strategic Informants (Non WAG)**

<table>
<thead>
<tr>
<th>Name</th>
<th>Organisation</th>
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<tbody>
<tr>
<td>Colleen Bright</td>
<td>Caerphilly LHB</td>
</tr>
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<td>Pat Mowll</td>
<td>Denbighshire LHB</td>
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<tr>
<td>Mike Walsh</td>
<td>BIG Lottery Fund</td>
</tr>
<tr>
<td>Prof. Pete Alcock</td>
<td>Third Sector Research Centre (England)</td>
</tr>
<tr>
<td>Prof. Jenny Harrow</td>
<td>Centre for Professional Giving and Philanthropy</td>
</tr>
<tr>
<td>Martin Brooks</td>
<td>Philanthropy Capital</td>
</tr>
<tr>
<td>Nick Capaldi</td>
<td>Arts Council of Wales</td>
</tr>
<tr>
<td>Karl Wilding</td>
<td>NCVO</td>
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<tr>
<td>Daniel Hurford</td>
<td>WLGA</td>
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<td>Paul Charkiw</td>
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<tr>
<td>Wendy Walters</td>
<td>Carmarthenshire County Council</td>
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<tr>
<td>Chris Girvan</td>
<td>Wrexham County Borough Council</td>
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<tr>
<td>Nicola Southall</td>
<td>Value Wales</td>
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<tr>
<td>Gunther Kostyra</td>
<td>Value Wales</td>
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<tr>
<td>Nick Starkey</td>
<td>Cabinet Office, Office of the Third Sector</td>
</tr>
<tr>
<td>Kevin Curley</td>
<td>NICVA</td>
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<tr>
<td>Martin Sime</td>
<td>SCVO</td>
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<tr>
<td>Tiana Pathmanathan</td>
<td>Legal Services Commission</td>
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<tr>
<td>Graham Benfield</td>
<td>WCVA</td>
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<tr>
<td>Bryan Collis</td>
<td>WCVA</td>
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<tr>
<td>Neil Caldwell</td>
<td>Neil Caldwell Associates</td>
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## Welsh Assembly Government Departments

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<tbody>
<tr>
<td>Neil Surman</td>
<td>Public Services and Local Government Division</td>
</tr>
<tr>
<td>Matthew Quinn</td>
<td>WAG</td>
</tr>
<tr>
<td>Paul Dear</td>
<td>Director - Environment, Sustainability and Housing</td>
</tr>
<tr>
<td>Damien O'Brien</td>
<td>Housing</td>
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<tr>
<td>Sioned Rees</td>
<td>SJLG - Communities First</td>
</tr>
<tr>
<td>Emma Jenkins</td>
<td>WEFO</td>
</tr>
<tr>
<td>Jayne Stokes</td>
<td>DE&amp;T (West Wales Region)</td>
</tr>
<tr>
<td>Trish Fretten</td>
<td>DSJLG</td>
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<tr>
<td>Janet Whiteman</td>
<td>Health &amp; Social Services - Community &amp; 3rd Sector Officer</td>
</tr>
<tr>
<td>Carys Evans</td>
<td>Spatial Plan Unit</td>
</tr>
<tr>
<td>Marie Knox</td>
<td>Rural Affairs, Heritage, Culture, Welsh Lang, Sport etc.</td>
</tr>
<tr>
<td>Mike Daly</td>
<td>DWP</td>
</tr>
<tr>
<td>Katie Whittaker</td>
<td>DCELLS</td>
</tr>
<tr>
<td>Heulwen Blackmore</td>
<td>Equality, Diversity and Inclusion Division</td>
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### Third Sector Organisations/Representatives

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<thead>
<tr>
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<tr>
<td>Gwyneth Jones</td>
<td>Age Concern Ceredigion</td>
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<tr>
<td>Richard Jones</td>
<td>CAM-FAN Cyf</td>
</tr>
<tr>
<td>Tracy Elliott</td>
<td>Home Start</td>
</tr>
<tr>
<td>Linda Grace</td>
<td>Jigso Children’s Centre</td>
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<tr>
<td>Peter Loughran</td>
<td>Age Concern Sir Gar</td>
</tr>
<tr>
<td>John Yates</td>
<td>Cam Ymlaen</td>
</tr>
<tr>
<td>Glenys Campbell</td>
<td>Gweithredu Dros Blant</td>
</tr>
<tr>
<td>Tanya Cliffe</td>
<td>Flintshire Community Parents</td>
</tr>
<tr>
<td>June Brady</td>
<td>Flintshire Local Voluntary Council</td>
</tr>
<tr>
<td>Anne Forbes</td>
<td>Trecwm Community Association</td>
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<tr>
<td>Tony Priestley</td>
<td>Trecwm Community Association</td>
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<tr>
<td>Representative³⁴</td>
<td>Autism Cymru</td>
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<tr>
<td>Russel Hobson</td>
<td>Butterfly Conservation Wales</td>
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<tr>
<td>David Bridges</td>
<td>Butterfly Conservation Wales</td>
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<tr>
<td>Tony Potts</td>
<td>Neath Port Talbot CVC</td>
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<tr>
<td>Lorraine Miles</td>
<td>Neath Port Talbot CVC</td>
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<tr>
<td>Tanya Buchanan</td>
<td>ASH Wales</td>
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<tr>
<td>Owen Burt</td>
<td>Shelter Cymru</td>
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<tr>
<td>Pam Dodd</td>
<td>Institute of Fundraising Cymru</td>
</tr>
<tr>
<td>Owen Thomas</td>
<td>RSPB Cymru</td>
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<tr>
<td>Fran Targett</td>
<td>CAB Cymru</td>
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<tr>
<td>Nia Jones</td>
<td>Community Development Cymru</td>
</tr>
<tr>
<td>Simon Harris</td>
<td>Wales Co-operative Centre</td>
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³⁴ This person did not wish to be named.