

# A Review of Funding Patterns to the Third Sector



Llywodraeth Cynulliad Cymru  
Welsh Assembly Government

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Research Summary

Social research

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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.

Dadansoddi ar gyfer Polisi



Analysis for Policy

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.

## **Recommendations**

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.